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EQUITY RESEARCH
Company Report

January 5, 2017

Gemphire Therapeutics (GEMP - $8.00)

Gemphire's Pipeline Ahead of Schedule with Significant Catalysts

Healthcare/Biotechnology

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

GEMP updated their gemcabene development progress this morning before the open and all three trials appear to be on-track to ahead of schedule for enrollment and data read out. We see this as a nice positive for GEMP as clinical trial development timelines tend to slip away into the future in pharma much more often than they are ahead of schedule. The COBALT-1 trial in homozygous familial hypercholesterolemia (HoFH) should report interim data the week of January 30th and we believe the interim data look at this eight patient Orphan Drug trial should provide a meaningful read-through to the larger ROYAL-1 trial in hypercholesterolemia patients (ASCVD). We see the HoFH patients as effectively a "worst-case" subset of the ~14M US ASCVD population and if gemcabene is effective in lowering LDL in that Orphan population it seems reasonable to conclude that it should work in the larger general population too. Even more positively, in our opinion, is that the 104 patient ROYAL-1 trial is 90% enrolled already - having just started enrolling in late November 2016 – and GEMP anticipates completing enrollment in January with data in 3Q17, which is 1Q ahead of our 4Q17 expectations. With multiple catalysts throughout 2017, starting the week of January 30th, we continue to believe the market is undervaluing GEMP here and we are reiterating our Buy rating and our $20 price target.

- **Rare to see trials move forward in specialty pharma.** Given the inherent uncertainties of drug development and trial enrollment it is far more common to see deadlines extended and delayed than moved up. So, we see it as a nice positive that ROYAL-1 could read out top-line in 3Q17 instead of 4Q17, and we see positive interim data in late January for COBOLT as a good proxy for ROYAL.
- **PFE could still come (re)calling for gemcabene.** With the high-profile failure of their bococizumab PCSK9, PFE has a large hole in their CV pipeline, with few options to fill it. Could GEMP (or MDCO, or ESPR) be the plug for that hole? It wouldn't be the first time (see ESPR) that PFE re-acquired a drug.
- **Reiterate Buy, $20 PT.** We continue to see GEMP as one of the most exciting, undervalued names in our coverage space and we reiterate our Buy rating. Our PT is based on a sum-of-the-parts with gemcabene worth $18/share and cash (end '17) and tech value $2/share.

Trading Data:

Last Price (01/05/2017)	$9.56
52–Week High (08/31/2016)	$13.98
52–Week Low (12/13/2016)	$7.25
Market Cap. (MM)	$74.2
Shares Out. (MM)	9.3

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

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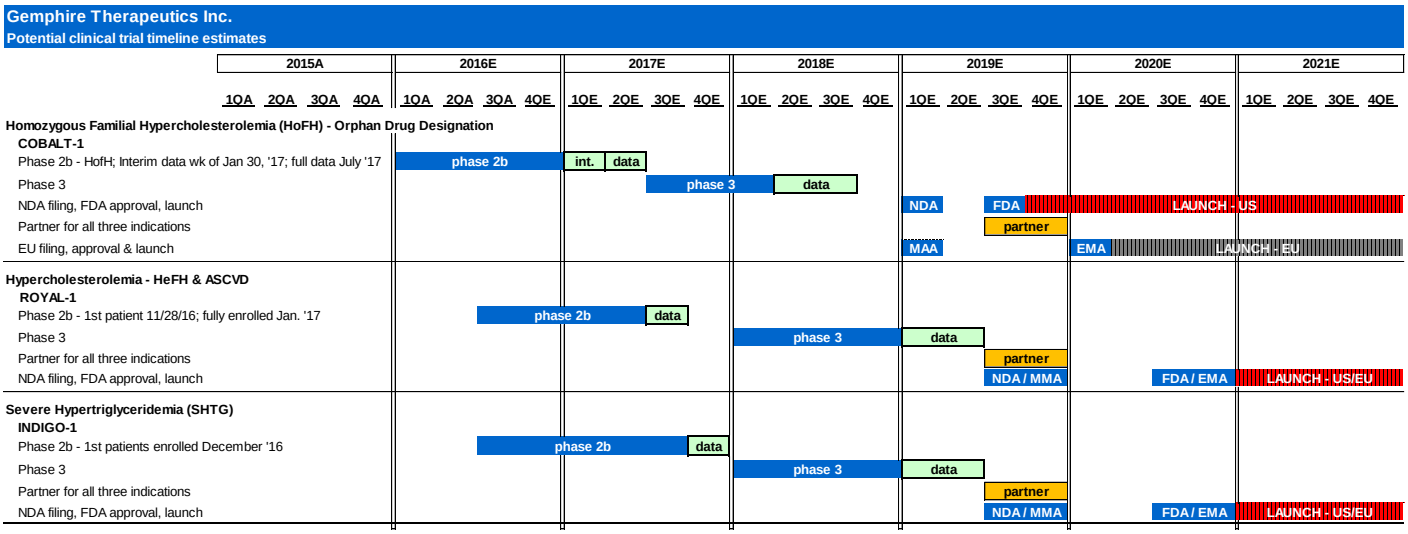
- **Week of January 30th interim COBALT data remains the next key catalyst.** Much will depend on Phase 2b interim COBALT-1 data, which is expected to read-out in January 2017. Patients with HoFH are some of the most difficult patients to treat and good efficacy should provide a good read through for both ROYAL and INDIGO.

Figure 1: Valuation

Sum-of-the-parts valuation		
Segment	Valuation (000's)	Per share value
Gemcabene	$263,426	$18.00
Cash (end of '16E)	$29,160	$2.00
	$292,586	**$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.

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Figure 3: Quarterly Income Statement

Gemphire
Quarterly income statement

($000's except per share)	2015A Year	2016E 1QA	2016E 2QA	2016E 3QA	2016E 4QE	2016E Year	2017E 1QE	2017E 2QE	2017E 3QE	2017E 4QE	2017E 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.

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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	4,317	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	$21,660	$39,285	$88,680	$117,639	$50,928	$19,352	

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

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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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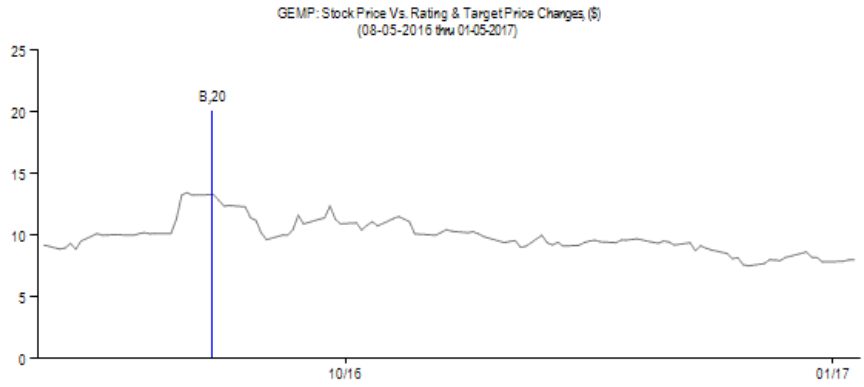

3 Year Rating Change History

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**

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			Investment Banking	Brokerage
Strong Buy (SB)	Expected to significantly outperform the sector over 12 months.	2.50%	2.50%	0.00%
Buy (B)	Expected to outperform the sector average over 12 months.	57.50%	27.50%	2.50%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	5.00%	0.00%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	5.00%	0.00%	0.00%

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Pfizer (PFE – Not Rated)
The Medicines Company (MDCO – Not Rated)
Esperion (ESPR - Not Rated)

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