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

EQUITY RESEARCH
Company Report

July 29, 2015

Viking Therapeutics (VKTX - $ 5.90)

Healthcare/Biotechnology

VK2809 in Cholesterolemia and Fatty Liver Disease Phase II Trial to Start in 4Q15

Ticker:	**VKTX**
Rating:	**Buy**
Price Target:	**$ 20.00**

This morning, VKTX announced that the company will initiate a Phase II Trial in 4Q15 using their VK2809 compound in patients with cholesterolemia and fatty liver disease.

- **Details.** The study is a randomized, double-blind, parallel group, placebo-controlled trial designed to evaluate the efficacy, safety and tolerability of VK2809 in ~100 patients with elevated LDL cholesterol and fatty liver disease. Our discussions with management suggest that the trial might include three different dose groups, a placebo arm and a treatment duration of ~12 weeks. We believe the company is in the process of finalizing the actual endpoints for the trial. We anticipate the study to be completed in 2H16 with top-line results shortly thereafter (4Q16 / 1Q17).
- **Implications.** We view today's announcement as an important positive for VKTX shares given VK2809 has the potential to fulfill significantly unmet needs of a major lipid-lowering market based on the drug's encouraging results in reducing both LDL-C and liver fat from prior clinical and pre-clinical studies. It is noted that nearly half of patients suffering from higher LDL also have a fatty liver disorders. Given currently marketed drugs cannot address both issues simultaneously; it provides an opportunity for VK2809, should the drug demonstrate positive outcomes from future clinical studies. The upcoming Phase II study will recruit patients with either hypercholesterolemia (high LDL) or hepatic steatosis (fatty liver conditions), or both, in order to tease out the most optimal indication for the drug to pursue additional clinical studies in the future. As a reminder, VK2809 is a once daily orally administrated thyroid-β agonist with multiple mechanisms of action affecting cholesterol and lipoprotein levels. Management also indicated that separate clinical development programs for both hip fracture and X-ALD are on-track and more progress updates are expected in the near future, possibly later in 3Q15.
- **Action.** We are reiterating our Buy rating and $20 target price based on peer comparable, probability adjusted DCF and sum-of-the-parts analyses. VKTX shares remain undervalued at current levels, in our opinion, since the outcome of the POC clinical studies of the two leading and well-differentiated assets could be available over the next 4 – 5 quarters. If the results are positive, VKTX share value could change significantly, in our opinion.

Trading Data:

Last Price (07/29/2015)	$ 5.90
52–Week High (5/5/2015)	$ 10.23
52–Week Low (7/28/2015)	$ 5.74
Market Cap. (MM)	$ 58
Shares Out. (MM)	10

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-15E	-1.40A	-0.13	-0.23	-0.32	-1.49	N.A.
FY-14A	-0.07	3.88	-3.01	-2.01	-5.23	N.A
FY-13A	0.00	-20.39	-5.57	-0.33	-0.07	N.A.
FY-12A	NA	NA	NA	NA	-0.07	N.A

Source: Laidlaw & Company estimates

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

Anticipated milestones in 2015 and beyond

Product	Indication	Event	Timing	Importance
VK5211	Hip fracture	Initiate Phase IIa study	**3Q15**	***
		Report pre-clinical primate data	**2H15**	***
		Report Phase IIa study results	**2Q16**	****
VK0214/VK2809	X-Linked Adrenoleukodystrophy (X-ALD)	Complete pre-clinical POC studies	**Mid-15**	***
		Initiate Phase I POC study	**1Q16**	***
		Potentially report Phase I study top-line results	**Mid-16**	****
VK2809	Cholesterolemia	Potentially start Phase II study with additional financial supports	**4Q15**	***
		Potential top-line results	**4Q16/1Q17**	****
	NASH	Potentially start Phase II study with additional financial supports	**4Q15**	***

***** / ***** 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

Risks of clinical study failure could have a major impact on VKTX share value. Despite promising aspects of the company's lead products, VK5211 in the post hip fracture surgery rehabilitation and thyroid-β agonists (VK2809 / VK0214) in X-ALD, it remains too early to predict the safety and efficacy from the two upcoming Phase I and Phase II studies. Given that clinical validation or POC for these programs has not been established, it would be critical for these studies to demonstrate a positive outcome in order to increase the asset and shareholder value. Negative results of either clinical study could potentially impair their value and have a materially negative impact on shareholder value, especially since success of each study could illustrate the value of VK5211 in hip fracture rehabilitation and thyroid-β agonists in X-ALD. Further, it remains too early to predict any potential future success of clinical trials should these programs further advance into next stage clinical stage development. In thyroid-β agonists in X-ALD, although it is possible that the drug could reduce or eliminate VLCFA, it remains too early to forecast that the drug could slow and stop the progression of symptoms to provide clinical benefits.

Product may not be approved or reach anticipated sales. Although Viking's current pipeline products have exhibited the potential to generate positive clinical outcomes from current and future trials; it remains too early to project whether any of these products would be approved by regulatory agencies. Even if the products were to enter the market, sales could be significantly below projections due to the specific product label under approval, physician consensus for prescribing the drug, changes of treatment paradigms, entrance of competitors, and possibly the changes in pricing flexibility and payer reimbursement. A revenue outlook below expectations could also negatively affect VKTX shareholder value.

Positive relationship with Ligand is important. Given that Viking is substantially dependent on technologies and drug candidates licensed from Ligand for further development, it would be important for the company to maintain a positive relationship with Ligand. If Viking loses the right to license these technologies and drug candidates or the Master License Agreement with Ligand is terminated for any reason, VKTX's ability to develop existing and new drug candidates would be harmed.

Additional financings could dilute shareholder value. Although the company currently has ~$23MM cash after recent IPO financing, VKTX could need more financial resources going forward if they want to expand and further develop its pipeline. Should the product not receive FDA approval, or product revenue does not reach expectations; the company might need to issue new equity to raise additional cash. Under such a scenario, the share value of existing shareholders could be diluted.

Limited trading liquidity limits shareholder options. Given VKTX shares only entered the public market recently; daily trading volume and name recognition are relatively modest. With relatively illiquid trading volume, shareholders wanting to increase or reduce their positions in a volatile stock market may face constraints.

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

Figure 1: Income Statement

Viking Therapeutics – Income Statement

($',000)	2012	2013	2014	1Q15	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Revenue														
Product revenue	0.0	0.0	0.0	-	-	-	-	0	0	0	0	88,989	297,528	626,498
Other revenue	0.2	0.0	0.0	-	-	-	-	0	0	0	0	0	0	0
Total revenue	0.2	0.0	0.0	-	-	-	-	0	0	0	0	88,989	297,528	626,498
Costs of goods												10,679	35,703	75,180
Gross sales												78,310	261,825	551,318
Research and development	(69)	(12)	(22,223)	(139)	(702)	(1,509)	(2,022)	(4,371)	(8,612)	(14,898)	(20,709)	(22,573)	(24,378)	(26,085)
General and administrative	(41)	(89)	(1,245)	(322)	(535)	(642)	(751)	(2,249)	(3,351)	(4,490)	(4,715)	(4,950)	(5,198)	(5,458)
Marketing and sales												(31,000)	(54,250)	(59,675)
Total Operating Expenses	(110)	(101)	(23,468)	(461)	(1,236)	(2,150)	(2,772)	(6,620)	(11,963)	(19,389)	(25,424)	(58,523)	(83,826)	(91,218)
Operating Incomes (losses)	(109)	(101)	(23,468)	(461)	(1,236)	(2,150)	(2,772)	(6,620)	(11,963)	(19,389)	(25,424)	30,466	213,702	535,280
Change in fair value of accrued license fees	0	0	(1,822)	4,961	0	0	0	4,961	0	0	0	0	0	0
Change in fair value of debt conversion features	0	21	(391)	83	(200)	(100)	100	(117)	(200)	(500)	(500)	(500)	(500)	(500)
Amortization of debt discount	0	18	558	172	172	172	172	688	344	0	0	0	0	0
Interest expense	1	6	71	35	35	35	35	141	71	0	0	0	0	0
Total other (income) expenses	1	45	(1,584)	5,250	7	107	307	5,672	214	(500)	(500)	(500)	(500)	(500)
Loss before tax	(111)	(146)	(21,884)	(5,711)	(1,244)	(2,258)	(3,080)	(12,292)	(12,177)	(18,889)	(24,924)	30,966	214,202	535,780
Tax	0	0	0	-	-	-	-	0	0	0	0	(11,457)	(79,255)	(198,239)
Net Income (Loss)	(111)	(146)	(21,884)	(5,711)	(1,244)	(2,258)	(3,080)	(12,292)	(12,177)	(18,889)	(24,924)	19,508	134,947	337,542
Net Income (Loss) Applicable to Common Shareholders	(111)	(146)	(21,884)	(5,711)	(1,244)	(2,258)	(3,080)	(12,292)	(12,177)	(18,889)	(24,924)	19,508	134,947	337,542
Net Earnings (Losses) Per Share—Basic	($0.07)	($0.07)	($5.23)	($1.40)	($0.13)	($0.23)	($0.32)	($1.49)	($0.89)	($1.21)	($1.41)	$0.86	$5.96	$14.90
Net Earnings (Losses) Per Share—Diluted	($0.07)	($0.07)	($5.23)	($1.40)	($0.13)	($0.23)	($0.32)	($1.49)	($0.89)	($1.21)	($1.41)	$0.86	$5.96	$14.90
Shares outstanding—basic	1,483	2,043	4,187	4,074	9,650	9,652	9,654	8,257	13,654	15,654	17,654	22,654	22,657	22,659
Shares outstanding—diluted	1,483	2,043	4,187	4,074	9,650	9,652	9,654	8,257	13,654	15,654	17,654	22,654	22,657	22,659
Margin Analysis (% of Sales/Revenue)														
Costs of goods												12%	12%	12%
R&D	-33433%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-25%	-8%	-4%
SG&A	-19791%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-6%	-2%	-1%
Operating Income (loss)	-53124%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	34%	72%	85%
Pretax	-537.9223	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	35%	72%	86%
Tax Rate										0%	37%	37%	37%	37%
Net Income	-53792%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	22%	45%	54%
Financial Indicator Growth Analysis (YoY%)														
Total Revenue	NA	-100%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	234%	111%
R&D	NA	-83%	191264%	178%	NA	NA	-91%	-80%	97%	73%	39%	9%	8%	7%
SG&A	NA	119%	1292%	102%	NA	NA	-21%	81%	49%	34%	5%	5%	5%	5%
Marketing and sales					NA	NA							75%	10%
Operating Income (Losses)	NA	-8%	23118%	120%	NA	NA	-88%	-72%	81%	62%	31%	-220%	601%	150%
Pretax Income	NA	32%	14864%	2395%	NA	NA	-86%	-44%	-1%	55%	32%	-224%	592%	150%
Net Income	NA	32%	14864%	2395%	NA	NA	-86%	-44%	-1%	55%	32%	-178%	592%	150%
EPS	NA	-4%	7202%	1855%	NA	NA	-84%	-72%	-40%	35%	17%	-161%	592%	150%

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

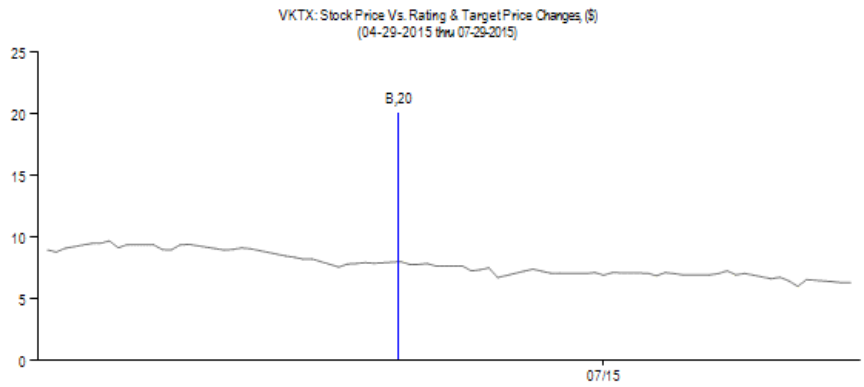
For the purpose of ratings distributions, regulatory rules require the firm to assign ratings to one of three rating categories (i.e. Strong Buy/Buy-Overweight, Hold, or Underweight/Sell) regardless of a firm's own rating categories. Although the firm's ratings of Buy/Overweight, Hold, or Underweight/Sell 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 & Company has received compensation from the subject company for investment banking services in the past 12 months and expects to receive or intends to seek compensation for investment banking services from the company in the next three months.

RATINGS INFORMATION

Rating and Price Target Change History



3 Year Rating Change History

Date	Rating	Closing Price ($)
06/08/2015	Buy (B)	8.02

3 Year Price Change History

Date	Target Price ($)	Closing Price, ($)
06/08/2015	20.00	8.02

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.	75.00%	32.14%	7.14%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	3.57%	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.

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