

Egalet Corp.

EGLT : NASDAQ : US\$8.74

BUY

Target: US\$20.00

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COMPANY STATISTICS:

Forecast Return: 129%
 Market Cap (M): US\$128
 52-week Range: 9.54 - 19.85
 Avg. Daily Vol. (000s): 73.4

EARNINGS SUMMARY:

FYE Dec	2013A	2014E	2015E
P/Sales:	NM	171.7x	16.5x
P/E:	NM	NM	NM
Revenue (M):			
Q1	0.0	0.3A	0.0
Q2	0.0	0.5A	0.0
Q3	0.0	0.0	2.5
Q4	0.0	0.0	5.2
Total	0.0	0.7	7.8
EPS:			
Q1	(2.12)	(1.34)A	(0.43)
Q2	(2.28)	(0.73)A	(0.44)
Q3	(4.34)	(0.76)	(0.32)
Q4	(0.67)	(0.78)	(0.08)
Total	(1.45)	(3.42)	(1.27)

SHARE PRICE PERFORMANCE:



Source: Interactive Data Corporation

COMPANY DESCRIPTION:

Egalet is a specialty pharma company focused on developing abuse-deterrent formulated drugs, including opioids. Egalet is utilizing the FDA's 505(b)(2) pathway with the intent of shortening development timelines and cost.

All amounts in US\$ unless otherwise noted.

Life Sciences -- Specialty Pharmaceuticals

EGALET-002 RECEIVES POSITIVE FDA FEEDBACK ON CMC AND STRATEGY, CRITICAL LIKEABILITY DATA VS. PURDUE'S OXYCONTIN OP EXPECTED 2Q15

Investment highlights

Positive FDA meeting on Egalet-002, expect data YE15

FDA reviewed Egalet-002's (oxycodone) CMC and gave agreement on its strategy, which we view as a positive for the company to efficiently move the program into Phase 3 efficacy trials. We expect two Phase 3 trials for Egalet-002 to start 1Q15 with data by YE15. We remind investors that Egalet-002 has a different PK profile versus Purdue's Oxycontin, and therefore makes litigation challenges by Purdue more difficult on formulation arguments.

Critical head to head likeability data vs. Purdue's Oxycontin OP expected 2Q15

We expect positive likeability data for Egalet-002 vs. Purdue's Oxycontin OP in 2Q15, which should drive shares substantially higher. Importantly, better abuse deterrence could be reflected in the FDA product label for Egalet-002, giving the drug a commercial advantage versus Purdue.

15mg bioequivalence data for morphine expected 3Q14

We continue to expect positive bioequivalence data for 15 mg morphine in 3Q14, which we believe will be positive despite the 100 mg dose being out of the range for Cmax. Reports show the erratic PK of higher dose opioids, giving us confidence that the lower morphine dose will be bioequivalent compared to MS Contin. In addition, given the fact that 15 mg and 60 mg make up nearly 90% of the morphine market, a successful bioequivalence study in just these two doses may be enough to drive market share for this company.

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Figure 1: Egalet valuation

Product	Peak Sales (\$MM)	Peak Year	Current Value (\$MM)	Probability Adjustment	Value / Share	Scenario probability	Adjusted Value
Non-Partnered							
Egalet-001 (morphine)	162	2025	90	65%	\$6	20%	\$1
Egalet-002 (oxy codone)	886	2027	255	35%	\$18	20%	\$4
Equity Value					\$25	20%	\$5
Partnered							
Egalet-001 (morphine)	162	2025	90	65%	\$6	55%	\$4
Egalet-002 (oxy codone)	1112	2027	144	35%	\$10	55%	\$6
Equity Value					\$17	55%	\$9
Royalty							
Egalet-001 (morphine)	162	2025	90	65%	\$6	25%	\$2
Egalet-002 (oxy codone)	200	2027	111	35%	\$8	25%	\$2
Equity Value					\$14	25%	\$4
Total Equity Value							\$18
Net Cash (50% adj)							\$2
Value per share							\$20
Shares Outstanding (MM)							13.9
Risk-Free Rate	2.00%						
Beta	1.30						
Risk Premium	7%						
Discount Rate	12%						

Source: Canaccord Genuity estimates

18 August 2014

Figure 2: Egalet income statement

Income Statement (\$000's)	2013A	Mar-14A	Jun-14A	Sep-14E	Dec-14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Total revenues	0	256	490	-	-	746	7,770	35,593	96,632	184,580	356,641	507,696	672,211	739,911
Cost of goods sold						746	1,162	5,339	13,529	23,995	46,363	60,923	80,665	88,789
Gross profit	0	256	490	-	-	746	6,608	30,254	83,104	160,584	310,278	446,772	591,546	651,121
Operating expenses														
Research & development														
Egalet-001	1,187	1,800	2,100	2,100	2,000	8,000	800	840	798	638	638	638	638	638
Egalet-002	371	48	3,400	3,400	3,600	10,448	12,000	1,800	900	900	900	900	900	900
Other Clinical and Preclinical	1,288	567	1,489	1,250	1,250	4,556	5,000	5,500	6,849	18,112	48,959	76,094	101,697	111,665
Personnel Related	1,431	365	372	379	386	1,503	1,578	1,735	2,083	2,499	2,999	3,599	4,318	5,182
R&D	6,280	2,780	7,361	7,129	7,236	24,507	19,378	9,875	10,630	22,150	53,496	81,231	107,554	118,386
Egalet-001							5,625	16,500	17,160	17,846	18,560	19,303	20,075	20,878
Egalet-002									37,500	43,125	49,594	57,033	65,588	75,426
General & administrative	4,873	3,269	4,728	5,041	5,353	8,000	8,900	9,790	11,748	14,685	18,356	22,945	27,534	30,288
SG&A	4,873	3,269	4,728	5,041	5,353	8,000	14,525	26,290	66,408	75,656	86,510	99,281	113,197	126,591
Total expenses	11,153	6,049	12,089	12,170	12,590	32,507	33,903	36,165	77,038	97,806	140,006	180,512	220,751	244,977
Depreciation & amortization		242	336	430	524	1,532	5,309	6,874	7,674	7,420	8,571	9,000	9,450	9,450
EBITDA	(11,153)	(5,551)	(11,263)	(11,740)	(12,066)	(40,620)	(24,725)	(5,911)	6,066	62,778	170,272	266,260	370,795	406,144
Operating income	(11,153)	(5,793)	(11,599)	(12,170)	(12,590)	(42,152)	(24,725)	(11,220)	(808)	55,104	162,852	257,689	361,795	396,694
Interest income			4											
Interest expense	8,842	(7,092)	-	-	-	(7,092)	-	-	-	-	-	-	-	-
Other expense / (income), net	190			50	50	100	200	200	200	200	200	200	200	200
Interest & other	9,032	(7,092)	4	50	50	(6,992)	200	200	200	200	200	200	200	200
Gain on foreign currency exchange		4	(40)											
Pre-tax income		(12,881)	(11,635)	(12,120)	(12,540)	(49,176)	(24,525)	(11,020)	(608)	55,304	163,052	257,889	361,995	396,894
Taxes	22	35	16				-	-	-	20,315	60,181	95,271	133,790	146,703
Tax rate							37%	37%	37%	37%	37%	37%	37%	37%
Net income - GAAP	(20,207)	(12,916)	(11,651)	(12,120)	(12,540)	(49,227)	(24,525)	(11,020)	(608)	34,990	102,871	162,618	228,205	250,191
GAAP EPS	(\$1.45)	(\$1.34)	(\$0.73)	(\$0.76)	(\$0.78)	(\$3.42)	(\$1.27)	(\$0.52)	(\$0.03)	\$1.49	\$4.22	\$6.41	\$8.65	\$9.12
Adjusted EPS excl. options expt	(\$1.45)	(\$1.34)	(\$0.73)	(\$0.76)	(\$0.78)	(\$3.42)	(\$1.27)	(\$0.52)	(\$0.03)	\$1.49	\$4.22	\$6.41	\$8.65	\$9.12
Diluted shares outstanding - GAAP														
Diluted shares outstanding	13,902	9,638	15,888	15,967	16,047	14,385	19,271	21,206	22,555	23,457	24,395	25,371	26,386	27,441
Pro Forma Shares														

Source: Company reports, Canaccord Genuity

Investment risks

Risks to our rating and price target include the following:

Approval for Egalet-001 and Egalet-002 may be delayed or may never occur at all: If the FDA does not allow Egalet to pursue approval for Egalet-001 through the Section 505(b)(2) pathway via bioequivalence to MS-Contin, the company may be forced to conduct Phase III studies resulting in increased costs, delayed revenue generation, and more competition.

Total revenues, even with timely approvals, may be lower than our estimates: Egalet-001 and Egalet-002 face competition from currently marketed non-abuse-deterrent products, while the planned reintroduction of Embeda, another abuse-deterrent long-acting morphine drug (Pfizer) may have a negative impact on the market opportunity for Egalet-001. Also, legislation to remove non-abuse-deterrent opioid drugs from the market may never materialize, resulting in investor concern

Future litigation may delay or reduce total revenues. Several competitors currently in the space may undertake legal strategies to delay the launch of Egalet-001 and Egalet-002. These competitors have significantly greater resources at their disposal than Egalet and have more experience maneuvering the legal field.

From a financial standpoint, although Egalet currently has adequate cash on hand ~\$65, the company may require additional capital before the anticipated launch of Egalet-001 in the second half of 2015. An additional capital raise could pressure shares.

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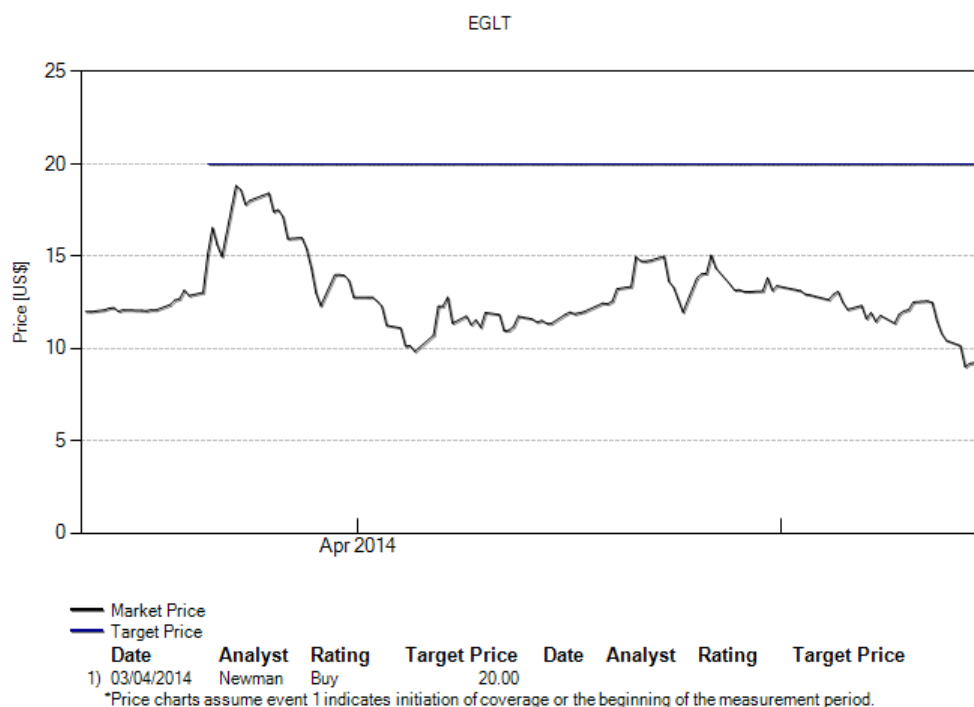
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Site Visit:

An analyst has not visited the material operations of Egalet Corp.

Price Chart:***Distribution of Ratings:**

Global Stock Ratings
(as of 3 July 2014)

Rating	Coverage Universe		IB Clients
	#	%	
Buy	602	61.2%	38.2%
Speculative Buy	49	5.0%	55.1%
Hold	290	29.5%	13.1%
Sell	41	4.2%	7.3%

984

100.0%

*Total includes stocks that are Under Review

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