May 13, 2014

OUTPERFORM

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LEERINK

Reason for report:

EARNINGS

RECEPTOS, INC.

1Q14 EPS; RPC-1063 on Track in MS & UC Data Now in 4Q14; Reit. OP & $75 PT

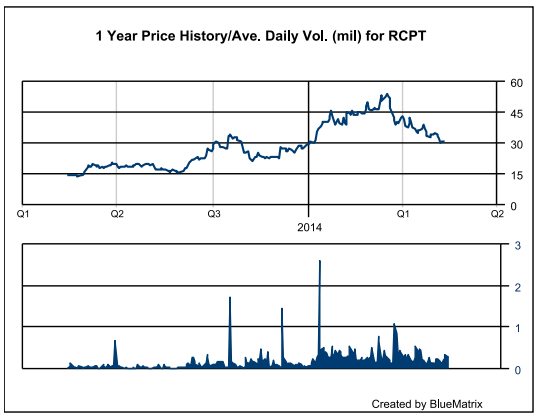
• **Bottom Line:** 1Q14 EPS updates suggest RPC-1063 ("1063") top-line MS data are on-track for mid-14 (we est. July), Phase II Ulcerative Colitis (UC) will come in 4Q14 and a potential partnership may be for development or commercial purposes. Regarding the Phase II MS trial, our focus will be around 1063's differentiation based on safety and less over efficacy. Given likely periodic UC trial enrollment updates, we are unconcerned with the one-quarter push out and maintain our positive thesis in UC (see our RCPT note 4.11.14). We also see Vedolizumab approval (PDUFA 5.20.14) as an incremental catalyst, especially if a broad label is provided allowing use ahead of anti-TNFs. Given the UC data push out and RCPT's interest in a partnership that provides value for MS and UC, a deal would be unlikely until 1H15 which would likely be ~6 months into the 2nd (12-month) Phase III MS trial start. We reiterate our Outperform (OP) rating & $75 price target (PT).

• **RCPT 1Q14 EPS of ($1.01) was lower than our estimate of $(0.91) driven primarily by R&D expenses of ~$20M that was higher than our $16.6M estimate.** SG&A of $2.8M trailed our estimate of $3.4M. RCPT ended 1Q14 with ~$158.6M in cash and cash equivalents.

• **Given RCPT shares' recent and we believe non-fundamental pullback, this may provide an opportunity to reset some fundamental expectations (i.e., UC timing and partnership) more conservatively without shares suffering and simultaneously creating potential for upside.** Additionally, if RCPT were to await top-line UC Phase II results (i.e., 1H15) prior to signing a Phase III development partnership, this could result in an >6 month delay to initiating the 2nd Phase III MS pivotal trial (est. start 2H14). This in turn would slow development timelines but it would provide large pharma validation and clinical trial support and expertise. Ultimately, the merits of inking a commercial vs. development partnership will only be clear once we see data from the MS and UC trials. If both trials are positive and the UC TOUCHSTONE trial suffices to serve as 1 of 2 pivotals, then RCPT should keep 1063 proprietary as long as possible to maximize shareholder value and fund development on its own.

• **1063 Phase II MS data should be announced mid-14 and full data at ECTRIMS (9/10-13) as a late breaker if positive.** We believe the focus should be on safety including: heart rate, infection rates, liver function tests (LFTs), and ophthalmic exams. We do not believe reduction in gadolinium enhanced lesions will provide as much competitive information until we see annualized relapse rate (ARR) data from the Phase III trials.

Key Stats:	**(NASDAQ:RCPT)**
S&P 600 Health Care Index:	**1,237.84**
Price:	**$30.43**
Price Target:	$75.00
Methodology:	DCF analysis
52 Week High:	$55.00
52 Week Low:	$13.00
Shares Outstanding (mil):	21.2
Market Capitalization (mil):	$645.1
Book Value/Share:	$0.22
Cash Per Share:	$7.48
Dividend (ann):	$0.00
Dividend Yield:	0.0%



Dec Yr	1Q	2Q	3Q	4Q	FY Rev	1Q	2Q	3Q	4Q	FY EPS	P/E
2013A	$1.5	$1.2	$1.1	$0.8	$4.6	($5.46)	($0.98)	($0.88)	($0.86)	($4.23)	NM
2014E - New	**$1.4A**	**0.0**	**0.0**	**0.0**	**$1.3**	**($1.01)A**	**($1.16)**	**($1.39)**	**($1.53)**	**($5.10)**	**NM**
2014E - Old	0.0	0.0	0.0	0.0	0.0	($0.91)	($1.02)	($1.39)	($1.53)	($4.86)	NM
2015E - New	**--**	**--**	**--**	**--**	**0.0**	**--**	**--**	**--**	**--**	**($6.60)**	**NM**
2015E - Old	--	--	--	--	0.0	--	--	--	--	($6.19)	NM

Source: Company Information and Leerink Partners LLC Research
Revenues in $000s.

INVESTMENT THESIS

We rate RCPT Outperform. We believe RCPT shares are poised to appreciate near/longer term driven by clinical progress and commercialization of lead compound RPC-1063. Compared to other S1P1 compounds, RPC-1063 is earlier stage but emerging as "best in class." In 2014, RCPT plans to sign an RPC-1063 partnership with large pharma, announce RPC-1063 Phase II data in relapsing MS (RMS) and Ulcerative Colitis (UC), and start two pivotal Phase III RMS trials. Our probability adjusted RPC1063 revenues from UC is in the mid-30s percentage range. We currently assume a mid-30 percentage probability of approval for RPC-1063 in RMS in 2018. The 2Q13 MEDACorp MS Survey suggests that if approved in 2018, RPC-1063 would take significant market share from Gilenya (~58%), Tecfidera (~13%), and Tysabri (15%) that could be worth $1.2B in U.S. revenue in 2019E. Core RPC-1063 Intellectual Property (IP) expires in 2029 but Gilenya (NVS) currently goes off patent in 2019. Assuming generic pricing starts in 2020, we model peak risk adjusted RPC-1063 WW revenues of ~$770M (or $2.2B non-risk adjusted) which leads to our base case NPV calculation of $1.7B, including cash, based only on approval and use in RMS.

Change in Model

Based on 1Q14 updates provided on 5.12.14, we are adjusting our 2014 EPS estimate to ($5.10) from ($4.86), previously.

Milestones

Product	Partner	Indication	Phase	Timing	Milestone
RPC-1063 (S1P1)	Proprietary	Relapsing MS	Phase III	**Mid-2014**	**Phase II data of 1st pivotal (RPC01-201)**
				2H14	Initiate 2nd pivotal Phase III RMS trial (with SPA)
				Oct-2014	**ECTRIMS Phase II MS data presentation**
				2017	2nd pivotal Phase III RMS trial data
				YE17	NDA submission
				2H18	FDA Approval
		Ulcerative Colitis (UC)	Phase II	1H14	Complete trial enrollment (80% as of 5.12.14)
				4Q14	**Phase II UC trial data (might serve as 1 of 2 pivotals)**
				2015	Initiate pivotal trial (possibly maintenance)
				2018	Possible NDA submission
RPC-4046 (IL-13)	ABBV	Eosinophilic Esophagitis (EoE)	Phase II	2H14	Initiate Phase II data
				1H16	**Phase II trial data**

Source: Company Reports, Leerink Partners estimates

VALUATION

We calculate a $75 DCF price target for RCPT in the next 12 months based on a discounted cash flow (DCF) analysis. Based on MEDACorp KOL feedback, our probability of success of RPC1063 in Ulcerative Colitis (UC) is mid-30s percentage and we assume launch in 2019. We only penetrate into fourth-line UC patients. We assigned a mid 30% probability of success for RPC-1063 in the MS setting, assuming launch in 2018. We apply a discount rate of 11% and a terminal growth rate of 1% which translates to a ~10x terminal multiple which we believe is comparable to biotechnology companies in a similar development stage. The 2Q13 MEDACorp MS Survey suggests that if approved in 2018, RPC-1063 would take significant market share from Gilenya (~58%), Tecfidera (~13%) and Tysabri (15%) that could be worth $1.2B in U.S. revenue in 2019E. Core RPC-1063 Intellectual Property (IP) expires in 2029, but Gilenya (NVS) currently goes off patent in 2019. Assuming generic pricing starts in 2020, we model peak risk adjusted RPC-1063 WW revenues of ~$770M ($2.2B non-risk adjusted) which leads to our base case NPV calculation of $1.7B including cash, based on approval and use in relapsing multiple sclerosis (RMS) and UC.

RISKS TO VALUATION

An investment in RCPT is fundamentally a high-risk, high-reward investment, in our opinion. RCPT may face significant clinical, regulatory, and commercial risks for pipeline products. Most important is risk associated with potential failure of RPC-1063 (Relapse Remitting Multiple Sclerosis) to obtain regulatory approvals and capture market share in the MS treatment paradigm. RPC-1063 is also the earliest among other S1P receptor modulators. There is also risk that evolving therapeutic landscapes could render RCPT pipeline compounds non-competitive or less valuable once approved.

RCPT P&L ($000s, except per share data)																	
	2013A	1Q14A	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Revenues																	
RPC1063 WW Revenue in MS										$316,680	$1,088,253	$569,241	$768,848	$1,003,905	$1,257,093	$1,470,700	$1,664,873
Probability of Success										*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*
Risk Adjusted RPC1063 WW Revenue in MS										**$110,838**	**$380,889**	**$199,234**	**$269,097**	**$351,367**	**$439,983**	**$514,745**	**$582,706**
RPC1063 U.S. Revenue in UC										-	$81,377	$194,873	$292,476	$460,913	$484,235	$508,738	$534,480
Probability of Success										*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*
Risk Adjusted RPC1063 U.S. Revenue in UC										**-**	**$28,482**	**$68,205**	**$102,367**	**$161,320**	**$169,482**	**$178,058**	**$187,068**
RPC4046																	
Collaborative Revenue	$4,641	$1,350	-	-	-	$1,350	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	**$4,641**	**$1,350**	**-**	**-**	**-**	**$1,350**	**-**	**-**	**-**	**$110,838**	**$409,371**	**$267,440**	**$371,464**	**$512,686**	**$609,465**	**$692,803**	**$769,774**
Costs and Expenses																	
Probability Adjusted COGS	-	-	-	-	-	-	-	-	-	$11,084	$40,937	$26,744	$37,146	$41,015	$48,757	$55,424	$61,582
R&D	$43,585	$20,007	$22,045	$27,250	$30,340	$99,642	$149,463	$186,829	$209,248	$100,250	$80,000	$81,600	$83,232	$84,897	$86,595	$88,326	$90,093
SG&A (Risk Adjusted from Time of RPC1063 Launch)	$8,949	$2,759	$3,600	$3,800	$4,000	$14,159	$15,292	$16,515	$51,197	$43,000	$68,800	$75,680	$80,978	$85,836	$90,986	$96,446	$102,232
Total Costs and Expenses	**$52,534**	**$22,766**	**$25,645**	**$31,050**	**$34,340**	**$113,801**	**$164,755**	**$203,344**	**$260,445**	**$154,334**	**$189,737**	**$184,024**	**$201,356**	**$211,748**	**$226,338**	**$240,196**	**$253,907**
Operating Income (EBIT)	**($47,893)**	**($21,416)**	**($25,645)**	**($31,050)**	**($34,340)**	**($112,451)**	**($164,755)**	**($203,344)**	**($260,445)**	**($43,496)**	**$219,634**	**$83,416**	**$170,108**	**$300,939**	**$383,127**	**$452,607**	**$515,866**
Y/Y growth																	
Income Before Taxes	**($50,376)**	**($21,500)**	**($25,829)**	**($31,234)**	**($34,524)**	**($113,086)**	**($166,520)**	**($205,109)**	**($261,540)**	**($43,496)**	**$219,634**	**$83,416**	**$170,108**	**$300,939**	**$383,127**	**$452,607**	**$515,866**
Provision for Taxes						-	-	-	-	-	-	-	-	-	93,771	153,886	175,395
Net income	**($50,376)**	**($21,500)**	**($25,829)**	**($31,234)**	**($34,524)**	**($113,086)**	**($166,520)**	**($205,109)**	**($261,540)**	**($43,496)**	**$219,634**	**$83,416**	**$170,108**	**$300,939**	**$289,356**	**$298,721**	**$340,472**
EPS (LPS) Basic	**($4.23)**	**($1.01)**	**($1.16)**	**($1.39)**	**($1.53)**	($5.10)	($6.60)	($7.40)	($8.72)	($1.44)	$7.18	$2.70	$5.45	$9.55	$9.09	$9.29	$10.48
Y/Y growth																	
Basic Shares* (000)	**11,916**	**21,195**	**22,279**	**22,390**	**22,502**	**22,161**	**25,240**	**27,714**	**29,992**	**30,291**	**30,594**	**30,900**	**31,209**	**31,521**	**31,837**	**32,155**	**32,477**

Source: Leerink Partners and company reports.

DCF Calcuation

Discount rate	*11%*
Terminal Growth Rate	*1%*
Valuation	**$1,686,923**
Valuation / Share	**$75**

Source: Leerink Partners estimates.

RCPT DCF Valuation / Share Sensitivity Analysis

Terminal Growth Rate \ Discount Rate	9.0%	10.0%	11.0%	12.0%	13.0%
0.0%	$104	$85	$71	$59	$50
1.0%	$112	$91	**$75**	$62	$52
2.0%	$123	$98	$80	$66	$55
3.0%	$137	$108	$86	$70	$58
4.0%	$157	$120	$94	$76	$62

Source: Leerink Partners estimates.

Disclosures Appendix

Analyst Certification

I, Marko Kozul, M.D., certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

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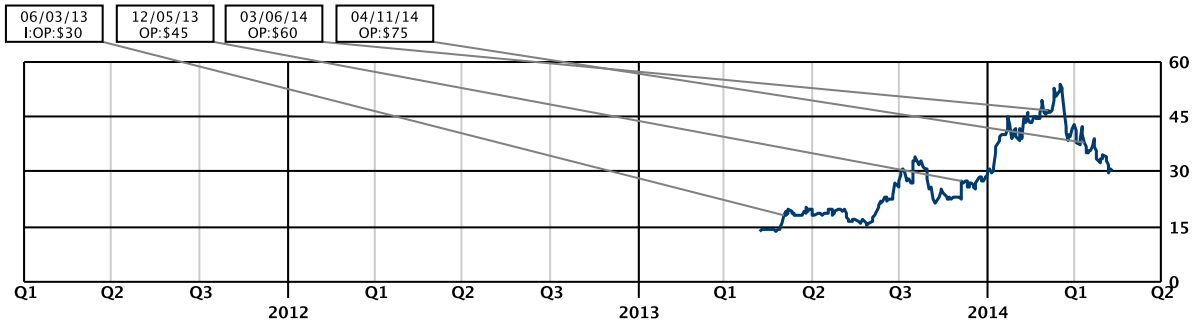
Rating and Price Target History for: Receptos, Inc. (RCPT) as of 05-12-2014

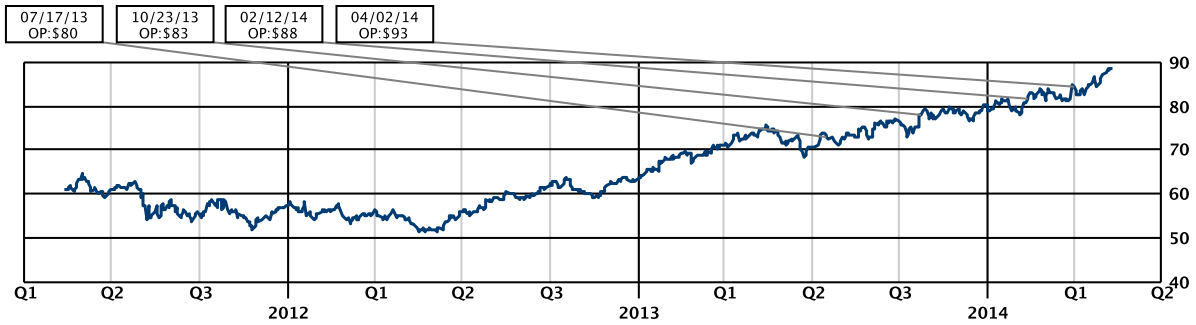


Leerink Swann initiated coverage of Receptos, Inc. with an Outperform rating on June 3, 2013. On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

OP=Outperform MP=Market Perform UP=Underperform D=Drop Coverage I=Initiate SC=Suspend Coverage

Created by BlueMatrix

Rating and Price Target History for: Novartis AG (NVS) as of 05-12-2014



Leerink Swann initiated coverage of NVS with an Outperform rating on November 9, 2010. On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

OP=Outperform MP=Market Perform UP=Underperform D=Drop Coverage I=Initiate SC=Suspend Coverage

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Distribution of Ratings/Investment Banking Services (IB) as of 03/31/14			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [OP]	131	68.23	46	35.11
HOLD [MP]	61	31.77	3	4.92
SELL [UP]	0	0.00	0	0.00

Explanation of Ratings

Outperform (Buy): We expect this stock to outperform its benchmark over the next 12 months.

Market Perform (Hold/Neutral): We expect this stock to perform in line with its benchmark over the next 12 months.

Underperform (Sell): We expect this stock to underperform its benchmark over the next 12 months.The degree of outperformance or underperformance required to warrant an Outperform or an Underperform rating should be commensurate with the risk profile of the company.

For the purposes of these definitions the relevant benchmark will be the S&P 600® Health Care Index for issuers with a market capitalization of less than $2 billion and the S&P 500® Health Care Index for issuers with a market capitalization over $2 billion.

Important Disclosures

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MEDACorp is a network of healthcare professionals, attorneys, physicians, key opinion leaders and other specialists accessed by Leerink and it provides information used by its analysts in preparing research.

In the past 12 months, the Firm has received compensation for providing investment banking services to Receptos, Inc. .

Leerink Partners LLC makes a market in Receptos, Inc.

Leerink Partners LLC is willing to sell to, or buy from, clients the common stock of Novartis AG on a principal basis.

Leerink Partners LLC has acted as a co-manager for a public offering of Receptos, Inc. in the past 12 months.

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