

Conatus Pharmaceuticals Inc. (CNAT)

Overweight

Good 3Q13 Sets Up Eventful Next ~6 Months

CONCLUSION

Conatus reported 3Q13 results with timelines for the ongoing Phase IIb in ACLF remaining consistent with our expectations for top-line data in 1H14 and end-of-Phase II discussions with the FDA in 2H14. The company also intends to start a CLF study in 2H14. Based on progress from other companies' programs in treating HCV-POLT, Conatus is delaying initiation of the Phase IIb/III in order to evaluate the likelihood of enrolling and completing the study, a prudent move in our view. As our valuation is based solely on ACLF, we are not adjusting our revenue projections; however we have reduced projected R&D expenses slightly to reflect the delay in HCV-POLT. We reiterate our Overweight rating and \$16 price target on Conatus.

- **Defining a path forward in ACLF.** In addition to preliminary efficacy data, we expect a more clear definition of the patient population to be enrolled in a possible pivotal study for emricasan. Management pointed to the recent CANONIC study conducted in Europe (Moreau R, et al., [Gastroenterology](#). 2013 Jun;144(7):1426-37) and we believe it will be informative whether the clinical outcomes from the Phase IIb are in line with prior results. Defining the expected patient population is key to our expectations and valuation. A sufficiently comprehensive understanding may have to wait for a more complete data presentation expected in 2H14, in our view.

RISKS TO ACHIEVEMENT OF PRICE TARGET

Principal risks to our price target include: 1) emergence of a safety signal or lack of efficacy; 2) new HCV anti-virals could reduce size of HCV-POLT market opportunity beyond our expectations 3) delay in emricasan to reach the market and 4) inability to raise capital.

COMPANY DESCRIPTION

Conatus focuses on treatments for liver disease.

PRICE: US\$7.67

TARGET: US\$16.00

DCF of projected 2015-2028 free cash flows, 15% discount rate

Charles C. Duncan, PhD

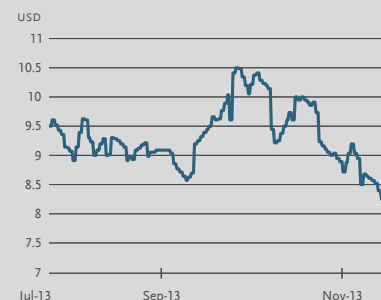
Sr. Research Analyst, Piper Jaffray & Co.
212 284-5025, charles.c.duncan@pjc.com

Roy Buchanan, Ph.D.

Research Analyst, Piper Jaffray & Co.
212 284-9458, roy.d.buchanan@pjc.com

Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$16.00
FY13E Rev (mil)	—	US\$0.0
FY14E Rev (mil)	—	US\$0.0
FY13E EPS	US\$(0.46)	US\$(1.14)
FY14E EPS	US\$(1.63)	US\$(1.73)
52-Week High / Low	US\$11.24 / US\$7.50	
Shares Out (mil)	15.6	
Market Cap. (mil)	US\$119.7	
Avg Daily Vol (ooo)	36	
Book Value/Share	US\$4.98	
Net Cash Per Share	US\$5.11	
Debt to Total Capital	0%	
Yield	0.00%	
Fiscal Year End	Dec	

Price Performance - 1 Year



Source: Bloomberg

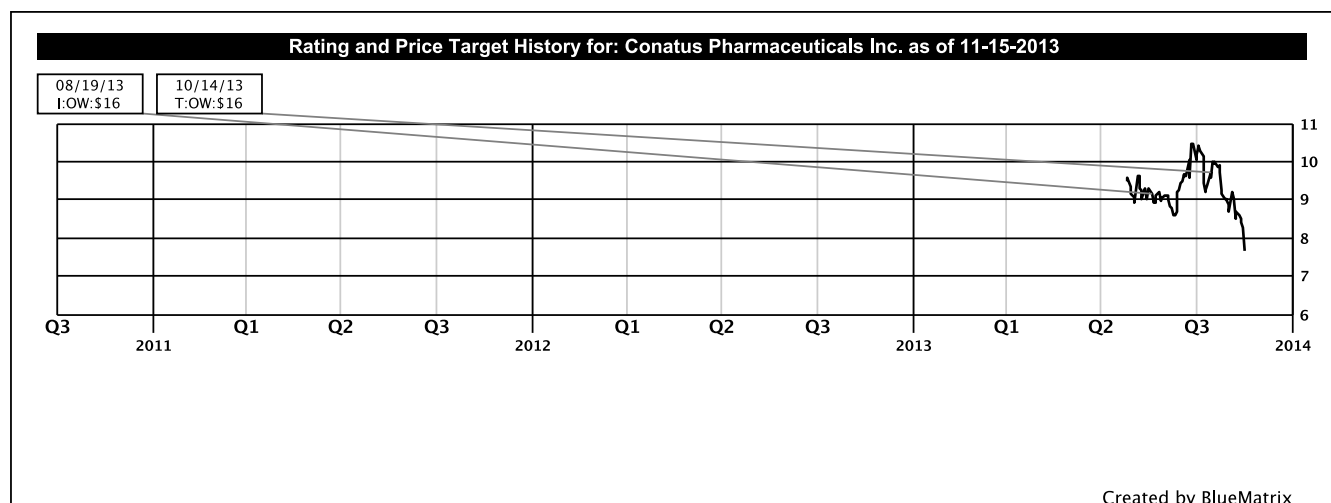
YEAR	REVENUE (US\$ m)						EARNINGS PER SHARE (US\$)					
	Mar	Jun	Sep	Dec	FY	FY	Mar	Jun	Sep	Dec	FY	FY P/E
2012A	—	—	—	—	0.0	NA	—	—	—	—	(0.91)	NM
2013E	0.0A	0.0A	0.0	0.0	0.0	NA	(1.10)A	0.16A	(0.28)A	(0.28)	(1.14)	NM
2014E	0.0	0.0	0.0	0.0	0.0	NA	(0.32)	(0.38)	(0.46)	(0.57)	(1.73)	NM

Reflects Diluted Non-GAAP EPS

Piper Jaffray does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decisions. This report should be read in conjunction with important disclosure information, including an attestation under Regulation Analyst certification, found on pages 3 - 4 of this report or at the following site: <http://www.piperjaffray.com/researchdisclosures>.

Conatus Pharmaceuticals Earnings Model	2012A	1Q 13A	2Q 13A	3Q 13A	4Q 13E	2013E	1Q 14E	2Q 14E	3Q 14E	4Q 14E	2014E	2015E	2016E	2017E	2018E
(\$ in 000s, except per share amounts)															
US Emricasan Sales	0	0	0	0	0	0	0	0	0	0	0	0	0	13,566	47,192
Ex-US Emricasan Sales	0	0	0	0	0	0	0	0	0	0	0	0	0	4,607	16,643
Total Product Sales	0	0	0	0	0	0	0	0	0	0	0	0	0	18,174	63,835
Total Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	18,174	63,835
Costs & Expenses:															
Cost of Goods Sold	0	0	0	0	0	0	0	0	0	0	0	0	0	3,907	13,405
R&D	5,528	968	1,117	1,886	3,111	7,082	3,609	4,403	5,548	7,212	20,772	23,264	27,452	34,315	42,894
SG&A	3,086	749	670	1,108	1,385	3,911	1,551	1,706	1,876	2,064	7,197	10,795	20,511	28,716	34,459
Total Operating Expenses	8,615	1,717	1,788	2,993	4,496	10,993	5,160	6,109	7,424	9,276	27,969	34,060	47,963	66,938	90,758
Operating Income	(8,614.6)	(1,717)	(1,788)	(2,993)	(4,496)	(10,993)	(5,160)	(6,109)	(7,424)	(9,276)	(27,969)	(34,060)	(47,963)	(48,764)	(26,923)
Interest Income	26	0	0	8	176	184	162	142	116	84	505	166	2,381	1,541	632
Interest Expense	(70)	(18)	(196)	(204)	0	(418)	0	0	0	0	0	0	0	0	0
Other income (expense), net	(90)	(563)	(2,890)	(131)	0	(3,584)	0	0	0	0	0	0	0	0	0
Pretax Income (Loss)	(8,749)	(2,297)	(4,873)	(3,321)	(4,320)	(14,811)	(4,997)	(5,966)	(7,308)	(9,193)	(27,464)	(33,893)	(45,582)	(47,223)	(26,291)
Provision for (benefit from) income taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(1,315)
Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0.0%	0.0%	0.0%	5.0%
Other	92	547	5,097	0	0	5,644	0	0	0	0	0	0	0	0	0
Net Income (Loss) GAAP	(8,658)	(1,750)	224	(3,321)	(4,320)	(9,167)	(4,997)	(5,966)	(7,308)	(9,193)	(27,464)	(33,893)	(45,582)	(47,223)	(24,977)
Stock option expense, tax adjusted	144	21	0	0	25	46	25	25	25	25	100	103	105	108	113
Other	90	563	0	12	0	575	0	0	0	0	0	0	0	0	0
Net Income (Loss) Non-GAAP	(8,423)	(1,165)	224	(3,309)	(4,295)	(8,546)	(4,972)	(5,941)	(7,283)	(9,168)	(27,364)	(33,791)	(45,477)	(47,116)	(24,864)
Diluted Earnings Per Share Non-GAAP	(\$0.91)	(\$1.10)	\$0.16	(\$0.28)	(\$0.28)	(\$1.14)	(\$0.32)	(\$0.38)	(\$0.46)	(\$0.57)	(\$1.73)	(\$1.29)	(\$1.69)	(\$1.71)	(\$0.88)
Earnings Per Share, Diluted Fully Taxed						nm					nm	nm	nm	nm	nm
Basic Earnings Per Share Non-GAAP	(\$0.91)	(\$1.10)	\$0.20	(\$0.28)	(\$0.28)	(\$1.16)	(\$0.32)	(\$0.38)	(\$0.46)	(\$0.57)	(\$1.73)	(\$1.29)	(\$1.71)	(\$1.75)	(\$0.91)
Diluted Earnings Per Share GAAP	(\$0.94)	(\$1.29)	\$0.16	(\$0.28)	(\$0.28)	(\$1.22)	(\$0.32)	(\$0.38)	(\$0.46)	(\$0.58)	(\$1.74)	(\$1.29)	(\$1.69)	(\$1.71)	(\$0.89)
Basic Earnings Per Share GAAP	(\$0.94)	(\$1.65)	\$0.20	(\$0.28)	(\$0.28)	(\$1.25)	(\$0.32)	(\$0.38)	(\$0.46)	(\$0.58)	(\$1.74)	(\$1.29)	(\$1.71)	(\$1.75)	(\$0.91)
Diluted Shares Outstanding (000s)	9,255	1,361	1,439	11,664	15,576	7,510	15,669	15,762	15,856	15,951	15,809	26,270	26,927	27,600	28,152
Basic Shares Outstanding (000s)	9,255	1,061	1,139	11,664	15,576	7,360	15,669	15,762	15,856	15,951	15,809	26,190	26,583	26,982	27,387

IMPORTANT RESEARCH DISCLOSURES



Notes: The boxes on the Rating and Price Target History chart above indicate the date of the Research Note, the rating, and the price target. Each box represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first Note written during the past three years.

Legend:

I: Initiating Coverage
R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

Distribution of Ratings/IB Services Piper Jaffray				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	339	56.97	72	21.24
HOLD [N]	230	38.66	15	6.52
SELL [UW]	26	4.37	1	3.85

Note: Distribution of Ratings/IB Services shows the number of companies currently in each rating category from which Piper Jaffray and its affiliates received compensation for investment banking services within the past 12 months. FINRA rules require disclosure of which ratings most closely correspond with "buy," "hold," and "sell" recommendations. Piper Jaffray ratings are not the equivalent of buy, hold or sell, but instead represent recommended relative weightings. Nevertheless, Overweight corresponds most closely with buy, Neutral with hold and Underweight with sell. See Stock Rating definitions below.

Analyst Certification — Charles C. Duncan, PhD, Sr. Research Analyst — Roy Buchanan, Ph.D., Research Analyst

The views expressed in this report accurately reflect my personal views about the subject company and the subject security. In addition, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Research Disclosures

Piper Jaffray was making a market in the securities of Conatus Pharmaceuticals Inc. at the time this research report was published. Piper Jaffray will buy and sell Conatus Pharmaceuticals Inc. securities on a principal basis.

Piper Jaffray expects to receive or intends to seek compensation for investment banking services from Conatus Pharmaceuticals Inc. in the next 3 months.

Piper Jaffray has received compensation for investment banking services from or has had a client relationship with Conatus Pharmaceuticals Inc. within the past 12 months.

Within the past 12 months Piper Jaffray was a managing underwriter of a public offering of, or dealer manager of a tender offer for, the securities of Conatus Pharmaceuticals Inc. or the securities of an affiliate.

Within the past 3 years Piper Jaffray participated in a public offering of, or acted as a dealer manager for, Conatus Pharmaceuticals Inc. securities.

Piper Jaffray research analysts receive compensation that is based, in part, on overall firm revenues, which include investment banking revenues.

Rating Definitions

Stock Ratings: Piper Jaffray ratings are indicators of expected total return (price appreciation plus dividend) within the next 12 months. At times analysts may specify a different investment horizon or may include additional investment time horizons for specific stocks. Stock performance is measured relative to the group of stocks covered by each analyst. Lists of the stocks covered by each are available at www.piperjaffray.com/researchdisclosures. Stock ratings and/or stock coverage may be suspended from time to time in the event that there is no active analyst opinion or analyst coverage, but the opinion or coverage is expected to resume. Research reports and ratings should not be relied upon as individual investment advice. As always, an investor's decision to buy or sell a security must depend on individual circumstances, including existing holdings, time horizons and risk tolerance. Piper Jaffray sales and trading personnel may provide written or oral commentary, trade ideas, or other information about a particular stock to clients or internal trading desks reflecting different opinions than those expressed by the research analyst. In addition, Piper Jaffray technical research products are based on different methodologies and may contradict the opinions contained in fundamental research reports.

- **Overweight (OW):** Anticipated to outperform relative to the median of the group of stocks covered by the analyst.
- **Neutral (N):** Anticipated to perform in line relative to the median of the group of stocks covered by the analyst.
- **Underweight (UW):** Anticipated to underperform relative to the median of the group of stocks covered by the analyst.

Other Important Information

The material regarding the subject company is based on data obtained from sources we deem to be reliable; it is not guaranteed as to accuracy and does not purport to be complete. This report is solely for informational purposes and is not intended to be used as the primary basis of investment decisions. Piper Jaffray has not assessed the suitability of the subject company for any person. Because of individual client requirements, it is not, and it should not be construed as, advice designed to meet the particular investment needs of any investor. This report is not an offer or the solicitation of an offer to sell or buy any security. Unless otherwise noted, the price of a security mentioned in this report is the market closing price as of the end of the prior business day. Piper Jaffray does not maintain a predetermined schedule for publication of research and will not necessarily update this report. Piper Jaffray policy generally prohibits research analysts from sending draft research reports to subject companies; however, it should be presumed that the analyst(s) who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication, and has had assistance from the company in conducting diligence, including visits to company sites and meetings with company management and other representatives.

Notice to customers: This material is not directed to, or intended for distribution to or use by, any person or entity if Piper Jaffray is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to such person or entity. Customers in any of the jurisdictions where Piper Jaffray and its affiliates do business who wish to effect a transaction in the securities discussed in this report should contact their local Piper Jaffray representative. **Europe:** This material is for the use of intended recipients only and only for distribution to professional and institutional investors, i.e. persons who are authorised persons or exempted persons within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom, or persons who have been categorised by Piper Jaffray Ltd. as professional clients under the rules of the Financial Conduct Authority. **United States:** This report is distributed in the United States by Piper Jaffray & Co., member SIPC, FINRA and NYSE, Inc., which accepts responsibility for its contents. The securities described in this report may not have been registered under the U.S. Securities Act of 1933 and, in such case, may not be offered or sold in the United States or to U.S. persons unless they have been so registered, or an exemption from the registration requirements is available.

This report is produced for the use of Piper Jaffray customers and may not be reproduced, re-distributed or passed to any other person or published in whole or in part for any purpose without the prior consent of Piper Jaffray & Co. Additional information is available upon request.

Copyright 2013 Piper Jaffray. All rights reserved.