

Evoked Pharma (EVOK - \$ 5.42)

METO IN-003 Pivotal Trial is On-Track to Complete in 2H15, While 4Q14 Call Was Uneventful

Yesterday after the market close, EVOK reported 4Q14 financial results with a net loss of (\$2.9MM), better than the estimates of Laidlaw (\$4.3MM) and the Street (\$4.4MM). Net loss per share equaled (\$0.48) vs. (\$0.70) and (\$0.69) for Laidlaw and the Street, respectively. EVOK ended the 4Q14 with ~\$14.2MM cash, sufficient for operations into 2016, in our opinion. In our view, quarterly earnings performance is not yet the key investment focus of EVOK share value; instead the focus is on progress on potential success of the METO IN-003 study.

- METO IN-003 study update.** Management reiterated that the METO IN-003 study is on track to be completed in 2H15 and we estimate the timing could be in 4Q15. In the conference call, management indicated that after the recent update (see our 2015-02-03 note), the company initiated several patient outreach measures. By using such tools as social media for increasing patient recruitment, the effort has started to show a positive impact. Currently, there are 53 clinical sites actively recruiting patients. Among them, at least two-thirds have enrolled at least one patient. As a reminder, the study is scheduled to enroll 200 diabetic gastroparesis patients equally randomized into either placebo or 10 mg EVK-001 groups. The primary endpoint is change in the average Gastroparesis Symptom Assessment (GSA) total score for baseline vs. four weeks of treatment. If the outcome is positive, as we believe is likely, EVOK is expected to file for EVK-001 approval via a 505(b)(2) pathway, possibly in 1H16.
- 2015 financial guidance.** Management indicated that the company's cash (\$14MM) should support the completion of the METO IN-003 study. Management estimated the cash burn rate per month is ~ 1MM (or ~\$12MM for the full year).
- Action.** We reiterate our Buy rating and \$19 target price based on our peer comparable, cash driven NPV and forward price/sales analyses. Our recommendation is based on potential success of the METO IN-003 study and the positive commercial outlook of EVK-001 in gastroparesis treatment. It is also supported by our peer comparable, cash driven NPV and forward price/sales analyses.

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-15E	-0.50	-0.54	-0.55	-0.56	-2.14	NM
FY-14A	-0.49	-0.59	-0.63	-0.48	-2.20	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

Source: Laidlaw & Company estimates

Healthcare/Biotechnology

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

Trading Data:

Last Price (03/04/2015)	\$ 5.42
52-Week High (3/5/2014)	\$ 10.96
52-Week Low (10/16/2014)	\$ 4.72
Market Cap. (MM)	\$ 33
Shares Out. (MM)	6

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Figure 1 Estimated and reported 4Q14 results

4Q14 Estimates and Reported Results			
(\$,000)	Laidlaw Estimate	Actual	Consensus
Total revenue	\$0.0	\$0.0	\$0.0
Total op. profit (loss)	(\$4,343)	(\$2,914)	(\$4,460)
R&D	\$3,552	\$2,176	
SG&A	\$791	\$738	
EPS	(\$0.70)	(\$0.48)	(\$0.69)
Net income (loss)	(\$4,351)	(\$2,920)	(\$4,438)

Source: Bloomberg, SEC filings and Laidlaw and Co.

Anticipated Milestones in 2015 and Beyond

Product	Indication	Event	Timing	Importance
EVK-100	Diabetic gastroparesis	Potentially report top-line METO IN-003 Phase III trial results	4Q15	*****
		Potentially filing via 505(b)(2) pathway for approval	1H16	***
		Potential approval	2017	*****

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

Source: Laidlaw & Company and company presentation

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 assets and shareholder value. Overall, we view clinical risks of EVK-001 are more modest relative to Phase III studies of other biotech companies.

EVK-001 may not reach anticipated sales. Assuming EVK-001 receives approval and is commercialized, the sales potential could fall short of our forecasts. It is difficult to project accurately the sales potential of EVK-001 in gastroparesis given that the market is relatively mature and is dominated by generic products. The assumption is that EVK-001 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 EVK-001 vs. oral metoclopramide with a 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 has very limited options to hedge its risk of product failure. 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 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 EVK-001 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.

Figure 1: Income Statement

Evoke Pharma – Income Statement																	
(\$'000)	2012	2013	1Q14	2Q14	3Q14	4Q14	2014					2015E	2016E	2017E	2018E	2019E	2020E
								1Q15E	2Q15E	3Q15E	4Q15E						
Revenue																	
EVK-001 sales												0	0	23,227	64,013	112,205	166,655
Product royalty revenue		0	-	-	-	-	0	-	-	-	-	0	0	0	0	0	0
Total revenue	0	0	-	-	-	-	0	-	-	-	-	0	0	23,227	64,013	112,205	166,655
Costs of goods												0	0	2,090	5,761	10,098	14,999
Research and development	1,166	957	1,852	2,875	3,088	2,176	9,992	2,307	2,584	2,635	2,688	10,214	3,166	2,058	1,955	2,014	2,074
General and administrative	837	1,645	1,070	617	733	738	3,158	753	775	814	879	3,222	3,350	3,652	3,981	4,339	4,686
Marketing and sales												0	15,500	46,500	48,825	51,755	54,342
Total Operating Expenses	2,002	2,602	2,923	3,492	3,821	2,914	13,150	3,060	3,359	3,450	3,567	13,436	22,017	54,301	60,522	68,206	76,101
Operating Incomes (losses)	(2,002)	(2,602)	(2,923)	(3,492)	(3,821)	(2,914)	(13,150)	(3,060)	(3,359)	(3,450)	(3,567)	(13,436)	(22,017)	(31,074)	3,491	43,999	90,554
Interest income	2	7	4	3	2	1	10	1	1	1	1	5	5	6	6	7	8
Interest expense	(24)	(80)	(37)	(58)	(6)	(7)	(108)	(7)	(7)	(7)	(7)	(26)	(29)	(32)	(35)	(39)	(39)
Change in fair value of warrant liability	7	(82)	0	0	0	0	0	0	0	0	0	0	0	0	24	(27)	(27)
Total Other Income, net	(15)	(235)	(33)	(55)	(4)	(5)	(98)	(5)	(5)	(5)	(5)	(22)	(24)	(26)	(5)	(59)	(58)
Income before tax	(2,018)	(2,836)	(2,956)	(3,547)	(3,825)	(2,920)	(13,248)	(3,065)	(3,365)	(3,455)	(3,573)	(13,458)	(22,041)	(31,100)	3,486	43,941	90,496
Tax Rate	0														32%	32%	32%
Tax	0	0	-	0	0	0	0	0	-	-	-	0	0	0	(1,116)	(14,061)	(28,959)
Net Income (Loss)	(2,018)	(2,836)	(2,956)	(3,547)	(3,825)	(2,920)	(13,248)	(3,065)	(3,365)	(3,455)	(3,573)	(13,458)	(22,041)	(31,100)	2,371	29,880	61,537
Net Income (Loss) Applicable to Common Shareholders	(2,018)	(2,836)	(2,956)	(3,547)	(3,825)	(2,920)	(13,248)	(3,065)	(3,365)	(3,455)	(3,573)	(13,458)	(22,041)	(31,100)	2,371	29,880	61,537
Net Earnings (Losses) Per Share—Basic and Diluted	(\$1.79)	(\$1.20)	(\$0.49)	(\$0.59)	(\$0.63)	(\$0.48)	(\$2.20)	(\$0.50)	(\$0.54)	(\$0.55)	(\$0.56)	(\$2.14)	(\$2.13)	(\$2.74)	\$0.19	\$2.24	\$4.28
Shares outstanding—basic and diluted	1,124	2,368	6,003	6,028	6,054	6,066	6,032	6,166	6,266	6,316	6,366	6,278	10,366	11,366	12,366	13,366	14,366
	1,124	2,368	6,003	6,028	6,054	6,066	6,032	6,166	6,266	6,316	6,366	6,278	10,366	11,366	12,366	13,366	14,366
Margin Analysis (% of Sales/Revenue)																	
Costs of goods															9%	9%	9%
R&D	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	9%	3%	1%
MG&A	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	216%	82%	50%	35%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-134%	5%	39%	54%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-134%	4%	27%	37%
Financial Indicator Growth Analysis (YoY%)																	
Total Revenue	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	176%	75%	49%
R&D	-37%	-18%	929%	1089%	3823%	242%	944%	141%	-10%	-15%	24%	2%	-69%	-35%	-5%	3%	3%
SG&A	47%	97%	460%	110%	80%	-22%	92%	-54%	26%	11%	19%	2%	4%	9%	9%	9%	8%
Marketing and sales												NA	1450%	200%	5%	6%	5%
Operating Loss	-17%	30%	688%	552%	687%	84%	405%	18%	-4%	-10%	22%	2%	64%	41%	-111%	1160%	106%
Total Other Income, net	-213%	1454%	-73%	-72%	1244%	-85%	-58%	-98%	-90%	29%	0%	-78%	10%	10%	-82%	1131%	-1%
Pretax Income		41%	498%	383%	687%	81%	367%	8%	-5%	-10%	22%	2%	64%	41%	-111%	1160%	106%
Net Income	-16%	41%	498%	1379%	697%	81%	367%	8%	-5%	-10%	22%	2%	64%	41%	-108%	1160%	106%
EPS	-18%	-33%	13%	179%	57%	78%	83%	-58%	-9%	-13%	17%	-2%	-1%	29%	-107%	1066%	92%

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

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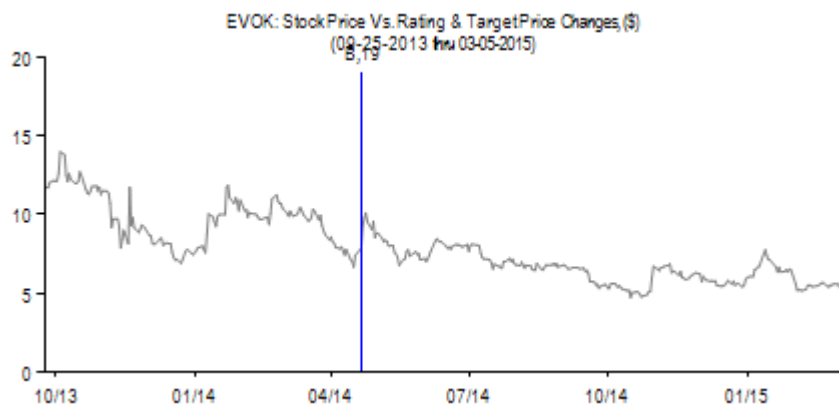
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3 Year Rating Change History

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

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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.	81.82%	36.36%	9.09%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	4.55%	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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