Durata Therapeutics (DRTX)

SMALL & MID CAP RESEARCH

Rating	OUTPERFORM* [V]
Price (12 Apr 13, US$)	7.49
Target price (US$)	15.00[1]
52-week price range	9.95 - 6.93
Market cap. (US$ m)	137.84
Enterprise value (US$ m)	107.85

**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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Major Overhang Removed

The $50M financing removes a major overhang by providing DRTX with capital to support its corporate strategy to mid-2015, including launching dalbavancin in the US. DRTX ended 2012 with $45M, issued $20M in debt in Q1, and could raise approximately $50M net in this offering if the overallotment is exercised. We had previously modeled a 7M share offering in Q4:13, so the change to our model is modest.

- **Clinically derisked and financially well positioned:** With two recent successful Phase III trials, clinical risk is essentially removed, and we believe that the regulatory risk is also very low. The financing removes the most important overhang – financing risk.
- **Catalysts:** DRTX plans to file an NDA in mid-2013 and an MAA by year-end 2013. Additional data from the two Phase III trials should be available at the infectious disease conference in H2:13. DRTX plans to initiate additional trials of dalbavancin in H1:14 including pediatric osteomyelitis. While not officially part of company guidance, we assume that DRTX signs an ex-US marketing partner in 2014.
- **Valuation:** Our $15 target price is supported by 2.75 times our 2017 revenue forecast of $235M, discounted at 12%. Comps such as MDCO and CBST trade at 2.6 and 3.0 times 2013 revenue, respectively, and DRTX's better forecast cost structure makes our valuation more conservative. DRTX pays no royalties, has a low baseline R&D, and a forecast tax rate of 16%.

Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (US$)	-7.48	-1.93	-2.59	-0.36
Prev. EPS (US$)	—	-2.31	-2.71	-0.37
P/E (x)	-1.0	-3.9	-2.9	-21.1
P/E rel. (%)	-6.6	-27.6	-22.9	-184.7
Revenue (US$ m)	—	—	40.2	96.4
EBITDA (US$ m)	-61.5	-42.7	-41.1	-4.6
OCFPS (US$)	-6.94	-1.34	-1.93	-0.24
P/OCF (x)	-1.1	-5.6	-3.9	-31.7
EV/EBITDA (current)	-2.2	-3.2	-3.4	-29.7
Net debt (US$ m)	-12	-30	29	38
ROIC (%)	-195.49	-153.02	-165.11	-18.04

Number of shares (m)	18.40	IC (current, US$ m)	31.45
BV/share (Next Qtr., US$)	1.6	EV/IC (x)	4.2
Net debt (Next Qtr., US$ m)	0.39	Dividend (current, US$)	—
Net debt/tot cap (Next Qtr., %)	1.2	Dividend yield (%)	—

Source: Company data, Credit Suisse estimates

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Financing Provides Capital to Support Launch and Planned Development

With funds from the recent debt offering ($20M) and the equity financing (~$50M), DRTX can now comfortably launch dalbavancin in the US and pursue clinical development of additional indications, specifically pediatric bone infections (osteomyelitis). The funds are not sufficient to launch dalbavancin outside the US.

Development in the pediatric bone infection setting: DRTX plans to begin a trial in pediatric osteomyelitis in early 2014. Currently there is no clear regulatory path in this setting. If agreement can be reached with FDA, the trial could be a pivotal study. Alternatively, DRTX could run a trial for publication purposes to expand the use of dalbavancin.

Potential EU partnership: DRTX is actively looking to partner dalbavancin outside the US, but management is willing to market the drug alone in the EU. The current funds provide additional negotiation leverage, but are not sufficient to support a launch. In the meantime, DRTX plans to move ahead with the EU filing on its own. We model an ex-US partnership in 2014 to support an EU launch in 2015.

Exhibit 1: Upcoming Events

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

Source: Company data, Credit Suisse estimates

Exhibit 2: DRTX model

	2012A	Q1:13E	Q2:13E	Q3:13E	Q4:13E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Dalbavancin US sales	**0.0**	0.0	0.0	0.0	0.0	0.0	25.2	83.8	145.3	222.5	282.4	335.6
Collaboration/milestones	**0.0**	0.0	0.0	0.0	0.0	0.0	15.0	10.0	0.0	0.0	0.0	0.0
Royalty revenue	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	2.5	8.4	11.6	17.8	22.6
Total Net Revenues	**0.0**	0.0	0.0	0.0	0.0	0.0	40.2	96.4	153.7	234.1	300.2	358.2
COGS	**0.0**	0.0	0.0	0.0	0.0	0.0	3.5	11.3	18.9	27.8	33.9	40.3
R&D expense	**51.7**	8.0	7.0	7.0	7.0	29.0	30.8	31.0	31.5	33.1	34.1	35.1
SG&A expense	**9.8**	2.7	3.3	3.6	4.1	13.7	47.0	58.7	79.9	100.1	107.3	114.1
Total Operating Expenses	**61.5**	10.7	10.3	10.6	11.1	42.7	81.3	101.0	130.3	161.0	175.3	189.4
Operating income (loss)	**(61.5)**	(10.7)	(10.3)	(10.6)	(11.1)	(42.7)	(41.1)	(4.6)	23.4	73.1	124.9	168.7
Other income	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest income (expense)	**0.0**	0.0	(0.3)	(0.4)	(0.4)	(1.1)	(2.9)	(3.6)	(3.2)	(2.7)	(2.5)	(0.4)
Milestone payment	**0.0**	0.0	0.0	0.0	0.0	0.0	(25.0)	0.0	0.0	0.0	0.0	0.0
Other income (expense)	**(1.1)**	(2.0)	(0.4)	(0.4)	(0.4)	(3.2)	(1.6)	(1.6)	(1.6)	(1.7)	(1.7)	0.0
Total Other Income (Expense)	**(1.1)**	(2.0)	(0.7)	(0.8)	(0.8)	(4.3)	(29.5)	(5.2)	(4.8)	(4.4)	(4.2)	(0.4)
Pre Tax Income	**(62.5)**	(12.7)	(11.0)	(11.4)	(11.9)	(47.0)	(70.5)	(9.9)	18.6	68.8	120.7	168.3
Income tax expense (benefit)	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	19.3	26.9
Net Income	**(62.5)**	(12.7)	(11.0)	(11.4)	(11.9)	(47.0)	(70.5)	(9.9)	18.6	68.8	101.4	141.4
Diluted earnings (loss) per share	**($7.48)**	($0.69)	($0.43)	($0.43)	($0.44)	($1.93)	($2.59)	($0.36)	$0.58	$2.10	$3.07	$4.24
Shares outstanding - basic	**8.4**	18.5	25.5	26.8	26.9	24.4	27.2	27.7	28.0	28.3	28.6	28.8
Shares outstanding - diluted	**8.4**	20.6	28.0	29.5	29.9	27.0	30.4	31.2	32.0	32.8	33.1	33.3

Source: Company data, Credit Suisse estimates

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Companies Mentioned *(Price as of 12-Apr-2013)*

Cubist Pharmaceuticals (CBST.OQ, $46.29)
Durata Therapeutics (DRTX.OQ, $7.49, OUTPERFORM[V], TP $15.0)
The Medicines Company (MDCO.OQ, $32.82)

Disclosure Appendix

Important Global Disclosures

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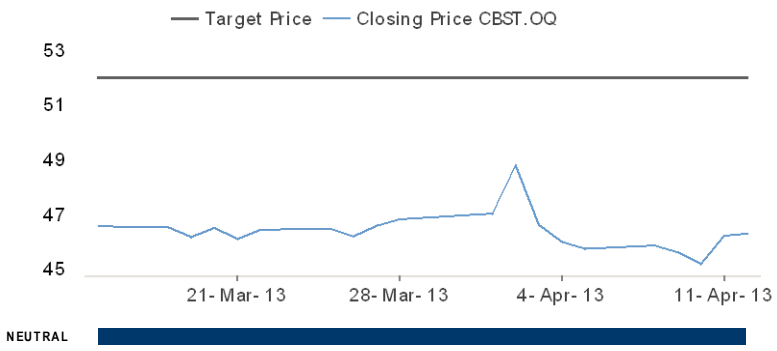
Price and Rating History for Cubist Pharmaceuticals (CBST.OQ)

CBST.OQ	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
15-Mar-13	46.56	52.00	N *

** Asterisk signifies initiation or assumption of coverage.*



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

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

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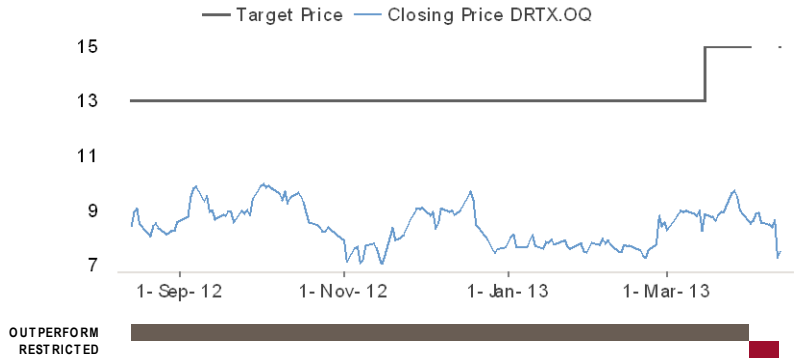
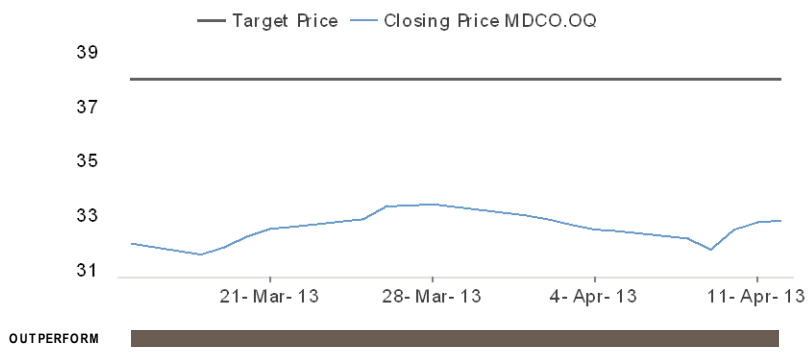


Price and Rating History for The Medicines Company (MDCO.OQ)

MDCO.OQ	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
15-Mar-13	31.97	38.00	O *

** Asterisk signifies initiation or assumption of coverage.*



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

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

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

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