

# Conatus Pharmaceuticals Inc. (CNAT)

Conatus Reports Earnings In Line as We Await Phase 2 Data

## MARKET DATA

Price	\$5.34
52-Week Range:	\$5.27 - \$15.67
Shares Out. (M):	15.6
Market Cap (\$M):	\$83.3
Average Daily Vol. (000):	204.0
Cash (M):	\$51
LT Debt (M):	\$1

Source: Thomson Reuters and JMP Securities LLC

**MARKET OUTPERFORM** | Price: \$5.34 | Target Price: \$14.00

## INVESTMENT HIGHLIGHTS

**Conatus reports earnings in line as we await Phase 2 data; we reiterate our Market Outperform rating and \$14 price target** based on a risk-adjusted, discounted cash flow analysis. Conatus reported 1Q earnings of (\$0.34), in line with our estimate and consensus of (\$0.29) and finished the quarter with \$51M in cash. Management guided to \$28-\$32M in cash on hand by the end of 2014, which we project as sufficient to reach key value inflection points stemming from data from ongoing trials for its lead program, emricasan, notably biomarker data from Phase 2 trials in ACLF and NASH (Figure 1). In addition, the company provided details on planned data read-outs for the recently initiated, sponsor-open, post-orthotopic liver transplant (POLT) trial, with the first view expected in 1H15, providing a potential de-risking event for chronic indications such as NASH. Based on our analysis of existing data, we believe ongoing ACLF and NASH trials have a good chance to show an effect on biomarkers and thus, continue to recommend shares ahead of the catalyst-rich second half.

FY DEC	2013A	2014E	2015E
Revenue (\$M) 1Q	\$0.0	\$0.0A	--
2Q	\$0.0	\$0.0	--
3Q	\$0.0	\$0.0	--
4Q	\$0.0	\$0.0	--
<b>FY</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
EPS 1Q	(\$0.26)	(\$0.34)A	--
2Q	\$4.27	(\$0.42)	--
3Q	(\$0.28)	(\$0.39)	--
4Q	(\$0.33)	(\$0.43)	--
<b>FY</b>	<b>(\$0.63)</b>	<b>(\$1.58)</b>	<b>(\$2.03)</b>
Previous FY	NC	(\$1.87)	(\$2.00)

Source: Company reports and JMP Securities LLC

## STOCK PRICE PERFORMANCE



FIGURE 1. Upcoming Catalysts

Timing	Catalysts	Program
2H14	Phase 2b ACLF data	ACLF
2H14	Phase 2 NASH data	NASH
1H15	Interim data from Phase 2b POLT study	POLT

Source: Company reports and 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.

## 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 of securities for Conatus Pharmaceuticals Inc. (CNAT) in the past 12 months, and received compensation for doing so.

### 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.

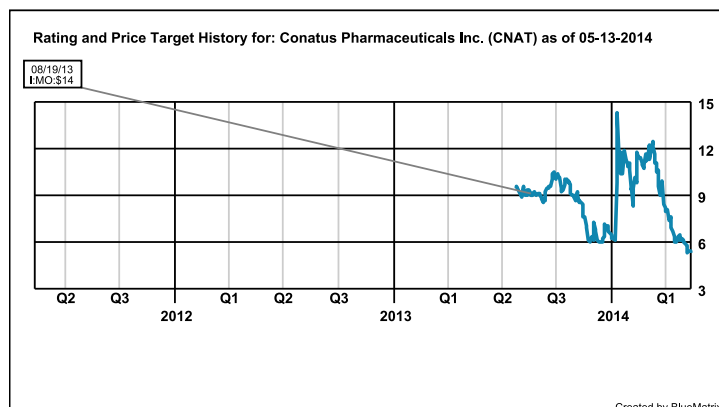
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

### JMP Securities Research Ratings and Investment Banking Services: (as of May 13, 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	254	57.99%	Buy	254	57.99%	98	38.58%
MARKET PERFORM	Hold	136	31.05%	Hold	136	31.05%	17	12.50%
MARKET UNDERPERFORM	Sell	5	1.14%	Sell	5	1.14%	0	0%
COVERAGE IN TRANSITION		43	9.82%		43	9.82%	0	0%
TOTAL:		438	100%		438	100%	115	26.26%

### 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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