Durata Therapeutics (DRTX)

SMALL & MID CAP RESEARCH

Positive topline DISCOVER-2 data, FDA/EMA filings on track for mid/year-end '13

- **Summary:** DRTX reported topline data for Dalbavancin on its second pivotal PIII trial, DISCOVER-2 (non-inferiority vs. Vancomycin/Linezolid, V/L). The timing of this release was previously guided by DRTX. The study hit the primary endpoint (early response at 48-72 hours) and secondary endpoint (clinical status at the end of treatment). Recall, the early response at 48-72 hours will be the primary endpoint for the FDA whereas the more "classic" clinical status will be the primary endpoint for the EMA. DRTX plans to submit to the FDA by mid-2013 and to the EMA by end of 2013.
- **Data Summary:** The primary endpoint was 76.8% for Dalbavancin (vs. 78.3% for V/L with a non-inferiority margin of -1.5%. The secondary endpoint was 93.5% for Dalbavancin (vs. 92.7% for V/L) with a non-inferiority margin of +0.8%. The secondary endpoint based on investigators' assessment was 96.9% for Dalbavancin (vs. 96.0% for V/L) with a non-inferiority margin of +0.9%. For >20% reduction in lesion size, it was 87.6% for Dalbvancin (vs. 85.9% for V/L) with a non-inferiority margin of +1.7%. The adverse events were in line with previous studies (12.2% for Dalbavancin vs. 10.1% for V/L). The discontinuations due to adverse events was comparable between Dalbvancin and V/L (2.4% vs. 1.9%).
- **Valuation:** Our unchanged TP of $13 is based on DCF from U.S. Dalbavancin revenues through 2024. We assign a conservative 60% probability risk-weighting to the NPV of cash flows. We use a standard 10% discount rate with no terminal value. We currently have not included any EU Dalbavancin sales. This represents potential upside to our valuation.

Rating	**OUTPERFORM* [V]**
Price (22 Feb 13, US$)	7.54
Target price (US$)	13.00[1]
52-week price range	9.95 - 6.93
Market cap. (US$ m)	138.55
Enterprise value (US$ m)	107.79

**Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*
[1]Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

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Financial and valuation metrics

Year	12/11A	12/12E	12/13E	12/14E
EPS (CS adj.) (US$)	-3.40	-3.73	-1.90	-1.62
Prev. EPS (US$)	—	—	—	—
P/E (x)	-2.2	-2.0	-4.0	-4.7
P/E rel. (%)	-15.0	-14.7	-32.3	-42.3
Revenue (US$ m)	—	—	—	56.1
EBITDA (US$ m)	-34.4	-56.0	-33.0	-28.4
OCFPS (US$)	-3.07	-4.14	-2.43	-0.86
P/OCF (x)	—	-1.8	-3.1	-8.8
EV/EBITDA (current)	-4.0	-2.5	-4.2	-4.9
Net debt (US$ m)	-11	-31	-12	-13
ROIC (%)	-42,829.44	-4,110.52	-527.30	584.11

Number of shares (m)	18.38	IC (current, US$ m)	0.07
BV/share (Next Qtr., US$)	—	EV/IC (x)	—
Net debt (Next Qtr., US$ m)	—	Dividend (current, US$)	—
Net debt/tot cap (Next Qtr., %)	—	Dividend yield (%)	—

Source: Company data, Credit Suisse estimates

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Companies Mentioned *(Price as of 22-Feb-2013)*

Durata Therapeutics (DRTX.OQ, $7.54, OUTPERFORM[V], TP $13.0)

Disclosure Appendix

Important Global Disclosures

I, Ravi Mehrotra PhD, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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

DRTX.OQ	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
14-Aug-12	8.44	13.00	O *

** Asterisk signifies initiation or assumption of coverage.*

The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

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Underperform/Sell*	16%	(40% banking clients)
Restricted	3%	

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

Method: Our $13 TP for DRTX is derived from a DCF analysis of dalbavancin revenues through 2024, risk-weighted at 60% to reflect Durata's execution risk. We use a standard 10% discount rate with no terminal value.

Risk: Key risk factors to our $13 TP include: 1) dalbavancin does not meet clinical trial endpoints, 2) dalbavancin is not approved or launch is significantly delayed, 3) dalbavancin launch ramp and/or peak sales underperforms our estimates, and 4) dalbavancin is not adopted for other MRSA indications.

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See the Companies Mentioned section for full company names

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