

Equity Research

Irina Rivkind Koffler
212-915-1237
irivkind@cantor.com

Evoke Pharma, Inc. (EVOK-\$6.46)

Rating: BUY

Target Price: \$20.00

On Track To Mid-2015 Top Line Gastroparesis Data; Maintain BUY and \$20 PT

<u>REV</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>
2013A	0.0A	0.0A	0.0A	0.0A
2014E	0.0A	0.0A	0.0E	0.0E
2015E	—	—	—	—
<u>EPS</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>
2013A	(0.32)A	(0.32)A	(0.41)A	(0.27)A
2014E	(0.49)A	(0.59)A	(0.77)E	(0.77)E
Prev	—	(0.85)E	(0.83)E	(0.82)E
2015E	—	—	—	—
<u>FY</u>	<u>2013A</u>	<u>2014E</u>	<u>2015E</u>	
REV	0.0A	0.0E	0.0E	
EPS	(1.20)A	(2.62)E	(1.59)E	
Prev	—	(3.00)E	(1.30)E	

- **2Q:14 loss beats consensus:** Evoke reported a net loss of \$3.5M, which beat our loss estimate of \$5.2M. The company reported a per-share loss of (\$0.59), compared to our estimated loss of (\$0.85) and FactSet consensus of (\$0.66). R&D expenses were lower than we anticipated at \$2.9M, and this included a \$0.5 million payment to Questcor. We reiterate our BUY rating and \$20 PT, which is based on a 60% risk-adjusted blend of two potential peak revenue scenarios (\$230M weighted at 90% and \$415M weighted at 10%). We use a 3x sales multiple in our valuation, but note that there is potential additional upside as recent take-out multiples in the GI space have been as high as 7x.
- **Phase III gastroparesis trial enrollment update:** Management has activated 50 sites, which are recruiting patients for both the female and male trials. Management may add 10 additional sites but first plans to monitor enrollment metrics to see if this is necessary. Management indicated that it is not conserving resources on site enrollment, so the decision to utilize fewer sites is not financial. Management also noted that screen failure rates are tracking as expected. Management continues to expect Phase III top line data in mid-2015, and we are encouraged that enrollment is progressing on track.
- **Conservative spending thus far:** Management indicated that it does not anticipate significant increases in SG&A spending with limited additions to head count. R&D expenses were lower than expected and would have been roughly \$2.4 million without the payment to Questcor. Management expects the QT trial to increase spending in 3Q:14, but only modestly. Evoke ended the quarter with \$16M in cash and has access to an additional \$4.5M in debt after paying down its initial loan. This cushion gives us comfort that the company should not run out of money before releasing its top line data next year.
- **Other updates:** Evoke announced that it initiated the companion study in males, although data from this trial will not be needed to support the EVOK-001 NDA. Evoke also launched its QT study to ensure cardiac safety of the compound and expects results by early 2015.

Current Statistics

Market Cap (\$Mil)	\$39.4	Float Shares (Mil):	6.100
Avg. Daily Trading Volume (3 mo.):	12,095		
Shares Out (Mil):	6.100		

ADDITIONAL DETAILS FROM THE EARNINGS CALL

We summarize our 2Q:14 earnings estimates in Exhibit 1 below.

Exhibit 1: Evoke 2Q:14 Earnings (\$ in millions, except per share data)

	2Q:14E	2Q:14A	% Variance	Y/Y Growth	Q/Q Growth	Comments
Revenues	0.0	0.0	NM	NM	NM	
Total Revenues	0.0	0.0	NM	NM	NM	
COGS	0.0	0.0	NM	NM	NM	
Gross Profit	0.0	0.0	NM	NM	NM	
SG&A	1.2	0.6	-46.4%	320.2%	-42.4%	
R&D	4.0	2.9	-28.1%	2277.7%	55.2%	
Other	0.0	0.0	NM	NM	NM	
EBIT	-5.2	-3.5	NM	NM	NM	
Interest and Other Income	0.0	-0.1	NM	NM	NM	
Pre-tax income	-5.2	-3.5	NM	NM	NM	
Income tax expense	0.0	0.0	NM	NM	NM	
Net Income	-5.2	-3.5	NM	NM	NM	
Diluted shares	6.1	6.0	-1.2%	433.4%	0.4%	
Operating EPS	-0.8	-0.6	NM	NM	NM	(\$0.66) Consensus

Source: Company reports, Cantor Fitzgerald estimates, and FactSet consensus

Valuation

We value Evoke using a weighted blend of the following two scenarios:

(1) **90% probability:** We apply a 3x multiple to discounted, risk-adjusted peak sales of \$230 million (our most conservative peak sales estimate, which assumes only 20% penetration of today's generic, oral, 10 mg metoclopramide market; with 6% annual price increases), which yields a hypothetical price target of \$19. We employ a seven-year peak sales duration (assuming that peak sales are reached in 2023 after launch in 2H:16). We utilize a 13% discount rate, which is at the higher end of the risk rates we utilize in our space. We also risk adjust the sales estimate by 60% to incorporate clinical risk associated with a Phase III asset.

(2) **10% probability:** We apply a 3x multiple to discounted risk-adjusted peak sales of \$415 million (a more generous scenario, which assumes 16.6% penetration of prescriptions utilized by 2.2 million patients in 2023; with 6% annual price increases), which yields a hypothetical price target of \$34. We utilize a 13% discount rate, and risk-adjust the sales estimate by 60%. We include this scenario also since there could be potential upside to Evoke from capturing a small percentage of antiemetic prescriptions given the new concerns about serotonin syndrome in that drug class.

We therefore arrive at a blended price target of \$20 using these two calculations.

Risks

- (1) Clinical risk associated with intranasal metoclopramide. More specifically, we are concerned about the possibility of a strong placebo response in the pending Phase III trial of female patients.
- (2) Financing needs may pressure the stock if the company needs to raise cash ahead of the Phase III data release.
- (3) Potential volatility in the stock associated with a high percentage of insider shareholders (56% of the stock is held by insiders).
- (4) Progression of competitive products in gastroparesis.
- (5) Manufacturing risk.

Exhibit 2: Evoke Income Statement (dollars in millions, except earnings per share)

	2011	2012	2013	1Q:14A	2Q:14A	3Q:14E	4Q:14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Revenues:																	
Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.0	45.0	102.0	145.0	180.0	205.0	221.0	230.0
Total revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.0	45.0	102.0	145.0	180.0	205.0	221.0	230.0
Operating expenses:																	
COGS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	1.8	4.0	5.6	6.8	7.7	8.2	8.4
Gross Profit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	14.4	43.2	98.0	139.4	173.2	197.3	212.8	221.6
R&D	1.8	1.2	1.0	1.9	2.9	4.0	4.0	12.7	8.0	6.0	6.3	6.6	6.9	7.3	7.7	8.0	8.4
SG&A	0.6	0.8	1.6	1.1	0.6	0.7	0.8	3.1	8.0	30.0	100.0	105.0	110.3	111.4	112.5	113.6	114.7
Other	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
Total operating expenses	2.4	2.0	2.6	2.9	3.5	4.7	4.8	15.9	16.0	36.0	106.3	111.6	117.2	118.6	120.1	121.6	123.2
Operating income (Loss)	(2.4)	(2.0)	(2.6)	(2.9)	(3.5)	(4.7)	(4.8)	(15.9)	(16.0)	(21.6)	(63.1)	(13.6)	22.2	54.5	77.2	91.2	98.4
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.1	0.0	0.0	0.1	0.3	0.6	0.9
Interest expense	(0.0)	(0.0)	(0.2)	(0.0)	(0.1)	0.0	0.0	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in fair value of warrant liability	0.0	0.0	(0.1)	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
Other income, net	0.01	(0.0)	(0.2)	(0.0)	(0.1)	0.0	0.0	(0.1)	0.1	0.2	0.1	0.0	0.0	0.1	0.3	0.6	0.9
Pretax Income	(2.4)	(2.0)	(2.8)	(3.0)	(3.5)	(4.7)	(4.7)	(16.0)	(15.9)	(21.4)	(62.9)	(13.6)	22.3	54.6	77.5	91.8	99.4
Tax Rate	NA	NA	0.0	0.0%	0.0%	0.0%	0.0%	0%	0%	0%	0%	0%	15%	38%	38%	38%	38%
Tax expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.3	20.8	29.4	34.9	37.8
Net income	(2.4)	(2.0)	(2.8)	(3.0)	(3.5)	(4.7)	(4.7)	(16.0)	(15.9)	(21.4)	(62.9)	(13.6)	18.9	33.9	48.0	56.9	61.6
Weighted average common shares (diluted)	1.1	1.1	2.4	6.0	6.0	6.1	6.2	6.1	10.0	12.0	12.6	13.2	13.9	14.6	15.3	16.1	16.9
Diluted EPS	(\$2.18)	(\$1.79)	(\$1.20)	(\$0.49)	(\$0.59)	(\$0.77)	(\$0.77)	(\$2.62)	(\$1.59)	(\$1.79)	(\$5.00)	(\$1.02)	\$1.36	\$2.32	\$3.14	\$3.54	\$3.65
						\$0.0 (\$0.78)	\$0.0 (\$0.76)	\$0.0 (\$2.67)	\$0.0 (\$1.26)	\$8.5 (\$1.51)							
Margin Analysis	2011	2012	2013	1Q:14A	2Q:14A	3Q:14E	4Q:14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Gross Margin	-	-	-	-	-	-	-	-	-	96.0%	96.1%	96.1%	96.2%	96.2%	96.3%	96.3%	96.4%
COGS	-	-	-	-	-	-	-	-	-	4.0%	4.0%	3.9%	3.9%	3.8%	3.8%	3.7%	3.7%
SG&A	-	-	-	-	-	-	-	-	-	200.0%	222.2%	102.9%	76.0%	61.9%	54.9%	51.4%	49.9%
R&D	-	-	-	-	-	-	-	-	-	40.0%	14.0%	6.5%	4.8%	4.1%	3.7%	3.6%	3.7%
Operating Margin	-	-	-	-	-	-	-	-	-	-144.0%	-140.2%	-13.3%	15.3%	30.3%	37.7%	41.3%	42.8%
Net Income Margin	-	-	-	-	-	-	-	-	-	-142.9%	-139.9%	-13.3%	13.0%	18.8%	23.4%	25.7%	26.8%
Growth (Y/Y)	2011	2012	2013	1Q:14A	2Q:14A	3Q:14E	4Q:14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Net Sales	-	-	-	-	-	-	-	-	-	-	200%	127%	42%	24%	14%	8%	4%
SG&A	-	47%	97%	629%	320%	72%	-21%	91%	155%	275%	233%	5%	5%	1%	1%	1%	1%
R&D	-	-37%	-18%	1432%	2278%	4981%	529%	1230%	-37%	-25%	5%	5%	5%	5%	5%	5%	5%
EBIT	-	-	-	-	-	-	-	-	-	-	-	-	-	145%	42%	18%	8%
Interest income (expense)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax	-	-	-	-	-	-	-	-	-	-	-	-	-	522%	42%	18%	8%
Net Income	-	-	-	-	-	-	-	-	-	-	-	-	-	79%	42%	18%	8%
Diluted EPS	-	-	-	-	-	-	-	-	-	-	-	-	-	71%	35%	13%	13%

Source: Company reports, Cantor Fitzgerald estimates, and FactSet Consensus

Company Description

Evoke Pharma is a small, development-stage specialty pharmaceutical company. Its key pipeline product is an intranasal formulation of metoclopramide, a well-known and widely used drug for the treatment of gastroparesis. The novel drug delivery approach developed by Evoke is expected to both enhance efficacy and tolerability, and therefore represents a meaningful improvement to current metoclopramide formulations, in our view.

Companies Mentioned:

Questcor Pharmaceuticals, Inc. (QCOR - NASDAQ): NC

Disclosures Appendix

Analyst Certification

The analyst primarily responsible for this research report, and whose name appears on the front cover, certifies that: (i) all of the views expressed in this research report accurately reflects his or her personal views about any and all of the subject securities or issuers featured in this report; and (ii) no part of any of the research analyst's compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed by the research analyst in this report.

Legal Disclosures

Cantor Fitzgerald and/or its affiliates and/or its officers, directors and employees may be a market maker or hold a position in any instrument or related instrument discussed in this report.

Cantor Fitzgerald and/or its affiliates has received compensation for banking-related services from Evoke Pharma, Inc. within the last 12 months.

Lead or Co-manager: Cantor Fitzgerald and/or its affiliates, has acted as lead or co-manager in a public offering of equity and/or debt securities for Evoke Pharma, Inc. within the last 12 months

Investment banking (last 12 months): Cantor Fitzgerald and/or its affiliates has received compensation for investment banking services in the last 12 months from Evoke Pharma, Inc..

Investment banking (next 3 months): Cantor Fitzgerald and/or its affiliates, expect to receive, or intend to seek, compensation for investment banking services within the next three months from all of the companies referenced within this report.

Cantor Fitzgerald's rating system

BUY: We have a positive outlook on the stock based on our expected 12 month return relative to its risk. The expected return is based on our view of the company and industry fundamentals, catalysts, and valuation. We recommend investors add to their position.

HOLD: We have a neutral outlook on the stock based on our expected 12 month return relative to its risk. The expected return is based on our view of the company and industry fundamentals, catalysts, and valuation.

SELL: We have a negative outlook on the stock based on our expected 12 month return relative to its risk. The expected return is based on our view of the company and industry fundamentals, catalysts, and valuation. We recommend investors reduce their position.

NC: Not Covered. Cantor Fitzgerald does not provide an investment opinion or does not provide research coverage on this stock.

Prior to September 12, 2006, Cantor Fitzgerald had the below ratings:

BUY - denotes stocks that we expect will provide a total return (price appreciation plus yield) of 15% or more over a 12-month period. a BUY rated stock is expected to outperform the total average return of analyst's industry coverage universe on a risk adjusted basis.

HOLD - denotes stocks that we suggest will provide a total return or total negative return of up to 15% over 12-month period. A HOLD rated stock is expected to perform in-line with the total average return of the analyst's industry coverage universe on a risk adjusted basis.

SELL - denotes stocks that we expect to provide a total negative return of more than 15% over a 12 month period. A SELL rated stock is expected to underperform the total average return of the analyst's industry coverage universe on a risk adjusted basis.

NC - Not Covered. Cantor Fitzgerald does not provide research coverage on this company.

Other Disclosures

This report is for informational purposes only and is based on publicly available data believed to be reliable, but no representation is made that such data are accurate or complete. Opinions and projections contained herein reflect our opinion as of the date of this report and are subject to change. Pursuant to Cantor Fitzgerald's policy, the author of this report does not own shares in any company he/she covers.

Disclosures for UK investors

This material is approved for distribution in the United Kingdom by Cantor Fitzgerald Europe ("CFE"). CFE is authorised and regulated by the Financial Conduct Authority ("FCA"). While we believe this information and the materials upon which this information was based is accurate, except for any

obligations under the rules of the FCA, we do not guarantee its accuracy. This material is only intended for use by eligible counterparties or professional clients who fall within articles 19 or 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and not the general investing public. None of the investments or investment services mentioned or described herein are available to other persons in the U.K and in particular are not available to "retail clients" as defined by the rules of the FCA.

Disclosure for Canadian Institutional Investors

This research report was prepared by analysts of Cantor Fitzgerald & Co. and not by Cantor Fitzgerald Canada Corporation. As a result, this report has not been prepared subject to Canadian Disclosure requirements. Cantor Fitzgerald Canada may distribute research reports prepared by its affiliates.

Risks

The financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions based on their specific investment objectives. Past performance should not be taken as an indication or guarantee of future performance. The price, value of and income from, any of the financial instruments featured in this report can rise as well as fall and be affected by changes in economic, financial and political factors. If a financial instrument is denominated in a currency other than the investor's currency, a change in exchange rates may adversely affect the price or value of, or income derived from, the financial instrument, and such investors effectively assume currency risk. In addition, investors in securities such as ADRs, whose value is affected by the currency of the home market of the underlying security, effectively assume currency risk.



Distribution of Ratings/Investment Banking Services (IB) as of 08/13/14

Rating	Cantor		IB Serv./Past 12 Mos.	
	Count	Percent	Count	Percent
BUY [B]	81	59.12	22	27.16
HOLD [H]	46	33.58	7	15.22
SELL [S]	10	7.30	1	10.00