LAIDLAW & COMPANY
Est. 1842
London
New York
San Francisco
Boston

EQUITY RESEARCH
Company Report

June 30, 2016

Evoke Pharma (EVOK - $ 6.98)

Healthcare/Biotechnology

Takeaways from KOL Call on Gastroparesis Treatment

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

We recently hosted a KOL call with an academic-based gastroenterologist and investors focusing on gastroparesis treatment. We walked away with positive outlook on EVK-001 commercially if the drug receives approval. In addition to treating patients, he is also a professor and director of a GI motility research laboratory at a medical school. Key takeaways from the call include:

- **Even if approved in diabetic gastroparesis only, the drug would be used for treating gastroparesis of all etiologies.** The KOL indicated that physicians will use the drug to treat gastroparesis of all different etiologies even if it is only approved specifically in diabetic gastroparesis. As a reminder, diabetic gastroparesis accounts for ~30% of all gastroparesis cases.
- **FDA recently suggested endpoints for gastroparesis drug development are logical.** He concurred with the merit of the recent FDA draft guidance, which suggests using patient-reported outcome (PRO) instrument to assess gastroparesis symptoms is an ideal primary efficacy assessment tool. He believes PROs could exhibit the totality of clinical benefits by evaluating the full spectrum of symptoms (a total of five). This contrasts with earlier thoughts which were focused on certain aspects, like delayed gastric emptying, which has demonstrated poor correlation to symptom improvements. As a reminder, the primary endpoint of the METO IN-003 study, gastroparesis symptom assessment (GSA), is a PRO.
- **Potential use of nasal delivered metoclopramide (EVK-001).** Based on the assumption that EVK-001 is approved, he speculated that at least in the near term, oral metoclopramide could still be used as a first line therapy given patients' preference for oral drugs and the low generic drug price. EVK-001 initially could be used as a next line therapy for inadequately treated patients because of insufficient absorption caused by delayed gastric emptying. In addition, certain gastroparesis patients who already suffer from severe vomiting and nausea or severe delayed gastric emptying could also potentially benefit from using EVK-001 as initial treatment without using oral metoclopramide first.
- **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.

Trading Data:

Last Price (06/29/2016)	$ 6.98
52–Week High (8/18/2015)	$ 7.17
52–Week Low (1/20/2016)	$ 2.37
Market Cap. (MM)	$ 51
Shares Out. (MM)	7

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-16E	-0.45A	-0.46	-0.20	-0.17	-1.19	NM
FY-15A	-0.58	-0.52	-0.42	-0.37	-1.87	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

Yale Jen, Ph.D.
Managing Director/Senior
Biotechnology Analyst
(212) 953-4978
yjen@laidlawltd.com

- **Metoclopramide-based treatment still is the mainstay of gastroparesis therapy.** Clinical studies have suggested that metoclopramide has multiple therapeutic effects, which include acceleration of gastric emptying and reduction of vomiting (occurred in 50% of gastroparesis patients) and nausea. Despite carrying a black box warning regarding the long term and high dose use, oral metoclopramide currently remains a gold standard for gastroparesis therapy due to its effectiveness. With potentially better efficacy by delivering the drug directly to systemic circulation without passing through the GI tract, a nasally delivered metoclopramide could potentially be a preferable treatment option going forward and the drug could have potential for reduce the need for dose escalations.
- **METO IN-003 trial top-line results to come shortly.** EVOK is expected to report the Phase III (METO IN-003) trial results in early 3Q16 (we estimate in July and possibly early August). Should the data be positive, EVOK would request a pre-NDA meeting shorter thereafter prior to 505(b)(2) filing, which could potentially occur in late 2H16 or early 1Q17, in our estimate. EVK-001 could potentially reach market in late 2017 or 2018

Yale Jen, Ph.D.
yjen@laidlawltd.com

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	**Early 3Q16**	*****
		Potentially filing via 505(b)(2) pathway for approval	**late 2H16**	***
		Potential approval	**2H17**	*****

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

Source: Laidlaw & Company and company presentation

Yale Jen, Ph.D.
yjen@laidlawltd.com

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.

Yale Jen, Ph.D.
yjen@laidlawltd.com

Figure 1: Income Statement

Evoke Pharma – Income Statement

($'000)	2014	2015	1Q16	2Q16E	3Q16E	4Q16E	2016E	2017E	2018E	2019E	2020E
Revenue											
EVK-001 sales		0					0	21,354	55,533	94,545	148,265
Product royalty revenue	0	0	-	-	-	-	0	0	0	0	0
Total revenue	0	0	-	-	-	-	0	21,354	55,533	94,545	148,265
Costs of goods		0					0	1,922	4,998	8,509	13,344
Research and development	9,992	8,154	2,015	2,257	1,038	623	5,933	1,246	1,184	1,219	1,256
General and administrative	3,158	3,664	1,138	1,092	1,049	1,090	4,369	4,762	5,191	5,658	6,111
Marketing and sales		0					0	22,000	23,100	24,486	25,710
Total Operating Expenses	13,150	11,818	3,153	3,349	2,087	1,713	10,302	29,930	34,472	39,872	46,421
Operating Incomes (losses)	(13,150)	(11,818)	(3,153)	(3,349)	(2,087)	(1,713)	(10,302)	(8,576)	21,061	54,672	101,845
Other expense			(73)				(73)				
Interest income	10	5		0	0	0	0	0	0	0	0
Interest expense	(108)	(307)		0	0	0	0	0	0	0	0
Change in fair value of warrant liability	0	0	0	0	0	0	0	0	0	0	0
Total Other Income, net	(98)	(302)	(73)	0	0	0	(73)	0	0	0	0
Income before tax	(13,248)	(12,120)	(3,225)	(3,349)	(2,087)	(1,713)	(10,375)	(8,576)	21,061	54,672	101,845
Tax Rate									32%	32%	32%
Tax	0	0	0	0	0	0	0	0	(6,739)	(17,495)	(32,590)
Net Income (Loss)	(13,248)	(12,120)	(3,225)	(3,349)	(2,087)	(1,713)	(10,375)	(8,576)	14,321	37,177	69,254
Net Income (Loss) Applicable to Common Shareholders	(13,248)	(12,120)	(3,225)	(3,349)	(2,087)	(1,713)	(10,375)	(8,576)	14,321	37,177	69,254
Net Earnings (Losses) Per Share—Basic and Diluted	($2.20)	($1.87)	($0.45)	($0.46)	($0.20)	($0.17)	($1.19)	($0.73)	$1.13	$2.71	$4.71
Shares outstanding—basic and diluted	6,032	6,486	7,168	7,218	10,218	10,268	8,718	11,718	12,718	13,718	14,718
	6,032	6,486	7,168	7,218	10,218	10,268	8,718	11,718	12,718	13,718	14,718
Margin Analysis (% of Sales/Revenue)											
Costs of goods								9%	9%	9%	9%
R&D	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	1%
MG&A	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	21%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	69%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	47%
Financial Indicator Growth Analysis (YoY%)											
Total Revenue	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	57%
R&D	944%	-18%	-80%	3%	-44%	-64%	-27%	-79%	-5%	3%	3%
SG&A	92%	16%	-64%	12%	28%	29%	19%	9%	9%	9%	8%
Marketing and sales		NA					NA	200%	5%	6%	5%
Operating Loss	405%	-10%	-76%	6%	-21%	-33%	-13%	-17%	-346%	160%	86%
Total Other Income, net	-58%	209%	-26%	-100%	-100%	-100%	-76%	-100%	N.A.	N.A.	N.A.
Pretax Income	367%	-9%	-76%	3%	-24%	-35%	-14%	-17%	-346%	160%	86%
Net Income	367%	-9%	-76%	3%	-24%	-35%	-14%	-17%	-267%	160%	86%
EPS	83%	-15%	-80%	-11%	-51%	-55%	-36%	-38%	-254%	141%	74%

Yale Jen, Ph.D. 212-953-4978

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

Yale Jen, Ph.D.
yjen@laidlawltd.com

DISCLOSURES:

ANALYST CERTIFICATION

The analyst responsible for the content of this report hereby certifies that the views expressed regarding the company or companies and their securities accurately represent his personal views and that no direct or indirect compensation is to be received by the analyst for any specific recommendation or views contained in this report. Neither the author of this report nor any member of his immediate family or household maintains a position in the securities mentioned in this report.

EQUITY DISCLOSURES

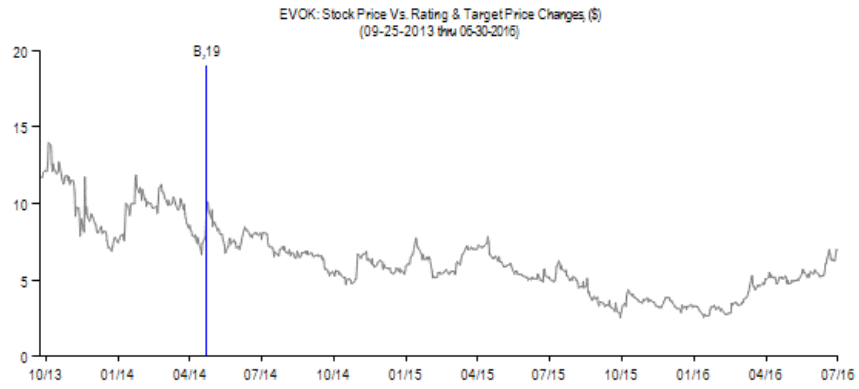
For the purpose of ratings distributions, regulatory rules require the firm to assign ratings to one of three rating categories (i.e. Strong Buy/Buy-Overweight, Hold, or Underweight/Sell) regardless of a firm's own rating categories. Although the firm's ratings of Buy/Overweight, Hold, or Underweight/Sell most closely correspond to Buy, Hold and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis against the analyst sector universe of stocks. An analyst's coverage sector is comprised of companies that are engaged in similar business or share similar operating characteristics as the subject company. The analysis sector universe is a sub-sector to the analyst's coverage sector, and is compiled to assist the analyst in determining relative valuations of subject companies. The composition of an analyst's sector universe is subject to change over time as various factors, including changing market conditions occur. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12-months relative to the analyst's sector universe.

Additional information available upon request.

Laidlaw & Co (UK) Ltd. has not provided any investment banking services for the company (ies) mentioned in this report over the last 12 months.

RATINGS INFORMATION

Rating and Price Target Change History



3 Year Rating Change History

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 **Created by: Blue-Compass.net**

Laidlaw & Company Rating System*		% of Companies Under Coverage With This Rating	% of Companies for which Laidlaw & Company has performed services for in the last 12 months	
			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.	67.57%	27.03%	2.70%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	0.00%	0.00%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

ADDITIONAL COMPANIES MENTIONED

ADDITIONAL DISCLOSURES

As of the date of this report, neither the author of this report nor any member of his immediate family or household maintains an ownership position in the securities of the company (ies) mentioned in this report.

This report does not provide individually tailored investment advice and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Laidlaw & Co (UK), Ltd. recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. This report is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy.

Yale Jen, Ph.D.
yjen@laidlawltd.com

Associated persons of Laidlaw & Co (UK), Ltd not involved in the preparation of this report may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned herein and may trade them in ways different from those discussed in this report. While Laidlaw & Co (UK), Ltd., prohibits analysts from receiving any compensation. Bonus or incentive based on specific recommendations for, or view of, a particular company, investors should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

With the exception of information regarding Laidlaw & Co (UK), Ltd. this report is based on public information. Laidlaw & Co (UK), Ltd makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete and it should not be relied upon as such. Any opinions expressed are subject to change and Laidlaw & Co (UK), Ltd disclaims any obligation to advise you of changes in opinions or information or any discontinuation of coverage of a subject company. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other Laidlaw & Co (UK), Ltd business areas. Laidlaw & Co (UK), Ltd associated persons conduct site visits from time to time but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices. market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

Any trademarks and service marks contained in this report are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data. This report or any portion thereof may not be reprinted, sold or redistributed without the written consent of Laidlaw & Co (UK), Ltd. This report is disseminated and available primarily electronically, and, in some cases, in printed form.

The information and opinions in this report were prepared by Laidlaw & Co (UK), Ltd. For important disclosures, please see Laidlaw & Co (UK), Ltd.'s disclosure website at www.Laidlawltd.com, or contact your investment representative or Laidlaw & Co (UK), Ltd at 546 Fifth Ave, 5th Floor, New York, NY 10036 USA.

Yale Jen, Ph.D.
yjen@laidlawltd.com

NOTES:

Yale Jen, Ph.D.
yjen@laidlawltd.com