

## Gemphire Therapeutics (GEMP – \$8.90)

### COBALT-1 and ROYAL-1 Hit Endpoints, Sell-Off Seems Overdone

GEMP recently rolled out their 2Q17 numbers. While we still don't consider it an earnings story, operating expenses and bottom line came mostly in-line with expectations after excluding the \$2.6M non-recurring expense associated with the separation of the former CEO. While GEMP has lost a little over half its market capitalization value following the release of their top-line data from their Phase 2b ROYAL-1 trial in hypercholesterolemic patients, we continue to believe the sell-off might have created an interesting buying opportunity. Although we would have preferred a greater reduction in LDL-C of ~25% vs. the actual 17.2%, we want to remind investors that this reduction was in fact statistically significant with  $p=0.0057$ . Additionally, we view as a real positive gemcabene's ability to lower hsCRP by 40% vs. 6.1% for placebo and look forward to getting more details on the full data set in the near term. Notably, we are interested in discovering what percentage of patients were on moderate vs. high-intensity statin, as only 6%-8% of patients in real-world settings are on high-intensity statins. With no signs of safety concerns or drug-drug-interactions, and encouraging data from previous 18 Phase 1 and 2 trials; we remain bullish on gemcabene in the dyslipidemia space. We continue to anticipate the Phase 2b INDIGO-1 study to read-out in SHTG patients in 1Q18 as well as the initiation of Phase 2 AZURE-1 trial in NASH patients in 2H17. We reiterate our Buy rating and \$20 price target.

- **Weaker than anticipated ROYAL-1 hit, gemcabene far from over.** While topline data was weaker than anticipated, GEMP now has 2 positive Phase 2b topline read-outs and 18 prior Phase 1 and 2 trials, which add up to a strong profile before their end of Phase 2 meeting in 2018.
- **More catalysts on deck for both dyslipidemia and NASH.** We are still expecting Phase 2b INDIGO-1 for SHTG patients top-line data to read-out in 1Q18 as well as initiation of Phase 2 AZURE-1 for NASH in 2H17 with potential topline data in 2H18. We see gemcabene's impressive safety as key for its potential application as backbone therapy for NASH.
- **Reiterate Buy, \$20 PT.** Our PT is based on a sum-of-the-parts with gemcabene worth \$18/share and cash (end'18) and tech value \$2/share.

#### Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
<b>FY-18E</b>	(0.99)	(1.13)	(0.94)	(1.02)	(4.07)	NA
<b>FY-17E</b>	(0.69)A	(0.75)A	(0.60)	(0.56)	(2.58)	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</b>

#### Trading Data:

Last Price (08/14/2017)	\$8.90
52-Week High (08/01/2017)	\$21.59
52-Week Low (08/10/2017)	\$7.20
Market Cap. (MM)	\$94.3
Shares Out. (MM)	10.6

#### Analyst

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Figure 1: Variance Analysis

<b>Gemphire</b>					
<b>Quarterly variance analysis</b>					
<i>(\$000 except per share)</i>	<b>2Q16A</b>	<b>2Q17A</b>	<b>2Q17E</b>	<b>Variance</b>	<b>% Y/Y</b>
SG&A	1,051	2,078	2,000	78	98%
R&D	789	5,837	6,100	(263)	640%
<b>Operating income/(loss)</b>	<b>(1,840)</b>	<b>(7,915)</b>	<b>(8,100)</b>	<b>185</b>	<b>330%</b>
Interest (exp) income	449	13	50	(37)	-97%
<b>Adj-Net income/(loss)</b>	<b>(1,391)</b>	<b>(7,902)</b>	<b>(8,050)</b>	<b>148</b>	<b>468%</b>
Avg Shares (000)	3,627	10,603	10,021	582	192%
<b>Adj. EPS</b>	<b>(\$0.38)</b>	<b>(\$0.75)</b>	<b>(\$0.80)</b>	<b>\$0</b>	<b>94%</b>

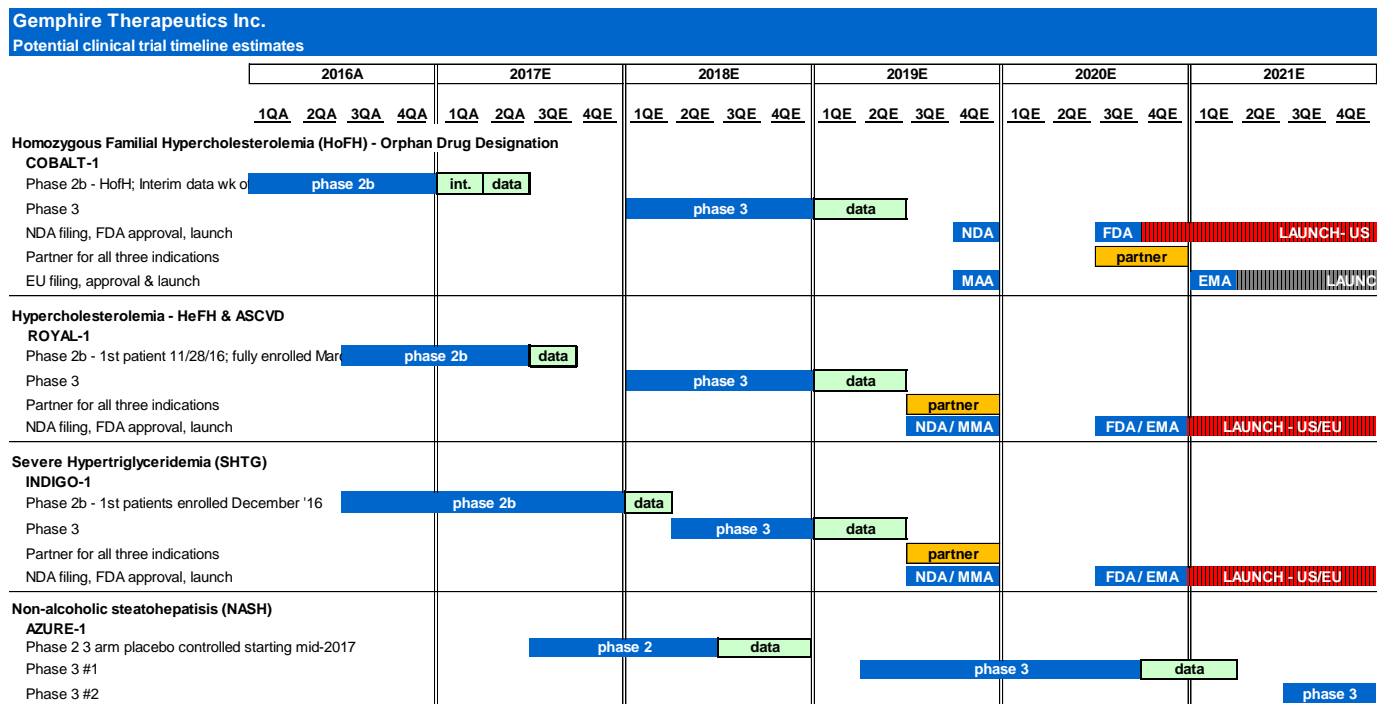
Source: Laidlaw &amp; Company estimates

Figure 2: Valuation

<b>Sum-of-the-parts valuation</b>		
Segment	Valuation (000's)	Per share value
Gemcabene	\$328,007	\$18.00
Cash (end of '18E)	\$43,019	\$2.00
	\$371,026	<b>\$20.00</b>
2018 fully diluted shares out (000)		18,098

Source: Laidlaw &amp; Company estimates.

Figure 3: Clinical trials timeline



Source: Company reports; Laidlaw & Company estimates.

Figure 4: 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	2QA	3QE	4QE	
SG&A	1,050	1,051	1,066	1,489	4,790	1,623	2,078	1,750	1,750	7,201
R&D	1,176	789	1,769	4,839	8,188	4,980	5,837	5,000	5,000	20,817
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>(7,915)</b>	<b>(6,750)</b>	<b>(6,750)</b>	<b>(28,018)</b>
Interest (exp) income	127	449	(476)	14	114	7	13	50	50	120
Interest (exp) SVB								(77)	(116)	(193)
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>13</b>	<b>(27)</b>	<b>(66)</b>	<b>(73)</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>(7,902)</b>	<b>(6,777)</b>	<b>(6,816)</b>	<b>(28,091)</b>
Share based comp			567	900	1,718	900	2,600			
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>(10,502)</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>(\$0.75)</b>	<b>(\$0.60)</b>	<b>(\$0.56)</b>	<b>(\$2.58)</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>	<b>(\$0.99)</b>			
Shares out (000)	3,469	3,627	6,984	9,264	5,809	9,521	10,603	11,353	12,103	10,895
Fully diluted shares (000)	5,567	6,394	9,123	11,514	8,150	12,721	13,803	14,553	15,303	14,095

Source: Bloomberg LP; Company reports; Laidlaw &amp; Company estimates.

Figure 5: 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				\$0	\$19	\$33,874	HoFH launch 4Q20, royalties other indications 2021
<b>Total sales</b>				<b>\$0</b>	<b>\$19</b>	<b>\$33,874</b>	<b>Royalties from partner</b>
SG&A	4,790	7,201	8,000	12,000	18,000	22,250	
R&D	8,188	20,817	52,500	55,250	53,500	53,500	
<b>Operating income/(loss)</b>	<b>(12,978)</b>	<b>(28,018)</b>	<b>(60,500)</b>	<b>(67,250)</b>	<b>(71,481)</b>	<b>(41,876)</b>	
Interest expense	114	120	300	300	400	400	
<b>Total other loss</b>	<b>110</b>	<b>(73)</b>	<b>(73)</b>	<b>53</b>	<b>153</b>	<b>379</b>	
<b>Adj-Net income/(loss)</b>	<b>(12,868)</b>	<b>(28,091)</b>	<b>(60,573)</b>	<b>(67,197)</b>	<b>(71,328)</b>	<b>(41,497)</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>(\$2.58)</b>	<b>(\$4.07)</b>	<b>(\$3.21)</b>	<b>(\$3.09)</b>	<b>(\$1.51)</b>	
<b>EPS as reported</b>	<b>(\$2.57)</b>						
Shares out (000)	5,809	10,895	14,898	20,944	23,069	27,444	
Fully diluted shares (000)	8,150	14,095	18,098	24,344	26,569	30,944	

Source: Bloomberg LP; Company reports; Laidlaw &amp; Company estimates.

## Major risks

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**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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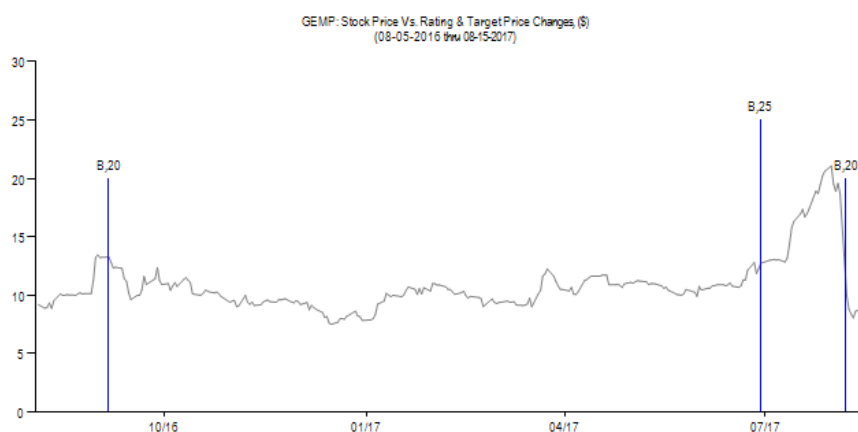
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### Rating and Price Target Change History



#### 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
08/07/2...	20.00	9.93

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.	63.04%	30.43%	2.17%
<b>Hold (H)</b>	Expected returns to be in line with the sector average over 12 months.	4.35%	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%

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