

# Conatus Pharmaceuticals Inc. (CNAT)

Conatus Adds to the 2014 Docket with POLT Trial

## MARKET DATA

Price	\$11.76
52-Week Range:	\$5.76 - \$15.67
Shares Out. (M):	16.0
Market Cap (\$M):	\$188.2
Average Daily Vol. (000):	1,666.0
Cash (M):	\$60
LT Debt (M):	\$1

Source: Thomson Reuters and JMP Securities LLC

**MARKET OUTPERFORM** | Price: \$11.76 | Target Price: \$14.00

## INVESTMENT HIGHLIGHTS

**Conatus Pharmaceuticals adds to the 2014 docket with POLT trial; reiterating Market Outperform rating and \$14 price target based on a risk-adjusted, discounted cash flow analysis.** Conatus recently announced plans to launch a Phase 2b study for emricasan in Post Orthotopic Liver Transplant (POLT) recipients in 2H14. Near term, management believes that this is the best population in which to demonstrate safety and efficacy of chronically dosed emricasan for liver fibrosis, and as such, has worked around the strength of the new HCV regimens by targeting patients with re-established HCV and fibrosis after a liver transplant. Ultimately, the Conatus team views this as an enabling trial for other indications. The trial is expected to initiate in 2H14 and will report data two years later. With the addition of POLT, Conatus will have four clinical programs underway in 2014 including:

- Phase 2b trial in acute-on-chronic liver failure (ACLF) with results expected late in the first half
- Phase 2 trial in non-alcoholic steatohepatitis (NASH), expected to initiate in 1H14
- Phase 2b trial in chronic liver failure (CLF), expected to initiate in 2H14

With multiple trials kicking off, Conatus is seeking to establish emricasan as a lead compound in liver fibrosis. Our analysis suggests that biomarker data from the ACLF trial are likely to be positive, and indications of efficacy in clinically relevant endpoints will be the true test for the compound.

FY DEC	2012A	2013E	2014E
Revenue (\$M) 1Q	--	\$0.0A	--
2Q	--	\$0.0A	--
3Q	--	\$0.0A	--
4Q	--	\$0.0	--
<b>FY</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
EPS 1Q	--	(\$0.03)A	--
2Q	--	\$0.16A	--
3Q	--	(\$0.28)A	--
4Q	--	(\$0.38)	--
<b>FY</b>	<b>(\$1.04)</b>	<b>(\$0.50)</b>	<b>(\$1.62)</b>

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 the potential to be used to treat liver fibrosis, particularly in areas of large unmet need, including cirrhosis-induced liver failure.

## 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 emricasan in acute and chronic indications. However, due to potential on-target activities that may increase cancer risk, FDA maybe unwilling to approve the drug in a chronic setting.

**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 risk tolerance and the 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

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### 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, and received compensation for doing so, 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.

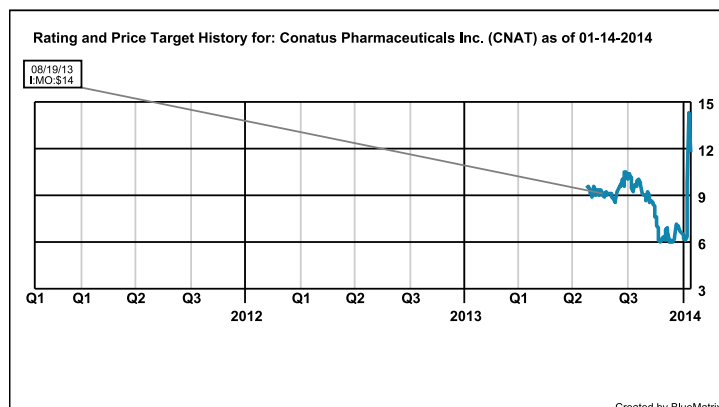
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

### JMP Securities Research Ratings and Investment Banking Services: (as of January 14, 2014)

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	243	55.73%	Buy	243	55.73%	92	37.86%
MARKET PERFORM	Hold	144	33.03%	Hold	144	33.03%	26	18.06%
MARKET UNDERPERFORM	Sell	6	1.38%	Sell	6	1.38%	0	0%
COVERAGE IN TRANSITION		43	9.86%		43	9.86%	0	0%
<b>TOTAL:</b>		<b>436</b>	<b>100%</b>		<b>436</b>	<b>100%</b>	<b>118</b>	<b>27.06%</b>

### 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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