LAIDLAW & COMPANY
Est. 1842
London
New York
San Francisco
Stamford
Ft. Lauderdale

EQUITY RESEARCH
Company Report

May 14, 2014

Evoke Pharma (EVOK - $ 7.58)

Healthcare/Biotechnology

1Q14 – The Phase III Study Train Has Left the Station

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

Yesterday after market close, EVOK reported 1Q14 financial results with a net loss of ($2.95MM), worse than Laidlaw ($2.1MM) and the Street estimate of ($2.2MM). Net loss per share equaled ($0.49) vs. ($0.34) and ($0.37) for Laidlaw and the Street, respectively. EVOK ended the 1Q14 with cash of $21.8MM, sufficient for operations into late 2H15, in our opinion.

- **Quarterly earnings performance is not yet the key investment focus of EVOK.** The major emphasis for share value remains on the progression and clinical results of the company's EVK-001 in female diabetic gastroparesis (DG) Phase III (METO IN-003) study.

- **METO IN-003 study update.** Management indicated they have contracted 40 of 60 anticipated clinical sites for the Phase III study. Among the 60 sites, 30 have participated in the prior Phase II study. The study is scheduled to enroll 200 patients equally randomized into placebo or 10 mg EVK-001 and most sites are currently screening eligible patients for enrollment. The primary endpoint is change in the average Gastroparesis Symptom Assessment (GSA) total score for baseline vs. four weeks of treatment. Top-line results will potentially be available in mid-2015 (possibly in 3Q15 in our estimate) with a potential 505(b)(2) filing in late 2H15 if the outcome is positive, as we believe will be likely.

Trading Data:

Last Price (05/13/2014)	$ 7.58
52–Week High (10/7/2013)	$ 14.25
52–Week Low (4/15/2014)	$ 6.48
Market Cap. (MM)	$ 46
Shares Out. (MM)	6

1Q14 Estimates and Reported Results

($,000)	Laidlaw Estimate	Actual	Consensus
Total revenue	**$0.0**	**$0.0**	**$0.0**
Total op. profit (loss)	**($2,022)**	**($2,923)**	**($2,174)**
R&D	$955	$1,852	
SG&A	$1,067	$1,070	
EPS	**($0.34)**	**($0.49)**	**($0.37)**
Net income (loss)	($2,069)	($2,956)	($2,206)

Source: Bloomberg and Laidlaw and Co.

- **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.

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-14E	-0.49A	-0.60	-0.74	-0.80	-2.65	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

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

Anticipated Milestones in 2014 and Beyond

Product	Indication	Event	Timing	Importance
EVK-100	Diabetic gastroparesis	Commencement of METO IN-004 (male only) Phase III trial	**2Q14**	**
		Commencement of QT cardiac safety clinical study	**3Q14**	**
		Potentially report top-line QT cardiac safety clinical study results	**1H15**	***
		Potentially report top-line METO IN-003 Phase III trial results	**3Q15**	*****
		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

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 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.

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

Figure 1: Income Statement

Evoke Pharma – Income Statement

($'000)	2011	2012	2013	1Q14	2Q14E	3Q14E	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	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	1,844	1,166	957	1,852	2,500	3,376	3,882	11,610	10,449	5,329	4,530	4,303	4,432	4,565
General and administrative	571	837	1,645	1,070	1,199	1,283	1,385	4,938	5,185	5,703	6,216	6,776	7,386	7,977
Marketing and sales									1,000	15,500	46,500	48,825	51,755	54,342
Total Operating Expenses	2,415	2,002	2,602	2,923	3,699	4,658	5,267	16,548	16,634	26,891	59,556	65,665	73,671	81,883
Operating Incomes (losses)	(2,415)	(2,002)	(2,602)	(2,923)	(3,699)	(4,658)	(5,267)	(16,548)	(16,634)	(22,902)	(33,886)	(1,652)	38,534	84,772
Interest income	11	2	7	4	4	4	4	16	18	20	22	24	26	29
Interest expense	(3)	(24)	(80)	(37)	(37)	(37)	(37)	(148)	(163)	(179)	(197)	(216)	(238)	(238)
Change in fair value of warrant liability	6	7	(82)	0	25	(27)	(4)	(6)	(30)	15	(20)	24	(27)	(27)
Total Other Income, net	13	(15)	(235)	(33)	(8)	(60)	(37)	(138)	(175)	(144)	(195)	(169)	(239)	(236)
Income before tax	(2,401)	(2,018)	(2,836)	(2,956)	(3,707)	(4,718)	(5,304)	(16,685)	(16,808)	(23,047)	(34,081)	(1,821)	38,295	84,536
Tax Rate	0	0										32%	32%	32%
Tax	0	0	0	-	0	-	-	0	0	0	0	583	(12,255)	(27,051)
Net Income (Loss)	(2,401)	(2,018)	(2,836)	(2,956)	(3,707)	(4,718)	(5,304)	(16,685)	(16,808)	(23,047)	(34,081)	(1,238)	26,041	57,484
Net Income (Loss) Applicable to Common Shareholders	($2,401)	(2,018)	(2,836)	(2,956)	(3,707)	(4,718)	(5,304)	(16,685)	(16,808)	(23,047)	(34,081)	(1,238)	26,041	57,484
Net Earnings (Losses) Per Share—Basic and Diluted	($2.18)	($1.79)	($1.20)	($0.49)	($0.60)	($0.74)	($0.80)	($2.65)	($1.45)	($1.83)	($2.51)	($0.08)	$1.67	$3.46
Shares outstanding—basic and diluted	1,103	1,124	2,368	6,003	6,203	6,403	6,603	6,303	11,603	12,603	13,603	14,603	15,603	16,603
	1,103	1,124	2,368	6,003	6,203	6,403	6,603	6,303	11,603	12,603	13,603	14,603	15,603	16,603
Margin Analysis (% of Sales/Revenue)														
Costs of goods										9%	9%	9%	9%	9%
R&D	NA	NA	NA	NA	NA	NA	NA	NA	NA	134%	18%	7%	4%	3%
MG&A	NA	NA	NA	NA	NA	NA	NA	NA	NA	532%	205%	87%	53%	37%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	NA	-574%	-132%	-3%	34%	51%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	NA	-578%	-133%	-2%	23%	34%
Financial Indicator Growth Analysis (YoY%)														
Total Revenue		NA	NA	NA	NA	NA	NA	NA	NA	NA	544%	149%	75%	49%
R&D		-37%	-18%	929%	934%	4187%	510%	1113%	-10%	-49%	-15%	-5%	3%	3%
SG&A		47%	97%	460%	308%	215%	47%	200%	5%	10%	9%	9%	9%	8%
Marketing and sales										1450%	200%	5%	6%	5%
Operating Loss		-17%	30%	688%	591%	859%	233%	536%	1%	38%	48%	-95%	-2432%	120%
Total Other Income, net		-213%	1454%	-73%	-96%	19157%	3%	-41%	27%	-17%	35%	-14%	42%	-1%
Pretax Income			41%	498%	405%	871%	228%	488%	1%	37%	48%	-95%	-2203%	121%
Net Income		-16%	41%	498%	1446%	883%	229%	488%	1%	37%	48%	-96%	-2203%	121%
EPS		-18%	-33%	13%	183%	83%	197%	121%	-45%	26%	37%	-97%	-2069%	107%

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

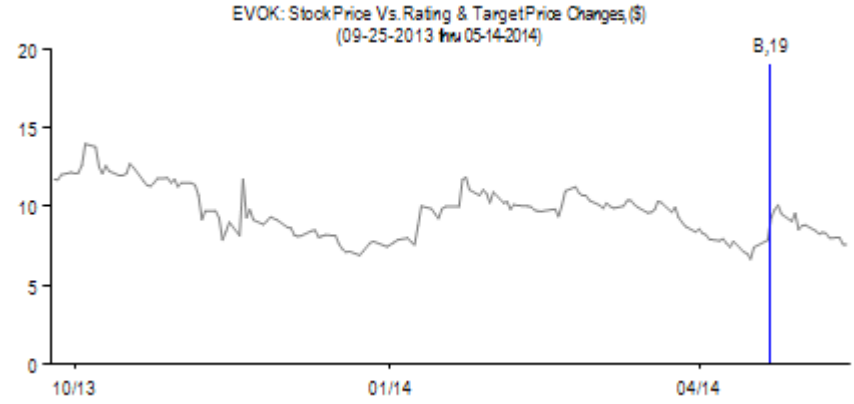
For the purpose of ratings distributions, regulatory rules require the firm to assign ratings to one of three rating categories (i.e. Strong Buy/Buy-Overweight, Hold, or Underweight/Sell) regardless of a firm's own rating categories. Although the firm's ratings of Buy/Overweight, Hold, or Underweight/Sell 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.	92.86%	35.71%	14.29%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	7.14%	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

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

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.

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.

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