



**CRAIG-HALLUM**  
CAPITAL GROUP LLC

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Changes	Previous	Current
Rating:		Buy
Fundamental Trend:		Improving
Price Target:	\$30	\$27
FY14E Rev M:	\$2.0	\$1.9
FY15E Rev M:	\$10.0	\$9.3
FY14E EPS:	(\$1.50)	(\$1.75)
FY15E EPS:	(\$1.32)	(\$1.82)

**Profile**

Price:		\$12.19
52 Wk Range:	\$6.56 -	\$29.32
Avg Daily Vol:		261,300
Shares Out M:		29.5
Market Cap M:		\$366.3
Insiders Own:		17%
Short Interest:		6.3%
BV/Sh:		\$6.32
Est LT EPS Gr:		15%
Net Cash/Sh:		\$2.23
Debt / Capital:		8.5%
Year Ends:		Dec.

Rev (M)	2013A	2014E	2015E
Mar	\$0.0	\$0.2A	-
Jun	\$0.0	\$0.3	-
Sep	\$0.0	\$0.6	-
Dec	\$0.1	\$1.0	-
FY	\$0.1	\$1.9	\$9.3

EPS*	2013A	2014E	2015E
Mar	(\$0.29)	(\$0.34)A	-
Jun	(\$0.30)	(\$0.41)	-
Sep	(\$0.22)	(\$0.48)	-
Dec	\$0.33	(\$0.50)	-
FY	(\$0.33)	(\$1.75)	(\$1.82)

\*Share counts have been adjusted to reflect IPO shares; the 10/13 private placement, stock issued in the acquisition of Vet Therapeutics and the recent secondary offering.

FY P/E	NM	NM	NM
FY EV/S	NM	NM	NM

**Management**

CEO	Stephen St. Peter
CFO	Craig Tooman

May 14, 2014  
Institutional Research

**Aratana Therapeutics, Inc.**

(PETX – \$12.19)

**BUY**

Price Target: \$27

**Pipeline Continues To Strengthen And Diversify. Maintaining BUY Rating While Reducing Price Target To \$27.**

*Aratana Therapeutics licenses and develops innovative human pharmaceutical products for the companion animal therapeutics market.*

**OUR CALL**

Aratana reported 1Q14 results which generated greater than expected revenues from its Lymphoma franchise. We are encouraged by the progress within Aratana's pipeline and believe that with a total addressable market now approaching \$2B, PETX is ideally positioned in the lucrative companion animal therapeutics market.

**KEY TAKEAWAYS**

	1Q14	2Q14	FY14	FY15
	Rev	Rev	Rev	Rev
Actuals:	\$0.2	--	--	--
C-H Previous Est.:	\$0.2 (\$0.40)	\$0.3 (\$0.39)	\$2.0 (\$1.50)	\$10.0 (\$1.32)
Prior Consensus Est.:	\$0.1 (\$0.35)	\$0.2 (\$0.36)	\$0.8 (\$1.45)	\$4.6 (\$1.49)
C-H Revised Est.:	--	\$0.3 (\$0.41)	\$1.9 (\$1.75)	\$9.3 (\$1.82)

Source: Aratana Therapeutics, Inc., First Call, Craig-Hallum Capital Group

- **Revenue**— Aratana generated revenue \$176,000 from license and collaboration revenue from Novartis Animal Health for development of AT-004 and AT-006.
- **Development Programs Commentary**
  - AT-001 Canine: Initiated pivotal field effectiveness study in client-owned dogs on May 13th; continue to anticipate U.S. approval in 2016, in-line with last quarterly commentary.
  - AT-002 Canine: Pivotal field effectiveness trial in client-owned dogs enrolling patients as expected; anticipate U.S. approval in 2016, in-line with last quarterly commentary.
  - AT-002 Feline: Anticipates starting a pilot field study in client-owned cats in mid-2014. This is a new indication not previously communicated.
  - AT-003 Canine: Anticipates the initiation of a pilot field study in 2Q14; anticipate U.S. approval in 2016, in-line with last quarterly commentary.
  - AT-003 Feline: Anticipates starting a pilot study in laboratory cats in 2Q14. This is a new indication not previously communicated.
  - AT-004 B-cell Lymphoma Canine: Received conditional license from the USDA; expects full licensure in 2014 (sooner than previous commentary of 1H15).
  - AT-005 T-cell Lymphoma Canine: Completed enrollment in study that should support full licensure in 2015, in-line with previous commentary; initiated two new studies investigating combo AT-005 w/ chemotherapy, which are new indications.
  - AT-006 Feline Herpes Virus: Continues to enroll a pivotal field study in Europe and anticipates EU filing in early 2015 which is later than previously (2014) communicated.
  - AT-007 Feline Immunodeficiency Virus: Currently undergoing a pilot trial in EU.
  - Option Programs: Opt-in/opt-out decisions on expected in mid-2014. Previously they said this would occur in 1H14.

*Management of PETX will be meeting with investors at the Craig-Hallum Institutional Investor Conference on May 28, 2014 in Minneapolis.*



## FINANCIAL PERFORMANCE &amp; OUTLOOK

PETX Earnings Review  
1Q14

	Actual	Estimate	Variance	Y/Y Growth	Notes:	Last Q	Q/Q Growth	Last Y
Revenue	\$0.2	\$0.2	\$0.0	NM	Company generated revenue from its lymphoma franchise	\$0.1	NM	\$0.0
R&D	\$3.6	\$6.6	(\$3.1)	69%	Full-year guidance of \$25-30m unchanged.	\$3.1	15%	\$2.1
SG&A	\$4.6	\$3.0	\$1.7	276%	Accelerated stock comp. in this quarter and full impact of two acquisitions	\$4.7	-1%	\$1.2
Operating Income	(\$9.2)	(\$10.0)	\$0.7	176%		(\$8.1)	13%	(\$3.3)
EPS GAAP	(\$0.34)	(\$0.40)	\$0.06	NM		\$0.33	0%	(\$0.29)
Gross Margin	89.8%	15.0%	NA			11.4%		NM
Operating Margin	NM	NM	NA			NM		NM
Net Margin	NM	NM	NA			NM		NM

Source: Aratana Therapeutics, Inc. and Craig-Hallum Capital Group

## Estimate Changes

\$ in mils	2Q14 New	2Q14 Prev.	FY14 New	FY14 Prev.	FY15 New	FY15 Prev.
Total Revenue	\$0.3	\$0.3	\$1.9	\$2.0	\$9.3	\$10.0
Y/Y Growth*	NM	NM	NM	NM	NM	NM
R&D	\$6.0	\$6.8	\$26.6	\$25.4	\$29.0	\$20.6
SG&A	\$4.3	\$3.3	\$17.8	\$13.3	\$23.7	\$20.2
Total Operating Expense	\$11.5	\$10.5	\$49.2	\$40.3	\$57.5	\$42.6
<b>Total Operating Income</b>	<b>(\$11.4)</b>	<b>(\$10.4)</b>	<b>(\$48.1)</b>	<b>(\$39.3)</b>	<b>(\$50.6)</b>	<b>(\$35.1)</b>
Y/Y growth	NM	NM	NM	NM	NM	NM
<b>EPS</b>	<b>(\$0.41)</b>	<b>(0.39)</b>	<b>(\$1.75)</b>	<b>(\$1.50)</b>	<b>(\$1.82)</b>	<b>(\$1.32)</b>
Y/Y growth	NM	NM	NM	NM	NM	NM
Gross Margin	50.0%	15.0%	NM	NM	NM	NM
Operating Margin	NM	NM	NM	NM	NM	NM
Net Margin	NM	NM	NM	NM	NM	NM

Source: Craig-Hallum

## STOCK OPPORTUNITY

We believe PETX has the management team, opportunity and strategy to become a leading provider of innovative specialty pharmaceuticals within the emerging Pet Therapeutics market. We remain confident that PETX's strategy to introduce novel pharmaceutical therapies specially tailored to the companion animal market will be a winner and drive substantial returns. We are reiterating our Buy rating on Aratana and lowering our DCF driven price target to \$27 (see page 5).

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## RISKS

We believe an investment in Aratana involves the following risks:

- **Government Regulation**  
The Animal Therapeutic industry is highly regulated by the Center for Veterinary Medicine at both the state and federal level. Changes to existing regulation or new legislation could have a material adverse effect on the PETX's business and financial performance.
- **Dependence On Suppliers**  
The Company's business model relies on third parties to manufacture its products. Any disruptions to manufacturing processes at its suppliers or other interruption to the supply of its products could have an adverse impact on the Company's financial results.
- **Generic Products**  
Generic products may be viewed as more cost effective than branded therapeutics. While the Company's IP should protect its products from generic entry in the near term, substantially cheaper generic versions of competing products, even if they are less efficacious, may represent a challenge to the commercialization of the Company's products.
- **Intellectual Property And Trade Secrets**  
The Company's financial success is in part dependent on its ability to secure and enforce its substantial intellectual property. If PETX is forced to defend its intellectual property through litigation or if it is unable to maintain propriety of its trade secrets, the Company may incur extra expenses and financial results may be adversely affected.
- **Ongoing Need To Finance Growth**  
While the Company expects to exit 2013 with between \$45M-\$50M in cash on its balance sheet and estimates that its current capital is sufficient to fund its operations for over 2 years, the Company may need to seek additional capital in order to continue to fund its operations in the future. Such financing could be dilutive to stockholders or impose debt covenants and obligations.
- **Future Expirations Of Lock-Up Agreements**  
Roughly 4M of the Company shares are subject to a lock-up restriction connected to the Company's public offering are scheduled to release at 4:00pm ET on December 9<sup>th</sup> 2013. Certain of the Company's officers, directors and other stakeholders (representing ~14M shares) have agreed to a new lock-up restriction for a period of 90 days following the closing of the Vet Therapeutics acquisition. The release or pending release of a large number of shares from a lock-up restriction may adversely affect the share price of the Company's stock.

## Financials

### Aratana Therapeutics, Inc. Financial Model FISCAL YEAR ENDS DECEMBER

(\$ thousands)	Fiscal 2011A	Fiscal 2012A	Mar Q1-13A	Jun Q2-13A	Sep Q3-13A	Dec Q4-13A	Fiscal 2013A	Mar Q1-14A	Jun Q2-14E	Sep Q3-14E	Dec Q4-14E	Fiscal 2014E	Fiscal 2015E	Fiscal 2016E	Fiscal 2017E
<b>Total Revenue</b>	-	-	-	-	-	123	123	176	250	600	1,000	1,862	9,255	41,666	96,903
Cost of Sales	-	-	-	-	-	109	109	18	125	300	400	843	2,314	15,833	37,784
<b>Total Gross Margin</b>	-	-	-	-	-	14	14	158	125	300	600	1,019	6,941	25,833	59,119
<b>Operating Expenses</b>															
Research and Development	2,196	7,291	2,114	2,469	3,234	3,108	10,925	3,572	6,000	8,000	9,000	26,572	29,000	22,000	24,000
Selling, General and Administrative	1,274	2,987	1,226	1,258	1,427	4,661	8,572	4,613	4,313	4,388	4,463	17,777	23,677	27,852	37,260
Amortization	0	0	0	0	0	380	380	539	550	550	550	2,189	2,200	2,200	2,200
In-Process R&D	0	1,500	0	0	0	0	0	657	657	657	657	2,628	2,628	2,628	2,628
<b>Total GAAP Operating Expenses</b>	3,470	11,778	3,340	3,727	4,661	8,149	19,877	9,381	11,520	13,595	14,670	49,166	57,505	54,680	66,088
<b>GAAP Income (Loss) from Operations</b>	(3,470)	(11,778)	(3,340)	(3,727)	(4,661)	(8,135)	(19,863)	(9,223)	(11,395)	(13,295)	(14,070)	(48,147)	(50,564)	(28,847)	(6,969)
Interest income	6	21	3	22	26	25	76	14	12	10	8	44	12	(20)	2
Interest Expense	0	0	(24)	(78)	(80)	(250)	(432)	(328)	(328)	(328)	(328)	(1,312)	(1,332)	(1,370)	(1,460)
Other Income	0	121	68	343	44	23	478	(243)	0	0	0	(243)	0	0	0
<b>Pre-tax GAAP Income</b>	(3,464)	(11,636)	(3,293)	(3,440)	(4,671)	(8,337)	(19,741)	(9,780)	(11,711)	(13,613)	(14,390)	(49,658)	(51,884)	(30,237)	(8,427)
Income Tax (benefit)	0	0	-	-	-	(15,455)	(15,455)	(627)	-	-	-	(627)	0	0	0
<b>GAAP Net Income</b>	(3,464)	(11,636)	(3,293)	(3,440)	(4,671)	7,118	(4,286)	(9,153)	(11,711)	(13,613)	(14,390)	(49,031)	(51,884)	(30,237)	(8,427)
<b>EPS Attributable to Common Stockholders</b>	(\$6.93)	(\$17.68)	(\$0.29)	(\$0.30)	(\$0.22)	\$0.33	(\$0.33)	(\$0.34)	(\$0.41)	(\$0.48)	(\$0.50)	(\$1.75)	(\$1.82)	(\$1.06)	(\$0.29)
Weighted Avg. Shares Outstanding DILUTED	500	658	13,936	14,120	20,806	21,321	17,546	26,766	28,497	28,512	28,527	28,076	28,565	28,625	28,685
<b>Margin Analysis % of Sales</b>															
Total Gross Margin	NM	NM	NM	NM	NM	11.4%	NM	89.8%	50.0%	50.0%	60.0%	NM	NM	62.0%	61.0%
Research and Development	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	52.8%	24.8%
Selling, General and Administrative	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	66.8%	38.5%
In-Process R&D	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	6.3%	2.7%
Total GAAP Operating Expense	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	131.2%	68.2%
<b>GAAP Operating Margin</b>	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-69.2%	-7.2%
Adj. EBITDA Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-69.2%	-7.2%
GAAP Pre-tax Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-72.6%	-8.7%
Tax Rate (Effective)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>GAAP Net Margin</b>	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-72.6%	-8.7%
<b>Percent Change (Yr/Yr)</b>															
Total Revenue	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	132.6%
Selling, General and Administrative	NM	134.5%	146.2%	101.9%	34.0%	481.9%	187.0%	276.3%	242.8%	207.5%	-4.2%	107.4%	33.2%	17.6%	33.8%
Research and Development	NM	232.0%	20.7%	28.0%	95.1%	59.1%	49.8%	69.0%	143.0%	147.4%	189.6%	143.2%	9.1%	-24.1%	9.1%
Total GAAP Operating Expense	NM	239.4%	48.5%	46.0%	71.2%	91.6%	68.8%	180.9%	209.1%	191.7%	80.0%	147.4%	17.0%	-4.9%	20.9%
<b>GAAP Operating Income</b>	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Adj. EBITDA	NM	239.4%	48.5%	NM	NM	NM	68.5%	NM	205.7%	185.2%	73.0%	142.6%	5.0%	-42.9%	-75.8%
GAAP Pre-tax Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
GAAP Net Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
<b>GAAP Earnings Per Share</b>	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM

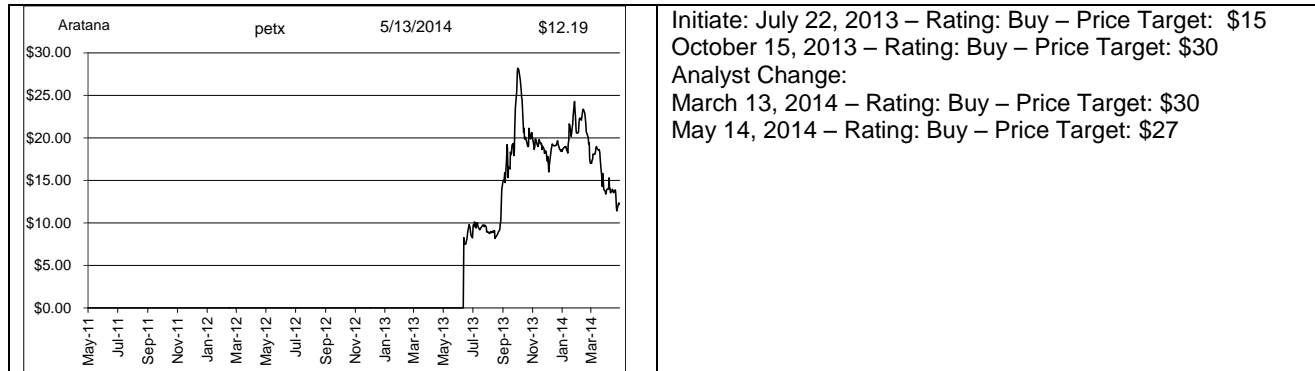
## Discounted Cash Flow Model

### Aratana Therapeutics, Inc. Discounted Cash Flow Model

Estimates		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
(\$ in Thousands)											
Total Sales		1,862	9,255	41,666	96,903	175,204	290,399	438,680	581,887	706,887	728,094
Operating Profit		(48,147)	(8,520)	(3,583)	1,135	11,121	87,120	142,571	203,660	265,083	254,833
Less: Cash Taxes Paid		0	0	0	0	0	8,712	52,751	75,354	98,081	94,288
Operating Profit After Tax		(48,147)	(8,520)	(3,583)	1,135	11,121	78,408	89,820	128,306	167,002	160,545
Depreciation & Amortization		23	176	548	616	693	780	878	987	1,111	1,250
Fixed Cap Expenditures		107	2,114	1,163	1,244	1,331	1,424	1,524	1,630	1,745	1,867
Working Cap Increase		233	1,157	4,051	6,905	9,788	14,399	18,535	17,901	15,625	2,651
FCF		(48,464)	(11,615)	(8,249)	(6,398)	695	63,364	70,638	109,762	150,743	157,277
PV FCF		(43,271)	(9,260)	(5,871)	(4,066)	395	32,102	31,953	44,331	54,359	50,639
<b>Perpetual FCF</b>											
Base FCF		157,277									
Weighted Avg. Cost of Capital (k)		12.0%									
Perpetual Growth Rate (g)		3.0%									
Base Year		2013									
Perpetual Start Year		2023									
Perpetual Value		1,799,943									
PV of Perpetual Growth Period		579,534									
<b>Total FCF</b>											
Value of FCF		730,845									
<b>Intrinsic Value</b>											
Cash		80,705									
Debt		7,442									
After Tax ESO Liability		1,804									
Value of Equity		802,304									
Shares Outstanding		29,519									
<b>Intrinsic Value per Share</b>		<b>\$27.18</b>									

Sensitivity Analysis					
Terminal Period Variables		FCF Growth			
Cost of Capital	2.5%	2.5%	3.0%	3.5%	4.0%
	9.5%	\$40.44	\$43.03	\$46.05	\$49.62
	10.0%	\$36.73	\$38.88	\$41.36	\$44.26
	11.5%	\$28.24	\$29.54	\$31.01	\$32.68
	12.0%	\$26.06	<b>\$27.18</b>	\$28.43	\$29.85
	12.5%	\$24.12	\$25.09	\$26.17	\$27.37
	13.0%	\$22.38	\$23.23	\$24.16	\$25.20

**REQUIRED DISCLOSURES**

Source: Thomson

**Ratings definitions:**

**Buy** rated stocks generally have twelve month price targets that are more than 20% above the current price. **Hold** rated stocks generally have twelve month price targets near the current price. **Sell** rated stocks generally have no price target and we would sell the stock.

**Fundamental trend definitions:**

**Improving** means growth rates of key business metrics are generally accelerating. **Stable** means growth rates of key business metrics are generally steady. **Mixed** means growth rates of some key business metrics are positive but others are negative. **Declining** means growth rates of key business metrics are generally decelerating.

**Ratings Distribution (3/31/2014)**

Rating	% Of Companies Covered	% With Investment Banking Relationships
Buy	73%	26%
Hold	24%	9%
Sell	3%	0%
Total	100%	21%

**Information about valuation methods and risks can be found in the “STOCK OPPORTUNITY” and “RISKS” sections, respectively, of this report.**

CHLM makes a market in this security.

CHLM has managed or co-managed an offering of securities for the subject company in the last 12 months. CHLM has received investment banking revenue from the subject company in the last 12 months. CHLM expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.

Analysts receive no direct compensation in connection with the firm's investment banking business. Analysts may be eligible for bonus compensation based on the overall profitability of the firm, which takes into account revenues from all of the firm's business, including investment banking.

**OTHER DISCLOSURES**

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I, Charles Haff, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject security and issuer. No part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views contained herein.