

Receptos

(RCPT-NASDAQ)

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

Solid 3Q13 Results; Programs Remain on Track

Event

Receptos reported 3Q13 operating results late yesterday and provided an update on key pipeline programs. Net loss per share of \$0.88 was in line with our expectations, and the company ended 3Q13 with \$80.8M in cash. With primary focus on selective S1P1 modulator RPC1063, recent completion of enrollment to the phase 2 portion of the phase 2/3 RADIANCE trial in relapsing MS (RMS) keeps both the 4Q13 interim analysis and mid-14 complete analysis on track. Following a positive interim analysis, RCPT will amend RADIANCE into a head-to-head two-year trial against Avonex. RCPT also noted that the 1063 phase 2 TOUCHSTONE trial in ulcerative colitis (UC) remains on track for data read out also in mid-2014. Broader pipeline progress is expected in 2014 with IND filing and phase 2 initiation expected for RPC4046 in eosinophilic esophagitis (EoE) and with completion of IND-enabling studies in the oral GLP-1 receptor modulator program as well.

Impact & Analysis

We are reiterating our Outperform rating on shares of RCPT, following review of 3Q13 results. With a rapidly expanding oral MS market and with less selective S1P modulator GILENYA sales growing in the face of a strong TECFIDERA launch, we continue to see significant upside on improved QT profile, lower heart rate effects, better liver safety, shorter half-life, and more rapid lymphocyte recovery with RPC1063 in RRMS. We anticipate positive interim analysis from RADIANCE in 4Q13 will be a value inflection point for RCPT and lead to a high value collaboration for RPC1063 development and commercialization. In addition, with limited value attached to RPC1063 in UC, we believe that another \$1B+ opportunity could emerge from a first-in-class/best-in-class profile in this indication. EoE and GLP-1 programs are early but could support longer-term value creation.

Valuation & Recommendation

Our \$41 price target is based on 25x 2020 EPS of \$4.17, discounted 20%. We rate shares of RCPT stock as Outperform.

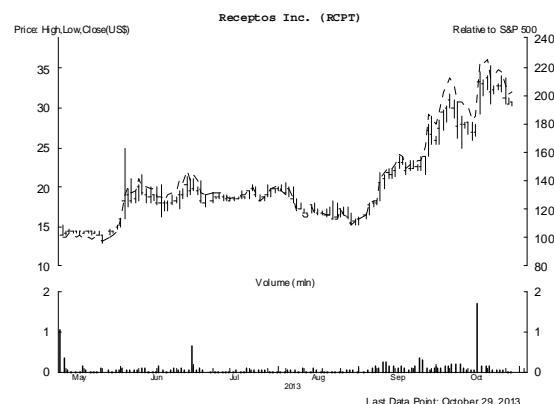
October 31, 2013

Jim Birchenough, M.D.**415-591-2129**BMO Capital Markets Corp
jim.birchenough@bmo.comChuck 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 (30-Oct)	\$28.04	Target Price	\$41.00 ↑
52-Wk High/Low	\$35/\$13	Dividend	--
Mkt Cap (mm)	\$496	Yield	--
Shs O/S (mm, BASIC)	17.7	Float O/S (mm)	5.5
Options O/S (mm)	na	ADVOL (30-day, 000s)	156

Price Performance



Valuation/Financial Data

(FY-Dec.)	2011A	2012A	2013E	2014E
EPS GAAP	-\$1.04	-\$0.28	-\$7.93↓	-\$4.68↓
P/E			nm	nm
First Call Cons.			-\$6.35	-\$3.50
FCF	\$1.20	-\$18.40	-\$10.30	-\$30.80
P/FCF			nm	nm
EBITDA (\$mm)	-\$6	-\$18	-\$44	-\$96
EV/EBITDA			nm	nm
Rev. (\$mm)	\$9	\$9	\$4	\$0
EV/Rev			102.1x	#DIV/0!
Quarterly EPS	1Q	2Q	3Q	4Q
2012A	na	na	na	na
2013E	-\$5.46A	-\$0.98A	-\$0.88A	-\$0.62↓
Balance Sheet Data (30-Jun)				
Net Debt (\$mm)	-\$98	TotalDebt/EBITDA		nm
Total Debt (\$mm)	\$0	EBITDA/IntExp		na
Net Debt/Cap.	nm	Price/Book		6.5x

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 -\$7.60 to -\$7.93
2014E -\$4.63 to -\$4.68

Quarterly EPS
Q4/13E -\$0.61 to -\$0.62

Target
\$40.00 to \$41.00

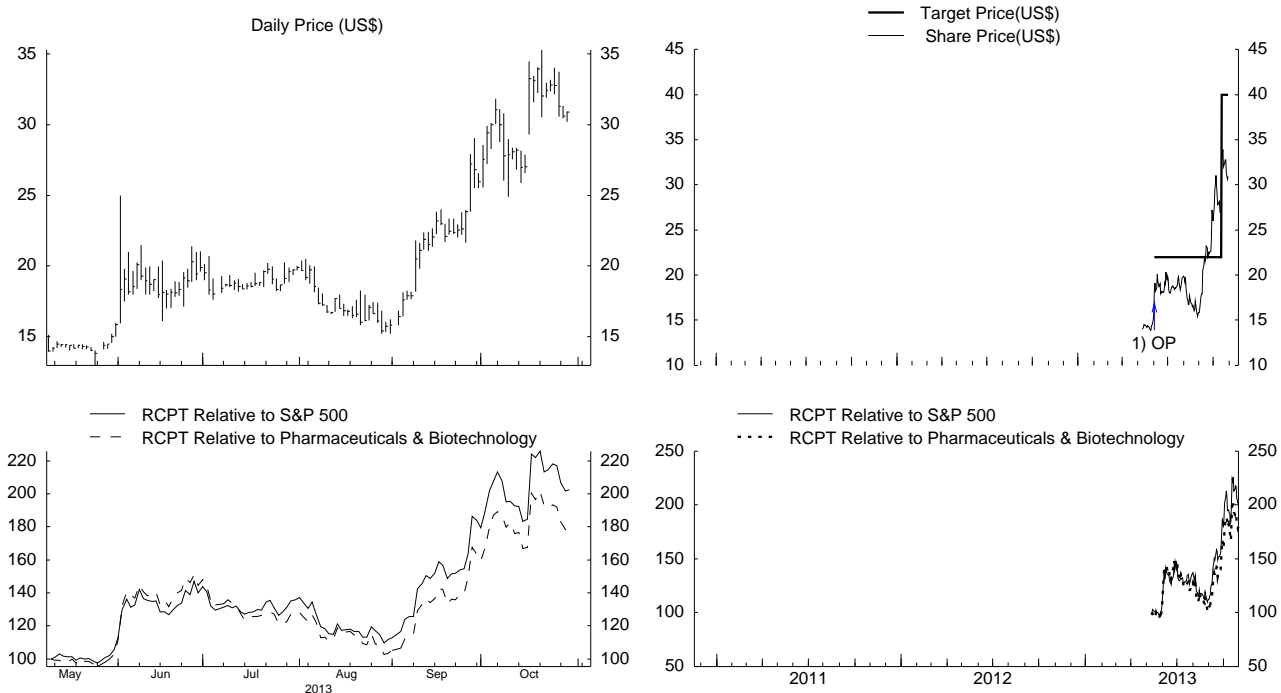
Please refer to pages 3 to 6 for Important Disclosures, including the Analyst's Certification.

Exhibit 1: RCPT Income Statement 2012A-2020E

INCOME STATEMENT (\$M)	2012A	1Q13A	2Q13A	3Q13A	4Q13E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
REVENUES													
Product Revenues	\$ 8.6	\$ 1.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 93.0	\$ 87.0	\$ 68.5	\$ 190.2	\$ 283.6
Collaborative Revenue	-	-	-	-	-	-	-	-	50.0	50.0	43.0	28.0	27.8
Licenses, grant revenue and other	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL REVENUES	\$ 8.6	\$ 1.5	\$ 1.2	\$ 1.1	\$ -	\$ 3.9	\$ -	\$ 115.0	\$ 155.0	\$ 145.0	\$ 123.5	\$ 230.2	\$ 323.4
EXPENSES (GAAP)													
Cost of Goods Sold (COGS)	\$ 22.9	\$ 8.0	\$ 9.4	\$ 13.5	\$ 8.0	\$ 39.0	\$ 82.0	\$ 162.0	\$ 242.0	\$ 222.0	\$ 142.0	\$ 9.5	\$ 14.2
R&D Expense	3.4	1.1	1.6	3.1	3.0	8.7	14.0	16.0	15.0	21.0	25.0	112.0	111.5
SG&A Expense	-	-	-	-	-	-	-	-	-	-	-	29.0	30.0
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	26.4	9.1	11.0	16.6	11.0	47.7	96.0	178.0	260.0	243.0	170.4	150.5	155.7
Operating Income	(17.7)	(7.6)	(9.8)	(15.4)	(11.0)	(43.8)	(96.0)	(63.0)	(105.0)	(98.0)	(46.9)	79.7	167.7
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	-	-
EBIT	(17.7)	(7.6)	(9.8)	(15.4)	(11.0)	(43.8)	(96.0)	(63.0)	(105.0)	(98.0)	(46.9)	79.7	167.7
Interest and other income	0.0	0.0	0.0	-	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.3
Interest and other expense	-	-	(0.1)	(0.2)	-	(2.1)	-	-	-	-	-	-	-
Other Income (Expense)	(0.0)	(2.1)	(0.1)	(0.2)	0.0	(2.3)	0.1	0.1	0.1	0.1	0.1	0.1	0.3
Interest and Other Income (Expense)	-	(2.1)	(0.1)	(0.2)	0.0	(2.3)	0.1	0.1	0.1	0.1	0.1	0.1	0.3
Pre-Tax Income	(17.7)	(9.6)	(9.9)	(15.6)	(11.0)	(46.1)	(95.9)	(62.9)	(104.9)	(97.9)	(46.9)	79.8	168.0
Income Taxes	-	-	-	-	-	-	-	-	-	2.4	0.6	19.9	42.0
Net Income (GAAP)	(17.7)	(9.6)	(9.9)	(15.6)	(11.0)	(46.1)	(95.9)	(62.9)	(104.9)	(100.3)	(47.5)	\$ 59.8	\$ 126.0
EPS (GAAP) (basic)	\$ (0.28)	\$ (5.46)	\$ (0.98)	\$ (0.88)	\$ (0.62)	\$ (7.93)	\$ (4.68)	\$ (2.75)	\$ (4.13)	\$ (3.56)	\$ (1.59)	\$ 2.00	\$ 4.17
EPS (GAAP) (diluted)	\$ (0.28)	\$ (5.46)	\$ (0.98)	\$ (0.88)	\$ (0.62)	\$ (7.93)	\$ (4.68)	\$ (2.75)	\$ (4.13)	\$ (3.56)	\$ (1.59)	\$ 2.00	\$ 4.17
Total of Reconciliation Items	0.0	-	0.4	-	-	0.4	-	-	-	-	-	-	-
Net Income (Non-GAAP)	\$ (13.2)	\$ (9.6)	\$ (9.5)	\$ (15.6)	\$ (11.0)	\$ (45.7)	\$ (95.9)	\$ (62.9)	\$ (104.9)	\$ (100.3)	\$ (47.5)	\$ 59.8	\$ 126.0
Impact of Adjustments to EPS	0.00	-	0.04	-	-	0.04	-	-	-	-	-	-	-
EPS (Non-GAAP) (basic)	\$ (0.21)	\$ (5.46)	\$ (0.94)	\$ (0.88)	\$ (0.62)	\$ (7.89)	\$ (4.68)	\$ (2.75)	\$ (4.13)	\$ (3.56)	\$ (1.59)	\$ 2.00	\$ 4.17
EPS (Non-GAAP) (diluted)	\$ (0.21)	\$ (5.46)	\$ (0.94)	\$ (0.88)	\$ (0.62)	\$ (7.89)	\$ (4.68)	\$ (2.75)	\$ (4.13)	\$ (3.56)	\$ (1.59)	\$ 2.00	\$ 4.17
Weighted average shares outstanding (basic)	62.7	1.8	10.2	17.7	17.7	11.8	20.3	22.8	25.4	27.4	28.8	29.9	30.2
Weighted average shares outstanding (diluted)	62.7	1.8	10.2	17.7	17.7	11.8	20.3	22.8	25.4	27.4	28.8	29.9	30.2

Source: Company reports and BMO Capital Markets

Receptos Inc. (RCPT)



RCPT - Rating as of 8-May-13 = NR

Date	Rating Change	Share Price
1 3-Jun-13	NR to OP	\$15.87

Last Daily Data Point: October 29, 2013

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Hold	Market Perform	59.4%	13.1%	51.1%	56.9%	50.2%	41.7%
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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; and

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