

Ambit Biosciences

(AMBI-NASDAQ)

Stock Rating: Outperform**Industry Rating:** Outperform

Solid Progress Through 3Q13, With Multiple Drivers for Quizartinib Ahead

Event

Ambit Biosciences (AMBI) reported 3Q13 operating results late yesterday and provided an update to key initiatives. The net loss per share of (\$0.34) was wider than (\$0.15) consensus. AMBI ended 3Q13 with \$78.9M, sufficient through year-end 2015 for the top-line readout from a proposed quizartinib phase 3 trial. With a focus on the upcoming end of phase 2 meeting with the FDA in November, the key issue is the consideration of CRi as a surrogate endpoint to support accelerated approval of quizartinib on existing phase 2 and 2b results. AMBI noted it is also on track to initiate in early 2014 a 326-patient phase 3 trial comparing quizartinib monotherapy versus salvage chemotherapy. With a focus on the phase 2b trial in FLT3-ITD positive relapsed/refractory adult AML patients, top-line results published yesterday demonstrated quizartinib doses of 30 and 60 mg significantly reduced QT prolongation (Grade 3 at 3%, no Grade 4) but achieved efficacy (CRc ~50%) similar to that seen in the previous phase 2 trial involving much higher doses (90 to 200 mg). Detailed results will be presented at the 2013 ASH meeting. AMBI also highlighted two additional ASH abstracts on phase 1 studies of quizartinib in combination with chemotherapy in newly diagnosed AML patients.

Impact & Analysis

We are reiterating our Outperform rating on shares of AMBI and increasing our price target to \$24 following 3Q13 results and ahead of key events. We believe that CRi has been validated as a surrogate of overall survival and that accelerated approval of phase 2b data will be viewed by the FDA as a review item worth considering. Initiation of multiple phase 3 trials in 2014 provides near-term downside support and significant upside potential over the next several years.

Valuation & Recommendation

\$24/share price target is based on 25x 2020 EPS of \$3.72 discounted 30%. We rate AMBI shares Outperform.

November 8, 2013

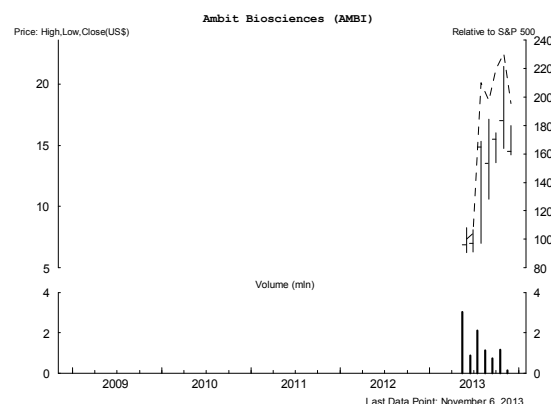
Jim Birchenough, M.D.**415-591-2129**BMO Capital Markets Corp
jim.birchenough@bmo.com

Chuck Whitesell / Nick Abbott, PhD
BMO Capital Markets Corp
212-885-4120 / 206-542-2492
charles.whitesell@bmo.com /
nicholas.abbott@bmo.com

Securities Info

Price (7-Nov)	\$14.00	Target Price	\$24.00 ↑
52-Wk High/Low	\$21/\$6	Dividend	--
Mkt Cap (mm)	\$250	Yield	--
Shs O/S (mm, BASIC)	17.9	Float O/S (mm)	2.6
Options O/S (mm)	na	ADVol (30-day, 000s)	50

Price Performance



Valuation/Financial Data

(FY-Dec.)	2011A	2012A	2013E	2014E
EPS GAAP	NA	NA	-\$1.17↓	-\$2.03
P/E			nm	nm
First Call Cons.			-\$1.15	-\$1.82
FCF	NA	NA	NA	-\$2.32
P/FCF			na	nm
EBITDA (\$mm)	-\$34	-\$23	-\$7	-\$38
EV/EBITDA			nm	nm
Rev. (\$mm)	\$24	\$18	\$26	\$0
EV/Rev			6.6x	nm
Quarterly EPS	1Q	2Q	3Q	4Q
2012A	NA	NA	NA	NA
2013E	NAA	NAA	-\$0.34A	-\$0.46
Balance Sheet Data (30-Jun)				
Net Debt (\$mm)	-\$79	TotalDebt/EBITDA		nm
Total Debt (\$mm)	\$0	EBITDA/IntExp		na
Net Debt/Cap.	nm	Price/Book		3.9x

Notes: Quarterly EPS may not sum due to share count. All values in US\$.

Source: BMO Capital Markets estimates, Bloomberg, Thomson Reuters, and IHS Global Insight.

Changes

Annual EPS
2013E -\$0.90 to -\$1.17

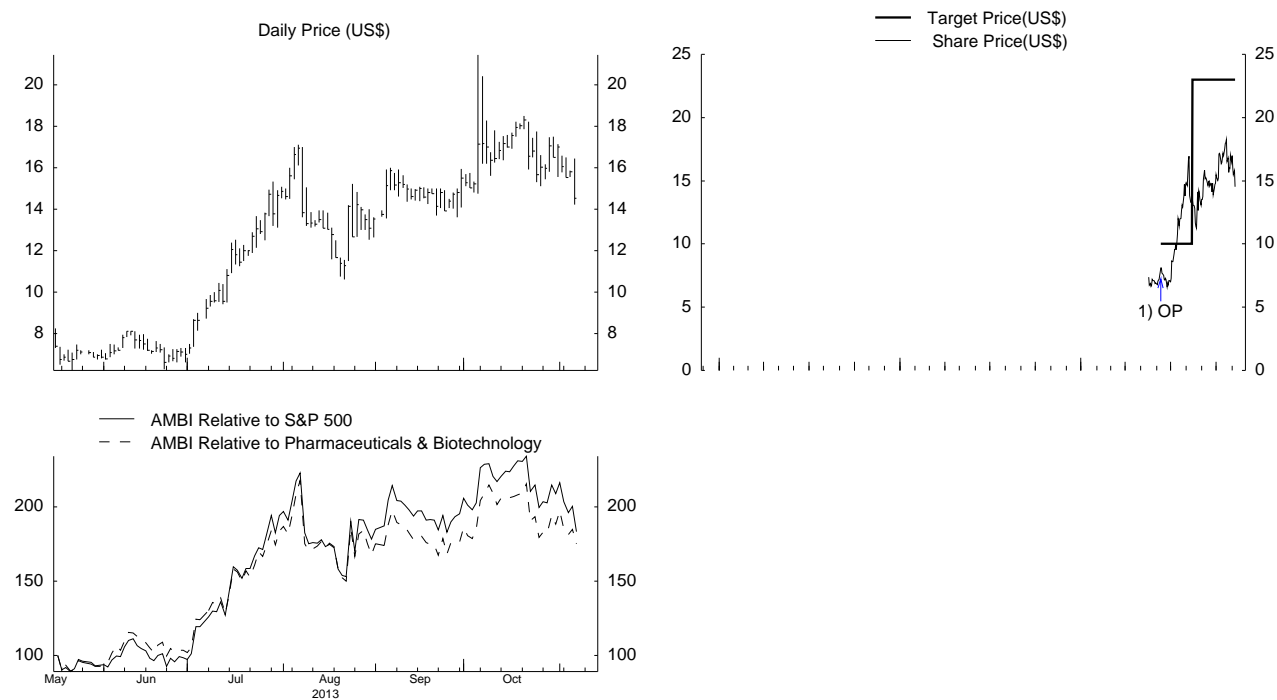
Target
\$23.00 to \$24.00

Exhibit 1: AMBI Income Statement 2013E-2020E

INCOME STATEMENT (\$M)	1Q13A	2Q13A	3Q13A	4Q13E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
REVENUES												
Product Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46.1	\$ 79.3	\$ 122.0	\$ 163.2
Collaboration agreements	6.6	11.5	7.7	-	25.8	-	-	-	-	-	-	-
Grant revenue and other	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL REVENUES	\$ 6.6	\$ 11.5	\$ 7.7	\$ -	\$ 25.8	\$ -	\$ -	\$ -	\$ 46.1	\$ 79.3	\$ 122.0	\$ 163.2
EXPENSES (GAAP)												
Cost of Goods Sold (COGS)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2.3	\$ 4.0	\$ 6.1	\$ 8.2
R&D Expense	9.0	6.7	4.5	6.5	26.7	29.0	32.0	33.0	36.0	34.0	34.0	36.0
SG&A Expense	1.8	2.2	3.1	2.0	9.0	8.5	11.0	21.5	30.0	30.0	30.0	30.0
In-process R&D	-	-	-	-	(2.5)	-	-	-	-	-	-	-
Other	-	-	(2.5)	-	33.2	37.5	43.0	54.5	68.3	68.0	70.1	74.2
TOTAL EXPENSES	10.8	8.9	5.1	8.5	74.4	(37.5)	(43.0)	(54.5)	(22.2)	11.3	51.9	88.0
Operating Income	(4.2)	2.7	2.6	(8.5)	(7.4)	(37.5)	(43.0)	(54.5)	(22.2)	11.3	51.9	88.0
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	-
EBIT	(4.2)	2.7	2.6	(8.5)	(7.4)	(37.5)	(43.0)	(54.5)	(22.2)	11.3	51.9	88.0
Interest and other income	-	0.0	0.0	-	0.0	-	-	-	-	-	-	-
Interest and other expense	(0.2)	(0.1)	(0.1)	-	(0.3)	-	-	-	-	-	-	-
Other Income (Expense)	(4.0)	2.6	(8.7)	-	(10.0)	-	-	-	-	-	-	-
Interest and Other Income (Expense)	(4.1)	2.5	(8.7)	-	(10.4)	-	-	-	-	-	-	-
Pre-Tax Income	(8.3)	5.2	(6.1)	(8.5)	(17.7)	(37.5)	(43.0)	(54.5)	(22.2)	11.3	51.9	88.0
Income Taxes	0.0	-	(0.0)	-	(0.0)	-	-	-	-	-	-	-
Consolidated Net Income (GAAP)	(8.3)	5.2	(6.1)	(8.5)	(17.7)	(37.5)	(43.0)	(54.5)	(22.2)	11.3	51.9	88.0
Net loss attributable to redeemable non-controlling interest	0.1	(0.0)	-	(8.5)	(17.6)	(37.5)	(43.0)	(54.5)	(22.2)	11.3	51.9	88.0
Net loss attributable to Ambit Biosciences	(8.2)	5.1	(6.1)	(8.5)	(17.6)	(37.5)	(43.0)	(54.5)	(22.2)	11.3	51.9	88.0
Accretion to redemption value of redeemable convertible preferred stock	(2.3)	-	-	-	(2.3)	-	-	-	-	-	-	-
Change in fair value of redeemable non-controlling interest	(1.5)	-	-	-	(1.5)	-	-	-	-	-	-	-
Net Income (GAAP)	(12.0)	5.1	(6.1)	(8.5)	(21.5)	(37.5)	(43.0)	(54.5)	(22.2)	11.3	51.9	88.0
EPS (GAAP) (basic)	NM	\$ 0.45	\$ (0.34)	\$ (0.46)	\$ (1.17)	\$ (2.03)	\$ (2.18)	\$ (2.31)	\$ (0.94)	\$ 0.48	\$ 2.18	\$ 3.72
EPS (GAAP) (diluted)	NM	NM	\$ (0.34)	\$ (0.46)	\$ (1.17)	\$ (2.03)	\$ (2.18)	\$ (2.31)	\$ (0.94)	\$ 0.48	\$ 2.18	\$ 3.72
Total of Reconciliation Items	0.4	0.4	-	-	0.8	-	-	-	-	-	-	-
Net Income (Non-GAAP)	\$ (7.9)	\$ 5.6	\$ (6.1)	\$ (8.5)	\$ (16.9)	\$ (37.5)	\$ (43.0)	\$ (54.5)	\$ (22.2)	\$ 11.3	\$ 51.9	\$ 88.0
Impact of Adjustments to EPS	99.75	0.04	-	-	99.79	-	-	-	-	-	-	-
EPS (Non-GAAP) (basic)	\$ (1,980.95)	\$ 0.69	\$ (0.34)	\$ (0.46)	\$ (1,981.06)	\$ (2.03)	\$ (2.20)	\$ (2.31)	\$ (0.94)	\$ 0.48	\$ 2.18	\$ 3.72
EPS (Non-GAAP) (diluted)	\$ (1,980.95)	\$ 0.57	\$ (0.34)	\$ (0.46)	\$ (1,981.18)	\$ (2.03)	\$ (2.20)	\$ (2.31)	\$ (0.94)	\$ 0.48	\$ 2.18	\$ 3.72
Weighted average shares outstanding (basic)	0.0	8.1	17.9	18.4	18.3	18.4	19.7	23.6	23.7	23.8	23.9	23.9
Weighted average shares outstanding (diluted)	0.0	9.8	17.9	18.4	18.3	18.4	19.7	23.6	23.7	23.8	23.9	23.9

Source: Company reports and BMO Capital Markets

Ambit Biosciences (AMBI)



Last Daily Data Point: November 6, 2013

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Hold	Market Perform	59.4%	13.1%	51.1%	56.9%	50.2%	41.7%
Sell	Underperform	4.9%	3.4%	1.1%	6.4%	1.5%	5.6%

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(S) = Speculative investment;

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