

Evoked Pharma (EVOK - \$ 6.40)

3Q14 – Uneventful Call and METO IN-003 Pivotal Trial is On-Track to Complete Potentially in Mid-2015.

Yesterday after the market close, EVOK reported 3Q14 financial results with a net loss of (\$3.8MM), better than Laidlaw (\$4.6MM) and the Street estimate of (\$4.7MM). Net loss per share equaled (\$0.63) vs. (\$0.75) and (\$0.83) for Laidlaw and the Street, respectively. EVOK ended the 3Q14 with cash of ~\$12MM, sufficient for operations into late 2H15, in our opinion. In our view, quarterly earnings performance is not yet the key investment focus of EVOK share value; while METO IN-003 study progression and potential success are.

- METO IN-003 study update.** Management reiterated that the METO IN-003 study is on track to be completed in mid-2015, with approximately 50 out of the initially planned 60 clinical sites currently actively recruiting patients for the study. As a reminder, the study is scheduled to enroll 200 patients equally randomized into either placebo or 10 mg EVK-001 groups. The primary endpoint is change in the average Gastroparesis Symptom Assessment (GSA) total score for baseline vs. four weeks of treatment. If the outcome is positive, as we believe will be likely, EVOK is expected to file for EVK-001 approval via a 505(b)(2) pathway possibly in late 2H15.
- EVK-001 thorough ECG (QT) safety study results expected in late 4Q14.** EVOK indicated that results of the EVK-001 safety study results are expected in late 4Q14, ahead of the earlier 1Q15 projection. As a reminder, it is a double-blind, double-dummy, four-way crossover ECG (electrocardiogram) study in healthy volunteers and is designed to evaluate the effect of EVK-001 on cardiac ventricular repolarization; specifically the QT-interval. METO IN-003 and the QT safety studies are the only two trials required by the FDA for the NDA filing.
- Action.** We reiterate our Buy rating and our \$19 target price based on our peer comparable, cash driven NPV and forward price/sales analyses. Our recommendation is based on potential success of METO IN-003 study and positive commercial outlook of EVK-001 in gastroparesis treatment; and is supported by our peer comparable, cash driven NPV and forward price/sales analyses.

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-14E	-0.49A	-0.59A	-0.63A	-0.70	-2.41	NM
FY-13A	-0.44	-0.21	-0.40	-0.27	-1.20	NM
FY-12A	-0.45	-0.32	-0.43	-0.60	-1.79	NM
FY-11A	NA	NA	NA	NA	-2.18	NM

Source: Laidlaw & Company estimates

Healthcare/Biotechnology

Ticker: **EVOK**
Rating: **Buy**
Price Target: **\$ 19.00**

Trading Data:

Last Price (11/13/2014)	\$ 6.40
52-Week High (1/22/2014)	\$ 13.40
52-Week Low (10/16/2014)	\$ 4.72
Market Cap. (MM)	\$ 39
Shares Out. (MM)	6

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Figure 1 Estimated and reported 3Q14 results

3Q14 Estimates and Reported Results			
(\$,000)	Laidlaw Estimate	Actual	Consensus
Total revenue	\$0.0	\$0.0	\$0.0
Total op. profit (loss)	(\$4,541)	(\$3,821)	(\$4,715)
R&D	\$3,881	\$3,088	
SG&A	\$660	\$733	
EPS	(\$0.75)	(\$0.63)	(\$0.83)
Net income (loss)	(\$4,617)	(\$3,825)	(\$4,733)

Source: Bloomberg, SEC filings and Laidlaw and Co.

Anticipated Milestones in 2014 and Beyond

Product	Indication	Event	Timing	Importance
EVK-100	Diabetic gastroparesis	Potentially report top-line QT cardiac safety clinical study results	4Q14	***
		Potentially report top-line METO IN-003 Phase III trial results	Mid-15	*****
		Potentially filing via 505(b)(2) pathway for approval	Late 15 / early '16	***
		Potential approval	Late '16	*****

**** / ***** Major catalyst event that could impact share price very significantly while *** event is more informative

Source: Laidlaw & Company and company presentation

Major Risks

Failures of upcoming clinical studies Although EVK-001 has demonstrated promising efficacy and a satisfactory safety profile from prior Phase II studies in diabetic gastroparesis, there is no assurance that the upcoming Phase III clinical study can demonstrate efficacy and safety profiles satisfactory enough for gaining clinical approval. Given the clinical study successes are the biggest near-term hurdle to be overcome before EVK-001 can be advanced into commercialization, clinical study failure could significantly impair the value of the company's asset and shareholder value. Overall, we view clinical risks of EVK-001 is more modest comparing to Phase III studies of other biotech companies.

EVK-001 may not reach anticipated sales. Although EVK-001 has illustrated promising efficacy and safety profiles, the sales potential could fall short of our forecasts. It is difficult to project more accurately the sales potential of EVK-001 in gastroparesis given the market is relatively mature and is dominated by generic products. Although the assumption that EVK-001 could bypass the hurdle of slow gastric emptying and vomiting to afford more effective drug availability, the actual clinical performance from Phase III study could potentially determine physician acceptance for the drug as well as the company's flexibility to price the drug. The lack of a large size comparative clinical study for EVK-001 vs. oral metoclopramide with superior outcome could also slow down the initial market penetration.

Lack of diversified product portfolio increases risk if EVK-100 fails. Since Evoke only has only one product in development and without other prospects on their pipeline, EVOK shareholder has very limited option to hedge their risk of owning the stock. As such, any mishap or failure of EVK-001 development could significantly reduce the value of EVOK shareholders.

Additional financing could dilute shareholder value. Regardless of whether or not the company forges additional collaborations with partners to generate non-dilutive revenue to support operation, it is likely that Evoke may need to provide offerings to raise cash from investors to fund its operations, especially if the company needs to commercialize EVK-001 by themselves. As such, the share value for existing investors could be diluted. Further, if the company cannot raise equity capital at more favorable terms, the share value of current shareholder could be further impaired.

Limited trading liquidity limits shareholder options. Given daily trading volume and name recognition of EVOK shares are relatively modest, some investors could be hesitate to own the shares as relatively illiquid trading volume could impose constraints if they want to increase or reduce their positions in a volatile stock market.

Figure 1: Income Statement

Evoke Pharma – Income Statement													
(\$'000)	2012	2013	1Q14	2Q14	3Q14	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenue													
EVK-001 sales									3,989	25,670	64,013	112,205	166,655
Product royalty revenue		0	-	-	-	-	0	0	0	0	0	0	0
Total revenue	0	0	-	-	-	-	0	0	3,989	25,670	64,013	112,205	166,655
Costs of goods									359	2,310	5,761	10,098	14,999
Research and development	1,166	957	1,852	2,875	3,088	3,552	11,367	9,094	4,638	3,942	3,745	3,857	3,973
General and administrative	837	1,645	1,070	617	733	791	3,212	3,372	3,709	4,043	4,407	4,804	5,188
Marketing and sales								1,000	15,500	46,500	48,825	51,755	54,342
Total Operating Expenses	2,002	2,602	2,923	3,492	3,821	4,343	14,579	13,466	24,206	56,796	62,738	70,514	78,502
Operating Incomes (losses)	(2,002)	(2,602)	(2,923)	(3,492)	(3,821)	(4,343)	(14,579)	(13,466)	(20,217)	(31,126)	1,275	41,691	88,153
Interest income	2	7	4	3	2	2	11	12	13	14	16	17	19
Interest expense	(24)	(80)	(37)	(58)	(6)	(6)	(107)	(118)	(130)	(143)	(157)	(173)	(173)
Change in fair value of warrant liability	7	(82)	0	0	0	(4)	(4)	(30)	15	(20)	24	(27)	(27)
Total Other Income, net	(15)	(235)	(33)	(55)	(4)	(8)	(100)	(136)	(102)	(148)	(117)	(182)	(181)
Income before tax	(2,018)	(2,836)	(2,956)	(3,547)	(3,825)	(4,351)	(14,679)	(13,602)	(20,319)	(31,274)	1,158	41,509	87,972
Tax Rate	0										32%	32%	32%
Tax	0	0	-	0	0	0	0	0	0	0	(370)	(13,283)	(28,151)
Net Income (Loss)	(2,018)	(2,836)	(2,956)	(3,547)	(3,825)	(4,351)	(14,679)	(13,602)	(20,319)	(31,274)	787	28,226	59,821
Net Income (Loss) Applicable to Common Shareholders	(2,018)	(2,836)	(2,956)	(3,547)	(3,825)	(4,351)	(14,679)	(13,602)	(20,319)	(31,274)	787	28,226	59,821
Net Earnings (Losses) Per Share—Basic and Diluted	(\$1.79)	(\$1.20)	(\$0.49)	(\$0.59)	(\$0.63)	(\$0.70)	(\$2.41)	(\$1.21)	(\$1.66)	(\$2.36)	\$0.06	\$1.85	\$3.68
Shares outstanding—basic and diluted	1,124	2,368	6,003	6,028	6,054	6,254	6,085	11,254	12,254	13,254	14,254	15,254	16,254
	1,124	2,368	6,003	6,028	6,054	6,254	6,085	11,254	12,254	13,254	14,254	15,254	16,254
Margin Analysis (% of Sales/Revenue)													
Costs of goods	NA	9%	9%	9%	9%	9%							
R&D	NA	116%	15%	6%	3%	2%							
MG&A	NA	482%	197%	83%	50%	36%							
Operating Income (loss)	NA	-507%	-121%	2%	37%	53%							
Net Income	NA	-509%	-122%	1%	25%	36%							
Financial Indicator Growth Analysis (YoY%)													
Total Revenue	NA	544%	149%	75%	49%								
R&D	-37%	-18%	929%	1089%	3823%	458%	1088%	-20%	-49%	-15%	-5%	3%	3%
SG&A	47%	97%	460%	110%	80%	-16%	95%	5%	10%	9%	9%	9%	8%
Marketing and sales									1450%	200%	5%	6%	5%
Operating Loss	-17%	30%	688%	552%	687%	175%	460%	-8%	50%	54%	-104%	3170%	111%
Total Other Income, net	-213%	1454%	-73%	-72%	1244%	-77%	-57%	35%	-25%	46%	-21%	56%	-1%
Pretax Income		41%	498%	383%	687%	169%	418%	-7%	49%	54%	-104%	3486%	112%
Net Income	-16%	41%	498%	1379%	697%	170%	418%	-7%	49%	54%	-103%	3486%	112%
EPS	-18%	-33%	13%	179%	57%	158%	101%	-50%	37%	42%	-102%	3251%	99%
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Source: Bloomberg LP; Company reports; Laidlaw & Company estimates.

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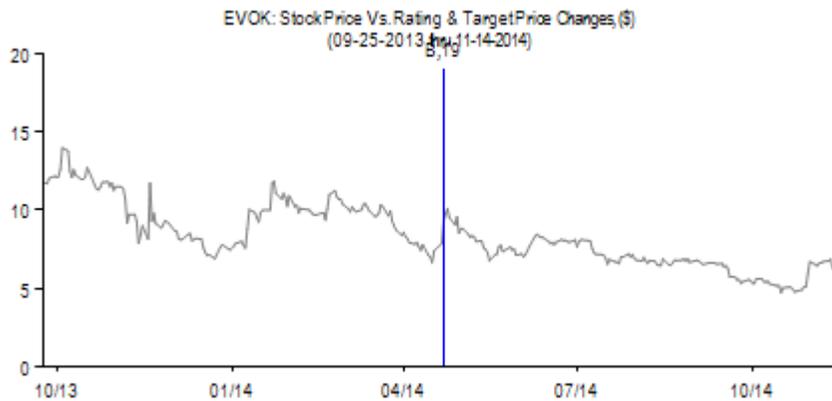
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Date	Rating	Closing Price (\$)
04/22/2014	Buy (B)	9.29

3 Year Price Change History

Date	Target Price (\$)	Closing Price, (\$)
04/22/2014	19.00	9.29



Source: Laidlaw & Company

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			Investment Banking	Brokerage
Strong Buy (SB)	Expected to significantly outperform the sector over 12 months.	0.00%	0.00%	0.00%
Buy (B)	Expected to outperform the sector average over 12 months.	95.24%	33.33%	14.29%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	4.76%	0.00%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

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