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Durata Therapeutics (DRTX)

COMMENT

First thoughts: Headline DISCOVER 1 data positive, investor focus on 2ndry endpoints

- **Summary:** In the pre-market this morning, Durata released headline data for Dalbavancin in the DISCOVER 1 pivotal PIII study. The timing of the release was as previously guided by the company. The study hit its primary endpoint, which is early response at 48-72 hr as measured by cessation of lesion spread and fever – recall, this is a new "FDA guided" end-point used in the SPA for Dalbavancin. The company reiterated its aim to submit a NDA to the FDA in H1'13. There was a focus on the conference call on the more classical secondary endpoints of clinical status, which is the primary endpoint for the EU filing. Durata stated that it had not yet completed statistical analyses on these endpoints. However, management did stress that they had seen nothing that gave them pause on not hitting the statistical hurdle (10% non-inferiority margin) required for the EU. This analysis needs further baseline adjustments (for fever and subtype of infection status), which will be conducted over the next months, with a readout due in Q1'13.
- **Data Summary:** Primary endpoint was 83.0% vs 81.8% (Dalbavancin vs. Vancomycin/Linezolid) with a -4.9 non-inferiority margin (lower bound of 95% CI). Secondary endpoint was clinical status (CE) 87.0% vs. 91.4% and (ITT) 81.9% vs. 86.7% (Dalbavancin vs Vancomycin/Linezolid). Adverse events were in-line with previous studies with treatment related AEs of 12.3% vs. 18.3% (Dalbavancin vs Vancomycin/Linezolid).
- **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.

Rating	**OUTPERFORM* [V]**
Price (10 Dec 12, US$)	8.95
Target price (US$)	13.00[1]
52-week price range	9.95 - 6.93
Market cap. (US$ m)	164.46
Enterprise value (US$ m)	133.70

**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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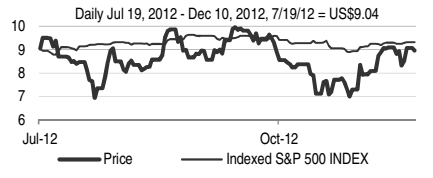
Share price performance



On 12/10/12 the S&P 500 INDEX closed at 1418.55

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)	-2.6	-2.4	-4.7	-5.5
P/E rel. (%)	-18.6	-18.1	-39.0	-51.1
Revenue (US$ m)	—	—	—	56.1
EBITDA (US$ m)	-34.4	-56.0	-33.0	-28.4
OCFPS (US$)	-3.07	-4.14	-2.43	-0.86
P/OCF (x)	—	-2.2	-3.7	-10.4
EV/EBITDA (current)	-4.8	-2.9	-5.0	-5.8
Net debt (US$ 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.

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Companies Mentioned *(Price as of 10-Dec-2012)*

Durata Therapeutics (DRTX.OQ, $8.95, 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*	15%	(44% 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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