

Conatus Pharmaceuticals Inc. (CNAT)

POLT Trial Kicks Off as Scheduled

MARKET DATA

Price	\$5.46
52-Week Range:	\$5.27 - \$15.67
Shares Out. (M):	16.0
Market Cap (\$M):	\$87.4
Average Daily Vol. (000):	247.0
Cash (M):	\$57
LT Debt (M):	\$1

Source: Thomson Reuters and JMP Securities LLC

MARKET OUTPERFORM | Price: \$5.46 | Target Price: \$14.00

INVESTMENT HIGHLIGHTS

POLT trial kicks off as scheduled; reiterating Market Outperform rating and \$14 price target on Conatus Pharmaceuticals based on a risk-adjusted, discounted cash flow analysis. Conatus initiated a Phase 2b study for emricasan in post orthotopic liver transplant (POLT) recipients. Conatus is enrolling liver transplant patients who have developed HCV and fibrosis in the transplanted organ, but for whom the recurrent HCV infection has been cured by re-treatment with antivirals, allowing the company to work around the strength of the new HCV antiviral regimens. While the primary endpoint (change in the Ishak Fibrosis Score after two years of emricasan treatment) will not read out until 2017, we note the study is sponsor-open, allowing potential for interim data and providing additional catalysts for investors. We do not see POLT as a major market opportunity in itself, but management believes that this is the best population in which to demonstrate safety and efficacy of chronically-dosed emricasan for liver fibrosis. Ultimately, the Conatus team views this as an enabling trial for other, larger liver fibrosis indications such as nonalcoholic steatohepatitis (NASH).

Trial design. The trial is expected to enroll 60 patients at 15 sites in the U.S. Patients will be treated for two years with either 25mg emricasan BID or placebo. In addition to the primary endpoint of change in Ishak Fibrosis Score, Conatus will evaluate histological inflammation, serum biomarkers, and safety. We note in the past, management has commented that they believe doses as low as 5mg are efficacious in other indications.

FY DEC	2012A	2013A	2014E
Revenue (\$M) 1Q	--	\$0.0	\$0.0
2Q	--	\$0.0	\$0.0
3Q	--	\$0.0	\$0.0
4Q	--	\$0.0	\$0.0
FY	\$0.0	\$0.0	\$0.0
EPS 1Q	--	(\$0.26)	(\$0.29)
2Q	--	\$4.27	(\$0.41)
3Q	--	(\$0.28)	(\$0.59)
4Q	--	(\$0.33)	(\$0.58)
FY	(\$1.04)	(\$0.63)	(\$1.87)

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE



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FOR DISCLOSURE AND FOOTNOTE INFORMATION, REFER TO JMP FACTS AND DISCLOSURES SECTION.

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

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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.

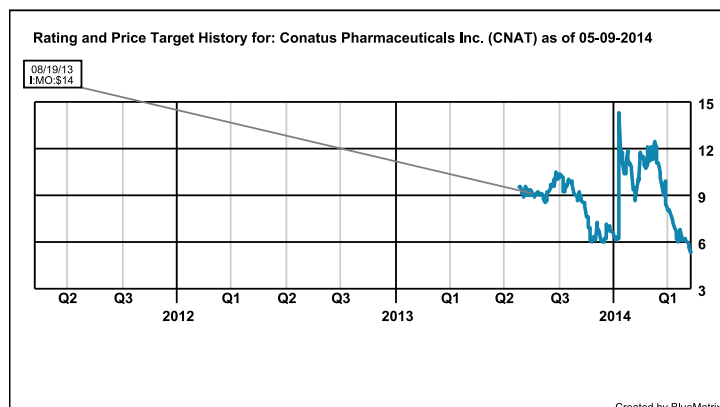
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

JMP Securities Research Ratings and Investment Banking Services: (as of May 11, 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	253	57.89%	Buy	253	57.89%	97	38.34%
MARKET PERFORM	Hold	136	31.12%	Hold	136	31.12%	17	12.50%
MARKET UNDERPERFORM	Sell	5	1.14%	Sell	5	1.14%	0	0%
COVERAGE IN TRANSITION		43	9.84%		43	9.84%	0	0%
TOTAL:		437	100%		437	100%	114	26.09%

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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