March 6, 2014

OUTPERFORM

Reason for report:

ESTIMATE CHANGE

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LEERINK

RECEPTOS, INC.

Two Mid-14 Catalysts; Adding 1063 UC Revenues to Model Drives New $60 PT

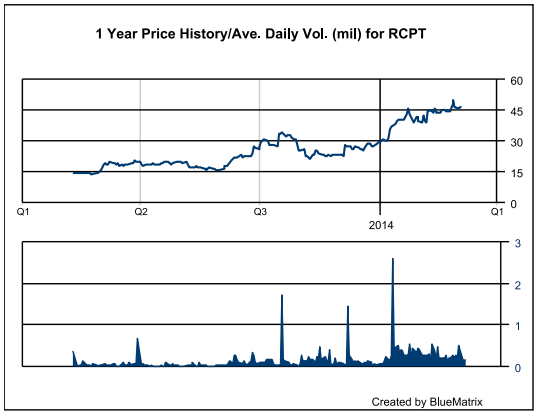
• **Bottom Line:** Based on a variety of emerging signals and anecdotes, we believe RPC-1063 ("1063") is at least demonstrating a signal in Ulcerative Colitis (UC) worth adding to our model with a low probability of success (POS) ~ 30% (vs. mid-30% for MS). Topline 1063 Phase II data in Multiple Sclerosis (MS) is expected mid-14 and in UC slightly after in 3Q14. A benign interim 1063 safety analysis in a larger MS trial should also be somewhat de-risking to potential safety in the US setting. Despite this interim Phase II MS analysis and unless the final topline data representing treatment from month 3-6 were to demonstrate a surprising safety issue, we believe even at current levels RPCT represents an attractive risk reward opportunity with 2 back-to-back major near-term catalysts with significant upside potential. We reiterate an Outperform (OP) rating and new $60PT.

• **Based on a significant number of Phase II TOUCHDOWN UC induction patients moving into the maintenance phase and ~50% advancing into the open label extension (OLE) trial (on blinded basis) and no major Data Monitoring Committee (DMC) adverse events (AEs) reported, we believe a positive signal is emerging that at least justifies UC revenue inclusion in our model.** As a reminder, this placebo-controlled double blinded randomized global clinical trial began ~YE12, evaluating 2 dose levels (0.5mg and 1mg) vs. placebo in 180 patients. It includes a saturation period and 8-week treatment period with superiority design and primary endpoint of clinical remission. The design approximates a typical Phase III and there is upside potential if it yields positive results and FDA signs off on it serving as 1 of 2 pivotal trials. Induction phase patients demonstrating clinical improvement can advance into a maintenance trial and both induction and maintenance patients can at any time enroll into the OLE trial. On the 4Q13 EPS call, management indicated that the proportion of patients crossing over into the maintenance phase is meeting their expectations from a clinical improvement perspective and this seems consistent anecdotally with the effective established treatments. Previously, the company has indicated that ~50% of induction/maintenance phase patients are enrolling into the OLE. In terms of safety, the 250-patient interim analysis from the Phase II MS trial should provide confidence the safety profile is relatively benign. Topline Phase II UC data is rapidly approaching in 3Q14.

• **4Q13 earnings were benign and inclusion of 1063 US revenue in UC adds $15 to our valuation**. We now include risk-adjusted 1063 US revenue in or model derived from UC using a probability of success (POS) of ~30%. This leads to probability adjusted peak sales in 2029E is $287M (unadjusted $955M). Our model includes penetration only into 4th-line UC patients with upside from earlier use. RCPT had YE13 pro-forma cash of ~$180M ($8.11/share) assuming full exercise of over-allotment.

Key Stats:	**(NASDAQ:RCPT)**
S&P 600 Health Care Index:	**1,321.30**
Price:	**$46.49**
Price Target:	$60.00 from $45.00
Methodology:	DCF analysis
52 Week High:	$50.48
52 Week Low:	$13.00
Shares Outstanding (mil):	22.2
Market Capitalization (mil):	$1,030.6
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 - New	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**($0.91)**	**($1.02)**	**($1.39)**	**($1.53)**	**($4.86)**	**NM**
2014E - Old	--	--	--	--	0.0	--	--	--	--	($2.79)	NM
2015E	--	--	--	--	0.0	--	--	--	--	($6.19)	NM

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

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 including probability adjusted RPC1063 revenues from UC at 30%. Peak adjusted revenue in 2029E from UC is $287M ($955M unadjusted). 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. Core RPC-1063 Intellectual Property (IP) expires in 2029 but Gilenya (NVS) currently goes off patent in 2019.

Change in Estimates

We modified our model based on earnings reported 3.5.14 and the inclusion of probability adjusted revenue from RPC1063 in UC. We also increased R&D estimates from 2014-2017 due to the cost of running two Phase III trials in MS and one pivotal in UC. As a result, our 2014E EPS changes from ($2.79) to ($4.86).

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

VALUATION

We calculate a new $60 (previously $45) DCF price target for RCPT in the next 12 months based on a discounted cash flow (DCF) analysis. We now include probability adjusted RPC1063 revenue from Ulcerative Colitis (UC) in the U.S. only at 30% and assume launch in 2019. We only penetrate into fourth-line UC patients. We now include probability adjusted RPC1063 revenue from Ulcerative Colitis (UC) in the U.S. only at 30% and assume launch in 2019. We only penetrate into fourth-line UC patients. Peak probability adjusted UC revenue in 2029E is $287M ($955M unadjusted). 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 ~$747M ($2.1B non-risk adjusted) which leads to our base case NPV calculation of $1.3B 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)	1Q13A	2Q13A	3Q13A	4Q13A	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	$645,647	$712,233	$783,904
Probability of Success														*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*
Risk Adjusted RPC1063 U.S. Revenue in UC														**-**	**$24,413**	**$58,462**	**$87,743**	**$138,274**	**$193,694**	**$213,670**	**$235,171**
RPC4046																					
Collaborative Revenue	$1,488	$1,238	$1,142	$773	$4,641	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	**$1,488**	**$1,238**	**$1,142**	**$773**	**$4,641**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**$110,838**	**$405,302**	**$257,696**	**$356,840**	**$489,641**	**$633,677**	**$728,415**	**$817,877**
Costs and Expenses																					
Probability Adjusted COGS	-	-	-	-	-	-	-	-	-	-	-	-	-	$11,084	$40,530	$25,770	$35,684	$39,171	$50,694	$58,273	$65,430
R&D	$8,020	$9,441	$13,500	$12,624	$43,585	$16,630	$18,950	$27,250	$30,340	$93,170	$139,755	$174,694	$195,657	$100,250	$75,000	$76,500	$78,030	$79,591	$81,182	$82,806	$84,462
SG&A (Risk Adjusted from Time of RPC1063 Launch)	$1,062	$1,589	$3,050	$3,248	$8,949	$3,400	$3,600	$3,800	$4,000	$14,800	$15,984	$17,263	$53,514	$43,000	$65,800	$69,090	$72,545	$76,172	$79,980	$83,979	$88,178
Total Costs and Expenses	**$9,082**	**$11,030**	**$16,550**	**$15,872**	**$52,534**	**$20,030**	**$22,550**	**$31,050**	**$34,340**	**$107,970**	**$155,739**	**$191,956**	**$249,171**	**$154,334**	**$181,330**	**$171,360**	**$186,258**	**$194,934**	**$211,857**	**$225,059**	**$238,071**
Operating Income (EBIT)	**($7,594)**	**($9,792)**	**($15,408)**	**($15,099)**	**($47,893)**	**($20,030)**	**($22,550)**	**($31,050)**	**($34,340)**	**($107,970)**	**($155,739)**	**($191,956)**	**($249,171)**	**($43,496)**	**$223,972**	**$86,337**	**$170,581**	**$294,707**	**$421,820**	**$503,356**	**$579,806**
Y/Y growth																					
Income Before Taxes	**($9,649)**	**($9,918)**	**($15,565)**	**($15,244)**	**($50,376)**	**($20,214)**	**($22,734)**	**($31,234)**	**($34,524)**	**($108,705)**	**($157,504)**	**($193,721)**	**($250,266)**	**($43,496)**	**$223,972**	**$86,337**	**$170,581**	**$294,707**	**$421,820**	**$503,356**	**$579,806**
Provision for Taxes										-	-	-	-	-	-	-	-	-	119,696	171,141	197,134
Net income	**($9,649)**	**($9,918)**	**($15,565)**	**($15,244)**	**($50,376)**	**($20,214)**	**($22,734)**	**($31,234)**	**($34,524)**	**($108,705)**	**($157,504)**	**($193,721)**	**($250,266)**	**($43,496)**	**$223,972**	**$86,337**	**$170,581**	**$294,707**	**$302,124**	**$332,215**	**$382,672**
EPS (LPS) Basic	**($5.46)**	**($0.98)**	**($0.88)**	**($0.86)**	**($4.23)**	**($0.91)**	**($1.02)**	**($1.39)**	**($1.53)**	($4.86)	($6.19)	($6.94)	($8.29)	($1.43)	$7.27	$2.78	$5.43	$9.29	$9.43	$10.26	$11.70
Y/Y growth																					
Basic Shares* (000)	**1,767**	**10,151**	**17,715**	**17,806**	**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	*11%*
Terminal Growth Rate	*1%*
Valuation	**$1,346,293**
Valuation / Share	**$60**

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%	$82	$68	$57	$48	$40
1.0%	$88	$72	**$60**	$50	$42
2.0%	$96	$77	$63	$53	$44
3.0%	$106	$84	$68	$56	$46
4.0%	$120	$93	$74	$60	$49

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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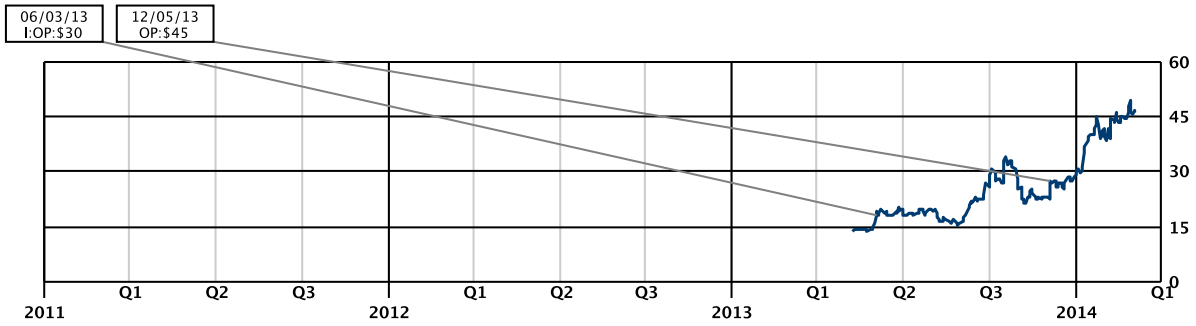
Rating and Price Target History for: Receptos, Inc. (RCPT) as of 03-05-2014

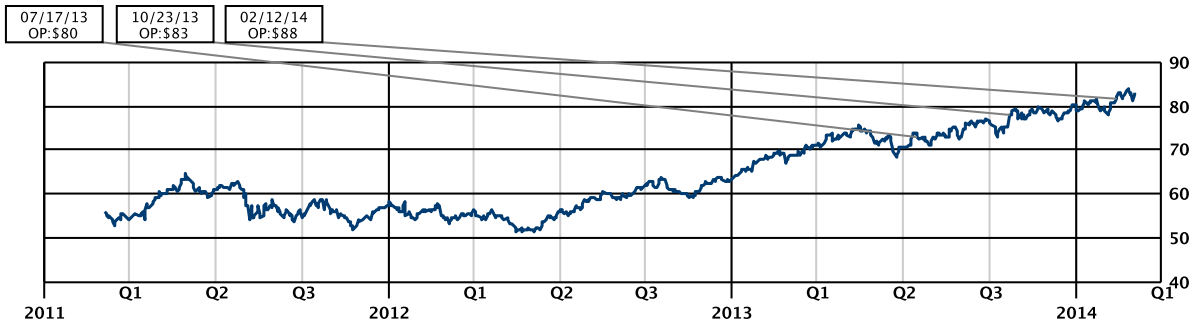


Leerink Swann initiated coverage of Receptos, Inc. with an Outperform rating on June 3, 2013. On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

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 03-05-2014



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

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Distribution of Ratings/Investment Banking Services (IB) as of 12/31/13				
			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [OP]	118	64.50	30	25.00
HOLD [MP]	65	35.50	2	3.00
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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Leerink Consulting LLC, an affiliate of Leerink Partners, is a provider of evidence-based strategy and consulting to the healthcare industry.

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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