

Conatus Pharmaceuticals Inc. (CNAT)

2Q13 Earnings In Line as Company Prepares to Initiate Key Studies

MARKET DATA

Price	\$8.58
52-Week Range:	\$8.26 - \$11.24
Shares Out. (M):	16.0
Market Cap (\$M):	\$137.3
Average Daily Vol. (000):	19.0
Cash (M):	\$71
LT Debt (M):	\$1

Source: Thomson Reuters and JMP Securities LLC

MARKET OUTPERFORM | Price: \$8.58 | Target Price: \$14.00

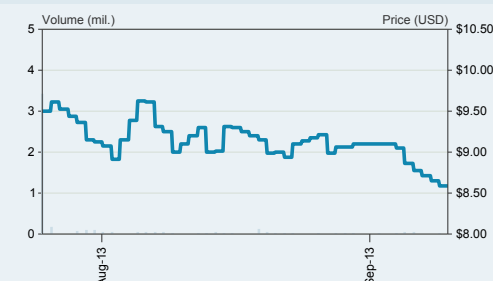
INVESTMENT HIGHLIGHTS

2Q13 earnings in line as company prepares to initiate key studies; reiterate Market Outperform rating and \$14 price target on Conatus Pharmaceuticals based on a risk-adjusted, discounted cash flow analysis. Yesterday, Conatus announced 2Q13 net income of \$0.22M and EPS of \$0.20, greater than our estimates of (\$2.03M) and (\$0.22) due to one time reconciliation of various non-cash items from the recent IPO. Importantly, Conatus reaffirmed its plan to initiate Phase 2b ACLF and Phase 2b/3 HCV-POLT trials for emricasan by year end and we anticipate the next key catalyst will be the release of Phase 2b ACLF data in 2014, which we believe has a high chance of success in meeting the endpoint of reduction in liver enzymes. We recommend owing shares into this event, acknowledging the translation of these observations to Phase 3 endpoints of improvements in outcomes (organ failure, transplant, or death) is in the show me category.

FY DEC	2012A	2013E	2014E
Revenue (\$M) 1Q	--	\$0.0A	--
2Q	--	\$0.0A	--
3Q	--	\$0.0	--
4Q	--	\$0.0	--
FY	\$0.0	\$0.0	\$0.0
EPS 1Q	--	(\$0.03)A	--
2Q	--	\$0.16A	--
3Q	--	(\$0.53)	--
4Q	--	(\$0.56)	--
FY	(\$1.04)	(\$0.92)	(\$2.17)
Previous FY	(\$1.64)	(\$1.30)	(\$1.55)

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE



Company Description

Conatus Pharmaceuticals is a San Diego-based biopharmaceutical company focused on the development of emricasan, a pan-caspase inhibitor with potential to be used to treat liver fibrosis, particularly in areas of large unmet need, including cirrhosis-induced liver failure and graft fibrosis in transplant patients.

Investment Risks

Clinical Risk. Emricasan has not yet been evaluated in clinical trials longer than 12 weeks. Longer trials may result in unanticipated safety concerns, which could cause emricasan to underperform in clinical trials. Although successful in the regulation of biomarkers, emricasan may not impact clinical outcomes.

Regulatory Risk. Conatus hopes to use the Ishak Fibrosis Score as a primary clinical end-point for HCV-POLT; however, endpoints for fibrosis are still under discussion with the FDA. Failure to establish Ishak could slow development in this indication.

Intellectual Property Risk. The composition of matter patent for emricasan expires in 2017 and has not yet received a Hatch Waxman extension. As such, Conatus may have to rely on a polymorph composition and method patent, which expires in 2027, for long-term market exclusivity. If Conatus does not receive orphan exclusivity for emricasan, protection may also be limited.

Commercial Risk. As a small company, Conatus may have difficulty educating healthcare payers and providers on the benefits of a novel drug. As such, emricasan adoption may be slowed.

Sector Risk. Valuation of biopharmaceutical stocks is subject to both investor assessments of the prospects of the underlying companies, as well as tolerance for risk and level of confidence in the prospects of pharmaceutical stocks as a group. Therefore, Conatus' stock price may fall even while the company meets or exceeds investor expectations.

JMP FACTS AND DISCLOSURES

Analyst Certification:

The research analyst(s) who prepared this report does/do hereby certify that the views presented in this report are in accordance with my/our personal views on the securities and issuers discussed in this report. As mandated by SEC Regulation AC no part of my/our compensation was, is or will be directly or indirectly related to the specific views or recommendations expressed herein. This certification is made under the obligations set forth in SEC Regulation AC. Any other person or entity may not use it for any other purpose. This certification is made based on my/our analysis on the date of this report's publication. I/We assume no obligation to update this certification to reflect any facts, circumstances or events that may subsequently come to my/our attention. Signed Liisa A. Bayko and Heather Behanna

JMP Securities Disclosures:

JMP Securities currently makes a market in the security of Conatus Pharmaceuticals Inc.

JMP Securities was manager or co-manager of a public offering for Conatus Pharmaceuticals Inc. in the past 12 months.

JMP Securities Investment Opinion Definitions:

Market Outperform (MO): JMP Securities expects the stock price to outperform relevant market indices over the next 12 months.

Market Perform (MP): JMP Securities expects the stock price to perform in line with relevant market indices over the next 12 months.

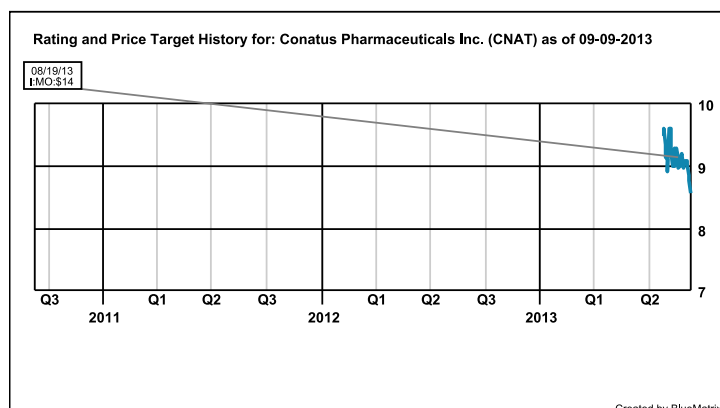
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

JMP Securities Research Ratings and Investment Banking Services: (as of September 9, 2013)

JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	Regulatory Equivalent	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months	% of Co's With This Rating
MARKET OUTPERFORM	Buy	238	60.10%	Buy	238	60.10%	76	31.93%
MARKET PERFORM	Hold	152	38.38%	Hold	152	38.38%	23	15.13%
MARKET UNDERPERFORM	Sell	6	1.52%	Sell	6	1.52%	0	0%
TOTAL:		396	100%		396	100%	99	25.00%

Stock Price Chart of Rating and Target Price Changes:

Note: First annotation denotes initiation of coverage or 3 years, whichever is shorter. If no target price is listed, then the target price is N/A. In accordance with NASD Rule 2711, the chart(s) below reflect(s) price range and any changes to the rating or price target as of the end of the most recent calendar quarter. The action reflected in this note is not annotated in the stock price chart. Source: JMP Securities.



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Jeffrey H. Spurr
Director of Research
(415) 835-3903

RESEARCH PROFESSIONALS

FINANCIAL SERVICES

Alternative Asset Managers

Devin Ryan	(212) 906-3578
Chris Ross, CFA	(212) 906-3532

Commercial & Specialty Finance

Christopher York	(415) 835-8965
Kevin Chen	(404) 848-7774
Hannah Kim	(415) 835-8962

Consumer Finance

David M. Scharf	(415) 835-8942
Jeremy Frazer	(312) 768-1796

Financial Processing & Outsourcing

David M. Scharf	(415) 835-8942
Jeremy Frazer	(312) 768-1796

Insurance

Matthew J. Carletti	(312) 768-1784
Christine Worley	(312) 768-1786

Investment Banks & Brokers

Devin Ryan	(212) 906-3578
Chris Ross, CFA	(212) 906-3532

Mortgage Finance

Steven C. DeLaney	(404) 848-7773
Trevor Cranston, CFA	(415) 869-4431
Charter Robinson	(757) 613-8955
Benjamin Zucker	(212) 906-3529

HEALTHCARE

Biotechnology

Liisa A. Bayko	(312) 768-1785
Heather Behanna, Ph.D.	(312) 768-1795
Andrew Prigodich	(312) 768-1788
Jason N. Butler, PhD	(212) 906-3505
Christopher T. Radom, PhD	(212) 906-3519
Michael G. King, Jr.	(212) 906-3520
Eric Joseph	(212) 906-3514
John L. Newman, PhD	(212) 906-3510
Caroline Palomeque	(212) 906-3509

Healthcare Services & Facilities

Peter L. Martin, CFA	(415) 835-8904
Aaron Hecht	(415) 835-3963
Arthur Kwok	(415) 835-8908

Medical Devices

David Turkaly	(212) 906-3563
John Gillings	(212) 906-3564

Medical Devices & Molecular Diagnostics

J. T. Haresco, III, PhD	(415) 869-4477
Ralph Fong	(415) 835-8916

REAL ESTATE

Housing & Land Development

Peter L. Martin, CFA	(415) 835-8904
Aaron Hecht	(415) 835-3963
Bharathwajan Iyengar	(415) 835-3902

Lodging

Whitney Stevenson	(415) 835-8948
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Property Services

Mitch Germain	(212) 906-3546
Whitney Stevenson	(415) 835-8948

REITs: Healthcare

Peter L. Martin, CFA	(415) 835-8904
Aaron Hecht	(415) 835-3963
Arthur Kwok	(415) 835-8908

REITs: Office, Industrial, & Diversified

Mitch Germain	(212) 906-3546
Peter Lunenburg	(212) 906-3537

TECHNOLOGY

Communications Equipment & Internet Security

Erik Suppiger	(415) 835-3918
John Lucia	(415) 835-3920

Internet & Digital Media

Ronald V. Josey III	(212) 906-3528
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Software

Patrick Walravens	(415) 835-8943
Peter Lowry	(415) 869-4418
Greg McDowell	(415) 835-3934

Wireless & Cloud Computing Technologies

Alex Gauna	(415) 835-8998
Michael Wu	(415) 835-8996

ADDITIONAL CONTACTS

Thomas R. Wright
Director of Equities
(212) 906-3599

Dan Wychulis
Director of Institutional Sales
(617) 235-8530

600 Montgomery Street, Suite 1100
San Francisco, CA 94111
www.jmpsecurities.com