William Blair

Aratana Therapeutics, Inc.

September 12, 2013

Observations From Wednesday's Investor Briefing; Galloping Ahead

- **Conclusions**: Aratana Therapeutics conducted an investor briefing Wednesday evening, September 11, in Boston. Management did not make any new announcements regarding the product portfolio, but rather used the event as an opportunity to more clearly lay out its strategy overall and its development timelines for the initial three molecules and six products under development, along with three more option molecules. Our overall optimistic view of the longer-term outlook for Aratana has not changed following the briefing. We continue to view the company's specialty pharmaceutical business model as a compelling way for small-cap investors to participate in the animal health market. While the business is early stage, with no approvals (or revenues) likely before 2016, we are very impressed by the depth and expertise of this management team.

- The company has enough cash to fund operations through the bulk of 2015, and we expect multiple clinical data updates between now and then. The next product update should be the results of a dose-ranging study of AT-001 Dog for osteoarthritis pain, which is expected in November. While we wait for the outcome of this study, we note that depending on the clarity of the data, the trial may prove registrational. However, as manufacturing is normally the time-constraining process, if the dose-ranging study looks registrational, we still would not anticipate a launch until 2016. In 2014, we expect pilot studies to be completed with AT-002 Cat for inappetence, and a decision to be made by management on the three option products (which came with a nine-month assessment period). We believe the company's $200 million market capitalization is attractive for patient investors, considering the nine product opportunities currently under evaluation and the relatively low capital requirements for development. We therefore reiterate our Outperform rating on Aratana.

Key Points

- **Experienced Management Team.** Three members of management presented at the briefing: CEO Steven St. Peter, Chief Scientific Officer Linda Rhodes, and Head of Drug Evaluation and Development Ernst Heinen. Several others participated in the evening's discussion, including the CFO, chief commercial officer, head of Europe, and the heads of manufacturing and CMC (chemistry, manufacturing, and controls). This team has been assembled from the animal health units of Merck (MRK $47.73), Pfizer (PFE $28.53), and Bayer and clearly brings substantial experience in assessment, development, manufacturing, and commercialization.

Aratana is a specialty biopharmaceutical company focused solely on the companion-animal market. The company was founded in Kansas City, Kansas, in 2010 to pursue in-licensing, development, and commercialization of novel therapeutics for cats and dogs. The company has three molecules focused on osteoarthritic pain, lack of appetite, and post-surgical pain in both dogs and cats, which, if effective, could reach the market by 2016.

Stock Rating: **Outperform**
Company Profile: **Aggressive Growth**

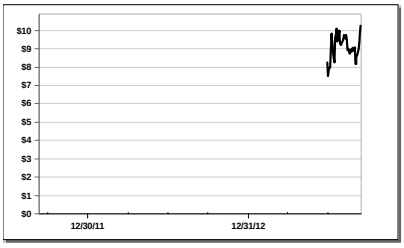
Symbol:	PETX (NASDAQ)
Price:	$12.00 (52-Wk.: $7-$11)
Market Value (mil.):	$224
Fiscal Year End:	December
Long-Term EPS Growth Rate:	
Dividend/Yield:	None

	2012A	2013E	2014E
Estimates			
EPS FY	$-0.91	$-0.84	$-0.94
CY		$-0.84	$-0.94
Valuation			
FY P/E	NM	NM	NM
CY P/E		NM	NM

Trading Data (FactSet)	
Shares Outstanding (mil.)	1
Float (mil.)	3
Average Daily Volume	31,752

Financial Data (FactSet)	
Long-Term Debt/Total Capital (MRQ)	0.2
Book Value Per Share (MRQ)	-29.1
Enterprise Value (mil.)	36.1
EBITDA (TTM)	0.0
Enterprise Value/EBITDA (TTM)	0.0x
Return on Equity (TTM)	-40.6

Two-Year Price Performance Chart



Sources: FactSet, William Blair & Company estimates

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- **Visibility of the pet therapeutic strategy is increasing.** With Aratana's recent IPO, Zoetis's (ZTS $31.01) recent spin-off from Pfizer, and continued strong stock performance from other companies focused on the animal health market, we believe the category is attracting increased attention from investors and new start-ups. Management noted that start-up activity and deal flow has increased at a faster pace than expected in recent months. As a result, we expect further deal announcements in the coming year, but will have to watch closely for any signs that competition is causing deterioration in terms. The company is staffing at a level that assumes one new product in-licensing deal a year. We also would not be surprised if the company out-licenses European rights to one or more of its products in the coming year. It currently has worldwide rights to all of its products, but does not intend to bring any products to market in Europe directly.

- **Manufacturing may be the most time consuming and highest-risk aspect of the development timeline**. While most aspects of companion animal drug development are more streamlined and less expensive than comparable steps for human products, the manufacturing requirements are still the same. Management cautioned that satisfying CMC requirements will typically take longer than compiling the safety and efficacy data for a new product—probably more than three years. It noted that a product's final active ingredients (API) and formulation must also be set before pivotal studies can begin. The company has completed formulation for 001, 002, and 003, and the contract manufacturing relationships are in place.

- **Pipeline Update and Risks**. While it is unrealistic to assume that all of the company's six products and three option products will prove safe and effective, management reiterated an approval goal for all but one of the six: AT-001 Cat for pain. Management's conviction in the timeline and overall development strategy for 001 Cat appears to have slipped. The company did not given any timing expectations for this product. While the product showed a therapeutic effect in the lab setting for surgical pain, management appears less confident that similar efficacy can be achieved in pivotal studies at safe doses, and is defining what that safe dosing level is. If the company needs to shift its attention for 001 Cat to other indications, such as chronic pain, the original goal of a 2016 approval will probably slip.

Exhibit 1. Product Pipeline

Product	Licensor	Species	Development Status	Expected Next Step	Potential Launch	Indication
AT-001	RaQualia	Dog	Dose confirmation study ongoing	Pivotal field effectiveness study	2016	Pain and inflammation associated with osteoarthritis
		Cat	Selection of indication	Dose confirmation study	2017-2018*	Pain management
AT-002	RaQualia	Dog	Dose confirmation study ongoing	Pivotal field effectiveness study	2016	Stimulation of appetite, small molecule ghrelin agonist
		Cat	Dose confirmation study ongoing	Pivotal field effectiveness study	2016	Stimulation of appetite, small molecule ghrelin agonist
AT-003	Pacira	Dog	Proof-of-concept study ongoing	Dose confirmation study	2016-2017	Post-operative pain management, DepoFoam formulation of bupivacaine
		Cat	Proof-of-concept study ongoing	Dose confirmation study	2016-2017	Post-operative pain management, DepoFoam formulation of bupivacaine

*Pending clarity coming from clinical work
Sources: Company reports, William Blair & Company, L.L.C. estimates

- **Model Unchanged.** Exhibit 2, on the following page, summarizes our current income statement for Aratana. We are not changing any of our assumptions or estimates at this time. We expect the company to lose money through 2016, with initial revenues beginning in 2016. We assume the company's cash balance will be sufficient through most of 2015. Assuming all three molecules are proved effective and reach the market, we believe the company can break into profitability by 2017. (See our report published July 25, 2013, for greater detail.)

Exhibit 2. Aratana Therapeutics Summary Income Statement, 2011 – 2020(E)

	2011	2012	Q1A	Q2A	Q3E	Q4E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues														
AT-001	-	-	-	-	-	-	-	-	-	9.2	18.1	25.1	37.1	56.9
% growth (y/y)										NM	97%	39%	48%	53%
AT-002	-	-	-	-	-	-	-	-	-	11.1	19.3	32.4	48.6	70.5
% growth (y/y)										NM	75%	68%	50%	45%
AT-003	-	-	-	-	-	-	-	-	-	2.0	11.0	19.8	29.8	40.2
% growth (y/y)										NM	458%	80%	51%	35%
Total Net Product Revenues	-	-	-	-	-	-	-	-	-	22.2	48.4	77.3	115.5	167.5
Royalty Revenue (E.U.)		-	-	-	-	-	-	-	-	2.6	4.2	7.8	11.3	15.4
Total Net Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	24.8	52.6	85.1	126.8	182.9
% growth (y/y)										NM	112%	62%	49%	44%
Expenses														
COGS	-	-					0	0	0	5	10.8	17.4	26.1	37.5
R&D expense	2.196	8.791	*2.114*	*2.469*	3.071	3.071	10.7	12.9	14.8	16.3	19.3	22.7	26.2	30.1
% growth (y/y)			*20.7%*	*28.0%*	*20.2%*	*20.2%*	*22%*	*20%*	*15%*	*10%*	*18%*	*18%*	*15%*	*15%*
SG&A expense	1.274	2.987	*1.226*	*1.258*	1.433	1.583	5.5	7.3	8.9	13.5	21.3	30.9	41.0	53.6
In-process R&D	-						-	-	-	-	-	-	-	-
	-	-					-	-	-	-	-	-	-	-
	-	-					-	-	-	-	-	-	-	-
Total Operating Expenses	3.470	11.778	3.340	3.727	4.5	4.7	16.2	20.2	23.7	34.4	51.4	71.1	93.3	121.2
Operating (loss)/profit	(3.470)	(11.778)	(3.340)	(3.7)	(4.5)	(4.7)	(16.2)	(20.2)	(23.7)	(9.6)	1	14	33	62
													26%	
Interest income	0.006	0.021	*0.003*	*0.022*	0.020	0.032	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Interest expense	0.000		*-0.024*	*-0.078*	(0.0)	(0.0)	(0.2)							
Other Income	0.000	0.121	*0.068*	*0.343*	0.1	0.1	0.1	0.100	0.100	0.100	0.100	0.100	0.100	0.100
Total Other Income	0.006	0.142	0.047	0.287	0.0	0.1	0.4	0.204	0.2	0.2	0.2	0.2	0.2	0.3
	-										-	-	-	-
Net loss and comprehensive loss	(3.464)	(11.636)	(3.293)	(3.440)	(4.46)	(4.60)	(15.80)	(20.00)	(23.57)	(9.40)	1.38	14.16	33.72	61.97
Modifications of Series A convertible pref. stock	(0.276)	0.000		-	-	-		-	-	-				
Unaccreted dividends on convertible pref. stock	(0.902)	(2.035)	*-0.773*	*-0.808*	-	-	(1.581)	-	-	-				
Net income loss (gain) attributable to common stockholders, basic and diluted	(4.642)	(13.671)	(4.07)	(4.248)	(4.464)	(4.602)	(17.380)	(19.999)	(23.575)	(9.399)	1.378	14.160	33.722	61.969
Provision for income taxes	-	-	-				-	-	-	-	-	5	12	22
Net Income (loss)	**($4.642)**	**($13.671)**	**($4.1)**	**($4.248)**	**($4.5)**	**($4.6)**	**($17.4)**	**($20.0)**	**($23.6)**	**($9.4)**	**$1.4**	**$9.1**	**$21.6**	**$39.7**
EPS	**($0.31)**	**($0.91)**	**($0.27)**	**($0.23)**	**($0.22)**	**($0.22)**	**($0.93)**	**($0.96)**	**($1.09)**	**($0.40)**	**$0.06**	**$0.36**	**$0.86**	**$1.57**
Weighted average shares outstanding (diluted)	14,972	14,972	14,972	19,964	21,895	21,945	19,694	22,082	22,790	24,490	24,690	24,890	25,090	25,290
MARGIN ANALYSIS:														
Gross Profit										81%	80%	79%	79%	79%
SG&A										54%	41%	36%	32%	29%
R&D										66%	37%	27%	21%	16%
Operating Income										NA	2%	16%	26%	34%
Tax Rate										0%	0%	36%	36%	36%
Net Income										NA	3%	11%	17%	22%
GROWTH METRICS:														
Total Revenue											112%	62%	49%	44%
Gross Profit											107%	62%	49%	44%
SG&A			146%	102%	54%	70%	84%	33%	22%	51%	58%	45%	33%	31%
R&D			21%	28%	20%	20%	22%	20%	15%	10%	18%	18%	15%	15%
Operating Income												1067%	140%	84%
Net Income												558%	138%	84%
EPS												553%	136%	82%
Diluted Shares Outstanding		0%	0%	33%	46%	47%	32%	1%	3%	1%	1%	1%	1%	1%

E = William Blair & Company, L.L.C estimate

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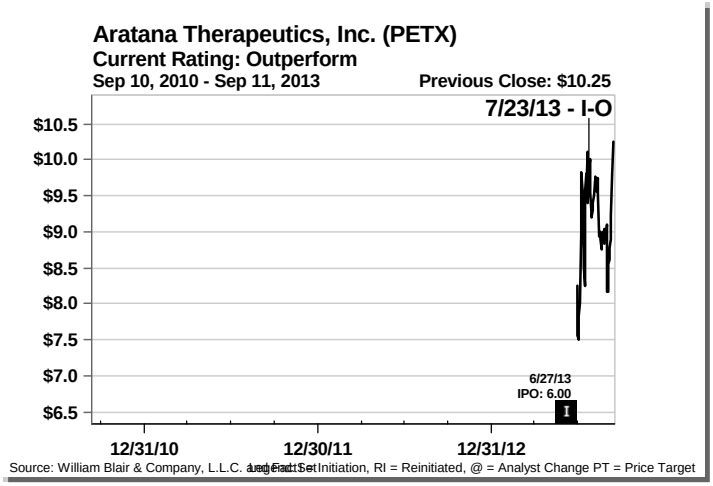
DOW JONES: 15,326.60
S&P 500: 1,689.13
NASDAQ: 3,725.01



Current Rating Distribution (as of 08/31/13)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	62	Outperform (Buy)	10
Market Perform (Hold)	33	Market Perform (Hold)	1
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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