

Evoke Pharma, Inc.

Company Reports Q1 2014 Results

COMPANY UPDATE

Rating: BUY

Ticker: EVOK

Price: \$7.58

Target: \$18.00

Q1 2014 Results: Evoke has reported its Q1 2014 results. The Company is pre-revenue. Operating expense was \$2.9 MM, which was an increase of \$2.6 MM compared to a year ago, reflecting increased clinical trial activity, and the added cost of being a public company. Net loss was \$3.0 MM resulting in GAAP EPS of (\$0.49), which was \$0.13 below consensus.

EVK-001 Update: The Company achieved its primary objective of the quarter when it commenced the start of its Phase 3 study in April that will evaluate 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. The Company has signed contracts with 40 of the sites so far. The Company also plans to commence a second required companion study, evaluating EVK-001 in men later this year. The Company also plans to conduct, and complete, a required thorough QT study of EVK-001 this year.

Balance Sheet: The Company ended the quarter with \$22.5 MM of cash. Cash used for operations in the quarter was \$2.0 MM. The Company also made a P&I payment of \$0.36 MM on its \$3 MM term loan. We estimate a cash burn from operations of \$15 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 decreased our 2014 GAAP EPS by \$0.25 to (\$2.50), and decreased our 2015 GAAP EPS estimate by \$0.11 to (\$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:	\$6.48 -14.25
Shares Outstanding (million):	6.7
Market cap (\$million):	\$51
EV (\$million):	\$32
Debt (\$million):	\$2.6
Cash (\$million):	\$22.5
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	0.0E	0.0E	0.0E
Q2 Jun	0.0E	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	(0.35)E	(0.57)E	(0.54)E
Q2	(0.72)E	(0.68)E	(0.43)E	(0.40)E
Q3	(0.77)E	(0.73)E	(0.35)E	(0.32)E
Q4	<u>(0.55)E</u>	<u>(0.52)E</u>	<u>(0.41)E</u>	<u>(0.38)E</u>
Total	(2.50)E	(2.25)E	(1.75)E	(1.64)E

EBITDA (US\$ million)

	<u>2014E</u> (new)	<u>2014E</u> (old)	<u>2015E</u> (new)	<u>2015E</u> (old)
Q1	(2.9)A	(2.1)E	(4.8)E	(4.6)E
Q2	(4.3)E	(4.1)E	(3.6)E	(3.4)E
Q3	(4.6)E	(4.4)E	(2.9)E	(2.7)E
Q4	<u>(4.6)E</u>	<u>(4.4)E</u>	<u>(3.4)E</u>	<u>(3.2)E</u>
Total	(16.4)E	(15.0)E	(14.8)E	(13.9)E

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

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For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report, beginning on page 5.

FINANCIAL MODEL

Evoke Pharma Inc. Income Statement (in millions)	FY 2012	FY 2013					FY 2014E					FY 2015E				
	YE	Q1	Q2	Q3	Q4	YE	Q1	Q2E	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	3.4	3.7	3.7	12.7	3.7	2.7	2.0	2.5	10.9
General and administrative	0.8	0.2	0.1	0.4	0.9	1.6	1.1	0.9	0.9	0.9	3.8	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	4.3	4.6	4.6	16.4	4.8	3.6	2.9	3.4	14.8
Operating income	(2.0)	(0.3)	(0.2)	(0.5)	(1.6)	(2.6)	(2.9)	(4.3)	(4.6)	(4.6)	(16.4)	(4.8)	(3.6)	(2.9)	(3.4)	(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)	(0.0)	(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)	(4.3)	(4.6)	(4.6)	(16.6)	(4.8)	(3.6)	(3.0)	(3.5)	(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)	(4.3)	(4.6)	(4.6)	(16.6)	(4.8)	(3.6)	(3.0)	(3.5)	(14.9)
Basic earnings (losses) per share:																
Net earnings (losses)	(1.79)	(0.44)	(0.21)	(0.41)	(0.27)	(1.20)	(0.49)	(0.72)	(0.77)	(0.55)	(2.50)	(0.57)	(0.43)	(0.35)	(0.41)	(1.75)
Diluted earnings (losses) per share:																
Net earnings (losses)	(1.79)	(0.44)	(0.21)	(0.41)	(0.27)	(1.20)	(0.49)	(0.72)	(0.77)	(0.55)	(2.50)	(0.57)	(0.43)	(0.35)	(0.41)	(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	6.7	6.7	9.2	7.4	9.2	9.2	9.2	9.2	9.2
EBITDA	(2.0)	(0.3)	(0.2)	(0.5)	(1.6)	(2.6)	(2.9)	(4.3)	(4.6)	(4.6)	(16.4)	(4.8)	(3.6)	(2.9)	(3.4)	(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	33	17
Short term investments	-	-	-	-
Accounts receivable	-	-	-	-
Prepaid expenses and other current assets	-	0	0	0
Other	-	-	-	-
<i>Total current assets</i>	0	24	33	17
Plant, Property, & Equipment	-	1	1	1
Restricted cash and security deposit	-	-	-	-
Intangible assets, net	-	-	-	-
Total Assets	0	25	34	18
LIABILITIES & STOCKHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable	0	0	1	1
Accrued compensation	0	1	0	0
Warrant liability	-	-	-	-
Deferred Revenue	-	-	-	-
Current portion of long-term debt, net of debt discount	-	1	1	-
<i>Total current liabilities</i>	1	2	3	2
Long Term Liabilities:				
Other	-	0	0	0
Long-term debt, net of current portion	1	2	0	-
Total Liabilities	2	4	3	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)	(39)	(54)
Total Stockholders' Equity	(1)	21	31	16
Total Liabilities, Convertible Preferred Stock and Stock Stockholders' Equity	0	25	34	18

<i>Evoke Pharma Inc.</i>	2012	2013	2014E
Cash Flow Statement (in millions)	YE	YE	YE
OPERATING CASH FLOWS			
Net loss	(2)	(3)	(17)
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	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)	(15)
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	-	-	(1)
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	24
Net increase (decrease) in cash & cash equivalents	(1)	24	9
Cash & cash equivalents, beginning	1	0	24
Cash & cash equivalents, end	0	24	33

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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.

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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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- 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.
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Total return is defined as price appreciation plus dividend yield.

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Rating	Count	Percent	Investment Banking Services Past 12 months	
			Count	Percent
Buy	58	77%	9	16%
Neutral	14	19%	0	0%
Sell	3	4%	0	0%
Total	75	100%	9	12%

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