

Auspex Pharmaceuticals

(ASPX-NASDAQ)

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

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Jim Birchenough, M.D.**415-591-2129**BMO Capital Markets Corp
jim.birchenough@bmo.comChuck Whitesell / Nick Abbott, PhD / Yanan Zhu, PhD
BMO Capital Markets Corp.

212-885-4120 / 206-542-2492 / 415-591-2141

charles.whitesell@bmo.com / nicholas.abbott@bmo.com /

yanan.zhu@bmo.com

Stunning Results for SD-809 in Huntington's Chorea Event

ASPX announced positive top-line data from First-HD, the registrational study of its deuterated XENAZINE analog, SD-809, in patients with chorea associated with Huntington's disease. First-HD met its primary endpoint, with SD-809 demonstrating a 2.5-point improvement in the Total Maximal Chorea (TMC) score from baseline to maintenance therapy compared with placebo. Three of four key secondary endpoints were also met, including treatment success based on patient global impression of change (PGIC), clinical global impression of change (CGIC), and quality of life. Data from another study, Switch-HD, demonstrated that patients who switched from XENAZINE to SD-809 maintained chorea control at weeks 1 and 4. With special focus on CNS side effects from FIRST-HD, no difference between SD-809 and placebo for the incidence of psychiatric disorders (17.8% each) or nervous system disorders (17.8% vs. 22.2% in placebo) was observed, while in 19 sub-items for these organ systems, only two occurred in 5% or more of SD-809 treated patients, insomnia (6.7% vs. 4.4%) or somnolence (11.1% vs. 4.4%); depression or dizziness was observed in more than 5% of placebo treated patients 6.7% vs. 4.4% and 8.9% vs. 4.4%. While detailed safety data were not provided for ARC-HD, management noted that safety observations were consistent with those from FIRST-HD.

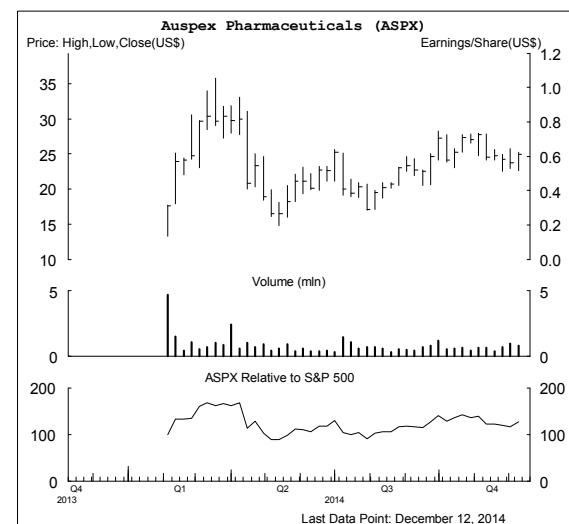
Impact & Analysis

We reiterate our Outperform rating on shares of ASPX and increase our price target to \$60 following review of top-line phase 3 results. Overall efficacy and tolerability results are better than expected and should support label differentiation from incumbent brand XENAZINE. With rates of neuropsychiatric effects well below that seen historically for XENAZINE we expect SD-809 to drive market expansion and command dominant market share.

Valuation & Recommendation

We arrive at our \$60 price target by applying a 25x multiple to 2021E EPS of \$4.82 and discounting at 15% per year. We rate ASPX shares Outperform.

Price (16-Dec) \$25.09 52-Week High \$35.78
Target Price \$60.00 ↑ 52-Week Low \$13.25



(FY-Dec.)	2013A	2014E	2015E	2016E
EPS	NA	-\$2.68	-\$1.67	na
P/E		na	na	na
CFPS	na	na	na	na
P/CFPS		na	na	na
Rev. (\$mm)	\$0	\$0	\$3	na
EV (\$mm)	\$710	\$710	\$710	na
EBITDA (\$mm)	\$0	-\$48	-\$49	na
EV/EBITDA	na	na	na	na
Quarterly EPS	Q1	Q2	Q3	Q4
2013A	NA	NA	NA	NA
2014E	-\$0.81a	-\$0.45a	-\$0.73a	-\$0.68
2015E	na	na	na	na
Dividend	\$0.00			0.0%
Book Value	-\$2.74			-9.2x
Shares O/S (mm)	26.0			Mkt. Cap (mm)
Float O/S (mm)	7.5			\$652
Wkly Vol (000s)	819			Float Cap (mm)
Net Debt (\$mm)	-\$146			\$189
				Wkly \$ Vol (mm)
				\$18.7
				Next Rep. Date
				na

Notes: All values in US\$

Major Shareholders:

First Call Mean Estimates: AUSPEX PHARMACEUTICALS INC
(US\$) 2014E: -\$2.51; 2015E: -\$2.08; 2016E: -\$0.92

Changes

Target

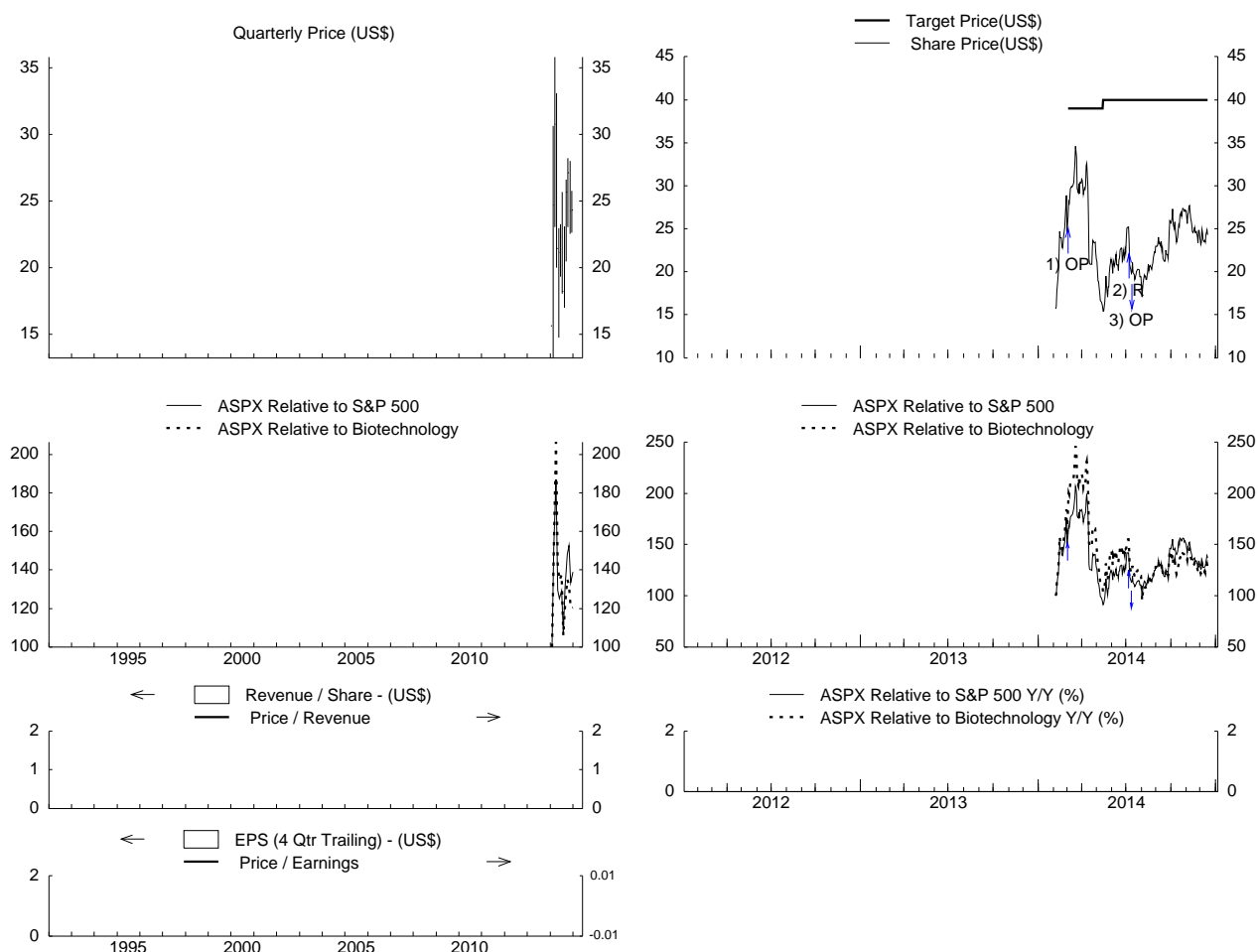
\$40.00 to \$60.00

Exhibit 1: ASPX Income Statement 2013A-2020E

INCOME STATEMENT (\$M)	2013A	1Q14A	2Q14A	3Q14A	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
REVENUES												
Product Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2.8	\$ 36.3	\$ 87.9	\$ 155.8	\$ 227.6	\$ 301.1
Collaboration Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL REVENUES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2.8	\$ 36.3	\$ 87.9	\$ 155.8	\$ 227.6	\$ 301.1
EXPENSES (GAAP)												
Cost of Goods Sold (COGS)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.1	\$ 1.8	\$ 4.4	\$ 9.4	\$ 22.8	\$ 22.6
R&D Expense	10.0	3.4	7.1	10.8	14.5	35.9	18.0	38.5	30.0	32.0	36.0	44.0
SG&A Expense	3.2	2.7	3.1	3.1	3.3	12.0	33.5	46.5	50.5	54.5	58.5	75.0
Other	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	13.2	6.1	10.0	13.9	17.8	47.9	51.6	86.8	84.9	95.9	117.3	141.6
Operating Income	(13.2)	(6.1)	(10.0)	(13.9)	(17.8)	(47.9)	(48.8)	(50.5)	3.0	59.8	110.3	159.4
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	-
EBIT	(13.2)	(6.1)	(10.0)	(13.9)	(17.8)	(47.9)	(48.8)	(50.5)	3.0	59.8	110.3	159.4
Interest and other income	(2.6)	-	-	0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Interest and other expense	(0.2)	(0.4)	(0.3)	(0.7)	(0.1)	(1.5)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Other Income (Expense)	0.4	(3.6)	-	(4.8)	-	(8.4)	-	-	-	-	-	-
Interest and Other Income (Expense)	(2.4)	(4.0)	(0.3)	(5.1)	(0.1)	(9.6)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Pre-Tax Income	(15.6)	(10.1)	(10.4)	(19.0)	(17.9)	(57.4)	(48.2)	(50.9)	2.7	59.5	109.9	159.1
Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (GAAP)	\$ (15.6)	\$ (10.1)	\$ (10.4)	\$ (19.0)	\$ (17.9)	\$ (57.4)	\$ (48.2)	\$ (50.9)	\$ 2.7	\$ 59.5	\$ 109.9	\$ 159.1
EPS (GAAP) (basic)	\$ (371.13)	\$ (0.81)	\$ (0.45)	\$ (0.73)	\$ (0.68)	\$ (2.68)	\$ (1.67)	\$ (1.48)	\$ 0.06	\$ 1.40	\$ 2.47	\$ 3.44
EPS (GAAP) (diluted)	\$ (371.13)	\$ (0.81)	\$ (0.45)	\$ (0.73)	\$ (0.68)	\$ (2.68)	\$ (1.67)	\$ (1.48)	\$ 0.06	\$ 1.40	\$ 2.47	\$ 3.44
Total of Reconciliation Items	0.3	0.5	0.9	1.1	-	2.5	-	-	-	-	-	-
Net Income (Non-GAAP)	\$ (15.3)	\$ (9.6)	\$ (9.5)	\$ (18.0)	\$ (17.9)	\$ (54.9)	\$ (48.2)	\$ (50.9)	\$ 2.7	\$ 59.5	\$ 109.9	\$ 159.1
Impact of Adjustments to EPS	742.42	0.04	0.04	0.04	-	0.12	-	-	-	-	-	-
EPS (Non-GAAP) (basic)	\$ (60,212.20)	\$ (0.77)	\$ (0.41)	\$ (0.69)	\$ (0.68)	\$ (2.56)	\$ (1.67)	\$ (1.48)	\$ 0.06	\$ 1.40	\$ 2.47	\$ 3.44
EPS (Non-GAAP) (diluted)	\$ (60,212.20)	\$ (0.77)	\$ (0.41)	\$ (0.69)	\$ (0.68)	\$ (2.56)	\$ (1.67)	\$ (1.48)	\$ 0.06	\$ 1.40	\$ 2.47	\$ 3.44
Weighted average shares outstanding (basic)	0.0	12.5	22.9	26.0	26.3	21.9	20.3	34.9	38.7	42.3	44.3	46.1
Weighted average shares outstanding (diluted)	0.0	12.5	22.9	26.0	26.3	21.9	20.3	34.9	38.7	42.3	44.3	46.1

Source: Company reports and BMO Capital Markets

Auspex Pharmaceuticals (ASPX)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS US\$	Yield% Hi - Lo	Payout %	BV US\$	P/B Hi - Lo	ROE %
Range*		na na		NC			>15 >15	
Current*	ND	na	0.00	0.0	na	-2.7	-8.8	na

ASPX - Rating as of 4-Feb-14 = NR

Date	Rating Change	Share Price
1 3-Mar-14	NR to OP	\$26.42
2 7-Jul-14	OP to R	\$23.57
3 11-Jul-14	R to OP	\$20.01

* Current EPS is the 4 Quarter Trailing to Q3/2014.
 * Valuation metrics are based on high and low for the fiscal year.
 * Range indicates the valuation range for the period presented above.

Last Price (December 15, 2014): \$24.31
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Methodology and Risks to Price Target/Valuation

Methodology: We arrive at our \$60 price target by applying a 25x multiple to 2021 EPS of \$4.82 and discounting at 15% per year.

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 (September 30, 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	44.3%	18.0%	60.3%	43.9%	56.5%	56.0%
Hold	Market Perform	52.5%	9.7%	38.5%	51.6%	42.1%	39.1%
Sell	Underperform	3.2%	5.3%	1.3%	4.5%	1.4%	4.9%

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

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OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

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

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

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