

Receptos

(RCPT-NASDAQ)

Stock Rating: Outperform
Industry Rating: Outperform

Solid Progress Toward Differentiated Blockbusters in RRMS and UC

Event

Receptos reported 2Q13 operating results late yesterday and provided an update on key pipeline programs. Net loss per share of \$0.98 was in line with our expectations, and the company ended 2Q13 with \$91M in cash. With primary focus on selective S1P1 modulator RPC1063, timelines for phase 2/3 RADIANCE trial in relapsing/remitting MS (RRMS) and phase 2 TOUCHSTONE trial in ulcerative colitis (UC) remain on track, with mid-2014 data from both and phase 3 initiation in RRMS on phase 2 interim analysis expected by YE13. 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

We are reiterating our Outperform rating on shares of RCPT, following review of 2Q13 results. With a rapidly expanding oral MS market and with less selective S1P modulator GILENYA holding up well to 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. 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.

Forecasts

We estimate per share loss in 2013 of \$7.60.

Valuation

Our \$22 price target is based on 25x 2020 EPS of \$2.49, discounted 20%.

Recommendation

We rate shares of RCPT stock as Outperform.

Changes	Annual EPS
	2013E -\$7.13 to -\$7.60

August 8, 2013

Biotechnology

Jim Birchenough, M.D.

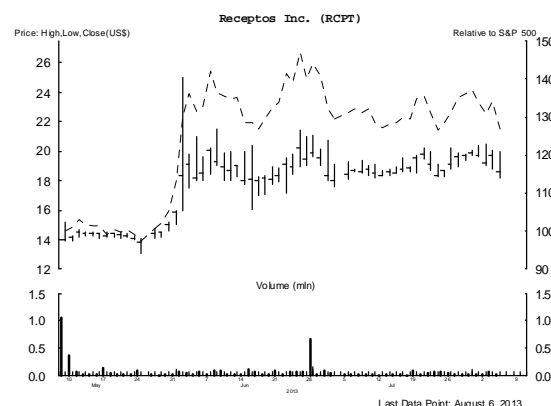
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Chuck Whitesell / Nick Abbott, PhD

Securities Info

Price (7-Aug)	\$17.37	Target Price	\$22
52-Wk High/Low	\$25/\$13	Dividend	--
Mkt Cap (mm)	\$318	Yield	--
Shs O/S (mm, BASIC)	18.3	Float O/S (mm)	5.5
Options O/S (mm)	na	ADVol (30-day, 000s)	51

Price Performance



Valuation/Financial Data

(FY-Dec.)	2011A	2012A	2013E	2014E
EPS GAAP	-\$1.04	-\$0.28	-\$7.60↓	-\$4.63
P/E			nm	nm
First Call Cons.			-\$3.97	-\$3.02
FCF	\$1.20	-\$18.40	-\$10.30	-\$30.80
P/FCF			nm	nm
EBITDA (\$mm)	-\$6	-\$18	-\$38	-\$96
EV/EBITDA			nm	nm
Rev. (\$mm)	\$9	\$9	\$3	\$0
EV/Rev			81.4x	#DIV/0!
Quarterly EPS	1Q	2Q	3Q	4Q
2012A	na	na	na	na
2013E	-\$5.46A	-\$0.98A	-\$0.56	-\$0.61

Balance Sheet Data (na)

Net Debt (\$mm)	-\$98	Total Debt/EBITDA	nm
Total Debt (\$mm)	\$0	EBITDA/IntExp	na
Net Debt/Cap.	nm	Price/Book	27.1x

Notes: Quarterly EPS may not sum due to share count. All values in US\$.

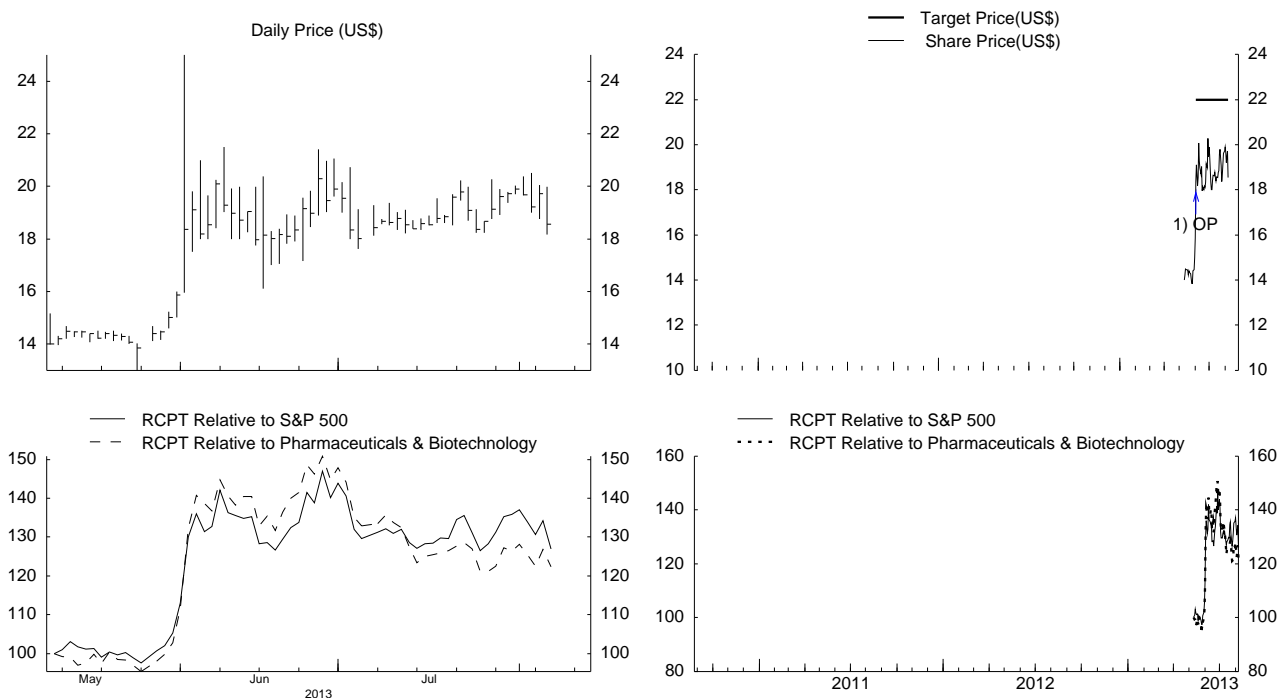
Source: BMO Capital Markets estimates, Bloomberg, Thomson Reuters, and IHS Global Insight.

Exhibit 1: RCPT Income Statement 2012A-2020E

INCOME STATEMENT (\$M)	2012A	1Q13A	2Q13A	3Q13E	4Q13E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
REVENUES													
Product Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 51.4	\$ 142.6	\$ 212.7
Collaborative Revenue	8.6	1.5	1.2	-	-	2.7	-	57.0	93.0	87.0	43.0	28.0	27.8
Milestones, grant revenue and other	-	-	-	-	-	-	-	50.0	50.0	50.0	-	-	-
TOTAL REVENUES	\$ 8.6	\$ 1.5	\$ 1.2	\$ -	\$ -	\$ 2.7	\$ -	\$ 115.0	\$ 155.0	\$ 145.0	\$ 106.4	\$ 182.6	\$ 252.5
EXPENSES (GAAP)													
Cost of Goods Sold (COGS)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2.6	\$ 7.1	\$ 10.6
R&D Expense	22.9	8.0	9.4	7.5	8.0	33.0	82.0	162.0	242.0	222.0	142.0	112.0	111.5
SG&A Expense	3.4	1.1	1.6	2.5	3.0	8.2	14.0	16.0	18.0	21.0	25.0	29.0	30.0
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	26.4	9.1	11.0	10.0	11.0	41.1	96.0	178.0	260.0	243.0	169.6	148.1	152.1
Operating Income	(17.7)	(7.6)	(9.8)	(10.0)	(11.0)	(38.4)	(96.0)	(63.0)	(105.0)	(98.0)	(63.2)	34.5	100.3
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	-	-
EBIT	(17.7)	(7.6)	(9.8)	(10.0)	(11.0)	(38.4)	(96.0)	(63.0)	(105.0)	(98.0)	(63.2)	34.5	100.3
Interest and other income	0.0	0.0	-	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1
Interest and other expense	-	-	(0.1)	-	-	(0.1)	-	-	-	-	-	-	-
Other Income (Expense)	(0.0)	(2.1)	-	-	-	(2.1)	-	-	-	-	-	-	-
Interest and Other Income (Expense)	-	(2.1)	(0.1)	0.0	0.0	(2.1)	0.1	0.1	0.1	0.1	0.1	0.0	0.1
Pre-Tax Income	(17.7)	(9.6)	(9.9)	(10.0)	(11.0)	(40.5)	(95.9)	(62.9)	(104.9)	(97.9)	(63.1)	34.5	100.5
Income Taxes	-	-	-	-	-	-	-	-	-	2.4	-	8.6	25.1
Net Income (GAAP)	\$ (17.7)	\$ (9.6)	\$ (9.9)	\$ (10.0)	\$ (11.0)	\$ (40.5)	\$ (95.9)	\$ (62.9)	\$ (104.9)	\$ (100.3)	\$ (63.1)	\$ 25.9	\$ 75.3
EPS (GAAP) (basic)	\$ (0.28)	\$ (5.46)	\$ (0.98)	\$ (0.56)	\$ (0.61)	\$ (7.60)	\$ (4.63)	\$ (2.73)	\$ (4.10)	\$ (3.53)	\$ (2.11)	\$ 0.86	\$ 2.49
EPS (GAAP) (diluted)	\$ (0.28)	\$ (5.46)	\$ (0.98)	\$ (0.56)	\$ (0.61)	\$ (7.60)	\$ (4.63)	\$ (2.73)	\$ (4.10)	\$ (3.53)	\$ (2.11)	\$ 0.86	\$ 2.49
Total of Reconciliation Items	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Non-GAAP)	\$ (7.3)	\$ (9.6)	\$ (9.9)	\$ (10.0)	\$ (11.0)	\$ (40.5)	\$ (95.9)	\$ (62.9)	\$ (104.9)	\$ (100.3)	\$ (63.1)	\$ 25.9	\$ 75.3
Impact of Adjustments to EPS	-	-	-	-	-	-	-	-	-	-	-	-	-
EPS (Non-GAAP) (basic)	\$ (0.12)	\$ (5.46)	\$ (0.98)	\$ (0.56)	\$ (0.61)	\$ (7.60)	\$ (4.63)	\$ (2.73)	\$ (4.10)	\$ (3.53)	\$ (2.11)	\$ 0.86	\$ 2.49
EPS (Non-GAAP) (diluted)	\$ (0.12)	\$ (5.46)	\$ (0.98)	\$ (0.56)	\$ (0.61)	\$ (7.60)	\$ (4.63)	\$ (2.73)	\$ (4.10)	\$ (3.53)	\$ (2.11)	\$ 0.86	\$ 2.49
Weighted average shares outstanding (basic)	62.7	1.8	10.2	17.9	17.9	11.9	20.5	23.1	25.6	27.6	30.0	30.1	30.2
Weighted average shares outstanding (diluted)	62.7	1.8	10.2	17.9	17.9	11.9	20.5	23.1	25.6	27.6	30.0	30.1	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: August 6, 2013

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Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.9%	17.6%	52.7%	39.6%	51.0%	53.2%
Hold	Market Perform	56.8%	10.2%	45.9%	53.9%	45.5%	41.1%
Sell	Underperform	5.3%	3.2%	1.4%	6.5%	3.5%	5.6%

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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

R = Restricted – Dissemination of research is currently restricted.

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