

## Durata Therapeutics (DRTX)

### Revising Model for Increased 2013 Expense Expectations and Financing, Lowering PT to \$17 from \$26, Reiterate OUTPERFORM

- We are revising our 2013 total expense expectations to \$50.4 million from \$22.5 million. As a result of some delay in completing the Phase III ABSSI studies, CMC activities and the company's plans to begin additional Phase III work before YE:13, we are taking our 2013 expense expectations up. We are also taking this opportunity to factor in the \$50 million financing and its impact on share count and our new projected 12-month cash estimate. We project that with the recent financing, DRTX has sufficient cash to achieve profitability. We project cash will now hit a low of \$48 million in Q2:14. As a result of the increase to share count and greater anticipated 2013 loss, our 12-month price target goes to \$17/share from \$26/share.
- Reiterate OUTPERFORM rating and lowering price target to \$17 (from \$26). Our \$17 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.

April 12, 2013

Price  
**\$7.25**

Rating  
**OUTPERFORM**

12-Month Price Target  
**\$17** (from \$26)

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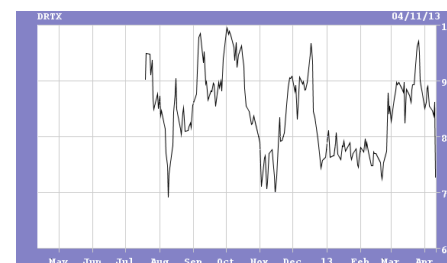
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#### Company Information

Shares Outst (M)	27.3
Market Cap (M)	\$197.9
52-Wk Range	\$6.68 - \$10.63
Book Value/sh	\$3.10
Cash/sh	\$1.66
Enterprise Value (M)	\$152.6
LT Debt/Cap %	0.0
Cash Burn (M)	\$50.4
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

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		\$0.6E
Change	--	--			--		
	2011A	2012A			2013E		
EPS	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	N/A	(\$0.71)A		N/A	(\$0.64)E	(\$0.36)E	(\$0.59)E
Q2 Jun	N/A	(1.43)A		(0.26)A	(0.44)E	(0.29)E	(0.53)E
Q3 Sep	N/A	(1.56)A		(1.45)A	(0.42)E	(0.24)E	(0.46)E
Q4 Dec	N/A	(0.65)A		(3.88)A	(0.49)E	(0.26)E	(0.40)E
Year*	N/A	(\$7.48)A		(\$7.34)A	(\$1.97)E	(\$1.16)E	(\$1.94)E
P/E	N/	--			--		
Change	--	--			74%		

Consensus estimates are from Thomson First Call.

\* Numbers may not add up due to rounding.

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## 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



**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
<b>REVENUES</b>																
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
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>45,132</b>	<b>133,739</b>	<b>245,189</b>	<b>381,835</b>	<b>506,802</b>	<b>605,765</b>	<b>676,782</b>	<b>730,871</b>	<b>767,516</b>	<b>803,532</b>
<b>EXPENSES</b>																
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	3,600	3,600	3,600	3,600	14,400	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	10,000	8,000	8,000	10,000	36,000	20,025	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
<b>TOTAL</b>	<b>62,580</b>	<b>13,600</b>	<b>11,600</b>	<b>11,600</b>	<b>13,600</b>	<b>50,400</b>	<b>43,545</b>	<b>86,794</b>	<b>141,058</b>	<b>190,988</b>	<b>237,226</b>	<b>273,842</b>	<b>300,118</b>	<b>320,131</b>	<b>333,690</b>	<b>347,016</b>
Operating Income	(62,580)	(13,600)	(11,600)	(11,600)	(13,600)	(50,400)	1,587	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)	113	240	446	796	1,273	1,845	2,486	3,179	3,910
<b>PRETAX INCOME</b>	<b>(62,539)</b>	<b>(13,570)</b>	<b>(12,148)</b>	<b>(11,998)</b>	<b>(13,998)</b>	<b>(51,713)</b>	<b>(3)</b>	<b>47,058</b>	<b>104,370</b>	<b>191,293</b>	<b>270,372</b>	<b>333,196</b>	<b>378,509</b>	<b>413,226</b>	<b>437,005</b>	<b>460,426</b>
Tax	0	0	0	0	0	0	549	2,494	13,257	33,476	47,315	58,309	66,239	72,315	76,476	80,574
<b>GAAP NET INCOME</b>	<b>(62,539)</b>	<b>(13,570)</b>	<b>(12,148)</b>	<b>(11,998)</b>	<b>(13,998)</b>	<b>(51,713)</b>	<b>(552)</b>	<b>44,564</b>	<b>91,114</b>	<b>157,817</b>	<b>223,057</b>	<b>274,887</b>	<b>312,270</b>	<b>340,912</b>	<b>360,529</b>	<b>379,851</b>
<b>Non-GAAP Net Income</b>	<b>(62,539)</b>	<b>(13,570)</b>	<b>(12,148)</b>	<b>(11,998)</b>	<b>(13,998)</b>	<b>(51,713)</b>	<b>(3)</b>	<b>47,058</b>	<b>104,370</b>	<b>191,293</b>	<b>270,372</b>	<b>333,196</b>	<b>378,509</b>	<b>413,226</b>	<b>437,005</b>	<b>460,426</b>
Non-GAAP diluted EPS	(4.22)	(0.67)	(0.60)	(0.59)	(0.69)	(2.54)	(0.00)	2.29	5.06	9.23	12.98	15.92	18.00	19.56	20.59	21.59
<b>GAAP diluted EPS</b>	<b>(7.48)</b>	<b>(0.64)</b>	<b>(0.44)</b>	<b>(0.42)</b>	<b>(0.49)</b>	<b>(1.97)</b>	<b>(0.02)</b>	<b>1.57</b>	<b>3.19</b>	<b>5.51</b>	<b>7.76</b>	<b>9.53</b>	<b>10.79</b>	<b>11.74</b>	<b>12.37</b>	<b>12.99</b>
Basic Shares Outstanding	8,364	18,376	24,496	25,454	25,479	23,451	25,542	25,642	25,742	25,842	25,942	26,042	26,142	26,242	26,342	26,442
Diluted Shares Outstanding	8,364	21,208	27,300	28,258	28,283	26,263	28,346	28,446	28,546	28,646	28,746	28,846	28,946	29,046	29,146	29,246
Cash	45,351	25,283	12,356	62,141	45,351	45,351	56,406	95,227	174,279	320,850	539,486	810,338	1,119,487	1,458,253	1,816,701	2,199,563

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 NGXS SIGA OGXI XNPT Coverage ADLR FOLD ANAC AVNR AVII BMTI CLDX CBLI CBST DCTH DNDN EBS ECTY GENT HALO IMMU IRWD NGXS 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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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 March 31, 2013)	Investment Banking Relationships (as of March 31, 2013)
Outperform: 51%	Outperform: 18%
Neutral: 44%	Neutral: 2%
Underperform: 5%	Underperform: 0%

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## Wedbush Equity Research Disclosures as of April 12, 2013

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

## Research Disclosure Legend

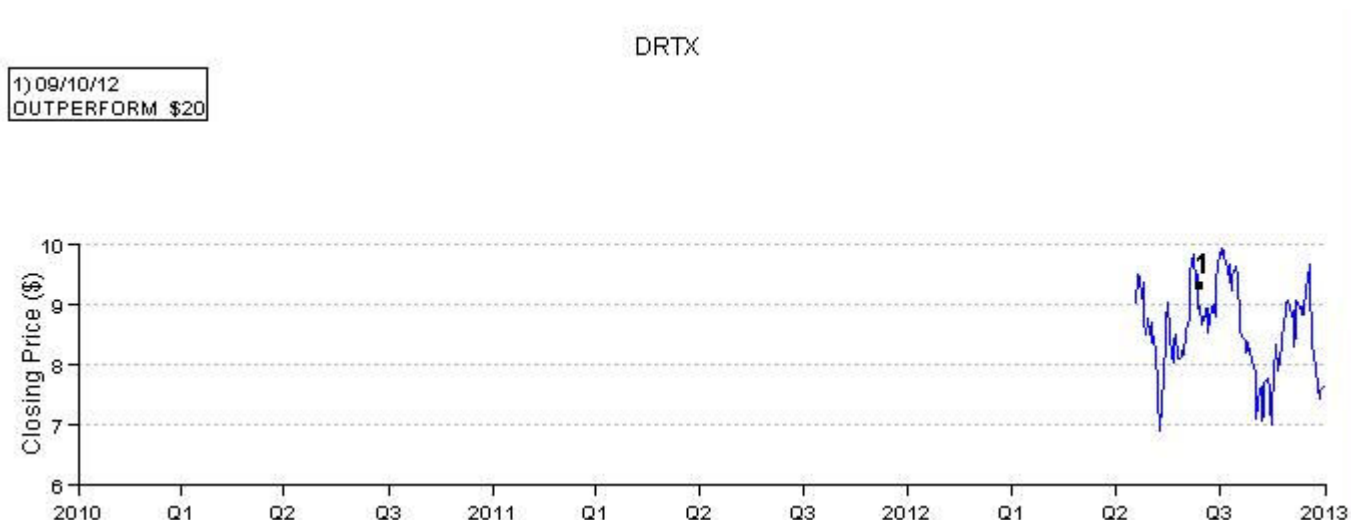
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