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Evoke Pharma, Inc.

Company Description: Evoke Pharma is developing EVK-001, an intranasal formulation of metoclopramide, for the treatment of diabetic gastroparesis in women. The company plans on initiating its Phase 3 study for EVK-001 in Q2 2014. Evoke was founded in 2007 and is based in San Diego, California.

Healthcare- Specialty Pharmaceuticals May 14, 2014

Evoke reports Q1, Phase 3 study enrolling, reiterate STRONG BUY, $16.00 price target

(EVOK - $7.58) STRONG BUY

Key Points

- **Evoke reported Q1 results yesterday after the close, reporting a loss per share of ($0.49), worse than our ($0.33) estimate. The company's net loss was ~$1.0 million wider than our estimate. It appears the differential relative to our estimate was due to audit fees and other public company costs. The company ended the quarter with $21.8 million in cash and cash equivalents.**
- **The company began enrolling their Phase 3 study on EVK-001, their intranasal formulation of metoclopramide, in women with diabetic gastroparesis several weeks ago and now have 40 locations under contract of an estimated 60 total sites. All 40 locations are in the process of identifying potential patients or are now enrolling patients. Additionally, they have begun the study in men (which is not required for FDA approval). Evoke continues to plan on completing the thorough QT study (studying cardiac safety) by year end.**
- **Dr. Henry Parkman, Director of the GI Motility Laboratory at Temple University School of Medicine recently gave a presentation on the results of the company's Phase 2b study at Digestive Disease Week in Chicago that was well received. Approximately 150 people attended the presentation, with Dr. Parkman fielding a slate of questions, many of which were related to the differences in females as compared to males when it comes to GI tract function. He spoke about the differences associated with estrogen and progesterone and their affect on the GI tract.**
- **Rhythm Pharmaceuticals, a potential competitor to Evoke reported data at Digestive Disease Week on the subcutaneous ghrelin agonist, which showed mixed results on their primary endpoint of gastric emptying, and did not hit its secondary endpoint of change in composite of patient reported outcomes.**
- **The company remains on track to deliver top-line data on EVK-001 by mid-2015 and anticipates they will have a reasonable cushion of cash at the time the top-line data is released.**
- **We are reiterating our STRONG BUY rating and $16.00 price target.**

Financial Summary

Rev(mil)	2013A	2014E	2015E
Mar	$0.0A	$0.0A	$0.0E
June	$0.0A	$0.0E	$0.0E
Sept	$0.0A	$0.0E	$0.0E
Dec	$0.0A	$0.0E	$0.0E
FY	$0.0A	$0.0E	$0.0E
P/Sales	NM	NM	NM

EPS	2013A	2014E	2015E
Mar	($0.43)A	($0.49)A	($0.43)E
June	($0.21)A	($0.61)E	($0.31)E
Sept	($0.41)A	($0.87)E	($0.24)E
Dec	($0.27)A	($0.89)E	($0.21)E
FY	($1.20)A	($2.69)E	($1.19)E
P/E	NM	NM	NM

Price:	$7.58
52-Week Range:	$14.25-$6.48
Target:	$16.00
Rating:	STRONG BUY
Shares Outstanding:	6.1 mil
Mkt. Capitalization:	$46.2 mil
Ave. Volume:	34,000
Instit. Ownership:	N/A
BV / Share:	$3.02
Debt / Tot. Cap.:	18%
Est. LT EPS Growth:	40%

Please see important disclosures on pages 5 to 7.

INVESTMENT THESIS

Evoke Pharma is a specialty pharmaceutical company focused on developing EVK-001, an intranasal form of metoclopramide to treat gastroparesis in women with diabetes mellitus. Metoclopramide has been well characterized and is the only approved medication for treatment of gastroparesis. However with gastroparesis being a gastrointestinal (GI) motility disorder, oral formulations (the vast majority of metoclopramide prescriptions) often do not provide relief as the drug is not able to reach the intestines due to gastroparesis delaying stomach emptying. Evoke's intranasal formulation avoids this issue. Being Evoke has shown solid results for EVK-001 and metoclopramide is already well characterized, we believe FDA approval of EVK-001 is a low-risk proposition. With roughly 4-5 million metoclopramide prescriptions written each year in the US, this represents a massive market opportunity for Evoke at an expected pricing range of $5-$15/day with the typical metoclopramide user utilizing the drug for ~150 days per year. We estimate that Evoke will capture 30% of the market at peak sales levels, this would represent ~$500 million in annual sales, a level achieved by GI drugs Zelnorm and Propulsid, which saw peak sales of $500 million to $1 billion before being pulled from the market due to cardiovascular issues. We believe the combination of a low-risk FDA approval proposition, the massive potential market, EVK-001's Phase 3 trial readout only a year from now, and EVOK's current market capitalization of ~$50 million provides an attractive opportunity for investors. As such, we have assigned EVOK shares a STRONG BUY rating and a $16.00 price target.

Evoke Pharma, Inc.

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Income Statement (millions)	2012	Q1	Q2	Q3	Q4	2013	Q1	Q2E	Q3E	Q4E	2014E	Q1E	Q2E	Q3E	Q4E	2015E
Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
COGS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross profit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross margin	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Operating expenses:																
Research and development	1.2	0.1	0.1	0.1	0.6	1.0	1.9	2.5	4.0	4.0	12.4	4.0	2.5	1.5	1.2	9.2
General and administrative	0.8	0.2	0.1	0.4	0.9	1.6	1.1	1.2	1.3	1.4	5.0	1.5	1.5	1.5	1.5	6.0
Sales and marketing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of in-process research and development	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total operating expenses	2.0	0.3	0.2	0.5	1.6	2.6	2.9	3.7	5.3	5.4	17.3	5.5	4.0	3.0	2.7	15.2
Operating income (loss)	(2.0)	(0.3)	(0.2)	(0.5)	(1.6)	(2.6)	(2.9)	(3.7)	(5.3)	(5.4)	(17.3)	(5.5)	(4.0)	(3.0)	(2.7)	(15.2)
Interest income	-	-	-	0.0	0.0	0.0	0.0	-	-	-	-	-	-	-	-	-
Interest expense	-	-	-	(0.0)	(0.0)	(0.1)	(0.0)	-	-	-	-	-	-	-	-	-
Change in fair value of preferred stock purchase right	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in fair value of warrant liability	-	-	-	0.0	-	0.0	-	-	-	-	-	-	-	-	-	-
Grant income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other income (expense)	(0.0)	(0.2)	(0.0)	(0.0)	(0.0)	(0.2)	-	-	-	-	-	-	-	-	-	-
Income before taxes	(2.0)	(0.5)	(0.2)	(0.5)	(1.6)	(2.8)	(2.9)	(3.7)	(5.3)	(5.4)	(17.3)	(5.5)	(4.0)	(3.0)	(2.7)	(15.2)
Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net income (loss)	(2.0)	(0.5)	(0.2)	(0.5)	(1.6)	(2.8)	(2.9)	(3.7)	(5.3)	(5.4)	(17.3)	(5.5)	(4.0)	(3.0)	(2.7)	(15.2)
Net loss per common share, basic and diluted	$ (1.79)	$ (0.43)	$ (0.21)	$ (0.41)	$ (0.27)	$ (1.20)	$ (0.49)	$ (0.61)	$ (0.87)	$ (0.89)	$ (2.85)	$ (0.43)	$ (0.31)	$ (0.24)	$ (0.21)	$ (1.19)
Weighted-average shares used to compute basic and dilu	1.1	1.2	1.1	1.2	6.0	2.4	6.0	6.1	6.1	6.1	6.1	12.8	12.8	12.8	12.8	12.8

Evoke Pharma, Inc. (EVOK)

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Income Statement (millions)	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenue	-	-	-	-	6.4	78.4	161.1	274.6	393.2	430.5	410.5	388.1	364.6	341.1	315.4	271.8	227.6	181.7	136.4
COGS	-	-	-	-	1.6	3.9	8.1	13.7	19.7	21.5	20.5	19.4	18.2	17.1	15.8	13.6	11.4	9.1	6.8
Gross profit	-	-	-	-	4.8	74.5	153.0	260.9	373.5	409.0	390.0	368.7	346.4	324.0	299.6	258.2	216.2	172.7	129.6
Gross margin	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*75.0%*	*95.0%*	*95.0%*	*95.0%*	*95.0%*	*95.0%*	*95.0%*	*95.0%*	*95.0%*	*95.0%*	*95.0%*	*95.0%*	*95.0%*	*95.0%*	*95.0%*
Operating expenses:																			
Research and development	1.2	1.0	11.4	9.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
General and administrative	0.8	1.6	5.0	6.0	10.5	21.0	21.6	22.3	22.9	23.6	24.3	25.1	25.8	26.6	27.4	28.2	29.1	29.9	30.8
Sales and marketing	-	-	-	-	15.0	52.5	61.8	63.7	65.6	67.5	69.6	71.6	73.8	76.0	78.3	80.6	83.1	85.5	88.1
Purchase of in-process research and development	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total operating expenses	2.0	2.6	16.4	15.2	30.5	78.5	88.4	90.9	93.5	96.2	98.9	101.7	104.6	107.6	110.7	113.9	117.1	120.5	124.0
Operating income (loss)	(2.0)	(2.6)	(16.4)	(15.2)	(25.7)	(4.0)	64.6	170.0	280.0	312.8	291.1	267.0	241.8	216.4	188.9	144.4	99.1	52.2	5.7
Interest income	-	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	-	(0.1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in fair value of preferred stock purchase right	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in fair value of warrant liability	-	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grant income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other income (expense)	(0.0)	(0.2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income before taxes	(2.0)	(2.8)	(16.4)	(15.2)	(25.7)	(4.0)	64.6	170.0	280.0	312.8	291.1	267.0	241.8	216.4	188.9	144.4	99.1	52.2	5.7
Taxes	-	-	-	-	-	-	19.4	68.0	112.0	125.1	116.4	106.8	96.7	86.6	75.6	57.8	39.6	20.9	2.3
Tax rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*30.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*
Net income (loss)	(2.0)	(2.8)	(16.4)	(15.2)	(25.7)	(4.0)	45.2	102.0	168.0	187.7	174.7	160.2	145.1	129.8	113.4	86.6	59.4	31.3	3.4
Earnings (loss) per share																			
Basic	$ (1.79)	$ (1.20)	$ (2.69)	$ (1.19)	$ (1.95)	$ (0.30)	$ 3.24	$ 7.10	$ 11.38	$ 12.38	$ 11.22	$ 10.03	$ 8.87	$ 7.75	$ 6.60	$ 4.93	$ 3.31	$ 1.70	$ 0.18
Diluted	$ (1.79)	$ (1.20)	$ (2.69)	$ (1.19)	$ (1.95)	$ (0.30)	$ 3.08	$ 6.76	$ 10.84	$ 11.81	$ 10.72	$ 9.60	$ 8.49	$ 7.42	$ 6.33	$ 4.74	$ 3.18	$ 1.64	$ 0.17
Weighted-average shares outstanding																			
Basic	1.1	2.4	6.1	12.8	13.2	13.6	14.0	14.4	14.8	15.2	15.6	16.0	16.4	16.8	17.2	17.6	18.0	18.4	18.8
Diluted	1.1	2.4	6.1	12.8	13.2	13.6	14.7	15.1	15.5	15.9	16.3	16.7	17.1	17.5	17.9	18.3	18.7	19.1	19.5

Analyst Certification

I, Ben Haynor, CFA, certify that the views expressed in this research report accurately reflect my personal views about the subject company and its securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation related to the specific recommendations expressed in this report.

Important Disclosures:

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The analyst has not received any compensation for any investment banking business with this company in the past twelve months and does not expect to receive any in the next three months.

Feltl and Company has been engaged for investment banking services with the subject company during the past twelve months and does anticipate receiving compensation for such services in the next three months.

Feltl and Company has not served as a broker, either as agent or principal, buying back stock for the subject company's account as part of the company's authorized stock buy-back program in the last twelve months.

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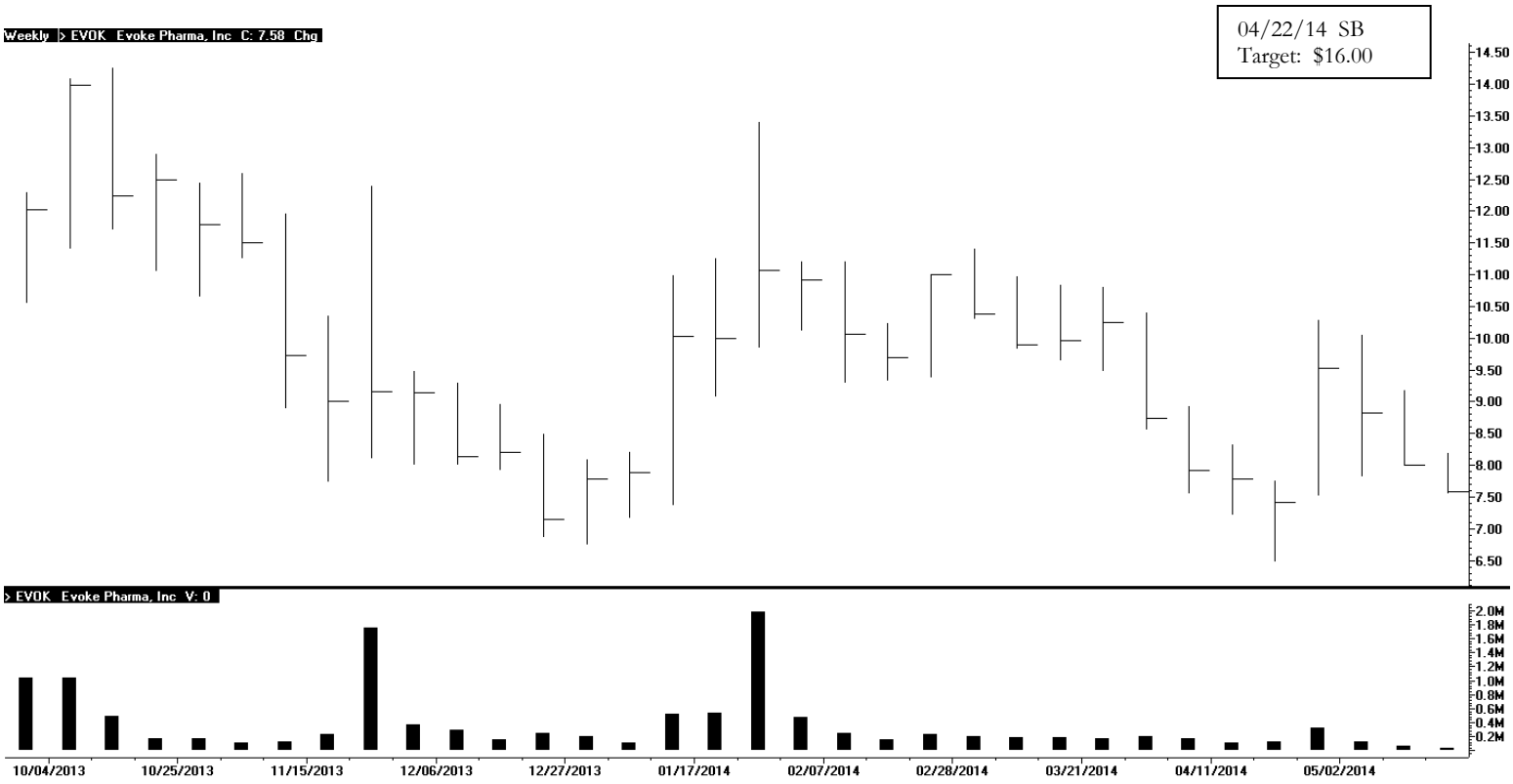
Strong Buy: The stock is expected to have total return potential of at least 20%. Catalysts exist to generate higher valuations, and positions should be initiated at current levels.
Buy: The stock is expected to have total return potential of at least 10%. Near term catalysts may not exist and the common stock needs further time to develop. Investors requiring time to build positions may consider current levels attractive.
Hold: The stock is expected to have total return potential between positive 10% and negative 10%. Fundamental events are not present to make it either a Buy or a Sell. The stock is an acceptable longer-term holding.
Sell: Expect a negative total return of at least 10%. Current positions may be used as a source of funds.

5/14/2014

Ratings Distribution for Feltl and Company

			------ Investment Banking ------	
Rating	Number of Stocks	Percent of Total	Number of Stocks	Percent of Rating category
SB/Buy	49	65%	9	18%
Hold	23	31%	0	0%
Sell	3	4%	0	0%
	75	100%	9	12%

The above represents our ratings distribution on the stocks in the Feltl and Company research universe, together with the number in (and percentage of) each category for which Feltl and Company provided investment-banking services in the previous twelve months.



Date	Nature of Report	Rating	Price Target
04/22/14	Initiation@ 7.86	StrongBuy	$16.00

Feltl and Company does make a market in the subject security at the date of publication of this report. As a market maker, Feltl and Company could act as principal or agent with respect to the purchase or sale of those securities.

Valuation and Price Target Methodology:

Our valuation is based upon an discounted cash flow methodology. Our DCF implies a $24.00 price target, which we have discounted by a third based upon our estimated two-in-three chance EVK-001 gains FDA approval. After discounting for the likelihood of approval we arrive at a $16.00 price target. This represents a ~$75 million enterprise value or ~1.0x EV/sales based on our 2017 revenue estimate.

Risks to Achievement of Estimates and Price Target:

Trial fails to show significance. With only EVK-001 in development, it is virtually guaranteed that investors will face substantial losses should it fail in the upcoming Phase 3 trial. Evoke would either need to go back to the drawing board and conduct additional trials or would be forced to abandon EVK-001. At present, Evoke does not have any other drugs in its pipeline, and while management has evaluated other potential opportunities to add to the pipeline, nothing has been added. Thus, our thesis currently rests on the successful approval of EVK-001, there is no pipeline to provide a backstop to an unfavorable result in the Phase 3 study. While EVK-001 showed efficacy in women in the Phase 2b study, men exhibited a strong placebo response, if this should occur in the Phase 3 trial amongst women, it is likely the EVK-001 will fail.

Competition from lower-priced generic versions of metoclopramide. Oral versions of metoclopramide are available from a variety of manufacturers for less than $1/day. Other indications where alternate delivery mechanisms are available have not seen a great deal of uptake from new delivery

formulations outside of gastroparesis. However, the difficulties of delivering drugs orally for treatment of gastroparesis is a unique case, given the disorder's symptoms. We would consider EVK-001 a special case due to this issue, but there is no guarantee payors will see the situation the same way.

Side effect concerns. Metoclopramide is currently subject to a black box warning on tardive dyskinesia (TD), a disorder characterized by involuntary, repetitive, purposeless body movements, usually facial. We expect EVK-001 to be subject to the same black box treatment if it gains approval. While it is unclear exactly what causes TD, using metoclopramide for extended periods has been shown to cause TD in a small proportion of patients. National guidelines have suggested occurrence in 1%-10% of patients; however, a 2010 study found less than 1% of metoclopramide users develop TD. Evoke did not find any instances of TD in their 267 patient Phase 2b study in or any other studies conducted on intranasal metoclopramide. EVK-001's delivery mechanism should remove the situation where a metoclopramide user takes multiple oral doses, which are then released into the intestines in a bolus, exposing the patient to a large dose at once. We speculate this bolus of drug has a higher likelihood of causing TD over time.

Likely to require additional capital following release of Phase 3 results. Exiting 2013, Evoke had $24.2 million in cash. Based upon our estimates of the Phase 3 study costs and other expenses, we believe current funding will take them through the release of top-line data on EVK-001, but the company would then require additional funding to file the NDA and bring the drug to market.

Please see the company's SEC filings for additional discussion on risks.

Other Disclosures:

The information contained in this report is based on sources considered to be reliable, but not guaranteed, to be accurate or complete. Any opinions or estimates expressed herein reflect a judgment made as of this date, and are subject to change without notice. This report has been prepared solely for informative purposes and is not a solicitation or an offer to buy or sell any security. The securities described may not be qualified for purchase in all jurisdictions. Because of individual requirements, advice regarding securities mentioned in this report should not be construed as suitable for all accounts. This report does not take into account the investment objectives, financial situation and needs of any particular client of Feltl and Company. Some securities mentioned herein relate to small speculative companies that may not be suitable for some accounts. Feltl and Company suggests that prior to acting on any of the recommendations herein, the recipient should consider whether such a recommendation is appropriate given their investment objectives and current financial circumstances. Past performance does not guarantee future results. Additional information is available upon request.

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