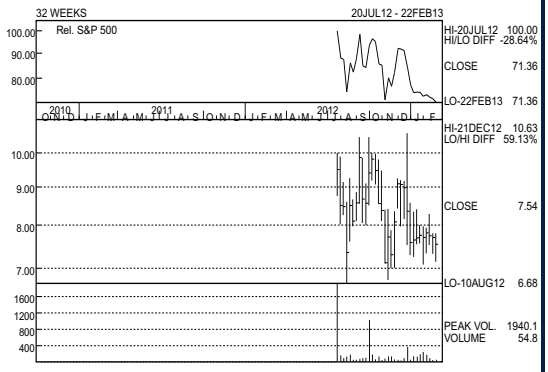


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| FY Dec | 2012E | 2013E | 2014E | |
|---|---|---|---|---|
| Rpt EPS | (8.63) | (2.70) | (1.65) | |
| Revenue (MM) | 0.0 | 1.3 | 50.6 | |
| **Rpt EPS** | **Q1** | **Q2** | **Q3** | **Q4** |
| 2012 | (132.12)A | (260.25)A | (1.47)A | (1.23)E |
| 2013 | (1.17)E | (1.02)E | (0.43)E | (0.31)E |
| **Revenue (MM)** | | | | |
| 2012 | 0.0A | 0.0A | 0.0A | 0.0E |
| 2013 | 0.0E | 0.0E | 0.0E | 1.3E |

**All values in USD unless otherwise noted.**

**COMPANY UPDATE** | COMMENT

FEBRUARY 25, 2013

# Durata Therapeutics, Inc. (NASDAQ: DRTX)

## Two Positive Phase IIIs For Dalbavancin; Fully Owned Asset

**Outperform**
**Speculative Risk**

| | | | |
|---|---|---|---|
| **Price:** | 7.54 | **Price Target:** | 15.00 |
| | | **Implied All-In Return:** | 99% |
| **Shares O/S (MM):** | 18.4 | **Market Cap (MM):** | 139 |
| **Dividend:** | 0.00 | **Yield:** | 0.0% |

## Event

DRTX reported positive Phase III data from 2nd pivotal DISCOVER 2 study

## Investment Opinion

The second Phase III trial of dalbavancin also met its SPA established primary endpoint of non-inferiority to vancomycin. Efficacy and safety both appear clean. Of note, the Phase III program was conducted under an SPA and with EMA guidance which reduces regulatory risk and makes dalbavancin more approvable in the US and EU. DRTX owns all rights to dalbavancin, a long-acting antibiotic, which we believe will find a role in the competitive, severe, gram positive infection landscape. The next steps are more detailed data presentation, NDA and MAA filings, and details on commercialization plans either alone or in conjunction with a commercial partner. We value US dalbavancin revenues at ~$11-12/share and EU revenues at ~$3-4/share using a very high discount rate of 17.5%.

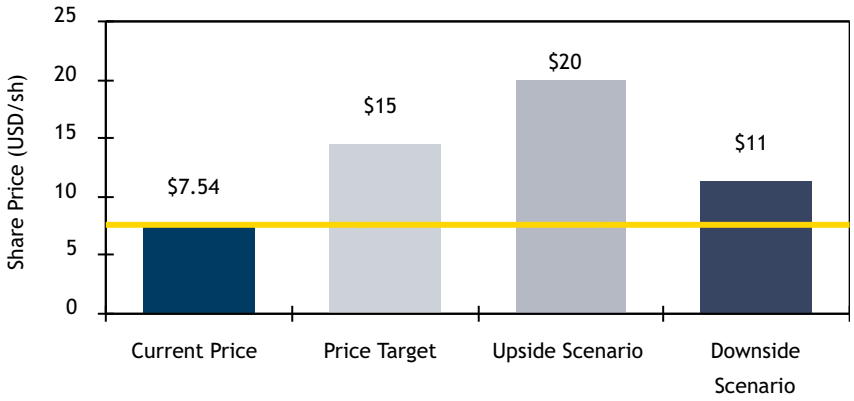
- **Primary and secondary endpoints met; dalbavancin non-inferior to vancomysin / linezolid**. 77% of patients receiving dalbavancin vs.78% on vancomycin/linezolid had resolution of fever and stoppage of lesion spread at 48-72 hours (primary endpoint). The non-inferiority margin of 10% was met (95% c.i., -7.4, +4.6). **Fewer patients with MRSA responded compared to DISCOVER 1 but 6 of 11 patients were counted as failures due to missing data.** The key is that this is the second pivotal study to confirm dalbavancin's non-inferiority to vancomycin / linezolid.
- **Safety appears clean**. Given that dalbavancin is a long-acting antibiotic (two doses, one week apart), the focus remains on safety where data are clean so far. The rate of adverse events, treatment emergent adverse events with onset through day 28 or after day 28, SAEs, etc., were all lower with dalbavancin. Drug related treatment emergent adverse events were slightly higher (12% vs. 10%) which is different than the outcome seen in DISCOVER 1 again leading us to conclude that safety is clean for dalbavancin.
- **NDA expected; dalbavancin should be approvable**. DRTX will file an NDA around mid-2013 and an MAA by YE:13. We believe the regulatory hurdle is low and dalbavancin is approvable. DRTX will submit both Phase III tirals along with QT and VER001-9 studies in its filing.
- **DRTX retains all rights to dalbavancin (patent/exclusivity protected through 2023)** making it an attractive candidate for an opportunistic partnership or acquisition.

**Priced as of prior trading day's market close, EST (unless otherwise noted).**

**For Required Conflicts Disclosures, see Page 6.**

## Details

### Valuation Scenarios: Base, Upside and Downside Case




- **Base case: $15/share**. We arrive at a $15 price target using the average of two methodologies. Our sum-of-the parts analysis for dalbavancin arrives at a value of $15/share, including approximately $3-4/share for the value of EU royalties. We assume that dalbavancin is protected through 2023 with patents and/or exclusivity.
- **Upside case: $20/share**. We assume peak dalbavancin market share will be 7-8% up from 5-6% assumed in our base case scenario.
- **Downside case: $11/share**. Although above the current price level, our downside case assumes that dalbavancin data may not meet EMA requirements for approval and removes the ~$3-4 per share in value coming from EU royalties in our base case model.

**Phase III DISCOVER 1 and DISCOVER 2 Top-Line Efficacy**

| | DISCOVER 1 | | | | | DISCOVER 2 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Endpoint | Patient Population | Dalbavancin | Vancomycin / linezolid | Difference (95% Confidence Interval) | Absolute Difference | Patient Population | Dalbavancin | Vancomycin / linezolid | Difference (95% Confidence Interval) | Absolute Difference |
| **Primary (early response)** | **ITT** | **83.3%** | **81.8%** | **1.5% (-4.6, +7.9)** | **1.6%** | **ITT** | **76.8%** | **78.3%** | **-1.5% (-7.4, +4.6)** | **-1.4%** |
| >20% reduction in lesion area at 48-72 hrs | ITT | 89.6% | 90.9% | -1.3% (-6.1, +3.7) | -1.3% | ITT | 87.6% | 85.9% | +1.7% (-3.2, +6.7) | 1.7% |
| Patients with MRSA | | 84.1% | 82.1% | | 2.0% | | 76.1% | 85.7% | | -9.6% |
| Medically Evaluable | | 85.7% | 96.8% | | -11.1% | | 97.7% | 100.0% | | -2.3% |
| **Secondary Endpoints** | | | | | | | | | | |
| **Clinical status at EOT (day 14-15)*** | **CE*** | **87.0%** | **91.4%** | **-4.4% (-9.6, +1.6)**** | **-4.4%** | **CE*** | **93.5%** | **92.7%** | **+0.8% (-3.3, +4.9)** | **0.8%** |
| | ITT | 81.9% | 86.7% | | -4.7% | ITT | 88.7% | 85.6% | +3.1% (-1.8, +8.0) | 3.1% |
| Patients with MRSA | | 85.7% | 96.8% | | -11.1% | | 97.7% | 100.0% | | -2.3% |
| Investigator assessment at EOT (day 14-15) | CE | 94.7% | 97.5% | **-2.8% (-6.7, 0.7)** | -2.8% | CE | 96.9% | 96.0% | **+0.9% (-2.2, +4.1)** | 0.9% |
| | ITT | 90.3% | 91.9% | | -1.7% | ITT | 92.2% | 90.2% | +2.0% (-1.9, 6.4) | 2.0% |
| Clinical status at SFU (day 28) | CE | 93.8% | 96.1% | | -2.3% | CE | 96.3% | 92.6% | | 3.6% |
| | ITT | 83.7% | 88.1% | | -4.4% | ITT | 88.1% | 84.5% | | 3.6% |
| Investigator assessment at SFU (day 28) | CE | 94.2% | 97.4% | | -3.1% | CE | 95.2% | 94.9% | | 0.4% |
| | ITT | 86.1% | 89.5% | | -3.4% | ITT | 87.9% | 86.1% | | 1.7% |

*EMA primary endpoint.

Source: Company reports.

**Phase III DISCOVER 1 and 2 Top-Line Safety**

| | DISCOVER 1 | | DISCOVER 2 | |
|---|---|---|---|---|
| | Dalbavancin | Vancomycin / linezolid | Dalbavancin | Vancomycin / linezolid |
| N | 284 | 284 | 368 | 367 |
| Adverse events | 39.8% | 41.2% | 33.2% | 39.2% |
| Treatment emergent adverse events | 34.9% | 39.4% | 31.3% | 36.8% |
| TEAE with onset through D28 visit | 33.8% | 38.0% | 29.3% | 34.1% |
| TEAE with onset after D28 visit | 4.2% | 8.5% | 3.8% | 5.7% |
| Drug related TEAE | 12.3% | 18.3% | 12.2% | 10.1% |
| TESAE | 1.8% | 4.2% | 3.3% | 3.8% |
| Drug related SAE | 0.0% | 0.7% | 0.5% | 0.5% |
| TESAE leading to death | 0.0% | 1.8% | 0.3% | 0.5% |
| TEAE leading to discontinuation | 1.8% | 2.1% | 2.4% | 1.9% |
| | Unrelated | Unrelated | Unrelated | Unrelated |
| Patients with at least one TEAE through D28 | 21.5% | 19.7% | 17.1% | 24.0% |
| **TEAE at >= 2% in any arm** | | | | |
| Nausea | 1.8% | 0.4% | 1.6% | 2.2% |
| Diarrhea | 0.7% | 0.7% | 0.3% | 0.3% |
| Headache | 1.8% | 2.5% | 2.2% | 1.6% |
| Pruritis | 0.0% | 0.7% | 0.5% | 0.3% |
| Hypertension | 2.5% | 2.5% | | |
| Rash | 0.7% | 0.4% | | |
| Asthenia | 0.4% | 1.8% | | |
| Vomiting | | | 1.6% | 0.5% |

Source: Company reports.

## Valuation

Our sum-of-the parts analysis for dalbavancin arrives at a value of $15/share, including approximately $3-4/share for the value of EU royalties. We assume that dalbavancin is protected through 2023 with patents and/or exclusivity.

**Upside to our forecasts** could come from adjustments to our conservative 17.5% discount rate, a lower than forecast tax rate, especially in the outer years, competitor setbacks, and a higher than forecast penetration.

## Price Target Impediment

Our price target is dependent primarily on the clinical, regulatory and commercial success of Dalbavancin for acute bacterial skin and skin structure infections (abSSSI). Any setbacks in clinical development, delay in launch, increased competition or other limitations to the market potential of Dalbavancin could negatively impact our valuation. Upside could come from pricing, compliance, better than anticipated market penetration, new partnerships, clinical success of programs that are not included in our valuation, setbacks for potential competitors, and/or a takeout.

## Company Description

Durata Therapeutics is focused on the development and commercialization of novel therapeutics for patients with infectious diseases and acute illnesses. Enrollment in two global Phase III clinical trials with Dalbavancin, DRTX's primary value driver, for the treatment of acute bacterial skin and skin structure infections (abSSSI) is ongoing and results are expected in YE:12 from the first study and early 2012 from the second study. Dalbavancin is an intravenous antibiotic product candidate designed for once-weekly dosing, which differentiates from currently marketed antibiotics and increase the convenience of treating patients in the out-patient and

in-patient settings, while lowering the overall cost of care to the healthcare system. Assuming a positive outcome, Durata will submit an NDA to the FDA in 1H:13 and an MAA to the EMA in 2H:13. Currently, the company plans to commercialize Dalbavancin directly in the US and EU with a targeted hospital sales force.

**Durata Therapeutics (Nasdaq: DRTX)**

**Annual and Quarterly Income Statement**

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| *($ in millions, except per share)* Fiscal Year Ends December | 2011A | 1Q12A | 2Q12A | 3Q12A | 4Q12E | 2012E | 1Q13E | 2Q13E | 3Q13E | 4Q13E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Dalbavancin sales (US) (probability adj.) | - | - | - | - | - | - | - | - | - | - | - | 42.8 | 102.8 | 155.9 | 259.8 | 357.7 | 425.7 |
| Dalbavancin (royalties) (probability adj.) | - | - | - | - | - | - | - | - | - | - | - | - | 7.7 | 11.7 | 19.5 | 26.8 | 31.9 |
| Contracts, licensing fees, and milestones | - | - | - | - | - | - | - | - | - | 1.3 | 1.3 | 5.0 | 5.0 | 5.0 | 5.0 | 3.8 | - |
| **Total Revenues** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **1.3** | **1.3** | **47.8** | **115.5** | **172.6** | **284.3** | **388.3** | **457.6** |
| Cost of goods sold | - | - | - | - | - | - | - | - | - | - | - | 6.4 | 14.4 | 18.7 | 31.2 | 42.9 | 51.1 |
| Research & development | 30.1 | 6.8 | 16.5 | 19.0 | 19.8 | 62.0 | 18.0 | 15.0 | 7.0 | 5.0 | 45.0 | 29.0 | 33.0 | 38.0 | 43.0 | 47.0 | 54.9 |
| SG&A | 4.3 | 1.2 | 2.4 | 2.6 | 2.8 | 9.0 | 3.7 | 3.9 | 4.1 | 4.3 | 16.0 | 58.0 | 73.0 | 88.0 | 103.0 | 110.0 | 115.0 |
| Contingent consideration | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total Operating Expenses** | **35.6** | **8.3** | **19.2** | **21.8** | **22.8** | **72.0** | **21.9** | **19.1** | **11.3** | **9.5** | **61.8** | **94.2** | **121.2** | **145.5** | **178.0** | **200.7** | **221.8** |
| **Operating Income (Loss)** | **(35.6)** | **(8.3)** | **(19.2)** | **(21.8)** | **(22.8)** | **(72.0)** | **(21.9)** | **(19.1)** | **(11.3)** | **(8.3)** | **(60.6)** | **(46.4)** | **(5.7)** | **27.1** | **106.3** | **187.6** | **235.8** |
| Interest income | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.3 | 0.8 | 2.2 | 0.4 | 0.5 | 0.6 | 1.0 | 2.0 |
| Interest expense | - | - | - | - | - | - | - | - | - | - | - | (1.3) | (2.5) | (2.5) | (2.5) | (2.5) | (1.3) |
| Total Other Income (expense) | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.3 | 0.8 | 1.0 | (2.1) | (2.0) | (1.9) | (1.5) | 0.8 |
| Income before Tax | (35.5) | (8.3) | (19.2) | (21.8) | (22.7) | (71.9) | (21.8) | (19.0) | (11.1) | (8.0) | (59.8) | (45.5) | (7.8) | 25.1 | 104.4 | 186.1 | 236.6 |
| Provision for taxes | (2.5) | - | - | - | - | - | - | - | - | - | - | - | - | 8.8 | 36.5 | 65.1 | 82.8 |
| **Net Income (Loss)** | **(33.0)** | **(8.3)** | **(19.2)** | **(21.8)** | **(22.7)** | **(71.9)** | **(21.8)** | **(19.0)** | **(11.1)** | **(8.0)** | **(59.8)** | **(45.5)** | **(7.8)** | **16.3** | **67.8** | **121.0** | **153.8** |
| EPS - Basic (GAAP) | **($27.22)** | **($132.12)** | **($260.25)** | **($1.47)** | **($1.23)** | **($8.63)** | **($1.17)** | **($1.02)** | **($0.43)** | **($0.31)** | **($2.70)** | **($1.74)** | ($0.29) | $0.60 | $2.43 | $4.24 | $5.29 |
| EPS - Diluted* (GAAP) | ($27.22) | ($132.12) | ($260.25) | ($1.47) | ($1.23) | ($7.16) | ($1.17) | ($1.02) | ($0.43) | ($0.31) | ($2.70) | ($1.74) | **($0.29)** | **$0.56** | **$2.30** | **$4.03** | **$5.03** |
| Shares Outstanding - Basic (MM) | 1.2 | 0.1 | 0.1 | 14.8 | 18.4 | 8.3 | 18.5 | 18.6 | 25.7 | 25.8 | 22.2 | 26.2 | 26.9 | 27.4 | 28.0 | 28.5 | 29.1 |
| Shares Outstanding - Diluted (MM) | - | - | - | 20.3 | 19.9 | 10.0 | 20.0 | 20.1 | 27.2 | 27.3 | 23.7 | 27.7 | 28.4 | 28.9 | 29.5 | 30.0 | 30.6 |

| Dalbavancin - Revenues | 2011A | 1Q12A | 2Q12A | 3Q12A | 4Q12E | 2012E | 1Q13E | 2Q13E | 3Q13E | 4Q13E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Dalbavancin - US | | | | | | | - | - | - | - | - | 42.8 | 102.8 | 155.9 | 259.8 | 357.7 | 425.7 |
| Dalbavancin - EU | | | | | | | - | - | - | - | - | - | 51.4 | 78.0 | 129.9 | 178.9 | 212.8 |
| Dalbavancin Royalties - EU | | | | | | | - | - | - | - | - | - | 7.7 | 11.7 | 19.5 | 26.8 | 31.9 |

| Margin Analysis | 2011A | 1Q12A | 2Q12A | 3Q12A | 4Q12E | 2012E | 1Q13E | 2Q13E | 3Q13E | 4Q13E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross margin | | | | | | | | | | | 85.0% | 85.0% | 86.0% | 88.0% | 88.0% | 88.0% | 88.0% |
| Cost of goods | | | | | | | | | | | 15% | 15% | 14% | 12% | 12% | 12% | 12% |
| Research & development | | | | | | | | | | | 3600% | 61% | 29% | 22% | 15% | 12% | 12% |
| Sales, general & administrative | | | | | | | | | | | 1280% | 121% | 63% | 51% | 36% | 28% | 25% |
| Operating margin | | | | | | | | | | | | | -5% | 16% | 37% | 48% | 52% |
| Tax rate | | | | | | | | | | | 0% | 35% | 35% | 35% | 35% | 35% | 35% |
| Net margin | | | | | | | | | | | | | -7% | 9% | 24% | 31% | 34% |

Source: Company reports and RBC Capital Markets estimates.

## Required Disclosures

## Conflicts Disclosures

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**Outperform (O):** Expected to materially outperform sector average over 12 months.
**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.
**Underperform (U):** Returns expected to be materially below sector average over 12 months.
**Risk Qualifiers (any of the following criteria may be present):**
**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.
**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.
**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

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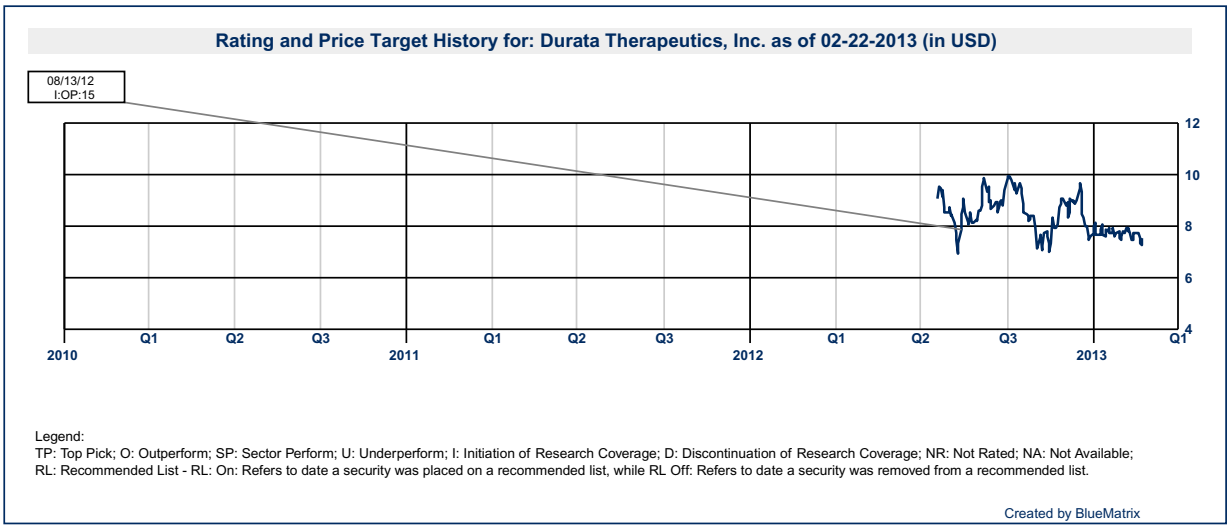
**Distribution of Ratings**
**RBC Capital Markets, Equity Research**

| | | | Investment Banking Serv./Past 12 Mos. | |
|---|---|---|---|---|
| Rating | Count | Percent | Count | Percent |
| BUY[TP/O] | 783 | 50.68 | 283 | 36.14 |
| HOLD[SP] | 693 | 44.85 | 185 | 26.70 |
| SELL[U] | 69 | 4.47 | 8 | 11.59 |

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