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EQUITY RESEARCH
Company Report

May 10, 2017

Evoke Pharma (EVOK - $2.74)

Healthcare/Biotechnology

DDW Presentation Highlights Gimoti's Capability of Symptom Improvements in Moderate to Severe Gastroparesis Patients

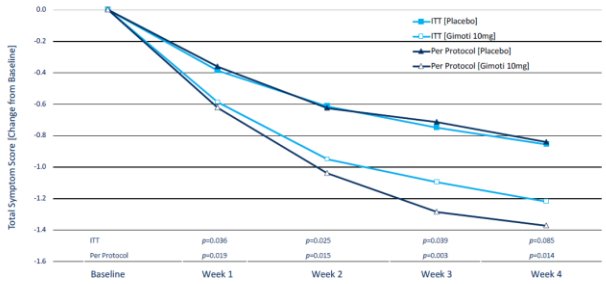
Ticker:	**EVOK**
Rating:	**Buy**
Price Target:	**$8.00**

This morning, EVOK reported on its poster presented at a late breaker session of the DDW meeting. The poster included the data from its Gimoti Phase III trial with emphasis on the treatment effect exhibited in women with moderate-to-severe diabetic gastroparesis.

- **Details.** The poster titled "Symptom Severity Influences Drug Efficacy in Women with Diabetic Gastroparesis: Results of a Phase 3 Study with Metoclopramide Nasal Spray" summarized the results of the Gimoti Phase III trial. Although the study did not meet its primary endpoint (p=0.881), the subgroup of the moderate to severe patients did experience a statistically significant reduction of total symptoms (See Figure below) and nausea and upper abdominal pain from baseline at week 1 to 3 (p<0.05). Gimoti (10mg, 4x/day for 4 weeks) was well-tolerated and the safety profile is similar to that of the placebo.

Trading Data:

Last Price (5/9/2017)	$2.74
52–Week High (7/13/2016)	$11.11
52–Week Low (11/10/2016)	$1.35
Market Cap. (MM)	$41
Shares Out. (MM)	9.338



When the subjects with moderate-to-severe symptoms at Baseline (N = 105) were separated from all treated subjects (205), treatment with Gimoti was found to result in greater improvement in GP symptoms compared to placebo.

Source: McMallum R., et al. DDW 2017 Meeting.

- **Implications.** Although EVOK will take the 505(b)2 route for potential Gimoti approval, the DDW presentation still provides us with a more detailed analysis of the prior Phase III study and illustrates the drug is active in moderate-to-severe gastroparesis patients.
- **Action.** We are reiterating our Buy rating and $8 target price based on our peer comparable, cash driven NPV and forward price/sales analyses. Gimoti, in our opinion, could be an important treatment option for modest/severe diabetic gastroparesis fulfilling the unmet need.

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-17E	-0.17	-0.16	-0.20	-0.25	-0.79	NM
FY-16A	-0.45	-0.41	-0.29	-0.12	-1.15	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

Source: Laidlaw & Company estimates

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Anticipated Milestones in 2017 and Beyond

Product	Indication	Event	Timing	Importance
Gimoti (EVK-001)	Diabetic gastroparesis	Start Phase I PK study vs. Reglan (10 mg tablet)	**Mid-2017**	***
		Complete Phase I PK study	**2H17**	***
		Report PK study results	**2H17**	***
		Potential NDA filing	**4Q17/1Q18**	****
		Potential FDA approval decision	**2H18**	*****

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

Source: Laidlaw & Company and company presentation

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Major Risks

Failures of upcoming clinical studies. Although Gimoti has demonstrated promising efficacy and a satisfactory safety profile from parts of the Phase III study in diabetic gastroparesis; there is no assurance that the upcoming PK clinical study can demonstrate efficacy and safety profiles satisfactory enough along with part of the Phase III study results for gaining clinical approval. Given the clinical study successes are the biggest near-term hurdle to be overcome before Gimoti 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 Gimoti are more modest relative to Phase III studies of other biotech companies.

Gimoti may not reach anticipated sales. Assuming Gimoti receives approval and is commercialized, the sales potential could fall short of our forecasts. It is difficult to project accurately the sales potential of Gimoti in gastroparesis given that the market is relatively mature and is dominated by generic products. The assumption is that Gimoti 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 Gimoti vs. oral metoclopramide with a superior outcome could also slow down the initial market penetration.

Lack of diversified product portfolio increases risk if Gimoti 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 Gimoti 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 Gimoti 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.

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Figure 1: Income Statement

Evoke Pharma – Income Statement

($'000)	2015	2016	1Q17E	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E	2020E	2021E	2022E
Revenue												
EVK-001 sales	0	0		-	-	-	0	0	15,536	32,129	51,172	85,954
Product royalty revenue	0	0	-	-	-	-	0	0	0	0	0	0
Total revenue	0	0	-	-	-	-	0	0	15,536	32,129	51,172	85,954
Costs of goods	0	0					0	0	1,398	2,892	4,605	7,736
Research and development	8,154	6,952	1,577	1,719	2,097	3,041	8,435	7,169	7,241	6,662	4,996	3,248
General and administrative	3,664	3,593	855	864	898	943	3,561	3,881	4,230	4,569	4,889	5,231
Marketing and sales	0	0	0	0	0	0	0	0	23,100	24,255	24,983	25,732
Total Operating Expenses	11,818	10,544	2,432	2,583	2,996	3,984	11,995	11,050	35,970	38,377	39,473	41,946
Operating Incomes (losses)	(11,818)	(10,544)	(2,432)	(2,583)	(2,996)	(3,984)	(11,995)	(11,050)	(20,434)	(6,248)	11,699	44,008
Other expense		(145)	-	-	-	-	0	0	0	0	0	0
Interest income	5	0	-	-	-	-	0	0	0	0	0	0
Interest expense	(307)	(123)	-	-	-	-	0	0	0	0	0	0
Financing costs related to warrant liability		(534)	-	-	-	-	0	0	0	0	0	0
Change in fair value of warrant liability	0	598	(100)	100	(100)	101	1	100	100	100	100	100
Total Other Income, net	(302)	(205)	(100)	100	(100)	101	1	100	100	100	100	100
Income before tax	(12,120)	(10,749)	(2,532)	(2,483)	(3,096)	(3,883)	(11,994)	(10,950)	(20,334)	(6,148)	11,799	44,108
Tax Rate								32%	32%	32%	35%	35%
Tax	0	0	-	-	-	-	0	3,504	6,507	1,967	(4,130)	(15,438)
Net Income (Loss)	(12,120)	(10,749)	(2,532)	(2,483)	(3,096)	(3,883)	(11,994)	(7,446)	(13,827)	(4,181)	7,669	28,670
Net Income (Loss) Applicable to Common Shareholders	(12,120)	(10,749)	(2,532)	(2,483)	(3,096)	(3,883)	(11,994)	(7,446)	(13,827)	(4,181)	7,669	28,670
Net Earnings (Losses) Per Share—Basic and Diluted	($1.87)	($1.15)	($0.17)	($0.16)	($0.20)	($0.25)	($0.79)	($0.43)	($0.76)	($0.22)	$0.39	$1.42
Shares outstanding—basic and diluted	6,486	9,338	15,080	15,130	15,180	15,230	15,155	17,155	18,155	19,155	19,655	20,155
	6,486	9,338	15,080	15,130	15,180	15,230	15,155	17,155	18,155	19,155	19,655	20,155
Margin Analysis (% of Sales/Revenue)												
Costs of goods							9%	9%	9%	9%	9%	9%
R&D	NA	NA	NA	NA	NA	NA	NA	NA	NA	21%	10%	4%
MG&A	NA	NA	NA	NA	NA	NA	NA	NA	NA	90%	58%	36%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	NA	-19%	23%	51%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	NA	-13%	15%	33%
Financial Indicator Growth Analysis (YoY%)												
Total Revenue	NA	NA	NA	NA	NA	NA	NA	NA	NA	107%	59%	68%
R&D	-18%	-15%	-81%	-18%	57%	102%	21%	-15%	1%	-8%	-25%	-35%
SG&A	16%	-2%	-77%	8%	8%	15%	-1%	9%	9%	8%	7%	7%
Marketing and sales	NA	NA					NA	5%	6%	5%	3%	3%
Operating Loss	-10%	-11%	-79%	-11%	38%	71%	14%	-8%	85%	-69%	-287%	276%
Total Other Income, net	209%	-32%	-67%	-238%	-88%	-87%	-100%	9900%	0%	0%	0%	0%
Pretax Income	-9%	-11%	-79%	-16%	2%	154%	12%	-9%	86%	-70%	-292%	274%
Net Income	-9%	-11%	-79%	-16%	2%	154%	12%	-38%	86%	-70%	-283%	274%
EPS	-15%	-38%	-91%	-60%	-28%	105%	-31%	-45%	75%	-71%	-279%	265%

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

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Additional information available upon request.

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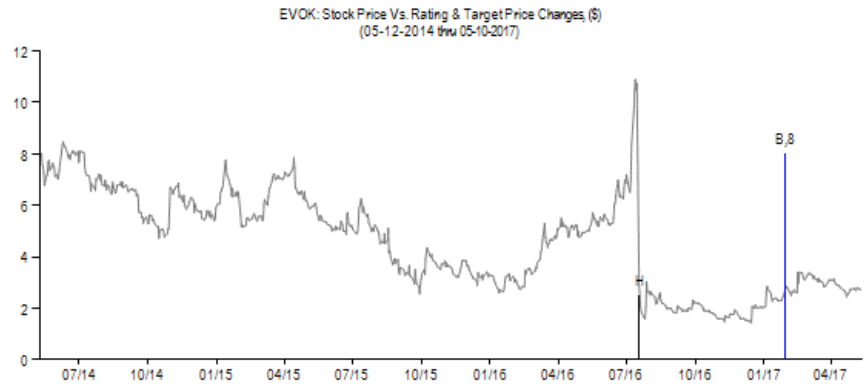
Rating and Price Target Change History



3 Year Rating Change History

Date	Rating	Closing Price ($)
07/19/2016	Hold (H)	2.47
01/30/2017	Buy (B)	2.85

3 Year Price Change History

Date	Target Price ($)	Closing Price, ($)
07/19/2016		2.47
01/30/2017	8.00	2.85

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.	2.27%	2.27%	0.00%
Buy (B)	Expected to outperform the sector average over 12 months.	61.36%	29.55%	2.27%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	2.27%	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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