Durata Therapeutics (DRTX)

Q4:12 EPS, Raising Price Target to $26 (from $20) With Favorable Tax Strategy, Reiterate OUTPERFORM

- **DRTX reported 2012 EPS of ($7.48), compared to our ($4.66) estimate, largely on average share outstanding calculations from its recently completed IPO.** The company ended the year with $45.3M in cash and equivalents compared to our $42.3M estimate.
- **Management announced plans to shift its intellectual property to lower the company's anticipated future tax liabilities.** We are adjusting our out-year tax rates to an average 17.5% in-line with the mid-to-high teen range guided to by management.
- **We continue to expect NDA and EMA filings for dalbavancin to occur in mid:13 and YE:13, respectively.**
- **Our view is that dalbavancin has a highly competitive profile to the comparator drugs, due to its safety and efficacy.** We view its profile as advantageous in indications/settings such as osteomyelitis and also in the home care setting.
- **Our recent checks suggest that there are a large number of patients in the home care setting currently receiving vancomycin on an unfavorable once daily administration schedule.** We view this as an exceptionally attractive, relatively price-insensitive market segment in which drugs from a known class, with a highly favorable administration schedule could take significant share from an older, less safe, less effective therapeutic being administered in an unfavorable schedule likely to lead to renal toxicity, and in-effective antibiotic activity.
- **Reiterate OUTPERFORM rating and raising price target to $26 (from $20).** Our $26 share price target is derived from the net present value (25% discount rate) of our estimate of profits and losses for DRTX through our projection of the end of dalbavancin's exclusivity period in the U.S. and EU in 2027 and 2023, respectively, with no terminal value and cash per share in 12 months.
- Risks to the attainment of our price target include; 1) commercial and launch risks, 3) regulatory risks and 4) risks to the IP estate of Durata and dalbavancin in the U.S. and ROW.

FYE Dec	2011A	2012A			2013E		
REV	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	N/A	$0.0A		N/AA	$0.0E		$0.0E
Q2 Jun	N/A	$0.0A		0.0A	$0.0E		0.0E
Q3 Sep	N/A	$0.0A		0.0A	$0.0E		0.0E
Q4 Dec	N/A	$0.0A		0.0A	$0.0E		0.6E
Year*	**N/A**	**$0.0A**		**0.0A**	**$0.0E**		**$0.4E**
Change	--	--			--		
	2011A	2012A			2013E		
EPS	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	N/A	($0.71)A		N/A	($0.36)E	($0.37)E	($0.72)E
Q2 Jun	N/A	(1.43)A		(0.26)A	(0.29)E	(0.27)E	(0.58)E
Q3 Sep	N/A	(1.56)A		(1.45)A	(0.24)E	(0.22)E	(0.37)E
Q4 Dec	N/A	(0.65)A	(0.98)A	(3.88)A	(0.26)E	(0.25)E	(0.28)E
Year*	**N/A**	**($7.48)A**	**($4.66)A**	**($7.34)A**	**($1.16)E**	**($1.11)E**	**($1.93)E**
P/E	N/	--			--		
Change	--	--			84%		

Consensus estimates are from Thomson First Call.
** Numbers may not add up due to rounding.*

March 11, 2013

Price
$8.90

Rating
OUTPERFORM

12-Month Price Target
$26 **(from $20)**

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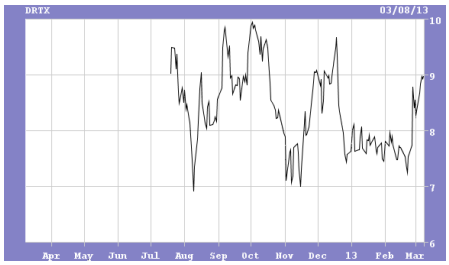
Company Information

Shares Outst (M)	12.1
Market Cap (M)	$107.7
52-Wk Range	$6.68 - $10.63
Book Value/sh	$3.10
Cash/sh	$3.75
Enterprise Value (M)	$62.4
LT Debt/Cap %	0.0
Cash Burn (M)	$23.3
Current Cash (M)	$45.4

Company Description

Durata was formed to acquire, complete the development of, and commercialize dalbavancin an IV antibiotic with once weekly IV administration.



Source: Thomson Reuters

INVESTMENT SUMMARY

Durata's dalbavancin is an intravenous antibiotic in development for the treatment of serious Gram + bacterial infections and if approved, would primarily compete with vancomycin (generic), Cubist's CUBICIN (daptomycin), Forest's Teflaro, and potentially, the Medicines Company's oritavancin. The Company's Phase III clinical studies have been successful and we expect FDA and EMA filings for approval in mid:13 and YE:13, respectively. Dalbavancin's primary potential competitive advantage lies with its infrequent, once weekly administration that should simplify delivery of IV antibiotic therapy in the outpatient setting facilitating care outside of the expensive inpatient settings found in hospitals and skilled nursing facilities. FDA and EMA (European Medicines Agency) NDA (new drug application) and MAA (marketing authorization application) filings are expected in mid:13 and by YE:13 respectively. Uniquely, the drug has been reviewed by FDA with the only outstanding issue remaining the conduct of at least one new Phase III skin clinical study with current, standard efficacy endpoints and non-inferiority margins.

Upcoming Milestones

H1:13 Completion of enrolment of MDCO's SOLO-2 oritavancin Phase III abSSSI study
H2:13 Top line data from the second Phase III study of oritavancin (SOLO-2) in the abSSSI setting
Mid:13 Potential US NDA filing for oritavancin in the abSSSI setting with an anticipated 6 month review
Mid:13 Potential US NDA filing for dalbavancin in the abSSSI setting
YE:13 Potential EU MAA filing for dalbavancin in the abSSSI setting
2013 Potential re-partnering transaction for THRX of Vibativ (telavancin)
2014 MDCO launch of oritavancin in the US

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DURATA THERAPEUTICS, INC.
Annual Financial Results & Projections
($ in thousands except per share data)
Ticker: DRTX

	FY:12A	Q1	Q2	Q3	Q4	FY:13E	FY:14E	FY:15E	FY:16E	FY:17E	FY:18E	FY:19E	FY:20E	FY:21E	FY:22E	FY:23E
REVENUES																
Dalbavancin (US)	0	0	0	0	0	0	45,132	128,193	229,717	350,350	457,184	535,552	591,102	633,935	662,462	692,272
Dalbavancin (EU)	0	0	0	0	0	0	0	5,546	11,997	20,717	30,321	38,332	44,076	48,201	51,264	53,571
Dalbavancin (ROW	0	0	0	0	0	0	0	0	3,475	10,768	19,296	31,882	41,604	48,735	53,790	57,688
TOTAL	0	0	0	0	0	0	45,132	133,739	245,189	381,835	506,802	605,765	676,782	730,871	767,516	803,532
EXPENSES																
COGS	0	0	0	0	0	0	6,770	20,061	36,778	57,275	76,020	90,865	101,517	109,631	115,127	120,530
Sales, General & Marketing	9,788	2,500	2,500	2,500	3,000	10,500	16,750	34,250	54,571	84,004	111,496	133,268	148,892	160,792	168,854	176,777
Research and Development	51,695	5,000	3,000	2,000	2,000	12,000	16,025	32,483	49,709	49,709	49,709	49,709	49,709	49,709	49,709	49,709
Other	1,097	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	62,580	7,500	5,500	4,500	5,000	22,500	39,545	86,794	141,058	190,988	237,226	273,842	300,118	320,131	333,690	347,016
Operating Income	(62,580)	(7,500)	(5,500)	(4,500)	(5,000)	(22,500)	5,587	46,945	104,130	190,847	269,576	331,923	376,663	410,740	433,826	456,516
Interest (expense) and other, net	41	30	(548)	(398)	(398)	(1,313)	(1,590)	92	213	421	775	1,253	1,825	2,466	3,158	3,890
PRETAX INCOME	**(62,539)**	**(7,470)**	**(6,048)**	**(4,898)**	**(5,398)**	**(23,813)**	**3,997**	**47,038**	**104,343**	**191,268**	**270,351**	**333,176**	**378,489**	**413,206**	**436,985**	**460,405**
Tax	0	0	0	0	0	0	549	2,493	16,115	33,472	47,311	58,306	66,236	72,311	76,472	80,571
GAAP NET INCOME	**(62,539)**	**(7,470)**	**(6,048)**	**(4,898)**	**(5,398)**	**(23,813)**	**3,448**	**44,545**	**88,228**	**157,796**	**223,040**	**274,870**	**312,253**	**340,895**	**360,512**	**379,834**
Non-GAAP Net Income	**(62,539)**	**(7,470)**	**(6,048)**	**(4,898)**	**(5,398)**	**(23,813)**	**3,997**	**47,038**	**104,343**	**191,268**	**270,351**	**333,176**	**378,489**	**413,206**	**436,985**	**460,405**
Non-GAAP diluted EPS	(4.22)	(0.37)	(0.30)	(0.24)	(0.27)	(1.17)	0.20	2.29	5.06	9.23	12.98	15.92	18.00	19.56	20.59	21.59
GAAP diluted EPS	(7.48)	(0.36)	(0.29)	(0.24)	(0.26)	(1.16)	0.17	2.15	4.24	7.54	10.61	13.01	14.71	15.99	16.83	17.65
Basic Shares Outstanding	8,364	18,376	18,401	18,426	18,451	18,414	18,514	18,614	18,714	18,814	18,914	19,014	19,114	19,214	19,314	19,414
Diluted Shares Outstanding	8,364	20,487	20,512	20,537	20,562	20,525	20,625	20,725	20,825	20,925	21,025	21,125	21,225	21,325	21,425	21,525
Cash	45,351	25,283	12,356	62,141	45,351	45,351	42,097	82,302	160,660	310,021	529,426	800,262	1,109,394	1,448,143	1,806,575	2,189,420

Source: Wedbush PacGrow Life Sciences

Analyst Biography

Greg's Venture (Helix) Industry (Isis Pharmaceuticals and Procyon BioPharma) and sell-side experience across 11 years and 40 companies provide him with a well considered perspective. In depth financial models accurate tracking of events/catalysts and strong industry and medical contacts provide for key insights into clinical regulatory and financial outcomes. Well known amongst the Buyside Greg has good information flow on investor sentiment on his names and the group. Edge over the Street BMTI CBST CYTK EBS NGSX SIGA OGXI XNPT Coverage ADLR FOLD ANAC AVNR AVII BMTI CLDX CBLI CBST DCTH DNDN EBS ECYT GENT HALO IMMU IRWD NGSX NVAX OGXI ONCY ONTY PCYC PARD RPTP SIGA XNPT ZLCS

Dr. Wade joined Wedbush from Pacific Growth Equities where he was a Senior Equity Research Analyst. Prior to Pacific Growth he was the Associate Director of Business Development at Isis Pharmaceuticals. Prior to Isis he was the Manager of Corporate Development for Procyon BioPharma Inc. and with Helix Investments Inc. a Toronto based venture capital firm. Dr. Wade received his B.Sc. (Medical Biophysics) and Ph.D. (Physiology) from the University of Western Ontario (London Canada).

Analyst Certification
I, Gregory R. Wade, Ph.D., David M. Nierengarten, Ph.D., Christopher N. Marai, Ph.D., certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

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Investment Rating System:
Outperform: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.
Neutral: Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.
Underperform: Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

Rating Distribution (as of December 31, 2012)	**Investment Banking Relationships (as of December 31, 2012)**
Outperform:53% Neutral: 42% Underperform: 5%	Outperform:14% Neutral: 2% Underperform: 0%

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Wedbush Equity Research Disclosures as of March 11, 2013

Company	Disclosure
Durata Therapeutics	1,3,4,5,7

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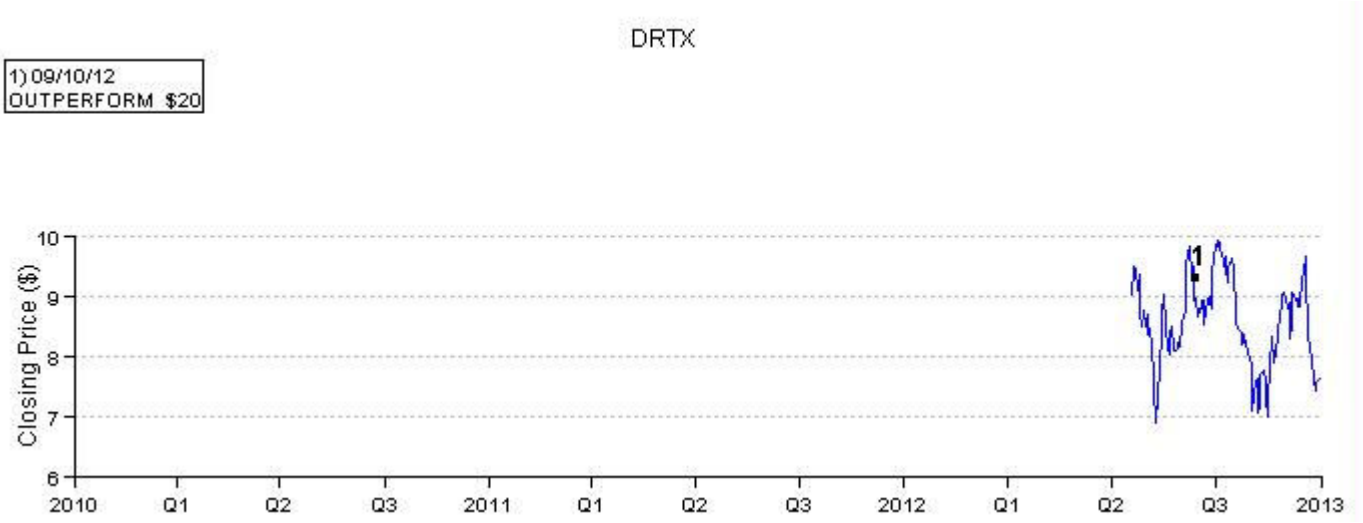

* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009.
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