EQUITY RESEARCH

RBC Capital Markets

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April 15, 2013

Durata Therapeutics, Inc.

Capital Raise Provides Funding For Dalbavancin Launch

Our View: Dalbavancin is de-risked and differentiated where even niche market share could lead to significant upside.

Key Points:

DRTX remains an interesting investment opportunity where even limited commercial success for dalbavancin could result in significant potential upside, in our view. The pivotal program is completed and de-risked with both Phase III trials having read out positive and conducted under an SPA lowering clinical and regulatory risk. The next perceived hurdle, assuming approval, is commercial risk where we believe risk-reward is favorable given highly checked investor expectations regarding dalbavancin's commercial potential. DRTX owns dalbavancin outright, which leaves open the opportunity for partnering or selling dalbavancin. Near-term catalysts could include an analyst event (April 23) that explains reimbursement dynamics to the Street, NDA and MAA filings, and detailed data presentations over 2013. Pro forma cash per share is ~$4/share

- **Additional capital sufficient for dalbavancin commercial prep and launch**. With an NDA and MAA expected next, DRTX must prepare for commercial launch and a capital raise both gives DRTX the ability to launch dalbavancin in the US and improves its negotiating position for potential partnerships outside the US, in our view. We believe the market is well defined and addressable with likely 100-120 sales reps. Currently we assume a partnership outside the US in 2013.
- **Even a niche opportunity could lead to significant potential upside**. DRTX estimates that the number of patients eligible for dalbavancin could be 10-50% of the total. According to our estimates, even single digit market share could make dalbavancin a very successful commercial product with sales of $100-400M+ at penetration rates between 1-5%. Cubist's Cubicin (daptomycin) is a $800M+ drug based on 10-15% market share alone.
- **Differentiated profile vs. current and future products**. Dalbavancin is dosed twice as an i.v. over a two week period as a 30 minute infusion (e.g., day 1 and 8 of week 1 and 2) vs. once or twice per day over several days for currently approved i.v. or oral drugs.
- **NDA by mid-2013; expect approval by mid-2014 or sooner**. The expected review timeline in the US is roughly 1-year though it could be tightened to roughly 8 months given that dalbavancin was designated a QIDP.
- **Further studies likely**. Phase I osteomyelitis data could be out in 2013 and 2014 and a path forward in pediatric osteomyelitis via a Phase II/III pending FDA discussions is most likely.

Outperform

Risk Qualifier: Speculative Risk

NASDAQ: DRTX

Price Target $15.00

WHAT'S INSIDE	
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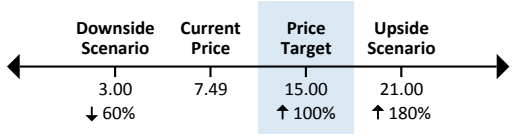
☐ Preview	☑ News Analysis

Scenario Analysis*



*Implied Total Returns

Key Statistics

Shares O/S (MM):	26.6	Market Cap (MM):	199
Dividend:	0.00	Yield:	0.0%

RBC Estimates

FY Dec	2012A	2013E	2014E
Rpt EPS	(7.48)	(2.14)	(1.69)
Prev.		(2.33)	(1.80)
Revenue (MM)	0.0	1.3	47.8

Rpt EPS	Q1	Q2	Q3	Q4
2013	(0.70)E	(0.58)E	(0.49)E	(0.44)E
Prev.		(0.71)E	(0.52)E	(0.47)E
Revenue (MM)				
2013	0.0E	0.0E	0.0E	1.3E

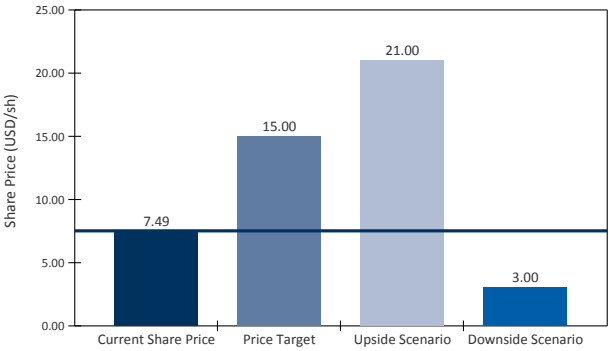
All values in USD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Conflicts Disclosures, see Page 5.

Target/Upside/Downside Scenarios

Exhibit 1: Durata Therapeutics, Inc.



Source: RBC Capital Markets estimates

Target Price/ Base Case

Base case: $15/share. Our sum-of-the parts analysis for dalbavancin arrives at a value of $15/share, including approximately $3/share for the value of EU royalties. We assume that dalbavancin is protected through 2023 with patents and/or exclusivity, reaches peak market penetration of ~5%, receives royalties of 15% on EU sales, which are 15% of US sales, and the effective tax rate is 25%.

Upside Scenario

Upside case: $21/share. We assume peak dalbavancin market share will be 7-8% up from ~5% assumed in our base case scenario.

Downside Scenario

Downside case: $3/share. Our downside case assumes that dalbavancin launch could be delayed in the US and that dalbavancin is not launched in the EU. We also assume a slower ramp and a peak penetration in the US of 4%. However, we note that the current pro forma cash is ~$4/ share.

Investment Thesis

Durata is developing Dalbavancin, a wholly owned asset, for the treatment of abSSSI. Results from two ongoing Phase III trials are expected by year-end 2012 and in early 2013, respectively. Dalbavancin could be the first long-acting antibiotic targeting abSSSI on the market with the potential increase convenience, compliance, and lower costs to the healthcare system. Prior Phase III data, extensive regulatory history, and a well understood market provides greater transparency than is typical for a Phase III product candidate. On balance, we see the risk-reward as being highly favorable and expect value to increase pending positive data from the Phase III studies.

Valuation

Our sum-of-the parts analysis for dalbavancin arrives at a value of $15/share, including approximately $3/share for the value of EU royalties. We assume that dalbavancin is protected through 2023 with patents and/or exclusivity, reaches peak market penetration of ~5%, receives royalties of 15% on EU sales, which are 15% of US sales, and the effective tax rate is 25%.

Price Target Impediments

Our price target is dependent primarily on the clinical, regulatory and commercial success of dalbavancin for acute bacterial skin and skin structure infections (abSSSI). Any setbacks in clinical development, delay in launch, increased competition or other limitations to the market potential of dalbavancin could negatively impact our valuation. Upside could come from pricing, compliance, better than anticipated market penetration, new partnerships, clinical success of programs that are not included in our valuation, setbacks for potential competitors, and/or a takeout.

Company Description

Durata Therapeutics is focused on the development and commercialization of novel therapeutics for patients with infectious diseases and acute illnesses. Dalbavancin, DRTX's primary value driver, for the treatment of acute bacterial skin and skin structure infections (abSSSI) has reported positive data from two Phase III studies. Dalbavancin is an intravenous antibiotic product candidate designed for once-weekly dosing, which differentiates from currently marketed antibiotics and increase the convenience of treating patients in the out-patient and in-patient settings, while lowering the overall cost of care to the healthcare system. Assuming a positive outcome, Durata will submit an NDA to the FDA in mid-2013 and an MAA to the EMA in 2H:13. Currently, the company plans to commercialize Dalbavancin directly in the US and likely partner outside the US.

Durata Therapeutics (Nasdaq: DRTX)

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Annual and Quarterly Income Statement

($ in millions, except per share) Fiscal Year Ends December	2011A	1Q12A	2Q12A	3Q12A	4Q12A	2012A	1Q13E	2Q13E	3Q13E	4Q13E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Dalbavancin sales (US) (probability adj.)	-	-	-	-	-	-	-	-	-	-	-	42.8	102.8	155.9	259.8	357.7	425.7
Dalbavancin (royalties) (probability adj.)	-	-	-	-	-	-	-	-	-	-	-	-	7.7	11.7	19.5	26.8	31.9
Contracts, licensing fees, and milestones	-	-	-	-	-	-	-	-	-	1.3	1.3	5.0	5.0	5.0	5.0	3.8	-
Total Revenues	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1.3**	**1.3**	**47.8**	**115.5**	**172.6**	**284.3**	**388.3**	**457.6**
Cost of goods sold	-	-	-	-	-	-	-	-	-	-	-	6.4	14.4	18.7	31.2	42.9	51.1
Research & development	30.1	6.8	16.5	19.0	9.4	51.7	9.2	9.0	8.8	8.7	35.7	29.0	33.0	38.0	43.0	47.0	54.9
SG&A	4.3	1.2	2.4	2.6	3.6	9.8	3.7	3.9	4.1	4.3	16.0	58.0	73.0	88.0	103.0	110.0	115.0
Contingent consideration	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	**35.6**	**8.3**	**19.2**	**21.8**	**13.3**	**62.6**	**13.1**	**13.1**	**13.1**	**13.2**	**52.5**	**94.2**	**121.2**	**145.5**	**178.0**	**200.7**	**221.8**
Operating Income (Loss)	**(35.6)**	**(8.3)**	**(19.2)**	**(21.8)**	**(13.3)**	**(62.6)**	**(13.1)**	**(13.1)**	**(13.1)**	**(12.0)**	**(51.3)**	**(46.4)**	**(5.7)**	**27.1**	**106.3**	**187.6**	**235.8**
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.3	0.8	2.2	0.4	0.5	0.6	1.0	2.0
Interest expense	-	-	-	-	-	-	(0.1)	(0.4)	(0.4)	(0.4)	(1.4)	(3.0)	(4.2)	(4.2)	(2.5)	(2.5)	(1.3)
Total Other Income (expense)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.3)	(0.2)	(0.1)	(0.6)	(0.8)	(3.8)	(3.7)	(1.9)	(1.5)	0.8
Income before Tax	(35.5)	(8.3)	(19.2)	(21.8)	(13.3)	(62.5)	(13.1)	(13.4)	(13.3)	(12.1)	(51.8)	(47.2)	(9.5)	23.4	104.4	186.1	236.6
Provision for taxes	(2.5)	-	-	-	-	-	-	-	-	-	-	-	-	8.2	36.5	65.1	82.8
Net Income (Loss)	**(33.0)**	**(8.3)**	**(19.2)**	**(21.8)**	**(13.3)**	**(62.5)**	**(13.1)**	**(13.4)**	**(13.3)**	**(12.1)**	**(51.8)**	**(47.2)**	**(9.5)**	**15.2**	**67.8**	**121.0**	**153.8**
EPS - Basic (GAAP)	**($27.22)**	**($132.12)**	**($260.25)**	**($1.47)**	**($0.72)**	**($7.48)**	**($0.70)**	**($0.58)**	**($0.49)**	**($0.44)**	**($2.14)**	**($1.69)**	($0.33)	$0.52	$2.27	$3.97	$4.95
EPS - Diluted* (GAAP)	($27.22)	($132.12)	($260.25)	($1.47)	($0.72)	($6.06)	($0.70)	($0.58)	($0.49)	($0.44)	($2.14)	($1.69)	**($0.33)**	**$0.48**	**$2.10**	**$3.67**	**$4.58**
Shares Outstanding - Basic (MM)	1.2	0.1	0.1	14.8	18.5	8.4	18.6	23.1	27.4	27.6	24.2	27.9	28.7	29.3	29.9	30.5	31.1
Shares Outstanding - Diluted (MM)	-	-	-	20.3	21.0	10.3	21.1	25.6	29.9	30.1	26.7	30.4	31.2	31.8	32.4	33.0	33.6

Dalbavancin - Revenues	**2011A**	**1Q12A**	**2Q12A**	**3Q12A**	**4Q12A**	**2012A**	**1Q13E**	**2Q13E**	**3Q13E**	**4Q13E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**
Dalbavancin - US							-	-	-	-	-	42.8	102.8	155.9	259.8	357.7	425.7
Dalbavancin - EU							-	-	-	-	-	-	51.4	78.0	129.9	178.9	212.8
Dalbavancin Royalties - EU							-	-	-	-	-	-	7.7	11.7	19.5	26.8	31.9

Margin Analysis	**2011A**	**1Q12A**	**2Q12A**	**3Q12A**	**4Q12A**	**2012A**	**1Q13E**	**2Q13E**	**3Q13E**	**4Q13E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**
Gross margin											85.0%	85.0%	86.0%	88.0%	88.0%	88.0%	88.0%
Cost of goods											15%	15%	14%	12%	12%	12%	12%
Research & development											2856%	61%	29%	22%	15%	12%	12%
Sales, general & administrative											1280%	121%	63%	51%	36%	28%	25%
Operating margin													-5%	16%	37%	48%	52%
Tax rate											0%	35%	35%	35%	35%	35%	35%
Net margin													-8%	9%	24%	31%	34%

Source: Company reports and RBC Capital Markets estimates.

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RBC Capital Markets, Equity Research

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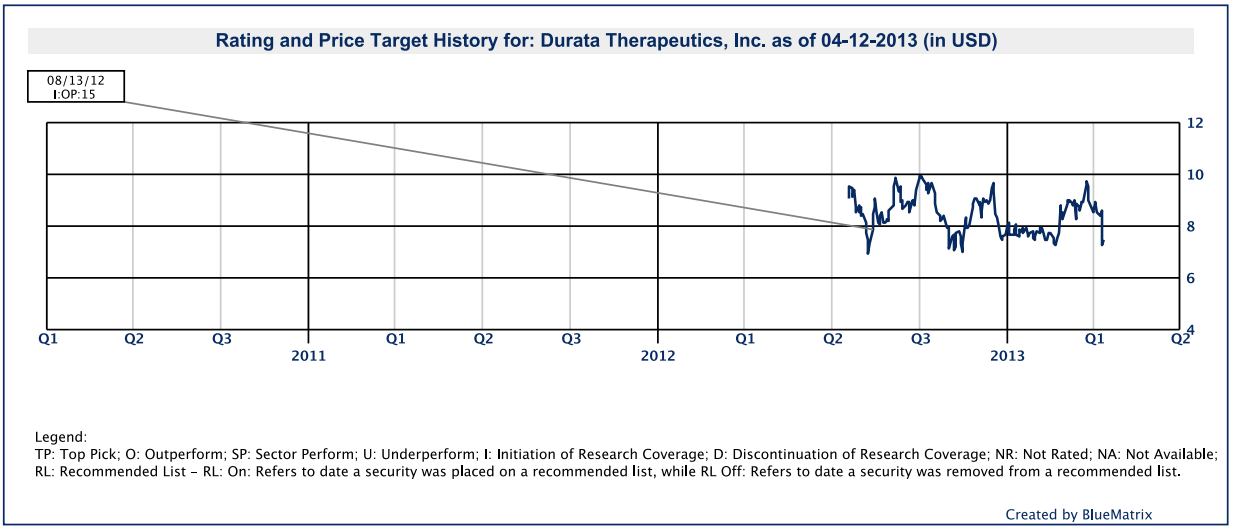
HOLD[SP]	681	44.36	172	25.26
SELL[U]	73	4.76	9	12.33



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