

QUICK NOTE



ALPHA SELECT LIST

Aratana Therapeutics, Inc.

BUY

(PETX - \$18.00 Intraday)

Price Target: \$30

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Aratana Inks Agreement With Advaxis Which Adds Four Cancer Drugs. Reiterating Our BUY Rating And \$30 Price Target.

Last night, Aratana announced that it expanded their already robust product portfolio. They entered into an exclusive global licensing agreement with Advaxis (ADXS, not covered), a human biotechnology company. The agreement covers four products based on Advaxis' platform immunotherapy technology and includes Advaxis' ADXS-cHER2 for the treatment of osteosarcoma (a.k.a. bone cancer) in dogs, as well as three additional immunotherapy products for the treatment of three other types of cancers. For competitive reasons, Aratana declined to disclose the other three targets. Under the agreement, Aratana has paid \$1M in cash up front and purchased an additional \$1.5M of Advaxis common stock and warrants. The company has also agreed to pay an additional \$6M in clinical and regulatory milestones for each of the 4 licensed products, \$28.5M in commercial milestones, and tiered royalties on future net sales ranging from the mid-single digits to 10%.

Canine Osteosarcoma is the most common type of bone tumor in dogs, and accounts for ~85% of canine bone tumors. It affects primarily older, large breed dogs which PETX management estimates has been diagnosed in between 8,000 and 20,000 dogs in the U.S. annually. The current standard of care involves amputation followed by chemotherapy. The primary investigator, Dr. Nicola Mason at the University Of Pennsylvania School of Veterinary Medicine stated that average survival time with this course of treatment is between 8 and 12 months.

In the clinical study being conducted by Dr. Mason, she has treated 13 dogs with the ADXS-cHER2, after standard of care, which has shown statistically significant ($p=.032$) prolonged overall survival compared to dogs receiving standard of care alone. In the study, the dogs treated with the ADXS-cHER2 have not yet reached median survival time (the first four dogs treated are all still alive 21 months after treatment) and the majority of treated animals are tumor free.

After conducting detailed due diligence, Aratana believes that these immune-oncologic therapies will be developed through the USDA pathway, which has granted conditional approval to two of the company's products. We view this extension of the Company's product portfolio positively and believe that the additional footprint and contact with veterinary oncologists should prove to be a sound and cost effective initial strategy.

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 our DCF driven \$30 price target (see page 4).



RISKS

We believe an investment in Aratana Therapeutics, Inc. 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 malfunctions in the manufacturing processes of its suppliers or other sources of interruption to the supply of 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 finished the third quarter with ~\$52M in cash on its balance sheet and estimates that its current capital is sufficient to fund its operations through the end of 2014, 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 6.4M of the Company shares are subject to a lock-up restriction connected to the Company's public offering are now scheduled to release 90 days following the 1/31/14 secondary offering. 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.

CRAIG-HALLUM ALPHA SELECT LIST

The Alpha Select list is an actively researched collection of small, under-followed public companies that we believe have the potential to become much larger. The Alpha Select List will typically consist of sub-\$250M market cap companies with attractive business models, above average growth trends, favorable macro/secular themes and management teams that we believe have the ability to take the business to the next level.

FINANCIALS

Aratana Therapeutics, Inc. Financial Model

FISCAL YEAR ENDS DECEMBER

(\$ thousands)	Fiscal 2011A	Mar Q1-12A	Jun Q2-12A	Sep Q3-12A	Dec Q4-12A	Fiscal 2012A	Mar Q1-13A	Jun Q2-13A	Sep Q3-13A	Dec Q4-13A	Fiscal 2013A	Mar Q1-14E	Jun Q2-14E	Sep Q3-14E	Dec Q4-14E	Fiscal 2014E	Fiscal 2015E	Fiscal 2016E	Fiscal 2017E
Total Revenue	-	-	-	-	-	-	-	-	-	123	123	150	250	600	1,000	2,000	10,000	43,250	99,000
Cost of Sales	-	-	-	-	-	-	-	-	-	109	109	128	213	330	400	1,070	2,500	16,435	38,622
Total Gross Margin	-	-	-	-	-	-	-	-	-	14	14	23	38	270	600	930	7,500	26,815	60,377
Operating Expenses																			
Research and Development	2,196	1,751	1,929	1,658	1,953	7,291	2,114	2,469	3,234	3,108	10,925	6,648	6,778	6,443	5,543	25,412	20,638	21,229	23,928
Selling, General and Administrative	1,274	498	623	1,065	801	2,987	1,226	1,258	1,427	4,661	8,572	2,961	3,311	3,436	3,586	13,294	20,169	24,344	33,752
Amortization	0	0	0	0	0	0	0	0	0	380	380	380	380	400	400	1,560	1,800	1,800	1,800
In-Process R&D	0	0	0	0	1,500	1,500	0	0	0	0	0	0	0	0	0	0	0	0	0
Total GAAP Operating Expenses	3,470	2,249	2,552	2,723	4,254	11,778	3,340	3,727	4,661	8,149	19,877	9,989	10,469	10,279	9,529	40,266	42,607	47,373	59,480
GAAP Income (Loss) from Operations	(3,470)	(2,249)	(2,552)	(2,723)	(4,254)	(11,778)	(3,340)	(3,727)	(4,661)	(8,135)	(19,863)	(9,967)	(10,432)	(10,009)	(8,929)	(39,336)	(35,107)	(20,558)	897
Interest income	6	4	3	5	9	21	3	22	26	25	76	23	21	19	17	80	48	16	11
Interest Expense	0	0	0	0	0	0	(24)	(78)	(80)	(250)	(432)	(100)	(100)	(100)	(100)	(400)	(420)	(458)	(548)
Other Income	0	0	0	81	40	121	68	343	44	23	478	100	0	0	0	100	0	0	0
Pre-tax GAAP Income	(3,464)	(2,245)	(2,549)	(2,637)	(4,205)	(11,636)	(3,293)	(3,440)	(4,671)	(8,337)	(19,741)	(9,944)	(10,511)	(10,090)	(9,012)	(39,556)	(35,479)	(21,000)	360
Income Tax (benefit)	0	-	-	-	-	0	-	-	-	(15,455)	(15,455)	-	-	-	-	0	0	0	0
GAAP Net Income	(3,464)	(2,245)	(2,549)	(2,637)	(4,205)	(11,636)	(3,293)	(3,440)	(4,671)	7,118	(4,286)	(9,944)	(10,511)	(10,090)	(9,012)	(39,556)	(35,479)	(21,000)	360
EPS Attributable to Common Stockholders	(\$6.93)	(\$4.49)	(\$10.21)	(\$9.64)	(\$6.50)	(\$17.68)	(\$0.29)	(\$0.30)	(\$0.22)	\$0.33	(\$0.33)	(\$0.40)	(\$0.39)	(\$0.38)	(\$0.34)	(\$1.50)	(\$1.32)	(\$0.78)	\$0.01
Weighted Avg. Shares Outstanding DILUTED	500	500	301	328	730	658	13,936	14,120	20,806	21,321	17,546	25,055	26,787	26,802	26,817	26,365	26,854	26,914	26,974
Margin Analysis % of Sales																			
Total Gross Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	11.4%	NM	15.0%	15.0%	45.0%	60.0%	46.5%	75.0%	62.0%	61.0%
Research and Development	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	49.1%	24.2%
Selling, General and Administrative	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	56.3%	34.1%
In-Process R&D	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	0.0%	0.0%
Total GAAP Operating Expense	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	109.5%	60.1%
GAAP Operating Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-47.5%	0.9%
Adj. EBITDA Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-47.5%	0.9%
GAAP Pre-tax Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-48.6%	0.4%
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%	0.0%	0.0%	0.0%	0.0%
GAAP Net Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-48.6%	0.4%
Percent Change (Yr/Yr)																			
Total Revenue	NM					NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	128.9%
Selling, General and Administrative	NM					134.5%	146.2%	101.9%	34.0%	481.9%	187.0%	141.5%	163.2%	140.8%	-23.1%	55.1%	51.7%	20.7%	38.6%
Research and Development	NM					232.0%	20.7%	28.0%	95.1%	59.1%	49.8%	214.5%	174.5%	99.2%	78.3%	132.6%	-18.8%	2.9%	12.7%
Total GAAP Operating Expense	NM					239.4%	48.5%	46.0%	71.2%	91.6%	68.8%	199.1%	180.9%	120.5%	16.9%	102.6%	5.8%	11.2%	25.6%
GAAP Operating Income	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%	198.4%	179.9%	114.7%	9.8%	98.2%	-10.8%	-41.4%	-104.4%
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
GAAP Earnings Per Share	NM					NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM

Discounted Cash Flow Model

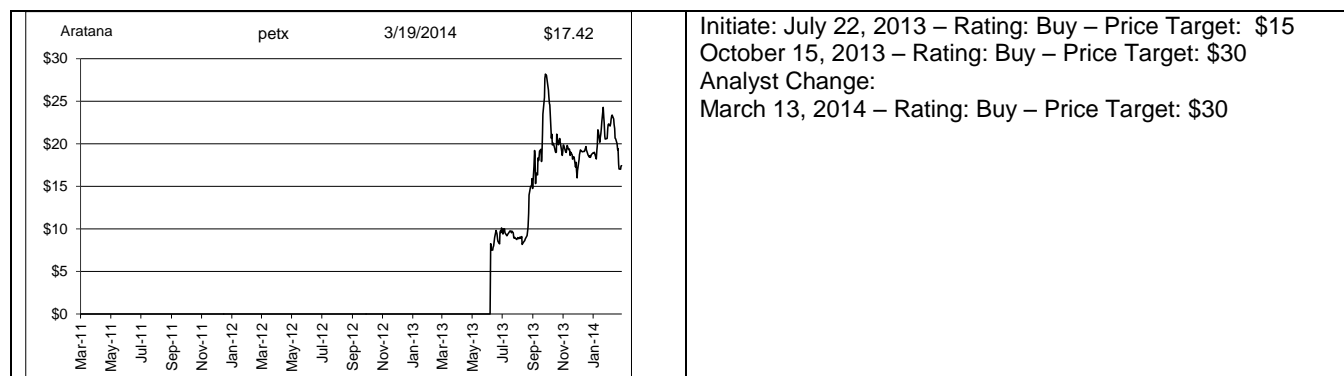
Aratana Therapeutics, Inc. Discounted Cash Flow Model

Estimates		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
(\$ in Thousands)											
Total Sales		2,000	10,000	43,250	99,000	178,000	290,399	438,680	581,887	706,887	728,094
Operating Profit		(39,336)	(7,382)	(1,931)	2,587	11,923	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		(39,336)	(7,382)	(1,931)	2,587	11,923	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		250	1,250	4,156	6,969	9,875	14,050	18,535	17,901	15,625	2,651
FCF		(39,670)	(10,571)	(6,701)	(5,010)	1,410	63,714	70,638	109,762	150,743	157,277
PV FCF		(35,420)	(8,427)	(4,770)	(3,184)	800	32,279	31,953	44,331	54,359	50,639
Perpetual FCF											
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									
Total FCF											
Value of FCF		742,095									
Intrinsic Value											
Cash		136,254									
Debt		9,310									
After Tax ESO Liability		8,338									
Value of Equity		860,702									
Shares Outstanding		28,954									
Intrinsic Value per Share		\$29.73									

Sensitivity Analysis					
Terminal Period Variables			FCF Growth		
Cost of Capital	2.5%	3.0%	3.5%	4.0%	
	9.5%	\$43.27	\$45.90	\$48.98	\$52.62
	10.0%	\$39.47	\$41.67	\$44.20	\$47.15
	11.5%	\$30.81	\$32.14	\$33.64	\$35.34
	12.0%	\$28.58	\$29.73	\$31.01	\$32.45
Cost of Capital	12.5%	\$26.60	\$27.59	\$28.69	\$29.92
	13.0%	\$24.83	\$25.69	\$26.64	\$27.70



REQUIRED DISCLOSURES



Source: Baseline

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 (12/31/2013)

Rating	% Of Companies Covered	% With Investment Banking Relationships
Buy	73%	26%
Hold	24%	4%
Sell	3%	0%
Total	100%	20%

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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