Zacks Small-Cap Research

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Egalet Corp. (EGLT - NASDAQ)

Impressive Prescription Growth; Revenues Should Follow

Based on our DCF model and a 15% discount rate and our 20x multiple of 2020 earnings discounted to present, we generate a valuation of approximately $6.00 per share. Our model assumes continued sales of Arymo, Oxaydo and Sprix and related royalties where applicable.

Current Price (11/8/2017)	$0.92
Valuation	**$6.00**

INITIATION

Egalet is an integrated specialty pharmaceutical company focused on pain therapies. The company has developed its abuse deterrent Guardian Technology that can be applied to many classes of controlled substances. The company currently has three marketed products: Arymo ER, an abuse deterrent morphine tablet, Oxaydo, an oral oxycodone for acute and chronic pain and Sprix, a nasal spray for pain.

EGLT differentiates its products by improving their method of delivery or their resistance to manipulation obtaining approval through the 505(b)(2) pathway.

At the current price, we view Egalet shares as undervalued, with substantial upside given the growth expected in commercialized products. We believe that expansion of abuse deterrent technology as recommended by the FDA and supported by other government entities can provide upside to our valuation.

SUMMARY DATA

52-Week High	**10.00**
52-Week Low	**0.91**
One-Year Return (%)	**-89.3**
Beta	**-0.23**
Average Daily Volume (sh)	**484,738**
Shares Outstanding (mil)	**43.0**
Market Capitalization ($mil)	**39.6**
Short Interest Ratio (days)	**4.61**
Institutional Ownership (%)	**55.3**
Insider Ownership (%)	**1.0**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2017 Estimate	**N/A**
P/E using 2018 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Med-Biomed/Gene**

ZACKS ESTIMATES

Revenue

(In millions of US$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	$2.7 A	$3.5 A	$4.7 A	$6.1 A	$17.0 A
2017	$5.4 A	$6.3 A	$6.7 A	$8.8 E	$27.1 E
2018					$53.9 E
2019					$80.3 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	-$0.76 A	-$0.97 A	-$1.10 A	-$0.87 A	-$3.70 A
2017	-$1.02 A	-$1.04 A	-$0.46 A	-$0.37 E	-$2.89 E
2018					-$0.70 E
2019					-$0.25 E

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What's New

Third Quarter Operational and Financial Results

Egalet Corporation (NASDAQ: EGLT) released third quarter results on November 8, 2017, posting revenues of $6.7 million and a net loss of ($0.46) per share. Revenues increased 41% on prescription growth of 124%. Third quarter results compare with our estimates for revenues of $7.8 million and net loss of ($0.52). The quarter was distinguished by continued progress developing partner relationships, a corporate restructuring focusing on commercialized products and an equity financing that raised $30 million.

Third quarter revenue growth of 41% was driven by prescription growth of 124%. Total revenues of $6.7 million were comprised of Sprix sales of $5.1 million, Oxaydo sales of $1.4 million and Arymo sales of $0.2 million. Sprix experienced prescription growth of 101% due to successes at Ascent Therapeutics and Oxaydo posted a 71% increase in prescription growth with 337 new prescribers added. As Egalet enters into new agreements with payors, they are required to negotiate the entire portfolio to gain access. In the near term, this has resulted in large gross to net discounts resulting in a discrepancy between revenue and prescription growth, which we anticipate will resolve over time as volumes increase.

Total expenses of $22.5 million, which include restructuring charges, were below our estimates of $24.5 million due to lower than expected expenses across the board, especially research and development. General and administrative expenses of $6.8 million declined from $8.0 million in the prior year due to prior year efforts to develop Arymo ER and preparation costs for the FDA's advisory committee meeting which were not repeated in 3Q:17. Sales and marketing expenses rose by 26% to $8.8 million on commercialization efforts for Arymo ER. Research and development expense fell compared to the prior year to $2.1 million, an 83% decline due to lower development costs for Egalet-002, Arymo and Oxaydo. Charges of $3.0 million were recognized in the third quarter following the restructuring announcement made in conjunction with the 2Q:17 report.

Egalet's cash balance stood at $102 million as of September 30, 2017. The sequential increase over 2Q:17 levels was attributable to the $30 million equity raise that was closed on July 11, 2017. Long term debt listed on the balance sheet stands at $127 million.

Cash burn for the third quarter 2017 was ($23.1) million which was greater than our estimates and compares to cash burn of ($23.9) million in 3Q:16 and ($20.5) million in 2Q:17. For the nine months ending September 30, 2017, cash burn was ($64.2) million compared to ($66.2) in the same prior year period. Accrued expenses, stock based compensation expense and noncash interest and amortization on bank debt explain the majority of the difference between net loss and operating loss.

We reduce expenses for 4Q:17 based on faster than anticipated reduction of cost related to the restructuring and lower our estimates for G&A and R&D spend. Based on management commentary, we do not anticipate any additional restructuring costs in 4Q:17. Our revenue and cost structure does not change for 2018 and we maintain our target price of $6.00 per share.

Medicare Part D

On November 6, Egalet announced the addition of Arymo ER to an unidentified large Medicare Part D payor's formulary. The availability of Arymo ER will cover approximately 1.4 million lives, and will take effect immediately.

Product Updates

Egalet plans to optimize the formulation and increase the attractiveness of Sprix for patients. The company did not release and details on their approach, but does expect to complete this new formulation work by the first half of 2018. Additional studies will be required to obtain approval for this new formulation. As a reminder, the current patent for Sprix will expire in December 2018 and Egalet settled with Apotex, allowing them to provide an authorized generic in March 2018. However, at this time Apotex has not indicated whether or not they will pursue the authorized generic.

Oxaydo has two additional opportunities to expand its value proposition. The first opportunity is to obtain approval for the higher volume 10 mg and 15 mg doses of this abuse discouraging oxycodone product. Egalet received a CRL from the FDA earlier this year where the agency requested additional information regarding related to the

impact of food on drug action and the intranasal abuse-deterrent properties of the drug. The company is now evaluating the best path forward for these additional strengths. The second opportunity is to obtain a labeling supplement for syringability and intra-nasal abuse routes. When Oxaydo was approved the FDA had not yet released its guidelines for ADF requirements despite having characteristics that are potentially approvable. While neither of these possibilities will occur in the short term, we do believe they merit the effort to pursue them.

Summary

Egalet is growing rapidly off of a small base with its trio of pain solutions and has seen steady success adding partners and payors that can penetrate the relevant markets. Prescription growth has been impressive and we are hopeful that revenues will follow as price catches up with volumes. Many of the benefits of ADFs are externalities, such as limiting diversion and at current are not directly recognized by payors. We see continued relationship building and education of payors and legislators as important efforts the company can take to improve the environment for the portfolio of pain medications. Coordinated efforts by regulators and state and federal legislators are other important efforts that are needed to reduce the barriers for using ADFs. We see education and government action to emphasize ADFs as positive overall and supportive of continued sales growth. We maintain our target price of $6.00 per share.

PROJECTED FINANCIALS

Egalet Corporation - Income Statement[1]

Egalet Corporation	2016 A	Q1 A	Q2 A	Q3 A	Q4 E	2017 E	2018 E	2019 E
Total Revenues	**$17.0**	**$5.4**	**$6.3**	**$6.7**	**$8.8**	**$27.1**	**$53.9**	**$80.3**
YOY Growth	*-26%*	*104%*	*81%*	*41%*	*43%*	*60%*	*99%*	*49%*
Cost of Sales	$3.7	$1.3	$1.1	$1.2	$1.3	$5.0	$8.1	$11.2
Product Gross Margin	*78.3%*	*75.6%*	*82.9%*	*81.2%*	*85.0%*	*81.7%*	*85.1%*	*86%*
Amortization of Product Rights	$2.0	$0.5	$0.5	$0.5	$0.5	$2.1	$2.0	$2.0
General and Administrative	$30.7	$8.5	$12.5	$6.8	$7.2	$35.0	$20.8	$22.0
Sales and Marketing	$27.9	$9.3	$9.3	$8.8	$9.8	$37.2	$30.0	$32.0
Research and Development	$33.8	$6.5	$4.6	$2.1	$2.5	$15.7	$8.0	$7.0
Restructuring Charges	$0.0	$0.0	$0.0	$3.0	$0.0	$3.0	$0.0	
Income from operations	($81.0)	($20.7)	($21.7)	($15.8)	($12.5)	($70.8)	($15.0)	$6.1
Operating Margin	*-478%*	*-381%*	*-348%*	*-238%*	*-142%*	*-261%*	*-28%*	*8%*
Change in derivative liability	($0.6)	($0.0)	$0.0	($1.5)	$0.0	($1.5)	$0.0	$0.0
Interest expense, net	$12.1	$4.5	$4.7	$4.7	$3.4	$17.3	$17.1	$17.1
Other	($0.8)	$0.2	($0.0)	($0.1)	$0.0	$0.1	$0.0	$0.0
Pre-Tax Income	($91.7)	($25.4)	($26.5)	($18.9)	($15.9)	($86.7)	($32.1)	($11.0)
Provision for Income Tax	($1.1)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*1.2%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Net Income	**($90.6)**	**($25.4)**	**($26.5)**	**($18.9)**	**($15.9)**	**($86.7)**	**($32.1)**	**($11.0)**
Net Margin	*-534%*	*-468%*	*-423%*	*-285%*	*-180%*	*-319%*	*-59%*	*-14%*
Reported EPS	**($3.70)**	**($1.02)**	**($1.04)**	**($0.46)**	**($0.37)**	**($2.89)**	**($0.70)**	**($0.25)**
YOY Growth	*26.0%*	*34.8%*	*6.7%*	*-58.0%*	*-57.6%*	*-218%*	*-76%*	*-64%*
Basic Shares Outstanding	24.51	24.77	25.54	41.15	43.10	33.64	43.50	44.00

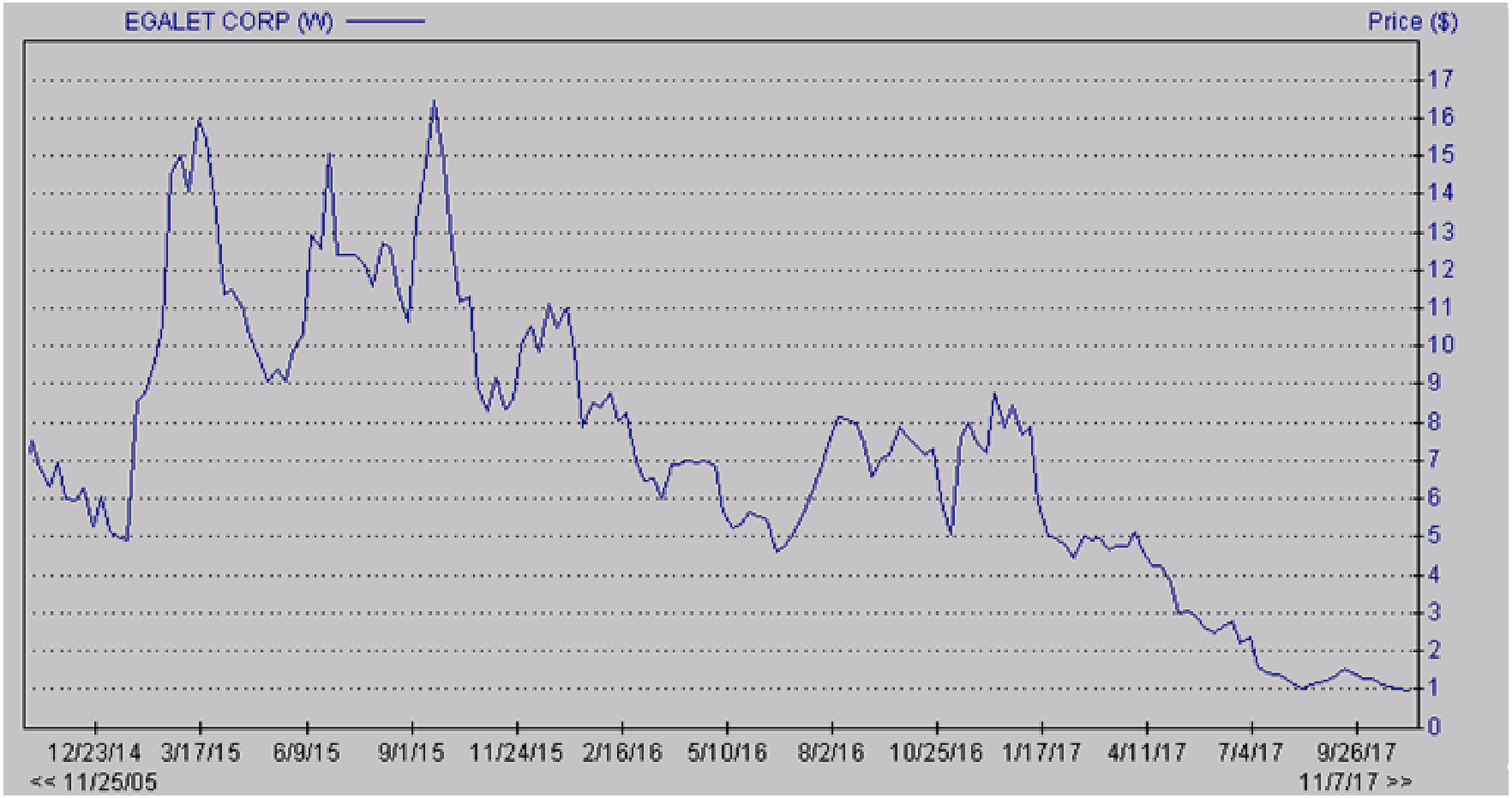
Source: Company Filing // Zacks Investment Research, Inc. Estim

[1] Egalet estimates do not include non-cash interest amortization of approximately $1.0 to $1.5 million per quarter.

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HISTORICAL STOCK PRICE

Egalet Corporation – Share Price Chart



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