

## Gemphire Therapeutics (GEMP – \$10.98)

### Stage Is Set, Bring on the Catalysts

While still not an earnings story at this point, GEMP recently reported their 1Q17 roughly in-line with our estimates as they came in with an EPS of (\$0.69) vs our estimated (\$0.75). As a reminder, on 3/10/17, GEMP raised \$12.5M in a private placement in order to fund their AZURE-1 Phase 2 trial in non-alcoholic steatohepatitis (NASH). GEMP reiterated their intention to begin this trial in 2H17 followed by top-line data read-out in 2H18. Although still an early program in an increasingly crowded field, we find it difficult to overstate the M&A appetite from large pharma as combination therapy of diverse mechanisms of action (MOA) seem to be the treatment approach of choice in the medical community. In addition to the impressive POC pre-clinical data advanced by GEMP (full data publication expected 2H17), we are encouraged by the remarkable safety (no DDI) of gemcabene to date in a collection of 18 trials (11 Phase 1 and 7 Phase 2) in 895 patients. Following positive interim data in January, we still expect COBALT-1 lipid lowering Phase 2b data in June for HOFH patients on max. tolerated statins; ROYAL data in HeFH and ASCVD in 3Q17 and INDIGO for SHTG in 1Q18. Needless to say, gemcabene has many shots on goal with many exciting data points in two very large markets (NASH and CVD) in the near term. We reiterate our Buy rating and our \$20 PT.

- **Data is the story in 2017.** As mentioned previously, GEMP expects Phase 2b data for COBALT-1 in HOFH patients in June, after successful interim look in 1Q17. We believe this data could represent a good read-through for the following Phase 2b data from the ROYAL-1 trial for HeFH and ASCVD expected to read out shortly thereafter in 3Q17. AZURE-1 for NASH should initiate in 2H17 with data read out in 2H18 and finally, INDIGO-1 Phase 2b should read out in 1Q18, which represents a slight push back from prior 4Q17 due to enrolment pace. We are also looking forward to POC pre-clinical NASH data publication in 2H17 to evaluate gemcabene as a potential backbone for combination therapy.
- **Hard to overstate the size of the markets targeted by gemcabene.** NASH represents ~7M patients in the US while CVD covers ~14M in the US alone.
- **Reiterate Buy, \$20 PT.** Our PT is based on a sum-of-the-parts with gemcabene worth \$19/share and cash (end'17) and tech value \$1/share.

#### Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
<b>FY-18E</b>	(1.04)	(1.18)	(0.92)	(0.99)	(4.08)	NA
<b>FY-17E</b>	(0.69)A	(0.80)	(0.62)	(0.58)	(2.68)	NA
<b>FY-16</b>	(0.61)	(0.38)	(0.47)	(0.68)	(2.22)	NA
<b>FY-15</b>	NA	NA	NA	NA	(3.14)	NA

Source: Company data and Laidlaw & Company estimates

#### Healthcare/Biotechnology

Ticker:	<b>GEMP</b>
Rating:	<b>Buy</b>
Price Target:	<b>\$20.00</b>

#### Trading Data:

Last Price (05/09/2017)	\$10.98
52-Week High (08/31/2016)	\$13.98
52-Week Low (01/23/2017)	\$10.51
Market Cap. (MM)	\$116.4
Shares Out. (MM)	10.6

#### Analyst

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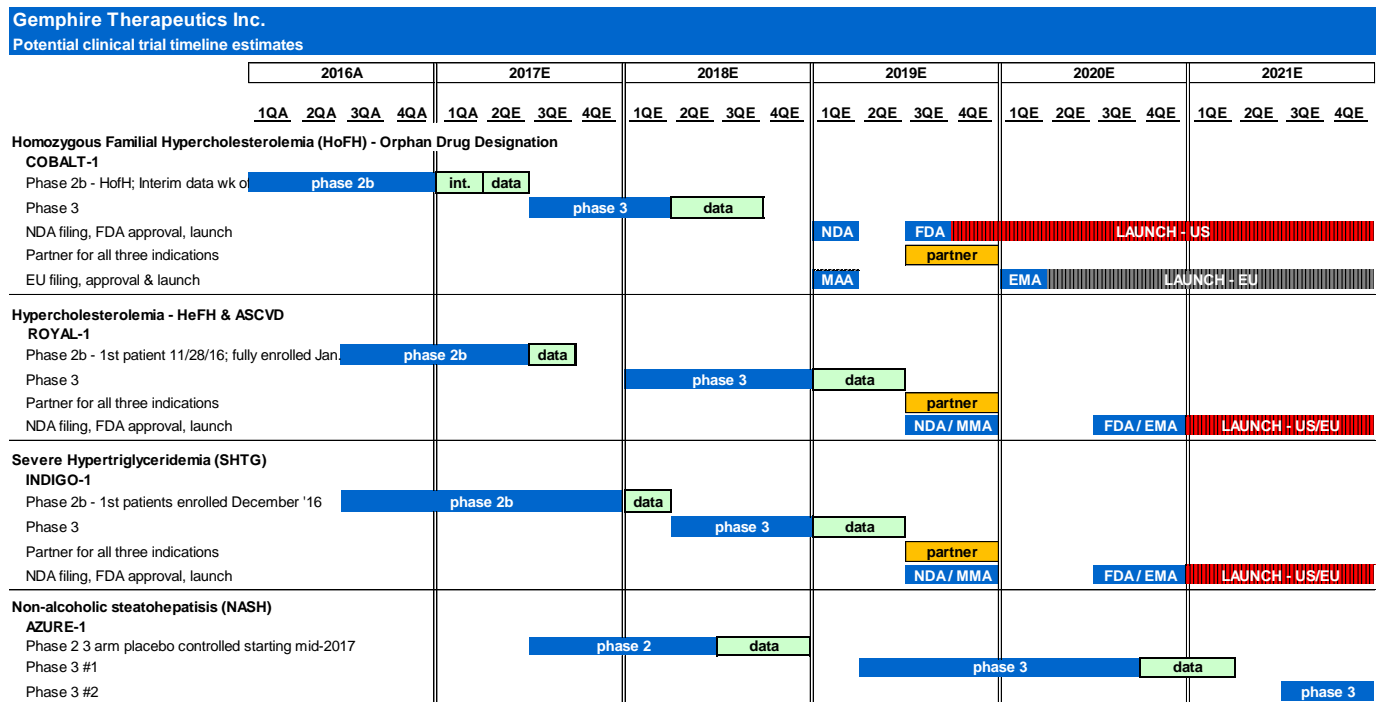
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Figure 1: Valuation

Sum-of-the-parts valuation		
Segment	Valuation (000's)	Per share value
Gemcabene	\$256,307	\$19.00
Cash (end of '16E)	\$13,979	\$1.00
	\$270,286	<b>\$20.00</b>
2017 fully diluted shares out (000)		13,659

Source: Laidlaw & Company estimates.

Figure 2: Clinical trials timeline



Source: Company reports; Laidlaw & Company estimates.

Figure 3: Quarterly Income Statement

<b>Gemphire</b>										
<b>Quarterly income statement</b>										
(\$000's except per share)	2016A				2016A Year	2017E				2017E Year
	1QA	2QA	3QA	4QA		1QA	2QE	3QE	4QE	
SG&A	1,050	1,051	1,066	1,489	4,790	1,623	2,000	1,750	1,750	7,123
R&D	1,176	789	1,769	4,839	8,188	4,980	6,100	5,000	5,000	21,080
Acqrd IPR&D					0					0
<b>Operating income/(loss)</b>	<b>(2,226)</b>	<b>(1,840)</b>	<b>(2,835)</b>	<b>(6,328)</b>	<b>(12,978)</b>	<b>(6,603)</b>	<b>(8,100)</b>	<b>(6,750)</b>	<b>(6,750)</b>	<b>(28,203)</b>
Interest (exp) income	127	449	(476)	14	114	7	50	50	50	157
Conv note extinguish					0					0
Other	(4)				(4)					0
<b>Total other loss</b>	<b>123</b>	<b>449</b>	<b>(476)</b>	<b>14</b>	<b>110</b>	<b>7</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>157</b>
<b>Adj-Net income/(loss)</b>	<b>(2,103)</b>	<b>(1,391)</b>	<b>(3,311)</b>	<b>(6,314)</b>	<b>(12,868)</b>	<b>(6,596)</b>	<b>(8,050)</b>	<b>(6,700)</b>	<b>(6,700)</b>	<b>(28,046)</b>
Share based comp			567	900	1,718	900				
Series A convert premium	(149)	(150)	(67)		(366)					
Other convert premium										
<b>NI/(loss) as reported</b>	<b>(2,252)</b>	<b>(1,541)</b>	<b>(3,945)</b>	<b>(7,214)</b>	<b>(14,952)</b>	<b>(7,496)</b>				
<b>Adj-EPS ex-non-cash</b>	<b>(\$0.61)</b>	<b>(\$0.38)</b>	<b>(\$0.47)</b>	<b>(\$0.68)</b>	<b>(\$2.22)</b>	<b>(\$0.69)</b>	<b>(\$0.80)</b>	<b>(\$0.62)</b>	<b>(\$0.58)</b>	<b>(\$2.68)</b>
<b>EPS as reported</b>	<b>(\$0.65)</b>	<b>(\$0.42)</b>	<b>(\$0.56)</b>	<b>(\$0.78)</b>	<b>(\$2.57)</b>	<b>(\$0.79)</b>				
Shares out (000)	3,469	3,627	6,984	9,264	5,809	9,521	10,021	10,771	11,521	10,459
Fully diluted shares (000)	5,567	6,394	9,123	11,514	8,150	12,721	13,221	13,971	14,721	13,659

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

Figure 4: Annual Income Statement

<b>Gemphire</b>						
<b>Annual income statement</b>						
(\$000's except per share)	<b>2016A</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
<b>Revenues</b>						
Gemcabene royalty				\$19	\$124	\$40,775
<b>Total sales</b>				<b>\$19</b>	<b>\$124</b>	<b>\$40,775</b>
SG&A	4,790	7,123	8,000	12,000	18,000	22,250
R&D	8,188	21,080	52,500	55,250	53,500	53,500
<b>Operating income/(loss)</b>	<b>(12,978)</b>	<b>(28,203)</b>	<b>(60,500)</b>	<b>(67,231)</b>	<b>(71,376)</b>	<b>(34,976)</b>
Interest expense	114	157	300	300	400	400
<b>Total other loss</b>	<b>110</b>	<b>157</b>	<b>300</b>	<b>300</b>	<b>400</b>	<b>400</b>
<b>Adj-Net income/(loss)</b>	<b>(12,868)</b>	<b>(28,046)</b>	<b>(60,200)</b>	<b>(66,931)</b>	<b>(70,976)</b>	<b>(34,576)</b>
Series A convert premium	(366)	0	0	0	0	0
<b>NI/(loss) as reported</b>	<b>(14,952)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Adj-EPS ex-non-cash</b>	<b>(\$2.22)</b>	<b>(\$2.68)</b>	<b>(\$4.08)</b>	<b>(\$3.15)</b>	<b>(\$3.03)</b>	<b>(\$1.25)</b>
<b>EPS as reported</b>	<b>(\$2.57)</b>					
Shares out (000)	5,809	10,459	14,771	21,271	23,396	27,771
Fully diluted shares (000)	8,150	13,659	17,971	24,671	26,896	31,271

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

## Major risks

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**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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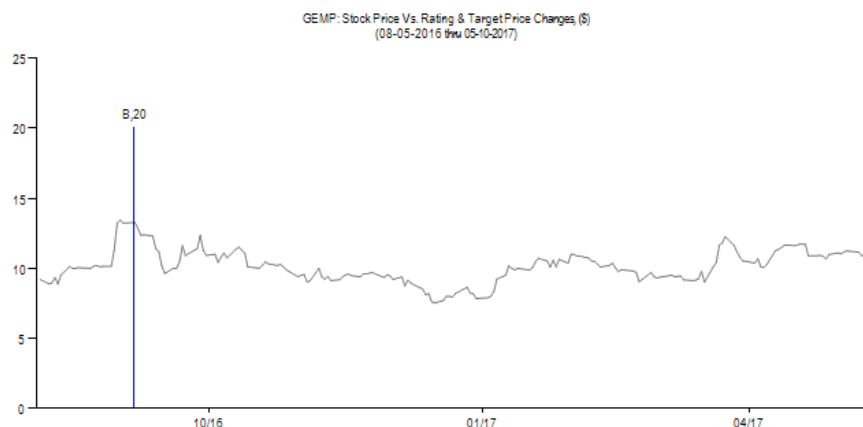
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Laidlaw & Company has received compensation from the subject company for investment banking services in the past 12 months and expects to receive or intends to seek compensation for investment banking services from the company in the next three months

### 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
<b>Strong Buy (SB)</b>	Expected to significantly outperform the sector over 12 months.	2.27%	2.27%	0.00%
<b>Buy (B)</b>	Expected to outperform the sector average over 12 months.	61.36%	29.55%	2.27%
<b>Hold (H)</b>	Expected returns to be in line with the sector average over 12 months.	2.27%	0.00%	0.00%
<b>Sell (S)</b>	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

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