

Medivation

United States of America/Biotechnology

7 March 2016

UBS Research

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Bullish Read Across from the Xtandi Royalty Purchase

UCLA royalty on 4% of global sales purchased for \$1.14bn

This morning, UCLA announced that it has sold its 4% royalty on global Xtandi sales for \$1.14bn (LINK). Considering that private equity investors tend to do extensive deep diligence on assets prior to royalty stream purchases, we think the purchase price paid validates the more bullish commercial scenarios. Indeed we think the discounted royalty streams imply a global peak Xtandi sales of no less than \$6bn (using low discount rates) and as high as \$8bn (see below). Keep in mind that in order to make money on the stream, actual sales would need to be above these numbers. Our long-term projections in our valuation model supporting our \$50 PT assume \$7.2bn peak (in 2026), \$4.5bn of which is in the US. These numbers are based on pre- and post-chemo sales alone, with early stage prostate and breast cancer representing significant upside to these projections.

A few scenarios getting to \$6-8bn peak

We estimate that the private equity market determined that peak sales will be no less than \$5bn. To determine what peak sales assumptions are required to arrive at the \$1.14bn purchase price, we created a quick DCF of the 4% royalty, using a range of discount rates and assuming a 14% tax rate.

*** Using a 8% discount rate, we calculate that peak sales would be roughly \$6bn to arrive at the purchase price.

*** Using a 12% discount rate, we calculate that peak sales would be roughly \$7bn to arrive at the purchase price.

*** Using a 15% discount rate, we calculate that peak sales would be roughly \$8bn to arrive at the purchase price.

Thoughts on the stock: Has been one of our top ideas for 2016

Now that 2016 guidance is out of the way, we focus on the potential for accelerating Xtandi sales later this year, driven by [1] increased sales force efforts, [2] favorable changes to AUA and NCCN treatment guidelines, and [3] favorable updates to the FDA and EMA labels to include superiority data over Casodex. Further, we see 2 important pipeline events 2H: the PLATO study (which we are less bullish on) that if positive could increase duration of Xtandi therapy and better position it vs. potential generic Zytiga, and the randomized double-blind controlled trial of Xtandi in HR+ breast cancer.

12-month rating	Buy
12-month price target	\$50.00
Price	\$40.44

Contributing authors: Bradley Canino

Trading data and key metrics

52-wk range	US\$67.78-27.32
Market cap.	US\$6.76bn
Shares o/s	164m (COM)
Free float	90%
Avg. daily volume ('000)	2,166
Avg. daily value (m)	US\$78.2
Common s/h equity (12/16E)	US\$0.30bn
P/BV (12/16E)	23.0x
Net debt / EBITDA (12/16E)	NM
RIC	MDVN.O
BBG	MDVN US

Sources: UBS, Bloomberg

EPS (UBS, diluted) (US\$)

	12/16E	
	UBS	Cons.
Q1E	0.18	0.23
Q2E	0.35	0.30
Q3E	0.36	0.35
Q4E	0.44	0.41
12/16E	1.32	1.31
12/17E	2.00	2.00
12/18E	2.70	2.55

Definitions of terms and abbreviations are available in the appendix section of this report, and more extensively on internet at www.ubs.com/glossary

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Company Profile: Medivation

Medivation is a commercial-stage biotech company that developed and markets Xtandi (enzalutamide) a 2nd-gen anti-androgen drug approved for the treatment of metastatic castration resistant prostate cancer pre- and post-chemo. The company is partnered with Astellas for Xtandi with significant milestones and tiered double-digit royalties for ROW sales. The company is also developing enzalutamide for breast cancer, either alone or in combination with immunotherapies, and acquired the rights to pidilizumab, a novel anti-PD-1 antibody in late-stage development for hematologic malignancies.

Statement of Risk

Risks to our thesis include [1] The Xtandi launch is worse than expected. [2] If clinical data disappoint and fail to convince physicians to prescribe Xtandi in the pre-chemo setting, we would expect significant downward pressure on MDVN shares. Our Price Target is derived from DCF analysis.

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Highlights (US\$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	273	389	695	920	1,220	1,514	1,749	2,029
EBIT (UBS)	(22)	55	265	350	537	735	890	1,099
Net earnings (UBS)	(43)	35	170	226	349	479	586	724
EPS (UBS, diluted) (US\$)	(0.27)	0.21	1.00	1.32	2.00	2.70	3.25	3.81
DPS (US\$)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net (debt) / cash	229	503	690	614	829	1,174	1,737	2,444
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	-8.1	14.1	38.2	38.0	44.1	48.6	50.9	54.2
ROIC (EBIT) %	11.9	(53.6)	(125.4)	(102.2)	(189.8)	(340.3)	(461.3)	<-500
EV/EBITDA (core) x	<-100	>100	29.4	17.2	10.9	7.5	5.6	3.9
P/E (UBS, diluted) x	NM	NM	52.6	31.2	20.6	15.3	12.7	10.8
Equity FCF (UBS) yield %	(1.2)	4.0	2.7	1.5	3.7	5.5	7.2	9.2
Net dividend yield %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied.

Valuations: based on an average share price that year, (E): based on a share price of US\$41.30 on 04 Mar 2016 12:13 EST

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Appendix

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UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	47%	33%
Neutral	Hold/Neutral	42%	34%
Sell	Sell	11%	23%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2014.

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.

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Global Equity 12-Month Rating Definitions

Buy: FSR is > 6% above the MRA. **Neutral:** FSR is between -6% and 6% of the MRA. **Sell:** FSR is > 6% below the MRA.

Key Definitions

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

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Company Disclosures

Medivation	MDVN US	Buy	US\$38.20	03 Mar 2016
Company Name	Reuters	12-mo rating	Price	Price date

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

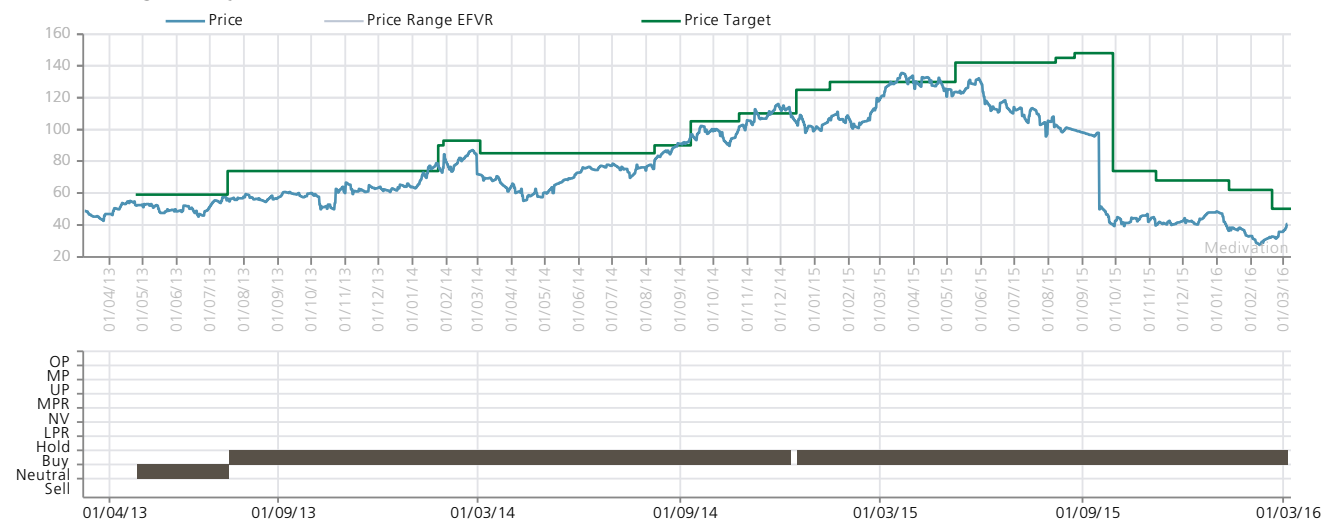
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Global rating history -- Medivation, MDVN US



Source: UBS CIO as of 7 March 2016

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Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
1H, 2H, etc. or 1H11, 2H11, etc.	First half, second half, etc. or first half 2011, second half 2011, etc.	1Q, 2Q, etc. or 1Q11, 2Q11, etc.	First quarter, second quarter, etc. or first quarter 2011, second quarter 2011, etc.
2011E, 2012E, etc.	2011 estimate, 2012 estimate, etc.	A	actual i.e. 2010A
ADR	American depositary receipt	ARPU	Average Revenue Per User
AUM	Assets under management = total value of own and third-party assets managed	Avg.	average
bn	Billion	bp or bps	Basis point or basis points (100 bps = 1 percentage point)
BVPS	Book value per share = shareholders' equity divided by the number of shares	CAGR	Compound annual growth rate
Cant Inc/Capita	Cantonal income per capita (Switzerland only)	Capex	Capital expenditures
CF	Cash flow	CFO	1) Cash flow from operations, 2) Chief financial officer
COGS	Cost of goods sold	COM	Common shares
Cons.	Consensus	Core Tier 1 Ratio	Tier 1 capital minus tier 1 hybrid securities
Cost/Inc Ratio (%)	Costs as a percentage of income	CPI	Consumer price index
CR	Combined ratio = ratio of claims and expenses as a percentage of premiums (for insurance companies)	CY	Calendar year
DCF	Discounted cash flow	DDM	Dividend discount model
Dividend Yield (%)	Dividend per share divided by price per share	DPS	Dividend per share
E	expected i.e. 2011E	EBIT	Earnings before interest and taxes
EBIT Margin (%)	EBIT divided by revenues	EBITDA	Earnings before interest, taxes, depreciation and amortization
EBITDA Margin (%)	EBITDA divided by revenues	EBITDA/Net Interest	EBITDA divided by net interest expense
EBITDAR	Earnings before interest, taxes, depreciation, amortization and rental expense	EFVR	Estimated fair value range
EmV	Embedded value = net asset value + present value of forecasted future profits (for life insurers)	EPS	Earnings per share
Equity Ratio (%)	Shareholders' equity divided by total assets	EV	Enterprise value = market value of equity, preferred equity, outstanding net debt and minorities
FCF	Free cash flow = cash a company generates above outlays required to maintain/expand its asset base	FCF Yield (%)	Free cash flow divided by market capitalization
FFO	Funds from operations	FY	Fiscal year / financial year
GDP	Gross domestic product	Gross Margin (%)	Gross profit divided by revenues
H	half year	h/h	Half-year over half-year; half on half
hist av.	Historical average	Interbank Ratio	Interbank deposits due from banks divided by interbank deposits due to banks
Interest Coverage	Ratio that expresses the number of times interest expenses are covered by earnings	Interest exp	Interest expense
ISIN	International securities identification number	K	One thousand
LLP/Net Int Inc (%)	Loan loss provisions divided by net interest income	LLR/Gross Loans (%)	Loan loss reserves divided by gross loans

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Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
LPR	Least Preferred: The stock is expected to both underperform the relevant benchmark and depreciate in absolute terms.	Market cap	Number of all shares of a company (at the end of the quarter) times closing price
m/m	Month-over-month; month on month	mn or m	Million
M and A	Merger and Acquisition	MP	Marketperform: The stocks expected performance is in line with the sector benchmark
MPR	Most Preferred: The stock is expected to both outperform the relevant benchmark and appreciate in absolute terms.	n.a.	Not available or not applicable
NAV	Net asset value	Net Debt	Short- and long-term interest-bearing debt minus cash and cash equivalents
Net DPS	Net dividends per share	NIM or Net Int Margin (%)	Net interest income divided by average interest-bearing assets
Net Margin (%)	Net income dividend by revenues	NV	Neutral View: The stock is expected to neither outperform nor underperform the relevant benchmark nor significantly appreciate or depreciate in absolute terms.
n.m. or NM	Not meaningful	NPL	Non-performing loans
OP	Outperform: The stocks is expected to outperform the sector benchmark	Op Margin (%)	Operating income divided by revenues
p.a.	Per annum (per year)	P/BV	Price to book value
P/E or PE	Price to earnings / Price Earnings Ratio	P/E Relative	P/E relative to the market
P/EmV	Price to embedded value	PEG Ratio	P/E ratio divided by earnings growth
PPI	Producer price index	Prim Bal/Cur Rev (%)	Primary balance divided by current revenue (total revenue minus capital revenue)
Profit Margin (%)	Net income divided by revenues	q/q or QQQ	Quarter-over-quarter; quarter on quarter
R and D	Research and development	ROA (%)	Return on assets
ROAE (%)	Return on average equity	ROCE (%)	Return on capital employed = EBIT divided by difference between total assets & current liabilities
ROE (%)	Return on equity	ROIC (%) or ROI	Return on invested capital
Shares o/s	Shares outstanding	Solvency Ratio (%)	Ratio of shareholders' equity to net premiums written (for insurance companies)
sotp or SOTP	Sum of the parts	Tax Burden Index	Swiss tax index; 100 = average tax burden of all cantons
tgt	Target	Tier 1 Ratio (%)	Tier 1 capital divided by risk-weighted assets; describes a bank's capital adequacy
tn	Trillion	UP	Underperform: The stock is expected to underperform the sector benchmark
Valor	Swiss company identifier	WACC	Weighted average cost of capital
CIO	UBS WM Chief Investment Office	x	multiple / multiplier
y/y or YOY	Year-over-year; year on year	yr	Year
YTD	Year-to-date		

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Version 02/2016.

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