Aratana Therapeutics, Inc. (PETX)

2Q13 Review; Development Programs On Track; Reiterate Market Outperform

MARKET DATA

Price	$9.52
52-Week Range:	$6.56 - $10.67
Shares Out. (M):	19.9
Market Cap ($M):	$189.4
Average Daily Vol. (000):	3.0

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	($0.14)	($0.27)	--
	4Q	($0.16)	$0.12	--
	FY	**($5.15)**	**($0.72)**	**($0.65)**
	P/E	NM	NM	NM
	Previous FY	($0.72)	NC	NC

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE

MARKET OUTPERFORM | Price: $9.52 | Target Price: $16.00

INVESTMENT HIGHLIGHTS

We are reiterating our Market Outperform rating and $16 price target on Aratana Therapeutics following the company's update on its development programs and 2Q13 review. We are encouraged by the company's solid progress and execution in the quarter, which includes (i) completion of the IPO in July, (ii) development programs (AT-001, AT-002, and AT-003) largely on track, and (iii) option program agreements (as part of the company's aggressive effort to expand its pipeline). Investors should continue to track Aratana's quarterly cash burn rate and, more importantly, progress and milestones on the development of the three compounds: AT-001 for osteoarthritis, AT-002 for inappetance, and AT-003 for post-operative pain. We favor the PETX story, as we continue to believe the company offers a compelling investment opportunity because 1) it is poised to benefit from attractive growth of the pet industry, 2) the company's strategy carries less regulatory and commercial risk than human therapeutic development, 3) it has a management team with substantial experience in the field of pet therapeutic development, and 4) it has a pipeline of unique products that target unmet needs in the pet market. Our $16 price target is based on the average of our discounted cash flow analysis (DCF) valuation of $16 and the relative valuation of $17, using an enterprise value to revenue valuation methodology.

Update on Development Programs and Upcoming Milestones. For AT-001 in dogs, Aratana completed enrollment in dose-ranging field study earlier this month, and expects results in November 2013 with U.S. approval anticipated in 2016. For AT-001 in cats, management anticipates initiating additional proof of concept study this month. Top-line results of the study are expected in November 2013; full results of the studies are expected after a more in-depth discussion with the CVM. For AT-002 in dogs, the company continues discussion with the Center for Veterinary Medicine (CVM) to gain concurrence on pivotal study design, and expects to commence pivotal study in dogs in late 2013/early 2014 with U.S. approval anticipated in 2016. For AT-002 in cats, Aratana continues to conduct pilot studies to establish proof-of-concept and pivotal study design; management noted that it is taking slightly longer than expected to resolve an efficacy signal given that cats' behavior makes observation more difficult. Management expects results of the cat studies in the first half of 2014. For AT-003 in dogs, the company initiated dose-ranging study in laboratory dogs, and expects to begin discussions with the CVM on development program in 2013 with U.S. approval anticipated in 2016. For AT-003 in cats, the company completed safety study in laboratory cats, and anticipates initiating dose-ranging study in laboratory cats in 2013.

Opportunity to Expand Pipeline. Aratana is engaged in a new "Option Program", which allows the company to de-risk development candidates while securing appropriate in-licensing terms upfront, and complements traditional in-licensing and

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product acquisition. The company signed three Option Program agreements, all of which are currently in human clinical trials: one from Phase 3, one from Phase 2, and one having completed Phase 1. Management noted that each product candidate addresses a significant unmet medical need in pets, and that if options are exercised, they will expand product pipeline significantly. Additionally, the company has paid less than $1 million in aggregate for the three options program agreements up to this point in time.

Catalysts. The company will be hosting a series of "Animal Health Corridor" activities in Kansas City on August 23-26 around the Central Veterinary Convention and an Investor Day in Boston on September 11, 2013 to lay out comprehensively regulatory framework for pet therapeutics and provide additional Aratana program updates, which we believe could be near-term catalysts for PETX shares.

2Q13 Financial Overview. The company had no revenue in 2Q. R&D expenses totaled $2.4 million, vs. $1.9 million in 2Q12. The y/y increase was attributable to increased personnel in the areas of drug development, CMC and manufacturing, continued development activity for both pain treatment program (AT-001) and inappetence program (AT-002), launch of the development activities for post-operative pain program (AT-003), and the first Option Program agreement. G&A expenses totaled $1.2 million in 2Q13, up from $0.6 million in 2Q12.The y/y increase was associated with the build-out of the company's executive team, expansion into office space in Boston, increased business development activities, one-time costs associated with the IPO and the costs associated with becoming a public company. Net loss in 2Q13 was $4.2 million or ($4.62)/share, vs. a net loss of $3.21 million or ($10.21)/share in 2Q12. Aratana had a total of approximately $20.2 million in cash and cash equivalents at the end of 2Q13. In July, the company completed the IPO, which raised $34.2 million in net proceeds. The Company's total cash and cash equivalents post-IPO was approximately $57.1 million.

Guidance. Management expects to exit 2013 with $45-$50 million in cash, which it expects to be sufficient to fund operations to at least the end of 2015. Additionally, management anticipates spending less than $10 million in 3Q13 and 4Q13.

Adjusting Estimates. While we have kept our 3Q13 and 4Q13 estimates unchanged, we have adjusted our estimate on net loss for 2013 from ($0.72) to ($5.15) to reflect 2Q results.

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.

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JMP Securities was manager or co-manager of a public offering for Aratana Therapeutics, Inc. in the past 12 months.

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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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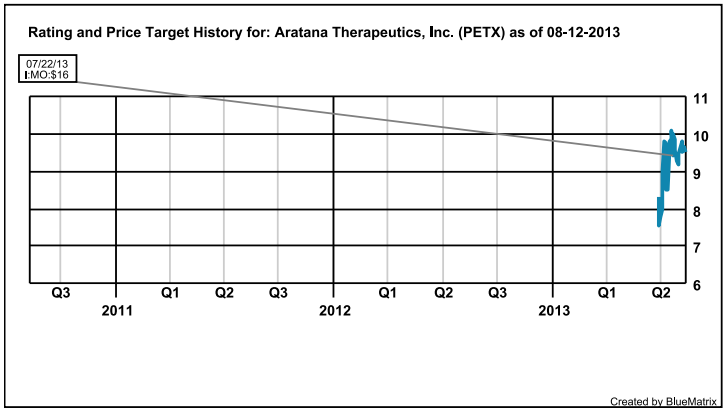
JMP Rating	Regulatory Equivalent	# Co's Under Coverage	*% of Total*	Regulatory Equivalent	# Co's Under Coverage	*% of Total*	# Co's Receiving IB Services in Past 12 Months	*% of Co's With This Rating*
MARKET OUTPERFORM	Buy	238	*61.34%*	Buy	238	*61.34%*	77	*32.35%*
MARKET PERFORM	Hold	144	*37.11%*	Hold	144	*37.11%*	20	*13.89%*
MARKET UNDERPERFORM	Sell	6	*1.55%*	Sell	6	*1.55%*	0	*0%*
TOTAL:		388	*100%*		388	*100%*	97	*25.00%*

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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