

Ambit Biosciences

(AMBI-NASDAQ)

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

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Focus on Quizartinib Phase 3 Initiation

Event

Ambit reported 4Q13 operating results yesterday and provided an update to key initiatives. The net loss per share of \$0.10 was narrower than the consensus estimate of a loss of \$0.44. AMBI ended 4Q13 with \$71.2M. With primary focus on the phase 3 development of FLT3 inhibitor quizartinib, AMBI plans to initiate the registrational study in 2Q14, with an interim analysis anticipated in 2H15 and top-line data in 1Q16. The phase 3 study plans to enroll 326 patients who have relapsed (within six months) or are refractory to frontline chemotherapy, including those relapsing following a hematopoietic stem cell transplant (HSCT). Patients will be randomized 2:1 to quizartinib monotherapy vs. one of three chemotherapy regimens, with overall survival as the primary endpoint. Patients in both arms have an option to proceed to a potentially curative HSCT, and those in quizartinib arm will be offered quizartinib maintenance post transplant. AMBI estimated that 35-40% of patients in quizartinib arm and 15-20% in chemotherapy arm could proceed to HSCT. Other highlights included a company-sponsored phase 1 trial evaluating quizartinib maintenance in AML patients, irrespective of FLT3-ITD status, who have received a HSCT and are in remission, with data scheduled for presentation in a future medical conference, and three ongoing or planned investigator-sponsored studies evaluating quizartinib in combination with chemotherapies in newly diagnosed AML patients over 60 years of age.

Impact & Analysis

We maintain our Outperform rating following review of 4Q13 results. We continue to believe that quizartinib is a best-in-class FLT3 inhibitor and that clear benefit in establishing CRi will translate increased rate of stem cell transplant (SCT) and extended overall survival (OS) in phase 3. We remain optimistic that a high value partnership can be achieved in 2014 and bring in non-dilutive capital to advance the pipeline beyond quizartinib.

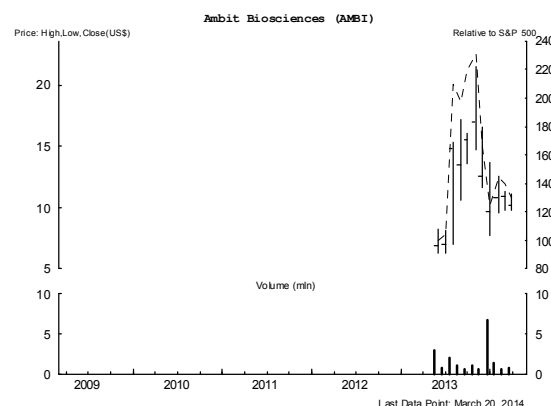
Valuation & Recommendation

Our \$14 price target reflects a probability-adjusted NPV for US opportunity for quizartinib in the relapsed/refractory FLT3-ITD+ AML, with peak sales of \$150M and 65% likelihood of success.

Securities Info

Price (20-Mar)	\$10.21	Target Price	\$14.00
52-Wk High/Low	\$21/\$6	Dividend	--
Mkt Cap (mm)	\$183	Yield	--
Shs O/S (mm, BASIC)	17.9	Float O/S (mm)	12.3
Options O/S (mm)	na	ADVol (30-day, 000s)	45

Price Performance



Valuation/Financial Data

(FY-Dec.)	2012A	2013A	2014E	2015E
EPS GAAP	NA	-\$1.19	-\$1.77↑	-\$1.91↑
P/E			nm	nm
First Call Cons.			-\$1.94	-\$2.03
FCF	NA	NA	-\$2.32	na
P/FCF			nm	na
EBITDA (\$mm)	-\$23	-\$7	-\$38	-\$43
EV/EBITDA			nm	nm
Rev. (\$mm)	\$18	\$27	\$0	\$0
Quarterly EPS	1Q	2Q	3Q	4Q
2013A	NA	NA	-\$0.34	-\$0.10
2014E	-\$0.40↑	-\$0.42↑	-\$0.45↑	-\$0.49↑
Balance Sheet Data (30-Sep)				
Net Debt (\$mm)	-\$71	Total Debt/EBITDA		nm
Total Debt (\$mm)	\$0	EBITDA/IntExp		na
Net Debt/Cap.	nm	Price/Book		3.1x

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
2014E -\$2.03 to -\$1.77
2015E -\$2.18 to -\$1.91

Quarterly EPS
Q1/14E -\$0.46 to -\$0.40
Q2/14E -\$0.49 to -\$0.42
Q3/14E -\$0.51 to -\$0.45
Q4/14E -\$0.57 to -\$0.49

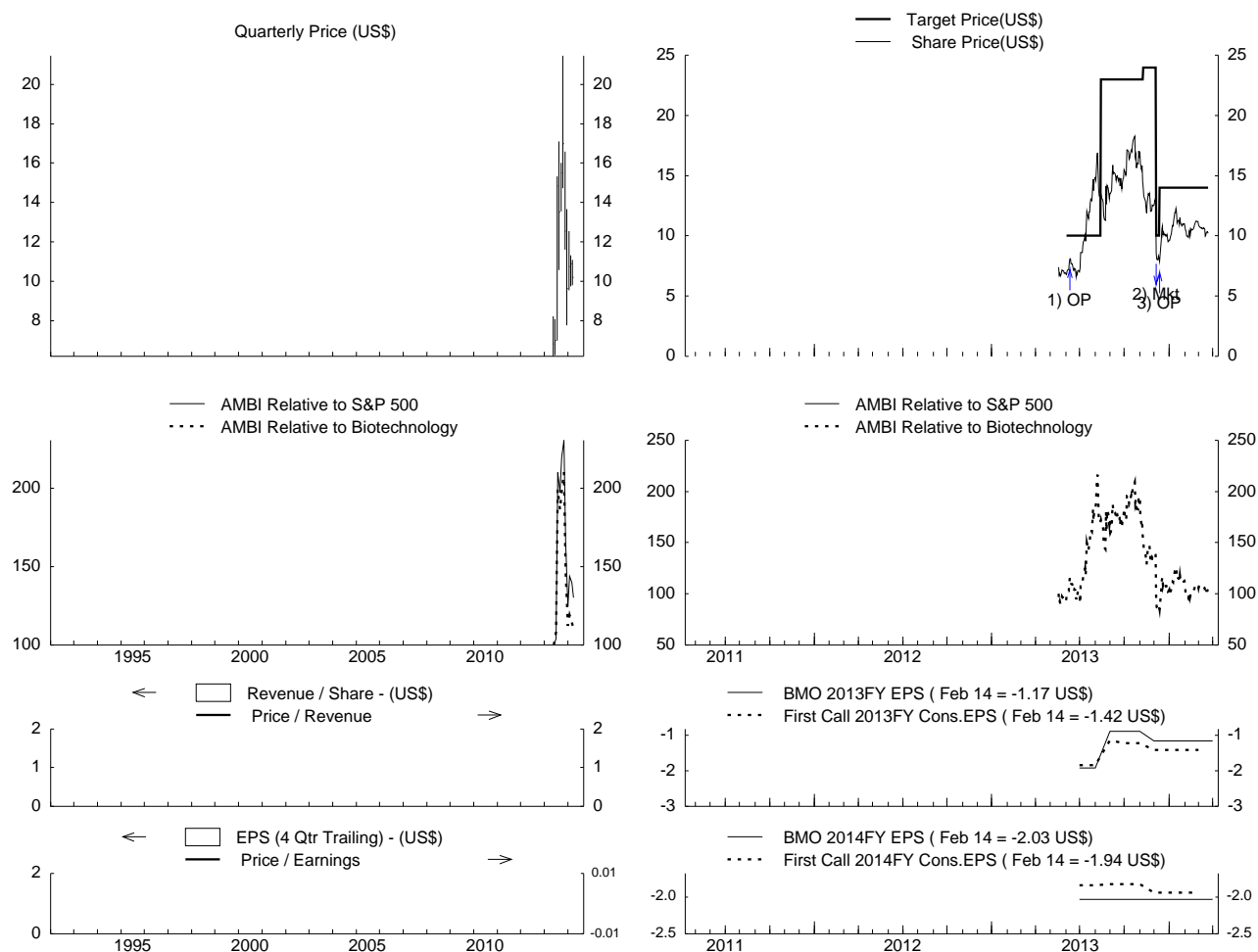
Please refer to pages 3 to 6 for Important Disclosures, including the Analyst's Certification.

Exhibit 1: AMBI Income Statement 2013A-2020E

INCOME STATEMENT (\$M)	2013A	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
REVENUES												
Product Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46.1	\$ 79.3	\$ 122.0	\$ 163.2
Collaboration agreements	27.1	-	-	-	-	-	-	-	-	-	-	-
Grant revenue and other	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL REVENUES	\$ 27.1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 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	26.3	6.5	7.0	7.5	8.0	29.0	32.0	33.0	36.0	34.0	34.0	36.0
SG&A Expense	10.3	2.0	2.0	2.0	2.5	8.5	11.0	21.5	30.0	30.0	30.0	30.0
In-process R&D	-	-	-	-	-	-	-	-	-	-	-	-
Other	(2.5)	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	34.1	8.5	9.0	9.5	10.5	37.5	43.0	54.5	68.3	68.0	70.1	74.2
Operating Income	(7.0)	(8.5)	(9.0)	(9.5)	(10.5)	(37.5)	(43.0)	(54.5)	(22.2)	11.3	51.9	89.0
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	-
EBIT	(7.0)	(8.5)	(9.0)	(9.5)	(10.5)	(37.5)	(43.0)	(54.5)	(22.2)	11.3	51.9	89.0
Interest and other income	0.0	-	-	-	-	-	-	-	-	-	-	-
Interest and other expense	(0.3)	-	-	-	-	-	-	-	-	-	-	-
Other Income (Expense)	(3.9)	-	-	-	-	-	-	-	-	-	-	-
Interest and Other Income (Expense)	(4.3)	-	-	-	-	-	-	-	-	-	-	-
Pre-Tax Income	(11.3)	(8.5)	(9.0)	(9.5)	(10.5)	(37.5)	(43.0)	(54.5)	(22.2)	11.3	51.9	89.0
Income Taxes	(0.0)	-	-	-	-	-	-	-	-	-	-	-
Consolidated Net Income (GAAP)	\$ (11.3)	\$ (8.5)	\$ (9.0)	\$ (9.5)	\$ (10.5)	\$ (37.5)	\$ (43.0)	\$ (54.5)	\$ (22.2)	\$ 11.3	\$ 51.9	\$ 89.0
Net loss attributable to redeemable non-controlling interest	0.1	-	-	-	-	-	-	-	-	-	-	-
Net loss attributable to Ambit Biosciences	(11.2)	(8.5)	(9.0)	(9.5)	(10.5)	(37.5)	(43.0)	(54.5)	(22.2)	11.3	51.9	89.0
Accretion to redemption value of redeemable convertible preferred stock	-	-	-	-	-	-	-	-	-	-	-	-
Change in fair value of redeemable non-controlling interest	(0.4)	-	-	-	-	-	-	-	-	-	-	-
Net Income (GAAP)	(11.6)	(8.5)	(9.0)	(9.5)	(10.5)	(37.5)	(43.0)	(54.5)	(22.2)	11.3	51.9	89.0
EPS (GAAP) (basic)	\$ (1.19)	\$ (0.47)	\$ (0.50)	\$ (0.53)	\$ (0.58)	\$ (2.09)	\$ (2.24)	\$ (2.36)	\$ (0.96)	\$ 0.49	\$ 2.23	\$ 3.80
EPS (GAAP) (diluted)	\$ (1.19)	\$ (0.40)	\$ (0.42)	\$ (0.45)	\$ (0.49)	\$ (1.77)	\$ (1.91)	\$ (2.07)	\$ (0.84)	\$ 0.43	\$ 1.95	\$ 3.32
Total of Reconciliation Items	2.3	-	-	-	-	-	-	-	-	-	-	-
Net Income (Non-GAAP)	\$ (9.0)	\$ (8.5)	\$ (9.0)	\$ (9.5)	\$ (10.5)	\$ (37.5)	\$ (43.0)	\$ (54.5)	\$ (22.2)	\$ 11.3	\$ 51.9	\$ 89.0
Impact of Adjustments to EPS	99.87	-	-	-	-	-	-	-	-	-	-	-
EPS (Non-GAAP) (basic)	\$ (0.81)	\$ (0.47)	\$ (0.50)	\$ (0.53)	\$ (0.58)	\$ (2.09)	\$ (2.26)	\$ (2.36)	\$ (0.96)	\$ 0.49	\$ 2.23	\$ 3.80
EPS (Non-GAAP) (diluted)	\$ (0.81)	\$ (0.40)	\$ (0.42)	\$ (0.45)	\$ (0.49)	\$ (1.77)	\$ (1.92)	\$ (2.07)	\$ (0.84)	\$ 0.43	\$ 1.94	\$ 3.32
Weighted average shares outstanding (basic)	11.0	17.9	17.9	17.9	18.0	17.9	19.2	23.0	23.1	23.2	23.3	23.4
Weighted average shares outstanding (diluted)	11.0	21.2	21.2	21.2	21.3	21.2	22.5	26.4	26.5	26.6	26.7	26.8

Source: Company reports and BMO Capital Markets

Ambit Biosciences (AMBI)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS US\$	Yield% Hi - Lo	Payout %	BV US\$	P/B Hi - Lo	ROE %	AMBI - Rating as of 15-May-13 = NR		
Range*:		na na		NC		>15 >15		na	Date	Rating Change	Share Price
Current*	ND	na	0.00	0.0	na	3.6	3.0	na	1 10-Jun-13	NR to OP	\$8.10
									2 4-Dec-13	OP to Mkt	\$8.56
									3 11-Dec-13	Mkt to OP	\$7.85

* Current EPS is the 4 Quarter Trailing to Q3/2013.

* Valuation metrics are based on high and low for the fiscal year.

* Range indicates the valuation range for the period presented above.

Last Price (March 20, 2014): \$10.21
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

Important Disclosures

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Methodology: Our \$14 price target reflects a probability-adjusted NPV for US opportunity for quizartinib in the relapsed/refractory FLT3-ITD+ AML, with peak sales of \$150M and 65% likelihood of success.

Risks: There are a number of risks associated with investment in biotechnology companies. These risks include, but are not limited to, risk of clinical trial delay or failure, adverse regulatory decisions including product non-approval, unanticipated adverse effects of drugs which may result in removal from market, risk of manufacturing difficulties, capital market risk which may impair the ability to fund product discovery, research, regulatory filing, manufacture and/or commercialization, risk in attaining and retaining appropriate development or commercial partners, lower-than-expected product adoption, difficulties in gaining appropriate reimbursement for products from payors, unforeseen generic and branded competition, risk to patents being invalidated, and failure to meet earnings and revenue expectations.

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Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
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Hold	Market Perform	56.1%	13.8%	49.0%	54.0%	46.5%	41.8%
Sell	Underperform	5.8%	5.6%	2.0%	7.2%	3.1%	5.7%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis;

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(S) = Speculative investment;

NR = No rating at this time; and

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