Egalet Corp.

EGLT : NASDAQ : US$12.50

BUY

Target: US$20.00

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COMPANY STATISTICS:

Forecast Return:	60%
Market Cap (M):	US$183
52-week Range:	9.54 - 19.85
Avg. Daily Vol. (000s):	73.4

EARNINGS SUMMARY:

FYE Dec		2013A	2014E	2015E
P/Sales:		NM	715.7x	23.6x
P/E:		NM	NM	NM
Revenue (M):	Q1	0.0	0.3A	0.0
	Q2	0.0	0.0	0.0
	Q3	0.0	0.0	2.5
	Q4	0.0	0.0	5.2
Total		0.0	0.3	7.8
EPS:	Q1	(2.12)	(1.34)A	(0.41)
	Q2	(2.28)	(0.43)	(0.42)
	Q3	(4.34)	(0.64)	(0.30)
	Q4	(0.67)	(0.66)	(0.08)
Total		(1.45)	(2.80)	(1.20)

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

TOP-LINE BIOEQUIVALENCE DATA FOR 100MG MORPHINE PRODUCT MIXED, BUT 15MG, 60MG VIABLE FOR FILING

Investment highlights

Egalet-001 100mg hits on AUC, but slight miss on Cmax

Top-line bioequivalence data for Egalet-001 showed bioequivalence to MS Contin on AUC, but missed slightly on Cmax, which might make approval more challenging for the 100mg dose. However, Egalet-001 was only slightly above the upper limit of Cmax, with average Cmax within the acceptable range. However, AUC is the critical factor for efficacy for opioids and FDA may offer leeway for the 100mg dose.

Filing on 15mg, 60mg dose viable, covers 90% of market

FDA approval for 15mg and 60mg doses of Egalet-001 would cover 90% of the morphine market, and is a positive commercial strategy, in our view. Importantly, the 60mg dose showed bioequivalence on both AUC and Cmax, and should be approved.

Anticipate positive 15mg bioequivalence data 3Q14

Top-line BE data for 15mg Egalet-001 versus MS Contin are expected during 3Q14, which we anticipate will be positive. Assuming positive BE data for the 15mg dose, we expect an FDA filing in 4Q14. If the 15mg dose does not show BE to MS Contin, Egalet may contemplate an efficacy study, but we do not expect this outcome.

CATEGORY 2/3 ABUSE DETERRENCE DATA FOR EGALET-001 4Q14

We continue to expect positive abuse deterrence data for Egalet-001 in category 2 and 3 studies during 4Q14. The category 2 study will evaluate the effect of manipulation on availability of the drug in the bloodstream, as measured by pK. Category three studies are clinical abuse potential studies, or "likeability" studies, where abusers determine if Egalet-001 is more "likeable" than a non-abuse deterrent MS-Contin formulation.

VALUATION

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 (oxycodone)	886	2027	257	35%	$19	20%	$4
Equity Value					**$25**	**20%**	**$5**
Partnered							
Egalet-001 (morphine)	162	2025	90	65%	$6	55%	$4
Egalet-002 (oxycodone)	1112	2027	147	35%	$11	55%	$6
Equity Value					**$17**	**55%**	**$9**
Royalty							
Egalet-001 (morphine)	162	2025	90	65%	$6	25%	$2
Egalet-002 (oxycodone)	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, Inc.

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 lll 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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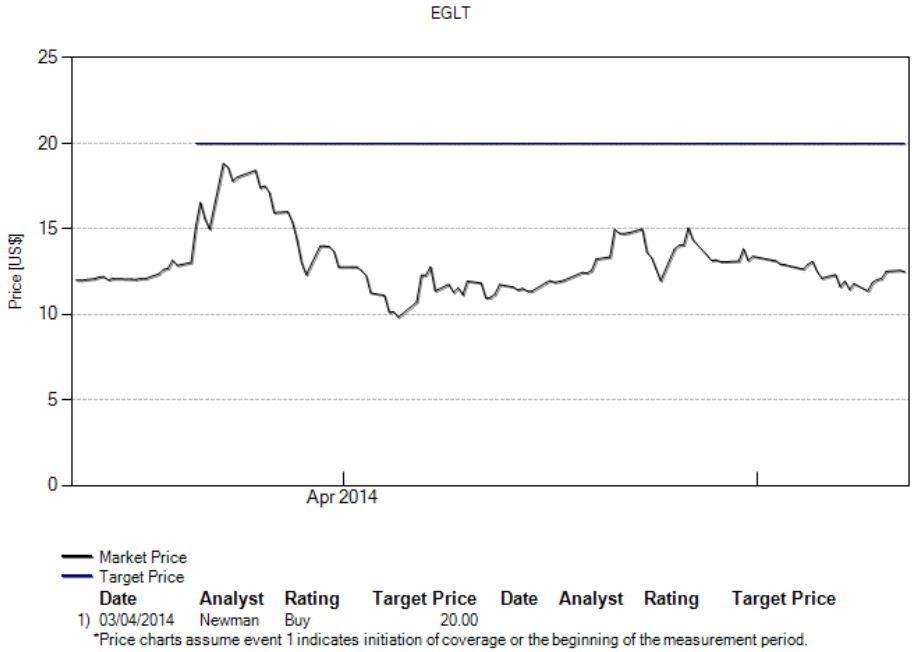
Site Visit: An analyst has not visited the material operations of Egalet Corp.

Price Chart:*



	Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1)	03/04/2014	Newman	Buy	20.00				

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:
Global Stock Ratings
(as of 3 July 2014)

	Coverage Universe		IB Clients
Rating	#	%	%
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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