

Biotechnology

Zytiga Fourth-Quarter Sales Imply Xtandi Strength

On Tuesday morning, January 22, 2013, Johnson & Johnson (JNJ \$72.87) reported fourth-quarter earnings. Zytiga sales in the United States trended down during fourth quarter for the first time since its launch in May 2011, while international sales growth continued. In 2012, Zytiga U.S. sales were \$100 million in first quarter, \$113 million in second quarter, \$136 million in third quarter, and \$114 million in fourth quarter. In contrast, Zytiga international sales maintained the growth trend in 2012, posting \$100 million in first quarter, \$119 million in second quarter, \$129 million in third quarter, and \$150 million in fourth quarter.

We believe the decreased sales of Zytiga in the fourth quarter were largely due to Xtandi's U.S. launch in September. And since Xtandi is not yet approved or launched in Europe or other territories outside the United States, Zytiga's international sales continued to grow. This trend implies relative strength of Xtandi in the marketplace against Zytiga in the post-chemo mCRPC (metastatic castration-resistant prostate cancer) setting, as well as off-label in the chemo-naïve setting, in our opinion.

We currently estimate Medivation booking Xtandi sales of \$17.4 million versus consensus of \$16 million for fourth quarter of 2012. For 2013, we are the Street high at \$175.7 million for Medivation's U.S. revenue booking versus consensus of \$136.9 million. Medivation books one-half of Xtandi's U.S. net sales as part of the agreement with partner Astellas.

We believe the following two issues will be interesting to watch in first quarter 2013 for Zytiga, Xtandi, and Provenge of Dendreon.

- **Will Zytiga U.S. sales rebound in first quarter 2013 after the label extension in December?** Zytiga obtained approval for the chemo-naïve mCRPC setting in the United States in December. Such label extension should boost growth of Zytiga sales in the United States; however, such growth might also be counteracted by off-label use of Xtandi in the same setting. Therefore, the growth trend of Zytiga in first quarter 2013 will be an interesting parameter to watch for Xtandi off-label use, as well.
- **Will Zytiga flooding urologists' offices affect Dendreon's Provenge sales starting first quarter?** Provenge posted a 4.7% growth in fourth quarter 2012, reversing the negative growth trend for the previous two quarters. It is therefore important to see whether this turnaround could sustain going forward. The urology segment is what Dendreon focused its commercial efforts on, and it is the fastest-growing segment for Provenge. With Johnson & Johnson starting to market Zytiga in urologists' offices with virtually the same label as Provenge, it will be interesting to watch whether Provenge growth could sustain during first quarter and beyond. Provenge posted roughly \$81.6 million in net sales in fourth quarter 2012 and needs to grow to \$100 million per quarter for Dendreon to cash-flow breakeven.

January 22, 2013

Medivation, Inc.

Symbol: MDVN (NASDAQ)
Price: \$55.66 (52-Wk.: \$25-\$59)
Stock Rating: Outperform
Company Profile: Aggressive Growth
Price Target: \$67.00

Dendreon Corporation

Symbol: DNDN (NASDAQ)
Price: \$6.31 (52-Wk.: \$4-\$17)
Stock Rating: Underperform
Company Profile: Aggressive Growth
Price Target: \$4.00

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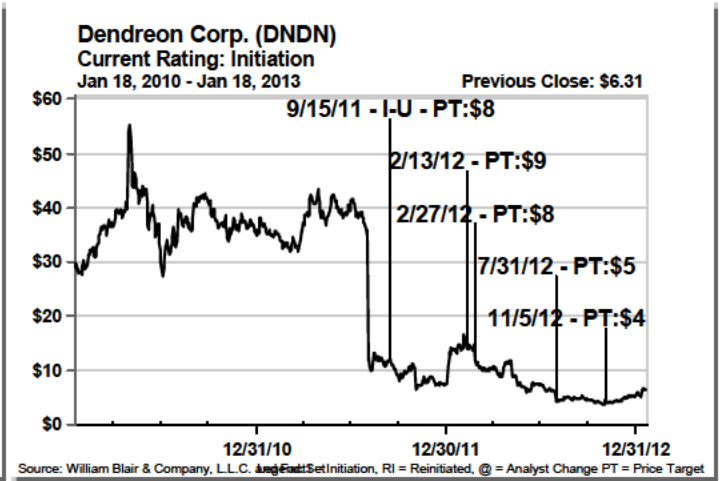
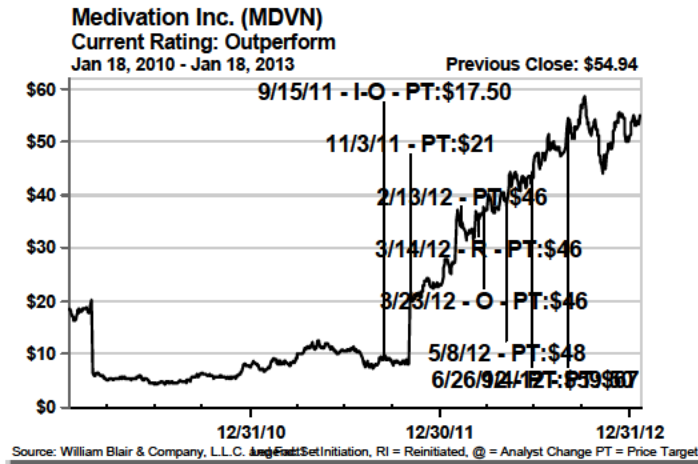
Key risks to our Outperform rating and attainment of our price target for Medivation include failure to meet efficacy endpoints for the Phase III and Phase II programs of enzalutamide, unforeseen safety issues of enzalutamide in longer-term studies, setbacks in clinical and business development, and financing risk.

Key risks to our Underperform rating for Dendreon include better-than-expected uptake of Provenge in the U.S. market; failure of clinical studies and regulatory approval from competitive agents such as Zytiga (abiraterone), Xtandi (enzalutamide), and Prostavac; straight approval in the European Union; and commercial uptake on the continent better than our expectations.

William Blair & Company, L.L.C. was a manager or co-manager of a public offering of equity securities for Medivation, Inc. within the prior 12 months.

William Blair & Company, L.L.C. is a market maker in the security of Dendreon Corporation and Medivation, Inc. and may have a long or short position.

Additional information is available upon request.



Current Rating Distribution (as of 12/31/12)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	62	Outperform (Buy)	9
Market Perform (Hold)	33	Market Perform (Hold)	2
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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