

Conatus Pharmaceuticals Inc. (CNAT)

Conatus Embarks on NASH Study

MARKET DATA

Price	\$11.22
52-Week Range:	\$5.76 - \$15.67
Shares Out. (M):	16.0
Market Cap (\$M):	\$179.5
Average Daily Vol. (000):	625.0
Cash (M):	\$60
LT Debt (M):	\$1

Source: Thomson Reuters and JMP Securities LLC

MARKET OUTPERFORM | Price: \$11.22 | Target Price: \$14.00

INVESTMENT HIGHLIGHTS

Conatus Pharmaceuticals embarks on NASH study; reiterate Market Outperform rating and \$14 price target based on a risk-adjusted, discounted cash flow analysis. In line with our expectations outlined in our industry note from our NASH workshop ("NASH Day Highlights Challenges and Opportunities", published March 3, 2014), Conatus has initiated its Phase 2 trial of the pan-caspase inhibitor, emricasan, in NAFLD/NASH patients. The study is designed to look at biomarkers after 28 days of dosing such as liver enzymes (ALT, AST) and cCK-18, a marker of apoptosis, with data expected 2H14. We believe there is a high chance of success for this study, as Conatus has explored some of these endpoints in the NASH population previously. We recommend shares of Conatus ahead of the readout of the Phase 2 study in acute-on-chronic liver failure and NASH this year.

Phase 2 should confirm prior study. Conatus has looked at emricasan dosing for 14 days in NASH patients with decreases of 59% observed in this population. We anticipate that the current study should replicate this over a longer time period. We are curious to see if longer dosing can mitigate the rebound to baseline observed when dosing was discontinued (Figure 1), which would increase our confidence in a fundamental shift in disease progression.

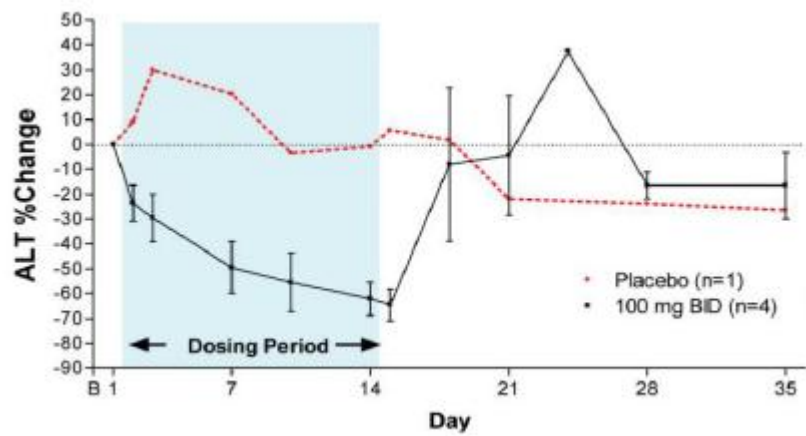
FY DEC	2012A	2013E	2014E
Revenue (\$M) 1Q	--	\$0.0A	--
2Q	--	\$0.0A	--
3Q	--	\$0.0A	--
4Q	--	\$0.0	--
FY	\$0.0	\$0.0	\$0.0
EPS 1Q	--	(\$0.03)A	--
2Q	--	\$0.16A	--
3Q	--	(\$0.28)A	--
4Q	--	(\$0.38)	--
FY	(\$1.04)	(\$0.50)	(\$1.62)

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE



FIGURE 1. ALT Response in NASH Patients



Source: Hepatology 2007

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.

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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, and received compensation for doing so, for Conatus Pharmaceuticals Inc. in the past 12 months.

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.

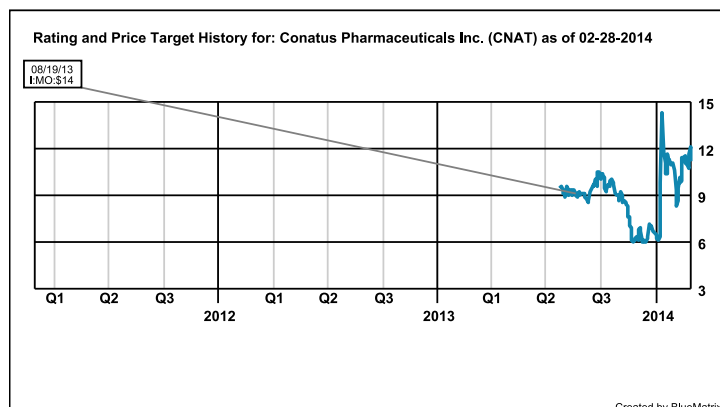
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

JMP Securities Research Ratings and Investment Banking Services: (as of March 2, 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	243	56.25%	Buy	243	56.25%	92	37.86%
MARKET PERFORM	Hold	138	31.94%	Hold	138	31.94%	18	13.04%
MARKET UNDERPERFORM	Sell	8	1.85%	Sell	8	1.85%	0	0%
COVERAGE IN TRANSITION		43	9.95%		43	9.95%	0	0%
TOTAL:		432	100%		432	100%	110	25.46%

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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