Durata Therapeutics (DRTX)

Rating	**OUTPERFORM* [V]**
Price (04 Jan 13, US$)	8.11
Target price (US$)	13.00[1]
52-week price range	9.95 - 6.93
Market cap. (US$ m)	149.03
Enterprise value (US$ m)	118.26

**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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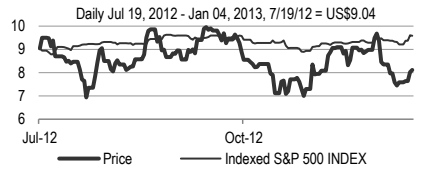
COMMENT

More DISCOVER-1, EMA primary endpoint met

- **DISCOVER-1 hits the EMA primary endpoint.** Recall, when DRTX first release topline DISCOVER-1 data, there were concerns about whether the "classic" endpoint of clinical status at end of treatment (for the EMA) could meet the non-inferiority margin. This morning, DRTX announced that the secondary endpoint (and primary endpoint for the EMA), clinical status at end of treatment, was met. Dalbavancin was shown to be non-inferior to Vancomycin/Linezolid (87.0% vs. 91.4% with a -4.4% non-inferiority margin) after adjustments for pre-specified baseline variables. DRTX also provided investigator assessment data, which showed a smaller difference between Dalbavancin and Vancomycin/Linezolid (94.7% vs. 97.5% with a -2.8% non-inferiority margin).
- **Investor focus is now likely to shift to:** (1) The breakout of the clinical status at end of treatment by patients with MRSA. DRTX broke out the secondary endpoint by patients with MRSA. The difference between Dalbavancin and Vancomycin/Linezolid was 85.7% vs. 96.8%. However, we do note that this analysis involved a small patient sample size (66 patients in total). (2) Which pre-specified baseline variables were adjusted? While these variables were pre-specified, we expect some focus on the exact variables adjusted and their impact on the final results.
- **EU potential provides some upside to our valuation.** DRTX expects topline DISCOVER-2 data in Q1'13. Assuming DISCOVER-2 reproduces DISCOVER-1, DRTX will likely be able to file in the U.S. (mid-2013) and EU (late 2013). We currently do not have any sales for Dalbavancin in the EU. A launch in the EU could provide some upside to our valuation.

Share price performance



On 01/04/13 the S&P 500 INDEX closed at 1466.47

Quarterly EPS	Q1	Q2	Q3	Q4
2011A	—	—	—	—
2012E	-0.78	-1.19	-1.27	-0.47
2013E	—	—	—	—

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)	-2.4	-2.2	-4.3	-5.0
P/E rel. (%)	-16.0	-15.4	-33.2	-43.5
Revenue (US$ m)	—	—	—	56.1
EBITDA (US$ m)	-34.4	-56.0	-33.0	-28.4
OCFPS (US$)	-3.07	-4.14	-2.43	-0.86
P/OCF (x)	—	-2.0	-3.3	-9.5
EV/EBITDA (current)	-4.3	-2.7	-4.5	-5.3
Net debt (US$ 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 (Next Qtr., US$)	—
Net debt/tot cap (Next Qtr., %)	—	Dividend yield (%)	—

Source: Company data, Credit Suisse estimates.

Companies Mentioned *(Price as of 04-Jan-2013)*

Durata Therapeutics (DRTX.OQ, $8.11, OUTPERFORM[V], TP $13.0)

Disclosure Appendix

Important Global Disclosures

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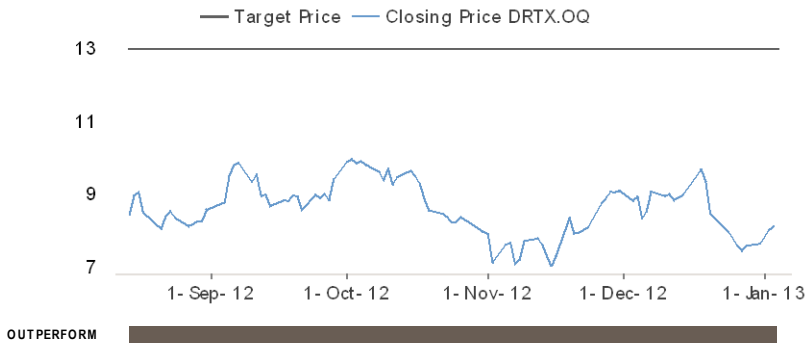
Price and Rating History for Durata Therapeutics (DRTX.OQ)

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

** Asterisk signifies initiation or assumption of coverage.*



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Underperform/Sell*	15%	(43% 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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