Aratana Therapeutics, Inc. (PETX)

Buying Opportunity Ahead of Key Milestones

MARKET DATA

Price	$20.56
52-Week Range:	$6.56 - $29.32
Shares Out. (M):	21.9
Market Cap ($M):	$450.3
Average Daily Vol. (000):	14.0

Source: Thomson Reuters and JMP Securities LLC

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	($0.22)	($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

MARKET OUTPERFORM | Price: $20.56 | Target Price: $38.00

INVESTMENT HIGHLIGHTS

We reiterate our Market Outperform rating and $38 price target on shares of Aratana Therapeutics. The company had a very fruitful third quarter. It signed two option agreements, moved forward all the key products in the pipeline, and expanded its pipeline through the acquisition of Vet Therapeutics. We think the acquisition cements Aratana as the go-to company for both large and small biopharma companies looking to leverage their discovery pipelines into the veterinary space. We believe recent competitive concerns have created a buying opportunity ahead of some near-term catalysts. Namely, we expect to see top-line results from AT-001 (chronic pain, dogs) by the end of November, and an initiation of the pivotal study for AT-002 (inappetence, dogs) by the end of 2013. The company expects to end the year with $40-50M in cash and equivalents, which should be sufficient to fund operations until 2015. Our price target of $38 is based on a blend of our DCF analysis ($37) and relative valuation ($38) methodologies.

Upcoming milestones:

AT-001 Dog: Top-line results from a dose-ranging field study is expected in the second half of November 2013; continue to anticipate U.S. approval in 2016.

AT-001 Cat: Pursuing a chronic pain claim instead of an acute pain claim.

AT-002 Dog: Agreement on the pivotal study design reached with the Center for Veterinary Medicine (CVM); pivotal field study effectiveness protocol submitted to CVM for review; expect to initiate a pivotal study in late 2013; continue to anticipate U.S. approval in 2016.

AT-002 Cat: Selected three-week treatment term and weight gain and/or control claim for further proof of concept work; final formulation selected; expect results in 1H 2014.

AT-003 Dog: Continued dose-ranging study in laboratory dogs; anticipate discussions with the CVM on the development program in late 2013; continue to anticipate U.S. approval in 2016.

AT-003 Cat: Initiated dose-ranging study in laboratory cats.

Option Programs: Evaluation of each of the three programs continues; opt-in/opt-out decisions anticipated in 2014.

B-cell Lymphoma Dog: Completed submission to the USDA for full license; full license anticipated in next twelve to eighteen months.

T-cell Lymphoma Dog: Initial data has been submitted to USDA; anticipate a conditional license in 2014; continue to enroll the full field trial in 2014; full license anticipated in 2015.

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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, 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 (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.

Market Perform (MP): JMP Securities expects the stock price to perform in line with relevant market indices over the next 12 months.

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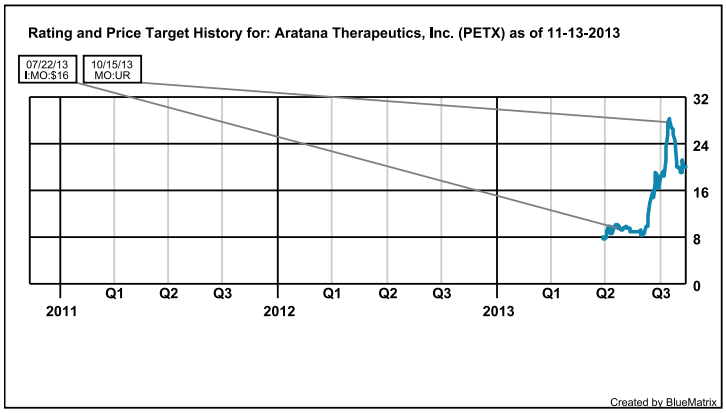
JMP Rating	Regulatory Equivalent	# Co's Under Coverage	*% of Total*	Regulatory Equivalent	# Co's Under Coverage	*% of Total*	# Co's Receiving IB Services in Past 12 Months	*% of Co's With This Rating*
MARKET OUTPERFORM	Buy	249	*61.18%*	Buy	249	*61.18%*	81	*32.53%*
MARKET PERFORM	Hold	152	*37.35%*	Hold	152	*37.35%*	24	*15.79%*
MARKET UNDERPERFORM	Sell	6	*1.47%*	Sell	6	*1.47%*	0	*0%*
TOTAL:		407	*100%*		407	*100%*	105	*25.80%*

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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