

Evoked Pharma (EVOK - \$ 3.50)

EVK-001 Phase III (METO IN-003) Trial Update Indicated 93% (186/200) Completion in Patient Enrollment

This morning, EVOK updated investors that patient enrollment of its ongoing EVK-001 in diabetic gastroparesis Phase III trial is 93% completed. It is overall on track with prior guidance, and we anticipate the top-line results could be available mid-year or 3Q16.

- Details.** The METO IN-003 trial intends to evaluate EVK-001 in female diabetic gastroparesis patients (n=200). Patients are equally randomized into placebo or 10 mg EVK-001 groups to evaluate safety and efficacy, and they will be dosed four times a day (QID) for a treatment duration of four weeks. The primary endpoint is change in the average Gastroparesis Symptom Assessment (GSA) total score for baseline vs. four weeks of treatment. After the completion of patient enrollment, we estimate top-line data could be available 6-8 weeks thereafter (mid-2016 to 3Q16 by our estimate). If the Phase III data are positive, EVOK is expected to file EVK-001 approval through a 505(b)(2) pathway, possibly by year end 2016. In addition, EVOK also reported that they have reached an agreement with Pacific Western Bank to extend its \$4.5MM credit facility to September 30, 2016, to report Phase III data results. EVOK guided that the current cash could support its operations into early 4Q16.
- Implications.** We view today's news as being very informative given that it provides investors the visibility on the progress of EVK-001 in diabetic gastroparesis Phase III program. EVOK is well positioned with their unique product offering of EVK-001 being clinically the most advanced non-orally delivered compound in development, in our assessment. Additionally, based on prior FDA draft guidance for "Gastroparesis: Clinical Evaluation of Drugs for Treatment", we view that EVK-001 could potentially have a therapeutic advantage over oral gastroparesis treatments; since therapeutic impact of the latter could be negatively impacted from the same pathological condition.
- Action.** We reiterate our Buy rating and \$19 target price based on our peer comparable, cash driven NPV and forward price/sales analyses. Our recommendation is based on potential success of the METO IN-003 study and the positive commercial outlook of EVK-001 in gastroparesis treatment.

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-16E	-	-	-	-	-	NM
FY-15E	-0.58A	-0.52A	-0.42A	-0.46	-1.97	NM
FY-14A	-0.49	-0.59	-0.63	-0.48	-2.20	NM
FY-13A	-0.44	-0.21	-0.40	-0.27	-1.20	NM

Source: Laidlaw & Company estimates

Healthcare/Biotechnology

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

Trading Data:

Last Price (03/01/2016)	\$ 3.50
52-Week High (4/14/2015)	\$ 8.00
52-Week Low (1/20/2016)	\$ 2.37
Market Cap. (MM)	\$ 25
Shares Out. (MM)	7

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Anticipated Milestones in 2016 and Beyond

Product	Indication	Event	Timing	Importance
EVK-100	Diabetic gastroparesis	Potentially report top-line METO IN-003 Phase III trial results	2Q/3Q16	*****
		Potentially filing via 505(b)(2) pathway for approval	late 2H16	***
		Potential approval	2017	*****

***** / ***** 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 assets and shareholder value. Overall, we view clinical risks of EVK-001 are more modest relative to Phase III studies of other biotech companies.

EVK-001 may not reach anticipated sales. Assuming EVK-001 receives approval and is commercialized, the sales potential could fall short of our forecasts. It is difficult to project accurately the sales potential of EVK-001 in gastroparesis given that the market is relatively mature and is dominated by generic products. The assumption is that EVK-001 could afford more effective drug availability and bypass the hurdle of slow gastric emptying and vomiting. However, the actual clinical performance from the Phase III study could influence 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 a 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 has very limited options to hedge its risk of product failure. 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 operations, it is likely that Evoke may need to raise additional 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 favorable terms, the share value of current shareholders could be further impaired.

Limited trading liquidity limits shareholder options. Daily trading volume and name recognition of EVOK shares are relatively modest. Some investors may be hesitant to own the shares due to illiquid trading volume. This 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	2014	1Q15	2Q15	3Q15	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E
Revenue													
EVK-001 sales								0	0	23,227	64,013	112,205	166,655
Product royalty revenue		0	0	-	-	-	-	0	0	0	0	0	0
Total revenue	0	0	0	-	-	-	-	0	0	23,227	64,013	112,205	166,655
Costs of goods								0	0	2,090	5,761	10,098	14,999
Research and development	1,166	957	9,992	2,420	2,188	1,838	2,058	8,504	3,487	2,266	2,153	2,218	2,284
General and administrative	837	1,645	3,158	1,025	976	820	852	3,674	3,160	3,444	3,754	4,092	4,419
Marketing and sales							0	0	15,500	46,500	48,825	51,755	54,342
Total Operating Expenses	2,002	2,602	13,150	3,445	3,165	2,657	2,911	12,178	22,146	54,301	60,493	68,162	76,044
Operating Incomes (losses)	(2,002)	(2,602)	(13,150)	(3,445)	(3,165)	(2,657)	(2,911)	(12,178)	(22,146)	(31,074)	3,520	44,043	90,611
Interest income	2	7	10	2	1	1	1	5	5	6	7	7	8
Interest expense	(24)	(80)	(108)	(77)	(78)	(78)	(78)	(310)	(341)	(375)	(413)	(454)	(454)
Change in fair value of warrant liability	7	(82)	0	0	0	0	0	0	0	24	(27)	(27)	(27)
Total Other Income, net	(15)	(235)	(98)	(76)	(77)	(77)	(77)	(305)	(336)	(369)	(382)	(474)	(473)
Income before tax	(2,018)	(2,836)	(13,248)	(3,521)	(3,241)	(2,734)	(2,987)	(12,483)	(22,482)	(31,443)	3,138	43,569	90,137
Tax Rate	0										32%	32%	32%
Tax	0	0	0	0	0	0	0	0	0	0	(1,004)	(13,942)	(28,844)
Net Income (Loss)	(2,018)	(2,836)	(13,248)	(3,521)	(3,241)	(2,734)	(2,987)	(12,483)	(22,482)	(31,443)	2,134	29,627	61,293
Net Income (Loss) Applicable to Common Shareholders	(2,018)	(2,836)	(13,248)	(3,521)	(3,241)	(2,734)	(2,987)	(12,483)	(22,482)	(31,443)	2,134	29,627	61,293
Net Earnings (Losses) Per Share—Basic and Diluted	(\$1.79)	(\$1.20)	(\$2.20)	(\$0.58)	(\$0.52)	(\$0.42)	(\$0.46)	(\$1.97)	(\$2.13)	(\$2.72)	\$0.17	\$2.19	\$4.21
Shares outstanding—basic and diluted	1,124	2,368	6,032	6,104	6,213	6,495	6,545	6,339	10,545	11,545	12,545	13,545	14,545
	1,124	2,368	6,032	6,104	6,213	6,495	6,545	6,339	10,545	11,545	12,545	13,545	14,545
Margin Analysis (% of Sales/Revenue)													
Costs of goods										9%	9%	9%	9%
R&D	NA	NA	NA	NA	NA	NA	NA	NA	NA	10%	3%	2%	1%
MG&A	NA	NA	NA	NA	NA	NA	NA	NA	NA	215%	82%	50%	35%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	NA	-134%	5%	39%	54%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	NA	-135%	3%	26%	37%
Financial Indicator Growth Analysis (YoY%)													
Total Revenue	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	176%	75%	49%
R&D	-37%	-18%	944%	153%	-24%	-40%	-5%	-15%	-59%	-35%	-5%	3%	3%
SG&A	47%	97%	92%	-38%	58%	12%	16%	16%	-14%	9%	9%	9%	8%
Marketing and sales								NA	1450%	200%	5%	6%	5%
Operating Loss	-17%	30%	405%	32%	-9%	-30%	0%	-7%	82%	40%	-111%	1151%	106%
Total Other Income, net	-213%	1454%	-58%	-68%	39%	1732%	1318%	213%	10%	10%	4%	24%	0%
Pretax Income	41%	367%	24%	24%	-9%	-29%	2%	-6%	80%	40%	-110%	1289%	107%
Net Income	-16%	41%	367%	24%	-9%	-29%	2%	-6%	80%	40%	-107%	1289%	107%
EPS	-18%	-33%	83%	-52%	-11%	-33%	-5%	-10%	8%	28%	-106%	1186%	93%

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Source: Bloomberg LP; Company reports; Laidlaw & Company estimates.

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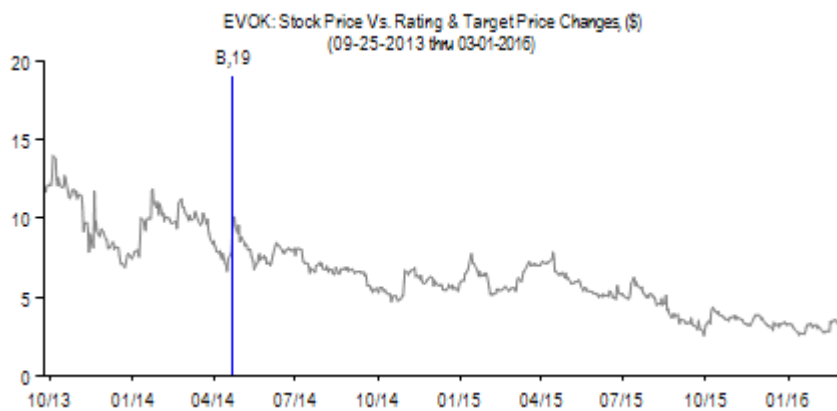
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Date	Rating	Closing Price (\$)
04/22/2014	Buy (B)	9.29

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

Source: Laidlaw & Company

Created by: Blue-Compass.net

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			Investment Banking	Brokerage
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Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

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