

Evoked Pharma (EVOK - \$2.24)

2Q17: Gimoti PK Trial Started with Topline Results in 4Q17 and Potential NDA Filing Shortly Thereafter

Yesterday after the market close, EVOK reported 2Q17 financial results with a net loss of (\$1.6MM), vs. the estimates of Laidlaw (\$2.2MM) and the Street (\$1.9MM). Net loss/share was (\$0.11) vs. (\$0.16) and (\$0.14) for Laidlaw and the Street, respectively. EVOK ended 2Q17 with cash of ~\$12.5MM, enough for operations into 1Q18, in our opinion.

- Gimoti bio-equivalency PK study started.** Yesterday morning EVOK announced the commencement of Gimoti bio-equivalency PK study. The company expects to complete trial data analysis and announce results in 4Q17, with a potential NDA submission in late 4Q17 or early 2018. The timeline is consistent with the company's prior guidance. Management suggested that in addition to reporting the topline results from the study, the company might keep certain detailed information non-public in order to preserve the potential to expand the IP protection for Gimoti. The potential approval decision, we estimate, could slate to late 2018. As a reminder, the objective of the bio-equivalency PK study is to determine a dose of Gimoti that is bio-equivalent to that of the reference drug, oral metoclopramide (10mg Reglan tablet) in healthy volunteers (n~100). Although Gimoti has been demonstrated to be much more effective in female patients, the FDA would like to see the PK profile of both females and males, given the drug could potentially be used by both genders if approved.

Further, we believe some of the clinical data gained from the prior Phase III (METO IN- 003) trial, such as QT/QTc safety data, and that the drug is more effective in female and in modest/severe patients, could be incorporated into the final Gimoti package.

- Action.** We are reiterating our Buy rating and \$8 target price based on our peer comparable, cash driven NPV and forward price/sales analyses. Gimoti, in our opinion, could be an important treatment option for modest/severe diabetic gastroparesis, fulfilling an unmet need.

Healthcare/Biotechnology

Ticker:	EVOK
Rating:	Buy
Price Target:	\$8.00

Trading Data:

Last Price (8/14/2017)	\$2.24
52-Week High (2/15/2017)	\$4.55
52-Week Low (11/10/2016)	\$1.35
Market Cap. (MM)	\$36
Shares Out. (MM)	9.338

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-17E	-0.37A	-0.11A	-0.26	-0.32	-1.04	NM
FY-16A	-0.45	-0.41	-0.29	-0.12	-1.15	NM
FY-15A	-0.58	-0.52	-0.42	-0.37	-1.87	NM
FY-14A	-0.49	-0.59	-0.63	-0.48	-2.20	NM

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Source: Laidlaw & Company estimates

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Anticipated Milestones in 2017 and Beyond

Product	Indication	Event	Timing	Importance
Gimoti (EVK-001)	Diabetic gastroparesis	Complete Phase I PK study	4Q17	***
		Report PK study results	4Q17	***
		Potential NDA filing	4Q17/1Q18	****
		Potential FDA approval decision	2H18	*****

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

Source: Laidlaw & Company and company presentation

Major Risks

Failures of upcoming clinical studies. Although Gimoti has demonstrated promising efficacy and a satisfactory safety profile from parts of the Phase III study in diabetic gastroparesis; there is no assurance that the upcoming PK clinical study can demonstrate efficacy and safety profiles satisfactory enough along with part of the Phase III study results for gaining clinical approval. Given the clinical study successes are the biggest near-term hurdle to be overcome before Gimoti can be advanced into commercialization, clinical study failure could significantly impair the value of the company's assets and shareholder value. Overall, we view clinical risks of Gimoti are more modest relative to Phase III studies of other biotech companies.

Gimoti may not reach anticipated sales. Assuming Gimoti receives approval and is commercialized, the sales potential could fall short of our forecasts. It is difficult to project accurately the sales potential of Gimoti in gastroparesis given that the market is relatively mature and is dominated by generic products. The assumption is that Gimoti could afford more effective drug availability and bypass the hurdle of slow gastric emptying and vomiting. However, the actual clinical performance from the Phase III study could influence physician acceptance for the drug as well as the company's flexibility to price the drug. The lack of a large size comparative clinical study for Gimoti vs. oral metoclopramide with a superior outcome could also slow down the initial market penetration.

Lack of diversified product portfolio increases risk if Gimoti fails. Since Evoke only has only one product in development and without other prospects on their pipeline, EVOK has very limited options to hedge its risk of product failure. As such, any mishap or failure of Gimoti development could significantly reduce the value of EVOK shareholders.

Additional financing could dilute shareholder value. Regardless of whether or not the company forges additional collaborations with partners to generate non-dilutive revenue to support operations, it is likely that Evoke may need to raise additional cash from investors to fund its operations, especially if the company needs to commercialize Gimoti by themselves. As such, the share value for existing investors could be diluted. Further, if the company cannot raise equity capital at favorable terms, the share value of current shareholders could be further impaired.

Limited trading liquidity limits shareholder options. Daily trading volume and name recognition of EVOK shares are relatively modest. Some investors may be hesitant to own the shares due to illiquid trading volume. This could impose constraints if they want to increase or reduce their positions in a volatile stock market.

Figure 1: Income Statement

Evoke Pharma – Income Statement												
(\$'000)	2015	2016	1Q17	2Q17	3Q17E	4Q17E	2017E	2018E	2019E	2020E	2021E	2022E
Revenue												
EVK-001 sales	0	0	-	-	0	-	0	0	15,536	32,129	51,172	85,954
Product royalty revenue	0	0	-	-	-	-	0	0	0	0	0	0
Total revenue	0	0	-	-	-	-	0	0	15,536	32,129	51,172	85,954
Costs of goods	0	0					0	0	1,398	2,892	4,605	7,736
Research and development	8,154	6,952	771	2,018	3,026	4,086	9,900	8,415	8,499	7,819	5,865	3,812
General and administrative	3,664	3,593	1,210	872	889	903	3,874	4,222	4,602	4,971	5,319	5,691
Marketing and sales	0	0	0	0	0	0	0	0	23,100	24,255	24,983	25,732
Total Operating Expenses	11,818	10,544	1,980	2,890	3,916	4,988	13,774	12,638	37,600	39,937	40,771	42,971
Operating Incomes (losses)	(11,818)	(10,544)	(1,980)	(2,890)	(3,916)	(4,988)	(13,774)	(12,638)	(22,064)	(7,808)	10,401	42,984
Other expense		(145)	-	-	-	-	0	0	0	0	0	0
Interest income	5	0	1	2	-	-	3	3	3	4	4	4
Interest expense	(307)	(123)	-	-	-	-	0	0	0	0	0	0
Financing costs related to warrant liability		(534)	-	-	-	-	0	0	0	0	0	0
Change in fair value of warrant liability	0	598	(3,073)	1,262	(100)	101	(1,810)	100	100	100	100	100
Total Other Income, net	(302)	(205)	(3,072)	1,264	(100)	101	(1,807)	103	103	104	104	104
Income before tax	(12,120)	(10,749)	(5,052)	(1,626)	(4,016)	(4,887)	(15,581)	(12,535)	(21,961)	(7,704)	10,505	43,088
Tax	0	0	-	-	-	-	0	4,011	7,028	2,465	(3,677)	(15,081)
Net Income (Loss)	(12,120)	(10,749)	(5,052)	(1,626)	(4,016)	(4,887)	(15,581)	(8,524)	(14,934)	(5,239)	6,828	28,007
Net Income (Loss) Applicable to Common Shareholders	(12,120)	(10,749)	(5,052)	(1,626)	(4,016)	(4,887)	(15,581)	(8,524)	(14,934)	(5,239)	6,828	28,007
Net Earnings (Losses) Per Share—Basic and Diluted	(\$1.87)	(\$1.15)	(\$0.37)	(\$0.11)	(\$0.26)	(\$0.32)	(\$1.04)	(\$0.50)	(\$0.83)	(\$0.28)	\$0.35	\$1.41
Shares outstanding—basic and diluted	6,486	9,338	13,528	15,343	15,393	15,443	14,927	16,927	17,927	18,927	19,427	19,927
	6,486	9,338	13,528	15,421	15,471	15,521	14,985	16,985	17,985	18,985	19,485	19,985
Margin Analysis (% of Sales/Revenue)												
Costs of goods							9%	9%	9%	9%	9%	9%
R&D	NA	NA	NA	NA	NA	NA	NA	NA	NA	24%	11%	4%
MG&A	NA	NA	NA	NA	NA	NA	NA	NA	NA	91%	59%	37%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	NA	-24%	20%	50%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	NA	-16%	13%	33%
Financial Indicator Growth Analysis (YoY%)												
Total Revenue	NA	NA	NA	NA	NA	NA	NA	NA	NA	107%	59%	68%
R&D	-18%	-15%	-91%	-4%	126%	172%	42%	-15%	1%	-8%	-25%	-35%
SG&A	16%	-2%	-67%	9%	7%	10%	8%	9%	9%	8%	7%	7%
Marketing and sales	NA	NA					NA	5%	6%	5%	3%	3%
Operating Loss	-10%	-11%	-83%	0%	80%	115%	31%	-8%	75%	-65%	-233%	313%
Total Other Income, net	209%	-32%	918%	-1838%	-88%	-87%	783%	-106%	0%	0%	0%	0%
Pretax Income	-9%	-11%	-58%	-45%	33%	220%	45%	-20%	75%	-65%	-236%	310%
Net Income	-9%	-11%	-58%	-45%	33%	220%	45%	-45%	75%	-65%	-230%	310%
EPS	-15%	-38%	-80%	-74%	-8%	155%	-9%	-52%	65%	-67%	-227%	300%
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Source: Bloomberg LP; Company reports; Laidlaw & Company estimates.

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3 Year Rating Change History

Date	Rating	Closing Price (\$)
07/19/2...	Hold (H)	2.47
01/30/2...	Buy (B)	2.85

3 Year Price Change History

Date	Target Price (\$)	Closing Price, (\$)
07/19/2...		2.47
01/30/2...	8.00	2.85

Source: Laidlaw & Company

Created by: Blue-Compass.net

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			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%
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