Aratana Therapeutics, Inc. (PETX)

Productive 2013 Solidifies Leadership Position Ahead of Key Milestones; Reiterate Market Outperform

MARKET DATA

Price	$17.60
52-Week Range:	$6.56 - $29.32
Shares Out. (M):	30.3
Market Cap ($M):	$533.3
Average Daily Vol. (000):	301.0
Cash (M):	$46

Source: Thomson Reuters and JMP Securities LLC

FY DEC		2013A	2014E	2015E
Revenue ($M)	1Q	$0.0	$0.0	--
	2Q	$0.0	$0.0	--
	3Q	$0.0	$0.0	--
	4Q	$0.0	$0.0	--
	FY	**$0.1**	**$0.0**	**$0.0**
EPS	1Q	($0.24)	($0.28)	--
	2Q	($4.62)	($0.35)	--
	3Q	($0.22)	($0.38)	--
	4Q	$0.33	($0.19)	--
	FY	**($0.39)**	**($1.27)**	**($1.52)**
	P/E	NM	NM	NM
Previous FY		($5.15)	($0.72)	($0.65)

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE

MARKET OUTPERFORM | Price: $17.60 | Target Price: $38.00

INVESTMENT HIGHLIGHTS

We reiterate our Market Outperform rating and $38 price target on shares of Aratana Therapeutics following 4Q13 results. For the quarter and the full year, Aratana reported $123K in revenue related to its lymphoma franchise. The company reported EPS of $0.33 for the quarter and ($0.39) for the full year and ended the year with $45.8M in cash and equivalents, which we believe should be sufficient to fund operations until 2015. The company had a very fruitful year as it signed two option agreements, moved all key products in the pipeline forward, and expanded its pipeline through the acquisition of Vet Therapeutics (and Okapi in 1Q14). We believe that both acquisitions cement Aratana as the go-to company for both large and small biopharma companies looking to leverage their discovery pipelines into the veterinary space. In our opinion, recent competitive concerns have created a buying opportunity ahead of some key milestones. Our $38 price target is based on a blend our DCF analysis ($37) and relative valuation ($38) methodologies.

4Q13 results. In the quarter, R&D expenses totaled $3.1M (vs. $2.0M y/y), driven primarily by the development of ongoing programs, as well as an increase in the number of products in development as a result of the Vet Therapeutics acquisition. Currently, the company has 26 employees engaged in R&D efforts. G&A expenses totaled $4.7M in the quarter (vs. $0.8M y/y), driven primarily by one-time costs from the Vet Therapeutics acquisition as well as costs associated with its IPO and building of the commercial organization. Following the quarter, Aratana acquired Okapi Sciences. The upfront cash payment of $13.9M was paid upon closing on January 6, 2014. Subsequently, the company was successful in raising net proceeds of ~$90.5M through a secondary offering of common stock.

FY14 guidance. The company expects to spend $35-$40M (with a ~40/60 split between 1H14 and 2H14) in operating expenses, excluding one-time payments for the recent acquisitions and costs from further business development opportunities in 2014. The company anticipates $25-$30M of this spending to be on clinical development and post-licensure studies. On the commercial efforts side, the company is planning to begin building its oncology specialty sales force with ~10 people in FY14.

Upcoming milestones:

- AT001 (grapiprant, EP4 antagonist for osteoarthritis pain). Aratana announced positive top-line data from its pivotal dose-ranging study of AT-001 for dogs; it expects to begin a pivotal field effectiveness study with a once-daily dose in Q2. Aratana anticipates first FDA approval in 2016.

J.T. Haresco, III, PhD
jharesco@jmpsecurities.com
(415) 869-4477

- AT-002 (capromorelin, ghrelin agonist for appetite stimulation). Aratana has initiated its pivotal field effectiveness trial in client-owned dogs and is actively enrolling patients. The company anticipates first FDA approval in 2016.

- AT-003 (bupivacaine liposome injection suspension for post-surgical pain). Aratana presented the AT-003 development program to the FDA's Center for Veterinary Medicine (CVM) and announced plans to initiate a pilot field study in client-owned dogs in the second quarter of 2014. Aratana anticipates first FDA approval in 2016.

- AT-004 B-cell Lymphoma (canine lymphoma monoclonal antibody against CD-20). AT-004 has received a conditional license from the USDA, and in 2013, Aratana submitted what it believes to be data to support a full licensure, which it expects in the next 9-12 months.

- AT-005: T-cell Lymphoma (canine lymphoma monoclonal antibody against CD-52). In January 2014, Aratana announced it had received a conditional license from the USDA for the T-cell lymphoma product. During 2014, Aratana expects to complete the studies it believes will support full licensure in 2015. In addition, Aratana will initiate other studies to help develop the lymphoma market.

- AT-006: Feline Herpes Virus (ciprovir, antiviral for feline ocular herpes infection). As part of the Okapi Sciences acquisition, Aratana acquired AT-006. This antiviral product is currently in a pivotal field study in Europe and Aratana expects to file for EU regulatory review in 2014. Shortly after the Okapi Sciences acquisition, Aratana filed an Investigational New Animal Drug (INAD) application with the CVM and is preparing to meet with the FDA to present the development plan.

- AT-007: Feline Immunodeficiency Virus. AT-007 was also part of the Okapi Sciences acquisition and is currently in a pilot trial in Europe. Shortly after the end of the fourth quarter, Aratana filed an INAD with the CVM and is preparing to meet with the FDA to present a development plan.

- Option Programs: During 2013, Aratana entered into option agreements relating to three molecules. As disclosed recently, two of these molecules were in the same therapeutic class and after performing an analysis of both compounds, Aratana has decided to continue option diligence on only one of these molecules. For each of the remaining two options, we anticipate making opt-in/opt-out decisions in the first half of 2014.

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

Analyst Certification:

The research analyst(s) who prepared this report does/do hereby certify that the views presented in this report are in accordance with my/our personal views on the securities and issuers discussed in this report. As mandated by SEC Regulation AC no part of my/our compensation was, is or will be directly or indirectly related to the specific views or recommendations expressed herein. This certification is made under the obligations set forth in SEC Regulation AC. Any other person or entity may not use it for any other purpose. This certification is made based on my/our analysis on the date of this report's publication. I/We assume no obligation to update this certification to reflect any facts,circumstances or events that may subsequently come to my/our attention. Signed J.T. Haresco

JMP Securities Disclosures:

JMP Securities currently makes a market in the security of Aratana Therapeutics, Inc.

JMP Securities has received compensation for banking or other services rendered to Aratana Therapeutics, Inc. in the past 12 months.

JMP Securities was manager or co-manager of a public offering, and received compensation for doing so, for Aratana Therapeutics, 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.

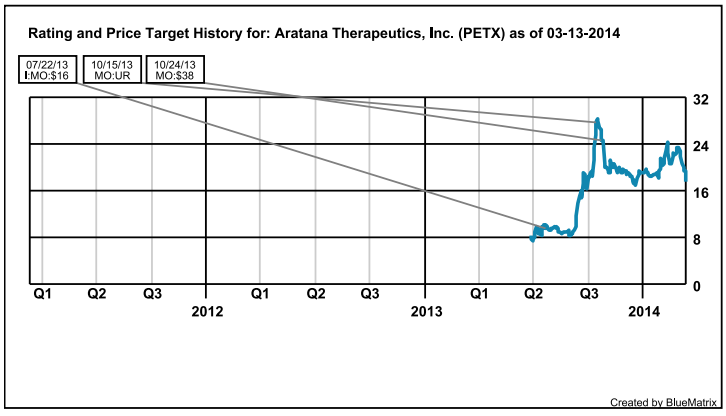
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

JMP Securities Research Ratings and Investment Banking Services: (as of March 13, 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	248	*56.88%*	Buy	248	*56.88%*	99	*39.92%*
MARKET PERFORM	Hold	138	*31.65%*	Hold	138	*31.65%*	17	*12.32%*
MARKET UNDERPERFORM	Sell	7	*1.61%*	Sell	7	*1.61%*	0	*0%*
COVERAGE IN TRANSITION		43	*9.86%*		43	*9.86%*	0	*0%*
TOTAL:		436	*100%*		436	*100%*	116	*26.61%*

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.



JMP Disclaimer:

JMP Securities LLC (the “Firm”) compensates research analysts, like other Firm employees, based on the Firm’s profitability, which includes revenues from the Firm’s institutional sales, trading, and investment banking departments as well as on the quality of the services and activities performed that are intended to benefit the Firm’s institutional clients. These data have been prepared by JMP Securities LLC for informational purposes only and are based on information available to the public from sources that we believe to be reliable, but we do not guarantee their accuracy or completeness. Any opinions and projections expressed herein reflect our judgment at this date and are subject to change without notice. These data are neither intended nor should be considered as an offer to sell or a solicitation or a basis for any contract for the purchase of any security or other financial product. JMP Securities LLC, its affiliates, JMP Group LLC, Harvest Capital Strategies LLC, and their respective partners, directors, officers, and associates may have a long or short position in, may act as a market maker for, or may purchase or sell a position in the securities mentioned herein. JMP Securities LLC or its affiliates may be performing, have performed, or seek to perform investment banking, advisory, or other services and may have acted as manager or co-manager for a public offering of securities for any company mentioned herein. The reader should assume that JMP Securities LLC will solicit business from the company covered in this report. Members of our Sales and Trading Department provide oral and/or written market opinions and trading strategies to our clients that reflect their personal opinions about stocks that are the subject of the firm's research reports. Our research analysts discuss trading strategies with clients and complete surveys from clients that sometimes reflect short-term expectations for the price of the securities that are the subject of research reports. Those trading strategies and survey responses are distinct from the analysts' fundamental rating for the stock, which is based upon the analysts' view compared to other stocks under coverage for the relevant time period.

Jeffrey H. Spurr
Director of Research
(415) 835-3903

RESEARCH PROFESSIONALS

FINANCIAL SERVICES

Alternative Asset Managers
Devin Ryan (212) 906-3578
Brian McKenna (212) 906-3545

Commercial & Specialty Finance
Christopher York (415) 835-8965
Hannah Kim, CFA (415) 835-8962

Consumer Finance
David M. Scharf (415) 835-8942
Jeremy Frazer (312) 768-1796

Financial Processing & Outsourcing
David M. Scharf (415) 835-8942
Jeremy Frazer (312) 768-1796

Insurance
Matthew J. Carletti (312) 768-1784
Christine Worley (312) 768-1786

Investment Banks & Brokers
Devin Ryan (212) 906-3578
Brian McKenna (212) 906-3545

Mortgage Operating Companies
REITs: Agency, Hybrid, & Commercial Mortgage
Steven C. DeLaney (404) 848-7773
Trevor Cranston, CFA (415) 869-4431
Charter Robinson (757) 613-8955
Benjamin Zucker (212) 906-3529

HEALTHCARE

Biotechnology
Liisa A. Bayko (312) 768-1785
Heather Behanna, PhD (312) 768-1795
Andrew Prigodich (312) 768-1788
Jason N. Butler, PhD (212) 906-3505
Christopher T. Radom, PhD (212) 906-3519
Caroline Palomeque (212) 906-3509
Michael G. King, Jr. (212) 906-3520
Eric Joseph, PhD (212) 906-3514
Joseph A. Knowles (212) 906-3525

Healthcare Services & Facilities
Peter L. Martin, CFA (415) 835-8904
Aaron Hecht (415) 835-3963
Arthur Kwok (415) 835-8908

Life Science Tools & Diagnostics
J. T. Haresco, III, PhD (415) 869-4477
Marie T. Casey, PhD (415) 835-3955

Medical Devices
J. T. Haresco, III, PhD (415) 869-4477
Marie T. Casey, PhD (415) 835-3955

Medical Devices & Supplies
David Turkaly (212) 906-3563
John Gillings (212) 906-3564

REAL ESTATE

Housing & Land Development
Peter L. Martin, CFA (415) 835-8904
Aaron Hecht (415) 835-3963
Bharathwajan Iyengar (415) 835-3902

Lodging & Leisure
Robert A. LaFleur (212) 906-3510
Whitney Stevenson (212) 906-3538

Property Services
Mitch Germain (212) 906-3546
Peter Lunenburg (212) 906-3537

REITs: Healthcare, Residential, & Specialty
Peter L. Martin, CFA (415) 835-8904
Aaron Hecht (415) 835-3963
Arthur Kwok (415) 835-8908

REITs: Office, Industrial, & Diversified
Mitch Germain (212) 906-3546
Peter Lunenburg (212) 906-3537

Residential Services
Peter L. Martin, CFA (415) 835-8904
Aaron Hecht (415) 835-3963
Bharathwajan Iyengar (415) 835-3902

TECHNOLOGY

Communications Equipment & Internet Security
Erik Suppiger (415) 835-3918
John Lucia (415) 835-3920

Internet & Digital Media
Ronald V. Josey III (212) 906-3528
Andrew Boone (415) 835-3957

Software
Patrick Walravens (415) 835-8943
Peter Lowry (415) 869-4418
Caitlin Schields (415) 835-8960
Greg McDowell (415) 835-3934

Wireless & Cloud Computing Technologies
Alex Gauna (415) 835-8998
Michael Wu (415) 835-8996

ADDITIONAL CONTACTS

Thomas R. Wright
Director of Equities
(212) 906-3599

Dan Wychulis
Director of Institutional Sales
(617) 235-8530

600 Montgomery Street, Suite 1100
San Francisco, CA 94111
www.jmpsecurities.com