

Gemphire Therapeutics (GEMP – \$9.25)

With Recent Raise Gemcabene Joins the NASH Race

GEMP reported their 4Q16 last night after the close roughly in-line with our expectations, however we don't see GEMP as an earnings story at this time. On 3/10/17 they announced that they completed a private placement for gross proceeds of ~\$12.5M. This raise will allow GEMP to fund their AZURE-1 Phase 2 trial in non-alcoholic steatohepatitis (NASH) patients. As a reminder, on 1/9/17, GEMP announced positive results in their NASH proof-of-concept (POC) pre-clinical study as gemcabene prevented liver disease progression, significantly lowered liver NAFLD activity score (NAS), reduced progression of fibrosis, as well as gene expressions and plasma markers related to inflammation. Although gemcabene is in early trials, it's hard to overstate the size of the NASH market (~8M people in US) and the appetite for acquisitions from large pharma, which is fairly pronounced in the space. GEMP is also targeting the very large cardiovascular disease (CVD) market of ~14M people in the US, and we were encouraged by their January positive interim results for gemcabene in their COBALT-1 lipid-lowering Phase 2b study. This study showed an additional 28% lowering of LDL-C at 8 weeks in homozygous familial hypercholesterolemia (HoFH) patients on maximally tolerated statin therapy, with an exceptionally clean adverse event (AE) profile. With NASH being added on to an already long list of catalysts in 2017, GEMP is one of the most compelling opportunities in our coverage space. We reiterate our Buy rating and our \$20 PT.

- **NASH money has arrived, let the clinical trials begin.** By adding ~\$12.5M to the ~\$24M cash on the balance sheet (as of 12/31/16), GEMP has the green light to begin their Phase 2 AZURE-1 trial in NASH in 2H17 with 81 patients split in 3 arms of 300mg, 600mg, and placebo. Top line data expected in 2H18.
- **Catalysts packed 2017.** With COBALT full data read out expected in June, ROYAL data in ASCVD in 3Q17 and INDIGO for SHTG in 4Q17 (see Figure 2 on next page for clinical trial timeline), 2017 is catalyst filled.
- **NASH is an acquisitive space.** 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.
- **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	(0.95)	(1.08)	(0.87)	(0.94)	(3.80)	NA
FY-17E	(0.75)	(0.73)	(0.57)	(0.53)	(2.55)	NA
FY-16	(0.61)	(0.38)	(0.47)	(0.68)	(2.51)	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 (03/15/2017)	\$9.25
52-Week High (08/31/2016)	\$13.98
52-Week Low (12/13/2016)	\$7.25
Market Cap. (MM)	\$857
Shares Out. (MM)	9.3

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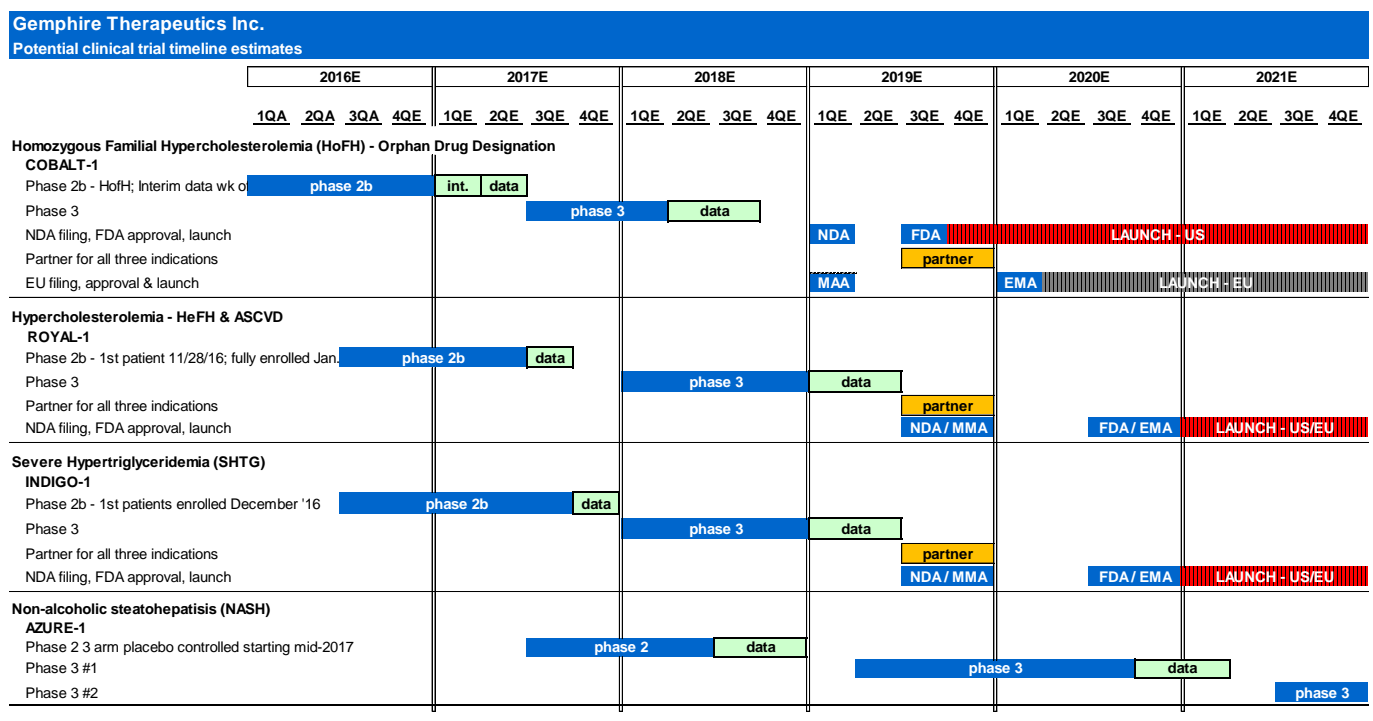
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Figure 1: Valuation

Sum-of-the-parts valuation		
Segment	Valuation (000's)	Per share value
Gemcabene	\$263,426	\$18.00
Cash (end of '16E)	\$32,103	\$2.00
	\$295,529	\$20.00
2017 fully diluted shares out (000)		14,445

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)	2016A				2016A Year	2017E				2017E Year
	1QA	2QA	3QA	4QA		1QE	2QE	3QE	4QE	
SG&A	1,050	1,051	1,066	1,489	5,956	2,000	2,000	1,750	1,750	7,500
R&D	1,176	789	1,769	4,839	8,740	6,000	6,100	5,000	5,000	22,100
Acqrd IPR&D					0					0
Operating income/(loss)	(2,226)	(1,840)	(2,835)	(6,328)	(14,696)	(8,000)	(8,100)	(6,750)	(6,750)	(29,600)
Interest (exp) income	127	449	(476)	14	110	50	50	50	50	200
Conv note extinguish					0					0
Other	(4)				(4)					0
Total other loss	123	449	(476)	14	110	50	50	50	50	200
Adj-Net income/(loss)	(2,103)	(1,391)	(3,311)	(6,314)	(14,586)	(7,950)	(8,050)	(6,700)	(6,700)	(29,400)
Share based comp			567	900	1,467					
Series A convert premium	(149)	(150)	(67)		(366)					
Other convert premium										
NI/(loss) as reported	(2,252)	(1,541)	(3,945)	(7,214)	(16,419)					
Adj-EPS ex-non-cash	(\$0.61)	(\$0.38)	(\$0.47)	(\$0.68)	(\$2.51)	(\$0.75)	(\$0.73)	(\$0.57)	(\$0.53)	(\$2.55)
EPS as reported	(\$0.65)	(\$0.42)	(\$0.56)	(\$0.78)	(\$2.83)					
Shares out (000)	3,469	3,627	6,984	9,264	5,809	10,588	11,088	11,838	12,588	11,526
Fully diluted shares (000)	5,567	6,394	9,123	11,514	8,150	13,788	14,288	15,038	15,788	14,726

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

Figure 4: Annual Income Statement

Gemphire							
Annual income statement							
(\$000's except per share)	2016A	2017E	2018E	2019E	2020E	2021E	Comments
Revenues							
Gemcabene royalty				\$19	\$124	\$40,775	HoFH launch 4Q19, royalties other indications 2021
Total sales				\$19	\$124	\$40,775	Royalties from partner
SG&A	5,956	7,500	8,000	12,000	18,000	22,250	
R&D	8,740	22,100	52,500	55,250	53,500	53,500	
Operating income/(loss)	(14,696)	(29,600)	(60,500)	(67,231)	(71,376)	(34,976)	
Interest expense	110	200	300	300	400	400	
Total other loss	110	200	300	300	400	400	
Adj-Net income/(loss)	(14,586)	(29,400)	(60,200)	(66,931)	(70,976)	(34,576)	
Series A convert premium	(366)	0	0	0	0	0	
NI/(loss) as reported	(16,419)	0	0	0	0	0	
Adj-EPS ex-non-cash	(\$2.51)	(\$2.55)	(\$3.80)	(\$3.00)	(\$2.90)	(\$1.20)	
EPS as reported	(\$2.83)						
Shares out (000)	5,809	11,526	15,838	22,338	24,463	28,838	
Fully diluted shares (000)	8,150	14,726	19,038	25,738	27,963	32,338	
Cash balance	\$24,033	\$4,585	\$25,880	\$120,589	\$50,178	\$16,352	multiple raises

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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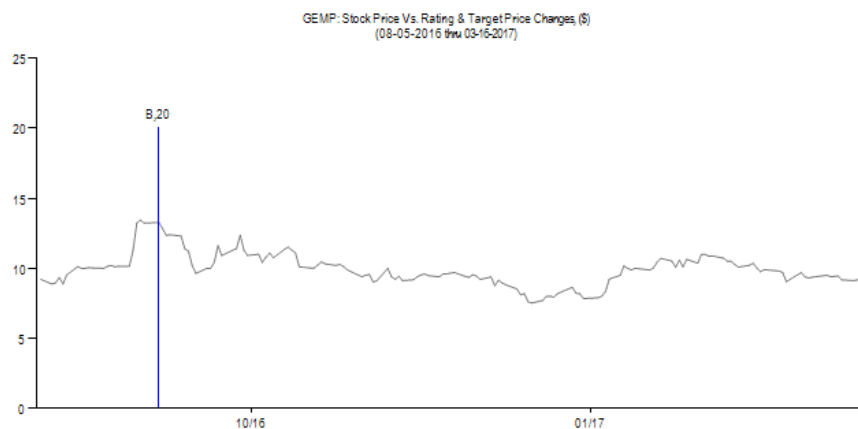
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Rating and Price Target Change History



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.	60.98%	26.83%	2.44%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	2.44%	0.00%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	4.88%	0.00%	0.00%

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