

## Conatus Pharmaceuticals Inc. (CNAT)

Overweight

### Acute Pressure from ACLF Enrollment Update Presents Opportunity

#### CONCLUSION

Conatus reported 2013 financials and gave an update on the company's clinical programs. Importantly, the company expects year-end cash of \$56M to last through key clinical milestones, and we project Conatus to be adequately financed into 2H15. The major clinical update is a revision of the acute-on-chronic liver failure (ACLF) Phase II enrollment criteria in order to accelerate accrual. Timelines for PK data from this study have moved to 2H14 vs. 1H14. While a setback, we view it as minor, and unlikely to impact emricasan's probability for success in this or other settings. We are reiterating our Overweight rating and \$16 price target on Conatus.

- **ACLF Update could pressure shares, but only acutely.** For the ACLF Phase II Conatus is: 1. Accelerating the speed of screening to enable critically ill patients to make it into the trial, and 2. Modifying restrictions on renal and hepatic function to enable less sick patients to enroll. Conatus expects to have PK data from a subset of the ACLF Phase II patients as well as those from studies of renally and hepatically impaired patients, with 8 and 32 patients, respectively. We continue to expect additional data should include biomarkers (ALT, AST, CCK18, caspases 3 and 7). Since commencing enrollment in the US, the study has opened ~6 sites with a target of ~12. A Phase II in chronic liver failure (CLF) is on track to start in 2H14.
- **Other clinical progress.** Conatus started an NAFLD Phase II study this month with top-line data expected in 2H14. Management didn't indicate the percentage of NASH patients expected in the study and intends to be a "fast follower" once a regulatory pathway is better defined. The Phase II in HCV-POLT in patients that have undergone liver transplant following HCV infection, had the liver reinfected with HCV, then "cured" of the HCV by antivirals, is also on track for a 2H14 start.

#### 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\$9.98

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\$(1.73)	US\$(1.95)
FY15E EPS	—	US\$(1.49)
52-Week High / Low	US\$15.67 / US\$5.76	
Shares Out (mil)	15.6	
Market Cap. (mil)	US\$155.7	
Avg Daily Vol (ooo)	578	
Book Value/Share	US\$5.00	
Net Cash Per Share	US\$3.60	
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	0.0	0.0	0.0	0.0	0.0	NA	(0.37)	(0.43)	(0.52)	(0.64)	(1.95)	NM
2015E	—	—	—	—	0.0	NA	—	—	—	—	(1.49)	NM

Reflects Diluted Non-GAAP EPS

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<b>Conatus Pharmaceuticals Earnings Model</b>	<b>2012A</b>	<b>1Q 13A</b>	<b>2Q 13A</b>	<b>3Q 13A</b>	<b>4Q 13</b>	<b>2013A</b>	<b>1Q 14E</b>	<b>2Q 14E</b>	<b>3Q 14E</b>	<b>4Q 14E</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
(\$ in 000s, except per share amounts)													
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
<b>Total Product Sales</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Revenues</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Costs &amp; Expenses:</b>													
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	3,453	4,213	5,308	6,901	19,876	22,261	26,268
SG&A	3,086	749	670	1,108	2,124	4,651	2,379	2,617	2,878	3,166	11,040	16,560	31,464
<b>Total Operating Expenses</b>	<b>8,615</b>	<b>1,717</b>	<b>1,788</b>	<b>2,993</b>	<b>5,101</b>	<b>11,598</b>	<b>5,832</b>	<b>6,830</b>	<b>8,187</b>	<b>10,067</b>	<b>30,916</b>	<b>38,821</b>	<b>57,732</b>
<b>Operating Income</b>	<b>(8,614.6)</b>	<b>(1,717)</b>	<b>(1,788)</b>	<b>(2,993)</b>	<b>(5,101)</b>	<b>(11,598)</b>	<b>(5,832)</b>	<b>(6,830)</b>	<b>(8,187)</b>	<b>(10,067)</b>	<b>(30,916)</b>	<b>(38,821)</b>	<b>(57,732)</b>
Interest Income	26	0	0	8	14	22	160	135	106	70	472	98	2,228
Interest Expense	(70)	(18)	(196)	(204)	(45)	(463)	0	0	0	0	0	0	0
Other income (expense), net	(90)	(563)	(2,890)	(131)	6	(3,578)	0	0	0	0	0	0	0
<b>Pretax Income (Loss)</b>	<b>(8,749)</b>	<b>(2,297)</b>	<b>(4,873)</b>	<b>(3,321)</b>	<b>(5,126)</b>	<b>(15,616)</b>	<b>(5,672)</b>	<b>(6,694)</b>	<b>(8,081)</b>	<b>(9,997)</b>	<b>(30,444)</b>	<b>(38,723)</b>	<b>(55,504)</b>
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	0	0	0	0	0	0	0
<b>Net Income (Loss) GAAP</b>	<b>(8,658)</b>	<b>(1,750)</b>	<b>224</b>	<b>(3,321)</b>	<b>(5,126)</b>	<b>(9,972)</b>	<b>(5,672)</b>	<b>(6,694)</b>	<b>(8,081)</b>	<b>(9,997)</b>	<b>(30,444)</b>	<b>(38,723)</b>	<b>(55,504)</b>
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	0	0	0	0	0	0	0
<b>Net Income (Loss) Non-GAAP</b>	<b>(8,423)</b>	<b>(1,165)</b>	<b>224</b>	<b>(3,309)</b>	<b>(5,107)</b>	<b>(9,357)</b>	<b>(5,647)</b>	<b>(6,669)</b>	<b>(8,056)</b>	<b>(9,972)</b>	<b>(30,344)</b>	<b>(38,620)</b>	<b>(55,399)</b>
<b>Diluted Earnings Per Share Non-GAAP</b>	<b>(\$0.91)</b>	<b>(\$1.10)</b>	<b>\$0.16</b>	<b>(\$0.28)</b>	<b>(\$0.33)</b>	<b>(\$1.27)</b>	<b>(\$0.37)</b>	<b>(\$0.43)</b>	<b>(\$0.52)</b>	<b>(\$0.63)</b>	<b>(\$1.95)</b>	<b>(\$1.48)</b>	<b>(\$2.08)</b>
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)	(\$0.37)	(\$0.43)	(\$0.52)	(\$0.63)	(\$1.95)	(\$1.49)	(\$2.10)
<b>Diluted Earnings Per Share GAAP</b>	<b>(\$0.94)</b>	<b>(\$1.29)</b>	<b>\$0.16</b>	<b>(\$0.28)</b>	<b>(\$0.33)</b>	<b>(\$0.63)</b>	<b>(\$0.37)</b>	<b>(\$0.43)</b>	<b>(\$0.52)</b>	<b>(\$0.64)</b>	<b>(\$1.95)</b>	<b>(\$1.49)</b>	<b>(\$2.08)</b>
Basic Earnings Per Share GAAP	(\$0.94)	(\$1.65)	\$0.20	(\$0.28)	(\$0.33)	(\$1.36)	(\$0.37)	(\$0.43)	(\$0.52)	(\$0.64)	(\$1.95)	(\$1.49)	(\$2.11)
<b>Diluted Shares Outstanding (000s)</b>	<b>9,255</b>	<b>1,361</b>	<b>1,439</b>	<b>11,664</b>	<b>15,353</b>	<b>7,358</b>	<b>15,444</b>	<b>15,537</b>	<b>15,629</b>	<b>15,723</b>	<b>15,583</b>	<b>26,037</b>	<b>26,688</b>
Basic Shares Outstanding (000s)	9,255	1,061	1,139	11,664	15,353	7,358	15,444	15,537	15,629	15,723	15,583	25,959	26,348

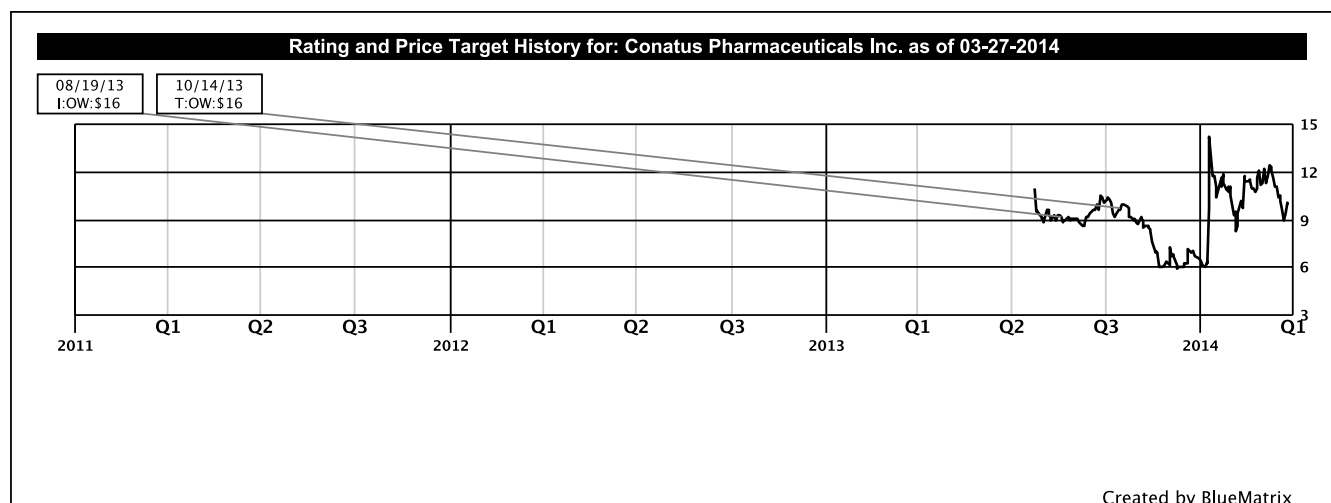
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