

Specialty Pharmaceuticals

Price:	\$4.93
Fair Value Estimate:	\$17.00
52-Week Range:	\$3.81 - \$19.85
Market Cap (MM):	\$85
Shr.O/S-Diluted (mm):	17.3
Average Daily Volume:	12,715
Book Value:	\$(4.69)
Dividend:	NA
Cash/Share:	\$(0.73)
FCF Yield:	39.1%
Debt/Cap:	235%

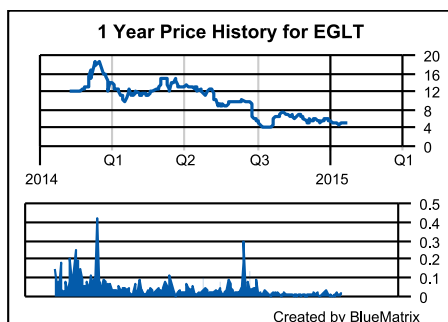
FYE: Dec	2013A	2014E	2015E
EPS:	\$(4.29)A	\$(3.12)E	\$(2.67)E
Prior EPS:		NC	NC
Consensus	NM	NM	-3.29
P/E Ratio:	NA	NA	NA

Quarterly EPS:

Q1	\$(3.40)A	\$(1.34)A	\$(0.83)E
Q2	\$(3.40)A	\$(0.73)A	\$(0.68)E
Q3	\$(3.40)A	\$(0.63)A	\$(0.61)E
Q4	\$(0.35)A	\$(0.65)E	\$(0.58)E

Quarterly Revenue (M):

Q1	\$0A	\$0A	--
Q2	\$0A	\$0A	--
Q3	\$0A	\$0A	--
Q4	\$0A	\$0E	--
Year:	\$0A	\$0E	\$0E



January 22, 2015

Egalet Ltd.

(EGLT) - BUY

EGLT: Guardian Technology Lives Up to Its Name

Flash Takeaways

This morning EGLT announced positive results from its Category 3 human abuse liability (HAL) study for Egalet-001, their abuse-deterrent (AD), extended-release oral morphine formulation. It is our opinion that EGLT has some of the most robust AD physical barrier technology currently being developed and though we are not surprised by the positive results from this "real world" test, this should be a nice positive for the name as it continues to validate their Guardian technology. EGLT remains our Dark Horse for 2015: Maintain Buy Rating, \$17 FV.

Analysts Notes

- **What is a Category 3 HAL Study?:** In short, it's fun work if you can get it. A Category 3 HAL study takes non-dependent recreational drug users into a lab environment and gives them MS Contin and Egalet-001 (in this case) and through a series of maneuvers and procedures with different household products (coffee grinders, spice grinders) they attempt to crush and reduce particle size of the original tablets for oral abuse. Of the three different HAL study categories, this is considered the most important and "real world".

The Results from the Study: Egalet-001 met the primary endpoint of drug liking measured by Emax which corresponds to a 0 to 100 (50 being neutral) scale of "drug liking" measured over different time periods. Manipulated Egalet-001 drug liking was statistically significantly lower than manipulated MS Contin ($p < 0.007$). There was also no statistical difference on drug liking between intact and manipulated Egalet-001, meaning that Egalet-001 retains its AD qualities after manipulation. Abuse Quotient (Cmax/Tmax) for the treatments arms were:

- 5.7 for intact Egalet-001
- 16.4 for manipulated Egalet-001
- 45.9 for manipulated MS Contin
- **Maintain Buy rating, \$17 FV:** EGLT is based on a future sales multiple SOP analysis. Currently, we model Egalet-001 at \$4/share based on 2020 sales of \$120M with 45% discount, Egalet-002 at \$9/share based on 2020 sales of \$155M with a 30% discount, 2020 US Sprix sales at ~\$25M, discounted at 15% adding \$2/share with 2020 US oxaydo sales at ~\$17M discounted at 15%, adding \$1.50/shares.

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Chiara Russo, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

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Janney Montgomery Scott LLC managed or co-managed a public offering of securities for Egalet Ltd. in the past 12 months.

Janney Montgomery Scott LLC received compensation for investment banking services from Egalet Ltd. in the past 12 months.

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from Egalet Ltd. in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

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BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 12/31/14

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [B]	138	51.30	15	10.87
NEUTRAL [N]	131	48.70	5	3.82
SELL [S]	0	0.00	0	0.00

*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

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