

Receptos (RCPT)

SMALL & MID CAP RESEARCH



Rating **OUTPERFORM*** [V]
Price (07 Aug 13, US\$) 17.37
Target price (US\$) 21.00¹
52-week price range 20.29 - 13.85
Market cap. (US\$ m) 318.53
Enterprise value (US\$ m) -71,855.55

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.
¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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A Potential Revolutionary Candidate - Development timelines for pipeline are intact

- **Focus remains on RPC1063 in Relapsing Multiple Sclerosis (RMS):** RCPT is not an earnings-driven story and hence Q2 financials reported after the close last night (first since May IPO) were a relative non-event. Most importantly, RCPT reaffirmed timelines for RPC1063's PII/III RADIANCE study. RCPT still plans to conduct an interim analysis of the PII portion in Q4'13; this event will trigger enrollment of the PIII trial. RCPT plans to report topline data from this study in mid-2014. RCPT did provide some of their latest thinking around potential designs for their confirmatory PIII trial. Specifically, RCPT has considered using an oral drug (with Aubagio and Tecfidera mentioned specifically) as an active comparator in the second PIII study. The next upcoming catalyst on RPC-1063 is the presentation of the QTc PI data at ECTRIMS on Oct 2-5, 2013 in Copenhagen.
- **RPC1063 in Ulcerative Colitis (UC):** RCPT continues to enroll the TOUCHSTONE PII trial in UC. The primary endpoint is induction of clinical remission in moderately to severely active UC. A topline readout is still expected in mid-2014.
- **RPC4046 in Eosinophilic Esophagitis (EoE):** RCPT is still planning the proof-of-concept PII trial in EoE. RCPT plans to request a pre-IND meeting with the end by year end, followed by submission of an IND for in H1'14.
- **Valuation.** We believe that RPC1063 could be a significant winner in the multiple sclerosis "revolution". We think the totality of RPC1063's clinical profile, notably improved half-life/fast recovery of lymphocytes as well as cardiovascular/hepatotoxicity relative to Gilenya ("first-generation" S1P1R modulator launched in 2010) may effectively position RPC1063 in a different "bucket" than Gilenya. Our DCF-derived TP remains \$21.

Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (US\$)	-13.73	-3.60	-1.67	-1.44
Prev. EPS (US\$)	—	-2.70	-1.72	-1.40
P/E (x)	-1.3	-4.8	-10.4	-12.1
P/E rel. (%)	-7.8	-31.6	-75.4	-96.8
Revenue (US\$ m)	8,647.0	4,226.0	22,150.0	—
EBITDA (US\$ m)	-17,054.0	-41,685.2	-42,430.2	-36,994.5
OCFPS (US\$)	-14.28	-3.33	-1.51	-1.45
P/OCF (x)	—	-5.2	-11.5	-12.0
EV/EBITDA (current)	0.3	1.7	3.0	2.4
Net debt (US\$ m)	-5,453	-72,174	-126,554	-88,964
ROIC (%)	316.59	535.46	444.96	585.96
Number of shares (m)	18.34	IC (current, US\$ m)		-5,594.00
BV/share (Next Qtr., US\$)	—	EV/IC (x)		—
Net debt (Next Qtr., US\$ m)	—	Dividend (current, US\$)		—
Net debt/tot cap (Next Qtr., %)	—	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates

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Exhibit 1: RCPT Quarterly Income Statement 2013

RCPT Quarterly Income Statement	Q1'13A	Q2'13A	Q3'13E	Q4'13E	2013E
(Dollars in thousands, except share and per share amounts)					
RPC1063 Royalty	0	0	0	0	0
Milestones	0	0	0	0	0
Collaborative Revenues	1,488	1,238	750	750	4,226
Total Revenues	1,488	1,238	750	750	4,226
COGS	0	0	0	0	0
Gross Profit	1,488	1,238	750	750	4,226
R&D	8,020	9,441	10,572	11,575	39,608
SG&A	1,062	1,589	1,809	2,075	6,535
Total Operating Expenses	9,082	11,030	12,380	13,650	46,142
Operating Income/(Loss)	(7,594)	(9,792)	(11,630)	(12,900)	(41,916)
Interest Income	1	0	0	0	1
Interest Expense	0	0	0	0	0
Other Income/(Expense)	(2,056)	(126)	(100)	(100)	(2,382)
Total Other Income/(Expense)	(2,055)	(126)	(100)	(100)	(2,381)
Pre-Tax Profit/(Loss)	(9,649)	(9,918)	(11,730)	(13,000)	(44,297)
Provision/(Benefit) for Income Taxes	0	0	0	0	0
Effective Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income/(Loss)	(9,649)	(9,918)	(11,730)	(13,000)	(44,297)
GAAP Basic EPS	(\$5.46)	(\$0.98)	(\$0.63)	(\$0.69)	(\$3.60)
GAAP Diluted EPS	(\$5.46)	(\$0.98)	(\$0.63)	(\$0.69)	(\$3.60)
Basic Shares Outstanding	1,767	10,151	18,627	18,720	12,316
Diluted Shares Outstanding	1,767	10,151	18,627	18,720	12,316

Source: Receptos, Credit Suisse estimates

Exhibit 2: RCPT Annual Income Statement 2011-2020

RCPT Annual Income Statement	2011A	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
(Dollars in thousands, except share and per share amounts)										
RPC1063 Royalty	0	0	0	0	0	0	0	2,649	70,972	162,551
Milestones	0	0	0	20,000	0	0	25,000	75,000	0	0
Collaborative Revenues	9,232	8,647	4,226	2,150	0	0	0	0	0	0
Total Revenues	9,232	8,647	4,226	22,150	0	0	25,000	77,649	70,972	162,551
COGS	0	0	0	0	0	0	0	132	3,549	8,128
Gross Profit	9,232	8,647	4,226	22,150	0	0	25,000	77,517	67,423	154,423
R&D	12,803	22,927	39,608	57,702	29,676	21,800	24,752	23,421	25,429	25,346
SG&A	2,756	3,430	6,535	6,993	7,407	7,607	7,820	8,045	8,286	8,543
Total Operating Expenses	15,559	26,357	46,142	64,695	37,083	29,407	32,572	31,466	33,714	33,889
Operating Income/(Loss)	(6,327)	(17,710)	(41,916)	(42,545)	(37,083)	(29,407)	(7,572)	46,051	33,709	120,534
Interest Income	7	18	1	63	44	31	29	54	72	134
Interest Expense	0	0	0	0	0	0	0	0	0	0
Other Income/(Expense)	210	(18)	(2,382)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
Total Other Income/(Expense)	217	0	(2,381)	(37)	(56)	(69)	(71)	(46)	(28)	34
Pre-Tax Profit/(Loss)	(6,110)	(17,710)	(44,297)	(42,582)	(37,139)	(29,477)	(7,643)	46,005	33,682	120,568
Provision/(Benefit) for Income Taxes	0	0	0	0	0	0	0	0	0	2,622
Effective Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.2%
Net Income/(Loss)	(6,110)	(17,710)	(44,297)	(42,582)	(37,139)	(29,477)	(7,643)	46,005	33,682	117,946
GAAP Basic EPS	(\$7.72)	(\$13.73)	(\$3.60)	(\$1.67)	(\$1.44)	(\$1.13)	(\$0.29)	\$1.70	\$1.23	\$4.24
GAAP Diluted EPS	(\$7.72)	(\$13.73)	(\$3.60)	(\$1.67)	(\$1.44)	(\$1.13)	(\$0.29)	\$1.70	\$1.23	\$4.24
Basic Shares Outstanding	791	1,290	12,316	25,475	25,822	26,201	26,599	27,009	27,424	27,843
Diluted Shares Outstanding	791	1,290	12,316	25,475	25,822	26,201	26,599	27,009	27,424	27,843

Source: Receptos, Credit Suisse estimates

Companies Mentioned (Price as of 07-Aug-2013)**Receptos** (RCPT.OQ, \$17.37, OUTPERFORM[V], TP \$21.0)

Disclosure Appendix

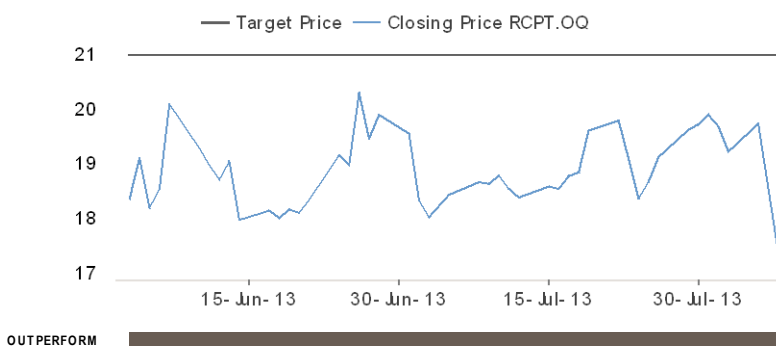
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3-Year Price and Rating History for Receptos (RCPT.OQ)

RCPT.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
03-Jun-13	18.36	21.00	O *

* Asterisk signifies initiation or assumption of coverage.



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Underperform/Sell*	15%	(39% banking clients)
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Price Target: (12 months) for Receptos (RCPT.OQ)

Method: Our DCF-derived TP of \$21 is based on annual cash flows through 2029, 10% discount rate, and no terminal value. The cash flows are based on royalties on worldwide sales of RPC1063 in relapsing multiple sclerosis only and add-back of all R&D expenses not associated with RPC1063 for relapsing multiple sclerosis.

Risk: The risks to our TP of \$21 are: (1) RPC1063 not approved or significantly delayed in relapsing multiple sclerosis; (2) RPC1063 does not demonstrate efficacy and safety expected from studies to date; (3) RPC1063 could underperform our expectations for the product launch ramp or peak sales; (4) Competition is more acute than we model; (5) The relapsing multiple sclerosis market may not become as large as expected.

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