

Aratana Therapeutics

Pharma & biotech
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Pet project

Aratana's acquisition of the privately held Vet Therapeutics for a total of \$43m upfront and \$5m milestone payments brought the company closer to commercialising its own products, enriched its pipeline and expanded its therapeutic coverage. We believe this transaction is not only strategically sound, but also financially attractive to Aratana, making this unique recent IPO company's investment thesis more appealing.

Aratana to acquire Vet Therapeutics

Aratana has decided to acquire privately held Vet Therapeutics for a total of \$43m upfront (including \$30m in cash, \$3m in sellers' debt and \$10m worth of stocks (625,000 shares at \$16.00) and \$5m milestone payments. Vet Therapeutics develops canine versions of human monoclonal antibodies (mAbs) for cancer treatments, with one (canine anti-CD20 mAb, Rituxan, for B-lymphoma) approved and another (canine anti-CD52, Campath, for T-lymphoma) conditionally approved.

Earlier commercialisation and broader coverage

With Vet Therapeutics, Aratana now claims both small molecule and large biologic product offerings. Products from Vet Therapeutics enable Aratana to reach commercialisation stage earlier (2015 vs 2016 previously), which could benefit later product launches (AT-001 and AT-002 in 2016). Vet Therapeutic's cancer focus also expands Aratana's therapeutic coverage, which previously included pain and appetite stimulation.

Unique business model/risk

Aratana's focus on pet therapeutics separates it from most biotech companies. Its strategy of licensing drugs already tested in animals from pharma and biotech companies for use in companion animals carries fewer clinical risks than most pharma and biotech drugs, and thus may offer better returns for investors.

Valuation: EV of \$536m seems reasonable

Aratana's EV, at c \$536m, largely reflects the value of the three drugs in development and two canine mAbs from Vet Therapeutics. In the near term, top-line results from dose-ranging studies of AT-001, if positive, could increase the firm's value.

Price **\$26.3**
Market cap **\$576m**

Share price graph



Share details

Code **PETX**
 Listing **NASDAQ**
 Shares in issue **21.9m**

Business description

Aratana is a biopharmaceutical company developing and commercialising prescription medicines for cats and dogs. Its lead drug candidates include AT-001 for pain, AT-002 for appetite stimulation, AT-003 for post-operative pain and several canine specific antibodies for cancer via acquisition of Vet Therapeutics.

Bull

- Attractive, de-risked business model.
- Short development timeline.
- Near-term (November 2013) catalysts (AT-001 trial data).

Bear

- Market dominated by a few large players.
- Innovation dependent on others.
- Year-end net cash \$35-45m.

Analysts

Jason Zhang PhD **+1 646 653 7027**
 Robin Davison **+44 (0)20 3077 5737**

healthcare@edisongroup.com

Consensus estimates

Year end	Revenue (\$m)	PBT (\$m)	EPS (\$)	DPS (\$)	P/E (x)	Yield (%)
12/11	0	(3.46)	(15.42)	N/A	N/A	N/A
12/12	0	(11.64)	(34.54)	N/A	N/A	N/A
12/13e	0	(18.5)	(0.98)	N/A	N/A	N/A
12/14e	2	(28.4)	(1.08)	N/A	N/A	N/A

Source: Bloomberg

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
245 Park Avenue, 39th Floor
10167, New York
US

Sydney +61 (0)2 9258 1162
Level 33, Australia Square
264 George St, Sydney
NSW 2000, Australia

Wellington +64 (0)48 948 555
Level 15, 171 Featherston St
Wellington 6011
New Zealand