

# Aratana Therapeutics, Inc. (PETX)

Aratana Makes a Foray into Veterinary Oncology

## MARKET DATA

Price	\$25.45
52-Week Range:	\$6.56 - \$24.90
Shares Out. (M):	19.9
Market Cap (\$M):	\$506.5
Average Daily Vol. (000):	139.0

Source: Thomson Reuters and JMP Securities LLC

**MARKET OUTPERFORM** | Price: \$25.45 | Target Price: UR

## INVESTMENT HIGHLIGHTS

**We reiterate our Market Outperform rating following Aratana's acquisition of Vet Therapeutics.** Yesterday, Aratana announced that it was acquiring Vet Therapeutics. We think this is a very positive move for the company since: 1) it doubles the number of products in development; 2) it allows the company to expand into veterinary oncology; 3) there are clear synergies between the existing pipeline products and those of Vet Therapeutics; 4) Vet Therapeutics' pipeline has been validated in the human therapeutics market; 5) it further establishes Aratana as the go-to organization for veterinary drug development. Given the recent news, we are reviewing our price target for the company and maintaining our Market Outperform rating.

**Aratana to acquire Vet Therapeutics.** Aratana agreed to pay \$30M in cash and 625K shares. The acquisition was financed through a \$19.75M pipe, an expansion of the company's credit facility, and \$3M in cash from the balance sheet. Aratana also agreed to pay \$5M for the achievement of certain regulatory milestones. Vet Therapeutics adds six products to Aratana's pipeline. All the products revolve around the treatment of canine or feline cancers. The portfolio includes an already marketed product for B-Cell lymphoma (Rituxan for dogs), a soon-to-be-approved product for T-cell lymphoma, and four other products with well-validated targets like IL-6 and Her-2. Moreover, the veterinary oncology market alone is estimated to be worth \$2B, and we believe that the transition from a primarily off-label market to an on-label one could expand the market. Vet Therapeutics could have two products on the market in 2014, and the call points for these oncology products overlaps nicely with the existing pipeline products in pain and inappetence. Aratana will be building a small sales team over the next twelve months in preparation for these product launches.

**Vet Therapeutics also has an impressive IP portfolio.** The IP includes an issued patent (U.S. Patent No. 8,337,842) related to the speciesization of antibodies; expiration date 2029. The claims are directed to heterochimeric antibodies, and cover all of Vet Therapeutics' products. In addition, the company has filed patents related to antibody constant domain regions and cover all of Vet Therapeutics products, and has notice of allowance until 2030. The filed patents also cover canine monoclonal antibodies directed to canine CD20 (until at least 2031) and canine CD52 (until at least 2031).

**Regulatory process for antibodies is different, but still fast.** Monoclonal antibodies are regulated by the USDA, not the CVM. A product tends to reach patients in a shorter time, but there is less safety and efficacy data available at the time of launch. Much of the company's focus in the next year or two will be to work with veterinary oncologists to determine how these products fit into the therapeutic landscape. We expect conditional licenses (approvals) for all or most of Vet Therapeutics products by 2016.

FY DEC		2013E	2014E	2015E
Revenue (\$M)	1Q	\$0.0A	\$0.0	--
	2Q	\$0.0A	\$0.0	--
	3Q	\$0.0	\$0.0	--
	4Q	\$0.0	\$0.0	--
	<b>FY</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
EPS	1Q	(\$0.24)A	(\$0.30)	--
	2Q	(\$4.62)A	(\$0.28)	--
	3Q	(\$0.14)	(\$0.27)	--
	4Q	(\$0.16)	\$0.12	--
	<b>FY</b>	<b>(\$5.15)</b>	<b>(\$0.72)</b>	<b>(\$0.65)</b>
P/E		NM	NM	NM

Source: Company reports and JMP Securities LLC

## STOCK PRICE PERFORMANCE



## Company Description

Founded in 2010, Aratana is a development-stage biopharmaceutical company focused on the licensing, development, and commercialization of prescription medications for companion animals (i.e., pet therapeutics). The companion animal market represents a sizable opportunity with a number of therapeutic and medical needs that have yet to be fully realized or met. Aratana has an active inlicensing effort focused on identifying human therapeutics for development and commercialization as pet therapeutics. This model enables human health-focused pharma and biotech companies to extend drug candidates to the companion animal market. With a focus on both cats and dogs, a single, in-licensed drug candidate can offer two therapeutic programs, each of which can potentially offer its own arrangement with specific development milestones and royalties. Additionally, Aratana is developing its own commercial operations to potentially bring its current and future in-licensed drugs to market.

## Investment Risks

**Limited operating history and significant losses.** The company is a development-stage company with a limited operating history and significant losses since its inception. Aratana is expected to continue to incur losses in the short- to medium-term, as it continues the development of product candidates. Previous losses, combined with expected future losses, will continue to have an adverse effect on stockholders' equity and working capital.

**Dependence on the success of the three compounds currently in development.** Aratana currently has no products approved for commercial distribution. To date, the company has invested much of its efforts and financial resources in the in-licensing, research, and development of AT-001, AT-002 and AT-003, which are currently the only product candidates and are still in development. If Aratana is not successful in commercializing one or more product candidates, operating results will be negatively impacted.

**Regulatory environment.** The denial or delay of regulatory approval (i.e., FDA, EMA) for Aratana's existing and future product candidates would delay commercialization efforts and adversely impact the potential to generate revenue and operating results.

**Market acceptance/commercial success.** Even if the current or future product candidates obtain regulatory approval, they may fail to achieve market acceptance and commercial success, which would adversely affect the company's operating and financial results.

**Financing risk.** On June 27, 2013, Aratana completed an initial public offering, issuing 5.8 million shares of common stock at a price of \$6.00/share, resulting in net proceeds of \$35 million. The company plans to use the net proceeds of the offering to: (i) in-license and develop additional product candidates; (ii) commercialize its current and future product candidates; (iii) establish a direct sales organization in the U.S.; and (iv) for general corporate and working capital purposes. Cash on hand should be enough to fund clinical efforts for AT-001, AT-002, and AT-003 to completion. However, the company will need to raise additional capital in order to successfully commercialize these products and expand its product pipeline.

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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.

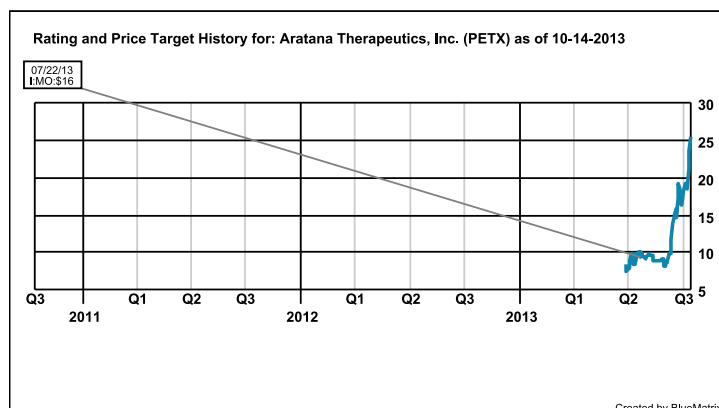
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JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	Regulatory Equivalent	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months	% of Co's With This Rating
MARKET OUTPERFORM	Buy	246	61.65%	Buy	246	61.65%	76	30.89%
MARKET PERFORM	Hold	147	36.84%	Hold	147	36.84%	22	14.97%
MARKET UNDERPERFORM	Sell	6	1.50%	Sell	6	1.50%	0	0%
TOTAL:		399	100%		399	100%	98	24.56%

### 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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