



CRAIG-HALLUM CAPITAL GROUP LLC

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Changes	Previous	Current
Rating:		Buy
Fundamental Trend:		Improving
Price Target:	-	\$30.00
FY13E Rev M:	-	\$0.0
FY14E Rev M:	-	\$2.0
FY15E Rev M:	-	\$10.0
FY13E EPS:	(\$0.98)	(\$1.04)
FY14E EPS:	(\$1.08)	(\$1.15)
FY15E EPS:	(\$0.90)	(\$0.97)

Profile			
Price:			\$20.62
52 Wk Range:	\$6.56		\$29.32
Avg Daily Vol:			73,600
Shares Out M:			23.8
Market Cap M:			\$490.8
Insiders Own:			49%
Short Interest (M):			0.28
BV/Sh:			\$2.11
Est LT EPS Gr:			15%
Net Cash/Sh:			\$2.04
Debt / Capital:			7.8%
Year Ends:			Dec.

Rev (M)	2013E	2014E	2015E
Mar	\$0.0A	-	-
Jun	\$0.0A	-	-
Sep	\$0.0A	-	-
Dec	\$0.0	-	-
FY	\$0.0	\$2.0	\$10.0

EPS*	2013E	2014E	2015E
Mar	(\$0.29)A	-	-
Jun	(\$0.30)A	-	-
Sep	(\$0.22)A	-	-
Dec	(\$0.25)	-	-
FY	(\$1.04)	(\$1.15)	(\$0.97)

*Share counts have been adjusted to reflect IPO shares, the 10/13 private placement, and stock issued in the acquisition of Vet Therapeutics.

FY P/E	NM	NM	NM
FY EV/S	NM	NM	NM

Management			
CEO	Stephen St. Peter		
CFO	Craig Tooman		

November 15, 2013
Institutional Research

ALPHA SELECT LIST

Aratana Therapeutics, Inc.

(PETX - \$20.62)

BUY

Price Target: \$30

Aratana Continues To Race Ahead As Lead Dog In A Lucrative Companion Animal Therapeutics Contest. Reiterate BUY Rating & \$30 Price Target.

Aratana Therapeutics licenses and develops innovative human pharmaceutical products for the companion animal therapeutics market.

OUR CALL

Aratana announced Q3 results that were headlined by an update on its development programs that indicated broad based progress. Importantly, PETX last month strengthened its position as a first mover in targeted pet therapeutics and substantially expanded its reach by adding market leading biologic products to a significant small molecule product set through the transformational acquisition of Vet Therapeutics. We believe the addition of a potential several hundred million dollar per year oncology franchise, a proprietary pet specific antibody development engine, and a revenue generation opportunity which begins in 2014 that serves as a catalyst for Aratana's highly regarded Chief Commercial Officer to immediately begin building a top notch sales and marketing organization represents a large positive delta to the PETX investment equation.

KEY TAKEAWAYS

	Q3'13		Q4'13		FY'13		FY'14	
	Rev	EPS	Rev	EPS	Rev	EPS	Rev	EPS
Actuals:	\$0.0	(\$0.22)	--	--	--	--	--	--
C-H Previous Est.:	\$0.0	(\$0.20)	\$0.0	(\$0.22)	\$0.0	(\$0.98)	\$2.0	(\$1.08)
Prior Consensus Est.:	\$0.0	(\$0.22)	\$0.0	(\$0.24)	\$0.0	(\$5.55)	\$1.0	(\$1.20)
C-H Revised Est.:	--	--	\$0.0	(\$0.25)	\$0.0	(\$1.04)	\$2.0	(\$1.15)

Source: Aratana Therapeutics, Inc., First Call, Craig-Hallum Capital Group

- **No Big Surprises To Q3 Financials Or Development Plans** - As anticipated, PETX continued as a pre-revenue company in Q3 with only minor variations to expense lines relative to our model. The Company maintained a strong product development focus with expenditures prior to the pending build out of significant commercial capabilities. Aratana continued to evaluate three in-licensing opportunities under its new option program initiative (with decisions anticipated in early 2014) and to aggressively develop its three lead compounds for indications in both cats and dogs. While there were some minor additional details provided regarding these efforts, we view the picture as one of steady progress.
- **Development Programs Commentary (Per PETX's Press Release)**
 - AT-001 Dog: Topline results from dose-ranging field study expected in the second half of November 2013; continue to anticipate U.S. approval in 2016
 - AT-001 Cat: Pursuing a chronic pain claim
 - AT-002 Dog: Agreement on pivotal study design reached with Center for Veterinary Medicine (CVM); pivotal field study effectiveness protocol submitted to CVM for review; expect to initiate pivotal study in late 2013; continue to anticipate U.S. approval in 2016
 - AT-002 Cat: Selected three week treatment term and weight gain and/or control claim for further proof of concept work; final formulation selected; expect results 1H 2014
 - AT-003 Dog: Continued dose-ranging study in laboratory dogs; anticipate discussions with the CVM on development program in late 2013; continue to anticipate U.S. approval in 2016
 - AT-003 Cat: Initiated dose-ranging study in laboratory cats

- Option Programs: Evaluation of each of the three programs continues; opt-in/opt-out decisions anticipated in 2014
- B-cell Lymphoma Dog: Completed submission to the USDA for full license; full license anticipated in next twelve-to-eighteen months
- T-cell Lymphoma Dog: Initial data has been submitted to USDA; anticipate conditional license in 2014; continue to enroll the full field trial in 2014; full license anticipated in 2015

Feline AT-001 Program To Target Chronic Pain Indications - Management has chosen to focus its AT-001 development efforts for cats exclusively on chronic pain, rather than going after a smaller market in acute post-surgical pain as a stepping stone to this eventual destination. PETX is formulating a full development timeline and will disclose details in early 2014. We believe this move makes sense, given that 30% of cats over the age of eight have osteoarthritis and currently available products (NSAIDs) used for dogs can't be used for safety reasons in cats.

Commercialization Efforts For PETX's New B-cell Lymphoma Therapy By Major Animal Health Company Partner Starting To Become Visible - At the recent annual meeting of the Veterinary Cancer Society, we attended an informational breakfast session hosted by Novartis Animal Health on how it is working to bring this breakthrough therapy to dogs.

A Strong Team Gets Even Stronger - Beyond the recent talent gain via the Vet Therapeutics acquisition, Aratana has made several additions to an already impressive senior management team and board of directors. On October 21st, the Company elected Merck & Co., Inc.'s former Chief Marketing Officer Wendy Yarno to its Board. John Paolucci, former Global Marketing Director for Vascular Therapies at Covidien, joined on October 24th as Director of Marketing. Just this week, Craig Tooman, a seasoned pharmaceutical industry executive with a broad set of C-Suite experience, moved from the Company's Board to become its new CFO (with Louise Mawhinney transitioning to a new role). At the same time, it was announced that John Ayres has joined as General Counsel from Amgen where he served as a member of the Corporate and Securities Law group.

FINANCIAL PERFORMANCE & OUTLOOK

Aratana Third Quarter Results Snapshot

	Actual	Estimate	Variance	Last Q	Q/Q Growth	Last Y	Y/Y Growth
Revenue	\$0.0	\$0.0	\$0.0	\$0.0	NM	\$0.0	NM
R&D	\$3.2	\$2.9	\$0.4	\$2.5	31%	\$1.7	95%
SG&A	\$1.4	\$1.5	(\$0.0)	\$1.3	13%	\$1.1	34%
Operating Income	(\$4.7)	(\$4.3)	(\$0.3)	(\$3.7)	25%	(\$2.7)	71%
EPS GAAP	(\$0.22)	(\$0.20)	(\$0.02)	(\$0.30)	0%	(\$9.64)	100%
Gross Margin	NM	NM	NA	NM		NM	
Operating Margin	NM	NM	NA	NM		NM	
Net Margin	NM	NM	NA	NM		NM	

Source: Aratana Therapeutics, Inc. and Craig-Hallum Capital Group

Per the table below, immaterial changes have been made to our estimates.

Estimate Changes

\$ in mils	Q4'13 New	Q4'13 Prev.	FY13 New	FY13 Prev.	FY14 New	FY14 Prev.
Total Revenue	\$0.0	\$0.0	\$0.0	\$0.0	\$2.0	\$2.0
Y/Y Growth*	NM	NM	NM	NM	NM	NM
R&D	\$3.8	\$3.4	\$11.6	\$10.8	\$20.0	\$18.9
SG&A	\$1.7	\$1.8	\$5.6	\$5.7	\$8.0	\$8.2
Total Operating Expense	\$5.5	\$5.2	\$17.3	\$16.6	\$28.1	\$27.1
Total Operating Income	(\$5.5)	(\$5.2)	(\$17.3)	(\$16.6)	(\$26.1)	(\$25.1)
Y/Y growth	NM	NM	NM	NM	NM	NM
EPS	(\$0.25)	(0.22)	(\$1.04)	(\$0.98)	(\$1.15)	(\$1.08)
Y/Y growth	NM	NM	NM	NM	NM	NM
Gross Margin	NM	NM	NM	NM	NM	NM
Operating Margin	NM	NM	NM	NM	NM	NM
Net Margin	NM	NM	NM	NM	NM	NM

Source: Craig-Hallum

Following an IPO in July which generated net proceeds of \$34.2M, PETX exited Q3 with a balance sheet featuring \$52.3M of cash and \$3.7M of debt. Given a raise of \$19.8M of capital via an equity private placement and the \$10M expansion of a term loan facility in October (coincident with the acquisition of Vet Therapeutics), Aratana reiterated expectations for yearend cash to total \$45-\$50M and it to be sufficient to fund operations through at least the end of FY15. We believe Management has a good handle on both the cash flow and cost implications of its ambitious development and commercialization strategies.

STOCK OPPORTUNITY

We believe PETX has the management team, opportunity and strategy to become a leading provider of innovative specialty pharmaceuticals within the emerging Pet Therapeutics market. We see success with these efforts dramatically improving companion animal veterinary care and driving substantial gains for the Company's shareholders. We remain confident that PETX's strategy to introduce novel pharmaceutical therapies specially tailored to the companion animal market will be a winner and drive substantial returns. We are reiterating our Buy rating on Aratana and our DCF driven \$30 price target (see page 6).

RISKS

We believe an investment in Aratana involves the following risks:

- **Government Regulation**

The Animal Therapeutic industry is highly regulated by the Center for Veterinary Medicine at both the state and federal level. Changes to existing regulation or new legislation could have a material adverse effect on the PETX's business and financial performance.

- **Dependence On Suppliers**
The Company's business model relies on third parties to manufacture its products. Any disruptions to manufacturing processes at its suppliers or other interruption to the supply of its products could have an adverse impact on the Company's financial results.
- **Generic Products**
Generic products may be viewed as more cost effective than branded therapeutics. While the Company's IP should protect its products from generic entry in the near term, substantially cheaper generic versions of competing products, even if they are less efficacious, may represent a challenge to the commercialization of the Company's products.
- **Intellectual Property And Trade Secrets**
The Company's financial success is in part dependent on its ability to secure and enforce its substantial intellectual property. If PETX is forced to defend its intellectual property through litigation or if it is unable to maintain propriety of its trade secrets, the Company may incur extra expenses and financial results may be adversely affected.
- **Ongoing Need To Finance Growth**
While the Company expects to exit 2013 with between \$45M-\$50M in cash on its balance sheet and estimates that its current capital is sufficient to fund its operations for over 2 years, the Company may need to seek additional capital in order to continue to fund its operations in the future. Such financing could be dilutive to stockholders or impose debt covenants and obligations.
- **Future Expirations Of Lock-Up Agreements**
Roughly 4M of the Company shares are subject to a lock-up restriction connected to the Company's public offering are scheduled to release at 4:00pm ET on December 9th 2013. Certain of the Company's officers, directors and other stakeholders (representing ~14M shares) have agreed to a new lock-up restriction for a period of 90 days following the closing of the Vet Therapeutics acquisition. The release or pending release of a large number of shares from a lock-up restriction may adversely affect the share price of the Company's stock.

CRAIG-HALLUM ALPHA SELECT LIST

The Alpha Select list is an actively researched collection of small, under-followed public companies that we believe have the potential to become much larger. An "acorn" list of sorts, The Alpha Select List will typically consist of sub-\$250M market cap companies with attractive business models, above average growth trends, favorable macro/secular themes and management teams that we believe have the ability to take the business to the next level.

Financials

Aratana Therapeutics, Inc. Financial Model FISCAL YEAR ENDS DECEMBER

(\$ thousands)	Fiscal 2011A	Fiscal 2012A	Mar Q1-13A	Jun Q2-13A	Sep Q3-13A	Dec Q4-13E	Fiscal 2013E	Fiscal 2014E	Fiscal 2015E	Fiscal 2016E	Fiscal 2017E
Total Revenue	-	-	-	-	-	-	-	2,000	10,000	43,250	99,000
Cost of Sales	-	-	-	-	-	-	-	-	2,500	16,435	38,622
Total Gross Margin	-	-	-	-	-	-	-	2,000	7,500	26,815	60,377
Operating Expenses											
Research and Development	2,196	7,291	2,114	2,469	3,234	3,810	11,627	20,036	14,732	15,473	18,172
Selling, General and Administrative	1,274	2,987	1,226	1,258	1,427	1,738	5,649	8,023	14,633	18,808	28,216
In-Process R&D	0	1,500	0	0	0	0	0	0	0	0	0
Total GAAP Operating Expenses	3,470	11,778	3,340	3,727	4,661	5,548	17,276	28,059	29,365	34,281	46,388
GAAP Income (Loss) from Operations	(3,470)	(11,778)	(3,340)	(3,727)	(4,661)	(5,548)	(17,276)	(26,059)	(21,865)	(7,466)	13,989
Interest income	6	21	3	22	26	26	77	84	52	20	12
Interest Expense	0	0	(24)	(78)	(80)	(80)	(262)	(320)	(340)	(378)	(468)
Other Income	0	121	68	343	44	50	505	100	0	0	0
Pre-tax GAAP Income	(3,464)	(11,636)	(3,293)	(3,440)	(4,671)	(5,552)	(16,956)	(26,195)	(22,153)	(7,824)	13,533
Income Tax (benefit)	0	0	-	-	-	-	0	0	0	0	0
GAAP Net Income	(3,464)	(11,636)	(3,293)	(3,440)	(4,671)	(5,552)	(16,956)	(26,195)	(22,153)	(7,824)	13,533
Modification of Series A Convertible Preferred Stock	(276)	0	0	0	0	0	0	0	0	0	0
Unaccreted Dividends on Convertible Preferred Stock	(902)	(2,035)	(773)	(808)	0	0	(1,581)	0	0	0	0
Net Loss Attributable to Common Stockholders	(4,642)	(13,671)	(4,066)	(4,248)	(4,671)	(5,552)	(18,537)	(26,195)	(22,153)	(7,824)	13,533
EPS Attributable to Common Stockholders	(\$6.93)	(\$17.68)	(\$0.29)	(\$0.30)	(\$0.22)	(\$0.25)	(\$1.04)	(\$1.15)	(\$0.97)	(\$0.34)	\$0.59
Weighted Avg. Shares Outstanding DILUTED	500	658	13,936	14,120	20,806	22,395	17,814	22,718	22,778	22,838	22,898
Margin Analysis % of Sales											
Total Gross Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	62.0%	61.0%
Research and Development	NM	NM	NM	NM	NM	NM	NM	NM	NM	35.8%	18.4%
Selling, General and Administrative	NM	NM	NM	NM	NM	NM	NM	NM	NM	43.5%	28.5%
In-Process R&D	NM	NM	NM	NM	NM	NM	NM	NM	NM	0.0%	0.0%
Total GAAP Operating Expense	NM	NM	NM	NM	NM	NM	NM	NM	NM	79.3%	46.9%
GAAP Operating Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	-17.3%	14.1%
Adj. EBITDA Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	-17.3%	14.1%
GAAP Pre-tax Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	-18.1%	13.7%
Tax Rate (Effective)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
GAAP Net Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	-18.1%	13.7%
Percent Change (Yr/Yr)											
Total Revenue	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	128.9%
Selling, General and Administrative	NM	134.5%	146.2%	101.9%	34.0%	NM	89.1%	42.0%	82.4%	28.5%	50.0%
Research and Development	NM	232.0%	20.7%	28.0%	95.1%	NM	59.5%	72.3%	-26.5%	5.0%	17.4%
Total GAAP Operating Expense	NM	239.4%	48.5%	46.0%	71.2%	NM	46.7%	62.4%	4.7%	16.7%	35.3%
GAAP Operating Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Adj. EBITDA	NM	239.4%	48.5%	NM	NM	NM	46.5%	51.0%	-16.1%	-65.9%	-287.4%
GAAP Pre-tax Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
GAAP Net Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
GAAP Earnings Per Share	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM

Discounted Cash Flow Model

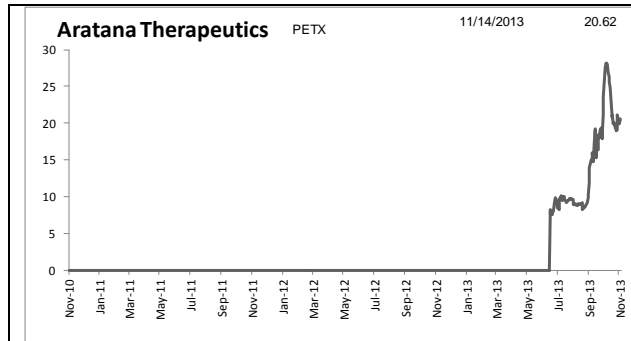
Aratana Therapeutics, Inc. Discounted Cash Flow Model

Estimates										
(\$ in Thousands)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Sales	0	2,000	10,000	43,250	99,000	178,000	290,399	438,680	631,887	650,844
Operating Profit	(17,276)	(26,059)	(21,865)	(7,466)	13,989	46,071	95,832	162,312	252,755	244,066
Less: Cash Taxes Paid	0	0	0	0	0	0	9,583	60,055	93,519	90,305
Operating Profit After Tax	(17,276)	(26,059)	(21,865)	(7,466)	13,989	46,071	86,249	102,256	159,236	153,762
Depreciation & Amortization	20	23	175	547	616	693	779	877	986	1,109
Fixed Cap Expenditures	100	107	2,114	1,163	1,244	1,331	1,424	1,524	1,630	1,745
Working Cap Increase	0	250	1,000	4,156	6,969	9,875	14,050	18,535	24,151	2,370
FCF	(17,356)	(26,394)	(24,804)	(12,238)	6,392	35,558	71,554	83,074	134,440	150,757
PV FCF	(15,496)	(21,041)	(17,655)	(7,777)	3,627	18,015	32,367	33,552	48,481	48,540
Perpetual FCF										
Base FCF	150,757									
Weighted Avg. Cost of Capital (k)	12.0%									
Perpetual Growth Rate (g)	3.0%									
Base Year	2012									
Perpetual Start Year	2022									
Perpetual Value	1,725,330									
PV of Perpetual Growth Period	555,510									
Total FCF										
Value of FCF	678,122									
Intrinsic Value										
Cash	52,306									
Debt	13,691									
After Tax ESO Liability	9,072									
Value of Equity	707,666									
Shares Outstanding	23,804									
Intrinsic Value per Share	\$29.73									

Sensitivity Analysis					
Terminal Period Variables		FCF Growth			
Cost of Capital	2.5%	3.0%	3.5%	4.0%	
	9.5%	\$45.29	\$48.36	\$51.95	\$56.19
	10.0%	\$40.92	\$43.47	\$46.43	\$49.87
	11.5%	\$30.95	\$32.50	\$34.25	\$36.23
	12.0%	\$28.39	\$29.73	\$31.22	\$32.90
	12.5%	\$26.13	\$27.28	\$28.56	\$30.00
	13.0%	\$24.10	\$25.11	\$26.22	\$27.45



REQUIRED DISCLOSURES



Initiate: July 22, 2013 – Rating: Buy – Price Target: \$15
 October 15, 2013 – Rating: Buy – Price Target: \$30

Source: Baseline

Ratings definitions:

Buy rated stocks generally have twelve month price targets that are more than 20% above the current price. **Hold** rated stocks generally have twelve month price targets near the current price. **Sell** rated stocks generally have no price target and we would sell the stock.

Fundamental trend definitions:

Improving means growth rates of key business metrics are generally accelerating. **Stable** means growth rates of key business metrics are generally steady. **Mixed** means growth rates of some key business metrics are positive but others are negative. **Declining** means growth rates of key business metrics are generally decelerating.

Ratings Distribution (9/30/2013)

Rating	% Of Companies Covered	% With Investment Banking Relationships
Buy	75%	23%
Hold	22%	0%
Sell	4%	0%
Total	100%	17%

Information about valuation methods and risks can be found in the “STOCK OPPORTUNITY” and “RISKS” sections, respectively, of this report.

CHLM makes a market in this security.

CHLM has managed or co-managed an offering of securities for the subject company in the last 12 months. CHLM has received investment banking revenue from the subject company in the last 12 months. CHLM expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.

Analysts receive no direct compensation in connection with the firm's investment banking business. Analysts may be eligible for bonus compensation based on the overall profitability of the firm, which takes into account revenues from all of the firm's business, including investment banking.

OTHER DISCLOSURES

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