Company Update
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SPECIALTY PHARMACEUTICALS

Equity Research

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Eagle Pharmaceuticals Inc. (EGRX-$26.10)

Rating: BUY

Target Price: $37.00

Teva Settlement Drives Profitability and LT-Royalty; Reiterate BUY, Raise PT to $37

REV	1Q	2Q	3Q	4Q
2014A	5.5A	5.0A	5.8A	2.8A
2015E	31.6E	1.9E	2.9E	20.0E
Prev	*2.5E*	*3.3E*	*3.7E*	*4.2E*
2016E	—	—	—	—

EPS	1Q	2Q	3Q	4Q
2014A	(1.44)A	(0.36)A	(0.21)A	(0.65)A
2015E	1.42E	(0.63)E	(0.73)E	0.18E
Prev	*(0.60)E*	*(0.59)E*	*(0.65)E*	*(0.69)E*
2016E	—	—	—	—

FY	2014A	2015E	2016E
REV	19.1A	56.4E	164.1E
Prev	*—*	*13.7E*	*102.0E*
P/S	19.2x	6.5x	2.2x
EPS	(1.97)A	0.22E	4.37E
Prev	*—*	*(2.53)E*	*1.68E*
P/E	(13.2)x	—	6.0x

- **Eagle and Teva settle Treanda litigation and enter into a win/win licensing agreement on cancer drug Treanda:** Teva dropped its current litigation on the '270 patent and licensed Eagle's rapid infusion/small bag Treanda, which is pending FDA approval. As a result, Eagle will receive a $30M upfront payment this year (rendering it profitable), and is also eligible to receive up to $90M in additional milestones and a "healthy double-digit" royalty on U.S. net sales of rapid infusion Treanda. If approved, the rapid infusion/brand extension is expected to launch in 2H:15 or early 2016, and to replace Teva's existing liquid product. With this agreement we estimate Eagle can capture approximately two years of royalties on a $800M drug ahead of a generic launch followed by a long tail of royalties on the remaining Treanda net sales (up to 18 years). ATC Eagle reported earnings for a stub quarter and beat FactSet consensus estimates by $0.10. We reiterate our BUY rating and raise our PT to $37 from $30, based on our model updates and DCF valuation.
- **Agreement details and company catalysts:** Eagle will supply Teva with product until Teva can establish its own manufacturing. Eagle is eligible to receive up to $90M, which is tied to events such as (1) priority review of the Treanda NDA; (2) FDA approval of the rapid infuse Treanda; (3) receipt of a unique J-code from CMS (thus preserving pricing power) for the rapid infusion product post-approval; and (4) sales milestones. We expect NDA approval of the new Treanda since the product has already demonstrated bioequivalence to Treanda with comparable safety. We have added a $15M milestone as a placeholder in 4Q:15 since we are conservatively not modeling priority review, which would result in an August approval date. We should learn about priority review status in 2Q:15 but are not modeling any associated milestone for now. Management has previously indicated that its likelihood of a unique J-code is approximately 10-15%, but today noted that odds are higher for Teva. Separate potential catalysts to EGRX include: Orphan Drug Exclusivity for Ryanodex (expected imminently); and resolution of the HSP/MDCO Angiomax litigation appeal (expected in 2Q:15).
- **Stub quarter generally outperforms:** We have added a stub quarter for the period ending Dec 31, 2014, since Eagle is re-stating its financial statements. The company reported revenues of $5.6M and net loss of ($0.39) which outperformed FactSet consensus of $3.1M and ($0.49). The strength was driven by stronger-than-expected Argatroban demand, offset by lighter-than-expected Ryanodex sales of $0.5M after a strong start last quarter. We attribute this lumpiness to lengthy P&T reviews following initially strong purchases by early adopter hospitals.

Current Statistics

Market Cap ($Mil)	**$366.2**	**Free Float (%):**	**14.400**
Avg. Daily Trading Volume (3 mo.):	**85,615**		
Shares Out (Mil):	**14.032**		

The Disclosure Section may be found on pages 7 - 8.

TEVA AGREEMENT SUMMARY:

We believe that Eagle has secured $30 million and an undisclosed FDA approval milestone from Teva, plus a double-digit royalty on an $800 million product ahead of generic launch which is expected in ~2018. In the less likely scenario where Teva can negotiate a unique J-code for this product post-approval, then it will be able to protect its new Treanda from price degradation associated with generics, which may be a meaningful source of upside to the story. To remain conservative, we currently expect Eagle to receive a double-digit royalty off of a declining Treanda revenue stream as the drug loses market share and suffers some price degradation, but note that the drug will have 18 years of patent protection to 2033. As a hypothetical exercise, we calculate an NPV of $30/share associated with this program based solely on royalty forecasts to 2030 (and excluding milestones), with a 12% discount rate. Since our Eagle model only extends to 2020 for now, we are not incorporating this valuation into our price target calculation.

UPDATES TO OUR MODEL:

(1) We have added a $30 million upfront milestone in 1Q:15 and a $15 million milestone as a placeholder for the undisclosed FDA approval milestone in 4Q:15 (assuming no priority review or approval in August). We are modeling product launch in early 2016, assuming a December 2015 PDUFA. Eagle will need to pay out 10% of these milestones as a royalty to its partner Robert One, after subtracting out its development costs in 1Q:15.

(2) As our base case assumption, we have updated our Treanda model to incorporate a 15% royalty to Eagle off of full branded sales in the $800 million range in 2016-2017, followed by gradually declining Treanda sales, lower branded market share, and continued Eagle royalties off of this lower base. We summarize our assumptions in Exhibit 1. Management indicated that there is a two-tier royalty system but we are only modeling a single tier for now.

(3) We display our upside case assumptions in Exhibit 2, which reflect lower branded price deterioration due to generics. Based on prior discussions with management we hypothesize that approximately 90% of Treanda is administered in an outpatient infusion center and therefore expect a moderate negative impact to pricing following generic launch of the lyophilized formulation in 2018. This is because reimbursement to hospitals for Treanda from the Centers for Medicare & Medicaid Services (CMS) is based on an Average Selling Price (ASP) +6% calculation in the outpatient infusion clinics, and the ASP itself is derived from a volume-weighted calculation of both branded and generic units sold within a designated J-code at different price points. Over time we would expect generic entrants to Teva's current liquid form of Treanda, which could increase the volume of generics in the market and further drive down price within the Treanda-specific J-code. If Teva and Eagle can somehow negotiate a unique J-code for the new rapid infusion Treanda that segregates this brand from the generic pricing pressure, we would remodel Treanda as a stable product with only some modest declines in revenue streams post-generic entry; and estimate additional NPV upside value to Eagle of $15/share (based on royalties to 2030).

(4) We have remodeled Treanda COGS to Eagle at $50/vial, or approximately 2% of Treanda revenues. We would expect Teva to purchase the supply from Eagle from 2016-2018 and then shift manufacturing to its own facilities after it receives FDA approval to do so. We have added related COGS estimates to our model while offsetting them with Treanda product sales from Teva which should fund the product supply.

(5) We have re-categorized Treanda product sales into the Royalty Income line beginning in 2016.

(6) We have modeled conservative product sales estimates in 2015 which assume significant deterioration of Argatroban, minimal contribution from diclofenac/misoprostol, and slow ramp of Ryanodex. It is possible that the company will outperform our expectations.

Valuation

We value Eagle Pharmaceuticals using a discounted cash flow analysis (DCF). We assume a weighted average cost of capital (WACC) of 12% (down from 13% previously) due to lower litigation risk following the Teva settlement. We assign a 1% terminal growth rate to the company since Eagle has patent estate around several other undisclosed product reformulations and generic applications. We would raise our growth rate on the business once some of these additional opportunities became more visible. We arrive at a $37 price target using this methodology (up from $30 previously).

Risks

1. Launch delays associated with generic litigation are the chief risk for Eagle, in our view, since early launch timing is critical to the company's success. This risk now shifted to the launch of Eagle's RTD Angiomax, in our view.
2. Each of the company's reformulated injectable products needs to secure FDA regulatory approval, so there is some degree of clinical risk to the business (although this risk is significantly lower than that for new chemical entities).
3. Manufacturing issues or supply chain disruptions are another source of risk, and the company already dealt with a supply disruption for argatroban in 2012. We checked on recent FDA inspections of Eagle's manufacturing partners and note that we did not see anything worrisome.
4. Hospital decision makers may become less accessible to drug manufacturers, which could adversely impact Eagle's ability to educate hospitals about its products and build demand.

Exhibit 1: Base Case Scenario Estimates: Deteriorating Treanda Pricing Within Existing J-code, with Declining Market Share

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Estimated U.S. Branded Treanda Sales (Teva)*	$750.0	$772.5	$795.7	$819.5	$573.7	$516.31	$464.68	$418.21	$376.39	$338.75	$304.88	$274.39	$246.95	$222.26	$200.03	$180.03	$162.02
Growth	*25.0%*	*3.0%*	*3.0%*	*3.0%*	*-30.0%*	*-10.0%*	*-10.0%*	*-10.0%*	*-10.0%*	*-10.0%*	*-10.0%*	*-10.0%*	*-10.0%*	*-10.0%*	*-10.0%*	*-10.0%*	*-10.0%*
Share Captured By Eagle's 50 mL Rapid Infusion Form			100%	100%	90%	85%	80%	75%	70%	65%	60%	55%	50%	45%	40%	35%	30%
Branded Treanda Sales Captured			$795.7	$819.5	$516.3	$438.9	$371.7	$313.7	$263.5	$220.2	$182.9	$150.9	$123.5	$100.0	$80.0	$63.0	$48.6
Eagle's Estimated Royalty			15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Eagle's Revenues			$119.35	$122.93	$77.45	$65.83	$55.76	$47.05	$39.52	$33.03	$27.44	$22.64	$18.52	$15.00	$12.00	$9.45	$7.29
Percent of Year Captured			100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total Eagle Revenues ($ in millions)			**$119.4**	**$122.9**	**$77.4**	**$65.8**	**$55.8**	**$47.0**	**$39.5**	**$33.0**	**$27.4**	**$22.6**	**$18.5**	**$15.0**	**$12.0**	**$9.5**	**$7.3**

Source: Company reports, Cantor Fitzgerald Estimates

Exhibit 2: Upside Scenario Estimates: Stable Treanda Pricing with a Unique J-code, with Declining Market Share

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Estimated U.S. Branded Treanda Sales (Teva)*	$750.0	$772.5	$795.7	$819.5	$819.5	$819.5	$819.5	$819.5	$819.5	$819.5	$819.5	$819.5	$819.5	$819.5	$819.5	$819.5	$819.5
Growth	*25.0%*	*3.0%*	*3.0%*	*3.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Share Captured By Eagle's 50 mL Rapid Infusion Form			100%	100%	90%	85%	80%	75%	70%	65%	60%	55%	50%	45%	40%	35%	30%
Branded Treanda Sales Captured			$795.7	$819.5	$737.6	$696.6	$655.6	$614.7	$573.7	$532.7	$491.7	$450.7	$409.8	$368.8	$327.8	$286.8	$245.9
Eagle's Estimated Royalty			15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Eagle's Revenues			$119.35	$122.93	$110.64	$104.49	$98.35	$92.20	$86.05	$79.91	$73.76	$67.61	$61.47	$55.32	$49.17	$43.03	$36.88
Percent of Year Captured			100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total Eagle Revenues ($ in millions)			**$119.4**	**$122.9**	**$110.6**	**$104.5**	**$98.3**	**$92.2**	**$86.1**	**$79.9**	**$73.8**	**$67.6**	**$61.5**	**$55.3**	**$49.2**	**$43.0**	**$36.9**

Source: Company reports, Cantor Fitzgerald Estimates

Exhibit 3: Eagle Income Statement (dollars in millions)

	2012	2013	2014A	Stub	1Q:15E	2Q:15E	3Q:15E	4Q:15E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues:														
Product Sales	1.2	5.3	4.6	1.5	1.2	1.7	2.7	4.2	9.9	43.4	105.3	188.8	105.3	108.3
Royalty Income	1.4	8.4	10.7	4.1	0.4	0.2	0.2	0.7	1.5	120.7	124.2	78.6	66.9	56.8
Collaborative licensing and development revenue	0.0	0.0	3.8	0.0	30.0	0.0	0.0	15.0	45.0	0.0	0.0	0.0	0.0	0.0
Total revenues	**2.5**	**13.7**	**19.1**	**5.6**	**31.6**	**1.9**	**2.9**	**20.0**	**56.4**	**164.1**	**229.5**	**267.4**	**172.3**	**165.1**
Operating expenses:														
COGS	3.2	7.4	11.7	4.5	2.7	0.6	0.8	3.3	7.4	34.1	67.3	110.1	50.9	51.1
R&D	12.8	9.8	16.8	4.0	4.5	5.0	6.8	8.0	24.3	25.5	26.8	28.1	29.5	31.0
SG&A	6.4	5.0	9.3	3.7	4.5	5.3	5.7	6.1	21.6	24.0	28.8	29.4	30.0	30.6
Operating income (deficit)	**(19.8)**	**(8.5)**	**(18.8)**	**(6.6)**	**19.9**	**(9.0)**	**(10.4)**	**2.5**	**3.1**	**80.5**	**106.6**	**99.8**	**61.9**	**52.4**
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2
Interest expense	(0.1)	(0.3)	(0.0)	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	(0.3)	1.8	(0.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Income	(20.2)	(6.9)	(19.3)	(6.6)	20.0	(9.0)	(10.4)	2.5	3.1	80.5	106.6	99.9	62.0	52.5
Tax rate	0.0%	0.0%	NM	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	20.0%	35.0%	35.0%	35.0%	35.0%
Tax expense (benefit)	(0.8)	(0.9)	(1.3)	(1.1)	0.0	0.0	0.0	0.0	0.0	16.1	37.3	35.0	21.7	18.4
Net Loss	**(19.4)**	**(6.0)**	**(18.0)**	**(5.5)**	**20.0**	**(9.0)**	**(10.4)**	**2.5**	**3.1**	**64.4**	**69.3**	**65.0**	**40.3**	**34.1**
Dividend payment	(3.9)	(3.8)	(1.7)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
stockholders	**(23.3)**	**(9.9)**	**(19.6)**	**(5.5)**	**20.0**	**(9.0)**	**(10.4)**	**2.5**	**3.1**	**64.4**	**69.3**	**65.0**	**40.3**	**34.1**
Weighted average common shares	10.6	3.0	10.0	14.0	14.1	14.2	14.3	14.4	14.3	14.8	15.3	15.8	16.3	16.8
Diluted EPS	**($2.20)**	**($3.25)**	**($1.97)**	**($0.39)**	**$1.42**	**($0.63)**	**($0.73)**	**$0.18**	**$0.22**	**$4.37**	**$4.55**	**$4.12**	**$2.48**	**$2.04**
Consensus Revenues									**14**	**112**	**230**			
Consensus EPS									**($1.96)**	**$2.26**	**$4.76**			
Margin Analysis	**2012**	**2013**	**2014A**	**Stub**	**1Q:15E**	**2Q:15E**	**3Q:15E**	**4Q:15E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Gross Margin	-24.7%	46.0%	38.7%	19.8%	91.5%	67.5%	72.3%	83.3%	78.6%	79.2%	70.7%	58.8%	70.4%	69.0%
COGS	124.7%	54.0%	61.3%	80.2%	8.5%	32.5%	27.7%	16.7%	21.4%	20.8%	29.3%	41.2%	29.6%	31.0%
SG&A	252.0%	36.2%	48.8%	65.9%	14.2%	274.2%	197.4%	30.6%	38.3%	14.6%	12.6%	11.0%	17.4%	18.5%
R&D	504.2%	71.6%	88.0%	71.2%	14.2%	258.7%	235.5%	40.1%	43.1%	15.6%	11.7%	10.5%	17.1%	18.8%
Operating Margin	-780.9%	-61.8%	-98.2%	-117.2%	63.1%	-465.5%	-360.6%	12.6%	5.4%	49.1%	46.4%	37.3%	35.9%	31.7%
Net Income Margin	-918.2%	-72.3%	-102.9%	-98.3%	63.1%	-465.0%	-360.3%	12.7%	5.5%	39.3%	30.2%	24.3%	23.4%	20.7%
Growth (Y/Y)	**2012**	**2013**	**2014A**	**Stub**	**1Q:15E**	**2Q:15E**	**3Q:15E**	**4Q:15E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Net Sales		439%	40%	2%	532%	-67%	3%	4%	195%	191%	40%	17%	-36%	-4%
SG&A		-23%	88%	175%	209%	98%	48%	-35%	132%	11%	20%	2%	2%	2%
R&D		-24%	72%	54%	19%	10%	15%	-52%	45%	5%	5%	5%	5%	5%
EBIT		-	-	-	-654%	-	-	-113%	-116%	2536%	32%	-6%	-38%	-15%
Interest income		-91%	885%	-21%	30%	-45%	96%	-69%	24%	-27%	147%	77%	21%	6%
Interest expense		-	-	-	-	-	-	-	-	-	-	-	-	-
Tax		-	-	-	-	-	-	-	-	NM	132%	-6%	-38%	-15%
Net Income		-	-	-	-843%	-	-	-114%	-117%	1983%	8%	-6%	-38%	-15%
Diluted EPS		-	-	-	-490%	-	-	-109%	-111%	1912%	4%	-9%	-40%	-18%

Source: Company reports, Cantor Fitzgerald Estimates and FactSet Consensus

Exhibit 4: Eagle Sales Estimates (dollars in millions)

	2012	2013	2014A	Stub	1Q:15E	2Q:15E	3Q:15E	4Q:15E	2015E	2016E	2017E	2018E	2019E	2020E
Royalty Revenue														
ARGATROBAN														
Sales	**$3.5**	**$29.0**	**$34.0**	**$10.6**	**$1.6**	**$0.9**	**$0.7**	**$3.2**	**$6.3**	**$5.7**	**$5.4**	**$5.2**	**$4.9**	**$4.7**
Growth			17.2%	-15.0%	-85.3%	-85.3%	-85.3%	-70.0%	NM	-10.0%	-5.0%	-5.0%	-5.0%	-5.0%
Royalty	**39.5%**	**28.8%**	**31.4%**	**38.5%**	**24.5%**	**24.2%**	**23.8%**	**23.4%**	**23.8%**	**23.6%**	**23.2%**	**22.9%**	**22.5%**	**22.2%**
ARGATROBAN ROYALTY REVENUE	**$1.4**	**$8.4**	**$10.7**	**$4.1**	**$0.4**	**$0.2**	**$0.2**	**$0.7**	**$1.5**	**$1.3**	**$1.3**	**$1.2**	**$1.1**	**$1.0**
Growth		504.3%	27.5%	25.3%	-88.9%	-89.1%	-91.6%	-61.4%	NM	-10.9%	-6.5%	-6.5%	-6.5%	-6.5%
TREANDA RTD TEVA ROYALTY REVENUE														
Sales										**$119.4**	**$122.9**	**$77.4**	**$65.8**	**$55.8**
Growth											3.0%	-37.0%	-15.0%	-15.3%
Product Sales														
ARGATROBAN														
Sales	**$1.2**	**$5.3**	**$3.9**	**$1.0**	**$0.1**	**$0.1**	**$0.1**	**$0.5**	**$0.8**	**$0.9**	**$0.8**	**$0.8**	**$0.7**	**$0.7**
Growth		360.0%	-27.1%	-55.0%	-91.5%	-75.0%	29.9%	530.3%	NM	11.6%	-6.5%	-6.5%	-6.5%	-6.5%
DICLOFENAC/MISOPROSTOL														
Sales				**$0.0**	**$0.1**	**$0.1**	**$0.1**	**$0.1**	**$0.5**	**$0.5**	**$0.5**	**$0.4**	**$0.4**	**$0.4**
Growth										-5.0%	-5.0%	-5.0%	-5.0%	-5.0%
RYANODEX														
Sales			**$0.8**	**$0.5**	**$1.0**	**$1.5**	**$2.5**	**$3.6**	**$8.6**	**$28.5**	**$46.5**	**$53.4**	**$57.5**	**$58.6**
Growth							384.8%	180.0%	NM	231.4%	63.2%	14.8%	7.7%	2.0%
TREANDA RTD PRODUCT SALES TO TEVA														
Sales										**$13.5**	**$13.9**	**$9.8**	**$1.0**	**$1.0**
Growth											3.0%	-30.0%	-89.7%	0.0%
ANGIOMAX RTU														
Sales											**$43.6**	**$124.4**	**$45.8**	**$47.6**
Growth												185.7%	-63.2%	4.0%
TOTAL REVENUE	**$2.5**	**$13.7**	**$15.3**	**$5.6**	**$1.6**	**$1.9**	**$2.9**	**$5.0**	**$11.4**	**$164.1**	**$229.5**	**$267.4**	**$172.3**	**$165.1**
Growth		*438.7%*	*12.2%*	*2.0%*	*-65.8%*	*-16.0%*	*2.7%*	*-11.5%*	NM	*1339.5%*	*39.9%*	*16.5%*	*-35.6%*	*-4.2%*

Source: Company reports and Cantor Fitzgerald Estimates

Company Description

Eagle Pharmaceuticals is a specialty pharmaceutical company focused on developing and commercializing reformulated versions of injectable products in the hospital market utilizing the 505(b)(2) pathway.

Companies Mentioned:

Eagle Pharmaceuticals Inc. (EGRX - NASDAQ): BUY
Hospira Inc. (HSP - NYSE): NC
Teva Pharmaceutical Industries Limited (TEVA - NYSE): NC
The Medicines Co. (MDCO - NASDAQ): NC
Robert One (Private)

Disclosures Appendix

Analyst Certification

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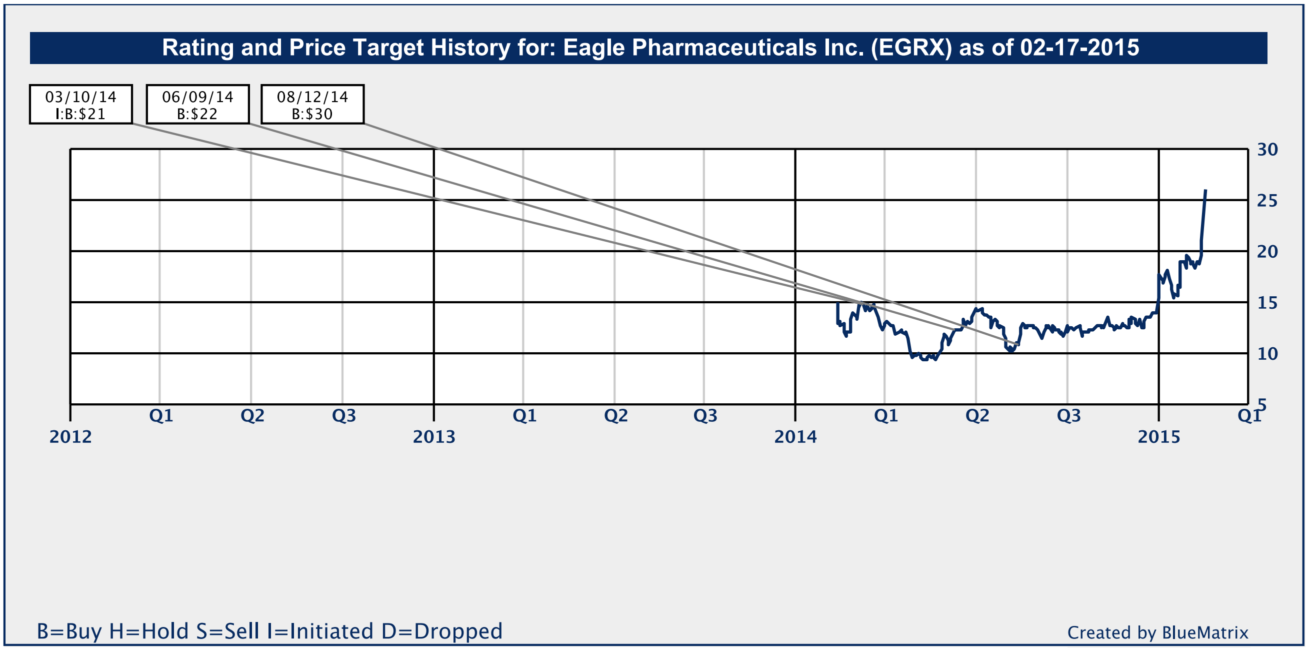

Distribution of Ratings/Investment Banking Services (IB) as of 02/18/15

	Cantor		IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [B]	**93**	**62.42**	**24**	**25.81**
HOLD [H]	**47**	**31.54**	**9**	**19.15**
SELL [S]	**9**	**6.04**	**1**	**11.11**

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