

Equity Research

**Irina Rivkind Koffler**  
212-915-1237  
irivkind@cantor.com

## Eagle Pharmaceuticals Inc. (EGRX-\$14.48)

**Rating: BUY**

**Target Price: \$21.00**

### Upside to 2015 Following Ryanodex Priority Review Announcement; Reiterate BUY

<u>REV</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>
2013A	1.5A	0.0A	0.0A	0.0A
2014E	5.5A	4.8E	1.7E	1.3E
<i>Prev</i>	—	—	—	1.1E
2015E	—	—	—	—
<u>EPS</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>
2013A	(1.09)A	0.00A	0.00A	0.00A
2014E	(1.44)A	(0.16)E	(0.30)E	(0.47)E
<i>Prev</i>	—	—	—	(0.48)E
2015E	—	—	—	—
<u>FY</u>	<u>2013A</u>	<u>2014E</u>	<u>2015E</u>	
REV	13.7A	13.3E	7.4E	
<i>Prev</i>	—	13.0E	5.8E	
P/S	14.7x	15.2x	27.2x	
EPS	(0.51)A	(1.55)E	(1.69)E	
<i>Prev</i>	—	(1.56)E	(1.78)E	
P/E	(28.4)x	(9.3)x	(8.6)x	

- **We now expect an earlier Ryanodex launch.** Eagle Pharmaceuticals announced today that the FDA has both accepted its new drug application for Ryanodex and granted it a priority review classification. The PDUFA date has been set for July 22. We previously modeled a launch in early 2015 and have now moved launch timing to fall 2014. Ryanodex is a treatment for malignant hyperthermia, which is a reaction to anesthesia that needs to be immediately treated. Eagle's version is a new formulation of an existing product, dantrolene, but significantly decreases the effort and time required to administer the product. We expect Ryanodex to capture the majority of the existing \$20 million hospital market for dantrolene because of its easier-to-administer formulation. We reiterate our BUY rating and \$21 PT.
- **New Ryanodex launch timing leads to upside in our estimates, especially for 2015.** We now model sales beginning in 4Q:14, which has increased our 2014 EPS and revenue estimates slightly with revenues increasing to \$13.3 million from \$13.0 million and per-share loss improving by a penny. This early launch more significantly impacts our 2015 estimates; we increased our 2015 revenues to \$7.4 million from \$5.8 million and our 2015 EPS loss to (\$1.69) from (\$1.78). We still model Eagle profitability in 2016 upon the launch of its ready-to-dilute form of Treanda.
- **The next major catalysts for Eagle are based on the outcomes of The Medicine Company's Angiomax generic litigation with Hospira, and Lilly's Alimta generic litigation, in our view.** (1) We expect an imminent court decision on the outcome of Hospira's generic Angiomax litigation. If Hospira is barred from market entry until 2019 (behind the first generic filer), Eagle would gain approximately a year of commercial runway (with no generic competition) for its ready-to-use form of Angiomax, which is expected to launch in 2017 and could contribute >\$100M in revenue. (2) We expect results from Eli Lilly's generic litigation in 1H:14. Alimta is protected by a vitamin dose regimen patent until May 2022. Generic companies are hoping to enter the market after the expiration of the January 2017 composition of matter patent. Lilly may be able to settle this litigation to allow a generic launch closer to 2021/2022, and as we have modeled Eagle's ready-to-dilute Alimta launch in early 2017, Eagle could significantly benefit from a favorable Lilly settlement (with approximately \$100-200M in additional revenues over a four-year period).

#### Current Statistics

Market Cap (\$Mil)	\$201.5	Float Shares (Mil):	14.400
Avg. Daily Trading Volume (3 mo.):	NA		
Shares Out (Mil):	13.919		

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**Valuation**

We value Eagle Pharmaceuticals using a discounted cash flow analysis (DCF). We assume a weighted average cost of capital (WACC) of 13% given the risks associated with generic litigation. 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 arrive at a \$21 price target using this methodology. With regard to downside risk, we believe that later than expected launch of the Treanda RTD, or earlier than expected generic entry of Angiomax generics could result in (\$16/share) and (\$7/share) downside to our base case scenario, respectively.

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**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 is especially prominent for the launch of Eagle's RTD Treanda and Angiomax products.
- (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: Eagle Income Statement (dollars in millions)

	2012	2013	1Q:14A	2Q:14E	3Q:14E	4Q:14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues:													
Product Sales	1.2	5.3	2.2	1.9	0.7	0.6	5.4	6.1	80.9	247.1	209.8	133.3	135.4
Royalty Income	1.4	8.4	3.3	2.9	1.0	0.6	7.8	1.2	1.1	1.0	1.0	0.9	0.8
Collaborative licensing and development revenue	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
Total revenues	2.5	13.7	5.5	4.8	1.7	1.3	13.3	7.4	82.0	248.1	210.7	134.2	136.2
Operating expenses:													
COGS	3.2	7.4	4.6	2.7	1.0	0.6	9.0	2.3	15.5	64.9	95.7	45.9	47.1
R&D	12.8	9.8	2.6	2.8	3.0	4.1	12.5	15.0	16.5	17.7	18.5	19.5	20.4
SG&A	6.4	5.0	1.3	1.5	2.0	3.2	8.0	15.0	26.0	31.2	32.8	34.4	36.1
Operating income (deficit)	(19.8)	(8.5)	(3.1)	(2.2)	(4.3)	(6.6)	(16.2)	(24.9)	24.0	134.4	63.8	34.4	32.5
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.3	0.8	1.4	1.7	1.8
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
Other	(0.3)	1.8	(0.2)	0.0	0.0	0.0	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Income	(20.2)	(6.9)	(3.3)	(2.2)	(4.3)	(6.6)	(16.4)	(24.5)	24.4	135.2	65.1	36.0	34.3
Tax rate	0.0%	0.0%	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)	0.0	0.0	0.0	0.0	0.0	0.0	4.9	47.3	22.8	12.6	12.0
Net Loss	(19.4)	(6.0)	(3.3)	(2.2)	(4.3)	(6.6)	(16.4)	(24.5)	19.5	87.9	42.3	23.4	22.3
Dividend payment	(3.9)	(3.8)	(1.1)	0.0	0.0	0.0	(1.1)	0.0	0.0	0.0	0.0	0.0	0.0
stockholders	(23.3)	(9.9)	(4.4)	(2.2)	(4.3)	(6.6)	(17.5)	(24.5)	19.5	87.9	42.3	23.4	22.3
Weighted average common shares	10.6	19.5	3.0	13.9	14.2	14.2	11.3	14.5	15.0	15.5	16.0	16.5	17.0
Diluted EPS	(\$2.20)	(\$0.51)	(\$1.44)	(\$0.16)	(\$0.30)	(\$0.47)	(\$1.55)	(\$1.69)	\$1.30	\$5.67	\$2.65	\$1.42	\$1.31

Source: Company reports, Cantor Fitzgerald estimates, and FactSet Consensus

**Exhibit 2: Eagle Sales Estimates (dollars in millions)**

	2012	2013	1Q:14A	2Q:14E	3Q:14E	4Q:14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Royalty Revenue</b>													
<b>ARGATROBAN</b>													
Sales	\$3.5	\$29.0	\$12.5	\$11.0	\$4.0	\$2.5	\$30.0	\$5.0	\$4.5	\$4.3	\$4.1	\$3.9	\$3.7
Growth							3.4%	-83.3%	-10.0%	-5.0%	-5.0%	-5.0%	-5.0%
Royalty	39.5%	28.8%	26.1%	26.3%	26.0%	25.6%	26.1%	24.9%	24.5%	24.2%	23.8%	23.4%	23.1%
ARGATROBAN ROYALTY REVENUE	\$1.4	\$8.4	\$3.3	\$2.9	\$1.0	\$0.6	\$7.8	\$1.2	\$1.1	\$1.0	\$1.0	\$0.9	\$0.8
Growth		504.3%	166.2%				-6.2%	-84.1%	-11.3%	-6.4%	-6.4%	-6.4%	-6.5%
<b>Product Sales</b>													
<b>ARGATROBAN</b>													
Sales	\$1.2	\$5.3	\$2.2	\$1.9	\$0.7	\$0.4	\$5.2	\$0.8	\$0.7	\$0.7	\$0.6	\$0.6	\$0.5
Growth		360.0%	770.9%				-2.2%	-84.4%	-11.3%	-6.4%	-6.4%	-6.4%	-6.5%
<b>RYANODEX</b>													
Sales						\$0.2	\$0.2	\$5.3	\$9.0	\$14.7	\$16.9	\$19.1	\$19.5
Growth									70.0%	63.2%	14.8%	13.3%	2.0%
<b>TREANDA RTD</b>													
Sales									\$71.2	\$188.2	\$67.8	\$67.8	\$67.7
Growth									164.4%	-64.0%	0.0%	-0.1%	
<b>ANGIOMAX RTU</b>													
Sales										\$43.6	\$124.4	\$45.8	\$47.6
Growth										185.7%	-63.2%	4.0%	
<b>TOTAL REVENUE</b>	<b>\$2.5</b>	<b>\$13.7</b>	<b>\$5.5</b>	<b>\$4.8</b>	<b>\$1.7</b>	<b>\$1.3</b>	<b>\$13.3</b>	<b>\$7.4</b>	<b>\$82.0</b>	<b>\$248.1</b>	<b>\$210.7</b>	<b>\$134.2</b>	<b>\$136.2</b>
Growth		438.7%	270.3%				-3.1%	44.5%	1014.3%	202.6%	-15.1%	-36.3%	1.5%

Source: Cantor Fitzgerald estimates and company reports

## 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. Eagle has several products in development that it expects to launch over 2015-2017.*

## Companies Mentioned:

Eagle Pharmaceuticals Inc. (EGRX - NASDAQ): BUY

Eli Lilly and Company (LLY - NYSE): NC

Hospira Inc. (HSP - NYSE): NC

The Medicines Co. (MDCO - NASDAQ): NC

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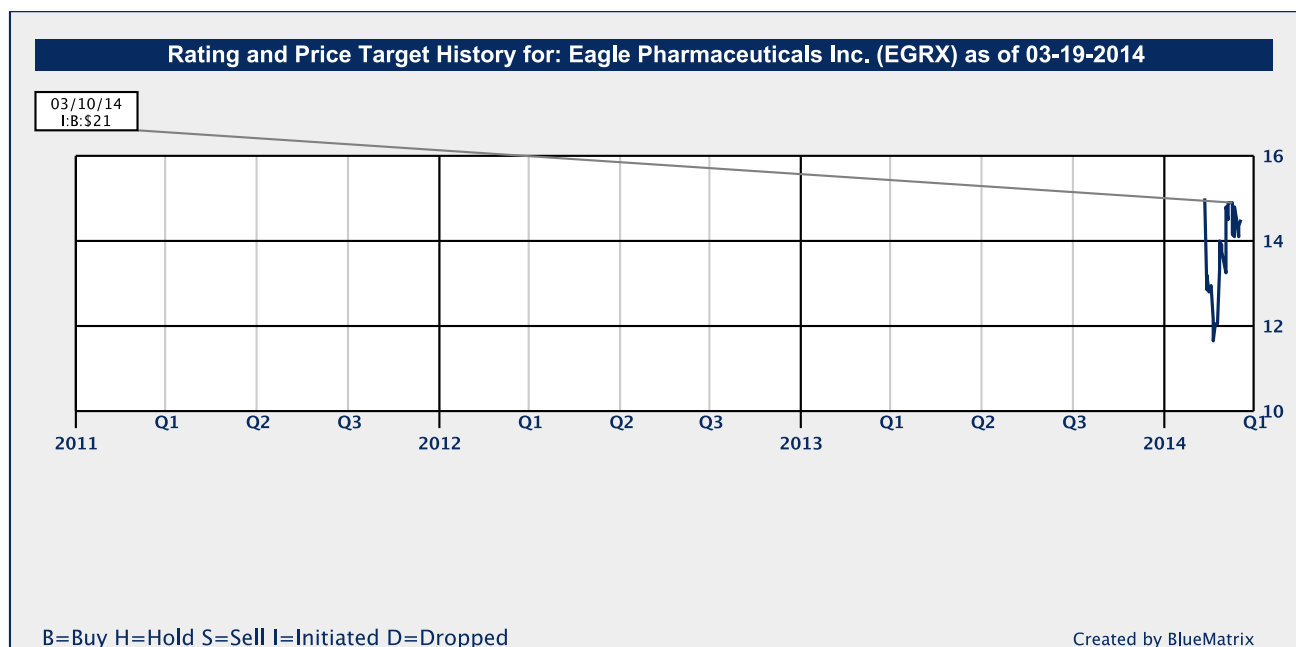
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