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EQUITY RESEARCH
Company Report

October 20, 2016

Gemphire Therapeutics (GEMP - $10.22) Hail, Hail to Gemphire, Champions of the rest…in LDL

Healthcare/Biotechnology

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

We recently spent time with senior GEMP management and we continue to see the company as one of the most undervalued assets in the increasingly competitive atherosclerotic cardiovascular disease (ASCVD) space. GEMP has an important interim look coming up in January 2017 for their COBALT orphan drug trial of gemcabine for homozygous familial hypercholesterolemia (HoFH) which, if positive, we believe could offer a good read-through on the expectations for the next two larger trials: ROYAL and INDIGO in ASCVD and severe hypertriglyceridemia (SHTG). COBALT is enrolling some of the "worst-case" dyslipidemic patients, and success there should be predictive of success in less severe patients too. Management believes that the recent announcement by competitor Esperion on their decision to enroll patients on maximum tolerated statins and pursue the LDL lowering hypothesis for NDA filing reinforces GEMP's own LDL strategy in their ROYAL trial. In addition, the lack of drug-drug interactions (DDI) with gemcabine seems to compare very favorably with what management believes could be signs of DDI in ESPR's program. We reiterate our Buy rating, $20 price target.

Trading Data:

Last Price (10/19/2016)	$10.22
52–Week High (08/31/2016)	$13.98
52–Week Low (0/05/2016)	$8.50
Market Cap. (MM)	$94.7
Shares Out. (MM)	9.27

- **Much will depend on the January interim COBALT data.** Patients with HoFH are born with an inherited disorder of the lipoprotein metabolism, leading to premature cardiovascular disease (CVD). This is what Aegerion's $300K/yr. Juxatpid was approved for and it represents some of the most difficult patients to treat gemcabine shows efficacy in this patient population we believe it should also work in ASCVD.
- **Gemcabine lack of DDI a key attribute.** Diseases with a silent presentation like dyslipidemia require silent treatments for broad acceptance. We expect that gemcabine should continue to show the very clean DDI profile in the ongoing p2 trials that it has shown to date. This could be a key differentiator from ESPR's drug, which management thought showed some DDI in the recent p2 data, and had a CV AE drop-out, which is never good to see.
- **Additional comments on next page.**
- **Reiterate Buy, $20 PT.** Our price target is based on a sum-of-the-parts with gemcabine worth $18/share and cash (end '17) and tech value $2/share.

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-18E	(1.00)	(1.13)	(0.85)	(0.90)	(3.90)	NA
FY-17E	(0.69)	(0.54)	(0.53)	(0.49)	(2.20)	NA
FY-16E	(0.61)	(0.38)	(0.54)	(0.83)	(2.50)	NA
FY-15	NA	NA	NA	NA	(3.14)	NA

Source: Company data and Laidlaw & Company estimates

Analysts
Jim Molloy/Spec Pharma & Biotech
(857) 317-5061
jmolloy@laidlawltd.com

Francois Brisebois,
MSc/Associate (857)317-5362
fbrisebois@laidlawltd.com

PCSK9 competitors face challenges. Apart from the significantly higher cost for PCSK9 injections (~$14k/yr.) we believe doctors may be hesitant to write the new injectables absent long-term safety data for the class as a whole. This seems to be reflected in the lackluster sales of Praluent and Repatha to date, likely due to the long familiarity of docs with statin therapy.

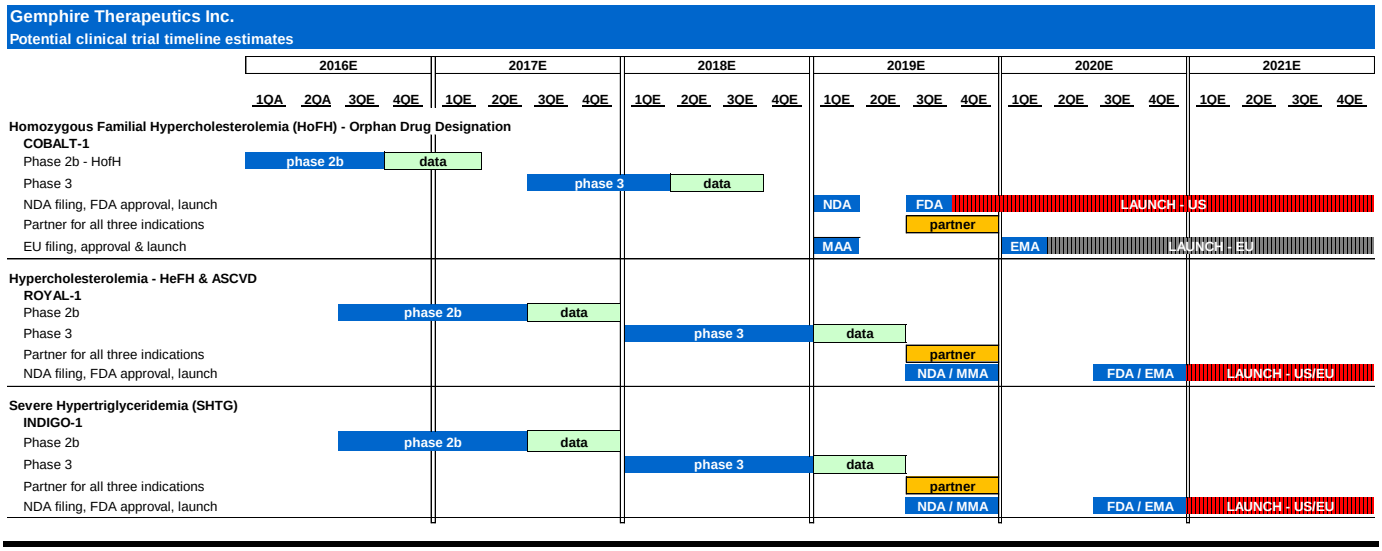
NASH is a real opportunity too. While it seems that every pharma company has jumped on the NASH bandwagon recently, management notes that the ACC inhibition pathway in gemcabine could be active in treating the increased liver inflammation and fat (TG) which presents in NASH. While this would have to be borne out in clinical trials, the company is positioned to potentially jump right to phase 2 given the voluminous safety data gathered to date. The recent $1.7B all in price that Allergan paid to buy Tobira, who have a mixed (at best) phase 2 NASH compound demonstrates the significant value in early stage NASH compounds.

Figure 1: Valuation

Sum-of-the-parts valuation		
Segment	Valuation (000's)	Per share value
Gemcabene	$229,946	$18.00
Cash (end of '16E)	$29,071	$2.00
	$259,017	**$20.00**
2017 fully diluted shares out (000)		12,856

Source: Laidlaw & Company estimates.

Figure 2: Clinical trials timeline



Source: Company reports; Laidlaw & Company estimates.

Jim Molloy
jmolloy@laidlawltd.com

Figure 3: Quarterly Income Statement

Gemphire
Quarterly income statement

($000's except per share)	2015A Year	2016E 1QA	2016E 2QA	2016E 3QE	2016E 4QE	2016E Year	2017E 1QE	2017E 2QE	2017E 3QE	2017E 4QE	2017E Year
SG&A	3,177	1,050	1,051	1,250	1,500	4,851	1,500	1,500	1,750	1,750	6,500
R&D	3,991	1,176	789	2,000	4,400	8,365	3,750	4,000	4,000	4,000	15,750
Acqrd IPR&D	908					0					0
Operating income/(loss)	**(8,076)**	**(2,226)**	**(1,840)**	**(3,250)**	**(5,900)**	**(13,216)**	**(5,250)**	**(5,500)**	**(5,750)**	**(5,750)**	**(22,250)**
Interest (exp) income	(762)	127	449	50	50	676	50	50	50	50	200
Conv note extinguish	(198)					0					0
Other	7	(4)				(4)					0
Total other loss	**(953)**	**123**	**449**	**50**	**50**	**672**	**50**	**50**	**50**	**50**	**200**
Adj-Net income/(loss)	**(9,029)**	**(2,103)**	**(1,391)**	**(3,200)**	**(5,850)**	**(12,544)**	**(5,200)**	**(5,450)**	**(5,700)**	**(5,700)**	**(22,050)**
Series A convert premium	(2,968)	(149)	(150)	(150)	(150)	(599)					
Other convert premium	(1,047)					0					
NI/(loss) as reported	**(13,044)**	**(2,252)**	**(1,541)**	**(3,350)**	**(6,000)**	**(13,143)**					
Adj-EPS ex-non-cash	**($3.14)**	**($0.61)**	**($0.38)**	**($0.54)**	**($0.83)**	**($2.50)**	**($0.69)**	**($0.54)**	**($0.53)**	**($0.49)**	**($2.20)**
EPS as reported	**($4.54)**	**($0.65)**	**($0.42)**	**($0.57)**	**($0.85)**	**($2.62)**					
Shares out (000)	2,875	3,469	3,627	5,927	7,077	5,025	7,577	10,077	10,827	11,577	10,014
Fully diluted shares (000)	5,100	5,567	6,394	8,177	9,577	7,429	10,077	12,577	13,327	14,077	12,514

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

Jim Molloy
jmolloy@laidlawltd.com

Figure 4: Annual Income Statement

Gemphire
Annual income statement

($000's except per share)	2015A	2016E	2017E	2018E	2019E	2020E	2021E	Comments
Revenues								
Gemcabene royalty					$19	$124	$40,775	HoFH launch 4Q19, other indications 2021
Total sales					**$19**	**$124**	**$40,775**	**Royalties from partner**
COGS	0	0	0	0	0	0	0	partner manufactures drug
Gross margin	**0**	**0**	**0**	**0**	**19**	**124**	**40,775**	
SG&A	3,177	4,851	6,500	9,250	19,000	18,000	24,000	
R&D	3,991	8,365	15,750	50,850	42,750	49,800	50,250	
Operating income/(loss)	**(8,076)**	**(13,216)**	**(22,250)**	**(60,100)**	**(61,731)**	**(67,676)**	**(33,476)**	
Interest expense	(762)	676	200	300	300	400	400	
Conv note extinguish	(198)	0	0	0	0	0	0	
Other	7	(4)	0	0	0	0	0	
Total other loss	**(953)**	**672**	**200**	**300**	**300**	**400**	**400**	
Adj-Net income/(loss)	**(9,029)**	**(12,544)**	**(22,050)**	**(59,800)**	**(61,431)**	**(67,276)**	**(33,076)**	
Series A convert premium	(2,968)	(599)	0	0	0	0	0	
Other convert premium	(1,047)	0	0	0	0	0	0	
NI/(loss) as reported	**(13,044)**	**(13,143)**	**0**	**0**	**0**	**0**	**0**	
Adj-EPS ex-non-cash	**($3.14)**	**($2.50)**	**($2.20)**	**($3.90)**	**($2.85)**	**($2.75)**	**($1.15)**	
EPS as reported	**($4.54)**	**($2.62)**						
Shares out (000)	2,875	5,025	10,014	15,327	21,577	24,452	28,827	
Fully diluted shares (000)	5,100	7,429	12,514	18,077	24,577	27,452	32,077	
Cash balance	$3,620	$21,221	$38,896	$88,791	$118,500	$51,789	$19,463	

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

Jim Molloy
jmolloy@laidlawltd.com

Major risks

Exogenous events could impact our outlook. We believe pharmaceutical companies have the least control over competitive, political, and regulatory risks. Although we have incorporated competitive assumptions into our forecasts, there may be other risks beyond the scope of our analysis. Changes in the drug reimbursement system, as well as any political or regulatory amendments, may significantly influence the earnings power of these companies.

Actual clinical results and the FDA's conclusions may deviate from expectations. Many of our assumptions are based on a review of incomplete clinical trial data available in the public domain. Often, our conclusions are drawn from early stage data, which may not be reflected by pivotal studies. Furthermore, the FDA's conclusions may not coincide with our own, materially changing our revenue and earnings assumptions.

Compliance issues, product recalls, and other mandates by regulatory authorities could materially change our expectations. Regulatory compliance issues, ranging from accounting irregularities to defective manufacturing practices, could materially change our assumptions and earnings outlook. Unanticipated product recalls and labeling changes could also have adverse consequences on our earnings assumptions.

Legal risks could lead to additional liabilities and revenue loss. In addition to the expenses incurred by patent challenges, product liability and other legal suits could occur and lead to additional liabilities and revenue loss, which could substantially change our financial assumptions.

Jim Molloy
jmolloy@laidlawltd.com

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Additional information available upon request.

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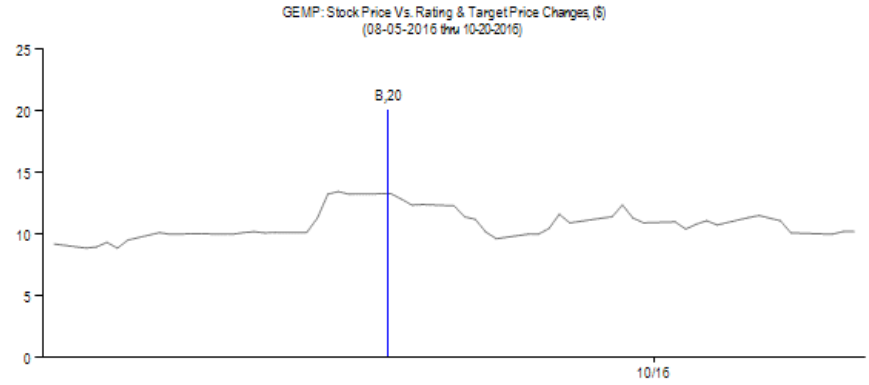
Rating and Price Target Change History



3 Year Rating Change History

Date	Rating	Closing Price ($)
09/06/2016	Buy (B)	13.28

3 Year Price Change History

Date	Target Price ($)	Closing Price, ($)
09/06/2016	20.00	13.28

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.	2.56%	2.56%	0.00%
Buy (B)	Expected to outperform the sector average over 12 months.	58.97%	28.21%	2.56%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	5.13%	0.00%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	2.56%	0.00%	0.00%

ADDITIONAL COMPANIES MENTIONED

Esperion (ESPR, Not Rated)
Allergan (AGN – Not Rated)

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NOTES:

Jim Molloy
jmolloy@laidlawltd.com