

Durata Therapeutics (DRTX)

SMALL & MID CAP RESEARCH

Everything On Track - NDA in Mid-2013, MAA by YE-2013

The recent equity financing (\$54M in April) and debt financing (\$20M in March) put DRTX in a strong financial position to launch dalbavancin in 2014, while aggressively pursuing additional clinical trials to expand the utility of the drug in osteomyelitis and potentially pneumonia. Q1 earnings included higher than expected expenses related to pre-launch manufacturing, and we are raising our expense assumptions for 2013. Our full year 2013 EPS decreases to (\$2.39) from (\$1.93) based on Q1 results.

- **Clinically derisked and financially well positioned:** With two recent successful Phase III trials, clinical risk is essentially removed and we believe that the regulatory risk is also very low. The financing removes the most important overhang – financing risk.
- **Catalysts:** DRTX plans to file an NDA in mid-2013 and an MAA by year-end 2013. Additional data from the two Phase III trials is likely at infectious disease conference in H2:13. DRTX plans to initiate additional trials of dalbavancin including pediatric osteomyelitis. While not officially part of company guidance, we assume that DRTX signs an ex-US marketing partner in 2014.
- **Valuation:** Our \$15 target price is supported by 2.75 times our 2017 revenue forecast of \$235M, discounted at 12%. Comps such as MDCO and CBST trade at 2.7 and 3.0 times 2013 revenue, respectively, and DRTX's better forecast cost structure makes our valuation more conservative. DRTX pays no royalties, has a low baseline R&D, and a forecast tax rate of 16%.

Rating	OUTPERFORM* [V]
Price (08 May 13, US\$)	7.08
Target price (US\$)	15.00 ¹
52-week price range	9.95 - 6.83
Market cap. (US\$ m)	180.92
Enterprise value (US\$ m)	169.01

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (US\$)	-7.48	-2.39	-2.14	-0.30
Prev. EPS (US\$)	—	-1.93	-2.59	-0.36
P/E (x)	-0.9	-3.0	-3.3	-23.7
P/E rel. (%)	-6.3	-21.1	-26.2	-207.1
Revenue (US\$ m)	—	—	51.2	96.4
EBITDA (US\$ m)	-61.5	-56.6	-30.1	-4.6
OCFPS (US\$)	-6.94	-2.00	-1.73	-0.22
P/OCF (x)	-1.1	-3.5	-4.1	-31.8
EV/EBITDA (current)	-2.9	-3.2	-6.0	-38.9
Net debt (US\$ m)	-12	-12	42	50
ROIC (%)	-195.49	-183.50	-105.09	-15.48
Number of shares (m)	25.55	IC (current, US\$ m)		31.45
BV/share (Next Qtr., US\$)	1.6	EV/IC (x)		5.3
Net debt (Next Qtr., US\$ m)	5.9	Dividend (current, US\$)		—
Net debt/tot cap (Next Qtr., %)	20.2	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates

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Q1 Results – Higher Manufacturing Costs

DRTX reported no revenue as expected. R&D expenses were significantly higher at \$11.1M vs. our estimate of \$8.0M, driven by increased prelaunch manufacturing costs. G&A expenses were also high at \$4.1M vs. our estimate of \$2.7M. EPS for Q1:13 was (\$0.86) vs. our estimate of (\$0.69) and consensus of (\$0.64).

We are raising our operating expense assumptions for the remainder of 2013 to include higher R&D and SG&A, but still expect expenses to be significantly lower in 2013 vs. 2012.

Our 2013 EPS decreases to (\$2.39) from (\$1.93) based on Q1 results.

Exhibit 1: Q1 Results

Income Statement	1Q:13 Act.	CS		Consensus	
		1Q:13 Est	Delta	1Q:13 Est	Delta
Total Net Revenues	0.0	0.0	0.0	0.00	0.00
COGS	0.0	0.0	0.0		
R&D expense	11.1	8.0	3.1		
SG&A expense	4.1	2.7	1.4		
Total Operating Expenses	15.4	10.7	4.7	12.10	3.33
Operating income (loss)	(15.4)	(10.7)	(4.7)		
Other income	0.0	0.0	0.0		
Interest income (expense)	(0.1)	0.0	(0.1)		
Milestone payment	0.0	0.0	0.0		
Other income (expense)	0.0	(2.0)	2.0		
Total Other Income (Expense)	(0.1)	(2.0)	1.9		
Pre Tax Income	(15.5)	(12.7)	(2.8)		
Income tax expense (benefit)	0.2	0.0	0.2		
Net Income	(15.8)	(12.7)	(3.1)	(12.59)	(3.18)
Diluted earnings (loss) per share	(0.86)	(0.69)	(0.17)	(0.64)	(0.22)
Shares outstanding - basic	18.4	18.5	-0.1		
Shares outstanding - diluted	18.4	20.6	-2.2		

Source: Company data, Credit Suisse estimates

Exhibit 2: Upcoming Events

Timing	Expected News Flow	Program
Mid-2013	NDA filing for Dalbavancin in ABSSSI	Dalbavancin
2013	Phase I data (lung and bone infections)	Dalbavancin
YE:13	MAA filing for Dalbavancin in ABSSSI	Dalbavancin
H1:14	Potential FDA approval	Dalbavancin
YE:14 / H1:15	Potential EMA Approval	Dalbavancin

Source: Company data, Credit Suisse estimates

Exhibit 3: DRTX Model

	2012A	Q1:13A	Q2:13E	Q3:13E	Q4:13E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Dalbavancin US sales	0.0	0.0	0.0	0.0	0.0	0.0	25.2	83.8	145.3	222.5	282.4	335.6
Collaboration/milestones	0.0	0.0	0.0	0.0	0.0	0.0	15.0	10.0	0.0	0.0	0.0	0.0
Royalty revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	8.4	11.6	17.8	22.6
Total Net Revenues	0.0	0.0	0.0	0.0	0.0	0.0	40.2	96.4	153.7	234.1	300.2	358.2
COGS	0.0	0.0	0.0	0.0	0.0	0.0	3.5	11.3	18.9	27.8	33.9	40.3
R&D expense	51.7	11.1	10.5	10.0	9.0	40.6	30.8	31.0	31.5	33.1	34.1	35.1
SG&A expense	9.8	4.1	3.9	4.0	4.1	16.1	47.0	58.7	79.9	100.1	107.3	114.1
Total Operating Expenses	61.5	15.4	14.4	14.0	13.1	56.9	81.3	101.0	130.3	161.0	175.3	189.4
Operating income (loss)	(61.5)	(15.4)	(14.4)	(14.0)	(13.1)	(56.9)	(41.1)	(4.6)	23.4	73.1	124.9	168.7
Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest income (expense)	0.0	(0.1)	(0.3)	(0.4)	(0.4)	(1.2)	(2.9)	(3.6)	(3.2)	(2.7)	(2.5)	(0.4)
Milestone payment	0.0	0.0	0.0	0.0	0.0	0.0	(25.0)	0.0	0.0	0.0	0.0	0.0
Other income (expense)	(1.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Other Income (Expense)	(1.1)	(0.1)	(0.3)	(0.4)	(0.4)	(1.2)	(29.5)	(3.6)	(3.2)	(2.7)	(2.5)	(0.4)
Pre Tax Income	(62.5)	(15.5)	(14.7)	(14.4)	(13.5)	(58.2)	(70.5)	(8.3)	20.2	70.4	122.4	168.3
Income tax expense (benefit)	0.0	0.2	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	19.6	26.9
Net Income	(62.5)	(15.8)	(14.7)	(14.4)	(13.5)	(58.4)	(70.5)	(8.3)	20.2	70.4	102.8	141.4
Diluted earnings (loss) per share	(\$7.48)	(\$0.86)	(\$0.58)	(\$0.54)	(\$0.50)	(\$2.40)	(\$2.60)	(\$0.30)	\$0.63	\$2.16	\$3.12	\$4.25
Shares outstanding - basic	8.4	18.4	25.4	26.7	26.8	24.3	27.2	27.6	27.9	28.2	28.5	28.8
Shares outstanding - diluted	8.4	18.4	27.9	29.4	29.8	26.4	30.3	31.1	31.9	32.7	33.0	33.3

Source: Company data, Credit Suisse estimates

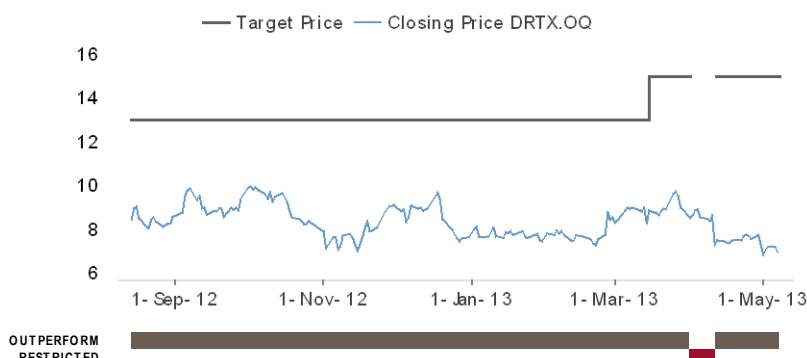
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Price and Rating History for Durata Therapeutics (DRTX.OQ)

DRTX.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
14-Aug-12	8.44	13.00	O *
15-Mar-13	8.85	15.00	*
01-Apr-13	8.52		R
12-Apr-13	7.49	15.00	O

* Asterisk signifies initiation or assumption of coverage.



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Underperform/Sell*	15%	(39% banking clients)
Restricted	3%	

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Price Target: (12 months) for Durata Therapeutics (DRTX.OQ)

Method: Our \$15 TP for DRTX is derived from a revenue multiple analysis of dalbavancin revenues by applying a 2.75 multiple to our 2017 revenue forecast of \$235M, discounted back at 12%.

Risk: Key risk factors to our \$15 TP include: 1) dalbavancin is not approved or the launch is significantly delayed, 2) dalbavancin launch ramp and/or peak sales underperforms our estimates, and 3) dalbavancin is not broadly adopted for other MRSA indications.

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