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EQUITY RESEARCH
Company Report

August 14, 2014

Evoke Pharma (EVOK - $ 6.46)

Healthcare/Biotechnology

2Q14 – Uneventful Call, But We View Competitive Landscape Could Be Softened.

Ticker:	**EVOK**
Rating:	**Buy**
Price Target:	**$ 19.00**

Yesterday after the market close, EVOK reported 2Q14 financial results with a net loss of ($3.5MM), better than Laidlaw ($3.7MM) and the Street estimate of ($4.0MM). Net loss per share equaled ($0.59) vs. ($0.60) and ($0.66) for Laidlaw and the Street, respectively. EVOK ended the 2Q14 with cash of $16.0MM, sufficient for operations into late 2H15, in our opinion.

- **METO IN-003 study update.** Management indicated that 50 of 60 anticipated clinical sites are actively recruiting patients for the Phase III study. The company could limit itself for patient recruitment from the existing 50 sites as the process went well; but management also reserves the option for exploring additional sites if needed. As a reminder, the study is scheduled to enroll 200 patients equally randomized into either placebo or 10 mg EVK-001. The primary endpoint is change in the average Gastroparesis Symptom Assessment (GSA) total score for baseline vs. four weeks of treatment. Top-line results will potentially be available in mid-2015 (possibly in 3Q15 in our estimate) with a 505(b)(2) filing possible in late 2H15 if the outcome is positive, as we believe will be likely.

- **EVK-001 thorough ECG (QT) safety study commenced.** It is a double-blind, double-dummy, four-way crossover ECG (electrocardiogram) study in healthy volunteers and is designed to evaluate the effect of EVK-001 on cardiac ventricular repolarization; specifically the QT-interval with results expected in 1Q15. Only the METO IN-003 and the QT safety studies are needed for the NDA filing. In addition, EVOK also has started a clinical study in male patients; and the study might stop once the company has completed and evaluated the female (METO IN-003) study.

- **Quarterly earnings performance is not yet the key investment focus of EVOK, in our view.** However, we believe investors should focus on the METO IN-003 study progression.

- **Action.** We reiterate our Buy rating and our $19 target price based on our peer comparable, cash driven NPV and forward price/sales analyses. Our recommendation is based on potential success of METO IN-003 study and positive commercial outlook of EVK-001 in gastroparesis treatment.

Trading Data:

Last Price (08/13/2014)	$ 6.46
52–Week High (10/7/2013)	$ 14.25
52–Week Low (8/13/2014)	$ 6.07
Market Cap. (MM)	$ 39
Shares Out. (MM)	6

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-14E	-0.49A	-0.59A	-0.75	-0.83	-2.67	NM
FY-13A	-0.44	-0.21	-0.40	-0.27	-1.20	NM
FY-12A	-0.45	-0.32	-0.43	-0.60	-1.79	NM
FY-11A	NA	NA	NA	NA	-2.18	NM

Source: Laidlaw & Company estimates

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- **EVK-001 might lead the competition in development time and clinical studies.** Recent presentations at the DDW meeting on other gastroparesis drugs in development suggested to us that EVK-001 still is in the leading position, as it is the only ongoing Phase III program; but also with potentially more robust clinical results from prior clinical studies. A Phase II study that evaluated RM-131 of Rhythm Therapeutics suggested that the drug (10μg s.c. BID) has accelerated gastric emptying (GE) and improved vomiting with statistical significance; but not in other symptoms like nausea, abdominal pain, bloating and early satiety or a composite presentation. From a *post-hoc* analysis of ~58% (119/204) patients who had baseline vomiting, most of the other symptoms were improved as reflected in the composite score (P<0.043). GSK962040 (camicinal) from GlaxoSmithKline in a Phase II study illustrated that the drug has decreased gastric half-emptying time ($GEBT_{T1/2}$) but did not exhibit any difference in magnitude of response. Together, we view the clinical results of the two products as mixed since neither has demonstrated a broad scope of symptom improvements based on the primary endpoint. Since from the prior Phase II study, EVK-001 has demonstrated more robust results in lowering total symptom score (TSS), instead of individual symptoms, we maintain our positive outlook. Based on publicly available information we believe EVK-001 may have a more effective clinical profile than its competitors.

Figure 1 Estimated and reported 2Q14 results

2Q14 Estimates and Reported Results			
($,000)	**Laidlaw Estimate**	**Actual**	**Consensus**
Total revenue	**$0.0**	**$0.0**	**$0.0**
Total op. profit (loss)	**($3,699)**	**($3,492)**	**($4,020)**
R&D	$2,500	$2,875	
SG&A	$1,199	$617	
EPS	**($0.60)**	**($0.59)**	**($0.66)**
Net income (loss)	($3,707)	($3,547)	($4,028)

Source: Bloomberg, SEC filings and Laidlaw and Co.

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Anticipated Milestones in 2014 and Beyond

Product	Indication	Event	Timing	Importance
EVK-100	Diabetic gastroparesis	Potentially report top-line QT cardiac safety clinical study results	**1Q15**	***
		Potentially report top-line METO IN-003 Phase III trial results	**3Q15**	*****
		Potentially filing via 505(b)(2) pathway for approval	**Late 15 / early '16**	***
		Potential approval	**Late '16**	*****

**** / ***** *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 EVK-001 has demonstrated promising efficacy and a satisfactory safety profile from prior Phase II studies in diabetic gastroparesis, there is no assurance that the upcoming Phase III clinical study can demonstrate efficacy and safety profiles satisfactory enough for gaining clinical approval. Given the clinical study successes are the biggest near-term hurdle to be overcome before EVK-001 can be advanced into commercialization, clinical study failure could significantly impair the value of the company's asset and shareholder value. Overall, we view clinical risks of EVK-001 is more modest comparing to Phase III studies of other biotech companies.

EVK-001 may not reach anticipated sales. Although EVK-001 has illustrated promising efficacy and safety profiles, the sales potential could fall short of our forecasts. It is difficult to project more accurately the sales potential of EVK-001 in gastroparesis given the market is relatively mature and is dominated by generic products. Although the assumption that EVK-001 could bypass the hurdle of slow gastric emptying and vomiting to afford more effective drug availability, the actual clinical performance from Phase III study could potentially determine 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 EVK-001 vs. oral metoclopramide with superior outcome could also slow down the initial market penetration.

Lack of diversified product portfolio increases risk if EVK-100 fails. Since Evoke only has only one product in development and without other prospects on their pipeline, EVOK shareholder has very limited option to hedge their risk of owning the stock. As such, any mishap or failure of EVK-001 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 operation, it is likely that Evoke may need to provide offerings to raise cash from investors to fund its operations, especially if the company needs to commercialize EVK-001 by themselves. As such, the share value for existing investors could be diluted. Further, if the company cannot raise equity capital at more favorable terms, the share value of current shareholder could be further impaired.

Limited trading liquidity limits shareholder options. Given daily trading volume and name recognition of EVOK shares are relatively modest, some investors could be hesitate to own the shares as relatively illiquid trading volume 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)	2012	2013	1Q14	2Q14	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenue													
EVK-001 sales									3,989	25,670	64,013	112,205	166,655
Product royalty revenue		0	-	-	-	-	0	0	0	0	0	0	0
Total revenue	0	0	-	-	-	-	0	0	3,989	25,670	64,013	112,205	166,655
Costs of goods									359	2,310	5,761	10,098	14,999
Research and development	1,166	957	1,852	2,875	3,881	4,463	13,072	10,457	5,333	4,533	4,307	4,436	4,569
General and administrative	837	1,645	1,070	617	660	713	3,060	3,213	3,535	3,853	4,200	4,577	4,944
Marketing and sales								1,000	15,500	46,500	48,825	51,755	54,342
Total Operating Expenses	2,002	2,602	2,923	3,492	4,541	5,176	16,132	14,671	24,727	57,196	63,092	70,866	78,854
Operating Incomes (losses)	(2,002)	(2,602)	(2,923)	(3,492)	(4,541)	(5,176)	(16,132)	(14,671)	(20,738)	(31,526)	921	41,339	87,801
Interest income	2	7	4	3	3	3	14	15	17	18	20	22	24
Interest expense	(24)	(80)	(37)	(58)	(58)	(58)	(212)	(233)	(257)	(282)	(311)	(342)	(342)
Change in fair value of warrant liability	7	(82)	0	0	(21)	(4)	(25)	(30)	15	(20)	24	(27)	(27)
Total Other Income, net	(15)	(235)	(33)	(55)	(76)	(59)	(223)	(248)	(225)	(284)	(266)	(347)	(344)
Income before tax	(2,018)	(2,836)	(2,956)	(3,547)	(4,617)	(5,235)	(16,355)	(14,919)	(20,963)	(31,810)	654	40,992	87,457
Tax Rate	0										32%	32%	32%
Tax	0	0	-	0	0	-	0	0	0	0	(209)	(13,118)	(27,986)
Net Income (Loss)	(2,018)	(2,836)	(2,956)	(3,547)	(4,617)	(5,235)	(16,355)	(14,919)	(20,963)	(31,810)	445	27,875	59,471
Net Income (Loss) Applicable to Common Shareholders	(2,018)	(2,836)	(2,956)	(3,547)	(4,617)	(5,235)	(16,355)	(14,919)	(20,963)	(31,810)	445	27,875	59,471
Net Earnings (Losses) Per Share—Basic and Diluted	($1.79)	($1.20)	($0.49)	($0.59)	($0.75)	($0.83)	($2.67)	($1.32)	($1.70)	($2.39)	$0.03	$1.82	$3.64
Shares outstanding—basic and diluted	1,124	2,368	6,003	6,028	6,128	6,328	6,121	11,328	12,328	13,328	14,328	15,328	16,328
	1,124	2,368	6,003	6,028	6,128	6,328	6,121	11,328	12,328	13,328	14,328	15,328	16,328
Margin Analysis (% of Sales/Revenue)													
Costs of goods									9%	9%	9%	9%	9%
R&D	NA	NA	NA	NA	NA	NA	NA	NA	134%	18%	7%	4%	3%
MG&A	NA	NA	NA	NA	NA	NA	NA	NA	477%	196%	83%	50%	36%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	-520%	-123%	1%	37%	53%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	-526%	-124%	1%	25%	36%
Financial Indicator Growth Analysis (YoY%)													
Total Revenue	NA	NA	NA	NA	NA	NA	NA	NA	NA	544%	149%	75%	49%
R&D	-37%	-18%	929%	1089%	4830%	601%	1266%	-20%	-49%	-15%	-5%	3%	3%
SG&A	47%	97%	460%	110%	62%	-25%	86%	5%	10%	9%	9%	9%	8%
Marketing and sales									1450%	200%	5%	6%	5%
Operating Loss	-17%	30%	688%	552%	835%	227%	520%	-9%	41%	52%	-103%	4389%	112%
Total Other Income, net	-213%	1454%	-73%	-72%	24394%	65%	-5%	11%	-9%	26%	-6%	30%	-1%
Pretax Income		41%	498%	383%	850%	224%	477%	-9%	41%	52%	-102%	6165%	113%
Net Income	-16%	41%	498%	1379%	862%	225%	477%	-9%	41%	52%	-101%	6165%	113%
EPS	-18%	-33%	13%	179%	87%	206%	123%	-51%	29%	40%	-101%	5756%	100%

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

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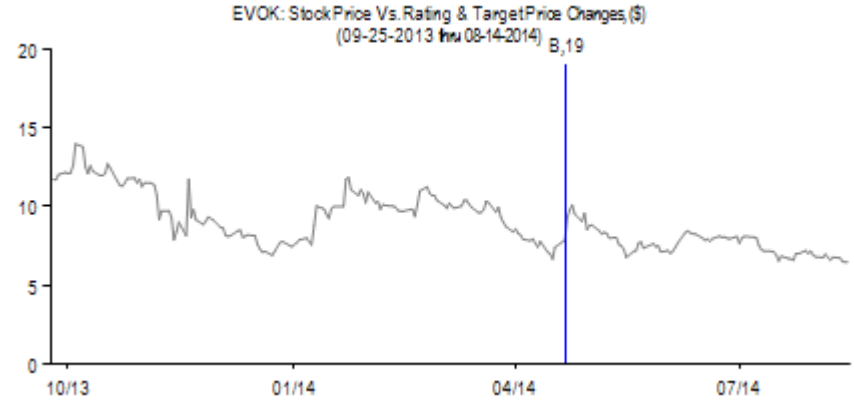
Rating and Price Target Change History



3 Year Rating Change History

Date	Rating	Closing Price ($)
04/22/2014	Buy (B)	9.29

3 Year Price Change History

Date	Target Price ($)	Closing Price, ($)
04/22/2014	19.00	9.29

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.	94.74%	31.58%	10.53%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	5.26%	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

GlaxoSmithKline (GSK – NR)

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