

Conatus Pharmaceuticals Inc. (CNAT)

HCV-POLT Takes a Backseat to Other Indications; Conatus Reports 3Q13

MARKET DATA

Price	\$8.25
52-Week Range:	\$8.26 - \$11.24
Shares Out. (M):	16.0
Market Cap (\$M):	\$132.0
Average Daily Vol. (000):	4.0
Cash (M):	\$60
LT Debt (M):	\$1

Source: Thomson Reuters and JMP Securities LLC

MARKET OUTPERFORM | Price: \$8.25 | Target Price: \$14.00

INVESTMENT HIGHLIGHTS

HCV-POLT takes a backseat to other indications; Conatus reports 3Q13; reiterate Market Outperform rating and \$14 price target. Following impressive data posted for Gilead's HCV nucleotide, sofosbuvir, in HCV patients in the post-orthotopic liver transplant (POLT) setting, management no longer sees a meaningful market opportunity for its caspase inhibitor, emricasan, in this arena and will shift resources to more pressing indications that are already in progress. We concur with this decision as the path to the HCV-POLT market was long (a two-year outcome study) and in our view, the rapidly declining medical need did not warrant the investment. We have removed revenue and expenses related to HCV-POLT from our model, which net each other out in our risk-adjusted, discounted cash flow analysis, holding our price target at \$14. We recommend shares of Conatus ahead of top-line data from the Phase 2b study in acute-on-chronic liver failure (ACLF) in 1H14, which we believe could be an inflection point for the stock.

3Q earnings. Yesterday, Conatus reported 3Q operating expenses of \$3.0M, in line with our expectations, and earnings per share of (\$0.28), in line with consensus, but higher than our estimate of (\$0.53) due to weighted average shares outstanding from the recent IPO. Conatus ended the quarter with \$60M in cash, which we believe is at least sufficient to see the company through top-line data in ACLF next year.

Exploring potential chronic fibrotic indications. Conatus is continuing to explore opportunities for emricasan in other anti-fibrotic indications outside of HCV-POLT, such as non-alcoholic fatty liver disease (NAFLD) and non-alcoholic steatohepatitis (NASH), justified by promising data from preclinical animal models. We await a better sense of the longer term risk/benefit profile before including these potentially large indications in our model.

FY DEC

2012A

2013E

2014E

Revenue (\$M)	1Q	--	\$0.0A	--
	2Q	--	\$0.0A	--
	3Q	--	\$0.0A	--
	4Q	--	\$0.0	--
	FY	\$0.0	\$0.0	\$0.0
EPS	1Q	--	(\$0.03)A	--
	2Q	--	\$0.16A	--
	3Q	--	(\$0.28)A	--
	4Q	--	(\$0.38)	--
	FY	(\$1.04)	(\$0.50)	(\$1.62)
Previous FY		NC	(\$0.92)	(\$2.17)

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.

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 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, 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.

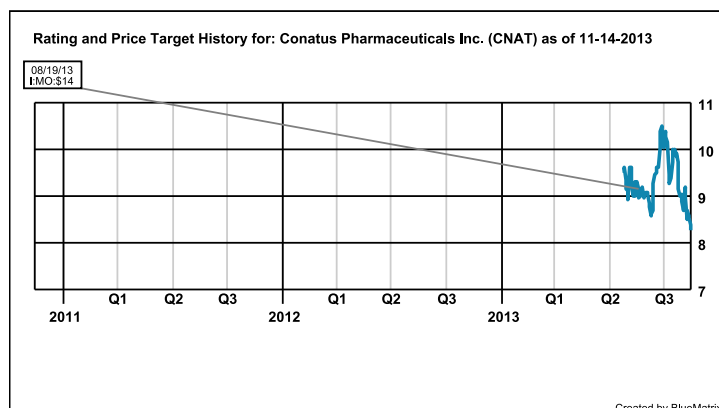
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

JMP Securities Research Ratings and Investment Banking Services: (as of November 14, 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	250	61.43%	Buy	250	61.43%	81	32.40%
MARKET PERFORM	Hold	151	37.10%	Hold	151	37.10%	24	15.89%
MARKET UNDERPERFORM	Sell	6	1.47%	Sell	6	1.47%	0	0%
TOTAL:		407	100%		407	100%	105	25.80%

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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