

Conatus Pharmaceuticals Inc. (CNAT)

Slight Delay in ACLF as Enrollment Criteria Loosened

MARKET DATA

Price	\$9.98
52-Week Range:	\$5.76 - \$15.67
Shares Out. (M):	16.0
Market Cap (\$M):	\$159.7
Average Daily Vol. (000):	597.0
Cash (M):	\$57
LT Debt (M):	\$1

Source: Thomson Reuters and JMP Securities LLC

MARKET OUTPERFORM | Price: \$9.98 | Target Price: \$14.00

INVESTMENT HIGHLIGHTS

Slight delay in ACLF as enrollment criteria loosened; reiterating our Market Outperform rating and \$14 price target on Conatus Pharmaceuticals based on a risk adjusted discounted cash flow analysis. Co an, a pan-caspase inhibitor in development for the treatment of a range of liver diseases including acute-on-chronic liver failure (ACLF), chronic liver failure (CLF), post-orthotopic liver transplant with reestablished fibrosis (POLT), and nonalcoholic steatohepatitis (NASH) (Figure 1), notably pushing out data for ACLF to 2H14 as the company seeks to speed enrollment by loosening eligibility criteria. The company ended the year with \$57M in cash, which we believe is sufficient to carry it through the next catalysts, data from the ongoing ACLF and NASH trials, both of which should read out in 2H14. Based on existing data, we believe the studies have a good chance to show signals of efficacy via changes in biomarkers indicative of liver damage.

Delay in ACLF data. The ACLF data was originally expected late in 1H14, but has been pushed to 2H14 given slower than expected enrollment. To speed enrollment the inclusion and exclusion criteria have been broadened allowing: 1) very sick patients to get on drug more quickly so they are not lost to transplant or death while in the screening process, and 2) borderline patients are to be enrolled by loosening renal and liver function requirements. Additionally, the company expanded the trial to the U.S., from the UK alone, allowing greater patient diversity into the study. We view the adjustments to the ACLF trial as consistent with management's strategy of using the study, in part, to gather information on a poorly understood patient population prior to advancing to a Phase 3 trial.

FY DEC	2012A	2013A	2014E
Revenue (\$M) 1Q	--	\$0.0	\$0.0
2Q	--	\$0.0	\$0.0
3Q	--	\$0.0	\$0.0
4Q	--	\$0.0	\$0.0
FY	\$0.0	\$0.0	\$0.0
EPS 1Q	--	(\$0.26)	(\$0.29)
2Q	--	\$4.27	(\$0.41)
3Q	--	(\$0.28)	(\$0.59)
4Q	--	(\$0.33)	(\$0.58)
FY	(\$1.04)	(\$0.63)	(\$1.87)
Previous FY	NC	(\$0.50)	(\$1.62)

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE



FIGURE 1. Catalysts

Timing	Catalysts	Program
2H14	Phase 2b ACLF data	ACLF
2H14	Phase 2 NASH data	NASH
2H14	Dose selection data: renal and hepatic impairment	LF
2H14	Initiate Phase 2 CLF study	CLF
2H14	Initiate Phase 2b POLT study	POLT

Source: JMP Securities LLC

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.

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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.

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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.

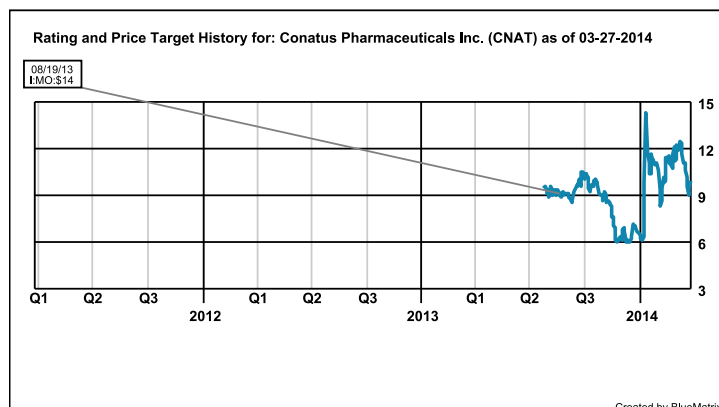
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JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	Regulatory Equivalent	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months	% of Co's With This Rating
MARKET OUTPERFORM	Buy	248	57.01%	Buy	248	57.01%	99	39.92%
MARKET PERFORM	Hold	137	31.49%	Hold	137	31.49%	15	10.95%
MARKET UNDERPERFORM	Sell	7	1.61%	Sell	7	1.61%	0	0%
COVERAGE IN TRANSITION		43	9.89%		43	9.89%	0	0%
TOTAL:		435	100%		435	100%	114	26.21%

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
Brian McKenna	(212) 906-3545

Commercial & Specialty Finance

Christopher York	(415) 835-8965
Hannah Kim, CFA	(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
Brian McKenna	(212) 906-3545

Mortgage Operating Companies

REITs: Agency, Hybrid, & Commercial Mortgage

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, PhD	(312) 768-1795
Andrew Prigodich	(312) 768-1788
Jason N. Butler, PhD	(212) 906-3505
Christopher T. Radom, PhD	(212) 906-3519
Caroline Palomeque	(212) 906-3509
Michael G. King, Jr.	(212) 906-3520
Eric Joseph, PhD	(212) 906-3514
Joseph A. Knowles	(212) 906-3525

Healthcare Services & Facilities

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

Life Science Tools & Diagnostics

J. T. Haresco, III, PhD	(415) 869-4477
Marie T. Casey, PhD	(415) 835-3955

Medical Devices

J. T. Haresco, III, PhD	(415) 869-4477
Marie T. Casey, PhD	(415) 835-3955

Medical Devices & Supplies

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

REAL ESTATE

Housing & Land Development

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

Lodging & Leisure

Robert A. LaFleur	(212) 906-3510
Whitney Stevenson	(212) 906-3538

Property Services

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

REITs: Healthcare, Residential, & Specialty

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

Residential Services

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

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
Andrew Boone	(415) 835-3957

Software

Patrick Walravens	(415) 835-8943
Peter Lowry	(415) 869-4418
Caitlin Schields	(415) 835-8960
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