Aratana Therapeutics, Inc. (PETX)

Gaining Momentum on Achieving Key Milestones; Reiterate Market Outperform

MARKET DATA

Price	$12.19
52-Week Range:	$6.56 - $29.32
Shares Out. (M):	26.8
Market Cap ($M):	$326.7
Average Daily Vol. (000):	251.0
Cash (M):	$80

Source: Thomson Reuters and JMP Securities LLC

FY DEC		2013A	2014E	2015E
Revenue ($M)	1Q	$0.0	$0.2A	--
	2Q	$0.0	$0.2	--
	3Q	$0.0	$0.2	--
	4Q	$0.0	$0.2	--
	FY	**$0.1**	**$0.7**	**$0.7**
EPS	1Q	($0.24)	($0.34)A	--
	2Q	($4.62)	($0.36)	--
	3Q	($0.22)	($0.38)	--
	4Q	$0.33	($0.19)	--
	FY	**($0.39)**	**($1.29)**	**($1.55)**
	P/E	NM	NM	NM
	Previous FY	NC	($1.27)	($1.52)

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE

MARKET OUTPERFORM | Price: $12.19 | Target Price: $38.00

INVESTMENT HIGHLIGHTS

We reiterate our Market Outperform rating and $38 price target on shares of Aratana Therapeutics following 1Q14 results. Aratana's diversified portfolio now consists of over fifteen products: two with conditional licensure, more than ten in active development, and several additional product candidates in predevelopment. The company continues to make steady progress toward its first product launches. Earlier this week, the company announced that AT-001 had moved forward into a pivotal trial. Moreover, AT-004 has moved up in its timeline – management now expects full licensure before the end of 2014 (vs. 1H2014). Additional milestones for the remainder of the year include the release of AT-001 pivotal data (late 2014) and the launch of AT-005 (T-cell lymphoma) on a conditional basis. For the quarter, Aratana reported $176,000 in licensing and collaboration revenue and EPS of ($0.34). The company ended Q1 with $79.9M in cash and equivalents, which we believe should be sufficient to fund operations until 2015. We remain buyers of the stock at current levels. Our $38 price target is based on a blend of our DCF analysis ($37) and relative valuation ($38) methodologies.

1Q14 results. The company reported $176,000 in revenue driven by: 1) ongoing development efforts for AT-006 for feline herpes, acquired as part of the Okapi Sciences transaction; and 2) deferred payments for AT-004, as part of the Vet Therapeutics acquisition. In the quarter, R&D expenses totaled $3.6M (vs. $2.1M y/y), due to the advancement of the AT-001 program into pivotal effectiveness studies and progress with AT-002 and AT-003 programs. Currently, the company has 25 employees engaged in R&D efforts. G&A expenses totaled $4.6M in the quarter (vs. $1.2M y/y), driven primarily by one-time, non-cash expenses associated with stock compensation expense. The company currently has 18 G&A and commercialization employees. In the quarter, the company incurred amortization expenses of $539,000 related to its B-cell and T-cell lymphoma intangible assets as a result of recent acquisitions. The acquisition of Okapi resulted in an upfront cash payment of $13.9M that 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, $33M of which was used to repay a purchase price obligation to the former shareholders of Okapi Sciences and Vet Therapeutics.

FY14 guidance unchanged. The company reiterated $35-$40M in op ex, excluding one-time payments for the recent acquisitions and costs from further business development opportunities in 2014. The company anticipates $25-$30M in R&D spend to be on clinical development and post-licensure studies.

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Upcoming milestones:

○ AT-001: (grapiprant, EP4 antagonist for osteoarthritis pain). Aratana announced earlier this week the initiation of the pivotal field effectiveness study for AT-001. The randomized, blinded, multicenter pivotal study will enroll ~300 client-owned dogs with osteoarthritis, and will be conducted under a study protocol for which Aratana received concurrence from the FDA's Center for Veterinary Medicine (CVM). Dogs participating in the study will be given a once-daily low dose of AT-001 that was determined to be safe at therapeutic levels during the previous dose-ranging study, or placebo. Results of this study are anticipated for late 2014. Aratana anticipates FDA approval for AT-001 in 2016.

○ 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. A field study is expected mid-2014. The company anticipates FDA approval in 2016.

○ AT-003: (bupivacaine liposome injection suspension for post-surgical pain). Aratana plans to initiate a pilot field study in client-owned dogs and a proof-of-concept study in laboratory cats in 2Q14. Aratana anticipates 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 full licensure. Due to faster than expected progress in discussions with the CVM, management now expects full licensure in 2014, three to six months earlier than previously anticipated. Note, however, that Aratana does not control the commercialization of AT-004 as this compound is partnered with Novartis' Animal Health in the U.S. and Canada.

○ 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. On the call, management announced that enrollment for the trial for full licensure has been completed and that it continues to expect full licensure in 2015. Modest revenue is expected in late 2014 from a conditional license.

○ 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 early 2015 (vs. 2014 previously).

○ 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 4Q13, Aratana filed an INAD with the CVM and is preparing to meet with the FDA to present a development plan.

○ AT-008: Mall molecule for the treatment of canine lymphoma. The company is delaying a pivotal field effectiveness study until further review.

○ AT-015: Feline anti-CD 24 lymphoma. This is a new development project and if successful, this be the first monoclonal antibody for cats.

Update on commercial activities ahead of product launch. The company anticipates its first product sale later this year and is increasing its presence to the veterinary community at numerous trade shows throughout the year. The company is also revamping its website, with a release expected this summer.

Upcoming conferences. The company is planning to present at: 1) the American College of Veterinary Internal Medicine Forum, June 4-7, 2014 in Nashville, TN; 2) the Central Veterinary Conference in Kansas City, MO, August 22-25; 3) the Animal Health Investment Forum, Kansas City, MO, August 26; and 4) the Animal Health Corridor Homecoming, Kansas City, MO, August 25.

NEAR-TERM CATALYST CALENDAR

- **2Q14**: Initiation of a pilot field study for AT-003 (dogs) in client-owned dogs and a proof-of-concept study in laboratory cats.
- **Mid-2014**: Field study for AT-002.
- **2H14**: Potential read-outs from AT-003 pilot study in dogs and dose-ranging study in cats.
- **2014**: Potential read-out from AT-006 (cats) pivotal effectiveness study.
- **Late 2014**: Potential results of the pivotal effectiveness study for AT-001; AT-004 (dogs) full USDA licensing decision for B-cell lymphoma.
- **Late 2014/early 2015**: AT-005 (dogs) full USDA licensing decision for T-cell lymphoma.
- **Early 2015**: Expected filing of AT-006 for EU regulatory review.
- **1H15**: Potential data read-out from pivotal effectiveness studies for AT-001 (dogs) and AT-003 (dogs); top-line results from a pivotal effectiveness study for AT-002 (dogs).
- **2H15**: USDA potential conditional approval decision for ADXS-cHER2 (dogs).
- **2015**: Approval decision for AT-006 (cats); Potential read-outs for AT-005/chemotherapy combination regimen studies (dogs).

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 upon the success of compounds currently in development. Aratana currently has no products approved for commercial distribution. 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.

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Market Outperform (MO): JMP Securities expects the stock price to outperform relevant market indices over the next 12 months.

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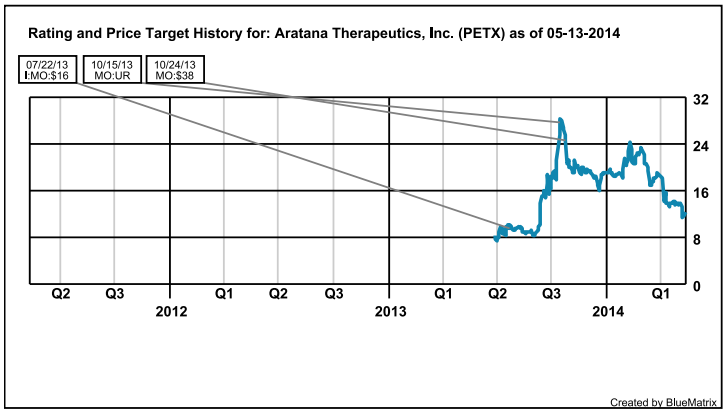
JMP Rating	Regulatory Equivalent	# Co's Under Coverage	*% of Total*	Regulatory Equivalent	# Co's Under Coverage	*% of Total*	# Co's Receiving IB Services in Past 12 Months	*% of Co's With This Rating*
MARKET OUTPERFORM	Buy	254	*57.99%*	Buy	254	*57.99%*	98	*38.58%*
MARKET PERFORM	Hold	136	*31.05%*	Hold	136	*31.05%*	17	*12.50%*
MARKET UNDERPERFORM	Sell	5	*1.14%*	Sell	5	*1.14%*	0	*0%*
COVERAGE IN TRANSITION		43	*9.82%*		43	*9.82%*	0	*0%*
TOTAL:		438	*100%*		438	*100%*	115	*26.26%*

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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