

## Evoked Pharma (EVOK - \$1.93)

### 4Q17: Gimoti NDA Filing is Scheduled in 2Q18

Yesterday after the market close, EVOK reported 4Q17 financial results with a net loss of (\$0.31MM), vs. the estimates of Laidlaw (\$3.7MM) and the Street (\$3.8MM). Net loss/share was (\$0.02) vs. (\$0.24) for Laidlaw and the Street. The major discrepancy is due to a large (\$2.35MM) non-cash item of change in the fair value of warrant liability. EVOK ended 4Q17 with cash of ~\$7.7MM, enough for operations into 3Q18, in our opinion.

- Gimoti 505(b)(2) NDA filing submission on track for 2Q18.** EVOK reiterated that the Gimoti NDA filing submission is on-track for 2Q18. They will file for Gimoti approval in diabetic gastroparesis of female patients only. As such, the potential approval decision, we estimate, could slate to mid-2019 with product launch shortly thereafter. With the recent discovery of statistically significant differences of the area under the curve (AUC) of PK between women and men, EVOK has filed additional patents. If granted, EVOK believes such features could be listed in the Orange Book. EVOK is also working with the FDA for a risk management program for Gimoti (oral metoclopramide has a black box warning label). We believe the proposed treatment duration of Gimoti is four weeks, similar to the prior Phase III study. EVOK also revealed that the PK study has identified two doses of Gimoti that qualified for the bioequivalence requirement (80%-125%) of the oral reference drug (Reglan 10mg). In addition, EVOK recently reported that the FDA has approved a PDUFA fee waiver for the Gimoti NDA and this could further reduce the financial burden for the company. A potential post approval Phase IV study is also under discussion.

4Q17 Estimates and Reported Results			
(\$,000)	Laidlaw Estimate	Actual	Consensus
<b>Total revenue</b>	\$0.0	\$0.0	\$0.0
<b>Total op. profit (loss)</b>	(\$3,852)	(\$2,659)	(\$3,600)
R&D	\$2,854	\$1,632	
SG&A	\$999	\$1,028	
<b>EPS</b>	(\$0.24)	(\$0.02)	(\$0.24)
Net income (loss)	(\$3,749)	(\$308)	(\$3,800)

Source: Bloomberg and Laidlaw and Co.

- 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 an unmet need.

### Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
<b>FY-18E</b>	-0.26	-0.25	-0.18	-0.16	-0.84	NM
<b>FY-17A</b>	-0.37	-0.11	-0.34	-0.02	-0.82	NM
<b>FY-16A</b>	-0.45	-0.41	-0.29	-0.12	-1.15	NM
<b>FY-15A</b>	-0.58	-0.52	-0.42	-0.37	-1.87	NM

Source: Laidlaw & Company estimates

### Healthcare/Biotechnology

Ticker:	<b>EVOK</b>
Rating:	<b>Buy</b>
Price Target:	<b>\$8.00</b>

### Trading Data:

Last Price (3/7/2018)	\$1.93
52-Week High (10/23/2017)	\$4.09
52-Week Low (2/27/2018)	\$1.85
Market Cap. (MM)	\$31
Shares Out. (MM)	14.95

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## Anticipated Milestones in 2018 and Beyond

Product	Indication	Event	Timing	Importance
Gimoti (EVK-001)	Diabetic gastroparesis	Potential NDA filing	<b>2Q18</b>	<b>****</b>
		Potential FDA approval decision	<b>1H19</b>	<b>*****</b>

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

*Source: Laidlaw & Company and company presentation*

## Major Risks

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**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.

Figure 1: Income Statement

Evoke Pharma – Income Statement																
(\$'000)	2015	2016	1Q17	2Q17	3Q17	4Q17	2017	1Q18E	2Q18E	3Q18E	4Q18E	2018E	2019E	2020E	2021E	2022E
								<b>Revenue</b>								
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
<b>Costs of goods</b>	0	0					0					0	1,398	2,892	4,605	7,736
Research and development	8,154	6,952	771	2,018	2,718	1,632	7,137	1,550	1,410	776	504	4,240	4,283	3,940	2,955	1,921
General and administrative	3,664	3,593	1,210	872	984	1,028	4,093	935	936	908	890	3,669	3,999	4,319	4,621	4,945
Marketing and sales	0	0	0	0	0	0	0	0	0	0	0	0	23,100	24,255	24,983	25,732
<b>Total Operating Expenses</b>	11,818	10,544	1,980	2,890	3,702	2,659	11,231	2,485	2,347	1,684	1,394	7,909	32,780	35,406	37,165	40,334
Operating Incomes (losses)	(11,818)	(10,544)	(1,980)	(2,890)	(3,702)	(2,659)	(11,231)	(2,485)	(2,347)	(1,684)	(1,394)	(7,909)	(17,245)	(3,277)	14,007	45,621
Other expense		(145)	-	-	-	-	0	-	-	-	-	0	0	0	0	0
Interest income	5	0	1	2	3	1	7	1	1	1	1	4	4	5	5	6
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	(3,073)	1,262	(1,544)	2,350	(1,005)	(1,500)	(1,500)	(1,500)	(1,500)	(6,000)	100	100	100	100
Total Other Income, net	(302)	(205)	(3,072)	1,264	(1,541)	2,351	(999)	(1,499)	(1,499)	(1,499)	(1,499)	(5,996)	104	105	105	106
<b>Income before tax</b>	(12,120)	(10,749)	(5,052)	(1,626)	(5,243)	(308)	(12,230)	(3,984)	(3,846)	(3,183)	(2,893)	(13,905)	(17,140)	(3,172)	14,113	45,726
Tax	0	0	-	-	-	-	0	-	-	-	-	0	0	0	(4,939)	(16,004)
<b>Net Income (Loss)</b>	(12,120)	(10,749)	(5,052)	(1,626)	(5,243)	(308)	(12,230)	(3,984)	(3,846)	(3,183)	(2,893)	(13,905)	(17,140)	(3,172)	9,173	29,722
Net Income (Loss) Applicable to Common Shareholders	(12,120)	(10,749)	(5,052)	(1,626)	(5,243)	(308)	(12,230)	(3,984)	(3,846)	(3,183)	(2,893)	(13,905)	(17,140)	(3,172)	9,173	29,722
Net Earnings (Losses) Per Share—Basic and Diluted	(\$1.87)	(\$1.15)	(\$0.37)	(\$0.11)	(\$0.34)	(\$0.02)	(\$0.82)	(\$0.26)	(\$0.25)	(\$0.18)	(\$0.16)	(\$0.84)	(\$0.97)	(\$0.17)	\$0.48	\$1.51
Shares outstanding—basic	6,486	9,338	13,528	15,343	15,351	15,369	14,898	15,569	15,589	17,589	17,789	16,634	17,634	18,634	19,134	19,634
Shares outstanding—diluted	6,486	9,338	13,528	15,421	15,351	15,369	14,951	15,569	15,589	17,589	17,789	16,634	17,634	18,634	19,134	19,634
<b>Margin Analysis (% of Sales/Revenue)</b>																
Costs of goods													9%	9%	9%	9%
R&D	NA	NA	NA	NA	NA	NA	12%	6%	2%							
MG&A	NA	NA	NA	NA	NA	NA	89%	58%	36%							
Operating Income (loss)	NA	NA	NA	NA	NA	NA	-10%	27%	53%							
Net Income	NA	NA	NA	NA	NA	NA	-10%	18%	35%							
<b>Financial Indicator Growth Analysis (YoY%)</b>																
Total Revenue	NA	NA	NA	NA	NA	NA	107%	59%	68%							
R&D	-18%	-15%	-91%	-4%	103%	9%	3%	-78%	-30%	-71%	-69%	-41%	1%	-8%	-25%	-35%
SG&A	16%	-2%	-67%	9%	19%	25%	14%	-74%	7%	-8%	-13%	-10%	9%	8%	7%	7%
Marketing and sales	NA	NA					NA					NA	6%	5%	3%	3%
Operating Loss	-10%	-11%	-83%	0%	71%	14%	7%	-76%	-19%	-55%	-48%	-30%	118%	-81%	-527%	226%
Total Other Income, net	209%	-32%	918%	-1838%	80%	195%	388%	633%	-219%	-3%	-164%	500%	-102%	0%	0%	1%
Pretax Income	-9%	-11%	-58%	-45%	73%	-80%	14%	-63%	137%	-39%	838%	14%	23%	-81%	-545%	224%
Net Income	-9%	-11%	-58%	-45%	73%	-80%	14%	-63%	137%	-39%	838%	14%	23%	-81%	-389%	224%
EPS	-15%	-38%	-80%	-74%	20%	-84%	-29%	-78%	133%	-47%	710%	2%	16%	-82%	-382%	216%

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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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#### 3 Year Rating Change History

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

#### 3 Year Price Change History

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

Source: Laidlaw & Company

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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
<b>Strong Buy (SB)</b>	Expected to significantly outperform the sector over 12 months.	0.00%	0.00%	0.00%
<b>Buy (B)</b>	Expected to outperform the sector average over 12 months.	65.38%	26.92%	3.85%
<b>Hold (H)</b>	Expected returns to be in line with the sector average over 12 months.	0.00%	0.00%	0.00%
<b>Sell (S)</b>	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

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