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EQUITY RESEARCH
Company Report

May 14, 2018

Evoke Pharma (EVOK - $2.70)

Healthcare/Biotechnology

1Q18: Fast Approaching Gimoti NDA Filing as it is Scheduled in 2Q18

This morning, EVOK reported 1Q18 financial results with a net loss of ($1.98MM), vs. the estimates of Laidlaw ($3.98MM) and the Street ($3.10MM). Net loss/share was ($0.13) vs. ($0.26) for Laidlaw and ($0.19) of the Street. The major discrepancy is due to a smaller $0.4MM non-cash item of change in the fair value of warrant liability. EVOK ended 1Q18 with cash of ~$5.4MM, enough for operations into 1Q19, in our opinion.

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

Trading Data:

Last Price (5/11/2018)	$2.70
52–Week High (10/23/2017)	$4.09
52–Week Low (2/27/2018)	$1.85
Market Cap. (MM)	$47
Shares Out. (MM)	14.95

- **Gimoti 505(b)(2) NDA filing submission on track for 2Q18.** EVOK reiterated that the Gimoti NDA filing submission is on-track for 2Q18. The company indicated that they will host a conference call following the filing to provide more color on the development. Based on the recent discovery of the gender-biased PK effects, Gimoti will be filed for potential approval in diabetic gastroparesis of female patients only. We estimate the potential approval decision could be made by the FDA in mid-2019 with product launch shortly thereafter. The recent FDA approved PDUFA fee waiver for the Gimoti NDA would reduce the financial burden for the company. We also believe that the additional patents filed by EVOK regarding Gimoti's gender-biased effect, if approved, could further strengthen the company's IP real estate given such features could be listed in the Orange Book. We believe the proposed dose for the Gimoti treatment cycle is four weeks, similar to that of the Phase III study. In addition, we believe the company has started discussions with the agency for potentially conducting a Phase IV study likely post approval.

1Q18 Estimates and Reported Results			
($,000)	Laidlaw Estimate	Actual	Consensus
Total revenue	**$0.0**	**$0.0**	**$0.0**
Total op. profit (loss)	**($2,485)**	**($2,418)**	**($2,400)**
R&D	$1,550	$1,385	
SG&A	$935	$1,032	
EPS	**($0.26)**	**($0.13)**	**($0.19)**
Net income (loss)	($3,984)	($1,983)	($3,100)

- **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.

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-18E	-0.13A	-0.24	-0.18	-0.16	-0.71	NM
FY-17A	-0.37	-0.11	-0.34	-0.02	-0.82	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

Source: Laidlaw & Company estimates

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Anticipated Milestones in 2018 and Beyond

Product	Indication	Event	Timing	Importance
Gimoti (EVK-001)	Diabetic gastroparesis	Potential NDA filing	**2Q18**	****
		Post submission conference call	**2Q18**	****
		Potential FDA approval decision	**Mid-19**	*****

***** / ***** 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	2017	1Q18	2Q18E	3Q18E	4Q18E	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	7,137	1,385	1,261	693	451	3,790	3,828	3,522	2,641	1,717
General and administrative	3,664	3,593	4,093	1,032	970	941	922	3,866	4,214	4,551	4,870	5,211
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	11,231	2,418	2,231	1,635	1,373	7,656	32,540	35,220	37,099	40,396
Operating Incomes (losses)	(11,818)	(10,544)	(11,231)	(2,418)	(2,231)	(1,635)	(1,373)	(7,656)	(17,005)	(3,091)	14,073	45,559
Other expense		(145)	0	-	-	-	-	0	0	0	0	0
Interest income	5	0	7	1	1	1	1	4	5	5	6	6
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	(1,005)	433	(1,500)	(1,500)	(1,500)	(4,067)	100	100	100	100
Total Other Income, net	(302)	(205)	(999)	435	(1,499)	(1,499)	(1,499)	(4,062)	105	105	106	106
Income before tax	(12,120)	(10,749)	(12,230)	(1,983)	(3,730)	(3,134)	(2,872)	(11,718)	(16,900)	(2,985)	14,179	45,665
Tax	0	0	0	-	-	-	-	0	0	0	(4,962)	(15,983)
Net Income (Loss)	(12,120)	(10,749)	(12,230)	(1,983)	(3,730)	(3,134)	(2,872)	(11,718)	(16,900)	(2,985)	9,216	29,682
Net Income (Loss) Applicable to Common Shareholders	(12,120)	(10,749)	(12,230)	(1,983)	(3,730)	(3,134)	(2,872)	(11,718)	(16,900)	(2,985)	9,216	29,682
Net Earnings (Losses) Per Share—Basic and Diluted	($1.87)	($1.15)	($0.82)	($0.13)	($0.24)	($0.18)	($0.16)	($0.71)	($0.97)	($0.16)	$0.49	$1.52
Shares outstanding—basic	6,486	9,338	14,898	15,427	15,447	17,447	17,647	16,492	17,492	18,492	18,992	19,492
Shares outstanding—diluted	6,486	9,338	14,951	15,427	15,447	17,447	17,647	16,492	17,492	18,492	18,992	19,492
Margin Analysis (% of Sales/Revenue)												
Costs of goods									9%	9%	9%	9%
R&D	NA	NA	NA	NA	NA	NA	NA	NA	NA	11%	5%	2%
MG&A	NA	NA	NA	NA	NA	NA	NA	NA	NA	90%	58%	36%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	NA	-10%	28%	53%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	NA	-9%	18%	35%
Financial Indicator Growth Analysis (YoY%)												
Total Revenue	NA	NA	NA	NA	NA	NA	NA	NA	NA	107%	59%	68%
R&D	-18%	-15%	3%	-80%	-38%	-74%	-72%	-47%	1%	-8%	-25%	-35%
SG&A	16%	-2%	14%	-71%	11%	-4%	-10%	-6%	9%	8%	7%	7%
Marketing and sales	NA	NA	NA					NA	6%	5%	3%	3%
Operating Loss	-10%	-11%	7%	-77%	-23%	-56%	-48%	-32%	122%	-82%	-555%	224%
Total Other Income, net	209%	-32%	388%	-313%	-219%	-3%	-164%	307%	-103%	0%	1%	1%
Pretax Income	-9%	-11%	14%	-82%	129%	-40%	831%	-4%	44%	-82%	-575%	222%
Net Income	-9%	-11%	14%	-82%	129%	-40%	831%	-4%	44%	-82%	-409%	222%
EPS	-15%	-38%	-29%	-89%	128%	-47%	711%	-13%	36%	-83%	-401%	214%

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

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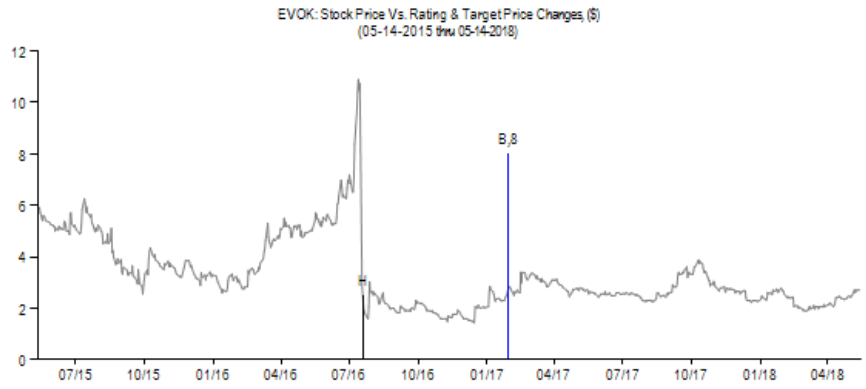
Rating and Price Target Change History



3 Year Rating Change History

Date	Rating	Closing Price ($)
07/19/2016	Hold (H)	2.47
01/30/2017	Buy (B)	2.85

3 Year Price Change History

Date	Target Price ($)	Closing Price, ($)
07/19/2016		2.47
01/30/2017	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.	66.67%	25.93%	3.70%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	0.00%	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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