LAIDLAW & COMPANY
Est. 1842
London
New York
San Francisco
Boston

EQUITY RESEARCH
Company Report

August 10, 2017

# Viking Therapeutics (VKTX - $0.95)

*Healthcare/Biotechnology*

## 2Q17: VK5211 Phase II Data Readout Soon, Potentially Greater Anticipation on VK2809 Phase II Outcome in 1H18

| | |
|---|---|
| Ticker: | **VKTX** |
| Rating: | **Buy** |
| Price Target: | **$10.00** |

Yesterday after the market close, VKTX reported 2Q17 financial results with a net loss of ($5.2MM) vs. Laidlaw ($5.4MM) and the Street ($4.8MM) estimates. Net loss/share was ($0.21) vs. ($0.23) and ($0.20) for Laidlaw and the Street. VKTX ended 2Q17 with $12.6MM cash and with additional financial resources, sufficient to support operations into 1H18, in our opinion.

- **VK5211 in post hip fracture surgery Phase II study data readout soon.** VKTX recently completed patient enrollment of the Phase II study (n=108) and anticipates top-line results in 4Q17. Patients were randomized to receive once-daily VK5211 doses of 0.5 mg, 1.0 mg, 2.0 mg, or placebo for 12 weeks. Primary endpoint is changes of lean body mass after 12 weeks treatment. Secondary endpoints include PK, functional performance and quality-of-life. We believe the 1mg and 2mg groups are 80% and 95% powered, respectively for 1kg and 1.5kg lean body mass changes. Should the outcome be positive, we believe VKTX will discuss the next step development with the FDA, and also might explore a partnering opportunity.
- **VK2809 program updates.** For VK2809 in hypercholesterolemia and non-alcoholic fatty liver disease Phase II trial (n=80), patient enrollment is continuing and the top-line results could be available in 1H18. Primary endpoint is potential LDL-C level reduction measured after 12 weeks of treatment and 4-week follow-up. We believe there is greater interest by investors regarding the outcome from this study. Given the intense competition for recruiting patients for NASH and fatty liver clinical studies, VKTX has modified patient enrollment criteria slightly and we believe this is likely to accelerate patient enrollment. The VK2809 in glycogen storage disease type Ia (GSD-Ia) POC Phase Ib trial could start in 4Q17. Preclinical study results, including rapid reductions of liver triglyceride (60%) and liver weight (30%) will be presented at the upcoming ICIEM meeting (Sep. 5-8).
- **VK0214 in X-ALD updates.** The data of the second preclinical study evaluating the effects of prolonged exposure (>6 weeks) of VK0214 and its impact on very long chain fatty acids (VLCFA) would be available in 3Q17. Researchers are interested in exploring the impact of VLCFA on tissue in addition to in plasma.
- **Action.** We are reiterating our Buy rating and target price of $10. Our valuation is based on peer comparable, probability adjusted DCF and sum-of-the-parts analyses. Outcomes of the two POC clinical studies potentially available in 2017 and 2018, if positive, could increase VKTX share value significantly, in our opinion.

**Trading Data:**

| | |
|---|---|
| Last Price (8/9/2017) | $0.95 |
| 52–Week High (1/9/2017) | $1.70 |
| 52–Week Low (8/2/2017) | $0.88 |
| Market Cap. (MM) | $26 |
| Shares Out. (MM) | 16.278 |

**Earnings Estimates:** (per share)

| (Dec) | 1Q | 2Q | 3Q | 4Q | FY | P/E |
|---|---|---|---|---|---|---|
| **FY-17E** | -0.23A | -0.21A | -0.24 | -0.23 | -0.92 | N.A. |
| **FY-16A** | -0.40 | -0.22 | -0.20 | -0.18 | -0.90 | N.A |
| **FY-15A** | -1.40 | -1.07 | -0.53 | -0.56 | -3.68 | N.A. |
| **FY-14A** | -0.07 | 3.88 | -3.01 | -2.01 | -5.23 | N.A. |

*Source: Laidlaw & Company estimates*

**Yale Jen, Ph.D.**
Managing Director/Senior
Biotechnology Analyst
(212) 953-4978
yjen@laidlawltd.com

## Anticipated milestones in 2017 and beyond

| Product | Indication | Event | Timing | Importance |
|---|---|---|---|---|
| VK5211 | Hip fracture | Report Phase IIa study results | **4Q17** | **** |
| VK0214 | X-Linked Adrenoleukodystrophy (X-ALD) | Potentially report preclinical study results | **3Q18** | *** |
| VK2809 | Cholesterolemia / NASH | Potentially report Phase II study results | **1H18** | **** |
| | Glycogen storage disease type Ia (GSD Ia). | Potentially start Phase II study | **4Q17** | *** |

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

*Source: Laidlaw & Company and company presentation*


Yale Jen, Ph.D.
yjen@laidlawltd.com

## Major Risks

**Risks of clinical study failure could have a major impact on VKTX share value.** Despite promising aspects of the company's lead products, VK5211 in the post hip fracture surgery rehabilitation and thyroid-β agonists (VK2809 / VK0214) in X-ALD, it remains too early to predict the safety and efficacy from the two upcoming Phase I and Phase II studies. Given that clinical validation or POC for these programs has not been established, it would be critical for these studies to demonstrate a positive outcome in order to increase the asset and shareholder value. Negative results of either clinical study could potentially impair their value and have a materially negative impact on shareholder value, especially since success of each study could illustrate the value of VK5211 in hip fracture rehabilitation and thyroid-β agonists in X-ALD. Further, it remains too early to predict any potential future success of clinical trials should these programs further advance into next stage clinical stage development. In thyroid-β agonists in X-ALD, although it is possible that the drug could reduce or eliminate VLCFA, it remains too early to forecast that the drug could slow and stop the progression of symptoms to provide clinical benefits.

**Product may not be approved or reach anticipated sales.** Although Viking's current pipeline products have exhibited the potential to generate positive clinical outcomes from current and future trials; it remains too early to project whether any of these products would be approved by regulatory agencies. Even if the products were to enter the market, sales could be significantly below projections due to the specific product label under approval, physician consensus for prescribing the drug, changes of treatment paradigms, entrance of competitors, and possibly the changes in pricing flexibility and payer reimbursement. A revenue outlook below expectations could also negatively affect VKTX shareholder value.

**Positive relationship with Ligand is important.** Given that Viking is substantially dependent on technologies and drug candidates licensed from Ligand for further development, it would be important for the company to maintain a positive relationship with Ligand. If Viking loses the right to license these technologies and drug candidates or the Master License Agreement with Ligand is terminated for any reason, VKTX's ability to develop existing and new drug candidates would be harmed.

**Additional financings could dilute shareholder value.** Although the company currently has ~$14MM cash, VKTX could need more financial resources going forward if they want to expand and further develop its pipeline. Should the product not receive FDA approval, or product revenue does not reach expectations; the company might need to issue new equity to raise additional cash. Under such a scenario, the share value of existing shareholders could be diluted.

**Limited trading liquidity limits shareholder options.** Given VKTX shares only entered the public market recently; daily trading volume and name recognition are relatively modest. With relatively illiquid trading volume, shareholders wanting to increase or reduce their positions in a volatile stock market may face constraints.


Yale Jen, Ph.D.
yjen@laidlawltd.com

**Figure 1: Income Statement**

## Viking Therapeutics – Income Statement

| ($',000) | 2013 | 2014 | 2015 | 2016 | 1Q17 | 2Q17 | 3Q17E | 4Q17E | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | | | | | | |
| Product revenue | 0.0 | 0.0 | 0 | 0 | - | - | - | - | 0 | 0 | 88,989 | 297,528 | 626,498 |
| Other revenue | 0.0 | 0.0 | 0 | 0 | - | - | - | - | 0 | 0 | 0 | 0 | 0 |
| Total revenue | 0.0 | 0.0 | 0 | 0 | - | - | - | - | 0 | 0 | 88,989 | 297,528 | 626,498 |
| Costs of goods | | | | | | | | | | | 10,679 | 35,703 | 75,180 |
| Gross sales | | | | | | | | | | | 78,310 | 261,825 | 551,318 |
| Research and development | (12) | (22,223) | (6,967) | (9,000) | (3,528) | (3,715) | (3,901) | (4,174) | (15,319) | (21,293) | (23,210) | (25,066) | (26,821) |
| General and administrative | (89) | (1,245) | (5,030) | (4,846) | (1,441) | (1,267) | (1,318) | (1,371) | (5,397) | (5,667) | (5,950) | (6,247) | (6,560) |
| Marketing and sales | | | | | | | | | | | (31,000) | (54,250) | (59,675) |
| **Total Operating Expenses** | (101) | (23,468) | (11,996) | (13,846) | (4,969) | (4,983) | (5,219) | (5,545) | (20,716) | (26,960) | (60,160) | (85,564) | (93,056) |
| **Operating Incomes (losses)** | (101) | (23,468) | (11,996) | (13,846) | (4,969) | (4,983) | (5,219) | (5,545) | (20,716) | (26,960) | 28,829 | 211,964 | 533,442 |
| Change in fair value of accrued license fees | 0 | (1,822) | (9,382) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Change in fair value of debt conversion features | 21 | (391) | (1,043) | 1,064 | 278 | 571 | (130) | 220 | 938 | (500) | (500) | (500) | (500) |
| Amortization of debt discount | 18 | 558 | (894) | (1,788) | (431) | (337) | (432) | (432) | (1,632) | (1,632) | (1,632) | (1,632) | (1,632) |
| Amortization of financing costs | | | | (139) | (98) | (422) | (45) | (45) | (610) | | | | |
| Interest expense | 6 | 71 | (89) | (22) | (2) | (1) | (3) | (3) | (9) | (9) | (9) | (9) | (9) |
| Total other (income) expenses | 45 | (1,584) | (11,408) | (885) | (253) | (189) | (610) | (260) | (1,312) | (2,141) | (2,141) | (2,141) | (2,141) |
| Loss before tax | (146) | (21,884) | (23,404) | (14,731) | (5,222) | (5,172) | (5,829) | (5,805) | (22,028) | (24,819) | 30,970 | 214,105 | 535,583 |
| Tax | 0 | 0 | 0 | 0 | - | - | - | - | 0 | 0 | (11,459) | (79,219) | (198,166) |
| **Net Income (Loss)** | (146) | (21,884) | (23,404) | (14,731) | (5,222) | (5,172) | (5,829) | (5,805) | (22,028) | (24,819) | 19,511 | 134,886 | 337,417 |
| Unrealized gain on securities | | | | 0 | (1) | 2 | 1 | 1 | 3 | | | | |
| Net Income (Loss) Applicable to Common Shareholders | (146) | (21,884) | (23,404) | (14,731) | (5,222) | (5,170) | (5,829) | (5,805) | (22,028) | (24,819) | 19,511 | 134,886 | 337,417 |
| Net Earnings (Losses) Per Share—Basic | ($0.07) | ($5.23) | ($3.68) | ($0.90) | ($0.23) | ($0.21) | ($0.24) | ($0.23) | ($0.92) | ($0.96) | $0.63 | $4.36 | $10.92 |
| Net Earnings (Losses) Per Share—Diluted | ($0.07) | ($5.23) | ($3.68) | ($0.90) | ($0.23) | ($0.21) | ($0.24) | ($0.23) | ($0.92) | ($0.96) | $0.63 | $4.36 | $10.92 |
| Shares outstanding—basic | 2,043 | 4,187 | 6,356 | 16,278 | 22,353 | 24,119 | 24,419 | 24,719 | 23,902 | 25,902 | 30,902 | 30,905 | 30,907 |
| Shares outstanding—diluted | 2,043 | 4,187 | 6,356 | 16,278 | 22,353 | 24,119 | 24,419 | 24,719 | 23,902 | 25,902 | 30,902 | 30,905 | 30,907 |
| **Margin Analysis (% of Sales/Revenue)** | | | | | | | | | | | | | |
| Costs of goods | | | | | | | | | | | 12% | 12% | 12% |
| R&D | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | -26% | -8% | -4% |
| SG&A | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | -7% | -2% | -1% |
| Operating Income (loss) | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 32% | 71% | 85% |
| Net Income | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 22% | 45% | 54% |
| **Financial Indicator Growth Analysis (YoY%)** | | | | | | | | | | | | | |
| Total Revenue | -100% | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 234% | 111% |
| R&D | -83% | 191264% | -69% | 29% | 88% | 57% | 85% | 58% | 70% | 39% | 9% | 8% | 7% |
| SG&A | 119% | 1292% | 304% | -4% | 4% | 5% | 14% | 26% | 11% | 5% | 5% | 5% | 5% |
| Marketing and sales | | | | | | | | | | | | 75% | 10% |
| Operating Income (Losses) | -8% | 23118% | -49% | 15% | 52% | 39% | 60% | 48% | 50% | 30% | -207% | 635% | 152% |
| Pretax Income | 32% | 14864% | 7% | -37% | 46% | 40% | 53% | 59% | 50% | 13% | -225% | 591% | 150% |
| Net Income | 32% | 14864% | 7% | -37% | 46% | 40% | 53% | 59% | 50% | 13% | -179% | 591% | 150% |
| EPS | -4% | 7202% | -30% | -75% | -41% | -1% | 19% | 28% | 2% | 4% | -166% | 591% | 150% |

Yale Jen, Ph.D. 212-953-4978

*Source: Bloomberg LP; Company reports; Laidlaw & Company estimates*



Yale Jen, Ph.D.
yjen@laidlawltd.com

# 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

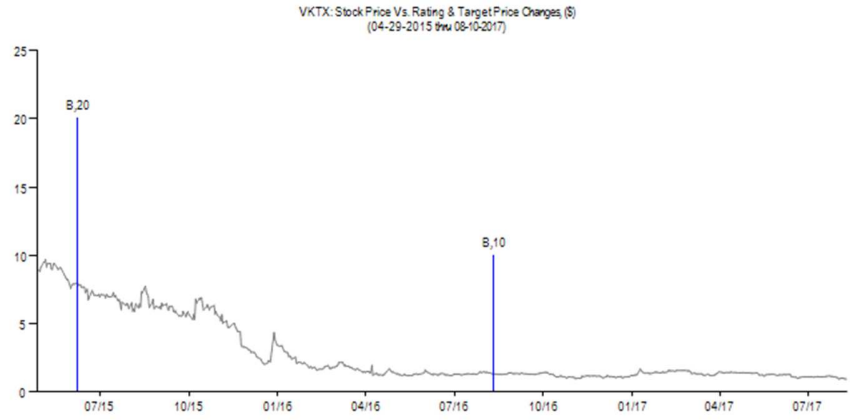
For the purpose of ratings distributions, regulatory rules require the firm to assign ratings to one of three rating categories (i.e. Strong Buy/Buy-Overweight, Hold, or Underweight/Sell) regardless of a firm's own rating categories. Although the firm's ratings of Buy/Overweight, Hold, or Underweight/Sell 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.

## RATINGS INFORMATION

**Rating and Price Target Change History**




*3 Year Rating Change History*

| Date | Rating | Closing Price ($) |
|---|---|---|
| 06/08/2... | Buy (B ) | 8.02 |

*3 Year Price Change History*

| Date | Target Price ($) | Closing Price, ($) |
|---|---|---|
| 06/08/2... | 20.00 | 8.02 |
| 08/11/2... | 10.00 | 1.27 |

**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

## 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, or contact your investment representative or Laidlaw & Co (UK), Ltd at 546 Fifth Ave, 5th Floor, New York, NY 10036 USA.

***NOTES:***