

Ambit Biosciences

(AMBI-NASDAQ)

Stock Rating: Outperform
Industry Rating: Outperform

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Focus on Quizartinib QAUNTUM-R Execution

Event

Ambit (AMBI) reported 1Q14 operating results yesterday and provided an update to key initiatives. AMBI reported a net loss per share of (\$0.50) versus consensus of (\$0.47). The company ended 1Q14 with cash of \$61.9 million, sufficient to get to an interim data readout from QUANTUM-R at year-end 2015. As previously outlined, QUANTUM-R will enroll 326 patients at 110 sites globally 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 versus physicians' choice chemotherapy 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 the quizartinib arm and 15-20% in the chemotherapy arm could proceed to HSCT. An interim analysis will be conducted when 50% of deaths have occurred at which point the DSMB has three options: to continue as planned, to increase patient enrollment, or to terminate due to overwhelming efficacy or futility.

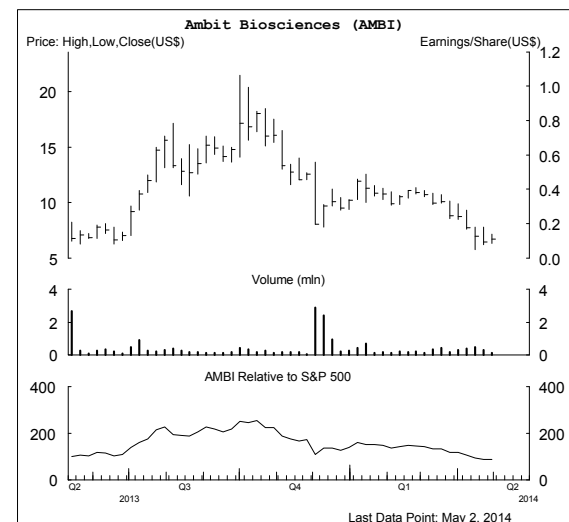
Impact & Analysis

We maintain our Outperform rating following review of 1Q14 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 QUANTUM-R. We remain optimistic that a high value partnership can be achieved in 2014 leading to a broadening of the quizartinib program, including initiation of a company-sponsored front line AML trial as well as support advancement of the pipeline beyond quizartinib.

Valuation & Recommendation

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

Price (7-May) \$6.33 **52-Week High** \$21.44
Target Price \$14.00 **52-Week Low** \$5.75



(FY-Dec.)	2012A	2013A	2014E	2015E
EPS	na	-\$1.19	-\$1.74↑	-\$1.86↑
P/E			na	na
CFPS	na	na	-\$2.32	na
P/CFPS			na	na
Rev. (\$mm)	\$18	\$27	\$0	\$0
EV (\$mm)	na	\$111	\$111	\$111
EBITDA (\$mm)	-\$23	-\$7	-\$39	-\$43
EV/EBITDA	na	na	na	na
Quarterly EPS	Q1	Q2	Q3	Q4
2012A	na	na	na	na
2013A	na	na	-\$0.34	-\$0.10
2014E	-\$0.41a	-\$0.41↑	-\$0.43↑	-\$0.48↑
Dividend	\$0.00			0.0%
Book Value	\$3.29			1.9x
Shares O/S (mm)	21.8			Mkt. Cap (mm)
Float O/S (mm)	12.3			\$138
Wkly Vol (000s)	414			Float Cap (mm)
Net Debt (\$mm)	-\$71			\$78
				Wkly \$ Vol (mm)
				\$4.1
				Next Rep. Date
				na

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

First Call Mean Estimates: AMBIT BIOSCIENCES CORP (US\$)
 2014E: -\$1.87; 2015E: -\$1.96

Changes	Annual EPS	Quarterly EPS	
	2014E -\$1.77 to -\$1.74	Q2/14E -\$0.42 to -\$0.41	Q4/14E -\$0.49 to -\$0.48
	2015E -\$1.91 to -\$1.86	Q3/14E -\$0.45 to -\$0.43	

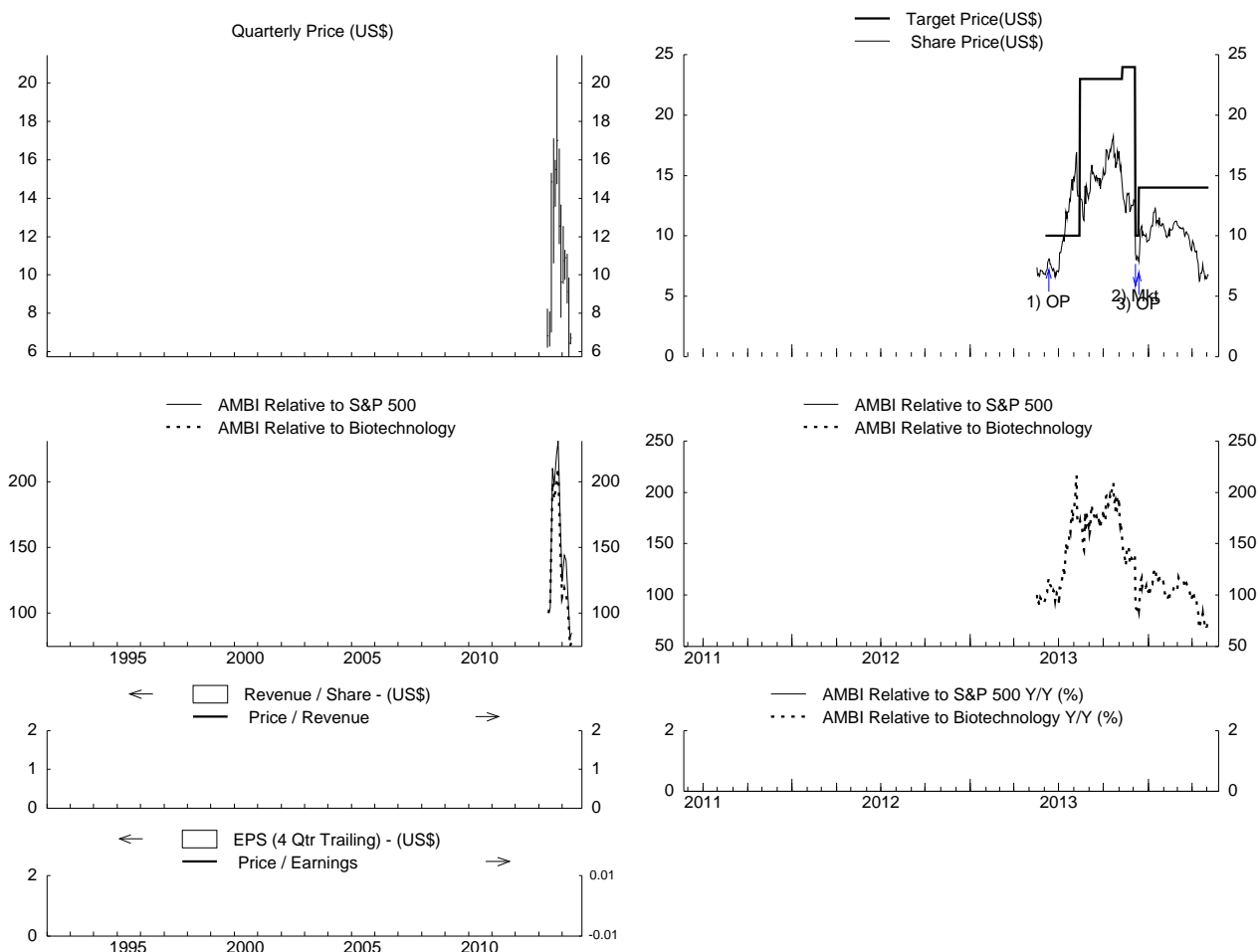
Please refer to pages 3 to 6 for Important Disclosures, including the Analyst's Certification.

Exhibit 1: AMBI Income Statement 2013A-2016E

INCOME STATEMENT (\$M)	2013A	1Q14A	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E
REVENUES								
Product Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collaboration agreements	27.1	0.0	-	-	-	0.0	-	-
Grant revenue and other	-	-	-	-	-	-	-	-
TOTAL REVENUES	\$ 27.1	\$ 0.0	\$ -	\$ -	\$ -	\$ 0.0	\$ -	\$ -
EXPENSES (GAAP)								
Cost of Goods Sold (COGS)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
R&D Expense	26.3	6.3	7.0	7.5	8.0	28.8	32.0	33.0
SG&A Expense	10.3	3.3	2.0	2.0	2.5	9.8	11.0	21.5
In-process R&D	-	-	-	-	-	-	-	-
Other	(2.5)	-	-	-	-	-	-	-
TOTAL EXPENSES	34.1	9.6	9.0	9.5	10.5	38.6	43.0	54.5
Operating Income	(7.0)	(9.5)	(9.0)	(9.5)	(10.5)	(38.5)	(43.0)	(54.5)
Depreciation and amortization	-	-	-	-	-	-	-	-
EBIT	(7.0)	(9.5)	(9.0)	(9.5)	(10.5)	(38.5)	(43.0)	(54.5)
Interest and other income	0.0	-	-	-	-	-	-	-
Interest and other expense	(0.3)	-	-	-	-	-	-	-
Other Income (Expense)	(3.9)	0.5	-	-	-	0.5	-	-
Interest and Other Income (Expense)	(4.3)	0.5	-	-	-	0.5	-	-
Pre-Tax Income	(11.3)	(9.0)	(9.0)	(9.5)	(10.5)	(38.0)	(43.0)	(54.5)
Income Taxes	(0.0)	-	-	-	-	-	-	-
Consolidated Net Income (GAAP)	\$ (11.3)	\$ (9.0)	\$ (9.0)	\$ (9.5)	\$ (10.5)	\$ (38.0)	\$ (43.0)	\$ (54.5)
Net loss attributable to redeemable non-controlling interest	0.1	-	-	-	-	-	-	-
Net loss attributable to Ambit Biosciences	(11.2)	(9.0)	(9.0)	(9.5)	(10.5)	(38.0)	(43.0)	(54.5)
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)	(9.0)	(9.0)	(9.5)	(10.5)	(38.0)	(43.0)	(54.5)
EPS (GAAP) (basic)	\$ (1.19)	\$ (0.50)	\$ (0.50)	\$ (0.53)	\$ (0.58)	\$ (2.12)	\$ (2.24)	\$ (2.36)
EPS (GAAP) (diluted)	\$ (1.19)	\$ (0.41)	\$ (0.41)	\$ (0.43)	\$ (0.48)	\$ (1.74)	\$ (1.86)	\$ (2.02)
Total of Reconciliation Items	2.3	-	-	-	-	-	-	-
Net Income (Non-GAAP)	\$ (9.0)	\$ (9.0)	\$ (9.0)	\$ (9.5)	\$ (10.5)	\$ (38.0)	\$ (43.0)	\$ (54.5)
Impact of Adjustments to EPS	99.87	-	-	-	-	-	-	-
EPS (Non-GAAP) (basic)	\$ (0.81)	\$ (0.50)	\$ (0.50)	\$ (0.53)	\$ (0.58)	\$ (2.12)	\$ (2.26)	\$ (2.36)
EPS (Non-GAAP) (diluted)	\$ (0.81)	\$ (0.41)	\$ (0.41)	\$ (0.43)	\$ (0.48)	\$ (1.74)	\$ (1.87)	\$ (2.02)
Weighted average shares outstanding (basic)	11.0	17.9	17.9	17.9	18.0	17.9	19.2	23.0
Weighted average shares outstanding (diluted)	11.0	21.8	21.8	21.8	21.9	21.8	23.1	27.0

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 %
2013	-1.19	na na	0.00	0.0 0.0	0	ND	>15 >15	
Range*		na na		0.0 0.0			>15 >15	
Current*	ND	na	0.00	0.0	na	3.3	2.0	na

AMBI - Rating as of 15-May-13 = NR

Date	Rating Change	Share Price
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 Q4/2013.
 * Valuation metrics are based on high and low for the fiscal year.
 * Range indicates the valuation range for the period presented above.

Last Price (May 2, 2014): \$6.72
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Methodology and Risks to Price Target/Valuation

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.

Distribution of Ratings (March 31, 2014)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	42.0%	21.5%	60.7%	40.8%	53.6%	53.6%
Hold	Market Perform	52.8%	10.8%	38.2%	52.8%	43.8%	40.8%
Sell	Underperform	5.2%	3.2%	1.1%	6.3%	2.7%	5.6%

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

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(S) = speculative investment;
 NR = No rating at this time;
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