

## Gemphire Therapeutics (GEMP – \$9.58)

### CEO Resignation, Upcoming Data Remains the Story at GEMP

Last night after the close, GEMP announced CEO Mina Sooch's resignation for personal reasons effective 5/23/17. She is temporarily being replaced by Dr. Steven Gullans who is a member of the Board of Directors and Managing Director at Excel Venture Management (>5% owner of GEMP). We had a chance to speak with management and received no guidance on a timeline for hiring a new CEO. We see how the timing of the resignation could be viewed as intriguing given the three very near-term Phase 2b data read outs. However, we still like Gemcabene's chances for positive results and potential to become an adjunct to standard of care for the ~14M patients in the US alone who are unable to reach their LDL-C or TG goal on standard statin therapy. This is because of Gemcabene's differentiated mechanism of action (MOA) and massive safety database with solid efficacy to date. We are encouraged by management reiterating that Gemcabene's clinical trial timeline is still on track as we expect COBALT-1 lipid lowering Phase 2b data in late June for HOFH patients on maximum tolerated statins; ROYAL-1 data in HeFH and ASCVD in 3Q17 and INDIGO for SHTG in 1Q18. We also anticipate start of their AZURE-1 Phase 2 trial in NASH to begin in 2H17 followed by top-line data read-out in 2H18. GEMP showed impressive data in its POC pre-clinical trial for NASH and we look forward to seeing the full data set in a publication (2H17). Although CEO resignations can be worrisome, we are encouraged by Gemcabene's development and see the recent pull back in the stock as an interesting buying opportunity. We reiterate our Buy rating and our \$20 PT.

- **CEO Sooch resigns before data read-outs, we still like Gemcabene's chances.** While timing of resignation could raise eyebrows, we see the pull-back as an interesting buying opportunity as multiple Phase 2b data read-outs are expected in the near-term. More specifically, COBALT-1 (positive interim data) is expected to read-out data late June and we believe this could represent a read-through to other trials.
- **Large markets with trial results around the corner.** With NASH representing ~7M patients in the US and CVD ~14M patients in US alone as well as three Phase 2b read-outs (see clinical trial timeline on p.2), these are exciting times at GEMP. We also look forward to seeing the full data read-out in a publication in 2H17 of their NASH poc pre-clinical trial.
- **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 (05/31/2017)	\$9.58
52-Week High (08/31/2016)	\$13.98
52-Week Low (12/13/2016)	\$7.25
Market Cap. (MM)	\$101.5
Shares Out. (MM)	10.6

#### Analyst

**Francois Brisebois, MSc**  
(857)317-5362  
fbrisebois@laidlawltd.com

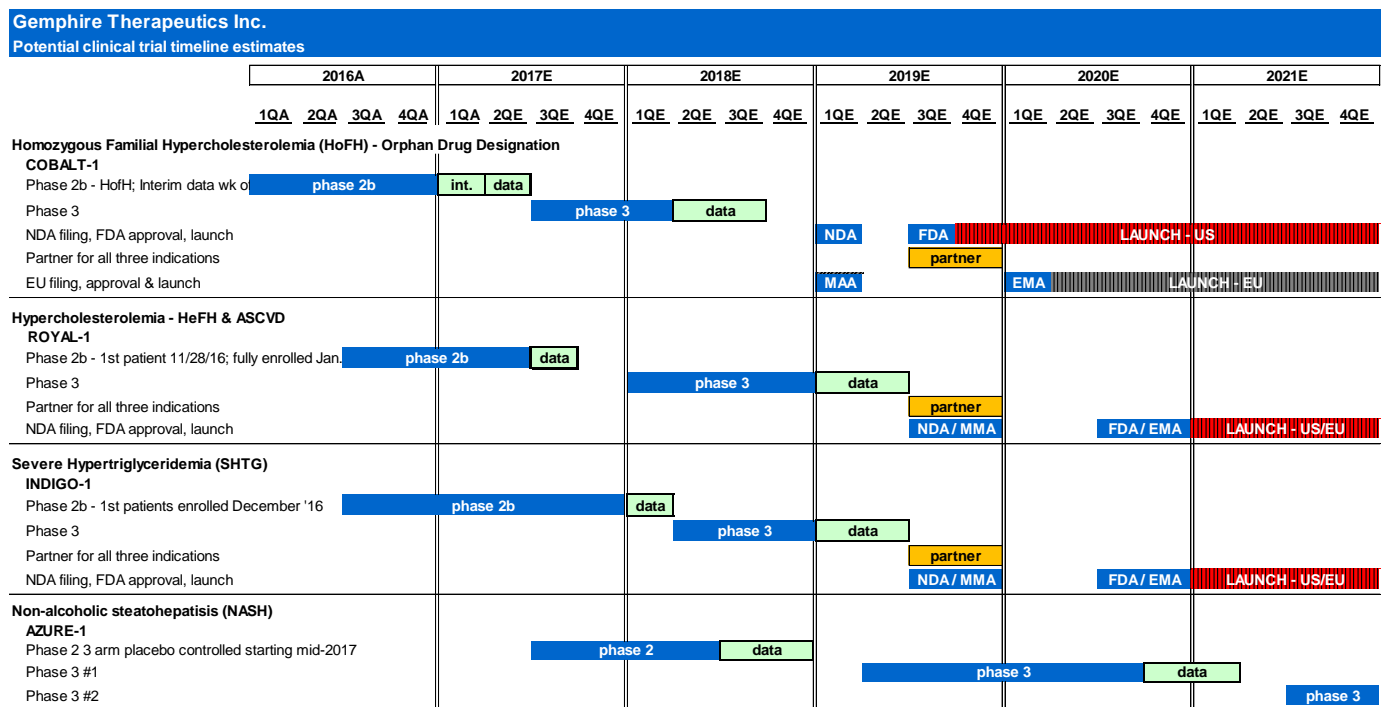
FOR ANALYST CERTIFICATION AND DISCLOSURES, PLEASE SEE DISCLOSURES SECTION AT THE END OF THIS REPORT. This report has been prepared by Laidlaw & Co (UK), Ltd. Investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. All prices are those current at the end of the previous trading session unless otherwise indicated. Prices and consensus estimates are sourced from a reliable market source

Figure 1: Valuation

Sum-of-the-parts valuation		
Segment	Valuation (000's)	Per share value
Gemcabene	\$256,307	\$19.00
Cash (end of '17E)	\$14,642	\$1.00
	\$270,949	<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)	2016A	2017E	2018E	2019E	2020E	2021E	Comments
<b>Revenues</b>							
Gemcabene royalty				\$19	\$124	\$40,775	HoFH launch 4Q19, royalties other indications 2021 <b>Royalties from partner</b>
<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 & 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.

## DISCLOSURES:

### ANALYST CERTIFICATION

The analyst responsible for the content of this report hereby certifies that the views expressed regarding the company or companies and their securities accurately represent his personal views and that no direct or indirect compensation is to be received by the analyst for any specific recommendation or views contained in this report. Neither the author of this report nor any member of his immediate family or household maintains a position in the securities mentioned in this report.

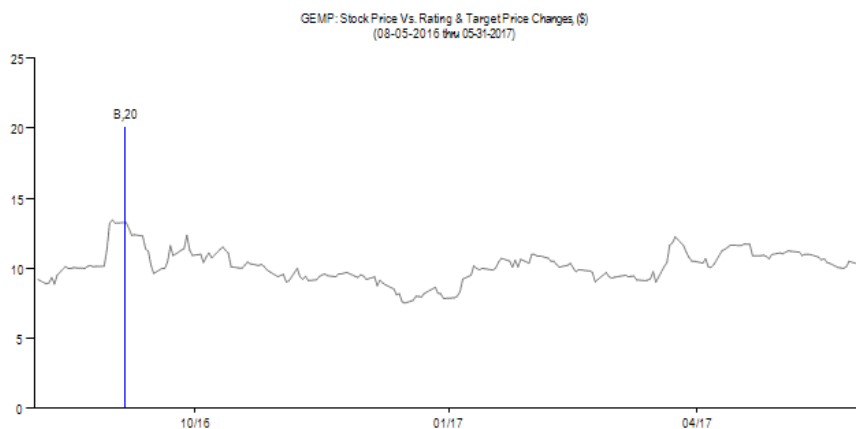
### EQUITY DISCLOSURES

For the purpose of ratings distributions, regulatory rules require the firm to assign ratings to one of three rating categories (i.e. Strong Buy/Buy-Overweight, Hold, or Underweight/Sell) regardless of a firm's own rating categories. Although the firm's ratings of Buy/Overweight, Hold, or Underweight/Sell most closely correspond to Buy, Hold and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis against the analyst sector universe of stocks. An analyst's coverage sector is comprised of companies that are engaged in similar business or share similar operating characteristics as the subject company. The analysis sector universe is a sub-sector to the analyst's coverage sector, and is compiled to assist the analyst in determining relative valuations of subject companies. The composition of an analyst's sector universe is subject to change over time as various factors, including changing market conditions occur. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12-months relative to the analyst's sector universe.

#### Additional information available upon request.

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 (\$)
09/06/12...	Buy (B )	13.28

#### 3 Year Price Change History

Date	Target Price (\$)	Closing Price, (\$)
09/06/12...	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.	0.00%	0.00%	0.00%
<b>Buy (B)</b>	Expected to outperform the sector average over 12 months.	63.64%	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%

### ADDITIONAL COMPANIES MENTIONED

### ADDITIONAL DISCLOSURES

As of the date of this report, neither the author of this report nor any member of his immediate family or household maintains an ownership position in the securities of the company (ies) mentioned in this report.

This report does not provide individually tailored investment advice and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Laidlaw & Co (UK), Ltd. recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to

purchase or participate in some or all of them. This report is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy.

Associated persons of Laidlaw & Co (UK), Ltd not involved in the preparation of this report may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned herein and may trade them in ways different from those discussed in this report. While Laidlaw & Co (UK), Ltd., prohibits analysts from receiving any compensation. Bonus or incentive based on specific recommendations for, or view of, a particular company, investors should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

With the exception of information regarding Laidlaw & Co (UK), Ltd. this report is based on public information. Laidlaw & Co (UK), Ltd makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete and it should not be relied upon as such. Any opinions expressed are subject to change and Laidlaw & Co (UK), Ltd disclaims any obligation to advise you of changes in opinions or information or any discontinuation of coverage of a subject company. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other Laidlaw & Co (UK), Ltd business areas. Laidlaw & Co (UK), Ltd associated persons conduct site visits from time to time but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices. market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

Any trademarks and service marks contained in this report are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data. This report or any portion thereof may not be reprinted, sold or redistributed without the written consent of Laidlaw & Co (UK), Ltd. This report is disseminated and available primarily electronically, and, in some cases, in printed form.

The information and opinions in this report were prepared by Laidlaw & Co (UK), Ltd. For important disclosures, please see Laidlaw & Co (UK), Ltd.'s disclosure website at [www.LaidlawLtd.com](http://www.LaidlawLtd.com), or contact your investment representative or Laidlaw & Co (UK), Ltd at 546 Fifth Ave, 5th Floor, New York, NY 10036 USA.

© 2017 Laidlaw & Co. (UK), Ltd.

**NOTES:**