

Aratana Therapeutics, Inc.

Adjusting Estimates Following Offering and CD52 Antibody Approval

Conclusions

- We are adjusting our estimates following the conditional approval of the company's anti-CD52 canine-specific monoclonal antibody for the treatment of T-cell lymphoma in dogs. Due to conservative launch assumptions, we previously estimated revenue to start in 2015. We now estimate \$472,500 in 2014, ramping up to \$8.6 million in 2015. Our B-cell royalty has been adjusted from \$840,000 down to \$529,000 in 2014 given more conservative assumptions surrounding pricing of the B-cell anti-CD20 product. We believe Novartis Animal Health, similar to Aratana, will have a gradual sales ramp-up during the conditional approval period, but should accelerate once fully approved over the next one to two years. We have also made minor tweaks to our model following the completion of the company's recent \$142 million equity raise.

Additional Details

- While we had previously believed the approval of the anti-CD52 product would occur during the course of 2014, we had previously assumed negligible revenues during the year. Following Tuesday's approval, we believe the company will book relatively modest revenue in 2014 because of the nature of the conditional approvals granted by the USDA. Given that this is Aratana's second conditional approval (through the acquired Vet Therapeutics team), we believe the majority of its attention in 2014 will be on executing a 50-dog clinical study focused on sequencing the anti-CD52 antibody with chemotherapy. We also expect the company to scale manufacturing over the near term and execute a full launch in 2015.
- Our new estimates assume relatively modest revenue from anti-CD52 during 2014, which is offset by a decrease in our assumed royalties from anti-CD20, which is being launched on a conditional approval basis by partner Novartis Animal Health. While our discussions in the vet space suggest chemotherapy costs range from \$2,500 to \$10,000 per dog, we are reducing our anti-CD52 assumption from \$4,000 per dog to \$2,800 to be conservative as the company finalizes its pricing strategy during the conditional approval time frame. Although our estimate may be conservative, in the absence of knowing how the product will be combined with chemotherapy (which will carry a range of costs), we believe it makes sense for the time being. We have also included dilution from the recent capital raise, which has an anti-dilutive effect on 2014 through 2016.

Aratana is a specialty biopharmaceutical company focused solely on the companion-animal market. The company was founded in Kansas City, Kansas, in 2010 to pursue in-licensing, development, and commercialization of novel therapeutics for cats and dogs. The company has three molecules focused on osteoarthritic pain, lack of appetite, and post-surgical pain in both dogs and cats, which, if effective, could reach the market by 2016.

John Kreger
+1 312 364 8597
jkreger@williamblair.com

Tim Lugo
+1 415 248 2870
tlugo@williamblair.com

Roberto Fatta
+1 312 364 8797
rfatta@williamblair.com

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Stock Rating: **Outperform**
Company Profile: **Aggressive Growth**

Symbol: PETX (NASDAQ)
Price: \$21.64 (52-Wk.: \$7-\$29)
Market Value (mil.): \$630
Fiscal Year End: December
Long-Term EPS Growth Rate:
Dividend/Yield: None

	2012A	2013E	2014E
Estimates			
EPS Q1	NA	A\$-0.27	NA
Q2	NA	A\$-0.19	NA
Q3	NA	A\$-0.22	NA
Q4	NA	\$-0.21	NA
FY	\$-0.91	\$-0.94	\$-1.09
CY		\$-0.94	\$-1.09
Sales (mil.)	NA	NA	1,002
Valuation			
FY P/E	NM	NM	NM
CY P/E		NM	NM

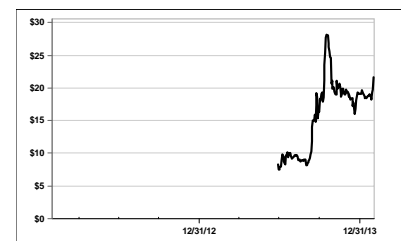
Trading Data (FactSet)

Shares Outstanding (mil.)	21
Float (mil.)	5
Average Daily Volume	155,410

Financial Data (FactSet)

Long-Term Debt/Total Capital (MRQ)	0.0
Book Value Per Share (MRQ)	2.1
Enterprise Value (mil.)	402.9
EBITDA (TTM)	0.0
Enterprise Value/EBITDA (TTM)	0.0x
Return on Equity (TTM)	-40.6

Two-Year Price Performance Chart



Sources: FactSet, William Blair & Company estimates

Matt Bacso
+1 312 364 8996
mbacso@williamblair.com

Please consult pages 7-8 of this report for all disclosures. Analyst certification is on page 7.

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- Given the increase in share count, as well as expenses associated with the modest launch of the anti-CD52 product, we made modest changes to our Aratana estimates. We are decreasing our loss target for 2014 to \$32.9 million from \$34.3 million, decreasing our loss per share estimate to \$1.25 from \$1.46 in 2015, and decreasing our 2016 loss per share estimate to \$0.76 from \$0.80. We have also lowered our positive EPS estimates in 2017 through 2020 to compensate for increased operating expenses and share count. Exhibit 1 details the changes we have made relative to our old model.

Exhibit 1
Updated Estimates

NEW	2014	2015	2016	2017	2018	2019	2020
TOTAL Revenue	\$ 1,002	\$ 11,016	\$ 44,031	\$ 90,389	\$ 171,699	\$ 246,046	\$ 334,690
Anti-CD52 Revenue	\$ 473	\$ 8,640	\$ 10,141	\$ 16,003	\$ 21,758	\$ 25,806	\$ 27,979
Anti-CD20 Royalty	\$ 529	\$ 2,178	\$ 4,141	\$ 7,767	\$ 10,461	\$ 13,310	\$ 16,974
Operating Expenses	\$ 33,248	\$ 48,175	\$ 66,407	\$ 87,210	\$ 119,098	\$ 150,876	\$ 187,745
Net Income	\$ (32,945)	\$ (37,882)	\$ (23,143)	\$ 1,524	\$ 33,180	\$ 60,500	\$ 93,756
EPS	\$ (1.09)	\$ (1.25)	\$ (0.76)	\$ 0.05	\$ 1.07	\$ 1.94	\$ 2.99
Share Count	29,635	30,318	30,518	30,718	30,918	31,118	31,318

OLD	2014	2015	2016	2017	2018	2019	2020
TOTAL Revenue	\$ 840	\$ 11,400	\$ 43,816	\$ 86,715	\$ 157,349	\$ 225,523	\$ 306,407
Anti-CD52 Revenue	\$ -	\$ 7,200	\$ 11,250	\$ 16,200	\$ 21,600	\$ 25,200	\$ 27,900
Anti-CD20 Royalty	\$ 840	\$ 4,200	\$ 8,400	\$ 12,600	\$ 16,800	\$ 19,320	\$ 21,000
Operating Expenses	\$ 33,140	\$ 47,879	\$ 63,091	\$ 81,925	\$ 109,500	\$ 139,116	\$ 171,963
Net Income	\$ (34,372)	\$ (38,509)	\$ (21,358)	\$ 1,714	\$ 29,298	\$ 54,046	\$ 84,900
EPS	\$ (1.40)	\$ (1.46)	\$ (0.80)	\$ 0.06	\$ 1.09	\$ 1.99	\$ 3.10
Share Count	24,686	26,356	26,556	26,756	26,956	27,156	27,356

Changes	2014	2015	2016	2017	2018	2019	2020
Δ Revenue	\$ 162	\$ (384)	\$ 216	\$ 3,673	\$ 14,350	\$ 20,522	\$ 28,284
Δ Anti-CD52 Revenue	\$ 473	\$ 1,440	\$ (1,109)	\$ (197)	\$ 158	\$ 606	\$ 79
Δ Anti-CD20 Royalty	\$ (311)	\$ (2,022)	\$ (4,259)	\$ (4,833)	\$ (6,339)	\$ (6,010)	\$ (4,026)
Δ Operating Expenses	\$ 108	\$ 295	\$ 3,317	\$ 5,285	\$ 9,598	\$ 11,761	\$ 15,782
Δ Net Income	\$ 1,426	\$ 627	\$ (1,784)	\$ (190)	\$ 3,882	\$ 6,454	\$ 8,857
Δ EPS	\$ 0.30	\$ 0.21	\$ 0.05	\$ (0.01)	\$ (0.01)	\$ (0.05)	\$ (0.11)
Δ Share Count	4,949	3,962	3,962	3,962	3,962	3,962	3,962

Source: William Blair & Company L.L.C estimates

- Aratana's next major event is likely to be an update on the clinical side from the ongoing three license option programs Aratana has been evaluating since the third quarter. Because of competitive concerns, Aratana has yet to divulge the indication each option program is targeting. We expect additional color during the first half of 2014 as the company makes its go/no-go decision on the program—which had been previously communicated by management. Management is also set to initiate pivotal field effectiveness studies for AT-001 for pain and inflammation. Pivotal results for AT-002 (appetite stimulation) and AT-006 (feline herpes) should also be revealed in 2014. The market for AT-006 looks attractive with the product on pace to become the first antiviral approved for the treatment of a companion animal. We have outlined the status of a select number of development programs in exhibit 2, on the following page.
- Stock Thoughts.** We believe Aratana is quickly solidifying itself as a leader in the innovative companion veterinary medicine space. We view the recent acquisitions of Okapi and Vet Therapeutics as transformational, as it now owns a 20-product-deep pipeline. We reiterate our Outperform rating on Aratana and expect 2014 to be an impressive year for clinical validation of the company's portfolio.
- Valuation.** We have used two different valuation methodologies for Aratana; a net present value (NPV) calculation and an EPS multiple-based approach, discounting 2019 earnings to 2014. While we are not formally placing a price target on shares of Aratana, both valuation exercises suggest 12-month upside potential to be in the mid- to upper-\$20 range.
 - For our NPV analysis, we estimate revenue for the company of \$44 million in 2016, ramping up to \$335 million in 2020. Using a 10% discount rate, an EBIT margin that should reach 44% by 2020, and a terminal growth of 3% suggest a reasonable value of about \$735 million including cash, or roughly \$26.17 per share. We outline our NPV assumptions in exhibit 3.
 - We also calculated several multiple-based valuation metrics for Aratana shares using a range of forward earnings multiples between 24 and 28 times and discount rates ranging from 10% to 16%. This calculation results in a value of between \$24 per share on the low end (using a 24-times EPS multiple and a 20% discount rate) and \$31 on the high end (using a 28-times EPS multiple and a 12% discount rate). We include this matrix for various multiples and discount rates in exhibit 4.

Exhibit 2. Program Status for Portfolio

AT-001					
September 2013	Dog December 2013	January 2014 (S-1)	September 2013	Cat December 2013	January 2014 (S-1)
- Pivotal Field Study initiated in 2012, Topline results expected in mid-2014 - Topline results from dose-ranging study expected in November 2013 - 2016 Launch	- Pivotal study expected to be initiated in 2014 - 2016 Launch	- Initiating pivotal field effectiveness study in 1Q14. Expect US market approval in 2016.	- No update; previously expected to pursue acute pain indication	- Pursuing chronic pain indication	- Currently performing pilot studies. Next step is dose confirmation study.
AT-002					
September 2013	Dog December 2013	January 2014 (S-1)	September 2013	Cat December 2013	January 2014 (S-1)
- Pivotal Field Study expected to be initiated in late 2014, Topline results expected in early 2015 - 2016 Launch	- Agreement on Pivotal Field Study design reached; expected to be initiated in late 2013 - 2016 Launch	- Currently performing pivotal field effectiveness study. Next step is for submission for approval. Expected US marketing approval in 2016	- Pivotal Field Study expected to be initiated in late 2014, Topline results expected in late 2015 - 2017 Launch	- Pivotal Field Study expected to be initiated in mid-2014, Topline results expected in late 2015 - 3-week treatment term and final formulation selected; further proof of concept work to be done; results expected in first half 2014	- Currently performing pilot studies. Next step is dose confirmation study.
AT-003					
September 2013	Dog December 2013	January 2014 (S-1)	September 2013	Cat December 2013	January 2014 (S-1)
- Pivotal Field Study expected to be initiated in mid-2014, Top line results expected in mid-2015 - 2016 Launch	- Pivotal Field Study expected to be initiated in mid-2014, Top line results expected in mid-2015 - Continued dose-ranging study in laboratory animals	- Initiate pivotal field effectiveness study in 2Q14. Expect US marketing approval in 2016.	- Pivotal Field Study expected to be initiated in mid-2014, Top line results expected in mid-2015 - 2016 Launch	- Pivotal Field Study expected to be initiated in mid-2014, Top line results expected in mid-2015 - Initiated dose-ranging study in laboratory animals in late 2013	- Currently performing proof of concept study. Next step is dose confirmation study.
AT-004 B-cell Lymphoma - dog only					
October 2013	December 2013	January 2014 (S-1)			
- Received conditional license from USDA	- Completed submission for full license; expected within next 12-18 months	- Submitted pivotal field effectiveness study. Currently sold by Novartis. Full license expected in 2014			
AT-005 T-cell Lymphoma - dog only					
October 2013	December 2013	January 2014 (S-1)			
- Initial data submitted to USDA; expect conditional license in 2014 and full license in 2015	- Initial data submitted to USDA; expect conditional license in 2014 and full license in 2016	- Completed pivotal field effectiveness study. Conditional license expected in 2014.			
Option Programs					
October 2013	December 2013	January 2014 (S-1)			
- Three programs still being evaluated, company will advance at least one program but likely not all following a decision in early 2014.	- Three programs still being evaluated, company will advance at least one program but likely not all following a decision in the first quarter 2014.	- Three programs being evaluated, PETX expects decision on all three in 1H14.			
Other Vet Therapeutics Compounds for Mast Cell Tumors, Atopic Dermatitis, and Feline Lymphoma					
October 2013	December 2013	January 2014 (S-1)			
- N/A	- Studies in two unspecified products expected to begin in 2014 and be completed by 2015; conditional licenses expected in mid-2015 for two products and a third product in 2016	- Mast Cell, Atopic Dermatitis, & Feline Lymphoma. Studies in two unspecified products expected to begin in 2014 and completed by 2015. Conditional licenses expected in mid-2015 for two products and a third in 2016.			
AT-006 - Feline Herpes					
January 2014	January 2014 (S-1)				
- Currently performing clinical studies. Expected launch in 2015.	- Currently performing pivotal field study in Europe. Next step is to file for EU review in 2014. Expect US marketing approval in 2017 or 2018.				
AT-007 - Feline Immunodeficiency					
January 2014	January 2014 (S-1)				
- Currently performing clinical studies. Expected launch in 2017.	- Pilot study in Europe. Initiate field effectiveness study in 2015. Expect US marketing approval in 2017 or 2018.				
AT-008 - Dog Lymphoma					
January 2014	January 2014 (S-1)				
- Expected to end Pre-Clinical stage (No specific date given). Expected launch after 2017	- Currently performing pivotal field effectiveness study in EU. Only Have EU rights.				
AT-011 - Dog Canine Parvovirus					
January 2014	January 2014 (S-1)				
- Pre-Clinical stage. Expected launch after 2018	- Currently in lead selection. Expected next step is proof of concept study.				
AT-012 - Cat Feline Calicivirus					
January 2014	January 2014 (S-1)				
- Pre-Clinical stage. Expected launch after 2018	- Currently in lead selection. Expected next step is proof of concept study.				
Diagnostic Koi Carp KHV Infections					
January 2014	January 2014 (S-1)				
- To be divested or spun-out after value infection. Currently in pivotal stage					

Source: Company reports, William Blair & Company L.L.C.

Note: Shaded areas suggest updated language

Exhibit 3. Net Present Value of Estimated Cash Flows (12-month outlook)

	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025	12/31/2026	12/31/2027	TV
Total Cost	48.17	66.41	87.21	119.10	150.88	187.74	208.88	232.52	252.90	268.03	279.45	258.78	261.79	
Revenue	11.02	44.03	90.39	171.70	246.05	334.69	404.98	485.97	558.87	614.75	657.79	536.99	547.73	
Effective tax rate	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%	
Net Cash Flow	(23.78)	(14.32)	2.03	33.66	60.91	94.05	125.50	162.21	195.82	221.90	242.13	178.05	183.00	188.49
NPV of Cash Flows	(21.59)	(11.80)	1.52	22.87	37.56	52.64	63.77	74.83	82.02	84.36	83.57	55.80	52.06	53.62

All numbers in millions and dollars

Time of Valuation	12/31/14
Shares Outstanding (millions)	28.081
Discount Rate	10%
Year of Terminal Value	2027

NPV (\$ Million)	\$631.24
NPV (Per Share)	\$22.48
Cash	\$103.75
Cash (Per Share)	\$3.69
NPV+ Cash	\$734.99
NPV+Cash (Per Share)	\$26.17

Exhibit 4. PETX Valuation on 2019 EPS (12-month outlook)

		Earnings Multiple							
Discount Rate		18	20	22	24	26	28	30	32
	10%	\$22	\$24	\$27	\$29	\$31	\$34	\$36	\$39
	12%	\$20	\$22	\$24	\$26	\$29	\$31	\$33	\$35
	14%	\$18	\$20	\$22	\$24	\$26	\$28	\$30	\$32
	16%	\$17	\$19	\$20	\$22	\$24	\$26	\$28	\$30

Exhibit 5. Penetration Rates and Revenue Build

		2014E	2015E	2016E	2017E	2018E	2019E	2020E
	AT 001 - Osteoarthritis (US)	\$ -	\$ -	\$ 10,238,800	\$ 19,988,540	\$ 26,918,320	\$ 39,279,240	\$ 59,682,480
	AT 001 - market penetration (cats)			1.0%	2.3%	3.0%	4.3%	6.2%
	AT 001 - market penetration (dogs)			1.0%	1.6%	2.2%	3.3%	5.4%
	AT 001 - Euro Royalty	\$ -	\$ -	\$ 862,875	\$ 2,154,994	\$ 3,475,266	\$ 4,249,842	\$ 6,336,281
	AT 001 - market penetration (cats)			1.0%	2.3%	3.5%	4.2%	6.0%
	AT 001 - market penetration (dogs)			1.0%	1.4%	2.5%	3.2%	5.0%
	AT 002 - Inappetence (US)	\$ -	\$ -	\$ 11,629,964	\$ 20,244,546	\$ 33,740,910	\$ 50,611,365	\$ 74,023,790
	AT 002 - market penetration (cats)			1.8%	3.0%	5.0%	7.5%	9.8%
	AT 002 - market penetration (dogs)			1.7%	3.0%	5.0%	7.5%	12.0%
	AT 002 - Euro Royalty			\$ 1,024,498	\$ 2,407,860	\$ 3,878,044	\$ 6,204,870	\$ 7,790,816
	AT 002 - market penetration (cats)			1.5%	3.0%	5.0%	8.0%	9.0%
	AT 002 - market penetration (dogs)			2.0%	3.2%	5.0%	8.0%	11.0%
	AT 003 - Post operative-pain (US)			\$ 4,095,000	\$ 12,180,000	\$ 28,400,000	\$ 36,592,000	\$ 48,600,000
	AT 003 - market penetration (cats)			0.4%	0.8%	2.0%	2.6%	4.0%
	AT 003 - market penetration (dogs)			0.2%	0.9%	2.0%	2.6%	3.0%
	AT 003 - Euro Royalty			\$ 905,000	\$ 1,415,000	\$ 3,300,000	\$ 4,950,000	\$ 5,650,000
	AT 003 - market penetration (cats)			0.8%	0.8%	2.0%	3.0%	4.0%
	AT 003 - market penetration (dogs)			0.4%	0.9%	2.0%	3.0%	3.0%
	AT 004 - B-cell Lymphoma (US)	\$ 529,200	\$ 2,177,776	\$ 4,140,717	\$ 7,766,801	\$ 10,461,284	\$ 13,310,445	\$ 16,973,987
	AT 004 - market penetration	0.9%	3.7%	7.0%	13.0%	17.0%	21.0%	26.0%
	AT 004 - Euro Royalty				3,105,537	5,825,101	7,845,963	9,982,834
	AT 005 - T-cell Lymphoma (US)	\$ 472,500	\$ 8,639,631	\$ 10,140,530	\$ 16,003,025	\$ 21,757,712	\$ 25,805,965	\$ 27,979,099
	AT 005 - market penetration	0.5%	6.9%	8.0%	12.5%	16.5%	19.0%	20.0%
	AT 005 - Euro Royalty				1,014,053	1,600,302	2,175,771	2,580,597
	AT 006 - Feline Herpes (US)				\$ 2,120,400	\$ 3,477,456	\$ 5,088,960	\$ 6,276,384
	AT 006 - market penetration				5.0%	8.2%	12.0%	14.8%
	AT 006 - Euro Royalty		\$ 198,788	\$ 993,938	\$ 1,987,875	\$ 3,180,600	\$ 4,770,900	\$ 5,963,625
	AT 006 - market penetration		1.0%	2.5%	5.0%	8.0%	12.0%	15.0%
	AT 007 - Feline Immunodeficiency Virus (US)					\$ 23,659,200	\$ 41,515,200	\$ 57,585,600
	AT 007 - market penetration					5.3%	9.3%	12.9%
	AT 007 - Euro Royalty					\$ 2,025,000	\$ 3,645,000	\$ 5,265,000
	AT 007 - market penetration					5.0%	9.0%	13.0%
	TOTAL REVNU	\$ 1,001,700	\$ 11,016,194	\$ 44,031,321	\$ 90,388,631	\$ 171,699,195	\$ 246,045,522	\$ 334,690,493

Exhibit 6. Aratana Income Statement (2011 to 2020E)

	2,011	2012	Q1A	Q2A	Q3A	Q4E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues														
AT-001								-	-	10,238,800	19,988,540	26,918,320	39,279,240	59,682,480
% growth (y/y)								-	-	-	-	-	-	-
AT-002								-	-	11,629,964	20,244,546	33,740,910	50,611,365	74,023,790
% growth (y/y)								-	-	-	-	-	-	-
AT-003								-	-	4,095,000	12,180,000	28,400,000	36,592,000	48,600,000
% growth (y/y)								-	-	-	-	-	-	-
T-Cell Revenue								472,500	8,639,631	10,140,530	16,003,025	21,757,712	25,805,965	27,979,099
% growth (y/y)								-	-	-	-	-	-	-
Feline Immunodeficiency								-	-	-	-	23,659,200	41,515,200	57,585,600
% growth (y/y)								-	-	-	-	-	-	-
Total Net Product Revenues								472,500	8,639,631	36,104,294	68,416,111	134,476,142	193,803,770	267,870,970
B-Cell Royalty								529,200	2,177,776	4,140,717	7,766,801	10,461,284	13,310,445	16,973,987
Royalty Revenue (E.U.)								-	198,788	3,786,311	12,085,319	23,284,313	33,842,346	43,569,153
Feline Herpes Royalty								-	-	-	2,120,400	3,477,456	5,088,960	6,276,384
Total Net Revenues	-	0.0	0.0	0.0	0.0	0.0	0	1,001,700	11,016,194	44,031,321	90,388,631	171,699,195	246,045,522	334,890,493
% growth (y/y)											105%	90%	43%	36%
Expenses														
COGS	-	-				0	0	135,059	2,229,597	8,269,888	16,045,329	31,314,361	44,365,190	60,658,754
R&D expense	2,196,000	8,791,000	2,114,000	2,469,000	3,234,000	3,557,400	11,374,400	15,355,440	21,497,616	27,946,901	33,536,281	39,237,449	45,515,441	52,342,757
% growth (y/y)			20.7%	28.0%	95.1%	3.0%	29%	35%	40%	30%	20%	17%	16%	15%
SG&A expense	1,274,000	2,987,000	1,226,000	1,258,000	1,427,000	1,455,540	5,366,540	17,757,985	24,447,481	30,190,402	37,628,482	48,546,464	60,995,827	74,743,486
In-process R&D	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	3,470,000	11,778,000	3,340,000	3,727,000	4,661,000	5,012,940	16,740,940	33,248,484	48,174,694	66,407,191	87,210,092	119,098,273	150,876,457	187,744,996
Operating (loss)/profit	(3,470,000)	(11,778,000)	(3,340,000)	(3,727,000)	(4,661,000)	(5,012,940)	(16,740,940)	(32,246,784)	(37,158,500)	(22,375,870)	(3,178,539)	52,600,922	95,169,064	146,945,497
Interest income	6,000	21,000	3,000	22,000	26,000	32,691	83,691	212,485	187,865	144,130	113,309	152,981	273,740	459,268
Interest expense	-	-	(24,000)	(78,000)	(80,000)	(206,250)	(388,250)	(1,010,870)	(1,010,870)	(1,010,870)	(1,010,870)	(1,010,870)	(1,010,870)	(1,010,870)
Other Income	-	121,000	68,000	343,000	44,000	50,000	505,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Total Other Income	6,000	142,000	47,000	287,000	(10,000)	(123,559)	200,441	(698,385)	(723,005)	(766,740)	(797,561)	(757,889.3)	(637,130)	(451,602)
Net loss and comprehensive loss	(3,464,000)	(11,636,000)	(3,293,000)	(3,440,000)	(4,671,000)	(5,136,499)	(16,540,499)	(32,945,169)	(37,881,505)	(23,142,610)	2,380,978	51,843,033	94,531,934	146,493,895
Modifications of Series A convertible pref. stock	(276,000)	-	-	-	-	-	-	-	-	-	-	-	-	-
Unaccreted dividends on convertible pref. stock	(902,000)	(2,035,000)	(773,000)	(808,000)	-	-	(1,581,000)	-	-	-	-	-	-	-
Net income loss (gain) attributable to common stockholders, basic and diluted	(4,642,000)	(13,671,000)	(4,066,000)	(4,248,000)	(4,671,000)	(5,136,499)	(18,121,499)	(32,945,169)	(37,881,505)	(23,142,610)	2,380,977.882	51,843,033	94,531,934	146,493,895
Provision for income taxes	-	-	-	-	-	-	-	-	-	-	857,152	18,663,492	34,031,496	52,737,802
Effective tax rate	NM	NM	0%	0%	0%	0%	0%	0%	0%	0%	36%	36%	36%	36%
Net Income (loss)	(4,642,000)	(13,671,000)	(4,066,000)	(4,248,000)	(4,671,000)	(5,136,499)	(18,121,499)	(32,945,169)	(37,881,505)	(23,142,610)	\$1,523,826	\$33,179,541	\$60,500,438	\$93,756,093
EPS	(0.31)	(\$0.91)	(\$0.27)	(\$0.23)	(\$0.22)	(\$0.21)	(\$0.94)	(\$1.09)	(\$1.25)	(\$0.76)	\$0.05	\$1.07	\$1.94	\$2.99
Weighted average shares outstanding (diluted)	14,972,266	14,972,266	14,972,266	19,964,402	20,806,352	24,097,738	19,960,190	29,634,821	30,317,738	30,517,738	30,717,738	30,917,738	31,117,738	31,317,738
MARGIN ANALYSIS:														
Gross Profit										81%	82%	82%	82%	82%
SG&A										69%	42%	28%	25%	22%
R&D										63%	37%	23%	18%	16%
Operating Income										NA	4%	31%	39%	44%
Tax Rate										0%	36%	36%	36%	36%
Net Income										NA	2%	19%	25%	28%
GROWTH METRICS:														
Total Revenue											105%	90%	43%	36%
Gross Profit											108%	89%	44%	36%
SG&A			146%	102%	34%	82%	80%	231%	38%	23%	25%	29%	26%	23%
R&D			21%	28%	95%	3%	29%	35%	40%	30%	20%	17%	16%	15%
Operating Income												1555%	81%	54%
Net Income												2077%	82%	55%
EPS												2063%	81%	54%
Diluted Shares Outstanding		0%	0%	33%	39%	61%	33%	23%	0%	0%	0%	0%	0%	1%

E = William Blair & Company, L.L.C. estimate

John Kreger (312) 364-8597
Tim Lugo (415) 248-2870
Roberto Fatta (312) 364-8797
Matt Bacso (312) 364-8996

William Blair & Company, L.L.C.

IMPORTANT DISCLOSURES

William Blair was a manager or co-manager of a public offering of equity securities for Aratana Therapeutics, Inc. within the prior 12 months.

William Blair is a market maker in the security of Aratana Therapeutics, Inc. and may have a long or short position.

William Blair intends to seek investment banking compensation in the next three months from Aratana Therapeutics, Inc.

Within the past 12 months William Blair has provided or is providing investment banking services to or has an investment services relationship with Aratana Therapeutics, Inc.

Additional information is available upon request.

This report is available in electronic form to registered users via R*Docs™ at www.rdocs.com or www.williamblair.com.

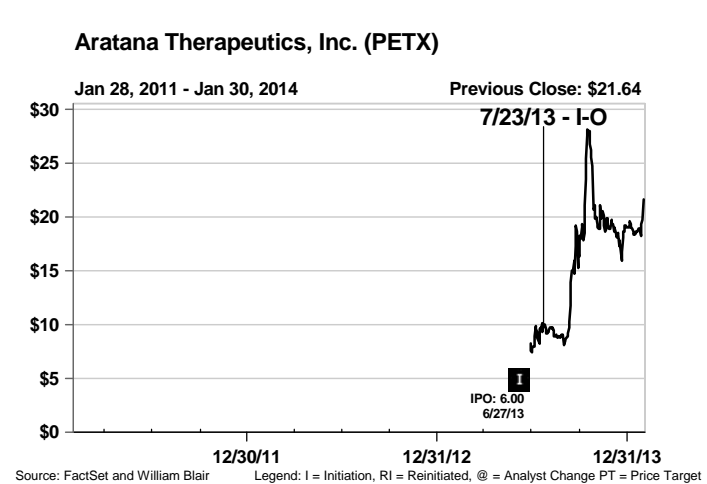
Please contact us at +1 800 621 0687 or consult williamblair.com/Research-and-Insights/Equity-Research/Coverage.aspx for all disclosures.

John Kreger, Tim Lugo attests that 1) all of the views expressed in this research report accurately reflect his/her personal views about any and all of the securities and companies covered by this report, and 2) no part of his/her compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed by him/her in this report. We seek to update our research as appropriate, but various regulations may prohibit us from doing so. Other than certain periodical industry reports, the majority of reports are published at irregular intervals as deemed appropriate by the analyst.

DOW JONES: 15,848.61

S&P 500: 1,794.19

NASDAQ: 4,123.13



Current Rating Distribution (as of 12/31/13)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	63	Outperform (Buy)	16
Market Perform (Hold)	33	Market Perform (Hold)	3
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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