Durata Therapeutics (DRTX)

SMALL & MID CAP RESEARCH

Rating	**OUTPERFORM* [V]**
Price (14 Mar 13, US$)	8.25
Target price (US$)	(from 13.00) 15.00[1]
52-week price range	9.95 - 6.93
Market cap. (US$ m)	151.60
Enterprise value (US$ m)	109.91

**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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Derisked and Still Very Inexpensive

We are assuming coverage and maintaining our Outperform rating. Our continued positive thesis has three main components (1) dalbavancin is substantially derisked; (2) the market opportunity is large and fragmented, and even a small percentage share could drive sales greater than $250M in the United States; and (3) DRTX has the lowest cost structure in the industry, maximizing the potential for profit, even as sales ramp in early years. These factors are made more compelling by the low valuation.

- **Raising TP to $15 on Clinical Risk:** 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 forward 2013 revenue, respectively, and DRTX's better forecast cost structure makes our valuation more conservative. DRTX pays no royalties, and it has a low baseline R&D and a forecast tax rate of 16%.
- **More Conservative Sales Estimates but Higher Probability of Success:** We are lowering our projected sales ramp in the United States and increasing our near-term R&D expenses estimates. The probability of success goes from 60% to 85%, as the clinical risk is largely removed. Our estimates remain conservative because we have not included any sales or partnering revenue for the ex-U.S. opportunity.
- **Catalysts:** Additional details from the two Phase III trials will be presented at conferences in 2013. DRTX plans to file an NDA in mid-2013 with an approval in H1:14. Other near-term catalysts are an MAA filing expected by year-end 2013 and a potential ex-U.S. partnership ahead of approval.

Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (US$)	-7.48	-2.31	-2.71	-0.37
Prev. EPS (US$)	—	-1.90	-1.62	-0.30
P/E (x)	-1.1	-3.6	-3.0	-22.2
P/E rel. (%)	-7.5	-26.0	-24.7	-201.4
Revenue (US$ m)	—	—	40.2	96.4
EBITDA (US$ m)	-61.5	-42.7	-41.1	-4.6
OCFPS (US$)	-6.94	-1.57	-2.01	-0.25
P/OCF (x)	-1.1	-5.2	-4.1	-33.5
EV/EBITDA (current)	-2.5	-3.6	-3.7	-32.6
Net debt (US$ m)	-12	-42	17	26
ROIC (%)	-195.49	-153.02	-165.11	-18.04

Number of shares (m)	18.38	IC (current, US$ m)	31.45
BV/share (Next Qtr., US$)	1.6	EV/IC (x)	4.6
Net debt (Next Qtr., US$ m)	0.39	Dividend (current, US$)	—
Net debt/tot cap (Next Qtr., %)	1.2	Dividend yield (%)	—

Source: Company data, Credit Suisse estimates

Updates to Our Investment Thesis and Model

Our positive thesis is unchanged from our previously published analysis. However, we further expand on two key aspects of the story that enhance our positive view and that we believe are not fully appreciated by investors.

(1) The cost structure at DRTX is substantially leaner than its competitors, helping drive profitability and increasing its attractiveness as a future take-out target, and

(2) The intellectual property position is substantially better as a result of the GAIN Act.

We are also making the following changes to the model:

- Raising our target to $15 to reflect the reduction in clinical risk.
- Lowering our initial U.S. sales estimates to be more conservative (approximately 14% reduction starting in 2015, with a larger reduction in the first year of sales). We no longer probability adjust for clinical risk.
- We have included an ex-U.S. partnership and potential royalties. Our conservative estimate of the deal value assumes $15M upfront in 2014, $10M on EU approval in 2015, and 20% royalty, with ex-U.S. sales estimated at 40% of the prior-year U.S. sales.
- We have increased near-term R&D expenses in 2013-2015 by approximately $10M/year, as Durata expects to continue to run trials to inform off-label use in osteomyelitis and pneumonia. Longer-term R&D comes down slightly.
- Tax rate is estimated at 16% (previously 38%). The lower tax rate comes as a result of offshore IP.
- We have added the impact of the recently announced $20M debt financing (8.55% interest rate).
- We assume that the $25M milestone owed on approval is expensed when achieved (change to model) but that cash payment is postponed by five years at 10% accrued interest (as previously modeled).

Never Too Early to Consider Cost Structure

Biotechnology companies on the verge of launching a new product typically fall into two categories:

(1) Companies that developed the drug internally, have a very expensive R&D infrastructure, and have typically required substantial dilution to retain product rights to this point.

(2) Companies that have developed a leaner in-licensing model, with lower R&D costs but a much higher royalty burden, typically in the high-single-digits to the midteens. These companies may also owe milestones as part of a previous contingent value right associated with the acquired asset.

DRTX is unique because the history of its asset dalbavancin is unique, and it is useful to compare it to other similar assets at CBST or MDCO. It is also helpful to consider the corporate structure and financing history, as these also contribute to the current investment thesis and attractiveness of Durata as a potential take-out candidate if dalbavancin achieves commercial success.

- **Sequential Acquisitions Leave No Royalty Burden:** Dalbavancin was first developed by Biosearch Italia, which partnered with and was later acquired by Versicor. Versicor changed its name to Vicuron, and was ultimately acquired by Pfizer. After multiple setbacks with the FDA, Pfizer wrote off the asset, and Vicuron was

acquired (not licensed) by privately held Durata for $4M ($10M initially, but $6M was subsequently refunded). Durata owes no royalties to Pfizer but will pay a $25M milestone upon approval (which can be deferred for five years at a rate of 10%). The lack of a residual royalty is a major advantage for future profitability of the franchise. By contrast, CBST pays Eli Lilly a 13% royalty on Cubicin, and MDCO pays a 23% royalty on Angiomax.

- **Forecast Low Tax Burden:** The IP estate for dalbavancin is held by an overseas subsidiary (called Vicuron). The expected tax rate for Durata is expected to be in the midteens (we model 16%), assuming its sole asset remains dalbavancin.
- **Clean Financing Reduced Dilution:** Durata was essentially formed and financed for the sole purpose of acquiring dalbavancin and repeating the Phase III program. The initial private investors committed to a single term sheet designed to fund it through Phase III. The recent IPO provided additional funding, but overall, the capital structure is very simple for a company with a globally wholly owned late-stage asset. At year-end 2012, Durata had only 18.4M shares outstanding and options for 2.15M more.
- **Lean Expense Structure:** Durata will clearly need to build out additional commercial infrastructure to support the launch of dalbavancin, and depending on partnering plans, it may need to do the same ex-U.S. However, because it currently does not have a pipeline to support, and future trials of dalbavancin are likely to be limited in scope, the R&D burden should be much lower than industry norms and help drive commercial profitability.

Compare and Contrast to Other Hospital Sales Companies

Similar companies that license or acquire late-stage assets carry a burden of royalties, contingent payments, or large upfront cash payments include the following.

- **Cubist (CBST):** Its primary asset Cubicin (an IV antibiotic) was licensed from Eli Lilly. The original royalty rate was in the midteens to high teens. After subsequent royalty buy-downs by Cubist, the current royalty on worldwide Cubicin sales is approximately 13%. Its next most important antibiotic asset is CXA-201. Cubist paid $99.2M to acquire Calixa, $70M in milestones paid, up to $220M in future milestones, and will owe a tiered single-digit royalty. CBST also paid an additional $25M to acquire additional rights in Asia from AstraZeneca. CBST's tax rate varies but is expected to exceed 40% in 2013, and its cost structure includes R&D expenses of approximately 37% of revenue in 2013 moving down to 25% in the long term.
- **The Medicines Company (MDCO):** MDCO licensed its primary asset Angiomax (an IV anticoagulant) from Biogen. The royalty scales with increasing sales, and at current sales levels, it totals 23%. Its IV antibiotic oritavancin was obtained through the acquisition of Targanta. However, Targanta owed a royalty to Eli Lilly on future sales, and MDCO is now responsible for this royalty. MDCO also owes potential contingent milestones payments to former Targanta shareholders and Intermune, which we estimate will total $54.4M (excludes $35.7M in time-based milestones that will likely not be achieved). MDCO's expected tax rate in 2012 is 41%, and its cost structure includes R&D expenses of approximately 20% of revenues.

Risks and Concerns

- **Potential dilution:** DRTX ended 2012 with $45M in cash and subsequently secured $20M in debt financing in Q1. The $65M provides substantial resources to seek approval of dalbavancin, but DRTX will require additional capital to fund a commercial launch in 2014. An ex-US or global partner could reduce the financing risk.

- **Execution risk:** DRTX does not have an existing commercial infrastructure and will have to build out its sales team in the US, and potentially outside the US, to market dalbavancin. The lack of an existing sales infrastructure disadvantages DRTX verses more seasoned competitors such as CBST and MDCO.

- **Commercial risk:** Dalbavancin administration requires a significant change in current treatment practice. Initial uptake will be limited by the standard issues of gaining formulary approvals in hospitals, but additional risk comes from the change to clinical practice associated with a less frequently dosed antibiotic. Some physicians may perceive an added safety risk for a long-acting drug, though none has been observed in clinical trials of multiple agents. Durata also faces entrenched economic incentives in the medical system that provides economic benefits for administering IV drugs more frequently. Additionally, generics are broadly used for the treatment of skin infections.

- **Competition from MDCO's long-acting antibiotic and other branded antibiotics:** MDCO is expected to launch its long-acting antibiotic (oritavancin) shortly after DRTX. While we expect having two companies with similar marketing messages may actually help grow the addressable market, there will be a natural comparison made between the drugs. Price could also become an issue if MDCO chooses to compete with a lower price at entry. Additionally, MDCO's second Phase III study is expected to read-out in mid-2013, and if oritavancin is superior to vancomycin (not expected), it could give oritavancin an advantage over dalbavancin in the market place.

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

Valuation

Increasing TP to $15

Our primary valuation methodology is a revenue multiple analysis. Companies primarily selling drugs for acute hospital indications trade at approximately 2.5-3.0 times forward revenue. (CBST is 3.0 times 2013 consensus, and MDCO is 2.6 times 2013 consensus.)

We derive our $15 target price by applying a 2.75 multiple to our forecast 2017 revenue estimate of $235M, discounted back to year-end 2013 at 12%. Our valuation includes the current 18.4M shares, the full impact of existing options (2.2M shares), and potential dilution from a forecast 7M share offering (Exhibit 2).

We did a sensitivity analysis around these variables:

- Assuming our $235M revenue estimate is correct, a range of revenue multiples from 2.0-3.5, and a range of discount rates from 8-16% yields values of $13-17 (average $15).

- Assuming a more standard 10% discount rate and a range of revenue multiples of 2.0-3.5, we can justify our target price with a revenue range of $200-250M. The target range is $12-19 (average $15) in that scenario.

Exhibit 2: DRTX Valuation Analysis

Assuming $235M in 2017 revenues

Discount rate	Revenue multiple						
	2	2.25	2.5	2.75	3	3.25	3.5
8.0%	13	14	16	17	19	20	22
10.0%	12	13	15	16	17	19	20
12.0%	11	12	14	15	16	18	19
14.0%	10	11	13	14	15	16	18
16.0%	9	11	12	13	14	15	16

Assuming 10% discount rate

2017 revenues	Revenue multiple						
	2	2.25	2.5	2.75	3	3.25	3.5
150	7	8	9	10	11	12	13
175	9	10	11	12	13	14	15
200	10	11	12	14	15	16	17
225	11	13	14	15	17	18	20
250	12	14	16	17	19	20	22
275	14	15	17	19	20	22	24

Source: Company data, Credit Suisse estimates.

DCF Analysis Also Supports Our $15 Valuation: Our company-level DCF includes the after-tax cash flows discounted at 12% (same as previously). We probability adjust at 85% versus our prior 60%, which is appropriate given the two positive Phase III trials. We use a share count of approximately 27.5M, which includes all options and a forecast 7M share financing (Exhibit 3).

Our DCF is potentially conservative because it does not include a terminal value or sales after 2024. Dalbavancin will have ten years of data exclusivity (based on QIDP designation), and its primary patent goes to 2024 (potentially longer with a patent term extension; Exhibit 4).

Exhibit 3: DCF Analysis

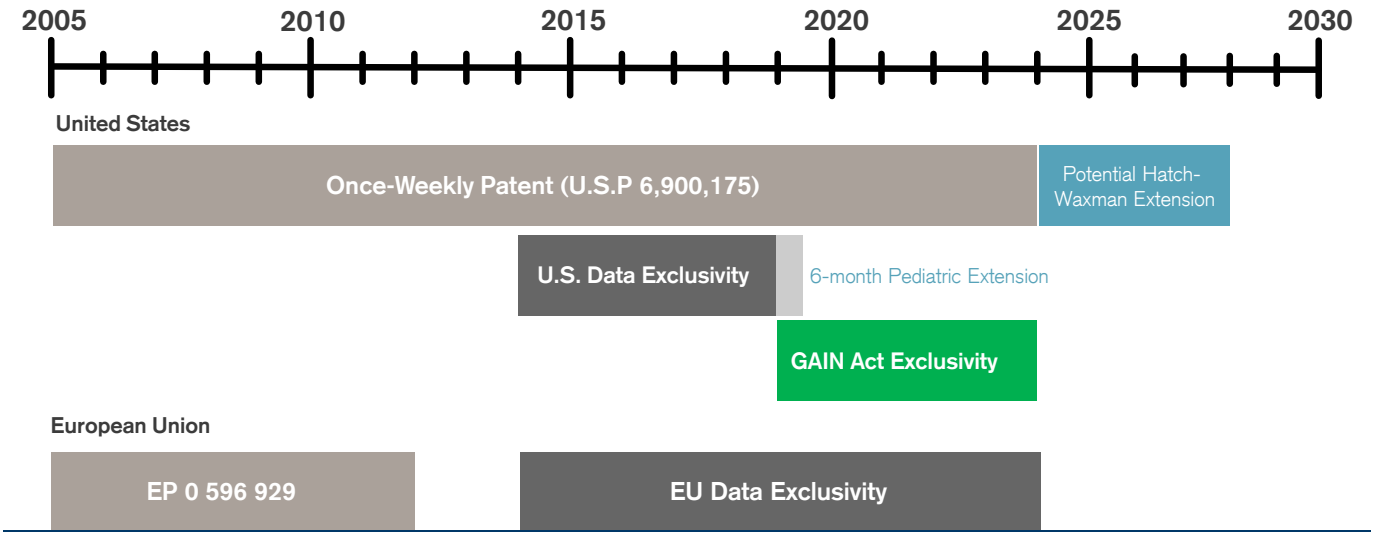
in millions, unless otherwise stated

	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Revenue	0.0	40.2	96.4	153.7	234.1	300.2	358.2	402.5	439.4	474.6	512.5	552.4
Net income	(47.0)	(70.5)	(9.9)	18.6	68.8	101.4	141.4	163.3	179.7	195.1	211.6	229.0
Net cash from operations	(36.1)	(58.7)	(7.4)	23.3	63.5	105.1	139.9	161.6	177.9	193.1	209.4	226.7
Addback for delayed Pfizer pmt	0.0	26.3	2.6	2.9	3.2	3.5	(38.5)					
Less: Capital expenditures	(1.0)	(1.1)	(1.2)	(1.2)	(1.3)	(1.4)	(1.4)	(1.5)	(1.6)	(1.6)	(1.7)	(1.8)
Free cash flow	**(37.1)**	**(33.5)**	**(5.9)**	**24.9**	**65.4**	**107.2**	**100.1**	**160.1**	**176.3**	**191.4**	**207.7**	**224.8**
Discount periods	-	1	2	3	4	5	6	7	8	9	10	11
Discount factor	1.00	0.89	0.80	0.71	0.64	0.57	0.51	0.45	0.40	0.36	0.32	0.29
PV of free cash flow	(37)	(30)	(5)	18	42	61	51	72	71	69	67	65

Total PV of cash flows		**$ 443**
Risk-weighted @	85%	**$ 377**
Add: Terminal value		-
Add: YE 2012 cash		45
Equity value		**$ 422**
Diluted shares outstanding (YE 2013		27.5
Price per share		**$15**

Source: Company data, Credit Suisse estimates.

Exhibit 4: Dalbavancin IP Protection



Source: Company data, Credit Suisse estimates

Exhibit 5: DRTX Income Model

	2012A	Q1:13E	Q2:13E	Q3:13E	Q4:13E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Dalbavincin 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)	($0.59)	($0.61)	($0.46)	($2.31)	($2.71)	($0.37)	$0.60	$2.18	$3.19	$4.41
Shares outstanding - basic	**8.4**	18.5	18.5	18.6	25.7	20.3	26.1	26.5	26.8	27.0	27.3	27.6
Shares outstanding - diluted	**8.4**	20.6	21.0	21.4	28.7	22.9	29.2	30.0	30.8	31.5	31.8	32.1

Source: Company data, Credit Suisse estimates.

Exhibit 6: Abbreviated Balance Sheet and Cash Flow Statement

Balance sheet	2011A	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Cash	**11.49**	**32.26**	81.5	43.7	30.0	47.9	113.4	220.8	321.0
Short-term investments	**0.00**	**13.09**	13.1	13.1	13.1	13.1	13.1	13.1	13.1
Total Current Assets	**12.48**	**51.20**	100.5	66.6	60.5	85.3	160.5	275.8	382.9
TOTAL ASSETS	**33.62**	**86.55**	129.8	88.9	76.1	98.6	173.0	288.6	396.1
Total Current Liabilities	**3.33**	**21.50**	19.22	19.22	19.22	19.22	19.22	20.22	21.22
Total Liabilities	**22.06**	**42.68**	60.17	81.51	76.21	71.95	75.13	80.63	44.17
Total Equity	**11.56**	**43.87**	69.59	7.39	-0.14	26.69	97.90	207.97	351.91
TOTAL LIABILITIES & EQUITY	**33.62**	**86.55**	129.77	88.90	76.07	98.65	173.03	288.60	396.08

Cash flow	2011A	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Net Income	**(33.03)**	**(62.54)**	(47.04)	(70.54)	(9.86)	18.56	68.76	101.40	141.38
Net Cash Provided by Operating Activities	**(27.36)**	**(58.01)**	(36.10)	(58.67)	(7.38)	23.28	63.48	105.10	139.94
Net Cash Used by Investing Activities	**0.00**	**(14.66)**	(1.03)	(1.12)	(1.17)	(1.23)	(1.29)	(1.36)	(1.42)
Net Cash Provided by Financing Activities	**36.58**	**93.45**	86.40	21.94	(5.15)	(4.11)	3.33	3.65	(38.31)
Net Cash Increase (Decrease)	**9.22**	**20.77**	49.27	(37.84)	(13.71)	17.94	65.52	107.39	100.21
Beginning Cash	**2.26**	**11.49**	32.26	81.52	43.68	29.97	47.92	113.43	220.82
Ending Cash	**11.49**	**32.26**	81.52	43.68	29.97	47.92	113.43	220.82	321.03

Source: Company data, Credit Suisse estimates

GAIN Act – DRTX Is Well Positioned to Gain from New Regulations

The Generating Antibiotics Incentives Now (GAIN) Act was passed late last year. It is intended to incentivize and facilitate the development of novel antibiotics or "qualified infectious disease products" (QIDP). This designation is for products that aim to treat potentially life-threatening infections or infections caused by bacteria or fungus resistant to other available drugs. In the case of dalbavancin, the QIDP designation was received in November 2012.

The two most important benefits afforded by the QIDP designation include:

(1) **Priority Six-Month Review:** The priority review provides a modestly shorter path to market, which is important for current investors because it condenses the timeline for key catalysts.

(2) **Five Years of Additional Exclusivity on Top of the Five Years Normally Afforded to New Chemical Entities (NCEs):** The five extra years of exclusivity have substantial long-term value. Dalbavancin's primary patent protection currently runs to 2024, with likely extension to 2028 based on Hatch-Waxman patent term restoration. The primary patent is a dosing patent, not a composition of matter patent, and therefore more likely to be the subject of a Paragraph IV challenge by generic

manufacturers. While we believe that DRTX has a strong patent position, these challenges create substantial investor uncertainty and can lead to patent settlements that require the innovator to give up a portion of its expected patent protection period after data exclusivity.

Without the GAIN Act, investors would expect a Paragraph IV challenge four years after launch (one year before the data exclusivity for NCEs expires). With the GAIN Act, the period of exclusivity extends for ten years. A Paragraph IV challenge would then be expected after nine years, and assuming DRTX filed suit, a 30-month stay would follow, and the soonest a generic could launch would be almost 12 years from initial FDA approval.

Potential New Pathways to Drug Approvals

The GAIN Act also requires FDA to provide guidance for pathogen-specific approvals. Initial draft guidelines are expected by June 2013 and final guidelines by June 2014. The goal of these guidelines is to provide faster paths to gaining FDA approval for treating rarer and life-threatening infections caused by drug-resistant pathogens. While it is not clear exactly how Durata will benefit from proposed guidelines, it is likely that DRTX could seek additional FDA approvals at lower cost based on the potential for dalbavancin to treat MRSA.

A More Permissive FDA?

The renewed focus by the government to facilitate the development of new antibiotics likely signals the beginning of a new period of antibiotic drug approvals. For many years, FDA has been particularly harsh on this drug class, primarily by changing regulatory standards during late-stage trials and regulatory review, and rejecting drugs that are clearly efficacious. For this reason, several of the drugs currently in Phase III development are either running repeat Phase III trials or running Phase III trials with newly designed FDA endpoints to meet a changing standard.

Our expectation is that FDA will approve a high percentage of NDAs for new antibiotics based on large Phase III programs, new regulatory standards that are being met by nearly all the candidates, and increased pressure from Congress, which passed the GAIN Act with the intention of increasing the number of approved antibiotics.

Exhibit 7: Gram-Positive Therapeutics in Development

Name	Company	ROA	Dosing	Activity	Class of molecule	Status	Indication
Dalbavancin	Durata Therapeutics	IV	1X / week	Bactericidal	Glycopeptide	2 Positive Ph3 trials; NDA expected mid:13; MAA by YE:13	ABSSI
Oritavancin	The Medicines Company	IV	1 dose total	Bactericidal	Glycopeptide	1st Ph3 positive; 2nd Ph3 data mid-2013; To file NDA mid-2013	ABSSI
Tedizolid	Trius Therapeutics	IV / oral	1X / day	Static	Oxazolidinone	1st Ph3 positive; 2nd Ph3 data H1:13; To file NDA H2:13	ABSSI
Ceftobiprole	Basilea Pharmaceutica	IV	2X or 3X / day	Bactericidal	Cephalosporin	MAA filed; potential NDA filing in 2013	hCAP
Omadacycline	Paratek Pharmaceutica	IV / oral	1X / day	Bactericidal	Aminomethylcycline	Phase III with SPA to begin soon	ABSSI and CABP

Source: Company data, Credit Suisse estimates.

Management

Paul Edick – CEO and Director

Paul Edick has served as chief executive officer and as a member of the board of directors since July 2010. Previously, Mr. Edick was chief executive officer of GANIC Pharmaceuticals (2008-2010) and chief executive officer of MedPointe (2006-2008). Mr. Edick holds a B.A. from Hamilton College in Clinton, New York.

Michael Dunne, M.D. – Chief Medical Officer

Michael Dunne has served as the chief medical officer since September 2010 and was acting chief medical officer on a consulting basis from December 2009 to September 2010. Dr. Dunne also had several positions at Pfizer (1992-2009), including as the vice president, therapeutic head of development for infectious disease, where he had direct responsibility for dalbavancin. Dr. Dunne holds a B.A. from Northwestern University and an M.D. from the State University of New York Health Sciences Center.

Corey Fishman – Chief Operating Officer

Corey Fishman has served as chief operating officer since August 2010 and as chief financial officer since June 2012. Mr. Fishman previously served alongside Paul Edick as chief financial officer of GANIC Pharmaceuticals (2008-2010) and as chief financial officer of MedPointe (2006-2008). Mr. Fishman holds a B.A. from the University of Illinois at Urbana-Champaign and an M.S.M. in finance from Purdue University.

John Shannon – Chief Commercial Officer

John Shannon has served as chief commercial officer since March 2012. Previously, Mr. Shannon served in a variety of roles at Baxter International (2002 - 2012), where he held positions of general manager—U.S. biopharm business; vice president marketing, North America; and vice president, renal U.S. marketing and business development. Mr. Shannon holds a B.S. from Western Illinois University.

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Companies Mentioned *(Price as of 14-Mar-2013)*

AstraZeneca (AZN.L, 3074.0p)
Basilea Pharmaceutica Ltd. (BSLN.S, SFr58.95)
Baxter International Inc. (BAX.N, $70.06)
Biogen Idec (BIIB.OQ, $176.78)
Cubist Pharmaceuticals (CBST.OQ, $47.50)
Durata Therapeutics (DRTX.OQ, $8.25, OUTPERFORM[V], TP $15.0)
Eli Lilly & Co. (LLY.N, $55.07)
Pfizer (PFE.N, $28.11)
The Medicines Company (MDCO.OQ, $31.95)
Trius Therapeutics (TSRX.OQ, $6.7)

Disclosure Appendix

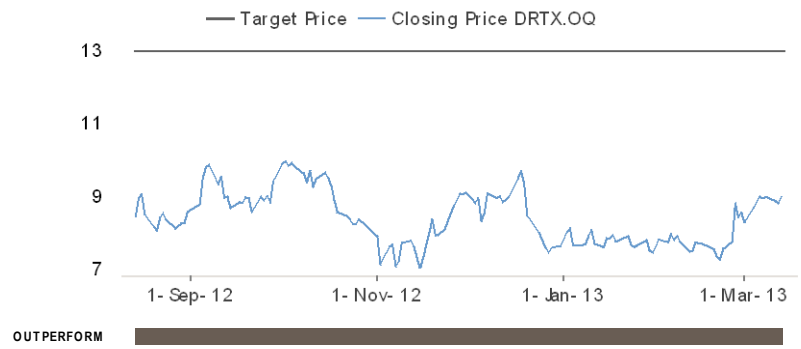
Important Global Disclosures

Ravi Mehrotra PhD, Jason Kantor, PhD, Lee Kalowski, each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her 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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Outperform (O) : The stock's total return is expected to outperform the relevant benchmark*over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.*

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Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

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Global Ratings Distribution

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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 $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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See the Companies Mentioned section for full company names

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