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EQUITY RESEARCH
Company Report

June 29, 2017

Gemphire Therapeutics (GEMP – $12.27)

COBALT-1 Demonstrates Significant LDL-C Reduction with Impressive Safety

Healthcare/Biotechnology

Ticker:		**GEMP**
Rating:		**Buy**
Price Target:	↑	**$25.00**

Yesterday after the close, GEMP announced positive top-line results for gemcabene in their COBALT-1 lipid lowering Phase 2b study in patients with homozygous familial hypercholesterolemia (HOFH) on maximally tolerated lipid-lowering therapies (highest doses of statins and/or ezetimibe and/or PCSK9 inhibitors). With a mean baseline (n=8) LDL-C of 351 mg/dL, gemcabene lowered LDL-C by a mean of 25% (p=0.0063), 30% (p=0.0047) and 29% (p=0.0035) for the 300mg, 600mg and 900mg arms, respectively. While this is in-line with other approved HoFH treatments like Repatha (-31% LDL-C), Kynamro (-25% LDL-C) and Zetia (-21% LDL-C), we are especially encouraged with gemcabene's significantly cleaner AE profile as Kynamro and Juxtapid (-45% LDL-C) both have black box liver toxicity warnings and GI AEs. Although some might have doubted the impressive safety data reported in their interim look on 1/30/17 as the sample size was admittedly low (n=2); we view these top line efficacy and safety results as a real positive. Additionally, we continue to believe the efficacy shown in COBALT-1 could be a good proxy for the upcoming Phase 2b ROYAL-1 trial in heterozygous familial hypercholesterolemia (HeFH) and atherosclerotic cardiovascular disease (ASCVD) patients, expected to read-out in 3Q17. HoFH patients are considered "worst case" patients. With strong COBALT-1 data and many catalysts in the near term (ROYAL-1 data in 3Q17, INDIGO-1 data in 1Q18 and start of AZURE-1 NASH trial in 2H17), we believe these positive results help de-risk GEMP. We are reiterating our Buy rating raising out price target from $20 to $25.

- **Gemcabene passes first Phase 2b test with impressive safety profile.** While the positive interim COBALT-1 results reported on 1/30/17 were encouraging, we see top-line statistically significant data in all arms studied accompanied especially by a clean safety profile as a real positive for GEMP, as other products have multiple AE's and even black box liver toxicity warnings.
- **One catalyst down, many more to come.** GEMP still expects Phase 2b data for their ROYAL-1 (HeFH and ASCVD) in 3Q17, INDIGO-1 (SHTG) in 1Q18 as well as initiation of their Phase 2 AZURE-1 trial in NASH in 2H17.
- **Reiterate Buy, raising price target to $25 PT.** Our PT is based on a sum-of-the-parts with Gemcabene worth $24/share and cash (end'17) and tech value $1/share.

Trading Data:

Last Price (06/28/2017)	$12.27
52–Week High (08/31/2016)	$13.98
52–Week Low (12/13/2016)	$7.25
Market Cap. (MM)	$130.3
Shares Out. (MM)	10.6

Earnings Estimates: (per share)

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

Source: Company data and Laidlaw & Company estimates

Analyst

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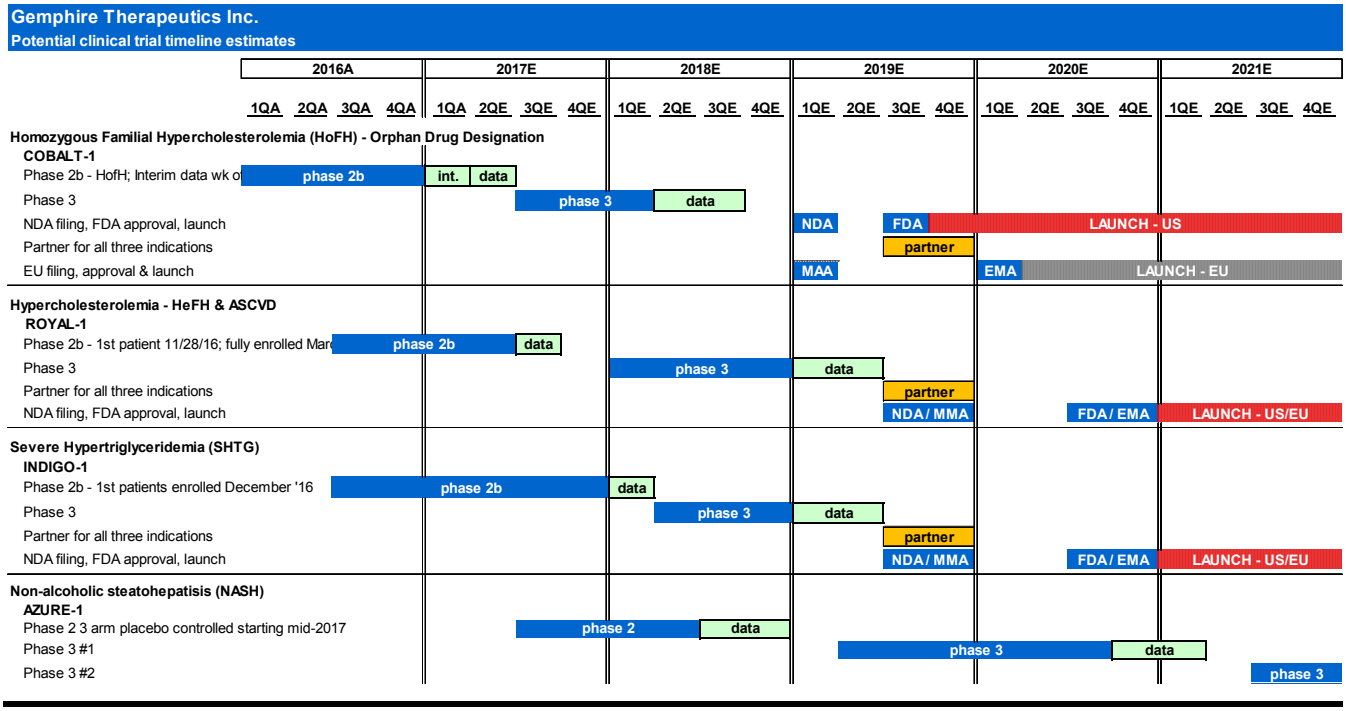
Figure 1: Valuation

Sum-of-the-parts valuation		
Segment	Valuation (000's)	Per share value
Gemcabene	$330,098	$24.00
Cash (end of '17E)	$14,642	$1.00
	$344,740	**$25.00**
2017 fully diluted shares out (000)		13,659

Source: Laidlaw & Company estimates.

Figure 2: Clinical trials timeline



Source: Company reports; Laidlaw & Company estimates.

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Figure 3: Quarterly Income Statement

Gemphire
Quarterly income statement

($000's except per share)	2016A 1QA	2016A 2QA	2016A 3QA	2016A 4QA	2016A Year	2017E 1QA	2017E 2QE	2017E 3QE	2017E 4QE	2017E Year
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
Operating income/(loss)	**(2,226)**	**(1,840)**	**(2,835)**	**(6,328)**	**(12,978)**	**(6,603)**	**(8,100)**	**(6,750)**	**(6,750)**	**(28,203)**
Interest (exp) income	127	449	(476)	14	114	7	50	50	50	157
Conv note extinguish					0					0
Other	(4)				(4)					0
Total other loss	**123**	**449**	**(476)**	**14**	**110**	**7**	**50**	**50**	**50**	**157**
Adj-Net income/(loss)	**(2,103)**	**(1,391)**	**(3,311)**	**(6,314)**	**(12,868)**	**(6,596)**	**(8,050)**	**(6,700)**	**(6,700)**	**(28,046)**
Share based comp			567	900	1,718	900				
Series A convert premium	(149)	(150)	(67)		(366)					
Other convert premium										
NI/(loss) as reported	**(2,252)**	**(1,541)**	**(3,945)**	**(7,214)**	**(14,952)**	**(7,496)**				
Adj-EPS ex-non-cash	**($0.61)**	**($0.38)**	**($0.47)**	**($0.68)**	**($2.22)**	**($0.69)**	**($0.80)**	**($0.62)**	**($0.58)**	**($2.68)**
EPS as reported	**($0.65)**	**($0.42)**	**($0.56)**	**($0.78)**	**($2.57)**	**($0.79)**				
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 & Company estimates.

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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	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	
Operating income/(loss)	**(12,978)**	**(28,203)**	**(60,500)**	**(67,231)**	**(71,376)**	**(34,976)**	
Interest expense	114	157	300	300	400	400	
Total other loss	**110**	**157**	**300**	**300**	**400**	**400**	
Adj-Net income/(loss)	**(12,868)**	**(28,046)**	**(60,200)**	**(66,931)**	**(70,976)**	**(34,576)**	
Series A convert premium	(366)	0	0	0	0	0	
NI/(loss) as reported	**(14,952)**	**0**	**0**	**0**	**0**	**0**	
Adj-EPS ex-non-cash	**($2.22)**	**($2.68)**	**($4.08)**	**($3.15)**	**($3.03)**	**($1.25)**	
EPS as reported	**($2.57)**						
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.

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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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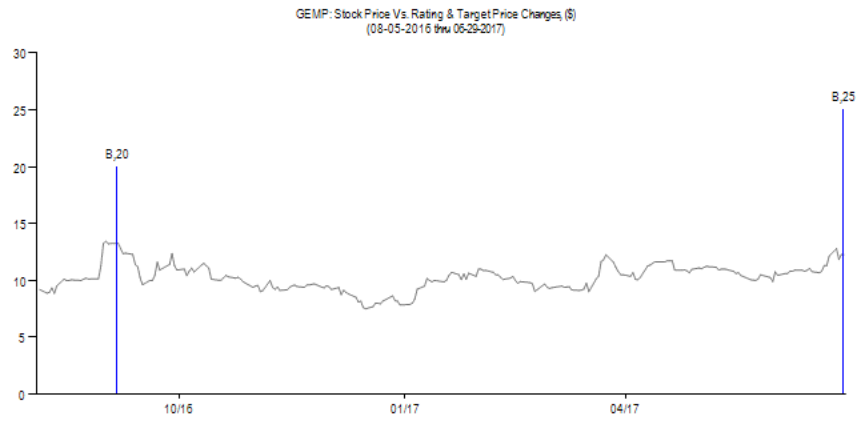
Additional information available upon request.

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 ($)
09/06/2...	Buy (B)	13.28

3 Year Price Change History

Date	Target Price ($)	Closing Price, ($)
09/06/2...	20.00	13.28
06/29/2...	25.00	12.27*

** Previous Close6/28/2017*

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.	0.00%	0.00%	0.00%
Buy (B)	Expected to outperform the sector average over 12 months.	64.44%	31.11%	2.22%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	2.22%	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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