



August 14, 2014

**Key Metrics**

EVOK - NASDAQ	\$6.39
Pricing Date	Aug 13 2014
Price Target	\$60.00
52-Week Range	\$14.25 - \$6.07
Shares Outstanding (mm)	6.0
Market Capitalization (\$mm)	\$38.3
3-Mo Average Daily Volume	12,156
Institutional Ownership	NA
Debt/Total Capital	NM
ROE	NM
Book Value/Share	\$3.03
Price/Book	2.1x
Dividend Yield	NM
LTM EBITDA Margin	NM

**EPS (\$) FY: December**

	2013A	Prior 2014E	Curr. 2014E	Prior 2015E	Curr. 2015E
1Q-Mar	(0.30)	--	(0.49)A	(0.60)E	(0.61)E
2Q-Jun	(0.35)	(0.53)E	(0.59)A	(0.63)E	(0.64)E
3Q-Sep	(0.41)	(0.69)E	(0.70)E	--	(0.49)E
4Q-Dec	(0.27)	--	(0.74)E	--	(0.40)E
FY	(1.20)	(2.36)E	(2.43)E	(2.00)E	(2.01)E
P/E	NM		NM		NM



Source: BigCharts.com

**Company Description:**

Evoked Pharma, Inc. (<http://www.evokedpharma.com/>) is an emerging specialty pharmaceuticals firm headquartered in San Diego, CA.

**Evoke Pharma, Inc.****Rating: Buy****Phase 3 Trial Progress; 2Q 2014 Financial Results****Investment Highlights:**

- Financials Reported - Phase 3 Trial On Track.** Yesterday afternoon, 2014, Evoke reported financial results for the second quarter of 2014. The firm ended the quarter with \$16mm in cash, which was below our projection but which takes into account the repayment of a \$2.4mm loan from Silicon Valley Bank. While the net loss was higher than we had projected, coming in at \$0.59 per share vs. our estimate of a net loss of \$0.53 per share, this was primarily due to marginally higher-than-expected R&D expenses and that such results are a consequence of running a pivotal Phase 3 trial. Evoke is running a 200-patient, randomized, double-blinded and placebo-controlled study in diabetic gastroparesis with its lead drug candidate, EVK-001 (intranasal metoclopramide). The firm indicated on its conference call that it now has 50 centers enrolling patients in the trial, and that it believes that this number should be sufficient to complete enrollment in a timely manner, although enrollment is now likely to be completed in early 2015. Data should be released in mid-2015. In our view, Evoke remains one of the most undervalued and underappreciated investment opportunities in the healthcare sector, in our view. The firm reiterated on its earnings call that it has sufficient capital to complete the Phase 3 trial and retain a reasonable cash cushion, although additional capital would need to be raised in order to support the filing of a New Drug Application (NDA) and potential launch of the drug. We reiterate our Buy rating and 15-month price target of \$60.00 per share.
- Credit Facility Implemented.** The firm indicated that it recently entered into a \$4.5 million loan and security agreement with Square 1 Bank for general corporate and working capital. Funds may be drawn through November 28, 2015. The company did not draw from the credit facility on the closing, and has not drawn any funds to date. There is no minimum draw-down requirement, and the firm can draw from the facility in a single lump sum or in up to four tranches, with complete flexibility as to the timing and size of such tranches. In our view, the firm has put this facility in place in order to have adequate future access to capital if the equity markets do not provide an opportune level at which to raise further funds. However, we reiterate that the firm remains capital-efficient and has sufficient cash to cover the costs associated with the Phase 3 program for EVK-001.
- Cardiac Safety Study Initiated.** Earlier this week, Evoke indicated that it has embarked upon a thorough QT (TQT) study of intranasal metoclopramide, which it anticipates to complete in early 2015. This trial, which we consider essentially a formality, is another component of the filing requirements from the FDA for potential approval of EVK-001.

**Table 1: Evoke Pharma, Inc. (EVOK) – Historical Income Statements, Financial Projections**

FY end December 31

\$ in thousands, except per share data

	2013A	2014E				2014E	2015E				2015E
		1QA	2QA	3QE	4QE		1QE	2QE	3QE	4QE	
<b>Revenue</b>											
Product revenue	-	-	-	-	-	-	-	-	-	-	-
Service revenue	-	-	-	-	-	-	-	-	-	-	-
Research and other	-	-	-	-	-	-	-	-	-	-	-
<b>Total revenue</b>	-	-	-	-	-	-	-	-	-	-	-
<b>Expenses</b>											
Cost of product and service revenue	-	-	-	-	-	-	-	-	-	-	-
Research & development	957.0	1,852	2,875	3,500	4,500	12,727	4,000	3,000	2,100	1,500	10,600
Selling and marketing	-	-	-	-	-	-	-	-	-	-	-
General and administrative	1,645	1,070	617	750	800	3,237	1,000	2,300	2,700	3,000	9,000
<b>Total expenses</b>	2,602	2,923	3,492	4,250	5,300	15,964	5,000	5,300	4,800	4,500	19,600
<b>Gain (loss) from operations</b>	(2,602)	(2,923)	(3,492)	(4,250)	(5,300)	(15,964)	(5,000)	(5,300)	(4,800)	(4,500)	(19,600)
<b>Other income/expense</b>											
Interest income	7	4	3	2	6	15	8	6	65	55	134
Interest expense	(160)	(37)	(58)	(30)	(25)	(150)	(20)	(15)	(10)	(5)	(50)
Change in fair value of warrant liability	(82)	-	-	-	-	-	-	-	-	-	-
<b>Total investment income and other</b>	(235)	(33)	(55)	(28)	(19)	(135)	(12)	(9)	55	50	84
<b>Income (Loss) before provision for income taxes</b>	(2,836)	(2,955)	(3,547)	(4,278)	(5,319)	(16,100)	(5,012)	(5,309)	(4,745)	(4,450)	(19,516)
Deferred income tax benefit	-	-	-	-	-	-	-	-	-	-	-
<b>Net loss/income</b>	(2,836)	(2,955)	(3,547)	(4,278)	(5,319)	(16,100)	(5,012)	(5,309)	(4,745)	(4,450)	(19,516)
<b>Net loss per share (basic)</b>	(1.20)	(0.49)	(0.59)	(0.70)	(0.74)	(2.43)	(0.61)	(0.64)	(0.49)	(0.40)	(2.01)
Net loss per share (diluted)	(1.20)	(0.49)	(0.59)	(0.70)	(0.74)	(2.43)	(0.61)	(0.64)	(0.49)	(0.40)	(2.01)
Weighted average number of shares outstanding (basic)	2,368	6,003	6,028	6,125	7,175	6,637	8,250	8,350	9,700	11,050	9,700
Weighted average number of shares outstanding (diluted)	2,368	6,003	6,028	6,125	7,175	6,637	8,250	8,350	9,700	11,050	9,700

Source: Company Reports and Aegis Capital Corp. estimates

## **Required Disclosures**

### **Price Target**

Our 15-month price target is \$60.00 per share.

### **Valuation Methodology**

Given the fact that Evoke Pharma is currently unprofitable, we use a discounted cash flow-based approach to value the shares. Based on a comparables analysis, we believe that the stock is worth \$60.00 per share, given our estimate of a ~\$550 million risk-adjusted net present value (rNPV) for the firm's pipeline. This assumes that the shares trade in-line with the comp group average enterprise value of \$550 million and that the firm has roughly 12 million shares outstanding and \$150 million in cash as of the end of the third quarter of 2015.

### **Risk Factors**

Issues that could prevent the achievement of our price objective include, but are not limited to, clinical, regulatory, competitive, reimbursement and financial risks. Drugs in clinical development may not advance due to inadequate safety, efficacy, or tolerability. Regulatory agencies may decline to approve regulatory submissions in a timely manner, or may not approve a drug candidate at all. The firm may require substantial funding to complete the clinical development of its candidates and establish commercial infrastructure, which could be dilutive to current shareholders. We expect competition for the company's drugs from several public and private companies developing pharmaceuticals. Sales of the firm's drugs could depend upon reimbursement from private, as well as public, reimbursement agencies.

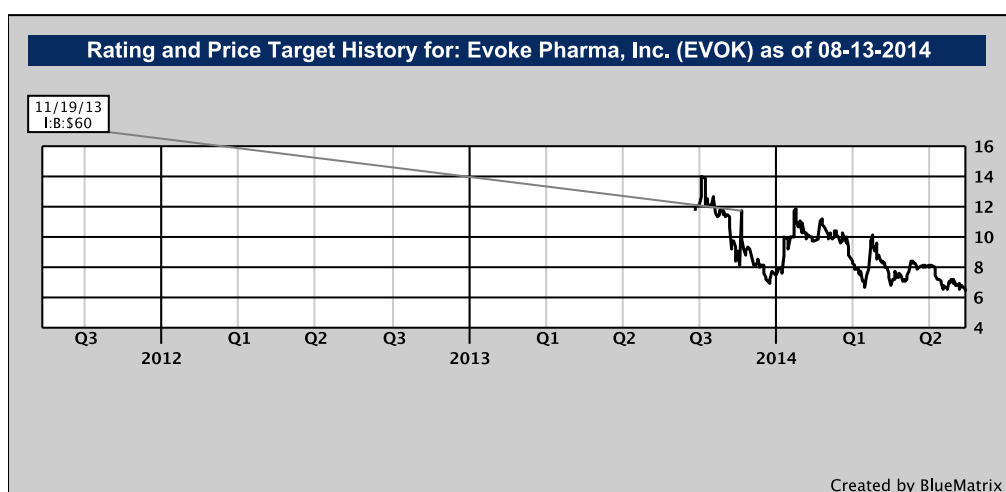
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Research analyst compensation is dependent, in part, upon investment banking revenues received by Aegis Capital Corp.

Aegis Capital Corp. intends to seek or expects to receive compensation for investment banking services from the subject company within the next three months.

Aegis Capital Corp. has performed investment banking services for and received fees from Evoke Pharma, Inc. within the past 12 months.

Aegis Capital Corp. makes a market in Evoke Pharma, Inc..



Rating	Investment Banking Services/Past 12 Mos.	
	Percent	Percent
BUY [BUY]	81.13	55.81
HOLD [HOLD]	18.87	20.00
SELL [SELL]	0.00	0.00

#### Meaning of Ratings

- A) A Buy rating is assigned when we do not believe the stock price adequately reflects a company's prospects over 12-18 months.
- B) A Hold rating is assigned when we believe the stock price adequately reflects a company's prospects over 12-18 months.
- C) A Sell rating is assigned when we believe the stock price more than adequately reflects a company's prospects over 12-18 months.

#### Other Disclosures

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