

Biotechnology

Medivation, Inc.

(MDVN) - BUY

Price: **\$50.86**
Fair Value Estimate: \$69.00
52-Week Range: \$40.81-\$59.24
Market Cap (MM): \$3,813
Shr.O/S-Diluted (mm): 75.0
Average Daily Volume: 1,004,685

FYE: Dec	2011A	2012A	2013E
EPS:	\$(0.56)A	\$(0.56)A	\$(0.86)E
Prior EPS:			NC
P/E Ratio:	NA	NA	NA

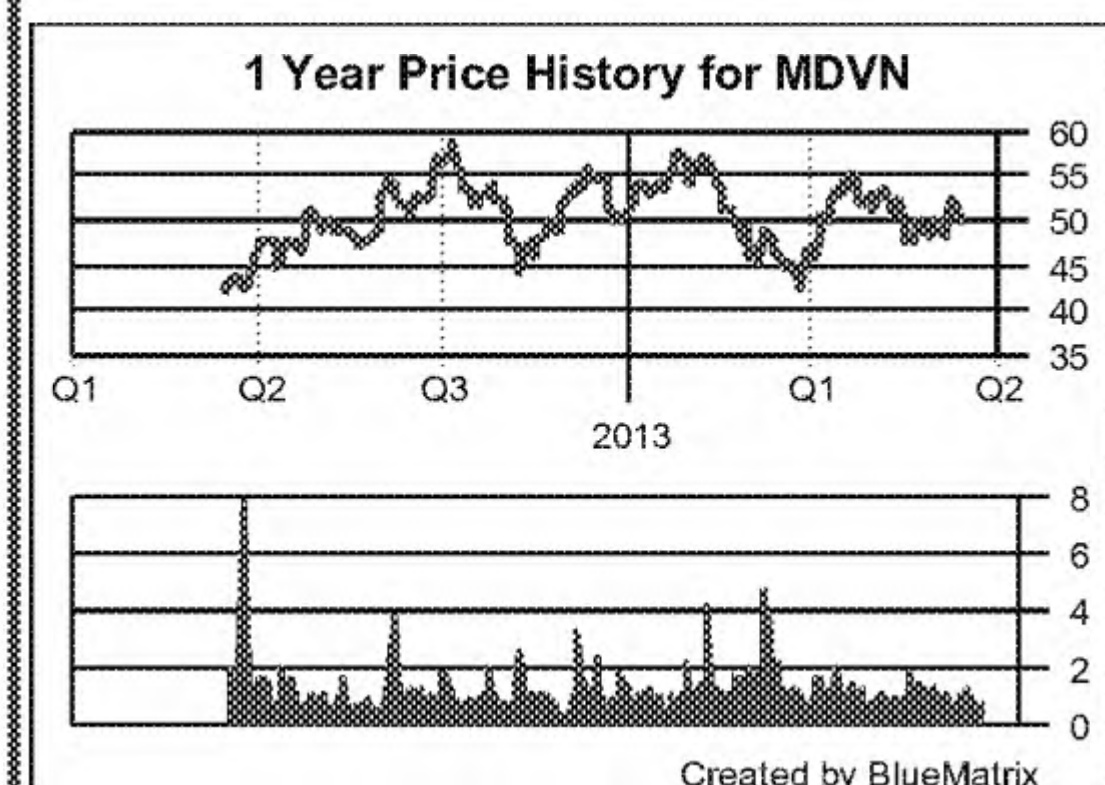
Quarterly EPS:

	2011A	2012A	2013E
Q1	\$(0.12)A	\$0.01A	\$(0.36)A
Q2	\$(0.14)A	\$(0.08)A	\$(0.17)E
Q3	\$(0.14)A	\$(0.06)A	\$(0.13)E
Q4	\$(0.15)A	\$(0.42)A	\$(0.20)E

FYE: Dec	2011A	2012A	2013E
Revenue (M):	\$60.4A	\$180.3A	\$251.4E

Quarterly Revenue (M):

	2011A	2012A	2013E
Q1	\$14.7A	\$36.8A	\$46.2A
Q2	\$15.8A	\$42.9A	\$64.8E
Q3	\$14.9A	\$64.8A	\$71.3E
Q4	\$14.9A	\$35.8A	\$69.3E



Equity Research
Note

MDVN; JNJ's Acquisition of Aragon; Minimal Impact on Xtandi, in our View

INVESTMENT CONCLUSION:

JNJ announced this morning the acquisition of privately-held Aragon for \$650 million with a \$350 million contingent development milestone. As a reminder, Aragon's lead compound, ARN-509, is viewed as a direct 2nd generation androgen receptor inhibitor competitor to Xtandi. Also, recall that MDVN is suing Aragon as it claims to have rights to ARN-509. Having lost the first round of proceedings, MDVN is currently appealing the December 2012 decision. The weakness in MDVN shares today is because JNJ has strengthened its strategy in prostate cancer ahead of the Zytiga patent expiry in 2014, and as it may be perceived that MDVN's legal claims on Aragon are weak. We suggest buying MDVN shares in light of today's pullback, as we continue to expect minimal impact of ARN-509 on Xtandi in the marketplace because of clinical and regulatory challenges facing ARN-509 and Xtandi's first mover advantage of 5+ years over ARN-509 in earlier-stage prostate cancers. Next catalysts for MDVN include quarterly earnings in July, interim data from PREVAIL and TERRAIN data in 2H, followed by a potential EU Xtandi approval in mCRPC by year-end.

KEY POINTS:

- **Competitive landscape remains unchanged despite JNJ's acquisition of Aragon.** Although the Aragon acquisition likely increases JNJ's prostate cancer footprint given Zytiga's nearing patent expiry and limited efficacy and safety profile due to concomitant steroid use, we continue to question ARN-509's clinical benefit profile as well as its commercial viability versus Xtandi. Data from the ASCO GU in February indicated that the greatest PSA response from ARN-509 was in the non-metastatic CRPC patients (91%) followed by the treatment-naïve patients (88%). However, we note that in the pre-chemo setting and M0 population, none of ARN509's studies are directly comparable to the Xtandi Phase I/II population. In addition, we continue to view ARN-509's impact on Xtandi in the pre-chemo setting as minimal since Xtandi is at least 5+ years ahead of ARN-509. We expect ARN-509 to face developmental, regulatory and commercial challenges in the near and long term, with direct comparator studies needed and with a potential crossover effect from commercialized products.
- **Implications of acquisition on legal proceedings.** In our view, today's news could be viewed as a negative for MDVN in the legal arena, as the Street could assume that JNJ conducted thorough due diligence regarding the pending lawsuit and viewed MDVN's claims as weak. Regardless, as discussed above, we do not view ARN-509 as a competitive threat even if MDVN were to lose the legal battle.
- **Transforming event and other value-creating catalysts expected in 2013.** We believe positive interim PREVAIL data expected in 2H (as early as July and as late as November) should serve as an inflection point for the stock. We continue to place an 80% probability of success on a favorable PREVAIL outcome. Other significant milestones include quarterly earnings, top-line data from TERRAIN in 2H, and initiation of a Phase III non-metastatic CRPC study by year-end.
- **Buy rating and \$69 fair value estimate.** Our rating is based on pipeline strength, strong global collaborations and favorable valuation. Upside could occur if Xtandi receives approval in the pre-chemo setting. Our fair value estimate is based on a DCF analysis that examines free cash flow through 2020.

Research Analyst Certifications and Important Disclosures
are on pages 2 - 3 of this report