

Evoke Pharma, Inc.

Company Reports Q4 2013 Results

COMPANY UPDATE

Rating: BUY

Ticker: EVOK

Price: \$9.96

Target: \$18.00

Q4 2013 Results: Evoke has reported its Q4 2013 results. The Company is pre-revenue. Operating expense was \$1.6 MM, which was an increase of \$0.8 MM compared to a year ago, reflecting increased clinical trial activity, and the added cost of being a public company. GAAP EPS was (\$0.27), which was \$0.11 below consensus. Cash used for operations in the quarter was \$1.9 MM.

EVK-001 Update: The company continues to make preparations for the start of its Phase 3 studies 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 continues to expect to commence enrollment of the study in Q2 of this year.

Balance Sheet: The Company ended the quarter with \$24.2 MM of cash. We estimate a cash burn of \$15 MM in 2014.

Adjustments to Our Estimates: Our estimates for 2014 and 2015 of no revenue in either year, and GAAP EPS of (\$2.25), and (\$1.64) respectively, are unchanged.

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 about to enter 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. Finally, 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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Keay Nakae, CFA
(949) 259-4933
knakae@ascendant.com

Stock Data

Exchange:	NasdaqCM
52-week Range:	\$8.42 -29.79
Shares Outstanding (million):	6.7
Market cap (\$million):	\$66.7
EV (\$million):	\$90.9
Debt (\$million):	\$0
Cash (\$million):	\$24.2
Avg. Daily Trading Vol. (\$million):	7.8
Float (million shares):	17.7
Short Interest ('000):	156.4
Incorporation:	Delaware
Public auditor:	PWC LLP

Revenues (US\$ million)

	<u>2013A</u> (new)	<u>2013E</u> (old)	<u>2014E</u> (new)	<u>2014E</u> (old)
Q1 Mar	0.0A	0.0A	0.0E	0.0E
Q2 Jun	0.0A	0.0A	0.0E	0.0E
Q3 Sep	0.0A	0.0A	0.0E	0.0E
Q4 Dec	<u>0.0A</u>	<u>0.0E</u>	<u>0.0E</u>	<u>0.0E</u>
Total	0.0A	0.0E	0.0E	0.0E

Earnings per Share (GAAP)

	<u>2013A</u> (new)	<u>2013E</u> (old)	<u>2014E</u> (new)	<u>2014E</u> (old)
Q1	(0.44)A	(0.44)A	(0.35)E	(0.35)E
Q2	(0.21)A	(0.21)A	(0.68)E	(0.68)E
Q3	(0.41)A	(0.41)A	(0.73)E	(0.73)E
Q4	<u>(0.13)A</u>	<u>(0.13)E</u>	<u>(0.52)E</u>	<u>(0.52)E</u>
Total	(0.84)A	(0.84)E	(2.25)E	2.25)E

EBITDA (US\$ million)

	<u>2013A</u> (new)	<u>2013E</u> (old)	<u>2014E</u> (new)	<u>2014E</u> (old)
Q1	(0.3)A	(0.3)A	(2.1)E	(2.1)E
Q2	(0.2)A	(0.2)A	(4.1)E	(4.1)E
Q3	(0.5)A	(0.5)E	(4.4)E	(4.4)E
Q4	<u>(0.8)A</u>	<u>(0.8)E</u>	<u>(4.4)E</u>	<u>(4.4)E</u>
Total	(1.8)A	(1.8)E	(15.0)E	(15.0)E

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

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FINANCIAL MODEL

Evoke Pharma Inc. Income Statement (in millions)	FY 2012					FY 2013					FY 2014E					FY 2015E				
	Q1	Q2	Q3	Q4	YE	Q1	Q2	Q3	Q4	YE	Q1E	Q2E	Q3E	Q4E	YE	Q1E	Q2E	Q3E	Q4E	YE
Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cost of revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross profit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Research and development	0.3	0.2	0.3	0.3	1.2	0.1	0.1	0.1	0.6	1.0	1.2	3.4	3.7	3.7	12.0	3.7	2.7	2.0	2.5	10.9
General and administrative	0.2	0.1	0.1	0.3	0.8	0.2	0.1	0.4	0.9	1.6	0.9	0.7	0.7	0.7	3.0	0.9	0.7	0.7	0.7	3.0
Operating expenses	0.5	0.4	0.5	0.7	2.0	0.3	0.2	0.5	1.6	2.6	2.1	4.1	4.4	4.4	15.0	4.6	3.4	2.7	3.2	13.9
Operating income	(0.5)	(0.4)	(0.5)	(0.7)	(2.0)	(0.3)	(0.2)	(0.5)	(1.6)	(2.6)	(2.1)	(4.1)	(4.4)	(4.4)	(15.0)	(4.6)	(3.4)	(2.7)	(3.2)	(13.9)
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	0.0	0.0	0.0
Interest expense	-	0.0	(0.0)	(0.0)	(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	0.0	0.0	0.0	(0.1)	-	0.0	-	(0.1)	-	-	-	-	-	-	-	-	-	-
Other income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income (loss) before taxes & extraordinary items	(0.5)	(0.4)	(0.5)	(0.7)	(2.0)	(0.5)	(0.2)	(0.5)	(1.6)	(2.8)	(2.1)	(4.1)	(4.4)	(4.4)	(15.2)	(4.6)	(3.4)	(2.8)	(3.3)	(14.1)
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%	0.0%	0.0%	0.0%	0.0%	-
Net Income (Loss) applicable to common stockholder	(0.5)	(0.4)	(0.5)	(0.7)	(2.0)	(0.5)	(0.2)	(0.5)	(1.6)	(2.8)	(2.1)	(4.1)	(4.4)	(4.4)	(15.2)	(4.6)	(3.4)	(2.8)	(3.3)	(14.1)
Basic earnings (losses) per share:																				
Net earnings (losses)	(0.45)	(0.32)	(0.43)	(0.60)	(1.79)	(0.44)	(0.21)	(0.41)	(0.27)	(1.20)	(0.35)	(0.68)	(0.73)	(0.52)	(2.25)	(0.54)	(0.40)	(0.32)	(0.38)	(1.6)
Diluted earnings (losses) per share:																				
Net earnings (losses)	(0.45)	(0.32)	(0.43)	(0.60)	(1.79)	(0.44)	(0.21)	(0.41)	(0.27)	(1.20)	(0.35)	(0.68)	(0.73)	(0.52)	(2.25)	(0.54)	(0.40)	(0.32)	(0.38)	(1.6)
Weighted average shares outstanding:																				
Basic	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.2	6.0	2.4	6.1	6.1	6.1	8.6	6.7	8.6	8.6	8.6	8.6	8.6
Diluted	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	6.7	2.8	6.8	6.8	6.8	9.3	7.5	9.3	9.3	9.3	9.3	9.3
EBITDA	(0.5)	(0.4)	(0.5)	(0.7)	(2.0)	(0.3)	(0.2)	(0.5)	(1.6)	(2.6)	(2.1)	(4.1)	(4.4)	(4.4)	(15.0)	(4.6)	(3.4)	(2.7)	(3.2)	(13.9)
Margin analysis (percentage of sales)																				
Cost of goods sold	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gross profit	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Research and development	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
General and administrative	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Operating expenses	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Operating income	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Income (Loss)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

<i>Evoke Pharma Inc.</i>	2012	2013	2014E	2015E
Balance Sheet (in millions)	YE	YE	YE	YE
ASSETS				
Current Assets:				
Cash and cash equivalents	0	24	34	18
Short term investments	-	-	-	-
Accounts receivable	-	-	-	-
Prepaid expenses and other current assets	-	0	0	0
Other	-	-	-	-
<i>Total current assets</i>	0	24	34	18
Plant, Property, & Equipment	-	1	1	1
Restricted cash and security deposit	-	-	-	-
Intangible assets, net	-	-	-	-
Total Assets	0	25	35	19
LIABILITIES & STOCKHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable	0	0	0	0
Accrued compensation	0	1	1	1
Warrant liability	-	-	-	-
Deferred Revenue	-	-	-	-
Current portion of long-term debt, net of debt discount	-	1	1	-
<i>Total current liabilities</i>	1	2	2	1
Long Term Liabilities:				
Other	-	0	-	-
Long-term debt, net of current portion	1	2	0	-
Total Liabilities	2	4	2	1
STOCKHOLDERS' EQUITY				
Series A convertible preferred stock	18	-	-	-
Common stock	0	0	0	0
Additional paid in capital	0	44	69	68
Retained earnings (deficit)	(20)	(23)	(38)	(52)
Total Stockholders' Equity	(1)	21	31	16
Total Liabilities, Convertible Preferred Stock and Stock Stockholders' Equity	0	25	33	17

Evoke Pharma Inc.	2012	2013	2014E
Cash Flow Statement (in millions)	YE	YE	YE
OPERATING CASH FLOWS			
Net loss	(2)	(3)	(15)
Adjustments to reconcile net loss to net cash used in operating activities			
Stock-based compensation	0	0	1
Non-cash interest	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)	-
Other assets	-	-	-
Accounts payable and accrued expenses	0	0	-
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	-	-	(0)
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	25
Net increase (decrease) in cash & cash equivalents	(1)	24	10
Cash & cash equivalents, beginning	1	0	24
Cash & cash equivalents, end	0	24	34

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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.

Ascendant Capital Markets, LLC Distribution of Investment Ratings (as of December 31, 2013)

Rating	Count	Percent	Investment Banking Services Past 12 months	
			Count	Percent
Strong Buy	9	14%	3	33%
Buy	42	67%	5	12%
Neutral	10	16%	0	0%
Sell	2	3%	0	0%
Total	63	100%	8	13%

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