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EQUITY RESEARCH
Company Report

April 4, 2017

Evoke Pharma (EVOK - $3.09)

Healthcare/Biotechnology

Positive Meeting with the FDA Demonstrates Efficient Execution in Moving Gimoti Closer to NDA Filing

Ticker:	**EVOK**
Rating:	**Buy**
Price Target:	**$8.00**

This morning, EVOK reported that the recent meeting with the FDA has helped the company finalize the details for carrying out the upcoming Gimoti bio-equivalency PK clinical study before potentially moving Gimoti into filing.

- **Details.** EVOK recently had a positive Type A meeting with the FDA for the design of the upcoming Gimoti bio-equivalency PK trial, and the company walked away with needed information to carry out the trial later this year with results likely available in 2H17. The meeting discussed issues related to the structure of the study, population, and overall study design. The objective of the PK study is to determine a Gimoti dose that would-be bio-equivalent to that of the oral metoclopramide (10mg Reglan tablet) in healthy volunteers. As such, the dose of the final version of Gimoti that would be submitted for approval could vary slightly from that used in the prior Phase III (METO IN-003) clinical setting. We also believe some of the information that was gained from the Phase III trial, such as QT/QTc safety data, and female patient or modest/severe patient, could be incorporated into the final Gimoti package. Together, we believe the company is currently in the processes of completing trial material preparations and CRO assessment before starting the study, which we believe could be in the mid-year timeframe. Should the PK study be positive, EVOK could file a NDA in late 4Q17 or early 2018. Additionally, EVOK will participate in the upcoming Digestive Disease Week conference (May 6-9), with a late breaker presentation (by Dr. Richard McCallum of Texas Tech University) and also engage KOLs and members from the industry and clinical community for increasing the exposure of Gimoti.
- **Implications.** We view the positive FDA meeting as a testimony to EVOK management's timely execution for accomplishing the necessary steps for advancing Gimoti toward a NDA filing. The overall timing for the next trial, data readout, and potential filing is on-track with our expectation; and we view these events could be the next sets of catalysts for EVOK shares.
- **Action.** We are reiterating our Buy rating and $8 target price based on our peer comparable, cash driven NPV and forward price/sales analyses. Gimoti, in our opinion, could be an important treatment option for modest/severe diabetic gastroparesis fulfilling the unmet need.

Trading Data:

Last Price (4/3/2017)	$3.09
52–Week High (7/13/2016)	$11.11
52–Week Low (11/10/2016)	$1.35
Market Cap. (MM)	$50
Shares Out. (MM)	9.338

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-17E	-0.17	-0.16	-0.20	-0.25	-0.79	NM
FY-16A	-0.45	-0.41	-0.29	-0.12	-1.15	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

Source: Laidlaw & Company estimates

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Anticipated Milestones in 2017 and Beyond

Product	Indication	Event	Timing	Importance
Gimoti (EVK-001)	Diabetic gastroparesis	Start Phase I PK study vs. Reglan (10 mg tablet)	**Mid-2017**	***
		Complete Phase I PK study	**2H17**	***
		Report PK study results	**2H17**	***
		Potential NDA filing	**4Q17/1Q18**	****
		Potential FDA approval decision	**2H18**	*****

***** / ***** 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 Gimoti has demonstrated promising efficacy and a satisfactory safety profile from parts of the Phase III study in diabetic gastroparesis; there is no assurance that the upcoming PK clinical study can demonstrate efficacy and safety profiles satisfactory enough along with part of the Phase III study results for gaining clinical approval. Given the clinical study successes are the biggest near-term hurdle to be overcome before Gimoti 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 Gimoti are more modest relative to Phase III studies of other biotech companies.

Gimoti may not reach anticipated sales. Assuming Gimoti receives approval and is commercialized, the sales potential could fall short of our forecasts. It is difficult to project accurately the sales potential of Gimoti in gastroparesis given that the market is relatively mature and is dominated by generic products. The assumption is that Gimoti 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 Gimoti vs. oral metoclopramide with a superior outcome could also slow down the initial market penetration.

Lack of diversified product portfolio increases risk if Gimoti 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 Gimoti 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 Gimoti 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)	2015	2016	1Q17E	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E	2020E	2021E	2022E
Revenue												
EVK-001 sales	0	0		-	-	-	0	0	15,536	32,129	51,172	85,954
Product royalty revenue	0	0	-	-	-	-	0	0	0	0	0	0
Total revenue	0	0	-	-	-	-	0	0	15,536	32,129	51,172	85,954
Costs of goods	0	0					0	0	1,398	2,892	4,605	7,736
Research and development	8,154	6,952	1,577	1,719	2,097	3,041	8,435	7,169	7,241	6,662	4,996	3,248
General and administrative	3,664	3,593	855	864	898	943	3,561	3,881	4,230	4,569	4,889	5,231
Marketing and sales	0	0	0	0	0	0	0	0	23,100	24,255	24,983	25,732
Total Operating Expenses	11,818	10,544	2,432	2,583	2,996	3,984	11,995	11,050	35,970	38,377	39,473	41,946
Operating Incomes (losses)	(11,818)	(10,544)	(2,432)	(2,583)	(2,996)	(3,984)	(11,995)	(11,050)	(20,434)	(6,248)	11,699	44,008
Other expense		(145)	-	-	-	-	0	0	0	0	0	0
Interest income	5	0	-	-	-	-	0	0	0	0	0	0
Interest expense	(307)	(123)	-	-	-	-	0	0	0	0	0	0
Financing costs related to warrant liability		(534)	-	-	-	-	0	0	0	0	0	0
Change in fair value of warrant liability	0	598	(100)	100	(100)	101	1	100	100	100	100	100
Total Other Income, net	(302)	(205)	(100)	100	(100)	101	1	100	100	100	100	100
Income before tax	(12,120)	(10,749)	(2,532)	(2,483)	(3,096)	(3,883)	(11,994)	(10,950)	(20,334)	(6,148)	11,799	44,108
Tax Rate								32%	32%	32%	35%	35%
Tax	0	0	-	-	-	-	0	3,504	6,507	1,967	(4,130)	(15,438)
Net Income (Loss)	(12,120)	(10,749)	(2,532)	(2,483)	(3,096)	(3,883)	(11,994)	(7,446)	(13,827)	(4,181)	7,669	28,670
Net Income (Loss) Applicable to Common Shareholders	(12,120)	(10,749)	(2,532)	(2,483)	(3,096)	(3,883)	(11,994)	(7,446)	(13,827)	(4,181)	7,669	28,670
Net Earnings (Losses) Per Share—Basic and Diluted	($1.87)	($1.15)	($0.17)	($0.16)	($0.20)	($0.25)	($0.79)	($0.43)	($0.76)	($0.22)	$0.39	$1.42
Shares outstanding—basic and diluted	6,486	9,338	15,080	15,130	15,180	15,230	15,155	17,155	18,155	19,155	19,655	20,155
	6,486	9,338	15,080	15,130	15,180	15,230	15,155	17,155	18,155	19,155	19,655	20,155
Margin Analysis (% of Sales/Revenue)												
Costs of goods							9%	9%	9%	9%	9%	9%
R&D	NA	NA	NA	NA	NA	NA	NA	NA	NA	21%	10%	4%
MG&A	NA	NA	NA	NA	NA	NA	NA	NA	NA	90%	58%	36%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	NA	-19%	23%	51%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	NA	-13%	15%	33%
Financial Indicator Growth Analysis (YoY%)												
Total Revenue	NA	NA	NA	NA	NA	NA	NA	NA	NA	107%	59%	68%
R&D	-18%	-15%	-81%	-18%	57%	102%	21%	-15%	1%	-8%	-25%	-35%
SG&A	16%	-2%	-77%	8%	8%	15%	-1%	9%	9%	8%	7%	7%
Marketing and sales	NA	NA					NA	5%	6%	5%	3%	3%
Operating Loss	-10%	-11%	-79%	-11%	38%	71%	14%	-8%	85%	-69%	-287%	276%
Total Other Income, net	209%	-32%	-67%	-238%	-88%	-87%	-100%	9900%	0%	0%	0%	0%
Pretax Income	-9%	-11%	-79%	-16%	2%	154%	12%	-9%	86%	-70%	-292%	274%
Net Income	-9%	-11%	-79%	-16%	2%	154%	12%	-38%	86%	-70%	-283%	274%
EPS	-15%	-38%	-91%	-60%	-28%	105%	-31%	-45%	75%	-71%	-279%	265%

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

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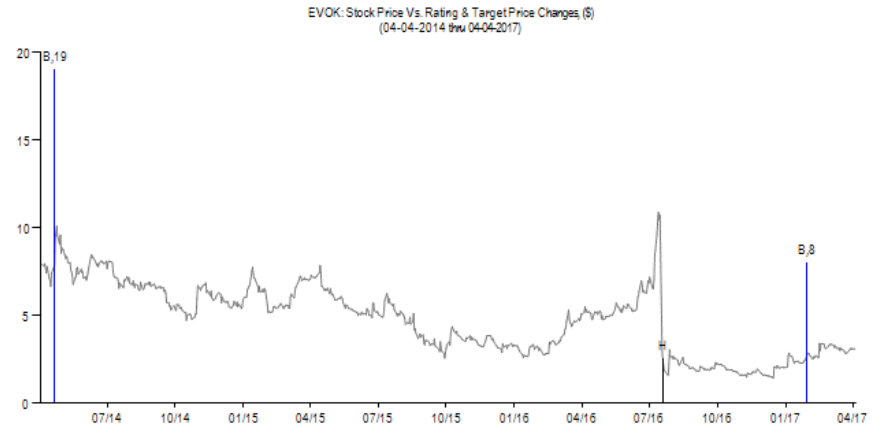

3 Year Rating Change History

Date	Rating	Closing Price ($)
04/22/2...	Buy (B)	9.29
07/19/2...	Hold (H)	2.47
01/30/2...	Buy (B)	2.85

3 Year Price Change History

Date	Target Price ($)	Closing Price, ($)
04/22/2...	19.00	9.29
07/19/2...		2.47
01/30/2...	8.00	2.85

Source: Laidlaw & Company **Created by: Blue-Compass.net**

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			Investment Banking	Brokerage
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Buy (B)	Expected to outperform the sector average over 12 months.	65.12%	30.23%	2.33%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	2.33%	0.00%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	4.65%	0.00%	0.00%

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