

## Aratana Therapeutics Inc.

# Tomorrow is almost here

**We are updating our numbers for PETX after the company had an uneventful 4Q report last year, though the company certainly didn't have an uneventful 2014.**

PETX has accomplished a lot since it was established in 2010. In addition to assembling a highly experienced management team in animal health and its initial core pipeline assets, the company has moved aggressively to accelerate its time to commercialization through the Vet Therapeutics acquisition and added an antiviral platform with its acquisition of Okapi.

**Pipeline assets continue to move ahead, pipeline continues to expand.** It's stating the obvious to say that PETX has been obvious in business development. In our view, this reflects both the energy and vision of the company's management team, but also one of the most attractive elements of the animal health market: acquisition and development costs for product candidates are low so the opportunity to assemble a portfolio of drug candidates, rather than just a one or two is possible.

However, we believe PETX has done a good job not just in terms of number of assets and quality, but the synergy between them. With the Advaxis deal, we see PETX emerging as leader in veterinarian oncology with drug candidates for both lymphoma (B-cell and T-cell) as well as solid tumors (initially osteosarcoma). However, the oncology franchise should benefit the other pipeline assets including AT-002 for inappetence and AT-003 for post surgical pain since obviously many solid tumors require an excision.

**Catalyst rich 2015 nears.** We expect PETX to announce its decision on its next pipeline candidate in 2Q when it exercises one of its option programs. We should also get data by 3Q on combination therapy with PETX's antibodies and chemotherapy. After that, we look ahead to 2015, which should deliver in the first half of the year: pivotal data on AT-001, AT-002, full-licenses for AT-004 and AT-005. We believe the number of opportunities warrants investors building positions in the near-term.

### PETX: Quarterly and Annual EPS (USD)

	2013		2014		2015		Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	2014	2015
Q1	-2.43A	-0.25E	-0.30E	-0.35E	N/A	-0.19E	88%	37%
Q2	-4.62A	-0.26E	-0.29E	-0.35E	N/A	-0.32E	94%	-10%
Q3	-0.22A	-0.29E	-0.30E	-0.37E	N/A	-0.32E	-36%	-7%
Q4	-0.40A	-0.28E	-0.30E	-0.33E	N/A	-0.33E	25%	-10%
Year	-2.43A	-1.08E	-1.19E	-1.41E	N/A	-1.17E	51%	2%
P/E	N/A		N/A			N/A		

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 4.

Stock Rating	<b>OVERWEIGHT</b>
	Unchanged
Industry View	<b>POSITIVE</b>
	Unchanged
Price Target	<b>USD 30.00</b>
	Unchanged

Price (24-Mar-2014)	USD 18.08
Potential Upside/Downside	+66%
Tickers	PETX

Market Cap (USD mn)	544
Shares Outstanding (mn)	30.07
Free Float (%)	88.17
52 Wk Avg Daily Volume (mn)	0.1
Dividend Yield (%)	N/A
Return on Equity TTM (%)	N/A
Current BVPS (USD)	4.06

Source: Thomson Reuters

Price Performance	Exchange-Nasdaq
52 Week range	USD 29.32-6.56



[Link to Barclays Live for interactive charting](#)

### U.S. Specialty Pharmaceuticals

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## U.S. Specialty Pharmaceuticals

Industry View: POSITIVE

## Aratana Therapeutics Inc. (PETX)

Stock Rating: OVERWEIGHT

Income statement (\$k)	2013A	2014E	2015E	2016E	CAGR
Revenue	0	560	5,920	36,324	N/A
EBITDA (adj)	-19,843	-35,418	-35,140	-20,417	N/A
EBIT (adj)	-19,863	-35,440	-35,164	-20,441	N/A
Pre-tax income (adj)	-21,322	-34,735	-34,612	-20,201	N/A
Net income (adj)	-21,322	-34,735	-34,612	-20,201	N/A
EPS (adj) (\$)	-2.43	-1.19	-1.17	-0.68	N/A
Diluted shares (k)	11,179.9	29,162.5	29,662.5	29,762.5	38.6%
DPS	N/A	N/A	N/A	N/A	N/A

Margin and return data	Average				
EBITDA (adj) margin (%)	N/A	-6,328.6	-594.0	-56.3	-2,326.3
EBIT (adj) margin (%)	N/A	-6,328.6	-594.0	-56.3	-2,326.3
Pre-tax (adj) margin (%)	N/A	-6,202.7	-584.7	-55.6	-2,281.0
Net (adj) margin (%)	N/A	-6,202.7	-584.7	-55.6	-2,281.0
ROIC (%)	N/A	N/A	N/A	N/A	N/A
ROA (%)	-17.2	-27.9	-37.6	-30.1	-28.2
ROE (%)	N/A	N/A	N/A	N/A	N/A

Balance sheet and cash flow (\$k)	CAGR				
Tangible fixed assets	98	1,200	1,300	1,400	142.6%
Intangible fixed assets	N/A	N/A	N/A	N/A	N/A
Cash and equivalents	41,084	56,269	27,605	11,164	-35.2%
Total assets	115,536	127,052	93,517	67,827	-16.3%
Short and long-term debt	N/A	N/A	N/A	N/A	N/A
Other long-term liabilities	3,284	14,928	14,928	14,928	65.7%
Total liabilities	29,495	32,902	34,912	37,485	8.3%
Net debt/(funds)	N/A	N/A	N/A	N/A	N/A
Shareholders' equity	86,041	94,150	58,606	30,342	-29.3%
Change in working capital (\$mn)	11,381	-481	-1,020	-459	N/A
Cash flow from operations (\$mn)	-9,721	-34,944	-35,308	-20,286	N/A
Capital expenditure (\$mn)	-59	-1,080	-76	-76	N/A
Free cash flow (\$mn)	-8,403	-34,819	-36,084	-20,800	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	N/A	N/A	N/A	N/A	N/A
EV/sales (x)	N/A	N/A	N/A	N/A	N/A
EV/EBITDA (adj) (x)	N/A	N/A	N/A	N/A	N/A
FCF yield (%)	-4,157.2	-6,603.8	-6,728.3	-3,865.4	-5,338.7
P/BV (x)	N/A	N/A	N/A	N/A	N/A
Dividend yield (%)	N/A	N/A	N/A	N/A	N/A
Total debt/capital (%)	N/A	N/A	N/A	N/A	N/A

Selected operating metrics	Average				
SG&A/sales (%)	N/A	N/A	N/A	N/A	N/A
R&D/sales (%)	N/A	N/A	N/A	N/A	N/A
R&D growth (%)	105.7	54.7	3.4	0.0	41.0
SG&A growth (%)	198.0	43.8	24.2	60.4	81.6

Price (24-Mar-2014) USD 18.08  
Price Target USD 30.00

**Why Overweight?** We rate PETX at Overweight since we believe it will capitalize on the growing companion animal health market with its portfolio of in-development products for osteoarthritis, inappetence, post-surgical pain, and lymphoma. We believe PETX has a differentiated model that will attract a broad investor audience.

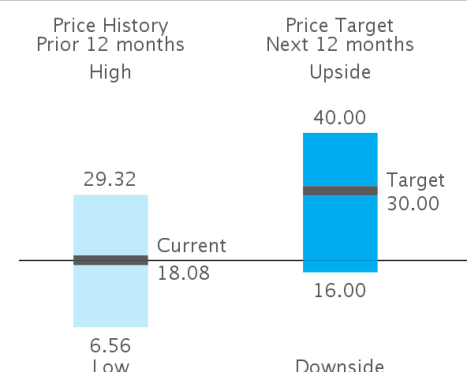
**Upside case** USD 40.00

We believe upside could come from additional business development which accelerates the expansion of PETX's pipeline. Additionally, we could see earlier-than-expected approvals for pipeline assets which accelerates the company's earnings ramp.

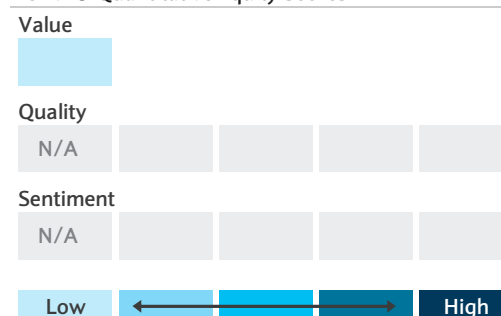
**Downside case** USD 16.00

Downside would come from setbacks to the company's pipeline assets. Additionally, PETX is developing treatments in many unproven markets, such as oncology, inappetence, and post-surgical pain. Those might not prove as attractive end-markets as we currently expect.

## Upside/Downside scenarios



## POINT® Quantitative Equity Scores



Source: POINT®. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, please go to the equity company page on Barclays Live.



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Aratana Therapeutics Inc. (PETX, 24-Mar-2014, USD 18.08), Overweight/Positive, A/C/D/J/L

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**Overweight** - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

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**Positive** - industry coverage universe fundamentals/valuations are improving.

**Neutral** - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

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Actavis, Inc. (ACT)	Allergan Inc. (AGN)	Aratana Therapeutics Inc. (PETX)
Charles River Laboratories (CRL)	Covance Inc. (CVD)	Forest Laboratories Inc. (FRX)
ICON plc (ICLR)	Jazz Pharmaceuticals PLC (JAZZ)	Mallinckrodt (MNK)
Mylan Inc. (MYL)	Pacira Pharmaceuticals Inc. (PCRX)	PAREXEL International (PRXL)
Quintiles Transnational (Q)	Teva Pharmaceutical Industries (TEVA)	Zoetis Inc. (ZTS)

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Aratana Therapeutics Inc. (PETX)

USD 18.08 (24-Mar-2014)

Stock Rating

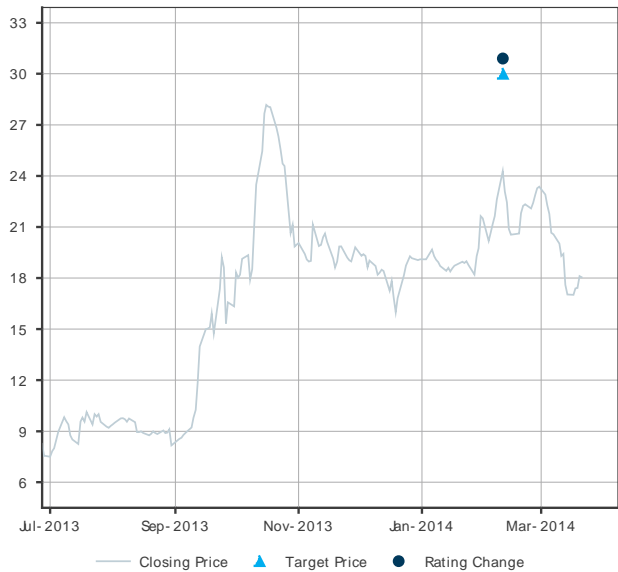
OVERWEIGHT

Industry View

POSITIVE

Rating and Price Target Chart - USD (as of 24-Mar-2014)

Currency=USD



Date	Closing Price	Rating	Adjusted Price Target
10-Feb-2014	24.28	Overweight	30.00

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

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**Valuation Methodology:** We base our \$30 price target on 5x our FY20 sales estimate of \$325 million discounted back to the present (8% discount rate).

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Inability to get pipeline candidates approved by the FDA or USDA; lack of demand by consumers since pet therapeutics remains an emerging market; inability to manufacture products at a cost level which allows PETX to price products in a competitive manner.

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