

Conatus Pharmaceuticals Inc. (CNAT)

Overweight

Cash and Data Presentations Bode Well for 2H14

CONCLUSION

Conatus reported 1Q14 earnings yesterday. Quarter end cash was \$51M and the company guided to YE cash of \$28-32M. Updates on emricasan clinical programs include the Phase II in NASH/NAFLD, with data expected in 2H14, the HCV-POLT Phase IIb study, with biomarker data possible in 1H15, and the 3 ACLF studies (Phase IIb, renal impaired, and hepatic impaired) is on track for PK data in the 2nd half. We reiterate our Overweight rating and \$16 price target on the potential for emricasan to address unmet need in these major indications of the liver and ahead of the data-rich 2nd-half of 2014.

- **Upside possible from new study.** Among the notable emricasan milestones for the 2nd half, not mentioned above, is the planned initiation of a Phase II in compensated cirrhotic patients. The goal in these less severe patients would be to delay progression to decompensation. We currently do not explicitly model revenue from this indication and thus could see data from the Phase II as upside. However, in the absence of trial design, size, and cost, we reserve judgment on it.
- **An AASLD-FDA follow-up meeting** to one held last September is scheduled for June 21st and 22nd in Chicago: Emerging Trends in Antifibrotic Drug Trials: Strategies and Endpoints. We hope to see greater clarity on thoughts for endpoints for NASH/NAFLD. Conatus believes that the HCV-POLT study will be the first proof-of-concept study for emricasan in fibrotic disease. That study is using the Ishak fibrosis score, which is well established and accepted. Beyond the possible biomarker data in mid-2015, there may be a histology interim we expect in mid-to-late 2016.

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\$5.34

TARGET: US\$16.00

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

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$16.00
FY14E Rev (mil)	—	US\$0.0
FY15E Rev (mil)	—	US\$0.0
FY14E EPS	US\$(1.95)	US\$(1.78)
FY15E EPS	US\$(1.49)	US\$(1.31)
52-Week High / Low	US\$15.67 / US\$5.27	
Shares Out (mil)	15.4	
Market Cap. (mil)	US\$82.2	
Avg Daily Vol (ooo)	454	
Book Value/Share	US\$3.10	
Net Cash Per Share	US\$3.30	
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
2013A	0.0	0.0	0.0	0.0	0.0	NA	(1.10)	0.16	(0.28)	(0.33)	(0.63)	NM
2014E	0.0A	0.0	0.0	0.0	0.0	NA	(0.34)A	(0.38)	(0.47)	(0.59)	(1.78)	NM
2015E	—	—	—	—	0.0	NA	—	—	—	—	(1.31)	NM

Reflects Diluted Non-GAAP EPS

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Conatus Pharmaceuticals Earnings Model	2012A	1Q 13A	2Q 13A	3Q 13A	4Q 13	2013A	1Q 14	2Q 14E	3Q 14E	4Q 14E	2014E	2015E	2016E
<i>(\$ in 000s, except per share amounts)</i>													
US Emricasan Sales	0	0	0	0	0	0	0	0	0	0	0	0	0
Ex-US Emricasan Sales	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Product Sales	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0
Costs & Expenses:													
Cost of Goods Sold	0	0	0	0	0	0	0	0	0	0	0	0	0
R&D	5,528	968	1,117	1,886	2,977	6,947	3,651	4,454	5,612	7,295	21,011	23,533	27,768
SG&A	3,086	749	670	1,108	2,124	4,651	1,595	1,755	1,930	2,123	7,404	11,105	21,100
Total Operating Expenses	8,615	1,717	1,788	2,993	5,101	11,598	5,246	6,209	7,542	9,418	28,415	34,638	48,869
Operating Income	(8,614.6)	(1,717)	(1,788)	(2,993)	(5,101)	(11,598)	(5,246)	(6,209)	(7,542)	(9,418)	(28,415)	(34,638)	(48,869)
Interest Income	26	0	0	8	14	22	21	255	235	202	713	639	2,850
Interest Expense	(70)	(18)	(196)	(204)	(45)	(463)	(18)	0	0	0	(18)	0	0
Other income (expense), net	(90)	(563)	(2,890)	(131)	6	(3,578)	(1)	0	0	0	(1)	0	0
Pretax Income (Loss)	(8,749)	(2,297)	(4,873)	(3,321)	(5,126)	(15,616)	(5,243)	(5,953)	(7,307)	(9,216)	(27,720)	(33,999)	(46,018)
Provision for (benefit from) income taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0.0%	0.0%
Other	92	547	5,097	0	0	5,644	2	0	0	0	2	0	0
Net Income (Loss) GAAP	(8,658)	(1,750)	224	(3,321)	(5,126)	(9,972)	(5,241)	(5,953)	(7,307)	(9,216)	(27,718)	(33,999)	(46,018)
Stock option expense, tax adjusted	144	21	0	0	25	46	25	25	25	25	100	103	105
Other	90	563	0	12	(6)	569	1	0	0	0	1	0	0
Net Income (Loss) Non-GAAP	(8,423)	(1,165)	224	(3,309)	(5,107)	(9,357)	(5,215)	(5,928)	(7,282)	(9,191)	(27,617)	(33,897)	(45,913)
Diluted Earnings Per Share Non-GAAP	(\$0.91)	(\$1.10)	\$0.16	(\$0.28)	(\$0.33)	(\$1.27)	(\$0.34)	(\$0.38)	(\$0.47)	(\$0.59)	(\$1.78)	(\$1.30)	(\$1.72)
Earnings Per Share, Diluted Fully Taxed						nm					nm	nm	nm
Basic Earnings Per Share Non-GAAP	(\$0.91)	(\$1.10)	\$0.20	(\$0.28)	(\$0.33)	(\$1.27)	(\$0.34)	(\$0.38)	(\$0.47)	(\$0.59)	(\$1.78)	(\$1.31)	(\$1.74)
Diluted Earnings Per Share GAAP	(\$0.94)	(\$1.29)	\$0.16	(\$0.28)	(\$0.33)	(\$0.63)	(\$0.34)	(\$0.38)	(\$0.47)	(\$0.59)	(\$1.78)	(\$1.31)	(\$1.73)
Basic Earnings Per Share GAAP	(\$0.94)	(\$1.65)	\$0.20	(\$0.28)	(\$0.33)	(\$1.36)	(\$0.34)	(\$0.38)	(\$0.47)	(\$0.59)	(\$1.78)	(\$1.31)	(\$1.75)
Diluted Shares Outstanding (000s)	9,255	1,361	1,439	11,664	15,353	7,358	15,412	15,505	15,597	15,690	15,551	26,004	26,654
Basic Shares Outstanding (000s)	9,255	1,061	1,139	11,664	15,353	7,358	15,412	15,505	15,597	15,690	15,551	25,926	26,315

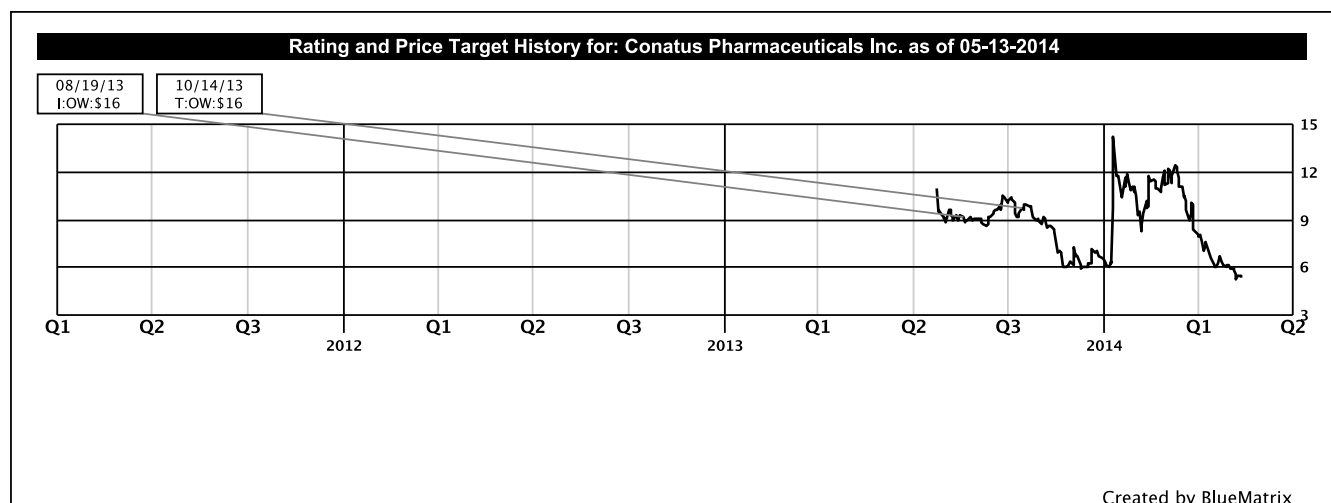
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Current disclosure information for this company can be found at <http://www.piperjaffray.com/researchdisclosures>.

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

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	354	61.46	87	24.58
HOLD [N]	204	35.42	20	9.80
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