Zacks Small-Cap Research
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Viking Therapeutics, Inc. (VKTX-NASDAQ)

VKTX: Positive Data from Madrigal is Positive for Viking; Raising Valuation to $16…

Based on our probability adjusted DCF model that takes into account potential future revenues of VK5211, VK2809, and VK0214, VKTX is valued at $16/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 (06/01/18)	$9.99
Valuation	**$16.00**

OUTLOOK

On May 31, 2018, Madrigal Pharmaceuticals Inc. (MDGL) announced positive data from a Phase 2 clinical trial of MGL-3196, the company's thyroid hormone receptor beta (TRβ) agonist. Results showed that 56% of patients treated for 36 weeks with MGL-3196 had a ≥ 2 point reduction in NAS, compared to 32% of placebo-treated patients. Among patients with a ≥ 30% reduction in liver fat at week 12, 70% experienced a 2 point reduction in NAS at week 36. In addition, 27% of patients treated with MGL-3196 experienced resolution of NASH, compared to only 6% on placebo. These results validate the use of TRβ agonists for the treatment of NASH, and we are increasing our valuation for Viking to $16 in anticipation of results from the Phase 2 trial of VK2809 in the second half of 2018.

SUMMARY DATA

52-Week High	**$9.99**
52-Week Low	**$0.93**
One-Year Return (%)	**712.20**
Beta	**2.66**
Average Daily Volume (sh)	**3,763,755**
Shares Outstanding (mil)	**51**
Market Capitalization ($mil)	**$509**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**36**
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

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WHAT'S NEW

Business Update

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 (TRβ) 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 ≥ 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	

[1]MGL-3196 MRI-PDFF Responders = MGL-3196 treated patients with >=30% relative fat reduction on Week 12 MRI-PDFF

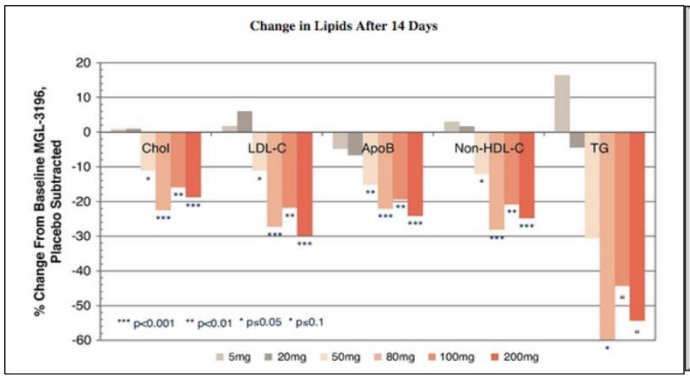
[2]does not include one end-of-study liver biopsy that was inadequate

Source: Madrigal Pharmaceuticals, Inc.

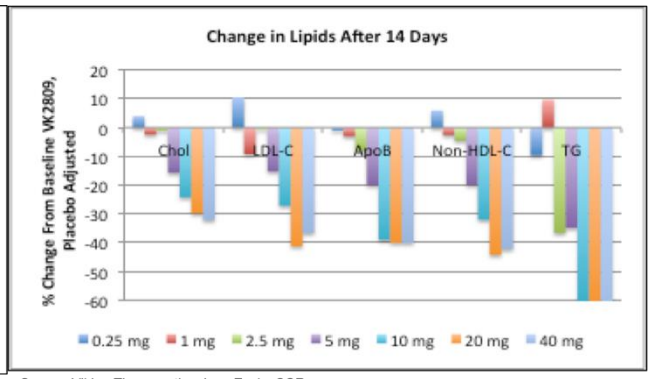
There were a number of other positive outcomes that we had anticipated, including continued decreases in liver fat similar to what was seen after 12 weeks of treatment, decreases in patients' lipid profiles (e.g., triglycerides, LDL-C, ApoB, and lipoprotein(a)), and a benign safety profile (although 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 TRβ 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, which is currently being studied in a Phase 2 clinical trial in patients with hypercholesterolemia and fatty liver disease. We anticipate results from this trial in the second half of 2018.

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

We have been saying for quite some time now that investors should have viewed any weakness in Viking's share price as a potential buying opportunity since Viking is one of the most compelling small-cap biotech opportunities in our coverage universe. However, even after being up 100% following the release of Madrigal's data, we believe there is still considerable upside left for investors.

As mentioned previously, we anticipate results from Viking's Phase 2 study of VK2809 in the second half of 2018. 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 in the second quarter of 2018. 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. 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, and joint replacement) and a potential orphan drug treatment (which allows for orphan drug pricing) in VK0214.

We view Madrigal's results as a positive read-through for VK2809, thus we have increased the probability of success for VK2809 and we have increased our valuation for Viking to $16. 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 as well as any advancement of VK5211 partnering activities.

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
YOY Growth	-	-	-	-	-	-	-	-
VK2809 (Hypercholesterolemia)	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth	-	-	-	-	-	-	-	-
VK0214 (ALD)	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth	-	-	-	-	-	-	-	-
Grants & Collaborative Revenue	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth	-	-	-	-	-	-	-	-
Total Revenues	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
YOY Growth	-	-	-	-	-	-	-	-
Cost of Sales	$0	$0	$0	$0	$0	$0	$0	$0
Product Gross Margin	-	-	-	-	-	-	-	-
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)
Operating Margin	-	-	-	-	-	-	-	-
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
Tax Rate	*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)**
Net Margin	-	-	-	-	-	-	-	-
Reported EPS	**($0.79)**	**($0.08)**	**($0.11)**	**($0.11)**	**($0.12)**	**($0.43)**	**($0.43)**	**($0.40)**
YOY Growth	-	-	-	-	-	-	-	-
Basic Shares Outstanding	25.978	44.649	52.000	53.000	54.000	50.912	60.000	70.000

Source: Zacks Investment Research, Inc. *David Bautz, PhD*

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