

## Viking Therapeutics (VKTX - \$ 1.92)

### 4Q15: Two Phase II Trials Are Expected Ongoing in 2016 With Top-line Results of Both to Be Reported in 1H17

VKTX recently reported 4Q15 financial results with a net loss of (\$5.1MM) or (\$0.56) net loss per share. The company ended 2015 with ~\$14MM of cash, sufficient to support its operations into 2017, in our opinion.

- **VK5211 in post hip fracture surgery Phase II trial underway.** VKTX already started a Phase II study in 4Q15. Due to a slightly slower than expected patient recruitment, management anticipates top-line results would be available in 1H17. Given this is the first proof-of-concept (POC) trial to test efficacy and safety of VK5211 in elderly patients, a positive outcome could be an important inflection point for VKTX share value.
- **VK2809 in hypercholesterolemia and fatty liver disease Phase II study to start in mid-16.** VKTX reported that VK2809 in hypercholesterolemia and fatty liver disease Phase II study will start in mid-2016 after the completion of the ongoing communication with the FDA. The Phase II 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. Biopsies will be conducted in ~25% of patients to provide more insight. The primary endpoint is to measure LDL cholesterol reduction after 12 weeks of dosing, while secondary endpoints include changes in liver fat, insulin sensitivity, inflammatory markers, and other measures. The study is expected to be completed in 2H16 with top-line data possibly in 4Q16/1Q17. As such, we believe the timing of the critical POC data releases of VKTX's two leading clinical programs would be relatively close together.
- **X-linked adrenoleukodystrophy (X-ALD) therapy development update.** VKTX already started a preclinical animal model study in Kennedy Krieger Institute evaluating VK2809 and VK0214 as possible candidates advancing into clinical study. We estimate the results could potentially be available in mid-16, and if positive, the first clinical study could start in 1H17.
- **Action.** We are reiterating our Buy rating and \$20 target price based on peer comparable, probability adjusted DCF and sum-of-the-parts analyses. Outcomes of the POC clinical studies of the two leading assets could be available over the next 4 – 5 quarters. If the results are positive, VKTX share value could rise significantly, in our opinion.

#### Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
<b>FY-16E</b>	-0.45	-0.43	-0.41	-0.30	-1.56	N.A.
<b>FY-15A</b>	-1.40	-1.07	-0.53	-0.56	-3.68	N.A.
<b>FY-14A</b>	-0.07	3.88	-3.01	-2.01	-5.23	N.A.
<b>FY-13A</b>	0.00	-20.39	-5.57	-0.33	-0.07	N.A.

Source: Laidlaw & Company estimates

Healthcare/Biotechnology

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

#### Trading Data:

Last Price (03/09/2016)	\$ 1.92
52-Week High (5/5/2015)	\$ 10.23
52-Week Low (2/9/2016)	\$ 1.46
Market Cap. (MM)	\$ 19
Shares Out. (MM)	10

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### Anticipated milestones in 2016 and beyond

Product	Indication	Event	Timing	Importance
VK5211	Hip fracture	Report Phase IIa study results	1H17	****
VK0214/VK2809	X-Linked Adrenoleukodystrophy (X-ALD)	Report pre-clinical animal model study results	Mid-16	***
		Initiate Phase I POC study	Mid-17	***
		Potentially report Phase I study top-line results	2017	****
VK2809	Cholesterolemia / NASH	Potentially start Phase II study	Mid-16	***
		Potentially complete Phase II study	4Q16	***
		Potentially report Phase II study results	1Q17	****

\*\*\*\* / \*\*\*\*\* 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

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**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- $\beta$  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- $\beta$  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- $\beta$  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 ~\$14MM cash, 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.

Figure 1: Income Statement

Viking Therapeutics – Income Statement																	
(\$,000)	2013	2014	1Q15	2Q15	3Q15	4Q15	2015	1Q16E	2Q16E	3Q16E	4Q16E	2016E	2017E	2018E	2019E	2020E	2021E
	<b>Revenue</b>																
Product revenue	0.0	0.0	-	-	-	-	0	-	-	-	-	0	0	0	88,989	297,528	626,498
Other revenue	0.0	0.0	-	-	-	-	0	-	-	-	-	0	0	0	0	0	0
Total revenue	0.0	0.0	-	-	-	-	0	-	-	-	-	0	0	0	88,989	297,528	626,498
<b>Costs of goods</b>															10,679	35,703	75,180
Gross sales															78,310	261,825	551,318
Research and development	(12)	(22,223)	(139)	(1,101)	(2,508)	(3,219)	(6,967)	(3,190)	(3,168)	(3,170)	(3,171)	(12,700)	(21,970)	(30,539)	(33,287)	(35,950)	(38,466)
General and administrative	(89)	(1,245)	(322)	(1,526)	(1,781)	(1,401)	(5,030)	(1,261)	(1,160)	(1,067)	(982)	(4,470)	(5,989)	(6,289)	(6,603)	(6,933)	(7,280)
Marketing and sales															(31,000)	(54,250)	(59,675)
<b>Total Operating Expenses</b>	(101)	(23,468)	(461)	(2,627)	(4,288)	(4,620)	(11,996)	(4,451)	(4,328)	(4,237)	(4,153)	(17,169)	(27,959)	(36,827)	(70,890)	(97,133)	(105,421)
<b>Operating Incomes (losses)</b>	(101)	(23,468)	(461)	(2,627)	(4,288)	(4,620)	(11,996)	(4,451)	(4,328)	(4,237)	(4,153)	(17,169)	(27,959)	(36,827)	18,099	200,395	521,077
Change in fair value of accrued license fees	0	(1,822)	(4,961)	(4,421)	0	0	(9,382)	0	0	0	0	0	0	0	0	0	0
Change in fair value of debt conversion features	21	(391)	(83)	(546)	(197)	(217)	(1,043)	(100)	(100)	(100)	(100)	(400)	(500)	(500)	(500)	(500)	(500)
Amortization of debt discount	18	558	(172)	(241)	(241)	(241)	(894)	(241)	(241)	(241)	(241)	(962)	0	0	0	0	0
Interest expense	6	71	(35)	(30)	(10)	(13)	(89)	(13)	(13)	(13)	(13)	(53)	0	0	0	0	0
Total other (income) expenses	45	(1,584)	(5,250)	(5,238)	(448)	(471)	(11,408)	(354)	(354)	(354)	(354)	(1,415)	(500)	(500)	(500)	(500)	(500)
Loss before tax	(146)	(21,884)	(5,711)	(7,865)	(4,737)	(5,091)	(23,404)	(4,097)	(3,974)	(3,883)	(3,799)	(15,754)	(27,459)	(36,327)	18,599	200,895	521,577
Tax	0	0	-	-	-	-	0	-	-	-	-	0	0	0	(6,882)	(74,331)	(192,983)
<b>Net Income (Loss)</b>	(146)	(21,884)	(5,711)	(7,865)	(4,737)	(5,091)	(23,404)	(4,097)	(3,974)	(3,883)	(3,799)	(15,754)	(27,459)	(36,327)	11,717	126,564	328,593
Net Income (Loss) Applicable to Common Shareholders	(146)	(21,884)	(5,711)	(7,865)	(4,729)	(5,091)	(23,404)	(4,097)	(3,974)	(3,883)	(3,799)	(15,754)	(27,459)	(36,327)	11,717	126,564	328,593
Net Earnings (Losses) Per Share—Basic	(\$0.07)	(\$5.23)	(\$1.40)	(\$1.07)	(\$0.53)	(\$0.56)	(\$3.68)	(\$0.45)	(\$0.43)	(\$0.41)	(\$0.30)	(\$1.56)	(\$2.27)	(\$2.57)	\$0.61	\$6.62	\$17.19
Net Earnings (Losses) Per Share—Diluted	(\$0.07)	(\$5.23)	(\$1.40)	(\$1.07)	(\$0.53)	(\$0.56)	(\$3.68)	(\$0.45)	(\$0.43)	(\$0.41)	(\$0.30)	(\$1.56)	(\$2.27)	(\$2.57)	\$0.61	\$6.62	\$17.19
Shares outstanding—basic	2,043	4,187	4,074	7,332	8,947	9,013	6,356	9,113	9,313	9,513	12,513	10,113	12,113	14,113	19,113	19,116	19,118
Shares outstanding—diluted	2,043	4,187	4,074	7,332	8,947	9,013	6,356	9,113	9,313	9,513	12,513	10,113	12,113	14,113	19,113	19,116	19,118
<b>Margin Analysis (% of Sales/Revenue)</b>																	
Costs of goods	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	12%	12%	12%
R&D	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-37%	-12%	-6%
SG&A	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-7%	-2%	-1%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	20%	67%	83%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	13%	43%	52%
<b>Financial Indicator Growth Analysis (YoY%)</b>																	
Total Revenue	-100%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	234%	111%
R&D	-83%	191264%	178%	NA	NA	-85%	-69%	2196%	188%	26%	-1%	82%	73%	39%	9%	8%	7%
SG&A	119%	1292%	102%	NA	NA	47%	304%	291%	-24%	-40%	-30%	-11%	34%	5%	5%	5%	5%
Marketing and sales				NA	NA											75%	10%
Operating Income (Losses)	-8%	23118%	120%	NA	NA	-80%	-49%	865%	65%	-1%	-10%	43%	63%	32%	-149%	1007%	160%
Pretax Income	32%	14864%	2395%	NA	NA	-76%	7%	-28%	-49%	-18%	-25%	-33%	74%	32%	-151%	980%	160%
Net Income	32%	14864%	2395%	NA	NA	-76%	7%	-28%	-49%	-18%	-25%	-33%	74%	32%	-132%	980%	160%
EPS	-4%	7202%	1855%	NA	NA	-72%	-30%	-68%	-60%	-23%	-46%	-58%	46%	14%	-124%	980%	160%

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

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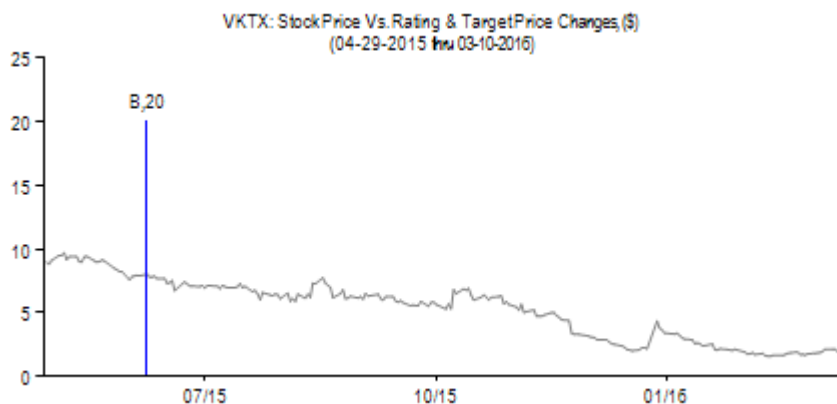
#### Rating and Price Target Change History

##### 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
<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.	65.71%	25.71%	2.86%
<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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