

July 14, 2015

Medivation, Inc.

Looking Into Recent Weakness: Second-Quarter Preview and Breast Cancer Prospect; Lowering Price Target to \$150 on Adjusting Share Count

Medivation shares have been weak since the American Society of Clinical Oncology (ASCO) Annual Meeting (Chicago, May 29-June 2), and we believe it is likely due to two reasons: 1) IMS scripts for the second quarter are not strong; and 2) disappointment in the Phase II Xtandi data presented at the ASCO Annual Meeting in triple negative breast cancer (TNBC). In this note, we preview second-quarter Xtandi sales and discuss the prospect of Xtandi in breast cancer. We also update our model mostly on adjusting share counts and, as a result, lower our price target to \$150 from \$154.

Based on IMS Health prescription data, we now estimate Medivation's share of Xtandi U.S. net sales in second quarter 2015 at \$129.3 million, down from our previous estimate of \$134.4 million, but still representing a 15% increase over the first quarter, in line with consensus of \$129.7 million (exhibit 1). We note that Medivation books half of U.S. sales. Our estimate change is based on IMS prescription data for the second quarter, assuming an 80% capture rate. Compared with the first quarter, total prescription grew by 7%, indicating increasing demand for Xtandi, and a price increase was instituted in the quarter as well. We are increasing our non-GAAP second quarter EPS to \$0.40, from \$0.28, despite lower revenue projection due to lowering non-GAAP operating expenses falling within guidance. We are lowering our full year 2015 Xtandi U.S. revenue estimate to \$561.0 million from \$578.8 million. We note that partner Astellas is scheduled to report earnings on July 31, and Medivation is expected to report second-quarter earnings on August 6.

Despite lowering our second quarter and full year 2015 estimates, we maintain our Xtandi revenue estimates in 2016 and beyond and continue to believe that the growth trend of Xtandi in the United States is healthy; our thesis of Xtandi's becoming the biggest drug in urology is unchanged. In exhibit 2, we illustrate U.S. sales of Zytiga and Xtandi (exhibit 2a) and their comparative launch profile (exhibit 2b). As the second novel hormonal agent to market, Xtandi surpassed Zytiga in the ninth quarter from launch, and it is likely that Xtandi sales will also catch up to those of Zytiga during second quarter 2015 or in the very near term. Exhibit 3 illustrates the percentage of prescriptions written by urologists for both Xtandi and Zytiga in the United States. It seems that Zytiga urology scripts have stalled at 10%, whereas Xtandi's penetration into urology is higher at 18% and going strong. Such trends give us confidence that the growth of Xtandi will continue, and our peak sales estimate for Xtandi global sales remain at \$7.6 billion. We believe that Xtandi's ultimate value will be generated by its ability to move earlier in the treatment paradigm and penetrate the urology setting, where we believe Xtandi will eventually replace Casodex, the most widely prescribed prostate cancer drug in the urological setting.

Medivation, based in San Francisco, is a biopharmaceutical company focused on the commercialization of Xtandi for prostate cancer.

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Stock Rating: **Outperform**
 Company Profile: **Aggressive Growth**
 Price Target: \$150.00

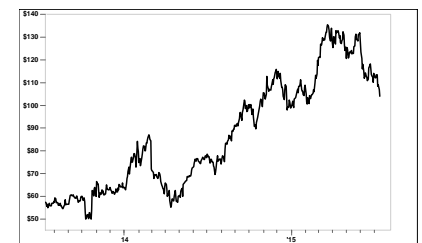
Symbol: MDVN (NASDAQ)
 Price: \$108.50 (52-Wk.: \$69-\$142)
 Market Value (mil.): \$8,538
 Fiscal Year End: December
 Long-Term EPS Growth Rate:
 Dividend/Yield: None

	2014A	2015E	2016E
Estimates			
EPS FY	\$3.42	\$2.83	\$3.75
CY		\$2.83	\$3.75
Sales (mil.)	710	879	993
Valuation			
FY P/E	31.7x	38.3x	28.9x
CY P/E		38.3x	28.9x

Trading Data (FactSet)	
Shares Outstanding (mil.)	78
Float (mil.)	66
Average Daily Volume	1,010,456

Financial Data (FactSet)	
Book Value Per Share (MRQ)	6.0
Return on Equity (TTM)	105.1

Two-Year Price Performance Chart

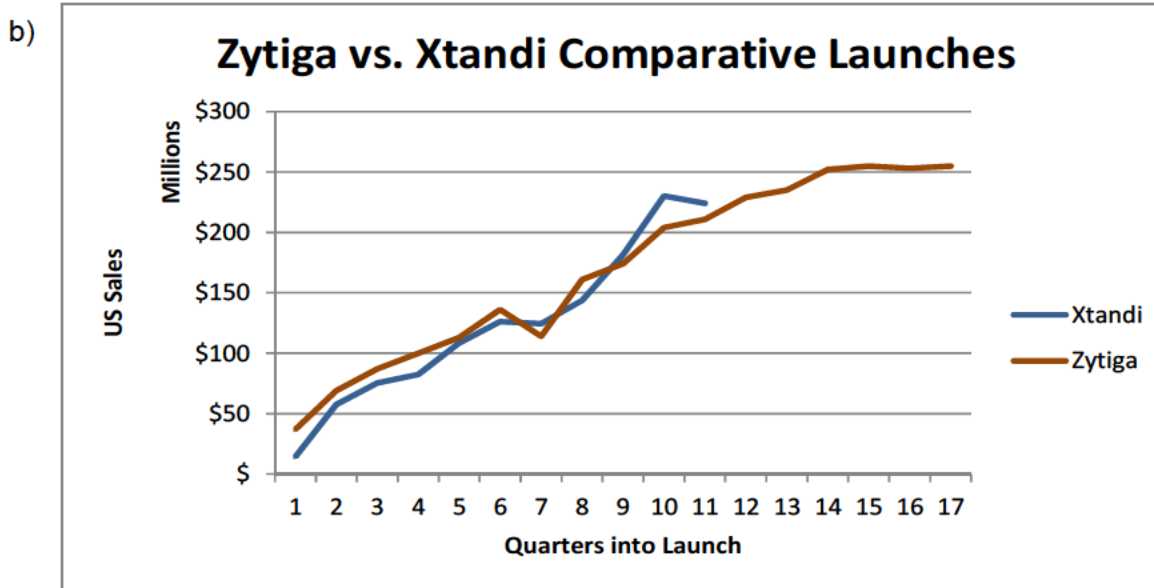
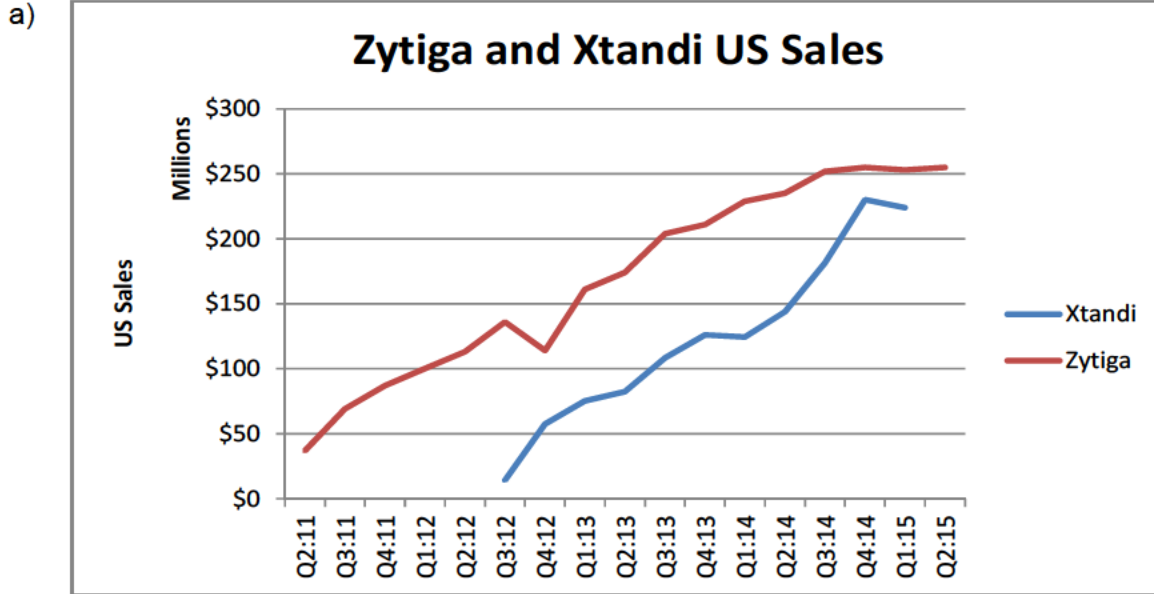


Sources: FactSet, William Blair & Company estimates

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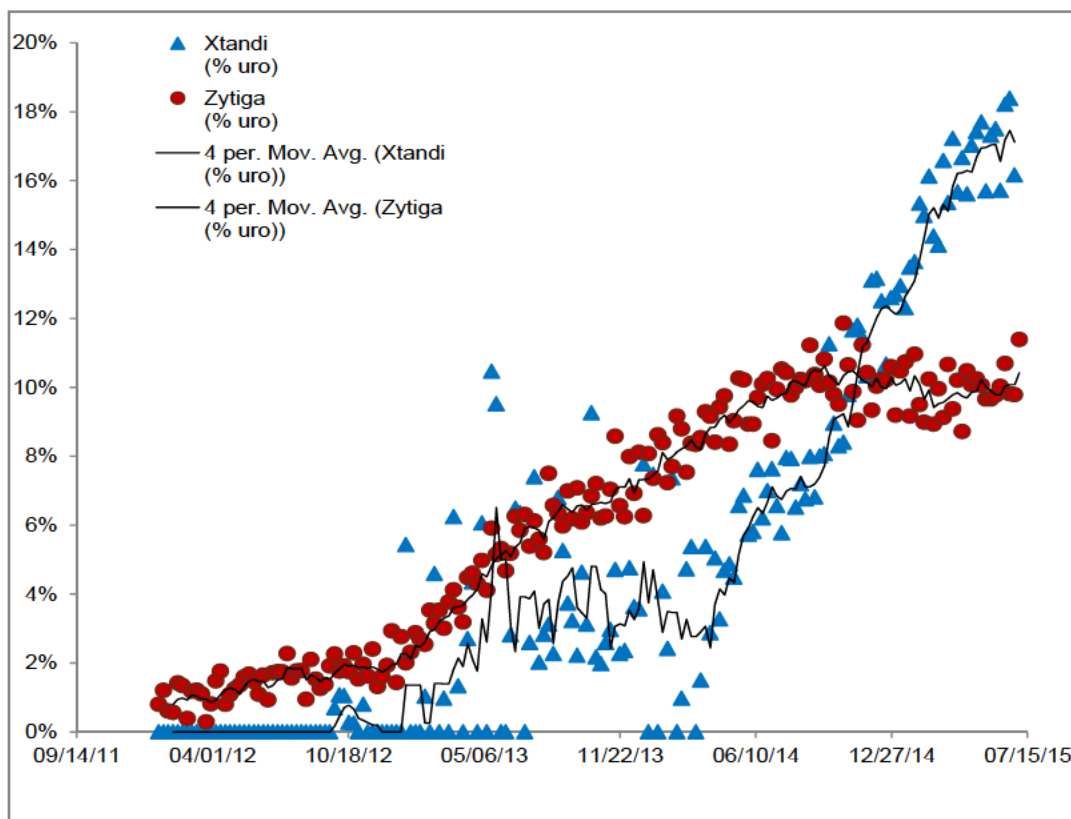
Please consult pages 7-8 of this report for all disclosures. Analyst certification is on page 7.

**Exhibit 2
Medivation, Inc.
Xtandi and Zytiga Sales**



Sources: Company Reports

Exhibit 3
Medivation, Inc.
Urology Prescriptions



Source: MS Health

Exhibit 4
Medivation, Inc.
Sum-of-the-Parts Fair Value
(dollars in thousands)

Drug	Peak Sales	Stage of Development	Estimated Launch Date	Probability of Commercialization	Percentage of Sales to Company	Probability-Adjusted NPV	Value per Share	Percentage of Fair Value
Xtandi—United States	\$4,520,173	Marketed	September 2012	100%	50:50 profit share with Astellas	\$8,155,102	\$96.15	64.3%
Xtandi—European Union	\$3,071,990	Marketed	June 2013	100%	Tiered royalties (13% - 23%)	\$2,880,465	\$33.96	22.7%
Xtandi—Breast Cancer US	\$932,084	Phase II	2Q:18	50%	50:50 profit share with Astellas	\$605,973	\$7.14	4.8%
Xtandi—Breast Cancer EU	\$831,788	Phase II	1Q:19	50%	Tiered royalties (13% - 23%)	\$454,552	\$5.36	3.6%
Subtotal						\$12,096,091	\$142.61	95.4%
Net Cash at Mid-Year 2016						\$718,682	\$7.72	5.7%
Net Present Value of additional Gain (Loss)*						(\$130,233)	(\$1.40)	(1.0%)
Sum-of-Parts Fair Value						\$12,684,540	\$149.55	100.0%

Sources: Company reports and William Blair & Company, L.L.C. estimates