

Zacks Small-Cap Research

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Viking Therapeutics, Inc.

(VKTX-NASDAQ)

VKTX: Final Patient Enrolled in P2 Trial of VK2809; Raises Gross Proceeds of \$77.6M in Public Offering...

Based on our probability adjusted DCF model that takes into account potential future revenues of VK5211, VK2809, and VK0214, VKTX is valued at \$15/share. This model is highly dependent upon continued clinical success of those compounds and will be adjusted accordingly based upon future clinical results.

Current Price (06/12/18) \$10.62
Valuation \$15.00

OUTLOOK

On June 5, 2018, Viking Therapeutics, Inc. (VKTX) announced that the final patient has been enrolled in the Phase 2 trial of VK2809 in hypercholesterolemia and fatty liver disease. While difficult to pinpoint exactly when topline data will be reported, we believe that mid-October to mid-November 2018 is a reasonable estimate.

On June 12, 2018, Viking announced the closing of a public offering of 8.625 million shares at \$9.00 per share, which included 1.125 million shares sold based on the underwriter's full exercise of their option to purchase additional shares. Gross proceeds to the company will be approximately \$77.6 million.

SUMMARY DATA

52-Week High \$10.62
52-Week Low \$0.93
One-Year Return (%) 742.86
Beta 2.77
Average Daily Volume (sh) 6,422,513

Shares Outstanding (mil) 51
Market Capitalization (\$mil) \$541
Short Interest Ratio (days) N/A
Institutional Ownership (%) 41
Insider Ownership (%) 4

Annual Cash Dividend \$0.00
Dividend Yield (%) 0.00

5-Yr. Historical Growth Rates
Sales (%) N/A
Earnings Per Share (%) N/A
Dividend (%) N/A

P/E using TTM EPS N/A
P/E using 2018 Estimate -7.0
P/E using 2019 Estimate -7.4

Risk Level High
Type of Stock Small-Growth
Industry Med-Biomed/Gene

ZACKS ESTIMATES

Revenue

(In millions of \$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	0 A	0 A	0 A	0 A	0 A
2018	0 A	0 E	0 E	0 E	0 E
2019					0 E
2020					0 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	-\$0.23 A	-\$0.21 A	-\$0.22 A	-\$0.14 A	-\$0.79 A
2018	-\$0.08 A	-\$0.11 E	-\$0.11 E	-\$0.12 E	-\$0.43 E
2019					-\$0.43 E
2020					-\$0.40 E

WHAT'S NEW

Financial Update

On June 12, 2018, Viking Therapeutics, Inc. (VKTIX) [announced](#) the closing of a public offering of 8.625 million shares at \$9.00 per share, which included 1.125 million shares sold based on the underwriter's full exercise of their option to purchase additional shares. Gross proceeds to the company will be approximately \$77.6 million.

The company exited the first quarter of 2018 with approximately \$77.5 million in cash and cash equivalents. Following this most recent financing, we estimate the company will exit the second quarter of 2018 with between \$140-\$150 million, which should be sufficient to fund operations well into 2020.

Business Update

Final Patient Enrolled in Phase 2 Trial of VK2809

On June 5, 2018, Viking [announced](#) that the final patient has been enrolled in the Phase 2 trial of VK2809. The Phase 2 trial is a randomized, double blind, placebo controlled study where patients are being treated once daily with VK2809 or placebo for 12 weeks followed by four weeks off drug. The primary endpoint will assess changes in LDL cholesterol, with exploratory endpoints evaluating changes in liver fat content, inflammatory markers, and histological changes.

Based on the 12-week treatment period and four-week off-treatment period, we are currently estimating for topline results to be released in the mid-October to mid-November timeframe, but we may be able to more clearly refine that estimate as we get closer to data release.

Madrigal Data Provides Positive Read-Through for VK2809

On May 31, 2018, Madrigal Pharmaceuticals, Inc. (MDGL) announced positive results from the Phase 2 trial of MGL-3196, the company's thyroid hormone receptor beta (TR β) agonist, in patients with biopsy confirmed nonalcoholic steatohepatitis (NASH). The following table shows that 56% of patients treated with MGL-3196 experienced a ≥ 2 point reduction in NAS, which increased to 70% when only considering those patients that were MGL-3196 MRI-PDFF responders at week 12 (e.g., had a $\geq 30\%$ reduction in liver fat). This compared to only 32% of placebo-treated patients. In addition, 27% of MGL-3196-treated patients had resolution of NASH compared to only 6% of placebo-treated patients.

	MGL-3196	MGL-3196 MRI-PDFF Responders ¹	Placebo
Number of patients with baseline and end-of-study liver biopsies ²	73	46	34
≥ 2 Point Decrease in NAS	56%	70%	32%
	p=0.02	p=0.001	
NASH Resolution	27%	39%	6%
	p=0.02	p=0.001	

¹MGL-3196 MRI-PDFF Responders = MGL-3196 treated patients with $\geq 30\%$ relative fat reduction on Week 12 MRI-PDFF

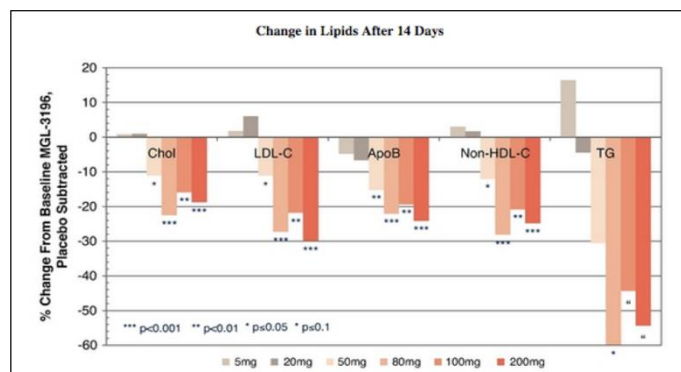
²does not include one end-of-study liver biopsy that was inadequate

Source: Madrigal Pharmaceuticals, Inc.

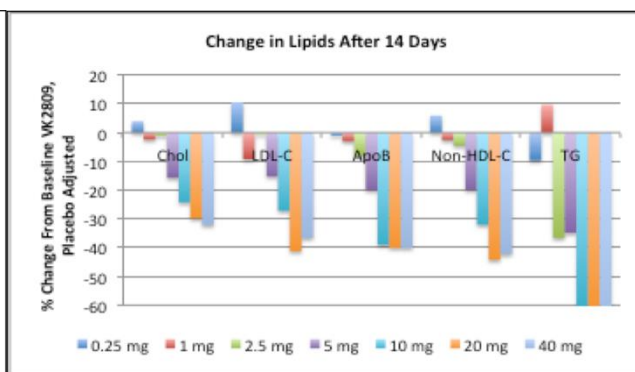
There were a number of other positive outcomes that we had anticipated, including continued decreases in liver fat similar to what was seen after 12 weeks of treatment, decreases in patients' lipid profiles (e.g., triglycerides, LDL-C, ApoB, and lipoprotein(a)), and a benign safety profile (although this was not discussed in great detail). Madrigal's stock was up 150% on the news.

Concurrently, Viking Therapeutics, Inc. (VKTX) stock was up approximately 100% on Madrigal's news, and we believe this is due to the recognition that VK2809, Viking's lead TR β agonist, has a very similar mechanism of action compared to MGL-3196. Thus, we view the positive data from Madrigal as a very encouraging sign for VK2809.

While very hard to perform a direct comparison between the two compounds yet, what data we do have shows that VK2809 compares quite favorably with MGL-3196. The following chart shows that reductions in lipid profiles for both MGL-3196 and VK2809 are very similar, and perhaps even slightly favor VK2809. This comparable data, along with the same mechanism of action shared by the two compounds, leads us to believe that VK2809 will have very similar results to MGL-3196 in liver fat reduction. Lastly, with the positive association between liver fat reduction and decrease in NAS and NASH resolution shown in Madrigal's data, we believe VK2809 has enormous potential in treating NASH.



Source: Madrigal Pharmaceuticals, Inc.



Source: Viking Therapeutics, Inc.; Zacks SCR

Valuation

Now that the study is fully enrolled, we anticipate results from Viking's Phase 2 study of VK2809 in the mid-October to mid-November 2018 timeframe, although hopefully we will be able to better estimate as we get closer to the data release. In addition, VK2809 will be tested in a proof-of-concept study in the orphan disease glycogen storage disease type 1a (GSD 1a), which we anticipate initiating soon.

In contrast to Madrigal, which is only developing MGL-3196, Viking also has VK5211, the company's selective androgen receptor modulator (SARM), for which the company announced positive topline data in November 2017 from a Phase 2 clinical trial in patients following non-elective hip fracture surgery. Partnering discussions are actively ongoing for VK5211 with several multinational and regional companies. The only other company we are aware of developing a SARM is GTX Inc. (GTXI), which is currently testing enobosarm in a Phase 2 clinical trial in stress-urinary incontinence. Results from that study are expected early in 4Q18 (per GTXI guidance). Positive results from that study may provide a similar read-through as Madrigal's data, however the magnitude is difficult to predict.

Lastly, the company is developing VK0214 for the treatment of X-linked adrenoleukodystrophy (X-ALD), for which we anticipate an IND being filed in the first quarter of 2019. Thus, Viking not only has a potential blockbuster in VK2809 for the treatment of NASH, but another potential blockbuster in VK5211 for the treatment of hip fracture (and potentially other indications including sarcopenia, cachexia, joint replacement, and stress urinary incontinence) and a potential orphan drug treatment (which allows for orphan drug pricing) in VK0214. Relative to its peers, the depth and diversity of Viking's pipeline are clear differentiating factors.

We view Madrigal's results as a positive read-through for VK2809. There remains a significant valuation gap between Madrigal and Viking, and while we believe the market may be getting a bit ahead of itself with Madrigal's valuation, we see additional upside for Viking based on narrowing of that gap, a potential read-through from GTXI's data in 4Q18, and any advancement of VK5211 partnering activities. Following the most recent financing our valuation for Viking is \$15 per share.

PROJECTED FINANCIALS

Viking Therapeutics, Inc. Income Statement

Viking Therapeutics, Inc.	2017 A	Q1 A	Q2 E	Q3 E	Q4 E	2018 E	2019 E	2020 E
VK5211 (Hip Fracture)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<i>YOY Growth</i>	-	-	-	-	-	-	-	-
VK2809 (Hypercholesterolemia)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<i>YOY Growth</i>	-	-	-	-	-	-	-	-
VK0214 (ALD)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<i>YOY Growth</i>	-	-	-	-	-	-	-	-
Grants & Collaborative Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<i>YOY Growth</i>	-	-	-	-	-	-	-	-
Total Revenues	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<i>YOY Growth</i>	-	-	-	-	-	-	-	-
Cost of Sales	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<i>Product Gross Margin</i>	-	-	-	-	-	-	-	-
Research & Development	\$13.7	\$3.0	\$4.1	\$4.2	\$4.5	\$15.8	\$18.0	\$20.0
General & Administrative	\$5.3	\$1.8	\$1.5	\$1.6	\$1.6	\$6.5	\$6.5	\$7.0
Other Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Operating Income	(\$19.1)	(\$4.8)	(\$5.6)	(\$5.8)	(\$6.1)	(\$22.3)	(\$24.5)	(\$27.0)
<i>Operating Margin</i>	-	-	-	-	-	-	-	-
Non-Operating Expenses (Net)	(\$1.5)	\$1.3	(\$0.2)	(\$0.2)	(\$0.2)	\$0.7	(\$1.0)	(\$1.0)
Pre-Tax Income	(\$20.6)	(\$3.6)	(\$5.8)	(\$6.0)	(\$6.3)	(\$21.7)	(\$25.5)	(\$28.0)
Income Taxes Paid	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<i>Tax Rate</i>	0%	0%	0%	0%	0%	0%	0%	0%
Net Income	(\$20.6)	(\$3.6)	(\$5.8)	(\$6.0)	(\$6.3)	(\$21.7)	(\$25.5)	(\$28.0)
<i>Net Margin</i>	-	-	-	-	-	-	-	-
Reported EPS	(\$0.79)	(\$0.08)	(\$0.11)	(\$0.11)	(\$0.12)	(\$0.43)	(\$0.43)	(\$0.40)
<i>YOY Growth</i>	-	-	-	-	-	-	-	-
Basic Shares Outstanding	25,978	44,649	52,000	53,000	54,000	50,912	60,000	70,000

Source: Zacks Investment Research, Inc.

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HISTORICAL STOCK PRICE



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