

Evoked Pharma (EVOK - \$ 7.58)

1Q14 – The Phase III Study Train Has Left the Station

Yesterday after market close, EVOK reported 1Q14 financial results with a net loss of (\$2.95MM), worse than Laidlaw (\$2.1MM) and the Street estimate of (\$2.2MM). Net loss per share equaled (\$0.49) vs. (\$0.34) and (\$0.37) for Laidlaw and the Street, respectively. EVOK ended the 1Q14 with cash of \$21.8MM, sufficient for operations into late 2H15, in our opinion.

- Quarterly earnings performance is not yet the key investment focus of EVOK.** The major emphasis for share value remains on the progression and clinical results of the company's EVK-001 in female diabetic gastroparesis (DG) Phase III (METO IN-003) study.
- METO IN-003 study update.** Management indicated they have contracted 40 of 60 anticipated clinical sites for the Phase III study. Among the 60 sites, 30 have participated in the prior Phase II study. The study is scheduled to enroll 200 patients equally randomized into placebo or 10 mg EVK-001 and most sites are currently screening eligible patients for enrollment. 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 potential 505(b)(2) filing in late 2H15 if the outcome is positive, as we believe will be likely.

1Q14 Estimates and Reported Results			
(\$,000)	Laidlaw Estimate	Actual	Consensus
Total revenue	\$0.0	\$0.0	\$0.0
Total op. profit (loss)	(\$2,022)	(\$2,923)	(\$2,174)
R&D	\$955	\$1,852	
SG&A	\$1,067	\$1,070	
EPS	(\$0.34)	(\$0.49)	(\$0.37)
Net income (loss)	(\$2,069)	(\$2,956)	(\$2,206)

Source: Bloomberg and Laidlaw and Co.

- 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.

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-14E	-0.49A	-0.60	-0.74	-0.80	-2.65	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

Healthcare/Biotechnology

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

Trading Data:

Last Price (05/13/2014)	\$ 7.58
52-Week High (10/7/2013)	\$ 14.25
52-Week Low (4/15/2014)	\$ 6.48
Market Cap. (MM)	\$ 46
Shares Out. (MM)	6

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Anticipated Milestones in 2014 and Beyond

Product	Indication	Event	Timing	Importance
EVK-100	Diabetic gastroparesis	Commencement of METO IN-004 (male only) Phase III trial	2Q14	**
		Commencement of QT cardiac safety clinical study	3Q14	**
		Potentially report top-line QT cardiac safety clinical study results	1H15	***
		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

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.

Figure 1: Income Statement

Evoke Pharma – Income Statement														
(\$'000)	2011	2012	2013	1Q14	2Q14E	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	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	1,844	1,166	957	1,852	2,500	3,376	3,882	11,610	10,449	5,329	4,530	4,303	4,432	4,565
General and administrative	571	837	1,645	1,070	1,199	1,283	1,385	4,938	5,185	5,703	6,216	6,776	7,386	7,977
Marketing and sales									1,000	15,500	46,500	48,825	51,755	54,342
Total Operating Expenses	2,415	2,002	2,602	2,923	3,699	4,658	5,267	16,548	16,634	26,891	59,556	65,665	73,671	81,883
Operating Incomes (losses)	(2,415)	(2,002)	(2,602)	(2,923)	(3,699)	(4,658)	(5,267)	(16,548)	(16,634)	(22,902)	(33,886)	(1,652)	38,534	84,772
Interest income	11	2	7	4	4	4	4	16	18	20	22	24	26	29
Interest expense	(3)	(24)	(80)	(37)	(37)	(37)	(37)	(148)	(163)	(179)	(197)	(216)	(238)	(238)
Change in fair value of warrant liability	6	7	(82)	0	25	(27)	(4)	(6)	(30)	15	(20)	24	(27)	(27)
Total Other Income, net	13	(15)	(235)	(33)	(8)	(60)	(37)	(138)	(175)	(144)	(195)	(169)	(239)	(236)
Income before tax	(2,401)	(2,018)	(2,836)	(2,956)	(3,707)	(4,718)	(5,304)	(16,685)	(16,808)	(23,047)	(34,081)	(1,821)	38,295	84,536
Tax Rate	0	0										32%	32%	32%
Tax	0	0	0	-	0	-	-	0	0	0	0	583	(12,255)	(27,051)
Net Income (Loss)	(2,401)	(2,018)	(2,836)	(2,956)	(3,707)	(4,718)	(5,304)	(16,685)	(16,808)	(23,047)	(34,081)	(1,238)	26,041	57,484
Net Income (Loss) Applicable to Common Shareholders	(\$2,401)	(2,018)	(2,836)	(2,956)	(3,707)	(4,718)	(5,304)	(16,685)	(16,808)	(23,047)	(34,081)	(1,238)	26,041	57,484
Net Earnings (Losses) Per Share—Basic and Diluted	(\$2.18)	(\$1.79)	(\$1.20)	(\$0.49)	(\$0.60)	(\$0.74)	(\$0.80)	(\$2.65)	(\$1.45)	(\$1.83)	(\$2.51)	(\$0.08)	\$1.67	\$3.46
Shares outstanding—basic and diluted	1,103	1,124	2,368	6,003	6,203	6,403	6,603	6,303	11,603	12,603	13,603	14,603	15,603	16,603
	1,103	1,124	2,368	6,003	6,203	6,403	6,603	6,303	11,603	12,603	13,603	14,603	15,603	16,603
Margin Analysis (% of Sales/Revenue)														
Costs of goods										9%	9%	9%	9%	9%
R&D	NA	NA	NA	NA	NA	NA	NA	NA	NA	134%	18%	7%	4%	3%
MG&A	NA	NA	NA	NA	NA	NA	NA	NA	NA	532%	205%	87%	53%	37%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	NA	-574%	-132%	-3%	34%	51%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	NA	-578%	-133%	-2%	23%	34%
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%	934%	4187%	510%	1113%	-10%	-49%	-15%	-5%	3%	3%
SG&A		47%	97%	460%	308%	215%	47%	200%	5%	10%	9%	9%	9%	8%
Marketing and sales										1450%	200%	5%	6%	5%
Operating Loss		-17%	30%	688%	591%	859%	233%	536%	1%	38%	48%	-95%	-2432%	120%
Total Other Income, net		-213%	1454%	-73%	-96%	19157%	3%	-41%	27%	-17%	35%	-14%	42%	-1%
Pretax Income		41%	498%	498%	405%	871%	228%	488%	1%	37%	48%	-95%	-2203%	121%
Net Income		-16%	41%	498%	1446%	883%	229%	488%	1%	37%	48%	-96%	-2203%	121%
EPS		-18%	-33%	13%	183%	83%	197%	121%	-45%	26%	37%	-97%	-2069%	107%
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Source: Bloomberg LP; Company reports; Laidlaw & Company estimates.

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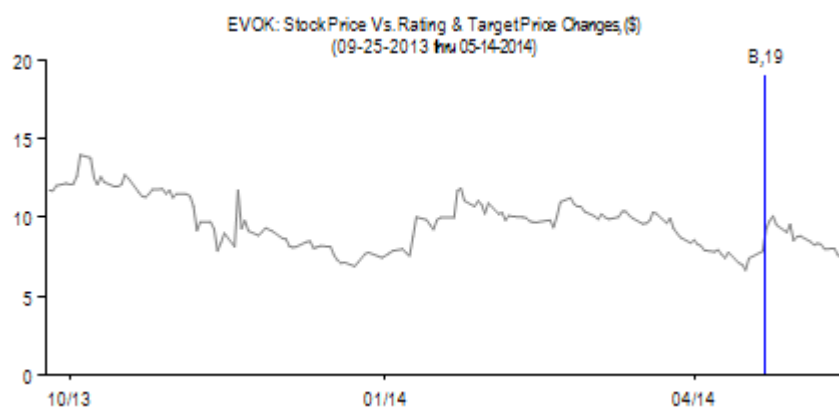
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Date	Rating	Closing Price (\$)
04/22/2014	Buy (B)	9.29

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

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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.	92.86%	35.71%	14.29%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	7.14%	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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