

Gemphire Therapeutics (GEMP - \$9.60)

Those Who Stay Will Be Champions – Early NASH Data Looks Good

This morning before the open, GEMP announced positive results for Gemcabene in a NASH proof-of-concept (POC) pre-clinical study. The study showed hepatoprotective effect preventing liver disease progression as gemcabene treated mice had significantly lower liver NAFLD activity score (NAS), lower progression of fibrosis as well as reduction in gene expressions and plasma markers related to inflammation. GEMP will be submitting the total data set for publication in 2017. With this data and their comprehensive safety data set (n=895 across 18 studies), GEMP could initiate a Phase 2 POC trial (AZURE-1) in 2017. While still early, this pre-clinical data could spark interest from large pharma as M&A in the field is relatively common. The recent GILD acquisition of Nimbus' Acetyl-CoA carboxylase (ACC) inhibitor for \$400M upfront, with up to \$800M in milestones, is particularly interesting as Nimbus and GEMP both inhibit ACC. Following GEMP's recent encouraging pipeline update and multiple catalysts throughout 2017, starting the week of January 30th (COBALT-1 in HoFH interim look), we continue to see GEMP as undervalued at these levels and we are reiterating our Buy rating and our \$20 price target.

- **NASH pre-clinical POC trial positive, another huge market for gemcabene.** While GEMP is already targeting the impressive CVD market (~14M in US), they are now one step closer to starting a Phase 2 clinical trial POC in another gigantic indication, NASH (~7M in US).
- **Gemcabene MOA could make sense for M&A.** On 4/4/16, GILD acquired Nimbus's ACC inhibitor programs for an upfront \$400M and a potential additional \$800M in milestones before Phase 1 data was presented at EASL. Gemcabene's MOA decreases production of apoC-III protein and may inhibit ACC, which is observed in lowered TG, which could raise a buyer's interest too.
- **Recent pipeline update, 2017 key catalysts could be even earlier than expected.** On 1/5/17, GEMP announced that their pipeline was ahead of our estimates, a nice positive. ROYAL-1 data could read out 3Q17 and COBALT-1 interim data (good proxy for ROYAL), is expected the week of January 30th.
- **Reiterate Buy, \$20 PT.** Our PT is based on a sum-of-the-parts with gemcabene 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	(0.88)	(1.00)	(0.81)	(0.84)	(3.50)	NA
FY-17E	(0.55)	(0.45)	(0.45)	(0.42)	(1.85)	NA
FY-16E	(0.61)A	(0.38)A	(0.47)A	(0.59)	(2.10)	NA
FY-15	NA	NA	NA	NA	(3.14)	NA

Source: Company data and Laidlaw & Company estimates

Healthcare/Biotechnology

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

Trading Data:

Last Price (01/09/2017)	\$9.60
52-Week High (08/31/2016)	\$13.98
52-Week Low (12/13/2016)	\$7.25
Market Cap. (MM)	\$89.0
Shares Out. (MM)	9.3

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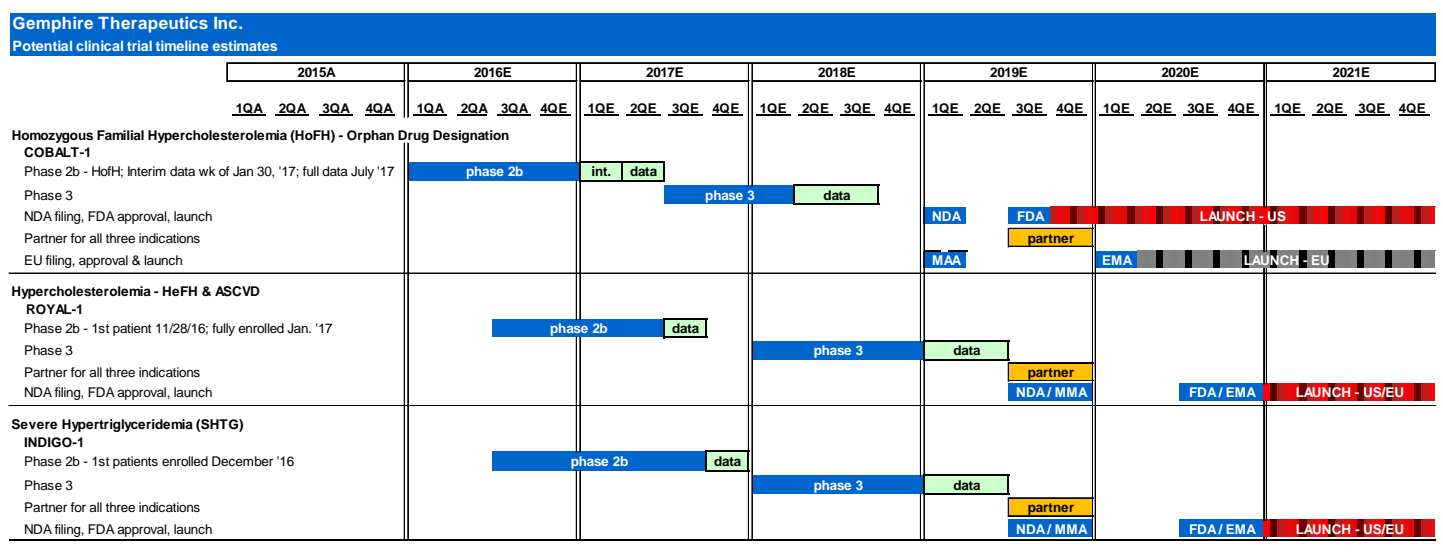
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Figure 1: Valuation

Sum-of-the-parts valuation		
Segment	Valuation (000's)	Per share value
Gemcabene	\$263,426	\$18.00
Cash (end of '16E)	\$1,825	\$2.00
	\$265,251	\$20.00
2017 fully diluted shares out (000)		14,421

Source: Laidlaw & Company estimates.

Figure 2: Clinical trials timeline



Source: Company reports; Laidlaw & Company estimates.

Figure 3: Quarterly Income Statement

Gemphire											
Quarterly income statement											
(\$000's except per share)	2015A	2016E				2016E	2017E				2017E
	Year	1QA	2QA	3QA	4QE	Year	1QE	2QE	3QE	4QE	Year
SG&A	3,177	1,050	1,051	1,066	1,150	4,317	1,500	1,500	1,750	1,750	6,500
R&D	3,991	1,176	789	1,769	4,200	7,934	3,800	4,000	4,000	4,000	15,800
Acqrd IPR&D	908					0					0
Operating income/(loss)	(8,076)	(2,226)	(1,840)	(2,835)	(5,350)	(12,251)	(5,300)	(5,500)	(5,750)	(5,750)	(22,300)
Interest (exp) income	(762)	127	449	(476)	50	150	50	50	50	50	200
Conv note extinguish	(198)					0					0
Other	7	(4)				(4)					0
Total other loss	(953)	123	449	(476)	50	146	50	50	50	50	200
Adj-Net income/(loss)	(9,029)	(2,103)	(1,391)	(3,311)	(5,300)	(12,105)	(5,250)	(5,450)	(5,700)	(5,700)	(22,100)
Share based comp				567	800	1,367					
Series A convert premium	(2,968)	(149)	(150)	(67)	(150)	(516)					
Other convert premium	(1,047)					0					
NI/(loss) as reported	(13,044)	(2,252)	(1,541)	(3,945)	(6,250)	(13,988)					
Adj-EPS ex-non-cash	(\$3.14)	(\$0.61)	(\$0.38)	(\$0.47)	(\$0.59)	(\$2.10)	(\$0.55)	(\$0.45)	(\$0.45)	(\$0.42)	(\$1.85)
EPS as reported	(\$4.54)	(\$0.65)	(\$0.42)	(\$0.56)	(\$0.70)	(\$2.43)					
Shares out (000)	2,875	3,469	3,627	6,984	8,984	5,766	9,484	11,984	12,734	13,484	11,921
Fully diluted shares (000)	5,100	5,567	6,394	9,123	11,484	8,142	11,984	14,484	15,234	15,984	14,421

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

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 Royalties from partner partner manufactures drug
Total sales					\$19	\$124	\$40,775	
COGS	0	0	0	0	0	0	0	
Gross margin	0	0	0	0	19	124	40,775	
SG&A	3,177	4,317	6,500	9,750	19,000	18,000	23,250	
R&D	3,991	7,934	15,800	50,850	43,500	49,800	50,250	
Operating income/(loss)	(8,076)	(12,251)	(22,300)	(60,600)	(62,481)	(67,676)	(32,726)	
Interest expense	(762)	150	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)	146	200	300	300	400	400	
Adj-Net income/(loss)	(9,029)	(12,105)	(22,100)	(60,300)	(62,181)	(67,276)	(32,326)	
Series A convert premium	(2,968)	(516)	0	0	0	0	0	
Other convert premium	(1,047)	0	0	0	0	0	0	
NI/(loss) as reported	(13,044)	(13,988)	0	0	0	0	0	
Adj-EPS ex-non-cash	(\$3.14)	(\$2.10)	(\$1.85)	(\$3.50)	(\$2.65)	(\$2.55)	(\$1.05)	
EPS as reported	(\$4.54)	(\$2.43)						
Shares out (000)	2,875	5,766	11,921	17,234	23,484	26,359	30,734	
Fully diluted shares (000)	5,100	8,142	14,421	19,984	26,484	29,359	33,984	
Cash balance	\$3,620	(\$5,675)	\$11,950	\$61,345	\$90,304	\$23,593	(\$7,983)	

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

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.

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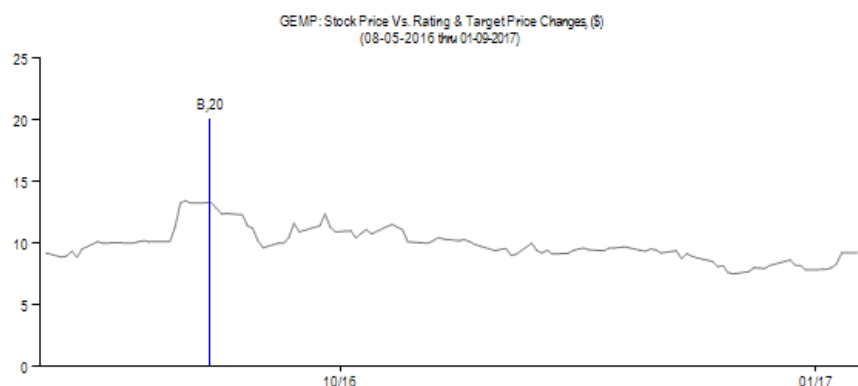
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Rating and Price Target Change History



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.	2.44%	2.44%	0.00%
Buy (B)	Expected to outperform the sector average over 12 months.	58.54%	26.83%	2.44%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	4.88%	0.00%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	4.88%	0.00%	0.00%

ADDITIONAL COMPANIES MENTIONED

Gilead Sciences, Inc. (GILD – Not Rated)

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