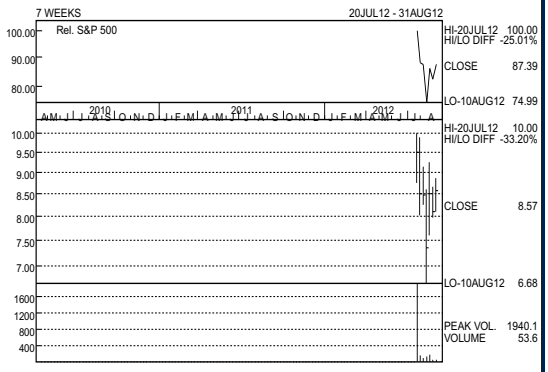

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FY Dec	2012E	2013E	2014E
Rpt EPS	(7.44)	(2.55)	(1.37)
Prev.	(3.73)	(2.11)	
Revenue (MM)	0.0	2.5	55.6

Rpt EPS	Q1	Q2	Q3	Q4
2012	(132.12)A	(260.25)A	(1.07)E	(1.17)E
Prev.	(0.85)A	(1.33)E	(0.80)E	(0.89)E
2013	(1.16)E	(1.01)E	(0.41)E	(0.24)E
Prev.	(0.89)E	(0.74)E		
Revenue (MM)				
2012	0.0A	0.0A	0.0E	0.0E
2013	0.0E	0.0E	0.0E	2.5E

All values in USD unless otherwise noted.

COMPANY UPDATE | COMMENT

SEPTEMBER 4, 2012

Durata Therapeutics, Inc. (NASDAQ: DRTX)

Second Phase III Study Upsized; No Change In Timing To Data

Outperform
Speculative Risk

Price:	8.57	**Price Target:**	15.00
		Implied All-In Return:	75%
Shares O/S (MM):	18.4	**Market Cap (MM):**	157
Dividend:	0.00	**Yield:**	0.0%

Event

DRTX announced 2Q:12 results and that the DMC recommended adding 184 patients to one of the Phase III studies

Investment Opinion

Despite the increase in the number of patients being enrolled in one of the two Phase III studies, we believe risk/reward remains favorable ahead of pivotal Phase III readouts for dalbavancin for abSSSI by YE:12. 2Q:12 expenses were higher than forecast but the key for a company like DRTX is cash, which is more than sufficient to see the company through to pivotal trial results from both Phase III studies, according to our estimate. Valuation remains attractive with pro forma (i.e., including IPO proceeds) cash per share of ~$4.50 and an enterprise value of ~$75M for a company with a wholly owned Phase III asset.

- **One Phase III trial upsized**. Based on a recommendation from the data monitoring committee, DRTX upsized the second Phase III dalbavancin study by 184 patients (~740 patients) to maintain its 90% power calculation. The first Phase III study did not need additional patients (~556 patients). We do not view the additional patients as necessarily reflecting on the clinical outcome for dalbavancin but rather as a precautionary measure to ensure statistics remain robust. Of note, we assume this reflects positively on the safety of the long-acting antibiotic. The DISCOVER program compare dalbavancin to vancomycin in two Phase III studies. The primary endpoint is cessation of lesion spread and absence of fever at 48-72 hours with a non-inferiority margin of 10%.
- **Timeline to data and NDA unchanged**. We continue to expect results from the first Phase III study by YE:12 and from the second study in early 2013. DRTX maintained the guidance of filing an NDA in 1H:13, which would be followed by an MAA in the EU. We currently forecast U.S. approval in 1H:14 and EU approval in 2H:14.
- **2Q:12 financial results**. Total operating expenses were $6M higher than forecast driven by higher than forecast R&D costs. We are raising our R&D expense forecast for 2012 by $15.5M and for 2013 by $10M. The key metric for DRTX is cash and the company has sufficient cash to see it through pivotal Phase III trial results in 1H:13, according to our estimates. The current pro forma cash balance for DRTX is ~$4.50 per share.

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

For Required Conflicts Disclosures, see Page 5.

Details

2Q:12 Financial Results: Actual vs. Estimated

($ in millions, except per share)	Actual	Estimated	Variance
Fiscal Year Ends December	2Q12A		
Dalbavancin sales (US) (probability adj.)	-	-	-
Dalbavancin (royalties) (probability adj.)	-	-	-
Contracts, licensing fees, and milestones	-	-	-
Total Revenues	**-**	**-**	**-**
Cost of goods sold	-	-	-
Research & development	16.5	11.0	5.5
SG&A	2.4	2.0	0.4
Contingent consideration	-	-	-
Total Operating Expenses	**19.2**	**13.0**	**6.2**
Operating Income (Loss)	**(19.2)**	**(13.0)**	**(6.2)**
Interest income	0.0	0.0	(0.0)
Interest expense	-	-	-
Total Other Income (expense)	0.0	0.0	(0.0)
Income before Tax	(19.2)	(13.0)	(6.2)
Provision for taxes	-	-	-
Net Income (Loss)	**(19.2)**	**(13.0)**	**(6.2)**
EPS - Basic (GAAP)	**($260.25)**	**($1.33)**	($258.92)
EPS - Diluted* (GAAP)	($260.25)	($1.33)	**($258.92)**
Shares Outstanding - Basic (MM)	0.1	9.7	(9.7)
Shares Outstanding - Diluted (MM)	-	-	-

Source: Company reports and RBC Capital Markets estimates.

Upcoming Events

Timing	Expected News Flow	Program
YE:12	Phase III data from first study in abSSSI	Dalbavancin
Early 2013	Phase III data from second study in abSSSI	Dalbavancin
1H:13	File NDA	Dalbavancin
3Q:13	File MAA	Dalbavancin
1H:14	Potential approval for abSSSI in the US	Dalbavancin
2H:14	Potential approval for abSSSI in the EU	Dalbavancin

Source: Company reports and RBC Capital Markets estimates.

Products and Pipeline

Product	Stage	Indication	Partner
Dalbavancin	Phase III	abSSSI	Proprietary
		Osteomyelitis	
		Diabetic foot infection	

Source: Company reports.

Valuation

We arrive at $15 price target using the average of two methodologies:

1. Dalbavancin DCF. Our sum-of-the parts analysis for dalbavancin arrives at a value of $15/share, including approximately $4/share for the value of EU royalties. We assume that dalbavancin is protected through 2023 with patents and/or exclusivity.

2. P/E Multiple. We use a P/E multiple of 12x our 2017 fully taxed GAAP EPS estimate of $2.84 and a discount rate of 17.5% for five years to arrive at a value of $15/share.

Upside to our forecasts could come from adjustments to our conservative 17.5% discount rate, a lower than forecast tax rate, especially in the outer years, competitor setbacks, and a higher than forecast penetration.

Price Target Impediment

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 take out.

Company Description

Durata Therapeutics is focused on the development and commercialization of novel therapeutics for patients with infectious diseases and acute illnesses. Enrolment in two global Phase III clinical trials with Dalbavancin, DRTX's primary value driver, for the treatment of acute bacterial skin and skin structure infections (abSSSI) is ongoing and results are expected in YE:12 from the first study and early 2012 from the second study. 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 1H:13 and an MAA to the EMA in 2H:13. Currently, the company plans to commercialize Dalbavancin directly in the US and EU with a targeted hospital sales force.

Durata Therapeutics (Nasdaq: DRTX)
Annual and Quarterly Income Statement

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Back to TOC

($ in millions, except per share)																	
Fiscal Year Ends December	**2011A**	**1Q12A**	**2Q12A**	**3Q12E**	**4Q12E**	**2012E**	**1Q13E**	**2Q13E**	**3Q13E**	**4Q13E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**
Dalbavancin sales (US) (probability adj.)	-	-	-	-	-	-	-	-	-	-	-	45.6	109.6	166.3	277.1	381.6	454.0
Dalbavancin (royalties) (probability adj.)	-	-	-	-	-	-	-	-	-	-	-	-	11.0	16.6	27.7	38.2	45.4
Contracts, licensing fees, and milestones	-	-	-	-	-	-	-	-	-	2.5	2.5	10.0	10.0	10.0	10.0	7.5	-
Total Revenues	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2.5**	**2.5**	**55.6**	**130.6**	**193.0**	**314.8**	**427.2**	**499.4**
Cost of goods sold	-	-	-	-	-	-	-	-	-	-	-	6.8	15.3	20.0	33.3	45.8	54.5
Research & development	30.1	6.8	16.5	17.0	18.0	58.3	18.0	15.0	7.0	5.0	45.0	29.0	33.0	38.0	43.0	47.0	54.9
SG&A	4.3	1.2	2.4	2.8	3.5	9.9	3.7	3.9	4.1	4.3	16.0	58.0	73.0	88.0	103.0	114.0	120.0
Contingent consideration	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	**35.6**	**8.3**	**19.2**	**19.8**	**21.5**	**68.7**	**21.7**	**18.9**	**11.1**	**9.3**	**61.0**	**93.8**	**121.3**	**146.0**	**179.3**	**206.8**	**229.4**
Operating Income (Loss)	**(35.6)**	**(8.3)**	**(19.2)**	**(19.8)**	**(21.5)**	**(68.7)**	**(21.7)**	**(18.9)**	**(11.1)**	**(6.8)**	**(58.5)**	**(38.2)**	**9.2**	**47.0**	**135.5**	**220.4**	**270.1**
Interest income	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.3	0.8	2.2	0.4	0.5	0.6	1.0	2.0
Interest expense	-	-	-	-	-	-	-	-	-	-	-	(1.3)	(2.5)	(2.5)	(2.5)	(2.5)	(1.3)
Total Other Income (expense)	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.3	0.8	1.0	(2.1)	(2.0)	(1.9)	(1.5)	0.8
Income before Tax	(35.5)	(8.3)	(19.2)	(19.7)	(21.5)	(68.6)	(21.6)	(18.8)	(10.9)	(6.5)	(57.7)	(37.3)	7.1	45.0	133.6	218.9	270.8
Provision for taxes	(2.5)	-	-	-	-	-	-	-	-	-	-	-	2.5	15.7	46.8	76.6	94.8
Net Income (Loss)	**(33.0)**	**(8.3)**	**(19.2)**	**(19.7)**	**(21.5)**	**(68.6)**	**(21.6)**	**(18.8)**	**(10.9)**	**(6.5)**	**(57.7)**	**(37.3)**	**4.6**	**29.2**	**86.9**	**142.3**	**176.0**
EPS - Basic (GAAP)	**($27.22)**	**($132.12)**	**($260.25)**	**($1.07)**	**($1.17)**	**($7.44)**	**($1.16)**	**($1.01)**	**($0.41)**	**($0.24)**	**($2.55)**	**($1.37)**	$0.17	$1.03	$2.99	$4.80	$5.83
EPS - Diluted* (GAAP)	($27.22)	($132.12)	($260.25)	($1.07)	($1.17)	($6.83)	($1.16)	($1.01)	($0.41)	($0.24)	($2.55)	($1.37)	**$0.16**	**$0.98**	**$2.84**	**$4.57**	**$5.55**
Shares Outstanding - Basic (MM)	1.2	0.1	0.1	18.4	18.4	9.2	18.5	18.6	26.7	26.8	22.7	27.2	27.9	28.5	29.0	29.6	30.2
Shares Outstanding - Diluted (MM)	-	-	-	20.3	19.9	10.0	20.0	20.1	28.2	28.3	24.2	28.7	29.4	30.0	30.5	31.1	31.7

Dalbavancin - Revenues	**2011A**	**1Q12A**	**2Q12A**	**3Q12E**	**4Q12E**	**2012E**	**1Q13E**	**2Q13E**	**3Q13E**	**4Q13E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**
Dalbavancin - US							-	-	-	-	-	45.6	109.6	166.3	277.1	381.6	454.0
Dalbavancin - EU							-	-	-	-	-	-	54.8	83.2	138.5	190.8	227.0
Dalbavancin Royalties - EU							-	-	-	-	-	-	11.0	16.6	27.7	38.2	45.4

Margin Analysis	**2011A**	**1Q12A**	**2Q12A**	**3Q12E**	**4Q12E**	**2012E**	**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											1800%	52%	25%	20%	14%	11%	11%
Sales, general & administrative											640%	104%	56%	46%	33%	27%	24%
Operating margin													7%	24%	43%	52%	54%
Tax rate											0%	35%	35%	35%	35%	35%	35%
Net margin													4%	15%	28%	33%	35%

Source: Company reports and RBC Capital Markets estimates.

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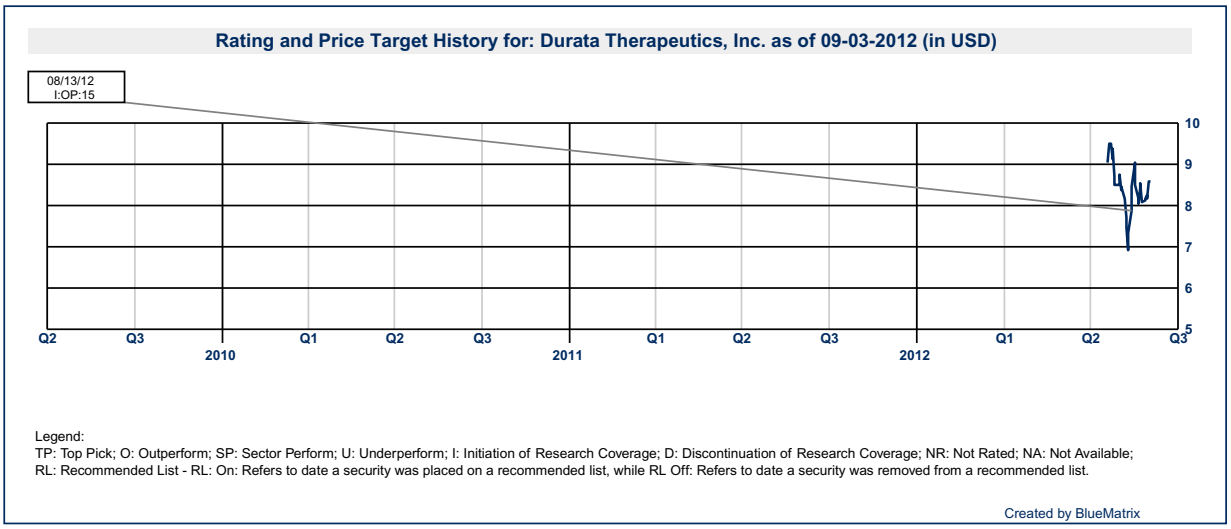

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