

# Aratana Therapeutics, Inc. (PETX)

Aratana Outlines a Path to Success

## MARKET DATA

|                           |                  |
|---------------------------|------------------|
| Price                     | \$10.25          |
| 52-Week Range:            | \$6.56 - \$10.67 |
| Shares Out. (M):          | 19.9             |
| Market Cap (\$M):         | \$204.0          |
| Average Daily Vol. (000): | 13.0             |

Source: Thomson Reuters and JMP Securities LLC

**MARKET OUTPERFORM** | Price: \$10.25 | Target Price: \$16.00

## INVESTMENT HIGHLIGHTS

**We are reiterating our Market Outperform rating and \$16 price target on shares of Aratana Therapeutics.** Management hosted its first investor "day" last night in Boston. We believe the format (a pet therapeutics "primer") was incredibly useful, with Dr. Linda Rhodes outlining the key development milestones in an effort to help investors understand how/when the company plans on communicating important data sets. It was the perfect setup for Dr. Ernst Heinen's overview of the current status of all programs - which we are happy to report appear to be perfectly on track to deliver milestones over the next few years. In our view, investors walked away confident that management has "been there, done that" enough times to get the products over the goal line. Our \$16 price target remains is based on the average of our discounted cash flow valuation of \$16 and a relative valuation of \$17, using an EV/S valuation methodology.

**Milestones will be delivered in a predictable format.** Dr. Linda Rhodes presented a very thorough overview of the veterinary regulatory process. In our view, mapping that process to what a framework of news-flow investors can expect over the course of a five year program was the key element that clarified many investors' questions about the space. In essence, clinical programs will be broken down into 1) Proof of Concept, 2) Chemistry Manufacturing & Controls (CMC), 3) Target animal Safety, 4) Effectiveness, 5) Other technical sections, and 6) NADA submission (U.S. and EU separately). Investors can expect quarterly updates on each program, but outside of quarterly reports the press releases will detail when a particular program clears one of these six phases.

**Key takeaway: Management has "been there, done that."** The team emphasized that while the pet therapeutics pathway is less risky than human therapeutics, it is not without risk (e.g. CMC can be a huge bottleneck because trials have to be done with final formulation, dosing, and packaging). That said, we believe investors walked away from the evening feeling that management's relationships with the FDA run deep (all the way to the top of the Centers for Veterinary Medicine), and that the collective experience of the senior management as heads of CROs, R&D divisions of major global conglomerates in animal health, global veterinary manufacturing groups, or commercial organizations will get these products through the approval processes.

**Multiple unmet needs in the pet therapeutics space** - The company intends to continue focusing on unmet needs in the pet space. Dr. Heinen mentioned anemia, allergies, skin diseases, renal failure, and other chronic or aging related diseases as key areas to look into. Dr. St. Peter noted that it is the company's intention to be able to launch at least one new product per year starting in 2015.

| FY DEC        |    | 2013E     | 2014E    | 2015E    |
|---------------|----|-----------|----------|----------|
| Revenue (\$M) | 1Q | \$0.0A    | \$0.0    | --       |
|               | 2Q | \$0.0A    | \$0.0    | --       |
|               | 3Q | \$0.0     | \$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 | (\$0.14)  | (\$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



## 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 inlicensing 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, inlicensed 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. The 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, which are currently the only product candidates and 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 (i.e., 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 the 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. The 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 and Ralph Fong

### JMP Securities Disclosures:

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

JMP Securities was manager or co-manager of a public offering 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.

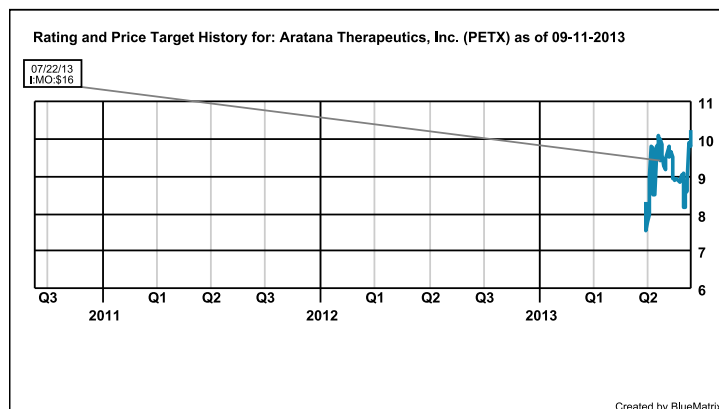
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

### JMP Securities Research Ratings and Investment Banking Services: (as of September 11, 2013)

| 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                   | 239                   | 60.51%     | Buy                   | 239                   | 60.51%     | 77   | 32.22%                     |
| MARKET PERFORM      | Hold                  | 150                   | 37.97%     | Hold                  | 150                   | 37.97%     | 22   | 14.67%                     |
| MARKET UNDERPERFORM | Sell                  | 6                     | 1.52%      | Sell                  | 6                     | 1.52%      | 0  | 0%                         |
| TOTAL:              |                       | 395                   | 100%       |                       | 395                   | 100%       | 99   | 25.06%                     |

### 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. © Copyright 2013. All rights reserved by JMP Securities LLC. JMP Securities LLC is a member of FINRA, NASDAQ, and SIPC.

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

## RESEARCH PROFESSIONALS

### FINANCIAL SERVICES

#### Alternative Asset Managers

|                 |                |
|-----------------|----------------|
| Devin Ryan      | (212) 906-3578 |
| Chris Ross, CFA | (212) 906-3532 |

#### Commercial & Specialty Finance

|                  |                |
|------------------|----------------|
| Christopher York | (415) 835-8965 |
| Kevin Chen       | (404) 848-7774 |
| Hannah Kim       | (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 |
| Chris Ross, CFA | (212) 906-3532 |

#### Mortgage Finance

|                      |                |
|----------------------|----------------|
| 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, Ph.D.    | (312) 768-1795 |
| Andrew Prigodich          | (312) 768-1788 |
| Jason N. Butler, PhD      | (212) 906-3505 |
| Christopher T. Radom, PhD | (212) 906-3519 |
| Michael G. King, Jr.      | (212) 906-3520 |
| Eric Joseph               | (212) 906-3514 |
| John L. Newman, PhD       | (212) 906-3510 |
| Caroline Palomeque        | (212) 906-3509 |

#### Healthcare Services & Facilities

|                      |                |
|----------------------|----------------|
| Peter L. Martin, CFA | (415) 835-8904 |
| Aaron Hecht          | (415) 835-3963 |
| Arthur Kwok          | (415) 835-8908 |

#### Medical Devices

|               |                |
|---------------|----------------|
| David Turkaly | (212) 906-3563 |
| John Gillings | (212) 906-3564 |

#### Medical Devices & Molecular Diagnostics

|                         |                |
|-------------------------|----------------|
| J. T. Haresco, III, PhD | (415) 869-4477 |
| Ralph Fong              | (415) 835-8916 |

### REAL ESTATE

#### Housing & Land Development

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

#### Lodging

|                   |                |
|-------------------|----------------|
| Whitney Stevenson | (415) 835-8948 |
|-------------------|----------------|

#### Property Services

|                   |                |
|-------------------|----------------|
| Mitch Germain     | (212) 906-3546 |
| Whitney Stevenson | (415) 835-8948 |

#### REITs: Healthcare

|                      |                |
|----------------------|----------------|
| 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 |

### 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 |
|---------------------|----------------|

#### Software

|                   |                |
|-------------------|----------------|
| Patrick Walravens | (415) 835-8943 |
| Peter Lowry       | (415) 869-4418 |
| 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](http://www.jmpsecurities.com)