# Receptos (RCPT)

## *Financing Strengthens Position For Potential Partnership Negotiations After Transforming 2014 Data Releases; Reiterate OUTPERFORM and $44 FV*

- **Receptos raised about $102.1 million—enough to reach mid-2017 by our projections (with a partner).** The company raised approximately $102.1 million by selling about 3.32 million common shares at about $30.75/share. In addition, 498,000 shares (approximately $15.3 million) will be available for overallotments. We believe clinical risk was reduced recently following a successful interim analysis of the Phase 2 portion of the Phase 2/3 RADIANCE trial testing RPC1063 as a treatment candidate for relapsing multiple sclerosis (RMS). These pre-specified analyses included futility as well as safety. Full top-line Phase 2 data is expected to be released mid-year and we believe there is a very high probability for success. Additionally, the company announced the initiation of the Phase 3 portion of the RADIANCE trial which we estimate the company will fund from this financing. We project RPC1063 could be launched in Q4 2018 and achieve gross peak annual sales for RMS over $4 billion.
- **In our view, this financing not only covers major clinical catalysts in 2014, but also strengthens management's position for negotiating a potential partnership (or acquisition).** In addition to release of top-line results from RADIUS mid-year, we also anticipate release of results from TOUCHSTONE in Q3. We believe TOUCHSTONE is also likely to be positive due to Novartis previously' validating S1PR in Phase 2 for UC with a follow-on to Gilenya and preclinical / Phase 1 clinical results for RPC1063 showing a reduction in peripheral lymphocyte count and beneficial preclinical histology changes presented in three posters (search http://ddw.scientificposters.com/epsSearchDDW.cfm for #TU1616, #SA1221, #SA122) during Digestive Disease Week (DDW May 18-21, 2013 Orlando). Presuming a commercial partner, we project full-year profitability in 2019 after launching RPC1063 in RMS/IBD in Q4:18/Q1:19, respectively. However, if RPC1063 has positive results in both Phase 2s mid-year, we anticipate a potential acquisition could occur in H2 2015.
- **We reiterate our OUTPERFORM rating and $44 fair value.** We calculate RCPT's fair value based on the sum of a 30% annual discount and a 1x-10x premium range on our net peak annual sales estimate for each product and indication in the clinic to reflect risk.

| FYE Dec | 2012E | 2013E | | | 2014E | | |
|---|---|---|---|---|---|---|---|
| REV (M) | ACTUAL | CURR. | PREV. | CONS. | CURR. | PREV. | CONS. |
| Q1 Mar | $1.3A | $1.5E | | $0.4E | $1.0E | | N/AE |
| Q2 Jun | 1.7A | 1.2E | | 0.4E | 0.9E | | N/AE |
| Q3 Sep | 1.8A | 1.1E | | 0.7E | 0.8E | | N/AE |
| Q4 Dec | 2.2E | 1.1E | | 1.1E | 0.7E | | N/AE |
| **Year*** | **$7.0E** | **$5.0E** | | **$5.0E** | **$3.4E** | | **$1.7E** |
| Change | -- | -- | | | -- | | |
| | 2012E | 2013E | | | 2014E | | |
| EPS | ACTUAL | CURR. | PREV. | CONS. | CURR. | PREV. | CONS. |
| Q1 Mar | ($3.53)A | ($5.46)E | | ($0.62)E | ($0.80)E | ($0.97)E | N/AE |
| Q2 Jun | (2.67)A | (0.98)E | | (0.56)E | (0.84)E | (1.02)E | N/AE |
| Q3 Sep | (4.44)A | (0.88)E | | (0.61)E | (0.88)E | (1.07)E | N/AE |
| Q4 Dec | (0.53)E | (0.88)E | | (0.90)E | (0.89)E | (1.08)E | N/AE |
| **Year*** | **($5.86)E** | **($4.28)E** | | **($6.26)E** | **($3.41)E** | **($4.13)E** | **($3.46)E** |
| P/E | NM | NM | | | NM | | |
| Change | -- | -- | | | -- | | |

Consensus estimates are from Thomson First Call.
** Numbers may not add up due to rounding.*

**January 9, 2014**

**Price**
**$31.53**

**Rating**
**OUTPERFORM**

**Fair Value Estimate**
**$44**

**Liana Moussatos, Ph.D.**
(415) 263-6626
liana.moussatos@wedbush.com

**Richard Lau, CFA**
(415) 274-6851
richard.lau@wedbush.com

| Company Information | |
|---|---|
| Shares Outst (M) | 22.2 |
| Market Cap (M) | $699 |
| 52-Wk Range | $13.00 - $34.45 |
| Book Value/sh | $6.37 |
| Cash/sh | $7.19 |
| Enterprise Value (M) | $539 |
| LT Debt/Cap % | 2.75 |

**Company Description**

Receptos is developing first- and best-in-class treatments for immune disorders. The lead candidate, RPC1063, is being developed as a safer S1P1 modulator versus GILENYA(TM) for multiple sclerosis as well as for IBD.


Source: Thomson Reuters

***INVESTMENT THESIS:*** *Receptos, located in San Diego, CA, is an emerging biopharmaceutical company developing first-in-class and best-in-class drug candidates for large market opportunities and rare diseases. The company's lead product, RPC1063, is a sphingosine 1-phosphate (S1P1R) receptor modulator being developed as an orally-dosed treatment candidate being tested in a Phase 2/3 clinical trial for relapsing multiple sclerosis (RMS) and in a Phase 2 trial for inflammatory bowel disease (IBD). The second treatment candidate, RPC4046, is an anti-IL13 monoclonal antibody being developed as a potential treatment for an allergic/immune orphan disease called Eosinophilic Esophagitis (EoE). We believe clinical risk is lower than normal as RPC1063 has the same disease target as Novartis's approved RMS treatment Gilenya, but has a better safety profile and best-in-class potential. RPC4046 offers an orphan drug opportunity for Receptos to develop its own sales force. We believe execution risk is lower than normal as we consider management to have higher-than-normal knowledge and experience in the pharmaceutical industry—especially in multiple sclerosis. The CEO was successful at not only developing daclizumab, but also increasing value for FACET and making it an acquisition target for ABT. In addition, we view the rest of the management team as being top tier. Receptos ended Q3:13 with about $81 million in cash and management projects runway into H2 2015, which includes top-line results from the ongoing Phase 2 trial testing RPC1063 treatment of RMS as well as IBD in mid-2014. We anticipate RPC1063 is likely to achieve clinical success and regulatory approval and could reach gross peak annual worldwide sales of over $4 billion for RMS and over $950 million for IBD. We also project RPC4046 treatment of EoE could reach over $1 billion in gross peak annual worldwide sales with premium orphan drug pricing and the oral GLP-1 candidate could reach gross peak WW sales of over $5 billion. If successful in Phase 2, we believe any of these candidates are likely to attract a partner and could trigger RCPT's acquisition.*

## Figure 1: RECEPTOS MODEL UPDATE

**Receptos, Inc. (NASDAQ: RCPT)**
***Historical and Projected Income Statement***
*(In thousands except per share data)*

**Wedbush Pac Grow Life Sciences**
Liana Moussatos, Ph.D.
Richard Lau

| | 2012A | 2013E | | | | | 2014E | | | | 2015E | 2016E | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | FY:12A | Q1A | Q2A | Q3A | Q4 | FY:13E | Q1 | Q2 | Q3 | Q4 | FY:14E | FY:15E | FY:16E | FY:17E | FY:18E | FY:19E |
| **Gross Sales** | | | | | | | | | | | | | | | | |
| RPC1063 | | - | - | - | - | - | - | - | - | - | - | - | - | $ - | $ 9,222 | $ 360,468 |
| RMS | | - | - | - | - | - | - | - | - | - | - | - | - | - | 9,222 | 224,246 |
| IBD/UC | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 136,220 |
| **Total Gross Sales** | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 9,222 | $ 360,468 |
| **Revenues:** | | | | | | | | | | | | | | | | |
| Net Product Sales | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 4,565 | $ 177,562 |
| RPC1063 | | - | - | - | - | - | - | - | - | - | - | - | - | $ - | $ 4,565 | $ 177,562 |
| RMS | | - | - | - | - | - | - | - | - | - | - | - | - | - | 4,565 | 110,133 |
| IBD/UC | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 67,429 |
| Collaborative Revenue | 8,647 | 1,488 | 1,238 | 1,142 | 1,113 | 4,981 | 1,001 | 901 | 811 | 730 | 3,443 | 2,259 | 1,463 | 1,209 | 1,378 | 1,350 |
| Ono Pharmaceutical | 4,372 | 1,488 | 1,238 | 1,142 | 1,113 | 4,981 | 1,001 | 901 | 811 | 730 | 3,443 | 2,259 | 1,463 | 1,209 | 1,378 | 1,350 |
| Eli Lilly | 2,500 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Ortho-McNeil-Janssen | 99 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total Net Revenues** | $ 6,971 | $ 1,488 | $ 1,238 | $ 1,142 | $ 1,113 | $ 4,981 | $ 1,001 | $ 901 | $ 811 | $ 730 | $ 3,443 | $ 2,259 | $ 1,463 | $ 1,209 | $ 5,943 | $ 178,912 |
| **Cost and Expenses:** | | | | | | | | | | | | | | | | |
| Cost of Goods | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 10,380 |
| R&D | 22,927 | 8,020 | 9,441 | 13,500 | 14,175 | 45,136 | 15,593 | 16,372 | 17,191 | 17,363 | 66,518 | 34,643 | 40,527 | 47,411 | 55,464 | 64,886 |
| (S)G&A | 3,430 | 1,062 | 1,589 | 3,050 | 3,172 | 8,873 | 3,204 | 3,236 | 3,268 | 3,301 | 13,008 | 13,537 | 14,086 | 14,658 | 62,097 | 94,275 |
| Other | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total Operating Expenses** | $ 24,650 | $ 9,082 | $ 11,030 | $ 16,550 | $ 17,347 | $ 54,009 | $ 18,796 | $ 19,608 | $ 20,459 | $ 20,663 | $ 79,526 | $ 48,180 | $ 54,614 | $ 62,069 | $ 117,561 | $ 169,541 |
| Operating Income (Loss) | (17,680) | (7,594) | (9,792) | (15,408) | (16,235) | (49,029) | (17,795) | (18,707) | (19,648) | (19,934) | (76,083) | (45,920) | (53,151) | (60,860) | (111,618) | 9,371 |
| Net Interest Income (Expense)/Other Income | 16 | 1 | (126) | (157) | 46 | (236) | 72 | 97 | 95 | 92 | 357 | 306 | 175 | 3 | (200) | (385) |
| Other Income (Expense) | (21) | (2,056) | - | - | - | (2,056) | - | - | - | - | - | - | - | - | - | - |
| **Income Before Income Taxes** | $ (17,685) | $ (9,649) | $ (9,918) | $ (15,565) | $ (16,188) | $ (51,320) | $ (17,723) | $ (18,610) | $ (19,553) | $ (19,841) | $ (75,726) | $ (45,614) | $ (52,975) | $ (60,857) | $ (111,818) | $ 8,986 |
| Provision (Benefit) for Income Taxes | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Net Income (Loss)** | $ (17,685) | $ (9,649) | $ (9,918) | $ (15,565) | $ (16,188) | $ (51,320) | $ (17,723) | $ (18,610) | $ (19,553) | $ (19,841) | $ (75,726) | $ (45,614) | $ (52,975) | $ (60,857) | $ (111,818) | $ 8,986 |
| **EPS (GAAP,Taxed,Diluted)** | ($5.86) | ($5.46) | ($0.98) | ($0.88) | ($0.88) | ($4.28) | ($0.80) | ($0.84) | ($0.88) | ($0.89) | ($3.41) | ($2.05) | ($2.37) | ($2.71) | ($4.95) | $0.40 |
| Weighted Shares Outstanding (Basic and Diluted) | 3,020 | 1,767 | 10,151 | 17,715 | 18,338 | 11,993 | 22,156 | 22,181 | 22,206 | 22,231 | 22,193 | 22,293 | 22,393 | 22,493 | 22,593 | 22,693 |
| Total Shares Outstanding (Diluted) | 8,367 | 2,299 | 10,151 | 17,715 | 18,338 | 12,126 | 22,156 | 22,181 | 22,206 | 22,231 | 22,193 | 22,293 | 22,393 | 22,493 | 22,593 | 22,693 |
| *Cash* | *$5,427* | *$18,312* | *$91,146* | *$80,781* | *$67,779* | *$67,779* | *$163,373* | *$147,822* | *$156,417* | *$138,805* | *$138,805* | *$105,026* | *$31,151* | *($29,706)* | *($141,899)* | *($140,576)* |
| *Net Cash per share* | *$1.80* | *$10.36* | *$8.50* | *$4.29* | *$3.45* | *$5.28* | *$7.19* | *$6.50* | *$5.78* | *$5.04* | *$5.05* | *$3.77* | *$1.39* | *($1.32)* | *($6.28)* | *($6.19)* |
| *Annual (Burn)/Generation* | *($5,909)* | | | | | *$62,352* | | | | | *$71,026* | *($33,778)* | *($73,875)* | *($60,857)* | *($112,193)* | *$1,323* |

*Source: Company data, Wedbush Securities, Inc.*

**Receptos raised about $102.1 million—enough to reach mid-2017 by our projections (with a partner).** The company raised approximately $102.1 million by selling about 3.32 million common shares at about $30.75/share. In addition, 498,000 shares (approximately $15.3 million) will be available for overallotments. Increased share count impacted our estimates, but we do not view this as materially negative for a development stage biotech company. We project RPC1063 could be launched in Q4 2018 and achieve gross peak annual sales for RMS could reach over $4 billion. Recall Gilenya achieved over $1 billion in annual sales in 2012 after being launched in Q4 2010—despite serious toxicities.

We believe clinical risk was reduced recently following a successful interim analysis of the Phase 2 portion of the Phase 2/3 RADIANCE trial testing RPC1063 as a treatment candidate for relapsing multiple sclerosis (RMS). These pre-specified analyses included futility as well as safety--with RPC1063 passing both. The full top-line Phase 2 data is expected to be released mid-year; however, given that RPC1063 already passed the interim look, we believe there is a very high probability for success. Additionally, the company announced the initiation of the Phase 3 portion of the RADIANCE trial, which we estimate the company will fund from this financing.

**Figure 2: ANTICIPATED MILESTONES (*OUR ESTIMATES)**

| Timing | Milestone | Estimated Probability | Estimated Upside/Downside |
|---|---|---|---|
| H1:14 | RPC 4046 EOE File IND for Ph2 initiation in 2014 | -- | -- |
| Mid:14 | RPC 1063 RMS Ph2 RADIANCE data release | 80:20 | +5-25%/-10-35% |
| Mid:14 | RPC 1063 UC Ph2 TOUCHSTONE data release (Q3*) | 75:20 | +5-25%/-5-25% |
| YE:14/H1:15* | PARTNERSHIP/ACQUISITION* | tbd | tbd |
| H2:15 | RPC 4046 EOE Topline Ph2 data release | 50:50 | +10-25%/-5-25% |

*Source: Company data, Wedbush Securities, Inc.*

**In our view, this financing not only covers major clinical catalysts in 2014, but also strengthens management's position for negotiating a potential partnership (or acquisition).** In addition to release of top-line results from RADIUS mid-year, we also anticipate release of results from TOUCHSTONE in Q3. We believe TOUCHSTONE is also likely to be positive due to Novartis previously' validating S1PR in Phase 2 for UC with a follow-on to Gilenya and preclinical / Phase 1 clinical results for RPC1063 showing a reduction in peripheral lymphocyte count and beneficial preclinical histology changes presented in three posters (search http://ddw.scientificposters.com/epsSearchDDW.cfm for #TU1616, #SA1221, #SA122) during Digestive Disease Week (DDW May 18-21, 2013 Orlando). Presuming a commercial partner, we project full-year profitability in 2019 after launching RPC1063 in RMS/IBD in Q4:18/Q1:19, respectively. However, if RPC1063 has positive results in both Phase 2s mid-year, we anticipate a potential acquisition could occur in H2 2015.

**Figure 3: RCPT FAIR VALUE**

| RCPT Product Pipeline Valuation | | Eligible # Patients | Pricing $ / Patient / Year | Gross Peak Sales WW ($000) | Net Peak Revs ($000) | Revs Year | Blended Peak Penetration | Multiple | Launch | Discount Rate | MktCap Fair Value ($000) | Stock Fair Value |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Product | Indication | | | | | | | | | | | |
| RPC1063 | RMS | 857,143 | $51,260 | $4,433,490 | $1,789,380 | 2023 | 8% | 6 | 12/18/2018 | 30% | $810,640 | $36.59 |
| RPC1063 | IBD/UC | 450,000 | $52,189 | $950,488 | $350,842 | 2023 | 8% | 5 | 1/15/2019 | 30% | $153,266 | $6.92 |
| RPC4046 | EoE | 257,250 | $46,866 | $1,255,042 | $75,202 | 2023 | 12% | 4 | 6/15/2019 | 30% | $19,082 | $0.86 |
| Oral GLP-1 | T2D | 23,000,000 | 10,000 | 5,750,000 | $2,869,250 | 2025 | 2% | 2 | 6/30/2020 | 30% | $275,764 | $12.45 |
| We use multiples to account for clinical and regulatory risk at various stages of development. | | | Total Peak Revs: | $6,639,020 | $2,215,424 | | | | | | | |

| | | 1/8/14 Stock | MktCap | Upside Potential |
|---|---|---|---|---|
| 1x: in preclinical testing | 6x: passed Phase 2 / in Phase 3 | Late Stage Products Fair Value | $43.51 | $963,907 | 67% |
| 2x: passed preclinical | 7: positive Phase 3 | Current Quarter's Est Net Cash (000): | $3.45 | $63,351 | |
| 3x: IND filing accepted | 8: regulatory review | Total Technology Value | $56.81 | $1,258,752 | 118% |
| 4x: In Phase 1 | 9: approved | Total RCPT Value: | $60.27 | $1,322,103 | 129% |
| 5x: In Phase 2 | 10: launched | Current RCPT Value: | $31.53 | $578,563 | |

*Source: Company data, Wedbush Securities, Inc.*

**We reiterate our OUTPERFORM rating and our $44 fair value.** We calculate RCPT's fair value based on the sum of a 30% annual discount and a 1x-10x premium range on our net peak annual sales estimate for each product and indication in the clinic to reflect risk.

## *RISKS TO THE ATTAINMENT OF OUR FAIR VALUE*

**Clinical Risk:** We believe clinical risk is likely to increase in 2014 with release of Phase 2 clinical results. Receptos is a developmental stage emerging pharmaceutical company which has completed Phase 1 and is conducting a Phase 2 trial for their lead product candidate, RPC1063 for the treatment of relapsing multiple sclerosis (RMS) with top-line results expected in mid-2014. As will all clinical candidates, RPC1063 is susceptible to inherent risks of failure at any stage of drug development, which may include unexpected adverse events; however, the S1P1 target has been validated by Novartis' GILENYA™ and RPC1063 appears to have a better safety profile. The company is also developing RPC1063 as a treatment candidate for inflammatory bowel disease (IBD) which is currently in a Phase 2 clinical trial with initial results expected in mid-2014. A second clinical candidate, RPC4046 is being developed as a treatment candidate for Eosinophilic Esophagitis (EoE) and is expected to initiate clinical testing in 2014.

**Regulatory Risk:** We consider regulatory risk to be low in 2014; however; in general, we believe if RPC1063 successfully completes clinical development, we believe regulatory risk is likely to be lower than average. That the FDA approved Novartis' GILENYA™ in 2011 despite safety issues including potential mortality upon initial dosing due to cardiovascular adverse events, suggests to us that a safer drug candidate with a similar efficacy profile is also likely to obtain approval. Receptos has never obtained marketing approval for a drug candidate and we do not anticipate NDA filing for the lead drug candidate (RPC1063) until 2017. Upon completion of regulatory review, if the FDA requires additional studies or data, the resulting increased costs and delays in the marketing approval would likely increase financing risk. Even after conducting such trials and submitting new data, the FDA may find these to be insufficient or may not

agree with the analysis and still may not approve the NDA. Any delay in obtaining, or an inability to obtain, marketing approvals would increase financing risk by delaying commercialization as well as potential profitability. Regulatory risk can involve turnover in regulatory decision-makers, which can change policy and approval criteria after the trial is conducted. Agency statisticians may choose a different analytical process than was conducted in the NDA and conclude that the trials failed to achieve statistical efficacy. Changes in standard-of-care occurring while the trial is ongoing may also result in the design being found to be obsolete during regulatory review. Even if a product is approved, the designated patient population may be much smaller than expected, which could limit sales potential. Post-approval clinical studies may be required as well as limits on sales and marketing practices and materials. If unexpected adverse effects emerge the drug can be withdrawn from the market. Regulatory requirements also vary among different countries and may result in requirements for additional clinical trials.

**Manufacturing Risk:** We consider manufacturing risk to be low in 2014, but higher than normal for the future as Receptos lacks manufacturing capability and plans to continue relying on third parties to supply its product candidates. In addition, the company does not have any executed agreements for long-term commercial supply for any of its drug candidates, but plan to do so for RPC1063 prior to commercial launch. For RPC4046, AbbVie has agreed to manufacture enough for preclinical and clinical trials and may continue to or may choose to engage a third party following the planned Phase 2 results in EoE, after which, AbbVie may choose to execute an option to collaborate with Receptos for RPC4046 development and commercialization. Multiple improvements to the manufacturing process for RPC4046 have been made and a comparability assessment of the material used in the completed Phase 1 study versus the new process must be filed prior to the initiation of the Phase 2 in EoE.

**Commercialization Risk:** We consider commercialization risk to be low in 2014, but higher than average in general due to Receptos' small size and development stage. Receptos' business model is to develop and commercialize clinical candidates; however, for small development-stage companies, we view commercialization risk in general as higher than normal until/unless the company partners commercialization with an appropriate larger pharmaceutical company—especially for large indications such as multiple sclerosis. We anticipate Receptos is likely to partner commercial activities for large markets globally. For rare diseases such as EoE, the company may hire a small specialty sales force for the US, but we anticipate the company will partner commercialization for primary care globally as well as for all physicians outside the US. We consider this commercial plan to be optimal for leveraging potential profits from sales for a small company.

**Competition Risk:** We view competition risk as low in 2014 but, in general, higher than average unless Receptos partners with an appropriate global pharmaceutical company for commercialization. In general, we believe a small development-stage emerging pharmaceutical company with limited resources has higher-than-average competition risk. In the situation with RPC1063, while we believe large pharmaceutical companies with large marketing budgets, such as Novartis and Biogen-Idec may counter-detail RPC1063 after potential launch in late 2018, if its emerging profile of equal efficacy to GILENYA™, but improved safety while maintaining once-daily oral dosing is maintained through clinical development, we believe physicians treating MS patients are likely to prefer it over the currently approved oral therapies. In addition, physicians treating MS have commented that twice-daily dosing such as for Biogen-Idec's Tecfidera™ may have reduced real-world efficacy as their patients may forget to take the evening dose.

**Intellectual Property Risk:** We consider intellectual property risk to be low in general, as the company has an exclusive license for the RPC1063 composition of matter patent which expires in May 2029 and could be extended into 2032. In addition, intellectual property protection for RPC4046 also has a long runway with expiration in 2028 and may be extended up to 5 years.

**Financing Risk:** Receptos raised about $102.1 million on January 9, 2014 with the potential to add another $15.3 million from overallotments. With this financing and Q3 2013 cash of about $80.8 million, we project cash runway (with a partner for the RMS & UC Phase 3 programs) into mid-2017 (not including the $25MM remainder in MidCap Financial venture debt). Since Receptos just conducted a financing, we consider financing risk to be low in 2014.

***Analyst Biography***

*Liana Moussatos joined Wedbush from Pacific Growth Equities where she was a Senior Research Analyst. Prior to that she came from UBS Global Asset Management where she was Director and portfolio manager of the UBS Global Biotech Funds for five years. Previously, Liana was with Bristol-Meyers Squibb where she was a manager in University and Government Licensing, External Science and Technology and she also worked with Sloan-Kettering Cancer Institute in the Office of Industrial Affairs and the National Cancer Institute in the Office of Technology Development. Liana received a BS in Entomology and a MS in Zoology and Biochemistry from Clemson University. She also earned a Ph.D. in Plant Pathology from the University of California, Davis and completed a postdoctoral research fellowship in Cellular and Molecular Physiology at the Yale School of Medicine.*

**Analyst Certification**
I, Liana Moussatos, Ph.D., Richard Lau, CFA, certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

Disclosure information regarding historical ratings and price targets is available at http://www.wedbush.com/ResearchDisclosure/DisclosureQ313.pdf

**Investment Rating System:**
Outperform: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.
Neutral: Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.
Underperform: Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

| **Rating Distribution (as of September 30, 2013)** | **Investment Banking Relationships (as of September 30, 2013)** |
|---|---|
| Outperform:55%<br>Neutral: 41%<br>Underperform: 4% | Outperform:14%<br>Neutral: 2%<br>Underperform: 0% |

The Distribution of Ratings is required by FINRA rules; however, WS' stock ratings of Outperform, Neutral, and Underperform most closely conform to Buy, Hold, and Sell, respectively. Please note, however, the definitions are not the same as WS' stock ratings are on a relative basis.

The analysts responsible for preparing research reports do not receive compensation based on specific investment banking activity. The analysts receive compensation that is based upon various factors including WS' total revenues, a portion of which are generated by WS' investment banking activities.

**Wedbush Equity Research Disclosures as of January 9, 2014**

| Company | Disclosure |
|---|---|
| Receptos | 1,3,4,5,7 |

**Research Disclosure Legend**
1. WS makes a market in the securities of the subject company.
2. WS managed a public offering of securities within the last 12 months.
3. WS co-managed a public offering of securities within the last 12 months.
4. WS has received compensation for investment banking services within the last 12 months.
5. WS provided investment banking services within the last 12 months.
6. WS is acting as financial advisor.
7. WS expects to receive compensation for investment banking services within the next 3 months.
8. WS provided non-investment banking securities-related services within the past 12 months.
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10. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report has a long position in the common stocks.
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**Price Charts**

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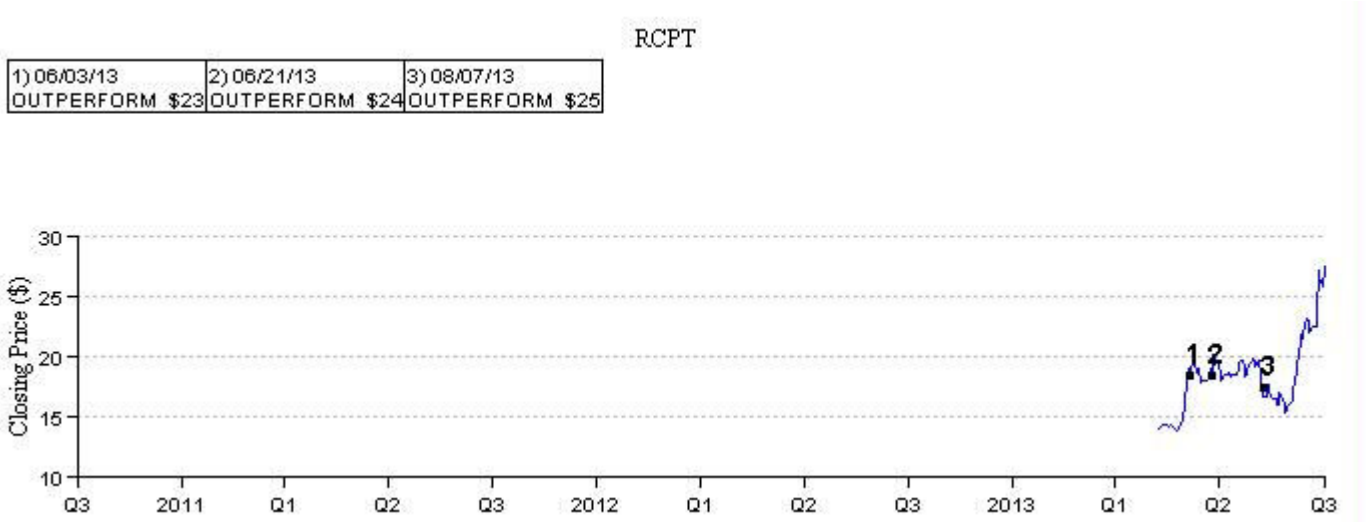


* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009.
Please access the attached hyperlink for WS' Coverage Universe: http://www.wedbush.com/services/cmg/equities-division/research/equity-research Applicable disclosure information is also available upon request by contacting Ellen Kang in the Research Department at (213) 688-4529, by email to ellen.kang@wedbush.com, or the Business Conduct Department at (213) 688-8090. You may also submit a written request to the following: Business Conduct Department, 1000 Wilshire Blvd., Los Angeles, CA 90017.

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## OTHER DISCLOSURES

**RESEARCH DEPT. * (213) 688-4505 * www.wedbush.com**
EQUITY TRADING Los Angeles (213) 688-4470 / (800) 421-0178 * EQUITY SALES Los Angeles (800) 444-8076
CORPORATE HEADQUARTERS (213) 688-8000

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# EQUITY RESEARCH DEPARTMENT

**(213) 688-4529**

**DIRECTOR OF RESEARCH**
Mark D. Benson (213) 688-4435

**MANAGER, RESEARCH OPERATIONS**
Ellen Kang (213) 688-4529

## RETAIL AND CONSUMER

**Consumer Products**
Rommel T. Dionisio (212) 938-9934
Kurt M. Frederick, CFA CPA (415) 274-6822

**Footwear, Apparel and Accessories**
Corinna Freedman (212) 668-9876
Alicia Reese (212) 938-9927

**Healthy Lifestyles**
Kurt M. Frederick, CFA CPA (415) 274-6822

**Restaurants**
Nick Setyan (213) 688-4519
Colin Radke (213) 688-6624

**Specialty Retail: Hardlines**
Joan L. Storms, CFA (213) 688-4537
John Garrett, CFA (213) 688-4523

Seth Basham, CFA (212) 938-9954

## RETAIL/CONSUMER MARKET RESEARCH

Gabriella Santaniello (213) 688-4557

## INDUSTRIAL GROWTH TECHNOLOGY

**Clean Technology**
Craig Irwin (212) 938-9926
Min Xu (212) 938-9925

**Environmental Services / Building Products**
Al Kaschalk (213) 688-4539
Taryn Kuida (213) 688-4505

**Water and Renewable Energy Solutions**
David Rose, CFA (213) 688-4319
James Kim (213) 688-4380

## TECHNOLOGY, INTERNET, MEDIA & SOCIAL MEDIA

**Communications and Application Software**
Shyam Patil, CFA (213) 688-8062
Andy Cheng (213) 688-4548

**Communications Equipment**
Rohit Chopra (212) 668-9871
Sanjit Singh (212) 938-9922
Ryan Flanagan (212) 938-9942

**Computer Services: Financial Technology**
Gil B. Luria (213) 688-4501
Aaron Turner (213) 688-4429

**Enterprise Software**
Steve Koenig (415) 274-6801
Kevin Ikeda (213) 688-4423

**Entertainment: Retail**
Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

**Entertainment: Software**
Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

**Internet: Media and Gaming**
Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

**Internet: Social Media, Advertising & Technology**
Shyam Patil, CFA (213) 688-8062
Andy Cheng (213) 688-4548

**Media**
James Dix, CFA (213) 688-4315

**Movies and Entertainment**
Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

**Semiconductors**
Betsy Van Hees (415) 274-6869
Ryan Jue, CFA (415) 263-6669

## LIFE SCIENCES AND HEALTH CARE

**Biotechnology/Biopharmaceuticals/BioDefense**
Gregory R. Wade, Ph.D. (415) 274-6863
David M. Nierengarten, Ph.D. (415) 274-6862
Christopher N. Marai, Ph.D. (415) 274-6861

**Emerging Pharmaceuticals**
Liana Moussatos, Ph.D. (415) 263-6626
Richard Lau, CFA (415) 274-6851

**Healthcare Services - Managed Care**
Sarah James (213) 688-4503

**Medical Devices**
Tao Levy (212) 938-9948

**Medical Diagnostics and Life Sciences Tools**
Zarak Khurshid (415) 274-6823

| EQUITY SALES | | EQUITY TRADING | |
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| Los Angeles | (213) 688-4470 / (800) 444-8076 | Los Angeles | (213) 688-4470 / (800) 421-0178 |
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**CORPORATE HEADQUARTERS**
1000 Wilshire Blvd., Los Angeles, CA 90017-2465
Tel: (213) 688-8000 www.wedbush.com