April 11, 2014

OUTPERFORM

Reason for report:

PROPRIETARY INSIGHTS

Marko Kozul, M.D.
(415) 905-7221
Marko.Kozul@Leerink.com

Irene Lau
(415) 905-7256
Irene.Lau@Leerink.com

LEERINK

RECEPTOS, INC.

Increasing Positive Bias for RPC-1063 in UC Drives New $75 PT; Reit. OP

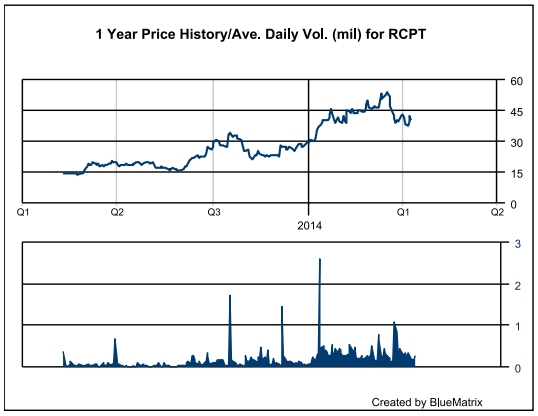
• **Bottom Line:** We are increasing our price target on top pick RCPT to $75 (from $60) after increasing our probability of success (POS) estimate for RPC-1063 ("1063") in Ulcerative Colitis (UC) to the mid-30s percentage (from ~30%). After multiple MEDACorp KOL due diligence calls, we believe the 1063 Phase II blinded placebo adjusted induction clinical response delta is trending above Vedolizumab's ("Vedo") respective Phase III GEMINI-1 results. Additionally, while Vedolizumab is gaining differentiation vs. moderate to severe UC standard of care (SOC) anti-TNFs on the basis of safety, 1063 could be further differentiated on this point, in our view. While clinical remission is the ultimate key endpoint, we believe clinical response is an important surrogate. As a reminder, top-line 1063 Phase II data in Multiple Sclerosis (MS) is expected mid-14 (est July) and in UC right after in 3Q14. We believe RPCT represents an increasingly attractive risk-reward opportunity further accentuated by recent broad market turbulence. We reiterate our Outperform (OP) rating.

• **We believe 1063's Phase II blinded placebo-adjusted induction clinical response delta is trending above the 22% delta observed in Vedolizumab's pivotal Phase III GEMINI-1 trial.** Key is that the Vedo trial did not use a Centralized Reading Process by Endoscopy (CRPE) to screen appropriate patients while the 1063 Phase II does. As a result, we should expect the 1063 trial to have: (1) a higher screen failure rate vs. Vedo; (2) lower induction placebo clinical response rate vs. Vedo (~26%); and (3) lower 1063 induction clinical response rate needed to achieve the same 22% Vedo delta in GEMINI-1. Importantly, a Mesalamine Phase III UC trial (pp. 3-4) in mild-moderate UC (vs. mod-severe w/Vedo, 1063) shows use of a CRPE decreased placebo clinical response rate by ~10%. This drives our induction clinical response rate estimate of ~16% for placebo and ~ 38% for 1063 (delta of 22%) needed in the Phase II 1063 trial to match GEMINI-1 data.

• **We believe 1063's emerging attractive safety profile could also significantly differentiate it vs. Vedo and anti-TNFs, which in turn could drive earlier use and penetration.** While anti-TNFs are the established SOC for refractory mod-severe UC patients, the community is very interested in newer therapies with an improved safety profile given anti-TNFs are associated with high infection rates and long-term sequelae. Vedo is already garnering community enthusiasm given a better adverse event (AE) profile but comes with the hypothetical risk of progressive multifocal leukoencephalopathy (PML), similar to Tysabri. Based on 1063 maintaining a competitive profile vs. Gilenya at its interim Phase II review of 250 MS patients out to three months, we anticipate a better AE profile vs. Gilenya and potential for unremarkable safety in the small 180-patient 1063 UC Phase II trial. Gilenya's main AE is First-Dose-Heart-Rate-Monitoring (FDHRM) which may be more attractive than potential PML risk with Vedo.

Key Stats:	**(NASDAQ:RCPT)**
S&P 600 Health Care Index:	**1,233.19**
Price:	**$40.22**
Price Target:	$75.00 from $60.00
Methodology:	DCF analysis
52 Week High:	$55.00
52 Week Low:	$13.00
Shares Outstanding (mil):	22.2
Market Capitalization (mil):	$892.9
Book Value/Share:	$0.21
Cash Per Share:	$8.11
Dividend (ann):	$0.00
Dividend Yield:	0.0%

General: Cash per share is pro forma for Jan-14 financing and assumes full exercise of over-allotment.



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	0.0	0.0	0.0	0.0	0.0	($0.91)	($1.02)	($1.39)	($1.53)	($4.86)	NM
2015E	--	--	--	--	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. We modified our model by increasing probability adjusted RPC1063 revenues from UC to the mid-30s percentage from 30%. 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 (previously $1.4B), including cash, based only on approval and use in RMS.

Change in Model

We modified our model based on our MEDACorp KOLs diligence. We increased probability of success of RPC1063 in UC to the mid-30s percentage from ~30%.

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**

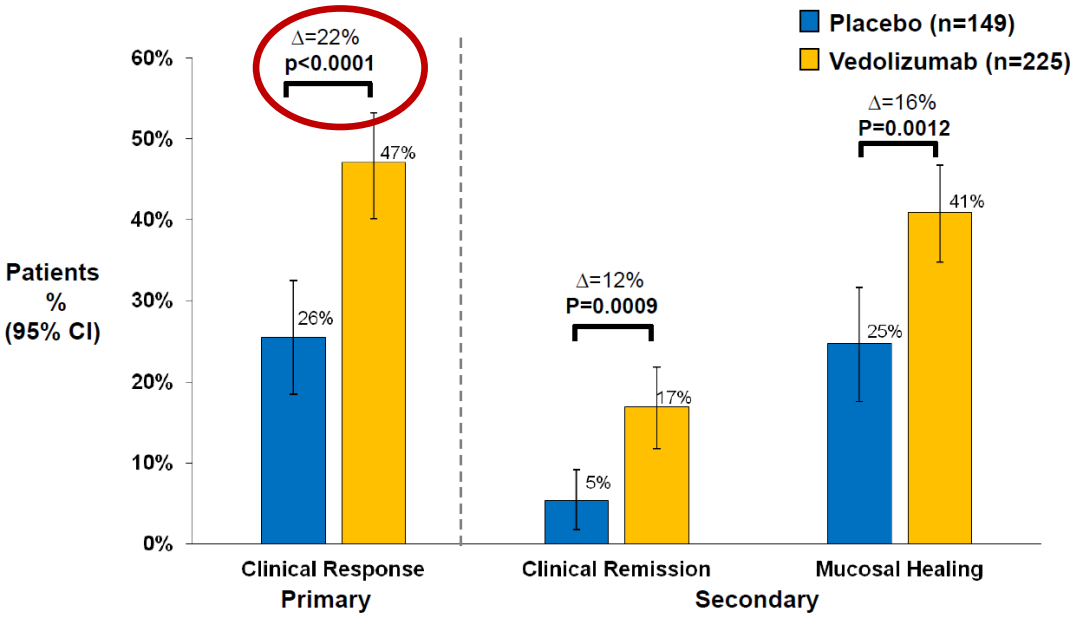
Source: Company Reports, Leerink Partners estimates

Induction Efficacy (Clinical and Remission) Rates in Ulcerative Colitis (UC):

Induction Efficacy Results GEMINI 1 Study of Vedolizumab in UC			
	N	Response Rate	N (# of Responders)
Placebo	149	26%	39
Vedolizumab	225	47%	106
Overall	374	39%	144
Delta (Vedo - PBO)		**22%**	

Source: NEJM Vedolizumab publication of GEMINI-1

UC (C13006): Statistical Significance for All Induction Phase Endpoints

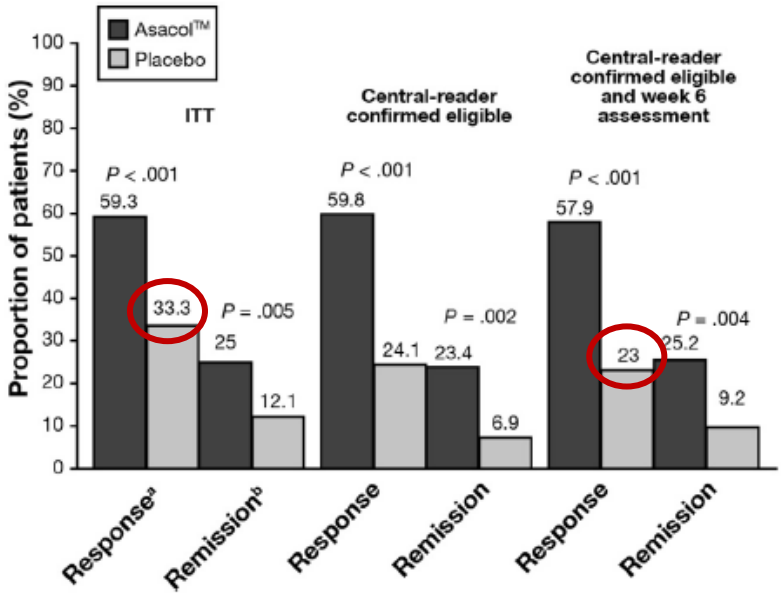


Source: Takeda presentation to FDA.

Hypothetical Induction Efficacy Results in UC Assuming the Use of a Central Reader and Same Delta as GEMINI 1	
	Response Rate
Placebo	16%
Treatment (Txt)	38%
Delta (Txt - PBO)	**22%**

Source: Takeda presentation to FDA. Leerink Partners estimates – assumes placebo rate decreases by ~10% (33.3%-23% from following efficacy diagram) due to central reading.

Effect of Central Reading on Placebo Rate in a Randomized Controlled Trial of Mesalamine for Ulcerative Colitis:



Source: Gastroenterology July 2013 - The Role of Centralized Reading of Endoscopy in a Randomized Controlled Trial of Mesalamine for Ulcerative Colitis.

VALUATION

We calculate a new $75 (previously $60) DCF price target for RCPT in the next 12 months based on a discounted cash flow (DCF) analysis. Based on MEDACorp KOL feedback, we are now increasing our probability of success of RPC1063 in Ulcerative Colitis (UC) to mid-30s percentage from 30% and 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 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	1Q14E	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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	**$4,641**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**$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	$16,630	$18,950	$27,250	$30,340	$93,170	$139,755	$174,694	$195,657	$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	$3,400	$3,600	$3,800	$4,000	$14,800	$15,984	$17,263	$53,514	$43,000	$68,800	$75,680	$80,978	$85,836	$90,986	$96,446	$102,232
Total Costs and Expenses	**$52,534**	**$20,030**	**$22,550**	**$31,050**	**$34,340**	**$107,970**	**$155,739**	**$191,956**	**$249,171**	**$154,334**	**$189,737**	**$184,024**	**$201,356**	**$211,748**	**$226,338**	**$240,196**	**$253,907**
Operating Income (EBIT)	**($47,893)**	**($20,030)**	**($22,550)**	**($31,050)**	**($34,340)**	**($107,970)**	**($155,739)**	**($191,956)**	**($249,171)**	**($43,496)**	**$219,634**	**$83,416**	**$170,108**	**$300,939**	**$383,127**	**$452,607**	**$515,866**
Y/Y growth																	
Income Before Taxes	**($50,376)**	**($20,214)**	**($22,734)**	**($31,234)**	**($34,524)**	**($108,705)**	**($157,504)**	**($193,721)**	**($250,266)**	**($43,496)**	**$219,634**	**$83,416**	**$170,108**	**$300,939**	**$383,127**	**$452,607**	**$515,866**
Provision for Taxes						-	-	-	-	-	-	-	-	-	106,030	153,886	175,395
Net income	**($50,376)**	**($20,214)**	**($22,734)**	**($31,234)**	**($34,524)**	**($108,705)**	**($157,504)**	**($193,721)**	**($250,266)**	**($43,496)**	**$219,634**	**$83,416**	**$170,108**	**$300,939**	**$277,097**	**$298,721**	**$340,472**
EPS (LPS) Basic	**($4.23)**	**($0.91)**	**($1.02)**	**($1.39)**	**($1.53)**	($4.86)	($6.19)	($6.94)	($8.29)	($1.43)	$7.13	$2.68	$5.41	$9.48	$8.64	$9.23	$10.41
Y/Y growth																	
Basic Shares* (000)	**11,916**	**22,168**	**22,278**	**22,390**	**22,502**	**22,360**	**25,441**	**27,917**	**30,197**	**30,499**	**30,804**	**31,112**	**31,423**	**31,737**	**32,054**	**32,375**	**32,699**

Source: Leerink Partners and company reports.

DCF Calcuation

Discount rate	
Terminal Growth Rate	
Valuation	
Valuation / Share	

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	$86	$71	$60	$50
1.0%	$112	$92	**$75**	$63	$52
2.0%	$123	$99	$80	$66	$55
3.0%	$137	$108	$87	$71	$58
4.0%	$157	$120	$95	$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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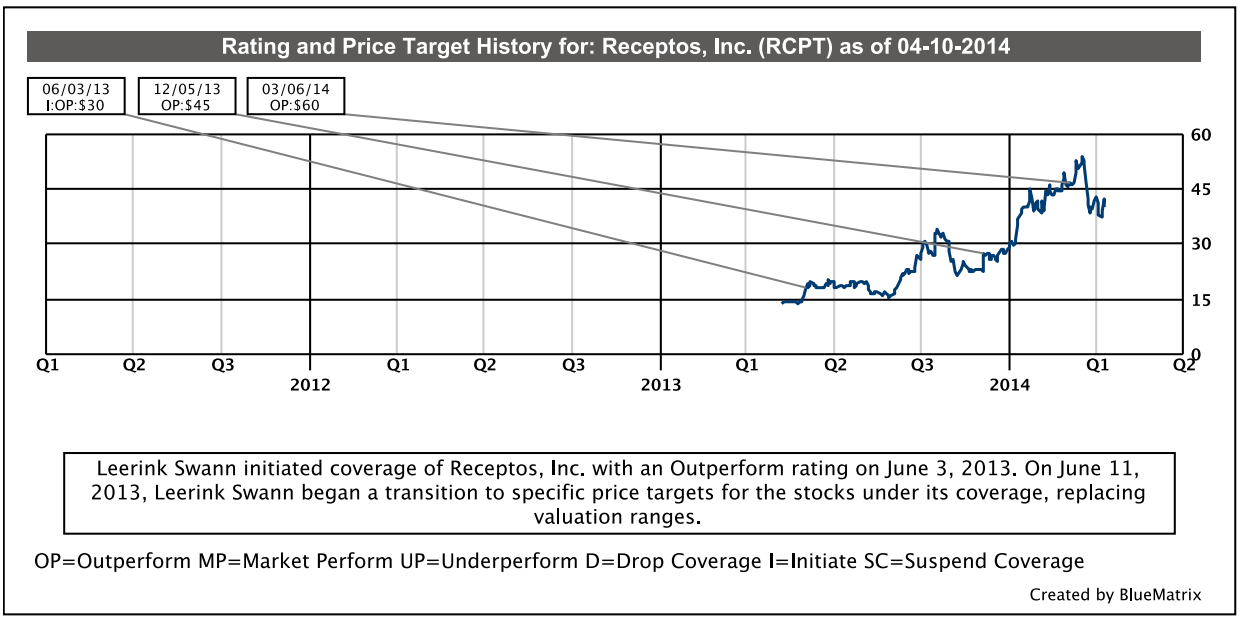

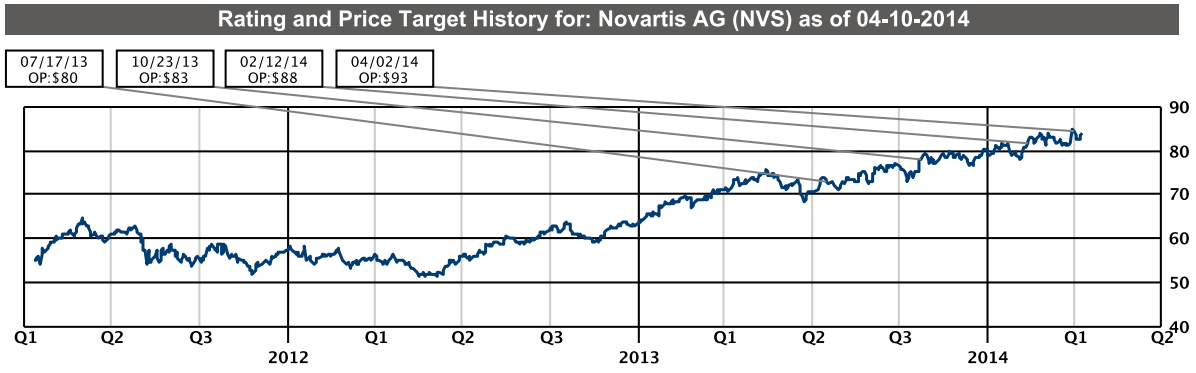

Leerink Swann initiated coverage of NVS with an Outperform rating on November 9, 2010. On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

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 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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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.

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

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Leerink Partners LLC Equity Research

Director of Equity Research	**John L. Sullivan, CFA**	(617) 918-4875	john.sullivan@leerink.com
Associate Director of Research	**Alice C. Avanian, CFA**	(617) 918-4544	alice.avanian@leerink.com
Healthcare Strategy	**John L. Sullivan, CFA**	(617) 918-4875	john.sullivan@leerink.com
	Alice C. Avanian, CFA	(617) 918-4544	alice.avanian@leerink.com
Biotechnology	**Howard Liang, Ph.D.**	(617) 918-4857	howard.liang@leerink.com
	Joseph P. Schwartz	(617) 918-4575	joseph.schwartz@leerink.com
	Marko Kozul, M.D.	(415) 905-7221	marko.kozul@leerink.com
	Michael Schmidt, Ph.D.	(617) 918-4588	michael.schmidt@leerink.com
	Jonathan Chang, Ph.D.	(617) 918-4015	jonathan.chang@leerink.com
	Irene Lau	(415) 905-7256	irene.lau@leerink.com
	Paul Matteis	(617) 918-4585	paul.matteis@leerink.com
	Gena Wang, Ph.D., CFA	(212) 277-6073	gena.wang@leerink.com
	Richard Goss	(617) 918-4059	richard.goss@leerink.com
Life Science Tools and Diagnostics	**Dan Leonard**	(212) 277-6116	dan.leonard@leerink.com
	Justin Bowers, CFA	(212) 277-6066	justin.bowers@leerink.com
Pharmaceuticals/Major	**Seamus Fernandez**	(617) 918-4011	seamus.fernandez@leerink.com
	Ario Arabi	(617) 918-4568	ario.arabi@leerink.com
Specialty Pharmaceuticals, Generics	**Jason M. Gerberry, JD**	(617) 918-4549	jason.gerberry@leerink.com
	Christopher W. Kuehnle, JD	(617) 918-4851	chris.kuehnle@leerink.com
Medical Devices, Cardiology & Orthopedics	**Danielle Antalffy**	(212) 277-6044	danielle.antalffy@leerink.com
	Richard Newitter	(212) 277-6088	richard.newitter@leerink.com
	Ravi Misra	(212) 277-6049	ravi.misra@leerink.com
Healthcare Services	**Ana Gupte, Ph.D.**	(212) 277-6040	ana.gupte@leerink.com
Healthcare Technology & Distribution	**David Larsen, CFA**	(617) 918-4502	david.larsen@leerink.com
	Christopher Abbott	(617) 918-4010	chris.abbott@leerink.com
Sr. Editor/Supervisory Analyst	**Mary Ellen Eagan, CFA**	(617) 918-4837	maryellen.eagan@leerink.com
Supervisory Analysts	Robert Egan		bob.egan@leerink.com
	Amy N. Sonne		amy.sonne@leerink.com

New York
299 Park Avenue, 21st floor
New York, NY 10171
(888) 778-1653

Boston
One Federal Street, 37th Floor
Boston, MA 02110
(800) 808-7525

San Francisco
201 Spear Street, 16th Floor
San Francisco, CA 94105
(800) 778-1164