ROTH Capital Partners

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Healthcare: Biotechnology

Conatus Pharmaceuticals Inc. | CNAT - $9.98 - NASDAQ | *Buy*

Analysis of Sales/Earnings

Estimates Changed

Stock Data	
52-Week Low - High	$5.76 - $15.67
Shares Out. (mil)	15.62
Mkt. Cap.(mil)	$155.9
3-Mo. Avg. Vol.	577,722
12-Mo.Price Target	$23.00
Cash (mil)	$56.4
Tot. Debt (mil)	$0.0

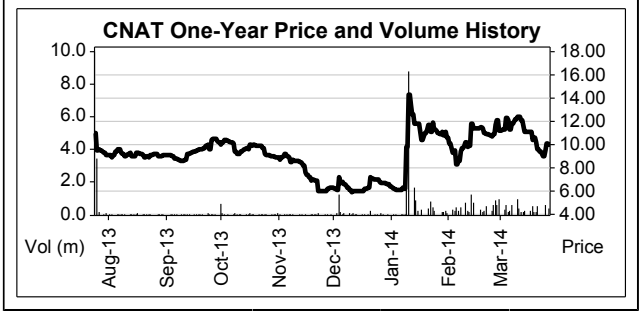
EPS $

Yr Dec	—2013—	—2014E—		—2015E—	
		Curr	Prev	Curr	Prev
1Q	(2.17)A	(0.28)E	--	-	-
2Q	4.27A	(0.23)E	--	-	-
3Q	(0.28)A	(0.24)E	--	-	-
4Q	(0.33)A	(0.25)E	--	-	-
YEAR	(0.63)A	(1.00)E	(0.82)E	(0.55)E	(0.46)E
P/E	NM	NM	NM	NM	NM

EPS for 2013 may not add due to material share count changes due to Conatus's IPO during 2013.

Revenue ($ millions)

Yr Dec	—2013—	—2014E—	—2015E—
		Curr	Curr
1Q	0.0A	0.0E	-
2Q	0.0A	0.0E	-
3Q	0.0A	0.0E	-
4Q	0.0A	0.0E	-
YEAR	0.0A	0.0E	8.3E



CNAT: Emricasan Development Continues

Emricasan, a broad-acting caspase inhibitor that is Conatus's primary asset, is in the midst of Phase 2 work in patients with chronic liver failure that are deteriorating rapidly (ACLF), in addition to several other settings. The ACLF study should now complete in 2H14 as modest adjustments to its inclusion criteria are being affected to bolster enrollment. Emricasan's potential in several liver disease settings drives our Buy rating.

4Q13 Operations Comments. Conatus's 4Q13 loss of ($0.33) was below our estimated loss of ($0.21) due to greater R&D and SG&A expense than we estimated, as spending increased due to Emricasan's clinical progression and due to Conatus becoming a publicly traded company. We increase Conatus's operating expenses modestly in our near-term projections as a result.

Emricasan Background. Emricasan is a caspase inhibitor therapeutic which has been evaluated in 500+ patients, and is advancing in Phase 2 in multiple settings of serious liver injury. It has demonstrated a rapid and significant reduction in elevated levels of two key biomarkers of inflammation (ALT) and cell death (cCK18) that have been implicated in the severity and progression of liver disease, providing it with the potential for delaying or reducing the progression of fibrosis and its consequences. Emricasan appears well tolerated, and emerging work around the safety of inhibiting excess caspase activity is encouraging.

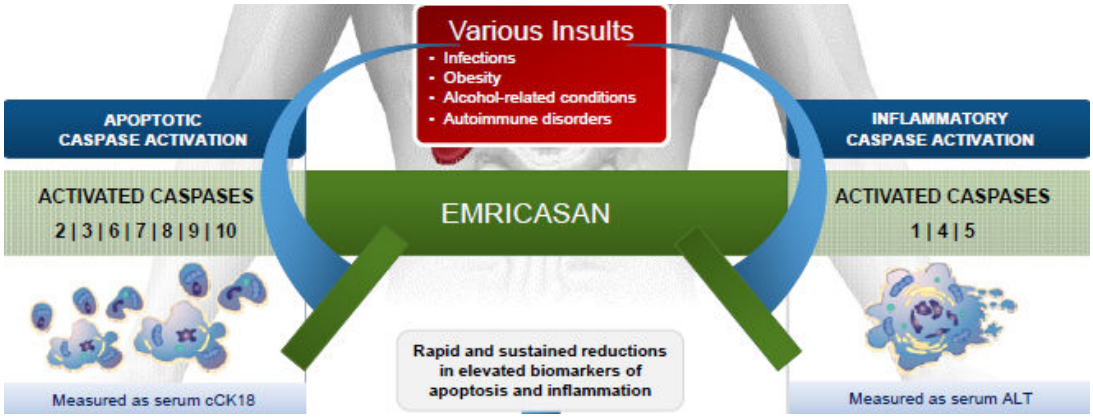
ACLF Data Now in 2H14. Emricasan's lead indication is acute-on-chronic liver failure (ACLF), where a patient with chronic liver failure has an additional acute insult and is deteriorating rapidly. The Phase 2b study in ACLF should complete now in 2H14, a 3-month delay due to slower than expected enrollment, as patients being considered were so severe they were progressing before they could be enrolled. This trial is assessing time to clinical worsening and organ function, as well as biomarkers (ALT, cCK18), and should inform about Phase 3 dosing.

Emricasan Potential. ACLF describes approximately 150,000 in the US and EU, and with potential for significant pricing with meaningful activity, the indication has $1 billion potential; if approved, Emricasan could be launched in ACLF in 2018. Indications for chronic liver failure (CLF) and for hepatitis C-related liver transplant patients appear more modest. However, Conatus also recently announced an exploratory Phase 2 study to evaluate important biomarkers in nonalcoholic steatohepatitis (NASH) patients, where it has compelling preclinical activity. Given the large patient numbers with NASH - estimates range from 6mm to 15mm in the US alone - multi-billion peak revenue potential for NASH appears possible, in our opinion.

Conatus – Executive Summary

Conatus – In Brief. Conatus Pharmaceuticals is a biotechnology company located in San Diego California, that is focused on the development and commercialization of novel medicines to treat liver disease. Conatus's lead compound, emricasan, is an orally active caspase inhibitor that is designed to reduce the activity of enzymes that mediate inflammation and apoptosis. With the strategy being that by reducing the activity of these enzymes, emricasan has the potential to interrupt the progression of liver disease. More specifically, emricasan is initially being developed for the treatment of patients in orphan populations with chronic liver disease, and acute exacerbations of chronic liver disease. Emricasan is currently progressing in Phase 2 studies in several indications, and is expected to enter Phase 3 development shortly.

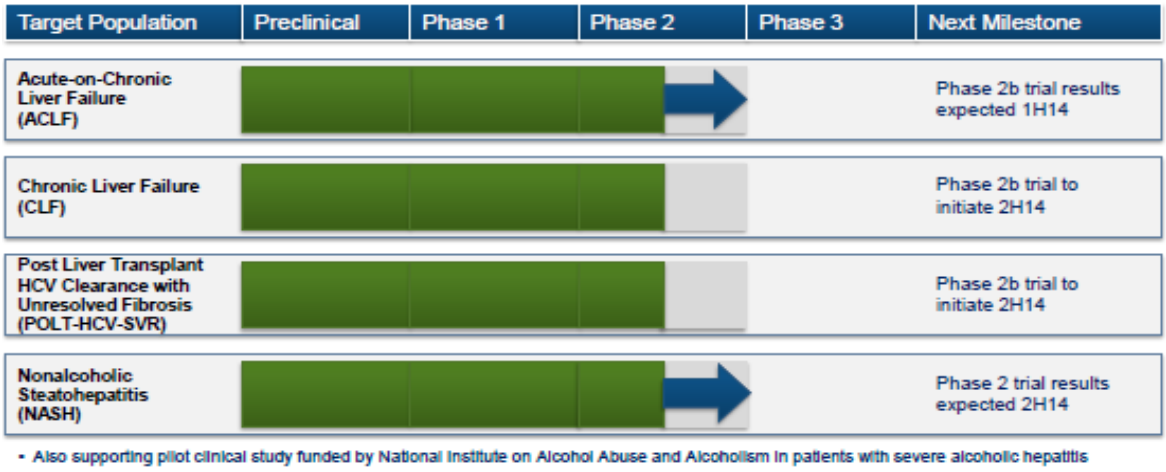
Exhibit 1: Emricasan – Inhibits Caspase Activity Related to Apoptosis and Inflammation



Source: Conatus Corporate presentation: February 10-11, 2014.

Emricasan Background. Emricasan is a broad-acting caspase inhibitor, with activity inhibiting all caspases (Exhibit 1). Emricasan has been studied in more than 500 subjects in multiple clinical trials in several settings, and encouraging data has been generated for the molecule that includes Phase 2 results in patients with hepatitis C infection, where emricasan demonstrated a rapid and significant reduction in elevated levels of two key biomarkers of inflammation and cell death that are implicated in the severity and progression of liver disease. Conatus's development strategy for emricasan in the near-term (Exhibit 2) focuses on patients with acute-on-chronic liver failure (ACLF), chronic liver failure (CLF), and HCV patients who have developed liver fibrosis post-orthotopic liver transplant despite clearance of the virus (HCV-POLT-SVR). The company has also recently added an exploratory Phase 2 study evaluating important biomarkers in nonalcoholic steatohepatitis (NASH) patients, where it has compelling preclinical evidence of activity.

Exhibit 2: Emricasan – Indications Under Consideration, Upcoming Events



Source: Conatus corporate presentation: February 10-11, 2014.

Emricasan's Blockbuster Potential. Phase 2 results are expected in the advanced acute-on-chronic liver failure patients in 2H14, and these results should include some data in the increasingly important NASH setting. The ACLF data should instruct future directions with the molecule in both the ACLF and chronic liver failure indications. Broader Phase 2 work for both ACLF and then CLF settings is expected to begin during late 2014/early 2015, after the emricasan ACLF results are discussed with the various regulatory agencies. Also, results for the shorter-term NASH study that Conatus just announced, which is designed to demonstrate the feasibility of the caspase inhibition in that important very large setting, should also emerge in 2H14.

With the considerable need in multiple settings in serious liver disease, as nearly 150,000 individuals are categorized as having ACLF in the US and EU and the condition having 30-50% 28 day mortality, and the exploding demographics of conditions like NASH, with between 6-15 million affected by the condition in the US alone, and with emricasan's demonstrated activity in reducing important biomarkers in both inflammation and cellular death (apoptosis), we estimate emricasan can be introduced to the market for use in the acute-on-chronic liver failure setting (ACLF) beginning in 2018. Other indications to follow include chronic liver failure (CLF), HCV-POLT, and NASH, and given the severity of these conditions, if it demonstrates solid efficacy and safety, we believe emricasan possesses the potential for premium pricing. As the opportunity for consideration in patients with liver damage should be significant given the compelling demographics and prevalence of these serious conditions, we estimate emricasan could collectively achieve nearly $4 billion in revenue at peak, prior to its intellectual property life expiration.

Conatus Financials

Conatus Valuation. Because of the potential for material earnings variability over the next few years as its programs and technologies mature, we value CNAT shares based on a fully-taxed, risk-weighted, net present value calculation of the company's underlying assets. In sum, our total fully-taxed, risk-weighted NPV calculation yields a total of $23.03 per CNAT share, which drives our $23 price target (Exhibit 3). The largest single component of the CNAT valuation is the emricasan asset. Emricasan, a novel pan-caspase inhibitor, is being examined in several indications, with the initial one being acute-on-chronic liver failure, which with its material unmet need and addressable 150,000 patients, its revenue potential could exceed $1 billion at peak. Chronic liver failure and hepatitis C-based indications appear more modest in size at this point, adding incrementally compared to ACLF, though a larger indication in non-alcoholic steatohepatitis (NASH) is now more formally under construction. Although biomarkers for the disease itself need to be established to be able to develop meaningful surrogate endpoints for pivotal clinical trials in the setting, the potential of a therapeutic for the NASH indication is several billion dollars, given the vast numbers of people worldwide expected to present with the condition in the coming years. Collectively, with the company expected to be able to market the initial indications with relatively modest resources given the specialty nature of emricasan, that makes economics of the collective emricasan opportunities even more attractive, with its value alone exceeding $21 per CNAT share. Cash, NOLs and other assets total an additional $4.15 per share, and are offset by the overall corporate drag of expenses of ($2.29). Other considerations are shares outstanding of 15.7 million for CNAT and a typical US corporate tax rate.

Exhibit 3: Conatus NPV Valuation Calculation

Assets	NPValue	NPV/Share
Emricasan (ACLF, CLF, NASH, others)	$ 324,932	$21.16
Other Caspase Opportunities	$ -	$0.00
Other Corporate	$ (35,096)	($2.29)
Net Cash	$ 56,353	$3.67
NOLs, Credits, etc.	$ 7,387	$0.48
Valuation	**$ 353,577**	**$23.03**

Source: ROTH Capital Partners BioPharmaceuticals Research Estimates.

Revenue. Conatus has not generated any revenue since its inception in 2005. The company's primary asset is emricasan, and during 2013 and 2014, no revenue is expected to be attributed to that asset or the company as a whole, as the company proceeds through a series of important proof-of-concept trials with the drug. Though we expect the asset to continue to be developed in clinical studies until it is expected to be launched in 2018, based on several studies due to read out in 2014, we anticipate Conatus being able to license the therapy for international markets during 2015. We therefore attribute revenue to this anticipated upfront payment, taking the $50 million and

amortizing the amount over the years before it is formally launched. This result in revenue of $8.3 million in 2015, $16.7 million in 2016, and $26.7 million in 2017, as additional milestones are achieved for the emricasan program for the filing of the NDA in various geographies. The 2017 revenue is enough to move Conatus's operations to profitability. In 2018, revenue moves to $84.6 million as approval milestones are added to the upfront amortization in addition to initial product revenue of $25 million; 2018 is anticipated to be the first year that Conatus achieves material profitability, and as emricasan sales revenue accelerates globally. By the end of the decade, we model Conatus revenue at nearly $293 million.

Profitability/Earnings. No revenue since inception has kept Conatus's operations at a significant loss, though management has managed a tight ship with regard to expenses, only incurring $12.4 million in 2011, $8.6 million in 2012, and $11.6 million in 2013. Increased clinical spending is expected to grow expenses to $17.8 in 2014, with the same trend moving overall expenses to $18.8 million then $21 million in 2015 and 2016, respectively. The amortized revenue in 2016 is nearly enough to gain profitability despite the increased operational expense, but with the added milestone for the anticipated NDA filing in 2017 modest profitability is achieved. In 2018, revenue moves to $84.6 million as approval milestones are added to the upfront amortization in addition to initial product revenue of $25 million, and 2018 is expected to see $32.5 million in profit, which translates to $1.44 in EPS. With the increased global emricasan revenue from then through the end of the decade and beyond, earnings are to increase to $80.2 million or $3.54 per share in 2019, and $173.8 million or $7.66 per share in 2020. Conatus achieves material profitability, and as emricasan sales revenue accelerates globally.

Cash Flow. The cash flow should generally follow the earnings of the company both directionally and in magnitude, with the exception of 2015 when we expect a $50 million upfront payment for the emricasan asset for international development rights form an anticipated development partner. We amortize this amount on the P&L, though the cash flow of the upfront is expected to hit the company's accounts during 2015. We model the company as having an additional share raise during 2014 of approximately 3 million shares, though this could be either postponed or accelerated with solid data in the upcoming Phase 2 results. The raise could be postponed if the results are robust enough to attract licensing partners to the table more quickly, and it could be accelerated if the share price move is significant enough in response to data.

Three Key Questions for Conatus -

1) **How encouraging and instructive will the emricasan results be in the upcoming Phase 2b trial in patients with acute-on-chronic liver failure (ACLF)?**

   A: We believe the emricasan mechanism should be able to show positive and useful biomarker data in these severe patients, and can help for Phase 3 construction in ACLF, and possibly be instructive for patients with similar underlying disease etiology, but the opportunity to show an advantage on time to clinical worsening is likely a long shot.

2) **Will emricasan's encouraging safety profile continue to hold up during the upcoming Phase 2 work?**

   A: We believe that the emerging safety data that is supportive of emricasan consideration, and is beginning to show a convincing story for the caspase dampening effects of emricasan.

3) **Will the guidelines for the development of NASH therapeutics be clarified anytime soon?**

   A: We believe that the enthusiastic discussions on the topic of NASH/NAFLD in the EU and US over the past two years have primed the pump for movement in this area, and encouraging recent data generated by therapeutics in the field should help spur further discussion. That said, it could be 12-18 months before real progress is likely. By then, Conatus should have its NASH Phase 2 results, and be in a better position to move aggressively toward new guidelines.

VALUATION

Conatus Valuation. Because of the potential for material earnings variability over the next few years as its programs and technologies mature, we value CNAT shares based on a fully-taxed, risk-weighted, net present value calculation of the company's underlying assets. In sum, our total fully-taxed, risk-weighted NPV calculation yields a total of $23.03 per CNAT share, which drives our $23 price target (Exhibit 3). The largest single component of the CNAT valuation is the emricasan asset. Emricasan, a novel pan-caspase inhibitor, is being examined in several indications, with the initial one being acute-on-chronic liver failure, which with its material unmet need and addressable 150,000 patients, its revenue potential could exceed $1 billion at peak. Chronic liver failure and hepatitis C-based indications appear more modest in size at this point, adding incrementally compared to ACLF, though a larger indication in non-alcoholic steatohepatitis (NASH) is now more formally under construction. Although biomarkers for the disease itself need to be established to be able to develop meaningful surrogate endpoints for pivotal clinical trials in the setting, the potential of a therapeutic for the NASH indication is several billion dollars, given the vast numbers of people worldwide expected to present with the condition in the coming years. Collectively, with the company expected to be able to market the initial indications with relatively modest resources given the specialty nature of emricasan, that makes economics of the collective emricasan opportunities even more attractive, with its value alone exceeding $21 per CNAT share. Cash, NOLs and other assets total an additional $4.15 per share, and are offset by the overall corporate drag of expenses of ($2.29). Other considerations are shares outstanding of 15.7 million for CNAT and a typical US corporate tax rate.

Factors which could impede CNAT shares from reaching our price target include the lack of progress for emricasan in its trial for acute-on-chronic liver failure (ACLF) or other types of liver failure, as well as the potential for lack of progress in additional clinical trials to be necessary to characterize its safety, efficacy or overall utility in liver injury settings. Progress by indirect competition could also impede CNAT shares from reaching our target, in particular, this could be true for other program in existence and upcoming focusing on the NASH indication. In addition, negative equity market conditions overall, or in particular with regard to the biotechnology sector, or healthcare in general, could be an impediment to CNAT shares reaching our target. Also a change in the regulatory requirements for drugs in development could be an impediment to the advancement in CNAT shares. These risks listed are merely a sample of the types of issues that could impede CNAT shares from advancing, and are not meant to be all inclusive.

RISKS

Regulatory/FDA. As with any company whose main business is drug development, Conatus is subject to the very strenuous regulatory requirements of the US Food and Drug Administration (FDA) and other international regulatory agencies such as the EMEA to have its new drugs approved. Promotion of its approved drug products is also severely regulated by FDA and related agencies throughout the globe. Also, in general, though the company's specific focus on ethical (prescription) pharmaceuticals places significant risk on its operations due to the scrutiny of FDA and other governmental regulatory bodies, we believe this specific risk over time should be no greater than that for any other research-based drug development company.

Material Dependence Upon Emricasan's Progress. Emricasan is the major focus of Conatus and remains the primary driver for investor sentiment for Conatus and CNAT shares. The company has committed considerable resources to the development of the caspase inhibitor in liver disease. Given this significant focus, material news either positive or negative from emricasan's clinical studies could significantly impact the company's valuation or investor perception of the valuation of CNAT shares. CNAT management is diversifying this risk somewhat by pursuing the development of emricasan in multiple additional anti-inflammatory and anti-apoptotic indications, as results for one therapeutic condition may not necessarily translate to other indications. In addition, as the consideration of NASH increases as expected across the biotechnology and pharmaceutical industry, investor interest and potential dependence upon this potentially material opportunity is likely to also continue to grow, placing material dependence upon that particular indication.

Clinical risk and perceptions. The current Phase 2b program for emricasan in acute-on-chronic liver failure patients is of material importance due to the potential for instruction of Phase 3 work in the indication and Phase 2 work in chronic liver failure patients and potentially other settings. In addition, this trial appears to

have material importance because it will provide the basis for the Phase 2 discussions with the regulatory agencies across the globe. Given the previous activity of the agent, we believe that emricasan can demonstrate constructive behavior in the study, but there is no guarantee of success given the severe challenges with these patients. In addition, even if result are considered materially instructive to the company, there is no guarantee they will be perceived as acceptable by the regulatory agencies that will be evaluating them for Phase 3 consideration.

COMPANY DESCRIPTION

Conatus Pharmaceuticals is a biotechnology company focused on the development and commercialization of novel medicines to treat liver disease, which affect millions of people and are responsible for significant morbidity and mortality worldwide. It is developing its lead compound, emricasan, for the treatment of patients in orphan populations with chronic liver disease and acute exacerbations of chronic liver disease. Emricasan is a first-in-class, orally active caspase protease inhibitor designed to reduce the activity of enzymes that mediate inflammation and cell death, or apoptosis. By reducing the activity of these caspase enzymes, emricasan has the potential to interrupt the progression of liver disease. Conatus is located in sunny San Diego.

	2012A	1Q13A	2Q13A	3Q13A	4Q13A	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E
Conatus															
Product Revenue															
Emricasan Total	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 30,000
- US	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*25,000*
- International	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*5,000*
Emricasan (ACLF/CLF)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 30,000
- US	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*25,000*
- International	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*5,000*
Emricasan (HCV-POLT)												$ -	$ -	$ -	$ -
- US	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
- International	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Emricasan (NASH)												$ -	$ -	$ -	$ -
- US	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
- International	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other/Collab revenue	*0*	0	0	0	0	*0*	0	0	0	0	*0*	0	0	$ -	$ -
Total Proprietary Revenue	*0*	**0**	**0**	**0**	**0**	*0*	**0**	**0**	**0**	**0**	*0*	**0**	**0**	**0**	**25,000**
Royalty Revenue															
Emricasan (assuming a partner)	*0*	-	-	-	-	*0*	-	-	-	-	*0*	-	-	-	*5,000*
Royalty Rate (15-20%)	-	-	-	-	-	-	-	-	-	-	-	-	-	25%	25%
Royalty to Conatus	*0*	-	-	-	-	*0*	-	-	-	-	*0*	-	-	-	*1,250*
Total Royalties from Partners	**0**	**-**	**-**	**-**	**-**	**0**	**-**	**-**	**-**	**-**	**0**	**-**	**-**	**-**	**1,250**
Payments - Upfront, Milestones	*0*	**-**	**-**	**-**	-	*0*	**-**	**-**	**-**	-	*0*	$ *8,333*	$ *16,667*	$ *26,667*	$ *58,333*
Total Upfront, Milestones Payments	*0*	**-**	**-**	**-**	**-**	**0**	**-**	**-**	**-**	**-**	**0**	**8,333**	**16,667**	**26,667**	**58,333**
Other Revenue	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total Emricasan Revenue	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$8,333**	**$16,667**	**$26,667**	**$84,583**
Expenses:															
COGS	$0	*$0*	*$0*	*$0*	*$0*	$0	*$0*	*$0*	*$0*	*$0*	$0	$0	$0	$0	$2,000
R & D	5,528	*968*	*1,117*	*1,886*	*2,977*	6,947	*2,250*	*2,250*	*2,500*	*2,750*	9,750	10,500	12,500	15,000	20,000
S G & A	3,086	*749*	*670*	*1,108*	*2,124*	4,651	*2,000*	*2,000*	*2,000*	*2,000*	8,000	8,250	8,500	10,000	27,500
Total Expenses	8,615	$1,717	$1,788	$2,993	$5,101	11,598	$4,250	$4,250	$4,500	$4,750	17,750	$18,750	$21,000	$25,000	$49,500
Operating Income	(8,615)	(1,717)	(1,788)	(2,993)	(5,101)	(11,598)	(4,250)	(4,250)	(4,500)	(4,750)	(17,750)	(10,417)	(4,333)	1,667	35,083
Operating Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Interest Income	26	0	0	8	14	22	10	8	6	6	30	50	850	750	650
Interest Expense	(70)	(18)	(196)	(204)	(45)	(463)	(15)	(10)	(15)	(10)	(50)	(60)	(65)	(200)	(200)
Other Income (Expense)	1	(16)	1	8	6	(1)	0	0	0	0	0	0	0	0	0
Other financing income (expense)	(92)	(547)	(2,890)	(139)	0	(3,577)	0	0	0	0	0	0	0	0	0
Total Other Income, net	(135)	(580)	(3,086)	(328)	(25)	(4,018)	(5)	(2)	(9)	(4)	(20)	(10)	785	550	450
Pretax Income	(8,749)	(2,297)	(4,873)	(3,321)	(5,126)	(15,616)	(4,255)	(4,252)	(4,509)	(4,754)	(17,770)	(10,427)	(3,548)	2,217	35,533
Pretax Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Effective Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	155	3,020
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*7.0%*	*8.5%*
Fully Taxed rate	(3,325)	(873)	(1,852)	(1,262)	(1,948)	(5,934)	(1,617)	(1,616)	(1,713)	(1,807)	(6,753)	(3,962)	(1,348)	842	13,503
Tax Rate	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*
Other Convertible Preferred, other securities transaction	-	-	11,016	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Loss) - Effective taxed	**(8,749)**	**(2,297)**	**6,143**	**(3,321)**	**(5,126)**	**(4,600)**	**(4,255)**	**(4,252)**	**(4,509)**	**(4,754)**	**(17,770)**	**(10,427)**	**(3,548)**	**2,062**	**32,513**
Income - Fully taxed	(5,425)	(1,424)	7,995	(2,059)	(3,178)	1,334	(2,638)	(2,636)	(2,796)	(2,947)	(11,017)	(6,465)	(2,200)	1,375	22,030
Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Other Comprehensive Income (Loss)	(2)	-	-	12	-	12	-	-	-	-	0	-	-	-	-
Comprehensive Income (Loss)	(8,751)	(2,297)	6,143	(3,309)	(5,126)	(4,588)	(4,255)	(4,252)	(4,509)	(4,754)	(17,770)	(10,427)	(3,548)	2,062	32,513
EPS (ex-charges; eff. taxed)	**$ (8.60)**	**($2.17)**	**$4.27**	**($0.28)**	**($0.33)**	**$ (0.63)**	**($0.28)**	**($0.23)**	**($0.24)**	**($0.25)**	**$ (1.00)**	**($0.55)**	**($0.19)**	**$0.09**	**$1.44**
EPS (ex-charges; fully-taxed)	**$ (8.60)**	**($1.34)**	**$5.56**	**($0.18)**	**($0.21)**	**$ 0.18**	**($0.17)**	**($0.15)**	**($0.15)**	**($0.16)**	**$ (0.62)**	**($0.34)**	**($0.12)**	**$0.06**	**$0.97**
EPSS (comprehensice Income (eff taxes)	($8.61)	($2.17)	$4.27	($0.28)	($0.33)	($0.62)	($0.28)	($0.23)	($0.24)	($0.25)	($1.00)	($0.55)	($0.19)	$0.09	$1.44
Shares O/S (000), Basic	1,017	1,061	1,139	11,664	15,353	7,358	15,350	18,100	18,750	18,800	17,750	19,000	19,100	22,200	22,300
Shares O/S (000), Diluted	1,017	1,061	1,439	11,664	15,353	7,358	15,350	18,100	18,750	18,800	17,750	19,000	19,100	22,500	22,600
						-- Expenses (% of sales) --									
Cost of Sales (product sales)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	NM	NM	8.0%
Gross	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	92.0%
R & D	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	126.0%	75.0%	56.2%	23.6%
S G & A	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	99.0%	51.0%	37.5%	32.5%
Total	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	225.0%	126.0%	93.7%	58.5%
						-- Year / Year Growth --									
Revenue	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	100.0%	60.0%	217.2%
Operating Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Pretax Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
EPS (ex-charges)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
EPS (ex-charges; fully-taxed)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM

Source: Conatus Pharmeceuticals Inc. SEC documents and ROTH Capital Partners estimates.

Contact Information: Robert Hazlett, Senior Research Analyst, ROTH Capital Partners, 646-358-1912.

	12/31/2011A	12/31/2012A	12/31/2013E	12/31/2014E	12/31/2015E	12/31/2016E	12/31/2017E
BALANCE SHEET							
ASSETS							
Cash & equivalents	$3.1	$4.0	$31.4	$42.5	$75.9	$59.8	$53.8
Investments/Mktb. Securities	$13.7	$4.0	$25.0	$25.0	$25.0	$25.0	$25.0
Account receivable	$0.0	$0.0	$0.0	$0.0	$1.2	$2.5	$4.0
Prepaid & other current assets	0.2	$0.1	0.5	0.0	0.1	0.2	0.3
Total Current Assets	16.9	$8.1	56.9	67.5	102.3	87.4	83.0
Property & Equipment, net, other	0.0	$0.0	0.0	0.0	0.0	0.0	0.0
Other Assets	0.0	$0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	**17.0**	**8.1**	**56.9**	**67.5**	**102.3**	**87.5**	**83.1**
LIABILITIES & S.E.							
Accounts payable	1.2	$1.1	2.3	0.0	0.8	2.5	4.0
Accrued expenses	0.5	$0.3	0.5	0.5	0.6	0.6	0.7
Deferred short-term revenue	0.0	$0.0	0.0	0.0	1.7	3.3	0.0
Total Current Liabilities	1.7	$1.4	2.8	0.5	3.1	6.5	4.7
Convertible Preferred Liability	0.1	$0.2	0.0	0.0	0.0	0.0	0.0
Note Payable/Long-term Liabilities	1.0	$1.0	1.0	1.0	1.0	1.0	1.0
Total liabilities	2.8	2.6	3.8	1.5	4.1	7.5	5.7
Total Shareholders Equity	14.2	$5.6	53.1	66.0	98.2	80.0	77.4
Total Liab. & Equity	**17.0**	**$8.1**	**$56.9**	**$67.5**	**$102.3**	**$87.5**	**$83.1**

	12/31/2011A	12/31/2012A	12/31/2013E	12/31/2014E	12/31/2015E	12/31/2016E	12/31/2017E
CASH FLOW STATEMENT							
Cash Flow from Operating Activities							
Net income (loss)	(12.0)	($8.7)	(15.6)	(17.8)	(10.4)	(3.5)	2.1
Depreciation	0.0	$0.0	0.0	0.0	0.0	0.0	0.0
Noncash compensation expense	0.2	$0.1	0.2	1.0	1.0	2.0	2.0
Other non-cash financing expense	(0.5)	$0.1	0.0	0.0	(8.3)	(16.7)	(16.7)
Amortization of premium on investments	0.3	$0.2	0.0	0.0	0.0	0.0	0.0
Accounts receivable	0.0	$0.0	0.0	0.0	(1.2)	(1.3)	(1.5)
Prepaid expenses, and other current assets	(0.1)	$0.1	0.1	0.5	(0.1)	(0.1)	(0.1)
Other assets	0.1	$0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable and accrued expenses	0.2	($0.1)	1.7	(2.3)	0.9	1.7	1.6
Other operating activities	(0.3)	($0.2)	-	-	1.7	1.7	(3.3)
Cash Flow from Operating Activities	**(12.1)**	**($8.6)**	**(13.7)**	**(18.5)**	**(16.5)**	**(16.2)**	**(16.0)**
Cash Flow from Investing Activities							
Maturities of Investments	19	$19.8	15	0	0	0	0
Purchase of investments	(33)	($10.3)	(35)	0	0	0	0
Capital Expenditures, net	(0.0)	($0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Other	-	$0.0	(0.5)	-	50.0	-	10.0
Cash Flow from Investing Activities	**(14.0)**	**9.51137**	**(20.6)**	**(0.01)**	**49.99**	**(0.01)**	**9.99**
Cash Flow from Financing Activities							
Issuance of promissory notes	0	$0.0	1	0	0	0	0
Issuance of warrants	0	$0.0	0	0	0	0	0
Idun Distribution	0	$0.0	(1)	0	0	0	0
Proceeds from iss. of common stock (net)	26.4	$0.0	59	32.0	0.0	0.0	0.0
Proceeds/Retirement of Debt, Other	0.0	$0.0	0	0.0	0.0	0.0	0.0
Cash Flow from Financing Activities	**26.4**	**0.0**	**59.2**	**32.0**	**0.0**	**0.0**	**0.0**
Beginning cash balance	**2.7**	**$3.1**	**4.0**	**29.0**	**42.5**	**75.9**	**59.8**
Net increase (decrease) in cash	0.3	$1.0	24.9	13.5	33.5	(16.2)	(6.0)
Ending cash balance	**3.1**	**$4.0**	**29.0**	**42.5**	**75.9**	**59.8**	**53.8**

Source: **Conatus Pharmeceuticals Inc. SEC documents and ROTH Capital Partners estimates.**

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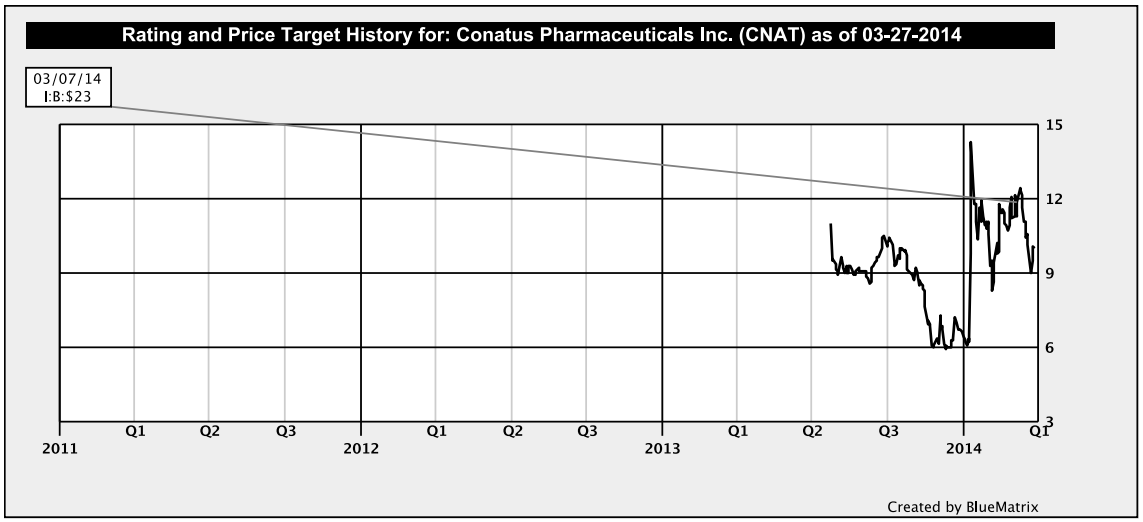
Regulation Analyst Certification ("Reg AC"): The research analyst primarily responsible for the content of this report certifies the following under Reg AC: I hereby certify that all views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Disclosures:

ROTH makes a market in shares of Conatus Pharmaceuticals Inc. and Gilead Sciences, Inc. and as such, buys and sells from customers on a principal basis.

On September 28, 2010, ROTH changed its rating system in order to replace the Hold rating with Neutral.

On May 26, 2011, ROTH changed its rating system in order to incorporate coverage that is Under Review.



Each box on the Rating and Price Target History chart above 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. **Distribution Ratings/IB Services** shows the number of companies in each rating category from which Roth or an affiliate received compensation for investment banking services in the past 12 month.

Distribution of IB Services Firmwide

			IB Serv./Past 12 Mos. as of 03/28/14	
Rating	**Count**	**Percent**	**Count**	**Percent**
Buy [B]	**185**	**78.39**	**104**	**56.22**
Neutral [N]	**32**	**13.56**	**12**	**37.50**
Sell [S]	**1**	**0.42**	**0**	**0**
Under Review [UR]	**17**	**7.20**	**6**	**35.29**

Our rating system attempts to incorporate industry, company and/or overall market risk and volatility. Consequently, at any given point in time, our investment rating on a stock and its implied price movement may not correspond to the stated 12-month price target.

Ratings System Definitions - ROTH employs a rating system based on the following:

Buy: A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return of at least 10% over the next 12 months.

Neutral: A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return between negative 10% and 10% over the next 12 months.

Sell: A rating, which at the time it is instituted and or reiterated, that indicates an expectation that the price will depreciate by more than 10% over the next 12 months.

Under Review [UR]: A rating, which at the time it is instituted and or reiterated, indicates the temporary removal of the prior rating, price target and estimates for the security. Prior rating, price target and estimates should no longer be relied upon for UR-rated securities.

Not Covered [NC]: ROTH does not publish research or have an opinion about this security.