

Evoke Pharma, Inc.

Company Reports Q2 2014 Results

COMPANY UPDATE

Rating: BUY

Ticker: EVOK

Price: \$6.39

Target: \$18.00

Q2 2014 Results: Evoke has reported its Q2 2014 results. The Company is pre-revenue. Operating expense was \$3.5 MM, which was an increase of \$3.3 MM compared to a year ago, reflecting increased clinical trial activity, and the added cost of being a public company. Net loss was \$3.5 MM resulting in GAAP EPS of (\$0.59), which was \$0.06 better than consensus of (\$0.66).

EVK-001 Update: The Company continues to enroll patients in its Phase 3 study that is evaluating the safety and efficacy of EVK-001, its novel nasal formulation of metoclopramide, for the relief of symptoms associated with acute and recurrent diabetic gastroparesis in women. This randomized, double-blind, placebo-controlled study will enroll approximately 200 patients at up to 60 sites across the U.S. There currently are approximately 50 sites in the US actively recruiting subjects, up from about 40 sites three months ago. Based on the progress in recruitment, Management believes that it remains on plan to report top-line data from this study in mid-2015. The Company has also commenced a second required companion study, evaluating EVK-001 in men. Finally, the Company has now also initiated its thorough QT study of EVK-001. This is a standard crossover ECG (electrocardiogram) study in healthy volunteers, to evaluate cardiac safety of this formulation of EVK-001, which is one of the FDA's requirements for submission of a New Drug Application. We expect the thorough QT study to be completed by the end of this year.

Balance Sheet: The Company ended the quarter with \$16.0 MM of cash. Cash used for operations in the quarter was \$3.1 MM. The Company has secured a new \$4.5 MM term loan agreement with Square 1 Bank (SQBK, \$18.76, Not Rated), which it has not drawn down on yet. This replaces its prior \$3 MM term loan with Silicon Valley Bank (SVB - Not Rated), for which the Company made a final payment of \$2.4 MM during the quarter to close out. We estimate a cash burn from operations of \$14 MM for the full year 2014.

Adjustments to Our Estimates: Our estimates for 2014 and 2015 are for no revenue in either year. We have increased our 2014 GAAP EPS by \$0.16 to (\$2.34), while our 2015 GAAP EPS estimate is unchanged at (\$1.75).

We Reiterate Our BUY Recommendation: We believe that Evoke Pharma is an intriguing speculative small cap investment story. Given that the company's EVK-001 drug candidate is now in Phase 3 evaluation, coupled with the fact that metoclopramide has already been well-characterized, we believe that this is a relatively low-risk development program. Hence, we believe that EVOK has the potential for significant upside, which would be driven by positive results from this Phase 3 clinical study and associated partnering/acquisition opportunities. Our 12-month price target of \$18.00 is calculated using an NPV analysis.

Company Description

Evoke Pharma was founded in 2007 and is headquartered in San Diego, CA. The Company is focused on the development and commercialization of its novel therapeutic, EVK-001 for the treatment of diabetic gastroparesis in women.

United States
Healthcare

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Stock Data

Exchange:	NasdaqCM
52-week Range:	\$6.10 -14.25
Shares Outstanding (million):	6.8
Market cap (\$million):	\$44
EV (\$million):	\$28
Debt (\$million):	\$0
Cash (\$million):	\$16
Avg. Daily Trading Vol. (\$million):	0.28
Float (million shares):	6.1
Short Interest (million shares):	0.1
Incorporation:	Delaware
Public auditor:	Ernst & Young LLP

Revenues (US\$ million)

	<u>2014E</u> (new)	<u>2014E</u> (old)	<u>2015E</u> (new)	<u>2015E</u> (old)
Q1 Mar	0.0A	0.0A	0.0E	0.0E
Q2 Jun	0.0A	0.0E	0.0E	0.0E
Q3 Sep	0.0E	0.0E	0.0E	0.0E
Q4 Dec	<u>0.0E</u>	<u>0.0E</u>	<u>0.0E</u>	<u>0.0E</u>
Total	0.0E	0.0E	0.0E	0.0E

Earnings per Share (GAAP)

	<u>2014E</u> (new)	<u>2014E</u> (old)	<u>2015E</u> (new)	<u>2015E</u> (old)
Q1	(0.49)A	(0.49)A	(0.54)E	(0.57)E
Q2	(0.72)A	(0.72)E	(0.44)E	(0.43)E
Q3	(0.77)E	(0.77)E	(0.35)E	(0.35)E
Q4	<u>(0.52)E</u>	<u>(0.55)E</u>	<u>(0.42)E</u>	<u>(0.41)E</u>
Total	(2.34)E	(2.50)E	(1.75)E	(1.75)E

EBITDA (US\$ million)

	<u>2014E</u> (new)	<u>2014E</u> (old)	<u>2015E</u> (new)	<u>2015E</u> (old)
Q1	(2.9)A	(2.9)A	(4.6)E	(4.8)E
Q2	(3.5)A	(4.3)E	(3.7)E	(3.6)E
Q3	(4.6)E	(4.6)E	(2.9)E	(2.9)E
Q4	<u>(4.4)E</u>	<u>(4.6)E</u>	<u>(3.5)E</u>	<u>(3.4)E</u>
Total	(15.4)E	(16.4)E	(14.8)E	(14.8)E

EBITDA is defined as earnings before interest, taxes, depreciation, and amortization.

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FINANCIAL MODEL

<i>Evoke Pharma Inc.</i>	FY 2012	FY 2013					FY 2014E					FY 2015E				
Income Statement (in millions)	YE	Q1	Q2	Q3	Q4	YE	Q1	Q2	Q3E	Q4E	YE	Q1E	Q2E	Q3E	Q4E	YE
Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cost of revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross profit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Research and development	1.2	0.1	0.1	0.1	0.6	1.0	1.9	2.9	3.7	3.5	11.9	3.5	2.8	2.0	2.6	10.9
General and administrative	0.8	0.2	0.1	0.4	0.9	1.6	1.1	0.6	0.9	0.9	3.5	1.1	0.9	0.9	0.9	3.9
Operating expenses	2.0	0.3	0.2	0.5	1.6	2.6	2.9	3.5	4.6	4.4	15.4	4.6	3.7	2.9	3.5	14.8
Operating income	(2.0)	(0.3)	(0.2)	(0.5)	(1.6)	(2.6)	(2.9)	(3.5)	(4.6)	(4.4)	(15.4)	(4.6)	(3.7)	(2.9)	(3.5)	(14.8)
Interest income	0.0	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expense	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.2)	(0.0)	(0.1)	(0.0)	(0.0)	(0.2)	(0.0)	(0.0)	(0.0)	(0.0)	(0.2)
Change in fair value of warrant liability	0.0	(0.1)	-	0.0	-	(0.1)	-	-	-	-	-	-	-	-	-	-
Other income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income (loss) before taxes & extraordinary items	(2.0)	(0.5)	(0.2)	(0.5)	(1.6)	(2.8)	(3.0)	(3.5)	(4.6)	(4.4)	(15.6)	(4.6)	(3.7)	(3.0)	(3.6)	(14.9)
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effective tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-
Net Income (Loss) applicable to common stockholder	(2.0)	(0.5)	(0.2)	(0.5)	(1.6)	(2.8)	(3.0)	(3.5)	(4.6)	(4.4)	(15.6)	(4.6)	(3.7)	(3.0)	(3.6)	(14.9)
Basic earnings (losses) per share:																
Net earnings (losses)	(1.79)	(0.44)	(0.21)	(0.41)	(0.27)	(1.20)	(0.49)	(0.59)	(0.77)	(0.52)	(2.34)	(0.54)	(0.44)	(0.35)	(0.42)	(1.75)
Diluted earnings (losses) per share:																
Net earnings (losses)	(1.79)	(0.44)	(0.21)	(0.41)	(0.27)	(1.20)	(0.49)	(0.59)	(0.77)	(0.52)	(2.34)	(0.54)	(0.44)	(0.35)	(0.42)	(1.75)
Weighted average shares outstanding:																
Basic	1.1	1.1	1.1	1.2	6.0	2.4	6.0	6.0	6.0	8.5	6.6	8.5	8.5	8.5	8.5	8.5
Diluted	1.5	1.5	1.5	1.5	6.7	2.8	6.7	6.8	6.8	9.3	7.4	9.3	9.3	9.3	9.3	9.3
EBITDA	(2.0)	(0.3)	(0.2)	(0.5)	(1.6)	(2.6)	(2.9)	(3.5)	(4.6)	(4.4)	(15.4)	(4.6)	(3.7)	(2.9)	(3.5)	(14.8)

Evoke Pharma Inc.	2012	2013	2014E	2015E
Balance Sheet (in millions)	YE	YE	YE	YE
ASSETS				
Current Assets:				
Cash and cash equivalents	0	24	32	19
Short term investments	-	-	-	-
Accounts receivable	-	-	-	-
Prepaid expenses and other current assets	-	0	1	1
Other	-	-	-	-
<i>Total current assets</i>	0	24	33	20
Plant, Property, & Equipment	-	1	0	0
Restricted cash and security deposit	-	-	-	-
Intangible assets, net	-	-	-	-
Total Assets	0	25	33	20
LIABILITIES & STOCKHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable	0	0	1	1
Accrued compensation	0	1	1	1
Warrant liability	-	-	-	-
Deferred Revenue	-	-	-	-
Current portion of long-term debt, net of debt discount	-	1	-	-
<i>Total current liabilities</i>	1	2	2	2
Long Term Liabilities:				
Other	-	0	0	0
Long-term debt, net of current portion	1	2	-	-
Total Liabilities	2	4	2	2
STOCKHOLDERS' EQUITY				
Series A convertible preferred stock	18	-	-	-
Common stock	0	0	0	0
Additional paid in capital	0	44	70	71
Retained earnings (deficit)	(20)	(23)	(38)	(53)
Total Stockholders' Equity	(1)	21	32	18
Total Liabilities, Convertible Preferred Stock and Stock Stockholders' Equity	0	25	33	20

<i>Evoke Pharma Inc.</i>	2012	2013	2014E
Cash Flow Statement (in millions)	YE	YE	YE
OPERATING CASH FLOWS			
Net loss	(2)	(3)	(16)
Adjustments to reconcile net loss to net cash used in operating activities			
Stock-based compensation	0	0	1
Non-cash interest	0	0	0
Change in fair value of purchase right liability	-	-	-
Change in fair value of warrant liability	(0)	0	-
Deferred rent expense	-	-	-
Changes in:	-	-	-
Prepaid expenses and other assets	0	(0)	(0)
Other assets	-	-	-
Accounts payable and accrued expenses	0	0	1
Other long-term liabilities	-	-	-
Deferred Revenue	-	-	-
Net cash provided by (used in) operating activities	(2)	(3)	(14)
INVESTING CASH FLOWS			
Purchases of property and equipment	-	-	-
Other	-	-	-
Net cash provided by (used in) investing activities	-	-	-
FINANCING CASH FLOWS			
Proceeds from convertible promissory note	-	-	-
Proceeds from bank line of credit and loan advances	1	2	-
Payment on bank line of credit	-	-	(3)
Costs paid in connection with loan origination	-	-	-
Proceeds from issuance of common stock	-	28	25
Cash paid in connection with initial public offering	-	(2)	-
Proceeds from issuance of preferred stock and purchase rights, net	-	-	-
Proceeds from exercise of stock options	-	-	-
Net cash provided by (used in) financing activities	1	27	22
Net increase (decrease) in cash & cash equivalents	(1)	24	8
Cash & cash equivalents, beginning	1	0	24
Cash & cash equivalents, end	0	24	32

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Risks & Considerations

Risks to attainment of our share price target include: failure of product candidates to demonstrate safety and efficacy in clinical trials, failure of product candidates to gain regulatory approval for commercial sale, failure to obtain suitable reimbursement, competition from similar products, and weaker macroeconomic factors. The above factors represent only some of the risks associated with investing in EVOK. For a complete list, investors should refer to the Company's most recent 10-K and 10-Q filings.

Valuation

Our NPV analysis considers future estimated revenue out to 2025 (\$200 MM), consisting of royalties from commercial sales of its EVK-001 compound used to treat gastroparesis. Our model assumes that the company enters into a licensing agreement for the

product in early 2016, after the NDA is filed, and thus assumes that the company funds all of the clinical development costs for the product by itself. We apply a further haircut adjustment of 50% to the future royalty streams for gastroparesis to capture the remaining clinical and regulatory risk associated with this Phase 3 product development program. We use a WACC of 15% as our discount rate. Finally, we assume a fully diluted share count of 9.3 million.

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BUY: We expect the stock to provide a total return of 15% or more within a 12-month period.

HOLD: We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.

SELL: We expect the stock to have a negative total return of more than 15% within a 12-month period.

Total return is defined as price appreciation plus dividend yield.

Ascendant Capital Markets, LLC Rating System

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Buy: We expect the stock to provide a total return of between 10% and 30% within a 12-month period.

Neutral: We expect the stock to provide a total return of between minus 10% and plus 10% within a 12-month period.

Sell: We expect the stock to provide a total return of minus 10% or worse within a 12-month period.

Speculative Buy: This rating is reserved for companies we believe have tremendous potential, but whose stocks are illiquid or whose equity market capitalizations are very small, often in the definition of a nano cap (below \$50 million in market cap). In general, for stocks ranked in this category, we expect the stock to provide a total return of 50% or more within a 12-month period. However, because of the illiquid nature of the stock's trading and/or the nano cap nature of the investment, we caution that these investments may not be suitable for all parties.

Total return is defined as price appreciation plus dividend yield.

Ascendant Capital Markets, LLC Distribution of Investment Ratings (as of July 3, 2014)

Rating	Count	Percent	Investment Banking Services Past 12 months	
			Count	Percent
Buy	61	79%	9	15%
Hold	14	18%	0	0%
Sell	2	3%	0	0%
Total	77	100%	9	12%

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