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Medivation (MDVN - OUTPERFORM): Zytiga Market Share Decline Accelerates from Last Quarter

Price: \$108.50

12-Month Price Target: \$138

- **JNJ reported another quarterly decline in market share for Zytiga in its 2Q15 earnings call.** Zytiga's share is now 28.6%, down approximately 1.7 pp on a sequential basis. In 1Q15, Zytiga's share fell to 30.3%, down 1.2 pp from the prior quarter. Overall, US sales of Zytiga remained flat at \$255M, compared with \$253M and \$255M in 1Q15 and 4Q14, respectively.
- **JNJ also implicated continued strong growth for Xtandi sales in Europe, with lower sales of Zytiga.** JNJ management commented, however, that Zytiga achieved strong growth in Asia and Latin America, which we believe also represents a significant growth opportunity for Xtandi. Full year ex-US sales of Zytiga were \$291M, down 11% (up 8.6% excluding a negative F/X impact of 19.6%).
- **In May, MDVN management reiterated full year guidance provided in February of US Xtandi sales of \$1.05B to \$1.125B, despite the apparent Q1 sales miss that was partly due to seasonality associated with Medicare Part D coverage.** We are currently estimating Q2 Xtandi collaboration revenue of \$152.4M, vs. \$155M consensus, including split revenue from total US Xtandi sales of \$257.3M. MDVN's partner Astellas will report results on its earnings call July 31.
- **We would recommend buying shares of MDVN ahead of earnings, in light of recent weakness.** We expect continued accelerated growth of Xtandi in the pre-chemo CRPC setting, driven by positive data from the TERRAIN and STRIVE trials. Recent MDVN share price weakness may be attributable to lower than expected reported IMS/Symphony captured sales. However, in our experience, these captured sales of Xtandi are often poorly representative of actual sales.
- **Reiterate OUTPERFORM rating and PT of \$138.** We arrive at our \$138 price target by applying a 6x multiple to 2019 US Xtandi sales split added to 15x our estimated ROW royalties, discounted by 15% annually.
- Risks to the attainment of our price target include failure of Xtandi to gain broad acceptance among urologists and greater than expected competition from abiraterone or other prostate cancer therapies.

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