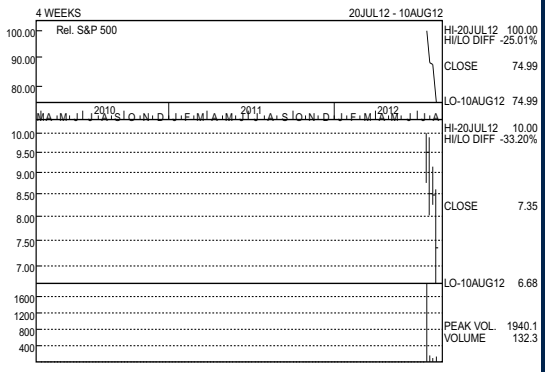

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FY Dec	2012E	2013E	2014E	
Rpt EPS	(3.73)	(2.11)	(1.37)	
Revenue (MM)	0.0	2.5	55.6	
Rpt EPS	**Q1**	**Q2**	**Q3**	**Q4**
2012	(0.85)A	(1.33)E	(0.80)E	(0.89)E
2013	(0.89)E	(0.74)E	(0.41)E	(0.24)E
Revenue (MM)				
2012	0.0A	0.0E	0.0E	0.0E
2013	0.0E	0.0E	0.0E	2.5E

All values in USD unless otherwise noted.

INITIATION | COMMENT

AUGUST 13, 2012

Durata Therapeutics, Inc. (NASDAQ: DRTX)

Dalbavancin, The First Long-Acting Antibiotic Targeting Severe Infections

Outperform
Speculative Risk

Price:	7.35	**Price Target:**	15.00
		Implied All-In Return:	104%
Shares O/S (MM):	18.4	**Market Cap (MM):**	135
Dividend:	0.00	**Yield:**	0.0%

We are initiating coverage of Durata Therapeutics with an Outperform rating, Speculative Risk, and $15 price target.

Investment Opinion

We believe risk/reward is favorable ahead of pivotal Phase III readouts for Durata's proprietary long-acting antibiotic, dalbavancin, for patients with acute bacterial skin and skin structure infections (abSSSI). Our positive view is based on dalbavancin's differentiated profile, short time-lines to Phase III data, prior Phase III results, sufficient funding into regulatory approvals and 100% ownership. The well developed, blockbuster antibiotic market and dalbavancin's clinical and regulatory history lower clinical, regulatory and commercial risk by providing greater transparency than typical for a Phase III drug. We are initiating with an Outperform, Speculative Risk rating and $15 price target.

- **Phase III data by year end 2012**. The DISCOVER program compare dalbavancin to vancomycin in two Phase III studies with over 550 patients each. We expect data by year-end 2012 and in early-2013, respectively.
- **Prior Phase III data positive**. Previously conducted three Phase III dalbavancin studies met primary endpoints in uSSSI, cSSSI and suspected MRSA. Pfizer withdrew the NDA due to the FDA's changing criteria on abSSSI trial designs. The two ongoing Phase III trials are being conducted under an SPA and with buy-in from EU regulators.
- **Wholly owned asset; long patent life**. Durata has all rights to dalbavancin making it a potentially attractive candidate for partnership or acquisition. Dalbavancin has patent and/or exclusivity protection in the US and EU through 2023.
- **Sufficient cash into 2014**. DRTX raised nearly $73 million in proceeds from its recently completed IPO. The company has sufficient cash through Phase III results and regulatory decisions in the US and EU in 2014. Following Phase III data we forecast an ex-US partnership in late 2013.
- **Attractive valuation**. DRTX's current market capitalization of $135 million and enterprise value of $49 million put it near the low end of public comparable companies. Our $15 price target is based on the average of a dalbavancin DCF and P/E multiple based valuation. Potential levers for upside include positive Phase III data and a partnership for dalbavancin. Success is contingent upon positive clinical and regulatory outcomes; setbacks could push shares to below cash per share of ~ $5.

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Portfolio Manager's Summary

Durata Therapeutics (DRTX) is developing dalbavancin, a wholly owned asset, for the treatment of acute bacterial skin and skin structure infections (abSSSI). Results from two ongoing Phase III trials are expected by year end 2012 and in early 2013, respectively. Dalbavancin could be the first long-acting antibiotic targeting abSSSI on the market with the potential to increase convenience, compliance, and lower costs to the healthcare system. Prior Phase III data, extensive regulatory history, and a well understood market provide greater transparency than is typical for a Phase III product candidate. On balance we see the risk-reward as being highly favorable and expect value to increase pending positive data from the Phase III studies and upon approval.

Key Selling Points

- **Large market opportunity**. The market for treatment gram positive infections is large in terms of the numbers of addressable patients, days on therapy, and dollar value. The majority of the market is addressed by generic drugs but the key branded drugs posted sales of $1.5B in total in 2011. These include the most successful antibiotics including Cubist Pharmaceuticals' Cubicin and Pfizer's Zyvox, which had 2011 sales of $699M and $640M, respectively, in the U.S. Based on 1H:12 sales, annualized sales of key branded drugs could be up 8% y/y to $1.6B. We estimate that the overall market could be $7-8B at branded drug pricing.
- **Dalbavancin is differentiated**. Dalbavancin could be the first long-acting antibiotic targeting severe infections on the market. Currently marketed antibiotics are dosed either once or twice per day for several days and often require monitoring due to adverse events. Dalbavancin will be dosed twice, once on day one and then on day eight of treatment. Given that the market is large and fragmented, dalbavancin's convenient and differentiated profile, which also ensures patient compliance with treatment could prove advantageous. Furthermore, dalbavancin could be ideally suited for the Emergency Room and Outpatient settings, reducing the numbers of patients admitted or expediting their discharge thereby reducing overall costs to the healthcare system.
- **Rapid timelines to Phase III results**. Two Phase III trials are ongoing in patients with abSSSI comparing dalbavancin to vancomycin. Results from the first study could be available as soon as year end 2012 with the second study to follow in early 2013. Assuming positive data, DRTX expects to file a New Drug Application (NDA) in 1H:13 with a Marketing Authorization Application (MAA) to follow shortly thereafter. We forecast U.S. approval in 2014 and EU approval in 2015.
- **Prior positive Phase III data**. In its previously conducted Phase III program, dalbavancin was non-inferior to cefazolin in patients with uSSSI, to linezolid in patients with cSSSI, and to vancomycin in cSSSI/uSSSI patients suspected with Methicillin Resistant Staphylococcus Aureus (MRSA). A reanalysis of one of the studies using the FDA's new draft guidelines showed encouraging consistency.
- **Current Phase III trials conducted under SPAs**. Part of the challenge with getting dalbavancin approved previously was the FDA's changing definition of the endpoints required for abSSSI studies and how to measure them. The current trial is being conducted under SPAs, which lower regulatory risk, and the method for evaluating the lesion size endpoint has been validated in a Phase II study.
- **Wholly owned asset; protected through 2023**. Durata owns all rights to dalbavancin and could opt to partner the product outside the US or may ultimately be the target of an acquisition. Dalbavancin is protected through at least 2023 with a patent and/or exclusivity in the US and Europe.

Risk Factors

- **FDA previously issued three complete response letters**. Despite three positive Phase III trials the FDA did not approve dalbavancin previously and issued three complete response letters. Two of these were related to manufacturing and resolved, however, the third had to do with study design and Pfizer decided to pull the NDA due to a focus away from anti-infectives prior to complete resolution. The FDA was in the process of issuing updated guidance on conducting trials and the currently ongoing Phase III trials are being conducted within the new criteria and under a Special Protocol Assessment (SPA).
- **Clinical risk**. Despite prior positive Phase III data, the introduction of new endpoints and techniques used to measure them introduce some uncertainty. Furthermore, although the prior Phase III studies met their primary endpoint, response at 48-72 hours is an earlier endpoint, which introduces additional uncertainty. A reanalysis of study VER001-9 using the updated FDA criteria in a subset of patients

showed similar efficacy between dalbavancin and linezolid in cSSSI; however, results were not statistically significant and crossed the 10% non-inferiority margin likely due to small patient numbers.

- **Competitive market**. Several companies, including The Medicines Company, Trius, and others are developing products targeting severe skin infections. Furthermore, several companies including Cubist Pharmaceuticals and Pfizer, among others, market antibiotics targeting severe gram positive infections. However, Durata's dalbavancin and Medicines Company's oritavancin are the only long-active antibiotics under development at this time. Medicines Company's oritavancin is dosed once and potentially could target markets similar to dalbavancin.
- **Timing of data**. Final data from the Phase III trials is expected in year end 2012 and early 2013. There is potential for limited news flow until then. At least two other companies could report data from their Phase III programs along the same time frame.
- **Financing**. Durata raised sufficient capital to ensure funding through potential dalbavancin approvals in the US and EU in 2014. Plans to market the dalbavancin in the US without a partner could require further funding. We currently assume a financing and a partnership in the EU in 2013. We believe failure of one or both Phase III studies to meet their primary endpoint would severely diminish the prospects of a partnership or further financings.

Exhibit 1: News Flow

Timing	Expected News Flow	Program
YE:12	Phase III data from first study in abSSSI	Dalbavancin
Early 2013	Phase III data from second study in abSSSI	Dalbavancin
1H:13	File NDA	Dalbavancin
3Q:13	File MAA	Dalbavancin
1H:14	Potential approval for abSSSI in the US	Dalbavancin
2H:14	Potential approval for abSSSI in the EU	Dalbavancin

Source: Company reports and RBC Capital Markets

Exhibit 2: Pipeline

Product	Stage	Indication	Partner
Dalbavancin	Phase III	abSSSI	Proprietary
		Osteomyelitis	
		Diabetic foot infection	

Source: Company reports

Recently Completed IPO

Durata Therapetuics priced its initial public offering on July 19, 2012, at $9/share and closed the deal on July 24 with the exercise of the full over allotment. In total, Durata sold 8.625M shares, including 1.125M shares as part of the over allotment, for gross proceeds of $77.6M (~$72.9M net). Following these transactions, Durata has 18.4M shares outstanding, excluding approximately 1.9M options. Durata ended 1Q:12 with $25.3M in cash. Following its IPO, we estimate pro forma cash of $98.2M. According to Durata, its financial position is substantial enough to see it through pivotal Phase III data in early 2013 and potential product approval in the US and EU in 2014.

Durata: Formed Purposefully Around Dalbavancin

Dalbavancin is being developed for the treatment of acute bacterial skin and skin structure infections (abSSSI). Durata acquired worldwide rights to dalbavancin from Pfizer in December 2009 for $10 million upfront, a $25 million milestone payment upon first sales, and importantly no royalties. Essentially this makes dalbavancin equivalent to a wholly owned, internally discovered drug, with 100% retained economics and the ability to seek partnerships globally or regionally. The deal also puts Durata in a unique position relative to other biotechnology companies that have launched hospital products in the past such as Cubist and The Medicines Company. These companies owed substantial royalties which reduced the profitability of those franchises.

Management was intimately familiar with dalbavancin. Dalbavancin was not a serendipitous acquisition. In fact, Durata was formed specifically to re-develop this asset. Founder and Chief Medical Officer Michael Dunne was previously the therapeutic head at Pfizer responsible for the development of dalbavancin, and one of the founding venture capital partners was Dov Goldstein who was previously CEO of Vicuron, the company that developed dalbavancin prior to its acquisition by Pfizer.

The team at Durata was uniquely capable of evaluating the existing clinical data and dalbavancin's regulatory history, re-engaging with the FDA, addressing any issues, and conducting a new Phase III program for dalbavancin under an SPA.

Significant Value Added to the Dalbavancin Program

Since acquiring dalbavancin, Durata has invested in the asset to ensure clinical, regulatory, and commercial success.

- **Regulatory buy-in.** Durata's initial goal was to seek agreement with global regulatory agencies for plans to run a new Phase III program. Toward this goal, Durata completed an end of Phase II meeting with the FDA (2Q:10) and negotiated two SPAs for each of the Phase III trials: DISCOVER 1 (3Q:10) and DISCOVER 2 (2Q:11). Durata also received scientific advice from EMA (4Q:10).
- **Ancillary studies for regulatory filings.** Durata completed a QT study (1Q:11), a Phase II methods development study to support Phase III plans (4Q:10), and has initiated a Pharmacokinetic (PK) study in Japanese patients.
- **Clinical/commercial supply.** Durata completed manufacturing of clinical supplies and secured additional source for API.
- **Phase III clinical progress**. Durata initiated enrollment in two Phase III trials in 1Q:11 and 3Q:11, respectively. Data from these trials is anticipated in starting in late 2012 and early 2013, respectively.

New Phase III Trials – Accounting for Past Successes and Updated FDA Guidelines

Durata is running two new Phase III trials, both under separate SPAs. Durata has also agreed with European regulators that these trials would be sufficient for EU approval, though a separate statistical plan was agreed on using a more standard test of cure endpoint. Given the significant Phase III data already reported, prior extensive regulatory history, and the significant buy-in from regulators, we believe the overall clinical and regulatory risk is low.

DISCOVER 1 and 2 Studies

Durata is conducting two identical Phase III trials. Each trial is expected to enroll 556 patients with acute bacterial skin and skin structure infections (abSSSI) suspected or proven to be caused by Gram-positive bacteria. Patients are randomized 1:1 to either dalbavancin or vancomycin. The key enrollment criteria and the measurement of the primary endpoint have been agreed with FDA and follow the outline of the draft guidelines.

Entry criteria:

- **Type of infections**: Major abscess, surgical site infection, traumatic wound infection or cellulitis
- **Infectious agent**: Suspected or confirmed Gram-positive
- **Clinical features**: Lesion size of at least 75 cm^2; at least two local signs and symptoms and at least one systemic sign of infection
- **Prescribed clinical treatment**: Requires a minimum of three days of intravenous therapy

Primary endpoint: The primary endpoint is cessation of lesion spread and absence of fever at 48-72 hours. Lesion size is defined by two dimensional measurements (length and width) using a ruler. Digital imaging is also expected to be conducted, but the measurement by the doctor using a ruler defines the primary endpoint. This methodology was validated in a Phase II trial, back tested against prior Phase III data, and agreed upon with the FDA.

Secondary endpoints: There are several secondary endpoints, including end of treatment efficacy, which will evaluate lesion size, local signs, temperature, and receipt of other therapy at day 14-15 and investigator's assessment of clinical response at end of treatment (day 14-15), which will look at resolution or improvement of all signs and symptoms without treatment related discontinuation, death or non-antibacterial intervention. Other secondary endpoints will look at microbiological efficacy, efficacy by individual pathogens, and pathogen eradication rates (at day 14-15 and day 26-30, respectively) as well as safety and tolerability (day 70).

Treatment: Patients in the dalbavancin arm will receive two IV doses one week apart on day one and day eight. Patients in the vancomycin arm will receive two IV doses per day and may be eligible to switch to oral linezolid after day three.

Statistics and powering: The trials test for non-inferiority of dalbavancin compared to vancomycin with a non-inferiority margin of 10%. The assumed point estimate for the primary endpoint is 85%, which is more conservative than any outcome seen with dalbavancin in the prior Phase III studies.

Exhibit 3: Phase III Trial Design

DISCOVER 1 & 2	
# of patients	556
Design	Randomized, double blind, double dummy
Treatment arms	Dalbavancin - 1g on day 1 and 500mg on day 8 Vancomycin 1g or 15mg/kg BID for 10-14 days; switch to oral Zyvox allowed at day 3
Inclusion	- abSSSI (severe disease) - Involving deeper soft tissue or requiring surgical intervention - Systemic manifestations of infection: fever or elevated white blood cell count - Discharge, local warmth, tenderness, or swelling - Appropriate for a minimum of 3 days of IV therapy
Exclusion	Antibiotics within 14 days prior Gram-negative bacteremia Burns, diabetic ulcers, infected device, venous catheter infection
Statistics	Non-inferiority with a margin of 10%
Primary outcome	Clinical response at 48-72 hours based on lesion size
Secondary outcomes	At day 14-15: Clinical status at end of treatment visit; per-patient microbiological efficacy; efficacy by individual pathogens; pathogen eradication rates; investigator's assessment of clinical response At day 70: Safety and tolerability
Locations	80-90 sites (DISCOVER 1) 120-150 sites (DISCOVER 2)

Source: Company reports and www.clinicaltrials.gov

Original Three Phase III Trials were Positive

Vicuron (previous developer of dalbavancin) ran three trials in three different treatment settings against three different comparators.

- **Uncomplicated skin and skin structure infections (uSSSI)**: In uncomplicated skin infections, Vicuron ran a 553 patient study randomizing patients 2:1 to either dalbavancin or cefazolin. Dosing occurred over 7-14 days. The primary endpoint was clinical cure at test of cure (day 28) in clinically evaluable patients. The clinical cure rate was 89.1% for dalbavancin and 89.1% for the comparator. The trial was designed with a 12.5% non-inferiority margin, but the lower end of the confidence interval was -6.8%, which means the trial would have met the more stringent 10% non-inferiority margin the FDA currently accepts.
- **Complicated skin and skin structure infections (cSSSI)**: In complicated skin infections, Vicuron ran a 853 patients study randomizing patients 2:1 to dalbavancin or linezolid. Patients in the linezolid arm

were permitted to switch from IV to oral on day three if certain criteria were met. Dosing occurred over 14 days. The primary endpoint was clinical cure at day 28 among the clinically evaluable patients. The clinical cure rate was 88.9% for dalbavancin and 91.2% for linezolid. The trial was designed with a 12.5% non-inferiority margin, but the lower end of the confidence interval was -7.3%, which means the trial would have met the more stringent 10% non-inferiority margin the FDA currently accepts.

- **Suspected Methicillin Resistant Staphylococcus Aureus (MRSA)**: Vicuron ran a smaller 156 patient trial in both complicated and uncomplicated skin infection where MRSA was suspected or confirmed. Patients were randomized 2:1 to dalbavancin or vancomycin. Dosing occurred over 14 days for patients with cSSSI and over 7-14 days for patients with uSSSI. The primary endpoint was clinical cure at day 28. The clinical cure rate was 89.9% for dalbavancin and 86.7% for vancomycin. The trial was designed with a very wide 20% non-inferiority margin, and the lower end of the confidence interval was -13.0%. The wide confidence interval reflects the relatively small trial size. A larger trial would likely have had a margin of less than 10%, especially because the point estimate was actually higher with dalbavancin compared to vancomycin (89.9% vs. 86.7%).

Exhibit 4: Completed Phase III Trials of Dalbavancin

	VER001-8	VER001-9	VER001-16
Number of patients	553 (2:1)	854 (2:1)	156 (2:1)
Indication	uSSSI	cSSSI	uSSSI/cSSSI with suspected or confirmed MRSA
Comparator	Cefazolin	Linezolid	Vancomycin
Results (evaluable)			
Dalbavancin	89.1%	88.9%	89.9%
Comparator	89.1%	91.2%	86.7%
95% CI	-6.8, +6.8	-7.3, +2.9	-13.0, +19.4
Results (ITT)			
Dalbavancin	76.0%	76.5%	86.0%
Comparator	75.8%	82.7%	65.3%
95% CI	-7.7, +8.2	-12.0, -0.3	+4.3, +37.0

uSSSI = Uncomplicated skin and skin structure infections; cSSSI = Complicated skin and skin structure infections

Source: Company reports

Reanalysis of the Phase III Trials

The VER001-9 trial testing dalbavancin in complicated skin infections was re-analyzed based on the new draft guidelines. The new analysis included subgroups based on new entry criteria (lesion size >75cm^2) as well as the new endpoints (cessation of lesion spread and absence of fever at 48-72 hours). The results are encouragingly consistent, though the statistical power diminishes with fewer patients in this analysis (220 patients vs. an overall 660 patients in study VER001-9).

For the entire clinically evaluable population (the original primary analysis population), cessation of lesion spread and resolution of fever occurred in 83.2% of dalbavancin patients and 87.1% of linezolid patients. Among the smaller subset of patients with a 75 cm2 or bigger lesion (one-third of the evaluable population), the new primary endpoint was met in 76.3% of dalbavancin patients and 78.8% of linezolid patients.

Exhibit 5: Re-Analysis of VER001-9

	Dalbavancin	Linezolid	95% CI
Original response criteria			
Clinical response (d28)	88.9%	91.2%	-7.3, +2.9
# of pts total	434	226	
New response criteria*			
Clinically evaluable	83.2%	87.1%	-10.6, +2.9
# of pts total	434	226	
Target population**	76.3%	78.8%	-14.8, +9.7
# of pts total	135	85	

*Cessation of spread and absence of fever; **>75 cm2 lesions
Source: Company reports

Dalbavancin's Regulatory History

The original NDA for dalbavancin was filed in December 2004, prior to the acquisition of Vicuron by Pfizer for $1.9 billion in June 2005. Pfizer ultimately received three approvable letters before finally withdrawing the NDA due to a change in priorities away from antiinfectives and the FDA's shifting criteria on approval requirements for abSSSI. Dalbavancin was not alone in its troubles with the FDA. At that time several other antibiotics ran into delays, rejections, and multiple setbacks, including oritavancin (Intermune; now owned by the Medicines Company), televancin (Theravance), and others. The fundamental problem was a changing view on how to run Phase III trials for skin infection drugs, which were later described in a draft guidance document, which has formed the basis for most of these drugs to re-enter Phase III development.

Exhibit 6: Regulatory History for Dalbavancin in US and EU

US NDA Filing History	
Dec. 21, 2004	NDA filed
Feb. 23, 2005	Priority review granted
Sep. 21, 2005	Approvable letter #1
Dec. 20, 2005	Response to Approvable letter #1
Jun. 21, 2006	Approvable letter #2
Jun. 19, 2007	Response to Approvable letter #2
Dec. 20, 2007	Approvable letter #3
May 30, 2008	Response to Approvable letter #3
Sep. 15, 2008	Withdrawal of NDA

European MAA History	
Jul. 26, 2007	MAA submission
Dec. 13, 2007	Day 120 questions
Mar. 13, 2008	Response to Day 120 questions
Jun. 2, 2008	Day 180 questions
Sep. 9, 2008	Withdrawal of MAA
Dec. 5, 2008	Withdrawal assessment report

Source: Company reports

Two of Three Approvable Letters Resolved

- **Approvable Letter #1 – Initial CMC issues.** The FDA raised CMC issues related to the stability of intermediates in the synthesis pathway and wanted more detail on release criteria and HPLC testing methodologies. **Outcome**: Pfizer successfully resolved the manufacturing issue.
- **Approvable Letter #2 – More manufacturing issues.** In addressing the first approvable letter, the manufacturing team at Pfizer (not the same people that originally submitted the NDA at Vicuron) observed unacceptable levels of endotoxin in the commercial lots. This was not an issue raised by the FDA, but Pfizer had some concerns and called it to the attention of the FDA, which caused the second approvable letter. **Outcome**: Pfizer successfully resolved the manufacturing issue.
- **Approvable Letter #3 – Questions regarding the Phase III trial.** After spending one year resolving the endotoxin issue and responding to the first two approvable letters, the FDA came back with questions regarding the non-inferiority margin used in the Phase III. Vicuron had used a 12.5% margin, but the data came out within a tighter 10% margin. The FDA wanted Pfizer to provide justification for its non-inferiority margin. **Outcome**: In September 2008, Pfizer withdrew its NDA and MAA for dalbavancin and began discussions around another Phase III trial. Following an internal portfolio review, Pfizer opted to drop dalbavancin and took a $560 million tax right off for the acquisition.
- **EU issue with MAA – Questions regarding robustness of Phase III**. In addition, the EMA questioned whether a single pivotal trial in cSSSI provided sufficient robustness and whether the patients were sick enough to support the targeted indication. **Outcome**: Pfizer withdrew its MAA and considered conducting a second pivotal study in cSSSI patients.

Dalbavancin Was Not Unique in its Regulatory Difficulties

Dalbavancin was not the only casualty of a tough anti-infectives division at the FDA. With the exception of Cubicin, most other new drugs for Gram-positive hospital infections were rejected or delayed by the FDA. Even Cubicin's sNDA for bacteremia was questioned prior to approval by the FDA. Like dalbavancin, many have been acquired by new companies seeking to resubmit NDAs based on newly designed Phase III trials.

Changing Regulatory Standards

After rejecting and/or significantly delaying several intravenous antibiotics, the FDA issued new draft guidelines for running Phase III trials in abSSSI in August 2010. The recommendations are now being put to practice across the industry in several ongoing Phase III programs. Besides changing the name of the indication to abSSSI from cSSSI, the FDA also recommended changes in the inclusion and exclusion criteria for these trials. The most important change in the regulatory endpoint was from cure (at the end of treatment) to a clinical response criteria after 48-72 hours.

New Endpoints and Measurement Criteria

Clinical response. Clinical response is defined as the cessation of the spread of the lesion (redness, edema, and/or induration) at 48-72 hours after enrollment AND resolution of fever.

Response evaluation. The best method for measurement of lesion size for the purpose of evaluating the primary endpoint has not been established. Companies are utilizing rulers (width/length measures), tracing tools, photography, and image analysis, all to capture the change in lesion size over time.

Durata has 1) reanalyzed its prior Phase III trials using the new endpoint and showed that they would have been close to success, 2) run a Phase II trial testing inter and intra reader comparability in their Phase III lesion size measurement methodology, and 3) secured an SPA for each Phase III trial to ensure buy-in from the FDA on the method of data collection.

Non-inferiority margin. For the purpose of defining non-inferiority, the FDA has accepted a 10% non-inferiority margin as acceptable. The original Phase III trials used a larger 12.5% non-inferiority margin in complicated and uncomplicated skin infections, though the actual results were within a 10% margin. In the original MRSA study, the non-inferiority margin was 20%, as that trial was relatively small (156 patients vs. 558 and 854 patients in the other two Phase III trials).

Exhibit 7: Regulatory Histories of Select Agents

Product	Compound	Company	Stage	Indication	Regulatory History
Cubicin	Daptomycin	Cubist Pharmaceuticals	Marketed	cSSSI, SAB (bacteremia)/RIE (endocarditis)	FDA issued approvable letter for bacteremia sNDA in March 2006; approved in May 2006
Vibativ	Telavancin	Theravance	Marketed	cSSSI	FDA issued CRL for cSSSI regarding REMS and data on patients with renal risk factors in Feb. 2009; CRL for nosocomial pneumonia (NP) in Nov. 2009; Astellas returnted rights in Jan. 2012
Oritavancin	Oritavancin	The Medicines Company	Phase III	cSSSI	NDA filed by Targanta in Feb. 2008; Negative FDA advisory committee review in Nov. 2008; FDA CRL issued in Dec. 2008 stating requirement for an additional well-controlled study in cSSSI; New Phase III trials ongoing
Zeven	Dalbavancin	Durata Therapeutics	Phase III	cSSSI	FDA issued 3rd complete response letter in Dec. 2007; NDA and MAA withdrawn in Sep. 2008; New Phase III trials ongoing
PTK-0796	PTK-0796	Paratek/Novartis	Phase III	cSSSI	Phase III program halted after FDA changed approval criteria; SPAs obtained for abSSSI and CAP (Mar. 2012); Phase III restarted; Novartis terminates partnership in Jul. 2011

Source: Company reports and RBC Capital Markets

Potential Advantages of Dalbavancin

Vancomycin retains the vast majority of market share in the treatment of serious Gram-positive infections, including abSSSI. According to Cubist Pharmaceuticals, who markets Cubicin, one of the leading branded antibiotics targeting severe gram-positive infections, vancomycin has 70% share of the total days of therapy for anti-Staph therapies (Cubicin 14%, Zyvox 8%, others 7%). Using slightly different numbers, Durata estimates vancomycin's share at 78%. The dominance of vancomycin is due to price and comfort level with an old drug. We believe the clinical profile of dalbavancin compares favourably with the currently marketed branded drugs with the key differentiator being a dosing and administration advantage, which could lead to significant cost savings. However, since dalbavancin's initial commercial target is vancomycins, we expect it to exploit several of the shorting comings vancomycin has despite being the standard of care.

- **Dalbavancin is potent; vancomycin effectiveness has decreased with time.** Although frank resistance to vancomycin is rare, there has been an increase in MIC for vancomycin and there is increasing debate about where the breakpoint should be for measuring susceptibility. In short, this means that vancomycin is not working as well as it used to, which may result in prolonged hospital stays and unnecessary morbidity and potentially mortality. A survey of predominant bacteria over time has shown no reduced susceptibility to dalbavancin over the same period. Dalbavancin appears more potent than many commonly used antibiotics. Furthermore, it maintains a high plasma concentration throughout its weekly dosing unlike daily vancomycin administration.
- **Two once-daily infusions one week apart.** Except for the most severe infections (bactermia, endocarditis, etc.), most serious infections can be treated in the outpatient setting either initially or after a day or two of hospitalization. Vancomycin is administered intravenously twice daily making it very inconvenient and creating a significant market opportunity for Cubicin (IV, once a day) and Zyvox (IV to oral switch). Vancomycin may also require monitoring, which is not the case with dalbavancin. Dalbavancin is administered weekly, potentially making it ideal for outpatient use.
- **Significant cost savings**. Durata hopes to position dalbavancin as the ideal drug for abSSSI because of its ability to treat the infection with only two doses one week apart. Since inpatient medical care has significant costs associated with it, the ability to prevent admission, lead to an early discharge or to reduce repeat visits to an infusion center has the potential for significant cost savings. Ideally, dalbavancin would would be taken up in the emergency department or outpatient setting to prevent the admission of these patients to the hospital in the first place. The resulting decreases in the number of hospital admissions, length of hospital stays, nursing time, indwelling catheters, and no need for monitoring adds up to significant costs savings for the healthcare system. This profile also makes dalbavancin ideal for both complicated and uncomplicated infections.
- **Applicability in other indications**. Less frequent dosing could also ultimately position dalbavancin as the ideal drug for treating very difficult bone infections which often take multiple weeks of intravenous therapy to cure, and for which a once weekly drug would provide a significant advantage.
- **Improved outcomes**. With evolving reimbursement standards in hospitals being more and more tied to outcomes, hospital readmission rates and hospital infection rates are important metrics. Dalbavancin could have the advantage of keeping infected patients out of the hospital and reducing readmission rates. These are metrics that are expected to grain greater scrutiny and result in potential penalties for hospitals whose readmissions are deemed avoidable or who are held accountable for illnesses that patients acquire during their hospital stay.

Exhibit 8: Dalbavancin Versus Currently Marketed Products

	Dalbavancin	Zyvox	Tygacil	Cubicin	Vancomycin	Teflaro	Vibativ
Active ingredient	Dalbavancin	Linezolid	Tigecycline	Daptomycin	Vancomycin	Ceftaroline fosamil	Telavancin
Class	Glycopeptide	Oxazolidinone	Tetracycline	Lipopeptide	Glycopeptide	Cephalosporin	Lipoglycopeptide
Company	Durata	Pfizer	Pfizer	Cubist	Generic	Forest Laboratories	Theravance
Status	Phase III	Marketed	Marketed	Marketed	Marketed	Marketed	Marketed
Approval		2000	2005	2003		2010	2009
Coverage spectrum	Gram +	Gram +	Gram +	Gram +	Gram +	Gram +	Gram +
Indications	abSSSI	cSSSI, HAP, CAP, uSSSI, DFI, VREF	cSSSI, cIAIs, CAP	cSSSI, SAB (bacteremia)/RIE (endocarditis)	cSSSI, endo, bone, LRTI, septicemia	abSSSI, CAP	cSSSI
Dosing	2 doses	BID	BID	QD	BID	BID	QD
Delivery	IV	IV and tablets	IV	IV	IV	IV	IV
Infusion time	30 mins	30 to 120 mins	30-60 mins	2 min bolus or 30 min infusion	60-90 mins	60 mins	60 mins
Duration	Day 1 and 8 (abSSSI)	10-14 days (cSSSI, CAP, HAP, uSSSI); 14-28 days (VREF)	5-14 days (cSSSI, IAI); 7-14 days (CAP)	7-14 days (cSSSI); 14-42 days (bacteremia)	10-14 days (SSSI); 14-42 days (bacteremia); 42 days (endocarditis); 7 days (HAP); 21-56 days (osteomyelitis); 10 14 days (sepsis)	5-14 days (abSSSI); 5-7 days (CAP)	7-14 days (cSSSI)
Cidality	Continuously bactericidal	Static	Static	Bactericidal	Bactericidal	Bactericidal	Bactericidal
In vitro activity against MRSA MIC90 (mg/L)	0.06	0.5		0.5	2.0		0.25
Safety	Overall adverse event rate was similar to comparator; no specific AE of concern	Should not be used for longer than two weeks; associated with bone marrow toxicity and low platelets	Increase in all-cause mortality across Phase III and IV clinical trials in Tygacil treated patients	Adverse events were similar/slightly higher than comparator; rhabdomyolysis of concern; synergistic toxicity with aminoglycosides	Adverse events include red man syndrome and renal toxicity	Direct Coombs' test seroconversion	Black box warning for use in pregnancy; high adverse events related to nausea, vomiting and taste disturbance

Source: Company reports and RBC Capital markets

Products in development. Currently, there are several product candidates in development for the treatment of severe gram positive infections. These include the Medicines Company's oritavnainc, Trius' tedizolid, and Rib-X'sdelafloxacin and radezolid, among others. We believe dalbavancin's clinical and commercial profile could be differentiated versus these product candidates as well as the currently marketed antibiotics. With the exception of oritavancin, most of the products in development are dosed once or twice daily and potentially for several days. Furthermore, most of them do not appear as potent as dalbavancin and appear to be static vs. cidal agents.

Exhibit 9: Dalbavancin Versus Products in Development

	Dalbavancin	Oritavancin	Tedizolid Phosphate	PTK 0796	Taksta	Delafloxacin	RX-1741
Active ingredient	Dalbavancin	Oritavancin	Tedizolid Phosphate	Omadacycline	Fusidic acid	Delafloxacin	Radezolid
Company	Durata	Medicines Company	Trius	Paratek	Cempra	Rib-X	Rib-X
Status	Phase III	Phase III	Phase III	Phase III	Phase II completed	Phase II	Phase II
Coverage spectrum	Gram +	Gram +	Gram +	Broad	Gram +	Broad	Broad
Dosing	2 doses	Single dose	QD	QD	QD	BID	QD
Delivery	IV	IV	IV and oral	IV and oral	Oral	IV and oral	IV and oral
Infusion time	30 mins	3 hours	60 minutes	Injection	N/A	Unknown	Unknown
indications	abSSSI	abSSSI	abSSSI	SSSI, CABP	abSSSI	SSSI, CABP, cIAI, ABECB	SSSI, CABP, Osteomyelitis
Cidality	Continuously bactericidal	Continuous bactericidal	Static	Static	Static	Bactericidal	Static
In vitro activity against MRSA MIC90 (mg/L)	0.06	0.12	0.5	0.5	0.25	0.25	0.5
Safety	Overall adverse event rate was similar to comparator; no specific AE of concern	Adverse events were similar to comparator	Adverse events were similar to comparator	Adverse events similar to comparator	Overall similar to comparator except for a higher rate of jaundice and liver dysfunction (reversible)	Adverse events similar to comparator	Adverse events were similar to comparator (modest data set to date)

Source: Company reports

Oritavancin: Another Long-Acting Antibiotic

Oritavancin was acquired by Targanta in 2005 who attempted to gain approval based on a reanalysis of available data and without running additional trials. The FDA issued a Complete Response for oritavancin in December 2008 stating that efficacy in study AARD did not fall within the 10% non-inferiority range necessary for approval. The FDA also suggested Targanta needed to 1) run another study with a sufficient number of MRSA patients, 2) monitor for additional infections after treatment given the long half-life of oritavancin, and 3) collect additional information on phlebitis. Specifically, the FDA also highlighted the higher rate of discontinuations for lack of efficacy among oritavancin-treated patients and the greater number of oritavancin-treated patients who died or had a serious adverse event of sepsis. Without the resources to pursue a Phase III program, Targanta was acquired by The Medicines Company. MDCO has initiated a large Phase III program (SOLO 1 and SOLO 2) based on new draft guidelines and data from the first of two trials is expected around year end 2012.

Targanta (previous developer of oritavancin) ran two Phase III trials Both were nearly identical in design aside from Study AARI using a fixed oritavancin dose of 200 mg or 300 mg for 3-7 days and Study AARD using 1.5 mg/kg or 3.0 mg/kg for 3-7 days. The non-inferiority margins were also different; they were 10% in AARI and 15% in AARD.

- **Study AARI**: Targanta treated 1,246 patients with cSSSI randomizing them 2:1 to either oritavancin or vancomycin. Patients in the vancomycin arm were permitted to switch from IV to oral drug. Dosing occurred over 3-7 days for oritavancin and 10-14 days for vancomycin. The primary endpoint was clinical outcome at first follow up visit. The clinical cure rate was 78.5% for oritavnacin and 75.9% for vanocmycin. The trial was designed with a 10% non-inferiority margin and the lower end of the confidence interval was -3%, which means the trial would have met the more stringent 10% non-

inferiority margin the FDA currently accepts. Response in patients with MRSA was 55.9% for oritavancin and 67.9% for vancomycin, which could have been a cause for concern.

- **Study AARD**: Targanta treated 517 patients with cSSSI who were randomized ~1:1:1 to oritavancin 1.5 mg/kg or oritavancin 3.0 mg/kg or to vancomycin. Patients in the vancomycin arm were permitted to switch from IV to oral drug. Dosing occurred over 3-7 days for oritavancin and for 10-14 days for vancomycin. The primary endpoint was clinical cure at test of cure visit. The clinical cure rate was 72.1% and 73.4% for oritavancin arms and 75.4% for vancomycin. The trial was designed with a 15% non-inferiority margin, but the lower end of the confidence interval for the oritavancin arms were -15.4% and -14.1%, which means the trial would not have met the more stringent 10% non-inferiority margin the FDA currently accepts. Response in MRSA patients was 40.0% in the 1.5 mg/kg oritavancin arm and 62.5% in the 3.0 mg/kg oritavancin arm vs.57.1% in the vancomycin arm, which again could have raised questions.

Exhibit 10: Prior Oritavancin Phase III Data

	Study AARI		Study AARD				
Design	Oritavancin (fixed dose) vs. vancomycin and cephalexin		Oritavancin (2 weight based doses) vs. vancomycin and cephalexin				
Oritvancin	200mg IV 1x/day (300mg if over 110kg) for 3-7 days		1.5mg/kg or 3.0 mg/kg 1x/day for 3-7 days				
Comparator	Vancomycin 2x/day followed by oral cephalexin		Vancomycin 2x/day followed by oral cephalexin				
NI margin	10%		15%			Combined Phase III Data	
	Oritavancin	**Vancomycin**	**1.5mg/kg**	**3.0mg/kg**	**Vancomycin**	**Oritavancin**	**Vancomycin**
# of pts	831	415	173	169	175	1173	590
Cure rates							
ITT	71.5%	68.4%	56.6%	56.2%	57.7%	76.6%	75.6%
95% CI	(-2.4, 8.5)		(-13, 10.8)	(-13.5, 10.5)		(-2.7, 6.6)	
CE	78.5%	75.9%	72.1%	73.4%	75.4%	76.9%	77.7%
95% CI	(-3.0, 8.2)		(-15.4, 8.8)	(-14.1, 10.2)		(-2.9, 6.9)	
MRSA	55.9%	67.9%	40.0%	62.5%	57.1%	63.2%	67.3%

Source: Company reports

Different Dosing in Ongoing Phase III Oritavancin Clinical Program

Unlike the prior pivotal program, MDCO is administering oritavnacin once at a dose of 1,200 mg. This basis for the change in dose and administration was a Phase II study conduced in ~300 patients with that demonstrated a better outcome with the single administration compared to either frequent or infrequent dosing. Outcomes in patients with MRSA were also better than in the prior Phase III program. However, given the lack of a control arm we are relying on historical vancomycin data from the original Phase III studies as the comparator.

Exhibit 11: Phase II Less Frequent Dosing Data

	Frequent dosing	Intermittent dosing	Single administration
	200mg/day for 3-7 days	800mg day 1, 400mg day 5	1,200mg day 1
# of pts	98	103	99
ITT	72.4%	78.2%	81.8%
95% CI		(-5.8, 14.6)	(-1.7, 17.8)
CE	72.4%	77.5%	81.5%
95% CI		(-6.8, 15.4)	(-2.5, 18.2)
MRSA	78.3%	87.0%	73.0%

Source: Company reports

Exhibit 12: Oritavancin Phase III Study Design

SOLO I & II	
# of patients	960 each
Design	Randomized, double blind
Treatment arms	Oritavancin - 1,200 mg on day 1 Vancomycin for 7-10 days
Inclusion	- abSSSI (severe disease) - Wound infections, cellulitis/erysipelas, major cutaneous abscesses - Presence of at least two signs and symptoms - Appropriate for a minimum of 7 days of IV therapy
Exclusion	Antibiotics within 14 days prior Gram-negative bacteria Burns, diabetic foot infections, infected device, sepsis; catheter site infections; neutropenia; etc.
Statistics	Non-inferiority with a margin of 10%
Primary outcome	Cessation of spread or reduction in size of baseline lesion, absence of fever, and no rescue antibiotic medication at 48-72 hours
Secondary outcomes	At day 10 and PTE (7-14 days after end of therapy): Clinical cure by investigator at EOT, day 10 and PTE; overall clinical cure and by pathogen; microbiological efficacy; microbiological relapse; and clinical response and clinical cure and microbiological response within the evaluable and microbiologically evaluable population at screening At day 24: Pharmacokinetics, including AUC, half-life, clearance, Cmax and volume of distribution At day 60: Safety and tolerability
Locations	100 sites globally (SOLO I) 100 sites globally (SOLO II)

Source: Company reports and www.clinicaltrials.gov

Considering the Oritavancin Challenge

Oritavancin and dalbavancin are both long-acting lipoglycopeptide antibiotics. These drugs are most similar to vancomycin, which is a so-called glycopeptides antibiotic, but unlike vancomycin which is dosed 2x/day, dalbavancin is dosed once per week (day one and eight) and Oritavancin is dosed in a single administration (day one).

The history and current status of the two drugs run in parallel:

- Both previously completed Phase III trials in skin infections, both were reviewed by the FDA, and neither were able to make it through the FDA for different reasons, but both stemming from the fact that the FDA's view on skin infection trials was in flux.
- Both were subsequently acquired, dalbavancin by Durata and oritavancin by the Medicines Company, which chose to run a new robust Phase III program under the direction of new FDA draft guidelines.
- Both are currently in two Phase III trials with data expected in late 2012/early 2013.
- Both have the potential to change the way antibiotics are used by providing doctors and hospitals with the ability to treat patients conveniently in the outpatient setting and potentially avoid or reduce hospitalization.

Our view is that both drugs can be successful, assuming safety and efficacy results are clean, and that having more than one long-acting antibiotic in the market could help to expand the market, especially as we expect significant marketing efforts could be required to change clinical practice.

Comparing Dalbavancin and Oritavancin; Room for Both

The single dose of Oritavancin (once and done) could potentially be a competitive threat to dalbavancin's two dose regimen if safety and efficacy are similar. However, we believe the two product candidates are different enough across a number of factors that there could be room in the market for both.

- **Mechanism – Similar**. Both dalbavancin and Oritavancin are semi synthetic glycopeptides.
- **Dosing frequency – Different**. Although both dalbavancin and Oritavancin are similar in that they are long-acting antibiotics that allow for infrequent administration, their individual profiles are different. Dalbavancin is dosed twice with a six day interval between doses (day one and eight). This regimen is the same as the one used in prior Phase III trials. Oritavancin could be dosed once; however, there is limited data regarding its efficacy with this administration as prior Phase III trials were conducted with a different regimen.
- **Infusion time – Different**. Dalbavancin is infused over a 30 minute time period. Oritavancin requires a three hour infusion. Given that the three hour infusion is what is being used in the Phase III studies, it is unlikely that a shift to a shorter regimen could occur even if it were clinically feasible.
- **Safety – To be determined**. Prior Phase III studies with dalbavancin were clean. In the prior Phase III oritavancin studies the FDA raised concerns about phlebitis, the greater number of oritavancin treated patients who had sepsis, septic shock or related events, and a higher rate of discontinuation due to lack of efficacy.
- **Efficacy – To be determined**. Prior Phase III dalbavancin studies showed non-inferiority to the comparator agents. Overall, the oritavancin Phase III studies were positive as well. However, in one of the oritavancin studies one of the arms in the treatment arm did not achieve the non-inferiority margin.
- **Efficacy in patients with MRSA – To be determined**. Dalbavancin Phase III study demonstrated effectiveness in uSSSI and cSSSI patients with MRSA, however, the non-inferiority margin was bigger than the FDA was comfortable with and the patient numbers were small. The prior Phase III oritavanain study showed comparatively less efficacy in patients with MRSA vs. the vancymycin arm.
- **Treatment settings – Likely different**. Dalbavancin appears to be an ideal candidate for the Emergency Room setting with a 30 minute infusion. Oritavancin's three hour infusion time could be more challenging; however, it could also be suitable in settings such as in-patient or home healthcare.
- **Cost savings – Likely similar**. We believe both dalbavancin and oritavancin could make similar arguments in terms of costs savings to the system with a focus on either reducing in-patient costs by reducing admissions or expediting discharges or reducing out-patient costs by eliminating the need for infusions.
- **Price – Likely similar**. We expect both dalbavancin and oritavancin to be priced similarly and in-line with where branded products are priced.

Patents and Exclusivity: Multiple Layers of Protection

Dalbavancin benefits from a potentially dual layers of patent and exclusivity protection in the US through at least 2023. In the EU, protection is assumed through 2023 from data exclusivity as a new product.

- **US patent protection**. Dalbavancin once-weekly is patent protected (USP 6,900,175) in the US through December 2023. The product candidate could be eligible for patent term extension of up to five years; however, we do not currently assume any additional life at this time. Dalbavancin intellectual property is based on 1) a wide range of dosing intervals (doses separated by 5-10 days), 2) dosages (100 mg to 5,000 mg), and 3) the amount of dalbavancin in each dose (initial dose at nearly 2x the subsequent dose).
- **US data exclusivity**. Dalbavancin are expected to benefit from five years of data exclusivity or through 2018/early-2019 depending on the timing of approval. Dalbavancin could also benefit from additional five years of exclusivity under the GAIN act for being a "qualified infectious disease product." This provides an additional layer of market protection through 2023/early 2024.
- **EU protection**. The EU patent for dalbavancin (EP 0 596 929) will likely expire before potential product approval in the EU. However, dalbavancin may be eligible for 10 years of data exclusivity as a new drug.

Large Market For Gram Positive Infections

Gram positive infections are one of the most common causes of diseases accounting for millions of patients being admitted to the hospital. Furthermore, there is an increase in the prevalence of resistance in several organisms including Streptococcus, Staphylococcus, Enterococcus, Bacillus, Clostridium, Corynebacterium and Listeria to commonly used antibiotics increasing the need for new antibiotics. These organisms lead to several different types of infections, including bloodstream and wound infections, catheter related infections, and community acquired pneumonia (CAP), among others.. There are an estimated 35M days on therapy for severe infections, including skin and skin structure infections, bacteremia and septicemia, and endocarditis. Of these, roughly 25M days are in-hospital while 10M are out-patient days.

Vancomycin, a generic, is the standard of care and constitutes nearly 70% of use along with other non-branded or less frequently used drugs. However, use of branded drugs, such as Cubist Pharmaceuticals' Cubicin and Pfizer's Zyvox remains prominent and growing with sales of $699 million and $640 million in 2011, respectively. Based on 2Q:12 results, the annual run rate for Cubicin and Zyvox would be $770 million and $664 million, respectively. Quarterly sales for a select group of branded antibiotics targeting gram-positive infections shows both sequential and year-over-year growth in sales in the U.S. and annualized sales of at least $1.6 billion. We estimate that at branded pricing the overall market could be at least $7-8 billion annually. Using Zyvox as a proxy, which Pfizer sells outside the U.S., we believe the ex-U.S. market is attractive as well although potentially not as large as the U.S. market. Sales Based on 2Q:12 sales of $161 million, annualized sales would total more than $670 million. .

Exhibit 13: Select Anti-Infective Companies

U.S. Sales ($ in MM)								
Product	**Company**	**1Q:11**	**2Q:11**	**3Q:11**	**4Q:11**	**1Q:12**	**2Q:12**	**Annualized**
Tygacil	Pfizer	36.0	38.0	38.0	36.0	40.0	38.0	152.0
Zyvox	Pfizer	172.0	160.0	154.0	154.0	171.0	161.0	644.0
Cubicin	Cubist	153.7	168.6	186.4	190.1	184.7	200.2	800.7
Teflaro	Forest*	2.7	2.7	5.3	6.5	7.9	9.4	37.6
Total		**364.4**	**369.3**	**383.7**	**386.6**	**403.6**	**408.6**	**1,634.3**
Growth (%)		**1Q:11**	**2Q:11**	**3Q:11**	**4Q:11**	**1Q:12**	**2Q:12**	**Annualized**
Sequential			1.3%	3.9%	0.8%	4.4%	1.2%	8.7%
Y/Y						10.8%	10.6%	8.7%

Source: Company reports and RBC Capital Markets

Dalbavancin targets acute gram-positive bacterial infections with an initial focus on acute bacterial skin and skin structure infections (abSSSI). Given dalbavancin's differentiated administration profile of two doses one week apart (days one and eight) and broad gram positive bacterial coverage, we believe there is potential for dalbavancin use in both the out-patient and in-patient settings. Furthermore, given the cost savings it could represent in terms of hospital inpatient costs by keeping patients from being admitted or expediting their discharge, we believe dalbavancin may have an attractive profile in the EU market as well compared to currently used products.

Our base model assumes the following:

- **2014 launch in the US; 2015 in the EU** – Assumes Phase III data by YE:12 and early 2013 and NDA filing later in 1H:13. We assume an approval in the US in 1H:14 and in the EU around YE:14.
- **Treatment price of $2,500 (increasing 5%/year)** – This equals $250 per day, which is a modest discount to what we estimate the cost of daily Cubicin is. Our pricing assumption estimates that only 50% of patients who receive the first dose return in one week to receive the second dose.
- **Average treatment days of two** – Dalbavancin is dosed twice on day 1 and day 8 of treatment. This implies an equivalent treatment duration of 7-14 days under the current treatment paradigm where patients are dosed daily. Our revenue build converts the more convenient dalbavancin treatment course to equivalent days of therapy for an apples-to-apples comparison in price.
- **Modest penetration** – We forecast roughly 42M days on therapy in 2019 (up from 35M in 2011) and assume dalbavancin should be able to capture a 5% equivalent share. The convenience of dalbavancin's dosing (two treatment days) and administration (30 min. infusion) potentially ensures patient

compliance with the course of treatment and reduces the burden on the healthcare system by either keeping patients from being admitted to the hospital or expediting their discharge, which is a distinct advantage over currently used drugs.

- **Revenues** – In our model, we forecast probability adjusted US sales of $454 million in 2019, the fifth full year on the market, assuming a 5% penetration for the number of treatment days. In the EU we forecast 2019 sales of $284 million, which is 50% of U.S. sales, and 20% royalty to Durata. Both our US and EU sales estimates are probability adjusted to 80%. Adjusting this probability could has a significant impact on our valuation, as discussed in the valuation section below.

Exhibit 14: Sales Model for Dalbavancin

U.S. Antibiotic Market (Source: AMR)		2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Total Hospital Days on Therapy (Source: AMR)		**26,014,875**	26,536,113	27,077,271	27,618,816	28,171,192	28,734,616	29,309,309	29,895,495
Total Outpatient Days on Therapy (Source: AMR)		**10,405,950**	10,614,445	10,830,908	11,047,526	11,268,477	11,493,847	11,723,723	11,958,198
Total Days on Therapy		**36,420,825**	37,150,558	37,908,179	38,666,343	39,439,669	40,228,463	41,033,032	41,853,693
% Market Share of Days on Antibiotic Therapy		**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**
% of Total Days on Therapy (Source: CBST)									
Cubicin		9.5%	9.7%	9.8%	9.9%	9.8%	9.6%	8.3%	5.7%
Cubicin - TEVA								1.9%	2.9%
Dalbavancin		0.0%	0.0%	1.0%	1.5%	2.3%	3.5%	4.5%	5.0%
Oritivancin					0.5%	1.5%	2.5%	3.3%	4.0%
Vancomycin		63.0%	63.0%	63.0%	63.0%	63.0%	63.0%	63.0%	63.0%
Semi-synthetics/Synercid		1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Tygacil		2.6%	2.6%	2.6%	2.6%	2.6%	1.3%	0.6%	0.3%
Zyvox oral		2.6%	2.6%	2.6%	2.6%	1.9%	1.4%	1.1%	0.5%
Zyvox i.v.		2.6%	2.6%	2.6%	2.6%	1.9%	1.4%	1.1%	0.5%
Other		17.9%	17.8%	16.6%	15.5%	15.2%	15.3%	14.4%	16.2%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Days on Antibiotic Therapy		**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**
Dalbavancin				379,082	579,995	887,393	1,407,996	1,846,486	2,092,685
Price per Day of Antibiotic Therapy		**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**
Dalbavancin				$250.00	$262.50	$275.63	$289.41	$303.88	$319.07
Gross to net adjustment		**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**
Dalbavancin					10.0%	15.0%	15.0%	15.0%	15.0%
Total Revenues ($ MM)		**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**
Revenues ($ MM)									
Dalbavancin			0.0	57.1	137.0	207.9	346.4	476.9	567.6
Total Revenues ($ MM) - Probabilty Adjusted		**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**
Dalbavancin - U.S.	80.0%		0.0	45.6	109.6	166.3	277.1	381.6	454.0

EU Antibiotic Revenues		2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Dalbavancin - US		0.0	0.0	57.1	137.0	207.9	346.4	476.9	567.6
% of US	50.0%								
Dalbavancin - EU					68.5	103.9	173.2	238.5	283.8
Dalbavancin - EU - Probabilty Adjusted	80.0%			0.0	54.8	83.2	138.5	190.8	227.0
% Royalty	20.0%								
Dalbavancin Royalties - EU		0.0	0.0	0.0	11.0	16.6	27.7	38.2	45.4

Source: RBC Capital Markets estimates

Financial Overview and Model Assumptions

Dalbavancin abSSSI Revenue and Royalties. We assume US and EU launches for dalbavancin for the treatment of abSSSI in 2014 and 2015 respectively. We forecast probability adjusted US sales of $46 million in 2014, which grow to $454 million in 2019. We forecast probability adjusted EU dalbavancin sales of $55 million in 2015 and royalties of $11 million, which grow to $227 million and $45 million, respectively, in 2019.

Operating Expenses. We forecast R&D expenses of $43 million in 2012, which are reduced in 2013 as the Phase III program wraps up but then begin increasing modestly in 2014 and beyond. We forecast SG&A expenses of $10 million in 2012, which ramp up significantly in 2014 and 2015 as we expect Durata to undertake the US launch for dalbavancin. We forecast COGS totaling 15% of product sales but for gross margins to begin improving a few years after launch.

Taxes. We currently forecast a tax rate of 35%. However, there could be room for upside in our estimates as the domicile for dalbavancin intellectual property could be outside the US, which has the potential to lower the tax rate long term.

Common Stock Issuance and Cash Balance. DRTX completed its initial public offering in July 2012 and we forecast a pro forma cash balance of nearly $86 million (approximately $5/share). Currently, we model non-dilutive capital from an ex-US partnership in 4Q:13 and an opportunistic secondary offering in 3Q:13 ahead of Phase III data. However, we note that the company's cash balance is sufficient into 2014 when regulatory decision in both the US and EU could be available.

Earnings per Share. We forecast sustained profitability starting in 2015 with a fully taxed EPS of $0.16, which increases to $2.84 in 2017, the third full year of product launch in the US.

Valuation and Capital Structure

Following its $78 million initial public offering in July 2012 (approximately $73 million in net proceeds), we believe Durata has sufficient cash to fund its Phase III program through to completion and into potential regulatory decisions by the FDA and EMA in 2014. With its net IPO proceeds and estimated $25 million in cash at the end of 1Q:12, Durata's pro forma cash balance is ~$98 million. Assuming a cash burn of ~$12-13M in 2Q:12, cash at the end of the quarter is estimated at $86 million. Durata has no debt and 18 million shares outstanding. In addition, there are roughly 1.9 million options outstanding.

Durata's market capitalization is approximately $135 million and its enterprise value is almost $49 million. This valuation places DRTX at the low end of comparable companies that market or are developing products for the treatment of infectious diseases, specifically those targeting gram-positive infections. Given the prior positive Phase III data we believe DRTX shares should trade closer to the median valuation of $200-250 million (based on comps including Cubist, Optimer, Trius, Furiex Pharmaceuticals, and Cempra) with further upside ultimately from positive Phase III data and US and EU approvals.

Exhibit 15: Select Anti-Infective Companies

Company	Ticker	Price (Last)	Shares Out. (MM)	Status	Market Cap. (MM)	Enterprise Value (MM)
Forest Laboratories	FRX	$33.76	265.6	Marketed	8,890.3	5,739.9
Cubist	CBST	$43.85	63.8	Marketed	2,791.0	2,420.6
Theravance	THRX	$25.93	86.5	Marketed/Phase II	2,261.2	2,055.0
ViroPharma	VPHM	$24.09	69.7	Marketed	1,614.0	1,299.6
The Medicines Co.	MDCO	$25.30	54.9	Marketed/Phase III	1,394.0	876.5
Optimer	OPTR	$15.16	46.8	Marketed	688.3	527.8
Trius	TSRX	$5.37	48.7	Phase III	210.1	126.3
Furiex Pharmaceuticals	FURX	$18.64	10.0	Phase II	190.6	174.1
Cempra	CEMP	$7.60	21.0	Phase II	153.3	105.0
Durata Therapeutics	**DRTX**	**$7.35**	**17.2**	**Phase III**	**119.3**	**94.0**
Average					*1,831.2*	*1,341.9*
Median					*1,041.2*	*702.2*
Excluding FRX, MDCO, THRX, VPHM						
Average					***806.7***	***670.8***
Median					***210.1***	***174.1***

Source: FactSet, Bloomberg and RBC Capital Markets

$15 Price Target Based on Multiple Methodologies

We arrive at our $15 price target using the average of a 1) dalbavancin DCF, and 2) P/E multiple based valuation.

Dalbavancin DCF: $15 per share

- **Dalbavancin ($15/share)**. We value the acute bacterial skin and skin structure infection program at $15/share. We assume peak sales of $800 million in the US and apply an 80% probability of success given the presence of clinical, regulatory, and commercial risk. The EU royalty stream accounts for roughly $4 per share of our $15/share valuation. We believe our assumptions are conservative given the probability adjusted revenue and royalty estimates, a relatively high discount rate of 17.5%, and a tax rate of 35%, which could prove high given that Durata is domiciling its intellectual property for dalbavancin outside the US.
- **Cash ($5/share) excluded from our valuation**. We estimate DRTX's cash per share at nearly $5/share but exclude it from our current valuation assuming it will be invested in development, regulatory and commercialization activities.
- **Highly sensitive to assumptions**. Our dalbavancin valuation is highly sensitive to our assumption for success in reaching our peak revenue forecasts and the discount rate. With the current 80% probability of success and a discount rate of 17.5% we arrive at a value of $15/share. Lowering the discount rate to 15% or 12.5%, respectively, assuming positive data, FDA/MAA approval, and an EU partnership, and the probability of success to 60% of our peak US sales forecast of $800M, we arrive at a value per share of $13 and $16, respectively. Similarly, lowering the probability of success to 40% takes us to a value per share of $7 and $10, respectively.

Exhibit 16: Dalbavanin Valuation

NPV ($ MM)		2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Dalbavancin - US (prob. adj. 80%)			**0.0**	**45.6**	**109.6**	**166.3**	**277.1**	**381.6**	**454.0**	**496.0**	**541.6**	**591.3**	**645.2**
COGS	15.0%			6.8	16.4	24.9	41.6	57.2	68.1	74.4	81.2	88.7	96.8
R&D	5.0%	42.8	35.0	29.0	33.0	38.0	43.0	47.0	54.9	24.8	27.1	29.6	32.3
SG&A	25.0%	9.5	16.0	58.0	73.0	88.0	103.0	114.0	120.0	124.0	135.4	147.8	161.3
Dalbavancin - EU Royalties (prob. adj. 80%)		**0.0**	**0.0**	**0.0**	**11.0**	**16.6**	**27.7**	**38.2**	**45.4**	**49.6**	**54.2**	**59.1**	**64.5**
Milestone (EU partnership and approval)			**50.0**		**20.0**								
Operating Income		(52.2)	(1.0)	(48.2)	18.1	32.0	117.2	201.5	256.4	322.4	352.1	384.3	419.4
Tax Rate	35.0%	0.0	0.0	0.0	6.3	11.2	41.0	70.5	89.8	112.8	123.2	134.5	146.8
Cash Flow		**(52.2)**	**(1.0)**	**(48.2)**	**11.8**	**20.8**	**76.2**	**131.0**	**166.7**	**209.6**	**228.8**	**249.8**	**272.6**
Period		0	1	2	3	4	5	6	7	8	9	10	11
Discount Rate	17.5%												
Terminal Growth Rate	-50.0%												
NPV	275.2	(52.2)	(0.9)	(34.9)	7.3	10.9	34.0	49.8	53.9	57.7	53.6	49.8	46.2
TV	5.8												
NPV Sum	**281.0**												
Shares Out	18.4												
Total Values per Share	**$15.30**												
EU Royalties													
Royalties		0.0	0.0	0.0	7.1	10.8	18.0	24.8	29.5	32.2	35.2	38.4	41.9
NPV Sum	69.0	0.0	0.0	0.0	4.4	5.7	8.0	9.4	9.5	8.9	8.2	7.7	7.1
TV	0.9												
Values per Share (included in Total Value/Share)	**$3.80**												

Source: RBC Capital Markets estimates

Exhibit 17: Dalbavanin Valuation Sensitivity to Peak Sales and Discount Rate

		Peak U.S. Revenue Probability						
		100.0%	90.0%	80.0%	70.0%	60.0%	50.0%	40.0%
	10.0%	$36.72	$32.75	$28.77	$24.80	$20.83	$16.85	$12.88
	12.5%	$29.93	$26.57	$23.21	$19.85	$16.48	$13.12	$9.76
Discount	15.0%	$24.56	$21.69	$18.82	$15.94	$13.07	$10.19	$7.32
Rate	17.5%	$20.26	$17.78	$15.30	$12.82	$10.35	$7.87	$5.39
	20.0%	$16.77	$14.61	$12.46	$10.31	$8.15	$6.00	$3.84
	22.5%	$13.91	$12.02	$10.14	$8.25	$6.36	$4.48	$2.59
	25.0%	$11.54	$9.88	$8.22	$6.56	$4.90	$3.23	$1.57

Source: RBC Capital Markets estimates

P/E Multiple Based Valuation: $15 per share

We use a P/E multiple of 15x our 2017 fully taxed GAAP EPS estimate of $2.84 and a discount rate of 17.5% for five years to arrive at our price target of $20/share. This P/E multiple is roughly in-line with the average of 16x for 2013. We use a discount rate of 17.5%, which we believe is conservative and leaves room for upside pending positive Phase III data. We currently apply a tax rate of 35% which could prove conservative if the rate ends up being lower as dalbavancin intellectual property is domiciled outside the US.

Exhibit 18: P/E Multiple Based Valuation Sensitivity (price per share)

		PE Multiple						
		6.0	**8.0**	**10.0**	**12.0**	**14.0**	**16.0**	**18.0**
	11.5%	9.90	13.21	16.51	19.81	23.11	26.41	29.71
	13.5%	9.06	12.08	15.10	18.12	21.14	24.16	27.19
Discount	**15.5%**	8.30	11.07	13.84	16.61	19.38	22.14	24.91
Rate	**17.5%**	7.62	10.16	12.70	15.24	17.78	20.32	22.86
	19.5%	7.00	9.34	11.67	14.01	16.34	18.68	21.01
	21.5%	6.45	8.59	10.74	12.89	15.04	17.19	19.34
	23.5%	5.94	7.92	9.90	11.88	13.86	15.84	17.82

Source: RBC Capital Markets estimates

Exhibit 19: Biotech Valuation Multiples

Company	Ticker	Price ($) 8/10/12	Mkt Cap. ($B)	EPS 2011A	EPS 2012E	EPS 2013E	FC Rev ($Mn) 2011A	FC Rev ($Mn) 2012E	FC Rev ($Mn) 2013E	P/S 2012E	P/S 2013E	LTG % (2011-'14)	P/E 2012E	P/E 2013E	PEG 2012E
Top-Tier Biotech															
Amgen Inc.	AMGN	$82.73	$64.3	5.33	6.33	6.90	15,512	16,961	17,535	3.8x	3.7x	15%	13.1x	12.0x	0.9x
Gilead Sciences	GILD	$56.77	$43.0	3.93	3.78	4.37	8,382	9,370	10,055	4.6x	4.3x	12%	15.0x	13.0x	1.2x
Biogen Idec	BIIB	$145.51	$34.4	5.89	6.38	7.28	5,012	5,469	5,993	6.3x	5.7x	15%	22.8x	20.0x	1.6x
Celgene	CELG	$71.94	$31.0	3.79	4.87	5.50	4,825	5,497	5,989	5.6x	5.2x	20%	14.8x	13.1x	0.7x
Mean										**5.1x**	**4.7x**	**15%**	**16.4x**	**14.5x**	**1.1x**
Median										5.1x	4.7x	15%	14.9x	13.0x	1.1x
Select Profitable Biotech															
Amgen	AMGN	$82.73	$64.3	5.33	6.33	6.90	15,512	16,961	17,535	3.8x	3.7x	15%	13.1x	12.0x	0.9x
Gilead Sciences	GILD	$56.77	$43.0	3.93	3.78	4.37	8,382	9,370	10,055	4.6x	4.3x	12%	15.0x	13.0x	1.2x
Biogen Idec	BIIB	$145.51	$34.4	5.89	6.38	7.28	5,012	5,469	5,993	6.3x	5.7x	15%	22.8x	20.0x	1.6x
Celgene	CELG	$71.94	$31.0	3.79	4.87	5.50	4,825	5,497	5,989	5.6x	5.2x	20%	14.8x	13.1x	0.7x
Alexion Pharmaceuticals	ALXN	$103.42	$20.0	1.38	1.89	2.63	783	1,132	1,473	17.6x	13.6x	34%	54.7x	39.3x	1.6x
BioMarin Pharma	BMRN	$37.61	$4.6	-0.42	-0.87	-0.50	449	499	570	9.3x	8.2x	NM	NM	NM	NM
Onyx Pharmaceuticals	ONXX	$71.07	$4.6	NA	-3.19	-1.91	427	317	482	14.6x	9.6x	NM	NM	NM	NM
United Therapeutics	UTHR	$55.23	$2.9	3.68	5.00	5.30	756	886	981	3.2x	2.9x	20%	11.0x	10.4x	0.6x
Cubist Pharmaceuticals	CBST	$43.85	$2.8	0.75	1.85	1.83	746	926	1,020	3.0x	2.7x	44%	23.7x	24.0x	0.5x
Myriad Genetics	MYGN	$25.34	$2.2	1.09	1.30	1.49	399	495	553	4.3x	3.9x	20%	19.5x	17.0x	1.0x
Medicines Company	MDCO	$25.30	$1.4	2.21	0.90	1.26	485	545	600	2.5x	2.3x	NM	28.1x	20.1x	NM
PDL Biopharma	PDLI	$7.07	$1.0	1.15	1.44	1.75	363	372	428	2.7x	2.3x	21%	4.9x	4.0x	0.2x
Spectrum Pharmaceuticals	SPPI	$12.42	$0.7	-0.99	1.56	1.38	193	251	315	2.9x	2.3x	20%	8.0x	9.0x	0.4x
Mean										**6.2x**	**5.1x**	**22%**	**19.6x**	**16.5x**	**0.9x**
Median										4.3x	3.9x	20%	15.0x	13.1x	0.8x

Source: FactSet, FirstCall, and RBC Capital Markets estimates

Price Target Impediments

Our price target is dependent primarily on the clinical, regulatory and commercial success of dalbavancin for acute bacterial skin and skin structure infections (abSSSI) and possible expansion to additional indications. Any setbacks in clinical development, regulatory approvals, 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 take out.

Management Team (Select)

Paul R. Edick, Chief Executive Officer, Director

Paul R. Edick has served as CEO and board member since July 2010. **Prior experience**: GANIC Pharmaceuticals, CEO (2008-2010); MedPointe, CEO (2006-2008; acquired by Meda AB). **Membership(s)**: Newlink Genetics, Board Member; LifeCycle Pharma A/S, Board Chair (2008-2011). **Education**: B.A., Hamilton College.

Michael Dunne, M.D., Chief Medical Officer

Michael W. Dunne, M.D. has served as CMO since September 2010. He has over 17 years of experience in the pharmaceutical industry. Dr. Dunne served as Durata's acting Chief Medical Officer on a consulting basis from December 2009 to September 2010. **Prior experience**: Pfizer, VP, Therapeutic head of Development of Infectious Disease and a variety of roles in clinical development of various infectious disease compounds (2001-2009), where he was responsible for the development and successful registration of various anti-fungal, anti-bacterial and anti-viral products, including those for treatment of HIV infection. **Membership(s)**: Infectious Disease Society of America, the American Society of Micorbiology, American College of Physicians. **Training**: Internal medicine residence and fellowships in infectious disease and

pulmonary medicine, Yale University School of Medicine. **Education**: B.A., Northwestern University, M.D., State University of New York Health Sciences Center.

Corey N. Fishman, Chief Operating Officer

Corey N. Fishman has served as Durata's COO since August 2010 and as its CFO since June 2012. **Prior experience**: GANIC Pharmaceuticals, CFO (2008-2010); MedPointe, CFO (2006-2008; acquired by Meda AB). **Education**: B.A., University of Illinois at Urbana-Champaign; M.S.M. (finance), Krannert School of Management, Purdue University.

John Shannon, Chief Commercial Officer

John Shannon has served as Durata's CCO since March 2012. **Prior experience**: Variety of roles at Baxter International (2002-2012), including GM, US Biopharm Business (2010-2011), VP marketing, North America (2004-2010), VP, Renal US Marketing and Business Development (2002-2004). **Education**: B.S., Western Illinois University.

Durata Therapeutics (Nasdaq: DRTX)
Annual and Quarterly Income Statement

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($ in millions, except per share)																	
Fiscal Year Ends December	**2011A**	**1Q12A**	**2Q12E**	**3Q12E**	**4Q12E**	**2012E**	**1Q13E**	**2Q13E**	**3Q13E**	**4Q13E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**
Dalbavancin sales (US) (probability adj.)	-	-	-	-	-	-	-	-	-	-	-	45.6	109.6	166.3	277.1	381.6	454.0
Dalbavancin (royalties) (probability adj.)	-	-	-	-	-	-	-	-	-	-	-	-	11.0	16.6	27.7	38.2	45.4
Contracts, licensing fees, and milestones	-	-	-	-	-	-	-	-	-	2.5	2.5	10.0	10.0	10.0	10.0	7.5	-
Total Revenues	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2.5**	**2.5**	**55.6**	**130.6**	**193.0**	**314.8**	**427.2**	**499.4**
Cost of goods sold	-	-	-	-	-	-	-	-	-	-	-	6.8	15.3	20.0	33.3	45.8	54.5
Research & development	30.1	6.8	11.0	12.0	13.0	42.8	13.0	10.0	7.0	5.0	35.0	29.0	33.0	38.0	43.0	47.0	54.9
SG&A	4.3	1.2	2.0	2.8	3.5	9.5	3.7	3.9	4.1	4.3	16.0	58.0	73.0	88.0	103.0	114.0	120.0
Contingent consideration	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	**35.6**	**8.3**	**13.0**	**14.8**	**16.5**	**52.5**	**16.7**	**13.9**	**11.1**	**9.3**	**51.0**	**93.8**	**121.3**	**146.0**	**179.3**	**206.8**	**229.4**
Operating Income (Loss)	**(35.6)**	**(8.3)**	**(13.0)**	**(14.8)**	**(16.5)**	**(52.5)**	**(16.7)**	**(13.9)**	**(11.1)**	**(6.8)**	**(48.5)**	**(38.2)**	**9.2**	**47.0**	**135.5**	**220.4**	**270.1**
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)	(13.0)	(14.7)	(16.5)	(52.4)	(16.6)	(13.8)	(10.9)	(6.5)	(47.7)	(37.3)	7.1	45.0	133.6	218.9	270.8
Provision for taxes	(2.5)	-	-	-	-	-	-	-	-	-	-	-	2.5	15.7	46.8	76.6	94.8
Net Income (Loss)	**(33.0)**	**(8.3)**	**(13.0)**	**(14.7)**	**(16.5)**	**(52.4)**	**(16.6)**	**(13.8)**	**(10.9)**	**(6.5)**	**(47.7)**	**(37.3)**	**4.6**	**29.2**	**86.9**	**142.3**	**176.0**
EPS - Basic (GAAP)	**($3.40)**	**($0.85)**	**($1.33)**	**($0.80)**	**($0.89)**	**($3.73)**	**($0.89)**	**($0.74)**	**($0.41)**	**($0.24)**	**($2.11)**	**($1.37)**	$0.17	$1.03	$2.99	$4.80	$5.83
EPS - Diluted* (GAAP)	($3.40)	($0.85)	($1.33)	($0.80)	($0.89)	($5.22)	($0.89)	($0.74)	($0.41)	($0.24)	($2.11)	($1.37)	**$0.16**	**$0.98**	**$2.84**	**$4.57**	**$5.55**
Shares Outstanding - Basic (MM)	9.7	9.7	9.7	18.4	18.4	14.1	18.5	18.6	26.7	26.8	22.7	27.2	27.9	28.5	29.0	29.6	30.2
Shares Outstanding - Diluted (MM)	-	-	-	20.3	19.9	10.0	20.0	20.1	28.2	28.3	24.2	28.7	29.4	30.0	30.5	31.1	31.7

Dalbavancin - Revenues	**2011A**	**1Q12A**	**2Q12E**	**3Q12E**	**4Q12E**	**2012E**	**1Q13E**	**2Q13E**	**3Q13E**	**4Q13E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**
Dalbavancin - US							-	-	-	-	-	45.6	109.6	166.3	277.1	381.6	454.0
Dalbavancin - EU							-	-	-	-	-	-	54.8	83.2	138.5	190.8	227.0
Dalbavancin Royalties - EU							-	-	-	-	-	-	11.0	16.6	27.7	38.2	45.4

Margin Analysis	**2011A**	**1Q12A**	**2Q12E**	**3Q12E**	**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											1400%	52%	25%	20%	14%	11%	11%
Sales, general & administrative											640%	104%	56%	46%	33%	27%	24%
Operating margin													7%	24%	43%	52%	54%
Tax rate											0%	35%	35%	35%	35%	35%	35%
Net margin													4%	15%	28%	33%	35%

Source: Company reports and RBC Capital Markets estimates.

Required Disclosures

Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Durata Therapeutics, Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Durata Therapeutics, Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates expects to receive or intends to seek compensation for investment banking services from Durata Therapeutics, Inc. in the next three months.

RBC Capital Markets is currently providing Durata Therapeutics, Inc. with investment banking services.

RBC Capital Markets has provided Durata Therapeutics, Inc. with investment banking services in the past 12 months.

The author is employed by RBC Capital Markets, LLC, a securities broker-dealer with principal offices located in New York, USA.

Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Ratings

Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

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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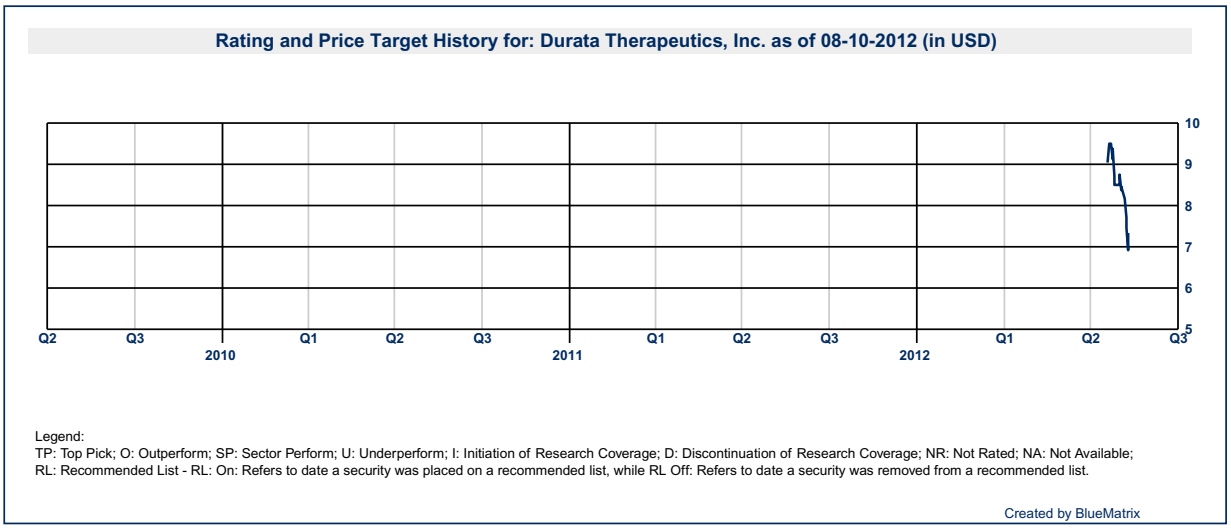
Distribution of Ratings
RBC Capital Markets, Equity Research

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[TP/O]	765	51.44	225	29.41
HOLD[SP]	652	43.85	155	23.77
SELL[U]	70	4.71	3	4.29



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