

Viking Therapeutics (VKTX - \$1.38)

1Q17: The First Major Event of Investor Focus is Around the Corner

Yesterday after the market close, VKTX reported 1Q17 financial results with a net loss of (\$5.2MM) vs. Laidlaw (\$4.5MM) and the Street (\$4.1MM) estimates. Net loss/share was (\$0.23) vs. (\$0.19) and (\$0.17) for Laidlaw and the Street. VKTX ended 1Q17 with \$12.3MM cash and with additional financial resources, sufficient to support operations into 1H18, in our opinion.

- VK5211 in post hip fracture surgery Phase II nearing completion.** Patient enrollment of the Phase II study (n=120) is approaching completion with top-line results that could be available mid/late 3Q17. Primary endpoint is changes of lean body mass after 12 weeks of treatment. Management suggested that the 1mg and 2mg group is 80% and 90% powered, respectively for 1kg and 1.5kg lean body mass changes. Should the outcome be positive, we believe VKTX will have more engaged discussions with the FDA for the next step development, including endpoint and other expectations by the agency. VK5211 could potentially be the trailblazer that will have advanced into the Phase III trial of this indication.
- VK2809 program updates.** For VK2809 in hypercholesterolemia and fatty liver disease Phase II trial (n=80), patient enrollment is continuing and the top-line results could be available in 4Q17/early 1Q18, which is in-line with our estimate. Primary endpoint is potential LDL-C level reduction measured after 12 weeks of treatment and 4-week follow-up. A slightly modified patient enrollment criteria amendment was submitted to the FDA for potentially facilitating a more rapid patient enrollment. A VK2809 in glycogen storage disease type Ia (GSD-Ia) POC Phase Ib trial could start in 4Q17. VK2809 in GSD-Ia preclinical data showed reductions of liver triglycerides (60%) and liver weight (30%). These data are scheduled to be presented at the International Congress of Inborn Errors of Metabolism meeting (Sep. 5-8).
- VK0214 in X-ALD updates.** The data of the second ongoing preclinical study evaluating the effects of prolonged exposure (>6 weeks) of VK0214 and its impact on very long chain fatty acids (VLCFA) could be available in 2Q17. Data could include durability, tolerability, and effects on key biomarkers. The outcome could help VKTX to determine the next step for the development.
- Action.** We are reiterating our Buy rating and target price of \$10. Our valuation is based on peer comparable, probability adjusted DCF and sum-of-the-parts analyses. Outcomes of the two POC clinical studies potentially available in 2017, if positive, could increase VKTX share value significantly, in our opinion.

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-17E	-0.23A	-0.23	-0.25	-0.25	-0.97	N.A.
FY-16A	-0.40	-0.22	-0.20	-0.18	-0.90	N.A.
FY-15A	-1.40	-1.07	-0.53	-0.56	-3.68	N.A.
FY-14A	-0.07	3.88	-3.01	-2.01	-5.23	N.A.

Source: Laidlaw & Company estimates

Healthcare/Biotechnology

Ticker:	VKTX
Rating:	Buy
Price Target:	\$10.00

Trading Data:

Last Price (5/10/2017)	\$1.38
52-Week High (1/9/2017)	\$1.70
52-Week Low (12/1/2016)	\$0.90
Market Cap. (MM)	\$33
Shares Out. (MM)	16.278

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Anticipated milestones in 2017 and beyond

Product	Indication	Event	Timing	Importance
VK5211	Hip fracture	Report Phase IIa study results	3Q17	****
VK0214/VK2809	X-Linked Adrenoleukodystrophy (X-ALD)	Initiate Phase I POC study	Mid-17	***
		Potentially report Phase I study top-line results	Late '17/ 2018	****
VK2809	Cholesterolemia / NASH	Potentially report Phase II study results	4Q17/1Q18	****
	Glycogen storage disease type Ia (GSD Ia).	Potentially start Phase II study	4Q17	***

**** / ***** Major catalyst event that could impact share price very significantly while *** event is more informative

Source: Laidlaw & Company and company presentation

Major Risks

Risks of clinical study failure could have a major impact on VKTX share value. Despite promising aspects of the company's lead products, VK5211 in the post hip fracture surgery rehabilitation and thyroid- β agonists (VK2809 / VK0214) in X-ALD, it remains too early to predict the safety and efficacy from the two upcoming Phase I and Phase II studies. Given that clinical validation or POC for these programs has not been established, it would be critical for these studies to demonstrate a positive outcome in order to increase the asset and shareholder value. Negative results of either clinical study could potentially impair their value and have a materially negative impact on shareholder value, especially since success of each study could illustrate the value of VK5211 in hip fracture rehabilitation and thyroid- β agonists in X-ALD. Further, it remains too early to predict any potential future success of clinical trials should these programs further advance into next stage clinical stage development. In thyroid- β agonists in X-ALD, although it is possible that the drug could reduce or eliminate VLCFA, it remains too early to forecast that the drug could slow and stop the progression of symptoms to provide clinical benefits.

Product may not be approved or reach anticipated sales. Although Viking's current pipeline products have exhibited the potential to generate positive clinical outcomes from current and future trials; it remains too early to project whether any of these products would be approved by regulatory agencies. Even if the products were to enter the market, sales could be significantly below projections due to the specific product label under approval, physician consensus for prescribing the drug, changes of treatment paradigms, entrance of competitors, and possibly the changes in pricing flexibility and payer reimbursement. A revenue outlook below expectations could also negatively affect VKTX shareholder value.

Positive relationship with Ligand is important. Given that Viking is substantially dependent on technologies and drug candidates licensed from Ligand for further development, it would be important for the company to maintain a positive relationship with Ligand. If Viking loses the right to license these technologies and drug candidates or the Master License Agreement with Ligand is terminated for any reason, VKTX's ability to develop existing and new drug candidates would be harmed.

Additional financings could dilute shareholder value. Although the company currently has ~\$14MM cash, VKTX could need more financial resources going forward if they want to expand and further develop its pipeline. Should the product not receive FDA approval, or product revenue does not reach expectations; the company might need to issue new equity to raise additional cash. Under such a scenario, the share value of existing shareholders could be diluted.

Limited trading liquidity limits shareholder options. Given VKTX shares only entered the public market recently; daily trading volume and name recognition are relatively modest. With relatively illiquid trading volume, shareholders wanting to increase or reduce their positions in a volatile stock market may face constraints.

Figure 1: Income Statement

Viking Therapeutics – Income Statement													
(\$',000)	2013	2014	2015	2016	1Q17	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E	2020E	2021E
Revenue													
Product revenue	0.0	0.0	0	0	-	-	-	-	0	0	88,989	297,528	626,498
Other revenue	0.0	0.0	0	0	-	-	-	-	0	0	0	0	0
Total revenue	0.0	0.0	0	0	-	-	-	-	0	0	88,989	297,528	626,498
Costs of goods											10,679	35,703	75,180
Gross sales											78,310	261,825	551,318
Research and development	(12)	(22,223)	(6,967)	(9,000)	(3,528)	(3,687)	(3,871)	(4,142)	(15,229)	(21,168)	(23,073)	(24,919)	(26,663)
General and administrative	(89)	(1,245)	(5,030)	(4,846)	(1,441)	(1,469)	(1,528)	(1,589)	(6,027)	(6,329)	(6,645)	(6,977)	(7,326)
Marketing and sales											(31,000)	(54,250)	(59,675)
Total Operating Expenses	(101)	(23,468)	(11,996)	(13,846)	(4,969)	(5,156)	(5,399)	(5,731)	(21,256)	(27,496)	(60,718)	(86,146)	(93,664)
Operating Incomes (losses)	(101)	(23,468)	(11,996)	(13,846)	(4,969)	(5,156)	(5,399)	(5,731)	(21,256)	(27,496)	28,271	211,382	532,834
Change in fair value of accrued license fees	0	(1,822)	(9,382)	0	0	0	0	0	0	0	0	0	0
Change in fair value of debt conversion features	21	(391)	(1,043)	1,064	278	200	(130)	220	568	(500)	(500)	(500)	(500)
Amortization of debt discount	18	558	(894)	(1,788)	(431)	(432)	(432)	(432)	(1,727)	(1,727)	(1,727)	(1,727)	(1,727)
Amortization of financing costs				(139)	(98)	(45)	(45)	(45)	(233)				
Interest expense	6	71	(89)	(22)	(2)	(3)	(3)	(3)	(11)	(11)	(11)	(11)	(11)
Total other (income) expenses	45	(1,584)	(11,408)	(885)	(253)	(280)	(610)	(260)	(1,403)	(2,238)	(2,238)	(2,238)	(2,238)
Loss before tax	(146)	(21,884)	(23,404)	(14,731)	(5,222)	(5,436)	(6,009)	(5,991)	(22,659)	(25,258)	30,509	213,620	535,072
Tax	0	0	0	0	-	-	-	-	0	0	(11,288)	(79,039)	(197,977)
Net Income (Loss)	(146)	(21,884)	(23,404)	(14,731)	(5,222)	(5,436)	(6,009)	(5,991)	(22,659)	(25,258)	19,221	134,581	337,095
Unrealized gain on securities				0	(1)	1	1	1	2				
Net Income (Loss) Applicable to Common Shareholders	(146)	(21,884)	(23,404)	(14,731)	(5,222)	(5,436)	(6,009)	(5,991)	(22,659)	(25,258)	19,221	134,581	337,095
Net Earnings (Losses) Per Share—Basic	(\$0.07)	(\$5.23)	(\$3.68)	(\$0.90)	(\$0.23)	(\$0.23)	(\$0.25)	(\$0.25)	(\$0.97)	(\$0.99)	\$0.63	\$4.43	\$11.09
Net Earnings (Losses) Per Share—Diluted	(\$0.07)	(\$5.23)	(\$3.68)	(\$0.90)	(\$0.23)	(\$0.23)	(\$0.25)	(\$0.25)	(\$0.97)	(\$0.99)	\$0.63	\$4.43	\$11.09
Shares outstanding—basic	2,043	4,187	6,356	16,278	22,353	23,453	23,753	24,053	23,403	25,403	30,403	30,406	30,408
Shares outstanding—diluted	2,043	4,187	6,356	16,278	22,353	23,453	23,753	24,053	23,403	25,403	30,403	30,406	30,408
Margin Analysis (% of Sales/Revenue)													
Costs of goods											12%	12%	12%
R&D	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-26%	-8%	-4%
SG&A	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-7%	-2%	-1%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	32%	71%	85%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	22%	45%	54%
Financial Indicator Growth Analysis (YoY%)													
Total Revenue	-100%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	234%	111%
R&D	-83%	191264%	-69%	29%	88%	55%	84%	56%	69%	39%	9%	8%	7%
SG&A	119%	1292%	304%	-4%	4%	22%	32%	46%	24%	5%	5%	5%	5%
Marketing and sales												75%	10%
Operating Income (Losses)	-8%	23118%	-49%	15%	52%	44%	65%	53%	54%	29%	-203%	648%	152%
Pretax Income	32%	14864%	7%	-37%	46%	47%	58%	64%	54%	11%	-221%	600%	150%
Net Income	32%	14864%	7%	-37%	46%	47%	58%	64%	54%	11%	-176%	600%	150%
EPS	-4%	7202%	-30%	-75%	-41%	7%	26%	36%	7%	3%	-164%	600%	150%
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Source: Bloomberg LP; Company reports; Laidlaw & Company estimates

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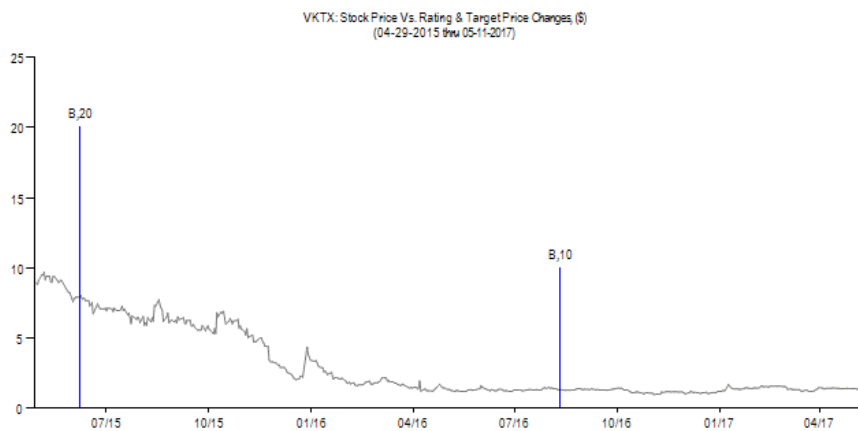
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3 Year Rating Change History

Date	Rating	Closing Price (\$)
06/08/2...	Buy (B)	8.02

3 Year Price Change History

Date	Target Price (\$)	Closing Price, (\$)
06/08/2...	20.00	8.02
08/11/2...	10.00	1.27

Source: Laidlaw & Company

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

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Ligand Pharmaceuticals (LGND – Not Rated)

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