Aratana Therapeutics, Inc. (PETX)

Aratana Acquisition of Okapi a Positive Event

MARKET DATA

Price	$19.66
52-Week Range:	$6.56 - $29.32
Shares Out. (M):	21.9
Market Cap ($M):	$430.6
Average Daily Vol. (000):	90.0

Source: Thomson Reuters and JMP Securities LLC

FY DEC		2013E	2014E	2015E
Revenue ($M)	1Q	$0.0A	$0.0	--
	2Q	$0.0A	$0.0	--
	3Q	$0.0A	$0.0	--
	4Q	$0.0	$0.0	--
	FY	**$0.0**	**$0.0**	**$0.0**
EPS	1Q	($0.24)A	($0.30)	--
	2Q	($4.62)A	($0.28)	--
	3Q	($0.22)A	($0.27)	--
	4Q	($0.16)	$0.12	--
	FY	**($5.15)**	**($0.72)**	**($0.65)**
	P/E	NM	NM	NM

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE

MARKET OUTPERFORM | Price: $19.66 | Target Price: $38.00

INVESTMENT HIGHLIGHTS

We reiterate our Market Outperform rating and $38 price target on shares of Aratana Therapeutics. Aratana announced this morning that it has acquired Belgium-based Okapi Sciences for approximately $45M in cash/debt/equity. We view the transaction as a positive event because it expands Aratana's product pipeline into antiviral therapeutics - another nascent, but important category of the companion animal market. Okapi's lead compound (designated AT-006) is targeted at the treatment of ocular disease caused by FHV (feline herpes virus) and is partnered with Novartis Animal Health. The acquisition also gives the company a European base of operations for existing and future regulatory, partnering, or commercial efforts. Our $38 price target is based on a blend of our DCF ($37) and relative valuation ($38) methodologies.

Okapi specializes in companion antivirals; Aratana's pipeline expands to 20 compounds in development. Okapi specializes in developing antiviral therapeutics for the companion animal market. The lead compound (AT-006) is targeted at feline herpes virus and has been partnered with Novartis Animal Health since 2013. The compound is currently in the midst of its European pivotal trial; the launch is presently targeted at 2015. U.S. pivotal trials for AT-006 are also expected to begin in 2015. Novartis pays all the development costs and Aratana will earn an undisclosed royalty on sales. AT-007 is targeted at feline immunodeficiency virus (FIV) and is known as tenofovir in the HIV market. Other compounds in the Okapi pipeline are targeted at lymphoma, parvovirus, and calicivirus.

Acquisition creates a European base of operations. One of the key benefits of the acquisition is that it gives the company a footprint drive to European regulatory and partnering efforts. It also gives Aratana the option to build a direct sales organization in the region.

Cash needs increase. Aratana acquired Okapi for approximately $14M in cash and another $31.3M in debt and equity. The company has funds to last until the end of 2014, which suggests that the company will need to raise additional capital this calendar year. The company has not updated its revenue burn guidance to reflect recent acquisitions.

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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 in-licensing 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, currently the only product candidates that 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 (e.g., 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 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.

JMP FACTS AND DISCLOSURES

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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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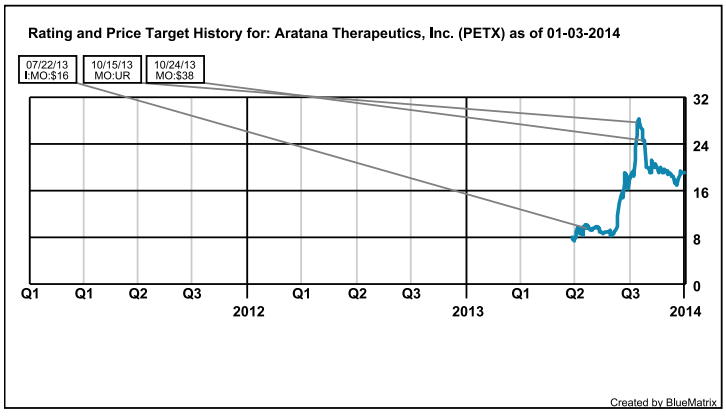
JMP Securities Research Ratings and Investment Banking Services: (as of January 3, 2014)

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	240	*55.43%*	Buy	240	*55.43%*	91	*37.92%*
MARKET PERFORM	Hold	144	*33.26%*	Hold	144	*33.26%*	25	*17.36%*
MARKET UNDERPERFORM	Sell	6	*1.39%*	Sell	6	*1.39%*	0	*0%*
COVERAGE IN TRANSITION		43	*9.93%*		43	*9.93%*	0	*0%*
TOTAL:		433	*100%*		433	*100%*	116	*26.79%*

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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