

Gemphire Therapeutics (GEMP – \$19.49) Gemcabene Gaining Steam into Royal-1 Read-out

We recently spent time with GEMP senior management and continue to view the company as undervalued. This is especially coming off their (6/28/17) 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 PCSK-9 inhibitors). As a reminder, gemcabene 300mg, 600mg and 900mg arms lowered LDL-C by a mean of 25% (p=0.0063), 30% (p=0.0047) and 29% (p=0.0035), respectively. While COBALT-1 was open-label and had enrolled only 8 patients, we see its significant efficacy and safety as a real positive since fresh data was highly anticipated by the investing community. The medical community seemed most impressed with the percent reduction observed in LDL-R deficient subjects since Repatha had shown no effect or increase LDL for this subgroup. A recurring question in our meetings revolved around Pfizer's (PFE) decision to let gemcabene go. Management extensively detailed how PFE's decision wasn't based on efficacy but rather on a simple change in strategy during a time when LDL lowering was believed to be solved. All eyes are now set on Phase 2b ROYAL-1 data for patients with Heterozygous Familial Hypercholesterolemia (HeFH) and Atherosclerotic Cardiovascular Disease (ASCVD), which represent ~1.5M and ~7.5M patients in the US, respectively. GEMP hopes to reproduce LDL-C reduction data from their prior Phase 2 trial (1027-018) which showed 25% LDL-C lowering for the 300mg + statin group and 31% reduction in the 900mg group. We also believe ROYAL-1 will be crucial in terms of measuring gemcabene safety as COBALT-1 only had an n=8. With not many late stage cardiovascular assets out there and important data in the near-term, we still see GEMP as undervalued and reiterate our Buy rating and \$25 price target.

- **PFE might have let gemcabene go, still early to count them out of the picture.** Although once thought to be resolved, LDL-C lowering is back with a vengeance and we wouldn't be surprised to see PFE come back to reclaim gemcabene.
- **COBALT-1 done, all eyes on ROYAL-1 data this quarter.** As Phase 2b ROYAL-1 for HeFH and ASCVD is about to read-out this quarter, we still see COBALT-1's positive results as having a good proxy for upcoming data given the complexity of HoFH patients.
- **Reiterate Buy, \$25 PT.** Our PT is based on a sum-of-the-parts with Gemcabene worth \$23/share and cash (end'17) and tech value \$2/share.

Earnings Estimates: (per share)

| (Dec) | 1Q | 2Q | 3Q | 4Q | FY | P/E |
|--------|---------|--------|--------|--------|--------|-----|
| FY-18E | (1.05) | (1.18) | (0.98) | (1.05) | (4.23) | NA |
| FY-17E | (0.69)A | (0.80) | (0.63) | (0.59) | (2.70) | NA |
| FY-16 | (0.61) | (0.38) | (0.47) | (0.68) | (2.22) | NA |
| FY-15 | NA | NA | NA | NA | (3.14) | NA |

Healthcare/Biotechnology

| | |
|---------------|----------------|
| Ticker: | GEMP |
| Rating: | Buy |
| Price Target: | \$25.00 |

Trading Data:

| | |
|---------------------------|---------|
| Last Price (07/26/2017) | \$19.49 |
| 52-Week High (07/26/2017) | \$19.50 |
| 52-Week Low (12/13/2016) | \$7.25 |
| Market Cap. (MM) | \$206.6 |
| Shares Out. (MM) | 10.6 |

Analyst

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

Source: Company data and Laidlaw & Company estimates

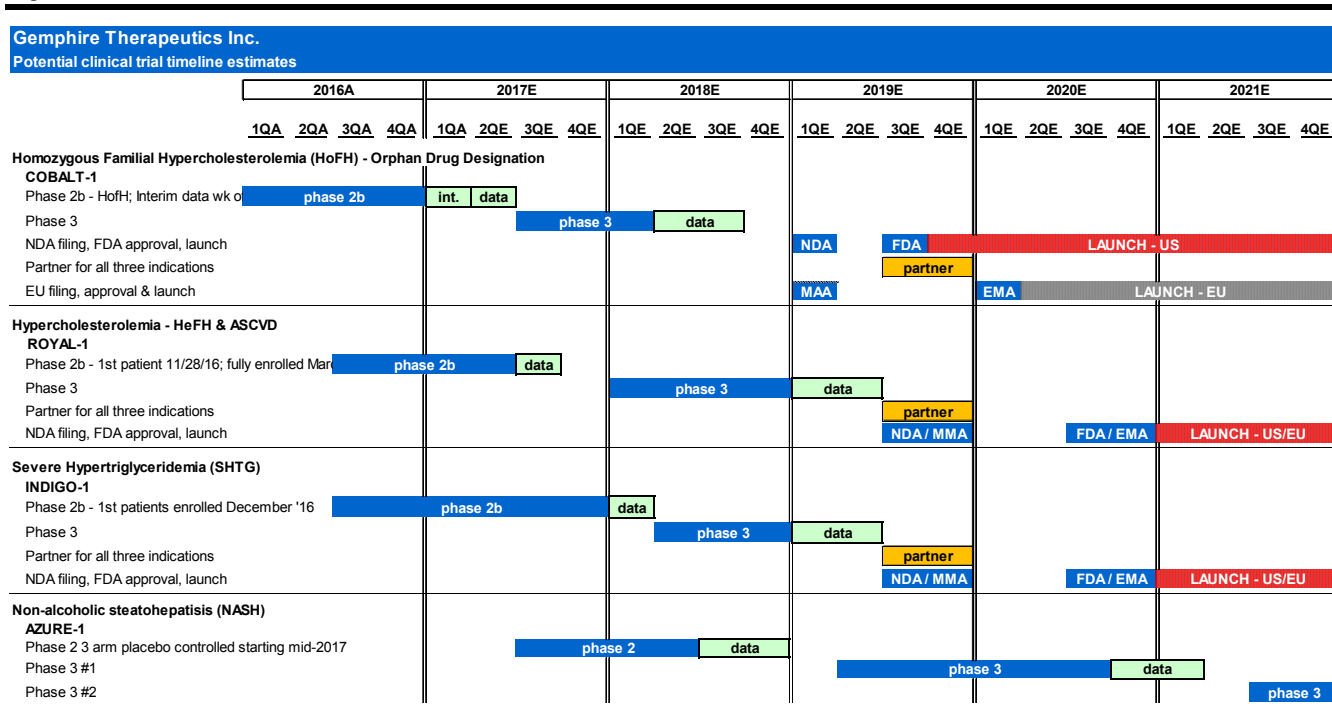
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Figure 1: Valuation

| Sum-of-the-parts valuation | | |
|-------------------------------------|-------------------|-----------------|
| Segment | Valuation (000's) | Per share value |
| Gemcabene | \$320,095 | \$23.00 |
| Cash (end of '17E) | \$24,449 | \$2.00 |
| | \$344,544 | \$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.

Figure 3: Quarterly Income Statement

| Gemphire | | | | | | | | | | |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Quarterly income statement | | | | | | | | | | |
| (\$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 |
| 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 |
| Interest (exp) SVB | | | | | | | | (77) | (116) | (193) |
| Conv note extinguish | | | | | 0 | | | | | 0 |
| Other | (4) | | | | (4) | | | | | 0 |
| Total other loss | 123 | 449 | (476) | 14 | 110 | 7 | 50 | (27) | (66) | (36) |
| Adj-Net income/(loss) | (2,103) | (1,391) | (3,311) | (6,314) | (12,868) | (6,596) | (8,050) | (6,777) | (6,816) | (28,239) |
| 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) | (\$0.63) | (\$0.59) | (\$2.70) |
| 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.

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 | (36) | (73) | 53 | 153 | 379 | |
| Adj-Net income/(loss) | (12,868) | (28,239) | (60,573) | (67,178) | (71,223) | (34,596) | |
| 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) | (\$2.70) | (\$4.23) | (\$3.30) | (\$3.17) | (\$1.29) | |
| EPS as reported | (\$2.57) | | | | | | |
| Shares out (000) | 5,809 | 10,459 | 14,316 | 20,362 | 22,487 | 26,862 | |
| Fully diluted shares (000) | 8,150 | 13,659 | 17,516 | 23,762 | 25,987 | 30,362 | |

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.

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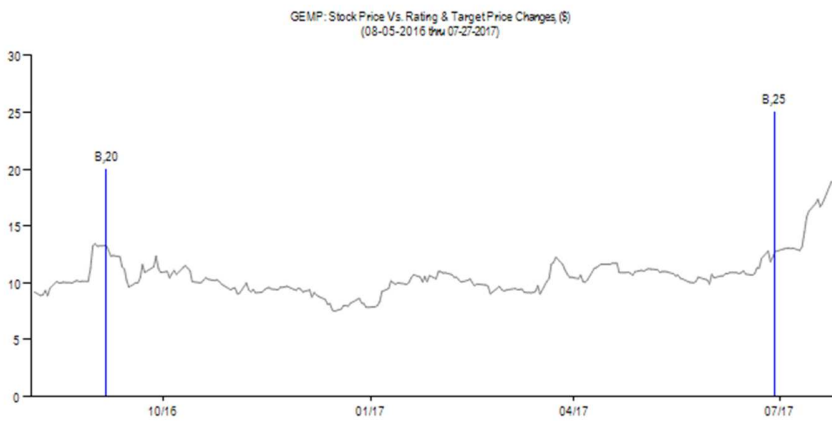
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Additional information available upon request.

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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 | 12.76 |

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. | 63.04% | 30.43% | 2.17% |
| Hold (H) | Expected returns to be in line with the sector average over 12 months. | 4.35% | 0.00% | 0.00% |
| Sell (S) | Returns expected to significantly underperform the sector average over 12 months. | 0.00% | 0.00% | 0.00% |

ADDITIONAL COMPANIES MENTIONED

Pfizer (PFE – Not Rated)

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