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EQUITY RESEARCH
Company Report

July 7, 2016

Evoke Pharma (EVOK - $ 7.17)

Healthcare/Biotechnology

Partnership with inVentiv an Important Step for Potential EVK-001 Commercialization

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

This morning EVOK announced the initiation of a master service agreement with inVentiv Commercial Services for the preparation of commercializing EVK-001 as a potential treatment of diabetic gastroparesis in women.

- **Details.** The objective of the partnership with inVentiv is to develop EVOK's commercial infrastructure for the potential launch and commercialization of EVK-001, pending the possible FDA approval (we estimate it could occur in 2H17). The terms of the agreement stipulate that inVentiv may provide services including sales representatives, sales management, marketing, account management, advertising, medical communications, distribution support, and overall commercial management. Addition of more commercial team members and capabilities would be considered on an as-needed basis in the future. inVentiv is a CRO with operations in both the clinical research and contract commercial organization with nearly half (50/110) of the teams on new product launch.
- **Implications.** First, we believe investors' current primary focus remains on the upcoming top-line results from the METO IN-003 Phase III trial as the most critical binary event for EVOK share value. We expect data reporting in July/early August 2016. We also view today's news as an important positive step for the company to potentially commercialize EVK-001 by themselves. Although EVOK senior management has substantial drug commercialization experience; conducting initial commercialization efforts through a contract commercialization organization like inVentiv has the advantages of avoiding heavy upfront investment for building up in-house infrastructure, while retaining the option of capacity expansion. Also, a commercial team can be brought in-house in the future if needed. In addition, in our opinion, the agreement with inVentiv does not preclude the option for EVOK to partner out EVK-001 with other commercial partner(s) for future commercial development.
- **Action.** We reiterate our Buy rating and $19 target price based on our peer comparable, cash driven NPV and forward price/sales analyses. Our recommendation is based on potential success of the METO IN-003 study and the positive commercial outlook of EVK-001 in gastroparesis treatment.

Trading Data:

Last Price (07/07/2016)	$ 7.17
52–Week High (7/7/2016)	$ 7.22
52–Week Low (1/20/2016)	$ 2.37
Market Cap. (MM)	$ 52
Shares Out. (MM)	7

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-16E	-0.45A	-0.46	-0.20	-0.17	-1.19	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
FY-13A	-0.44	-0.21	-0.40	-0.27	-1.20	NM

Source: Laidlaw & Company estimates

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Anticipated Milestones in 2016 and Beyond

Product	Indication	Event	Timing	Importance
EVK-100	Diabetic gastroparesis	Potentially report top-line METO IN-003 Phase III trial results	**Early 3Q16**	*****
		Potentially filing via 505(b)(2) pathway for approval	**late 2H16**	***
		Potential approval	**2H17**	*****

***** / ***** 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 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 assets and shareholder value. Overall, we view clinical risks of EVK-001 are more modest relative to Phase III studies of other biotech companies.

EVK-001 may not reach anticipated sales. Assuming EVK-001 receives approval and is commercialized, the sales potential could fall short of our forecasts. It is difficult to project accurately the sales potential of EVK-001 in gastroparesis given that the market is relatively mature and is dominated by generic products. The assumption is that EVK-001 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 EVK-001 vs. oral metoclopramide with a 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 has very limited options to hedge its risk of product failure. 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 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 EVK-001 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)	2014	2015	1Q16	2Q16E	3Q16E	4Q16E	2016E	2017E	2018E	2019E	2020E
Revenue											
EVK-001 sales		0					0	21,354	55,533	94,545	148,265
Product royalty revenue	0	0	-	-	-	-	0	0	0	0	0
Total revenue	0	0	-	-	-	-	0	21,354	55,533	94,545	148,265
Costs of goods		0					0	1,922	4,998	8,509	13,344
Research and development	9,992	8,154	2,015	2,257	1,038	623	5,933	1,246	1,184	1,219	1,256
General and administrative	3,158	3,664	1,138	1,092	1,049	1,090	4,369	4,762	5,191	5,658	6,111
Marketing and sales		0					0	22,000	23,100	24,486	25,710
Total Operating Expenses	13,150	11,818	3,153	3,349	2,087	1,713	10,302	29,930	34,472	39,872	46,421
Operating Incomes (losses)	(13,150)	(11,818)	(3,153)	(3,349)	(2,087)	(1,713)	(10,302)	(8,576)	21,061	54,672	101,845
Other expense			(73)				(73)				
Interest income	10	5		0	0	0	0	0	0	0	0
Interest expense	(108)	(307)		0	0	0	0	0	0	0	0
Change in fair value of warrant liability	0	0	0	0	0	0	0	0	0	0	0
Total Other Income, net	(98)	(302)	(73)	0	0	0	(73)	0	0	0	0
Income before tax	(13,248)	(12,120)	(3,225)	(3,349)	(2,087)	(1,713)	(10,375)	(8,576)	21,061	54,672	101,845
Tax Rate									32%	32%	32%
Tax	0	0	0	0	0	0	0	0	(6,739)	(17,495)	(32,590)
Net Income (Loss)	(13,248)	(12,120)	(3,225)	(3,349)	(2,087)	(1,713)	(10,375)	(8,576)	14,321	37,177	69,254
Net Income (Loss) Applicable to Common Shareholders	(13,248)	(12,120)	(3,225)	(3,349)	(2,087)	(1,713)	(10,375)	(8,576)	14,321	37,177	69,254
Net Earnings (Losses) Per Share—Basic and Diluted	($2.20)	($1.87)	($0.45)	($0.46)	($0.20)	($0.17)	($1.19)	($0.73)	$1.13	$2.71	$4.71
Shares outstanding—basic and diluted	6,032	6,486	7,168	7,218	10,218	10,268	8,718	11,718	12,718	13,718	14,718
	6,032	6,486	7,168	7,218	10,218	10,268	8,718	11,718	12,718	13,718	14,718
Margin Analysis (% of Sales/Revenue)											
Costs of goods								9%	9%	9%	9%
R&D	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	1%
MG&A	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	21%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	69%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	47%
Financial Indicator Growth Analysis (YoY%)											
Total Revenue	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	57%
R&D	944%	-18%	-80%	3%	-44%	-64%	-27%	-79%	-5%	3%	3%
SG&A	92%	16%	-64%	12%	28%	29%	19%	9%	9%	9%	8%
Marketing and sales		NA					NA	200%	5%	6%	5%
Operating Loss	405%	-10%	-76%	6%	-21%	-33%	-13%	-17%	-346%	160%	86%
Total Other Income, net	-58%	209%	-26%	-100%	-100%	-100%	-76%	-100%	N.A.	N.A.	N.A.
Pretax Income	367%	-9%	-76%	3%	-24%	-35%	-14%	-17%	-346%	160%	86%
Net Income	367%	-9%	-76%	3%	-24%	-35%	-14%	-17%	-267%	160%	86%
EPS	83%	-15%	-80%	-11%	-51%	-55%	-36%	-38%	-254%	141%	74%

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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 ($)
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**

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			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.	67.57%	27.03%	2.70%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	0.00%	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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