December 5, 2013

OUTPERFORM

Reason for report:

COMPANY UPDATE

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LEERINK SWANN

HEALTHCARE EQUITY RESEARCH

RECEPTOS, INC.

Positive Phase II MS Interim De-risks 1063; Increasing PT to $45 & Reit OP

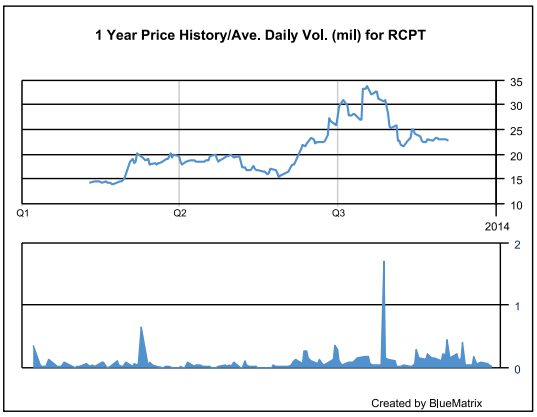
• **Bottom Line:** RCPT's announcement that interim RPC-1063 ("1063") Phase II MS trial data show no surprises and maintains a competitive and differentiated profile compared to other S1P receptor modulators leads us to marginally increase our estimated probability of success for the program that in turn drives our new $45 price target (PT). Having mitigated this potential negative event, we recommend investors buy shares as they likely stand to benefit from multiple potential upside data catalysts in 2014 including potential: 1) 1063 partnership (or company M&A); 2) positive topline Phase II data from the MS trial mid-2014, and; 3) positive topline ulcerative colitis data ~3Q14. We reiterate an Outperform (OP) rating.

• **RCPT announced that a positive interim RADIANCE MS Phase II trial analysis will trigger initiation of the pivotal Phase III portion of this Relapsing Multiple Sclerosis (RMS) trial.** The Data Monitoring Committee (DMC) reviewed interim data on patients completing 3 months of therapy and consequently approved continuation of the Phase II portion and initiation of Phase III portion of the trial. The data continue to support a differentiated 1063 profile and are consistent with prior 1063 trial results. Top-line results of the Phase 2 portion of the study continue to be expected in mid-2014. Key interim observations include: 1) overall adverse events (AEs) appear balanced between 1063 vs. placebo groups, with no serious adverse events (SAEs) observed to date; 2) a modest impact on heart rate (HR) in 1063-treated vs. placebo patients that is consistent with the already announced thorough QT (TQT) study, showing no cardiac AEs to date; 3) low rates of liver function test (LFT) elevations, and 4) preliminary clinical activity and reduction in lymphocyte count consistent with data from other S1P receptor modulators on the market or in development.

• **Management previously indicated it would only proceed with the Phase III portion of the MS trial if interim data provided clinically meaningful differentiation vs. other S1P receptor modulators.** While specific thresholds were not revealed, we have confidence management is seeing solid data and has no interest in eroding its credibility or advancing a minimally differentiated compound into the field. We anticipate topline data mid-2014 will confirm this and serve as an important further de-risking event.

• **Based on DMC's approval on the initiation of the Phase III portion of the RADIANCE study today, we are increasing our estimated probability of success for RPC-1063 to the mid-30% from ~30%**. We believe this adjustment appropriately reflects de-risking in the program. As a result, our PT increased from to $45 from $30.

Key Stats:	**(NASDAQ:RCPT)**
S&P 600 Health Care Index:	**1,273.08**
Price:	**$22.70**
Price Target:	$45.00 from $30.00
52 Week High:	$35.26
52 Week Low:	$13.00
Shares Outstanding (mil):	18.1
Market Capitalization (mil):	$410.9
Book Value/Share:	$0.26
Cash Per Share:	$4.56
Dividend (ann):	NA



Dec Yr	1Q	2Q	3Q	4Q	FY Rev	1Q	2Q	3Q	4Q	FY EPS	P/E
2012A	--	--	--	--	$8.6	--	--	--	--	($13.73)	NM
2013E	$1.5A	$1.2A	$1.1A	$1.2	$5.0	($5.46)A	($0.98)A	($0.88)A	($0.92)	($8.24)	NM
2014E	--	--	--	--	0.0	--	--	--	--	($2.79)	NM

Source: Company Information and Leerink Swann LLC Research
Revenues in $000s. Basic shares for '12, PF for 1Q13.

Please refer to pages 5 - 8 for Important Disclosures, Price Charts and Analyst Certification.

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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. We currently assume a mid 30% 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 ~$747M, previously ~$640M, (or $2.1B non-risk adjusted) which leads to our base case NPV calculation of $787M (previously $520M), including cash, based only on approval and use in RMS.

Change in Estimates

We increased probability of success of RPC-1063 from ~30% to the mid-30% based on The Data Monitoring Committee's (DMC) approval on the initiation of the Phase III portion of relapsing MS RADIANCE study today. As a result, our price target increased from $30 to $45.

Milestones

Product	Partner	Indication	Phase	Timing	Milestone
RPC-1063 (S1P1)	Proprietary	Relapsing MS	Phase III	**2014**	**Partnership announcement**
				2H14	Initiate 2nd pivotal Phase III RMS trial (with SPA)
				Mid-2014	**Phase II data of 1st pivotal (RPC01-201)**
				2017	2nd pivotal Phase III RMS trial data
				YE17	NDA submission
				2H18	FDA Approval
		Ulcerative Colitis (UC)	Phase II	1H14	Complete trial enrollment
				3Q14	**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	4Q13/1Q14	Submit IND
				1H14	Initiate Phase II data
				2H15	**Phase II trial data**

Source: Company Reports, Leerink Swann LLC estimates

VALUATION

We calculate a new $45 (previously $30) DCF price target for RCPT in the next 12 months based on a discounted cash flow (DCF) analysis. Based on The Data Monitoring Committee's (DMC) approval on the initiation of the Phase III portion of relapsing MS RADIANCE study today, we increased probability of success for RPC-1063 from 30% to a mid 30%. 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. We currently assume a 30% 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 ~$747M, previously ~$640M, (or $2.1B non-risk adjusted) which leads to our base case NPV calculation of $787M (previously $520M), including cash, based only on approval and use in RMS.

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)	2012A	1Q13A	2Q13A	3Q13A	4Q13E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Revenues																		
RPC1063 WW Revenue											$316,680	$1,088,253	$569,241	$768,848	$1,003,905	$1,257,093	$1,470,700	$1,664,873
Risk Adjusted RPC1063 WW Revenue											**$110,838**	**$380,889**	**$199,234**	**$269,097**	**$351,367**	**$439,983**	**$514,745**	**$582,706**
RPC4046																		
Collaborative Revenue	$8,647	$1,488	$1,238	$1,142	$1,150	$5,018	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	**$8,647**	**$1,488**	**$1,238**	**$1,142**	**$1,150**	**$5,018**	**-**	**-**	**-**	**-**	**$110,838**	**$380,889**	**$199,234**	**$269,097**	**$351,367**	**$439,983**	**$514,745**	**$582,706**
Costs and Expenses																		
Probability Adjusted COGS	-	-	-	-	-	-	-	-	-	-	$16,626	$57,133	$29,885	$48,437	$63,246	$79,197	$92,654	$87,406
R&D	$22,927	$8,020	$9,441	$13,500	$14,500	$45,461	$50,190	$85,323	$110,920	$124,230	$134,169	$138,194	$142,340	$146,610	$149,542	$152,533	$155,583	$158,695
SG&A (Risk Adjusted from Time of RPC1063 Launch)	$3,430	$1,062	$1,589	$3,050	$3,100	$8,801	$9,505	$10,265	$11,087	$34,369	$43,000	$47,800	$50,190	$52,700	$55,334	$58,101	$61,006	$64,057
Total Costs and Expenses	**$26,357**	**$9,082**	**$11,030**	**$16,550**	**$17,600**	**$54,262**	**$59,695**	**$95,588**	**$122,007**	**$158,599**	**$193,794**	**$243,127**	**$222,415**	**$247,747**	**$268,122**	**$289,831**	**$309,244**	**$310,158**
Operating Income (EBIT)	**($17,710)**	**($7,594)**	**($9,792)**	**($15,408)**	**($16,450)**	**($49,244)**	**($59,695)**	**($95,588)**	**($122,007)**	**($158,599)**	**($82,956)**	**$137,762**	**($23,180)**	**$21,350**	**$83,244**	**$150,152**	**$205,501**	**$272,548**
Y/Y growth																		
Income Before Taxes	**($17,710)**	**($9,649)**	**($9,918)**	**($15,565)**	**($16,450)**	**($51,582)**	**($59,695)**	**($95,588)**	**($122,007)**	**($158,599)**	**($82,956)**	**$137,762**	**($23,180)**	**$21,350**	**$83,244**	**$150,152**	**$205,501**	**$272,548**
Provision for Taxes							-	-	-	-	-	-	-	-	-	-	-	80,121
Net income	**($17,710)**	**($9,649)**	**($9,918)**	**($15,565)**	**($16,450)**	**($51,582)**	**($59,695)**	**($95,588)**	**($122,007)**	**($158,599)**	**($82,956)**	**$137,762**	**($23,180)**	**$21,350**	**$83,244**	**$150,152**	**$205,501**	**$192,427**
EPS (LPS) Basic	**($13.73)**	**($5.46)**	**($0.98)**	**($0.88)**	**($0.92)**	**($8.24)**	($2.79)	($3.50)	($3.74)	($4.82)	($2.49)	$4.10	($0.68)	$0.62	$2.41	$4.30	$5.82	$5.40
Y/Y growth																		
Basic Shares* (000)	**1,290**	**1,767**	**10,151**	**17,715**	**17,892**	**6,263**	**21,404**	**27,333**	**32,606**	**32,932**	**33,261**	**33,594**	**33,930**	**34,269**	**34,612**	**34,958**	**35,308**	**35,661**

Source: Leerink Swann estimates and company reports.
** Basic shares for 2012A and 1Q13E are pro forma for IPO priced on 5/8/13.*

DCF Calcuation

Discount rate	*11%*
Terminal Growth Rate	*1%*
Valuation	**$787,190**
Valuation / Share	**$45**

Source: Leerink Swann estimates.

RCPT DCF Valuation / Share Sensitivity Analysis

Terminal Growth Rate \ Discount Rate	9.0%	10.0%	11.0%	12.0%	13.0%
0.0%	$65	$52	$42	$34	$27
1.0%	$71	$56	**$45**	$36	$29
2.0%	$79	$61	$48	$38	$30
3.0%	$89	$68	$53	$42	$33
4.0%	$103	$77	$59	$45	$36

Source: Leerink Swann 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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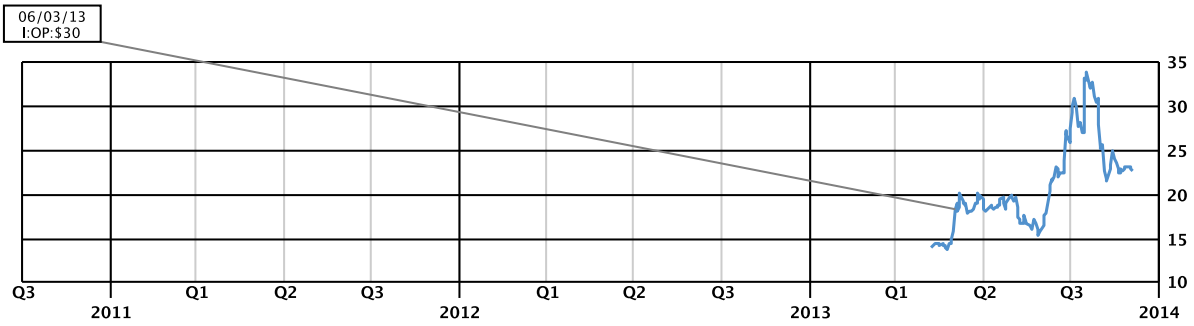
Rating and Price Target History for: Receptos, Inc. (RCPT) as of 12-04-2013

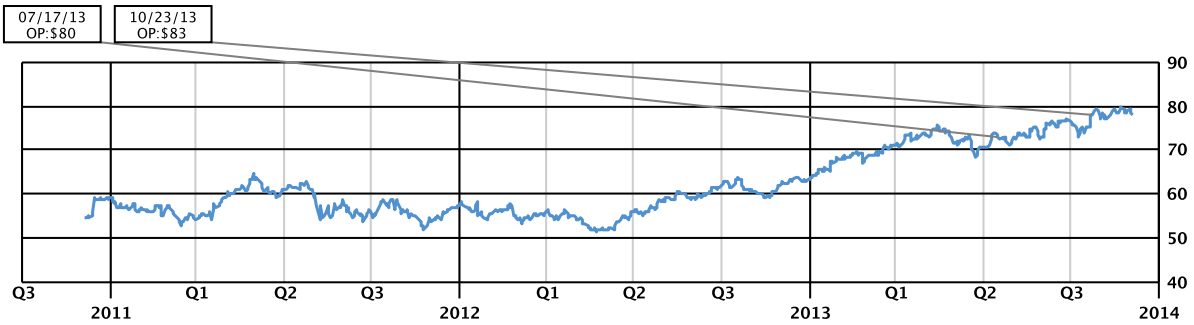


Leerink Swann initiated coverage of Receptos, Inc. with an Outperform rating on June 3, 2013. On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

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 12-04-2013



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

Created by BlueMatrix

Distribution of Ratings/Investment Banking Services (IB) as of 09/30/13			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [OP]	111	64.90	27	24.00
HOLD [MP]	60	35.10	0	0.00
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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In the past 12 months, the Firm has received compensation for providing investment banking services to Receptos, Inc.

Leerink Swann LLC makes a market in Receptos, Inc.

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

In the past 12 months, an affiliate of the Firm, Leerink Swann Consulting LLC, has received compensation for providing non-securities services to: Novartis AG.

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

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