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EQUITY RESEARCH
Company Report

November 15, 2017

Evoke Pharma (EVOK - $2.81)

Healthcare/Biotechnology

3Q17: Uneventful Earnings Call with FDA Filing and Approval Decision the Future Investor Focus

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

Yesterday after the market close, EVOK reported 3Q17 financial results with a net loss of ($5.2MM), vs. the estimates of Laidlaw ($4.0MM) and the Street ($3.5MM). Net loss/share was ($0.34) vs. ($0.26) for Laidlaw and the Street. EVOK ended 3Q17 with cash of ~$10.4MM, enough for operations into 2Q18, in our opinion.

- **Gimoti 505(b)(2) NDA filing submission on track for 1Q18.** Yesterday during the 3Q17 conference call, EVOK reiterated that the Gimoti NDA filing submission is on-track for 1Q18. Should this occur in early 1Q18, an FDA acceptance decision (60 days afterward) could also occur in late 1Q18 or early 2Q18. The potential approval decision, we estimate, could slate to late 4Q18 with potential product launch in 2019. EVOK also reported that the Patheon division (a contract development and manufacturing organization or CDMO) of Thermo Fisher Scientific will be the commercial manufacturing partner for Gimoti. EVOK and Patheon have a long working history (since 2008), and Patheon was recently (Aug. 2017) acquired by Thermo Fisher. As a reminder, EVOK has engaged inVentiv Commercial Services (a contract sales organization) for Gimoti commercialization if the drug is approved. Given EVOK does not have to commit a large upfront expenditure for building a sales organization in-house before the FDA's decision, and the advantages of leveraging established sales force with flexibility in scale; EVOK could better utilize their financial resource for future commercialization, while contemplating a partnering opportunity.

3Q17 Estimates and Reported Results

($,000)	Laidlaw Estimate	Actual	Consensus
Total revenue	**$0.0**	**$0.0**	**$0.0**
Total op. profit (loss)	**($3,916)**	**($3,702)**	**($3,000)**
R&D	$3,026	$2,718	
SG&A	$889	$984	
EPS	**($0.26)**	**($0.34)**	**($0.26)**
Net income (loss)	($4,016)	($5,243)	($3,500)

Source: Bloomberg and Laidlaw and Co.

- **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.

Trading Data:

Last Price (11/14/2017)	$2.81
52–Week High (2/15/2017)	$4.55
52–Week Low (12/15/2016)	$1.42
Market Cap. (MM)	$44
Shares Out. (MM)	9.338

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-17E	-0.37A	-0.11A	-0.34A	-0.24	-1.05	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

Source: Laidlaw & Company estimates

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Anticipated Milestones in 2017 and Beyond

Product	Indication	Event	Timing	Importance
Gimoti (EVK-001)	Diabetic gastroparesis	Potential NDA filing	**1Q18**	****
		Potential FDA approval decision	**4Q18/1Q19**	*****

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

Source: Laidlaw & Company and company presentation

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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.

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Figure 1: Income Statement

Evoke Pharma – Income Statement

($'000)	2015	2016	1Q17	2Q17	3Q17	4Q17E	2017E	2018E	2019E	2020E	2021E	2022E
Revenue												
EVK-001 sales	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	2,718	2,854	8,360	7,106	7,177	6,603	4,952	3,219
General and administrative	3,664	3,593	1,210	872	984	999	4,064	4,430	4,829	5,215	5,580	5,971
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	3,702	3,852	12,424	11,536	36,504	38,964	40,120	42,658
Operating Incomes (losses)	(11,818)	(10,544)	(1,980)	(2,890)	(3,702)	(3,852)	(12,424)	(11,536)	(20,968)	(6,835)	11,052	43,297
Other expense		(145)	-	-	-	-	0	0	0	0	0	0
Interest income	5	0	1	2	3	2	7	8	9	10	11	12
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	(1,544)	101	(3,254)	100	100	100	100	100
Total Other Income, net	(302)	(205)	(3,072)	1,264	(1,541)	103	(3,247)	108	109	110	111	112
Income before tax	(12,120)	(10,749)	(5,052)	(1,626)	(5,243)	(3,749)	(15,670)	(11,428)	(20,859)	(6,725)	11,162	43,409
Tax	0	0	-	-	-	-	0	0	0	0	(3,907)	(15,193)
Net Income (Loss)	(12,120)	(10,749)	(5,052)	(1,626)	(5,243)	(3,749)	(15,670)	(11,428)	(20,859)	(6,725)	7,256	28,216
Net Income (Loss) Applicable to Common Shareholders	(12,120)	(10,749)	(5,052)	(1,626)	(5,243)	(3,749)	(15,670)	(11,428)	(20,859)	(6,725)	7,256	28,216
Net Earnings (Losses) Per Share—Basic and Diluted	($1.87)	($1.15)	($0.37)	($0.11)	($0.34)	($0.24)	($1.05)	($0.66)	($1.13)	($0.35)	$0.36	$1.38
Shares outstanding—basic and diluted	6,486	9,338	13,528	15,343	15,351	15,401	14,906	17,401	18,401	19,401	19,901	20,401
	6,486	9,338	13,528	15,421	15,351	15,401	14,925	17,401	18,401	19,401	19,901	20,401
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	21%	10%	4%
MG&A	NA	NA	NA	NA	NA	NA	NA	NA	NA	92%	60%	37%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	NA	-21%	22%	50%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	NA	-21%	14%	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%	103%	90%	20%	-15%	1%	-8%	-25%	-35%
SG&A	16%	-2%	-67%	9%	19%	21%	13%	9%	9%	8%	7%	7%
Marketing and sales	NA	NA					NA	5%	6%	5%	3%	3%
Operating Loss	-10%	-11%	-83%	0%	71%	66%	18%	-7%	82%	-67%	-262%	292%
Total Other Income, net	209%	-32%	918%	-1838%	80%	-87%	1487%	-103%	1%	1%	1%	1%
Pretax Income	-9%	-11%	-58%	-45%	73%	145%	46%	-27%	83%	-68%	-266%	289%
Net Income	-9%	-11%	-58%	-45%	73%	145%	46%	-27%	83%	-68%	-208%	289%
EPS	-15%	-38%	-80%	-74%	20%	96%	-9%	-38%	73%	-69%	-205%	279%

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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**

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.	65.31%	30.61%	2.04%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	4.08%	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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Thermo Fisher Scientific (ATMO – Not Rated)

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