April 29, 2014

Liana Moussatos, Ph.D. (415) 263-6626

Receptos (RCPT - OUTPERFORM): Additional Safety and PK/PD Analyses at AAN Support RPC1063's Superior Profile in Our View. Reiterate OUTPERFORM and $59 PT.

Price: $34.37 **12-Month Price Target: $59**

- **Receptos presented additional safety analyses for RPC1063 at the American Academy of Neurology Annual Meeting (AAN April 26-May 3, 2014 Philadelphia).** The company previously disclosed positive safety results from a thorough QT study and additional analyses were presented at AAN. In addition, additional safety & PK/PD data around the metabolism of RPC1063 further supports its potentially superior safety profile (in our view) compared with Gilenya.
- **RPC1063 shows consistent metabolite biotransformation and predictable drug exposure time-dependent steady state lymphocyte reduction across subjects in Phase I study.** In a poster presentation that will be presented at AAN (American Academy of Neurology (AAN) Annual Meeting, Philadelphia, April 26-May 3) titled "Pharmacokinetics and Pharmacodynamics of RPC1063 and Its Metabolites in Healthily Adult Volunteers, Receptos' investigators will show that RPC1063 is consistently and predictably metabolized into therapeutic equivalent RP101988 and RP101075 metabolites (total plasma AUC were 39% for RPC1063, 49% for RP101988 and 11% for RP101075). RP1063 metabolites have similar T_{max} (6-8hrs) and elimination half-life (19-22hrs). Additionally, RP1063 and metabolites show no inhibition of CYP450 enzymes or the hERG channel, similar binding profile to plasma proteins and have been qualified in chronic GLP toxicology studies. Moreover, the reduction in steady state lymphocyte levels, measured using a biomarker, correlated with RPC1063, RP101988 and RP101075 exposure time. These data highlight the superior safety profile for RP1063 and further differentiate RPC1063 as a best-in-class S1P1R inhibitor.
- **RPC1063 shows no increase in QTc prolongation based on pre-specified criteria.** In a second poster presentation that will be presented at AAN titled "Absence of a Relevant Effect on Cardiac Repolarization In a QT/QTc (TQT) Study of RPC1063, A Novel , Selective S1P1 Receptor Agonist, In Healthy Adults Volunteers" Receptos' investigators will show RPC1063 QTc change from baseline was <10ms at both 1mg and 2mg doses, meeting a pre-specified criteria. Similar to previous data (reported on in May 6th, 2013 note) dose titration regimen (0.25mg to 2mg) were well tolerated, tempered the first dose heart rate effect and minimized decrease in heart rate. RPC1063 and control group had similar AEs, which included site reaction, orthostatic hypotension, dizziness, musculoskeletal chest pain and constipation. No SAEs were recorded.

Figure 1: 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	75:20	+5-25%/-5-25%
H2:15	RPC 4046 EOE Topline Ph2 data release	50:50	+10-25%/-5-25%

Source: Company data, Wedbush Securities, Inc.

- **Next:** 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 $59 price target.** We calculate RCPT's 12-month price target using a 365 day projection of our current 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. Due to our 30% annual discount, our 12-month price target is higher than our current fair value.

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 2013 with about $69.5 million in cash and raised about $110 million net in a follow-on offering in January 2014. We project runway into mid-2017 which includes top-line results from the ongoing Phase 2 trial testing RPC1063 treatment of RMS as well as IBD/UC 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/UC. 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.*

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 ended 2013 with $69.5 million in cash and raised about $102.1 million on January 9, 2014 and exercised overallotments on January 14, 2014 raising gross proceeds of about $110 million. With this financing 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 Certification
I, Liana Moussatos, Ph.D., 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/DisclosureQ114.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 March 31, 2014)	**Investment Banking Relationships (as of March 31, 2014)**
Outperform:54% Neutral: 43% Underperform: 3%	Outperform:22% Neutral: 2% 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.

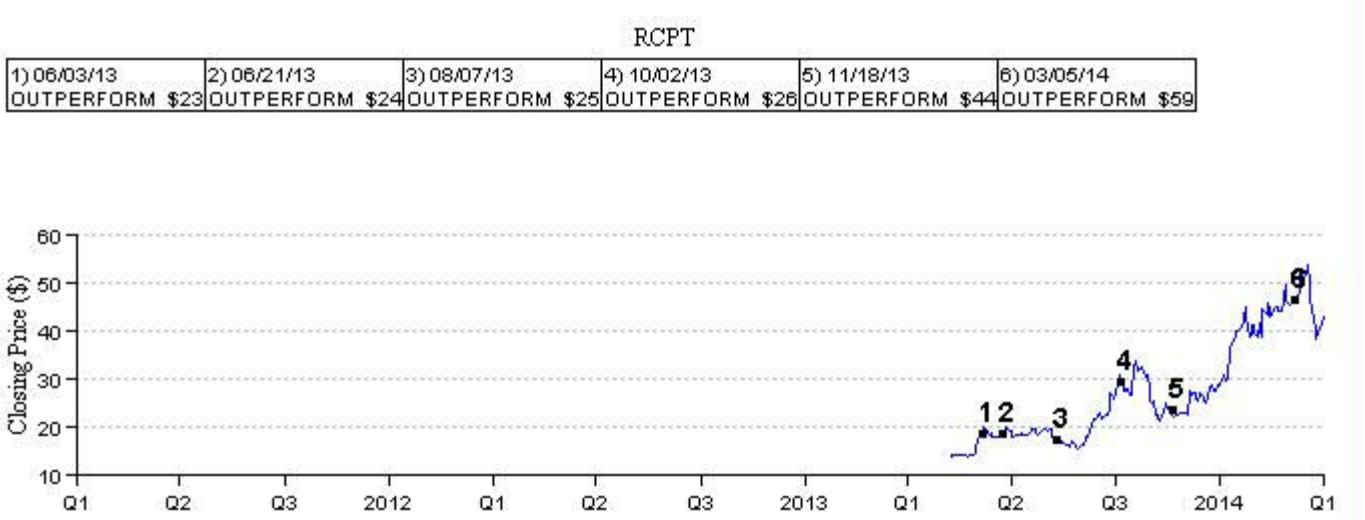
The analysts responsible for preparing research reports do not receive compensation based on specific investment banking activity. The analysts receive compensation that is based upon various factors including WS' total revenues, a portion of which are generated by WS' investment banking activities.

Wedbush Equity Research Disclosures as of April 29, 2014

Company	Disclosure
Receptos	1,3,4,5

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.
9. WS has received compensation for products and services other than investment banking services within the past 12 months.
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.
11. WS or one of its affiliates beneficially own 1% or more of the common equity securities.
12. The analyst maintains Contingent Value Rights that enables him/her to receive payments of cash upon the company's meeting certain clinical and regulatory milestones.

Price Charts
Wedbush disclosure price charts are updated within the first fifteen days of each new calendar quarter per FINRA regulations. Price charts for companies initiated upon in the current quarter, and rating and target price changes occurring in the current quarter, will not be displayed until the following quarter. Additional information on recommended securities is available on request.



* 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.

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

WEDBUSH

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
Alicia Reese (212) 938-9927

Footwear, Apparel and Accessories
Corinna Freedman (212) 668-9876

Healthy Lifestyles
Kurt M. Frederick, CFA CPA (415) 274-6822
Alicia Reese (212) 938-9927

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

Specialty Retail: Softlines
Morry Brown (213) 688-4311
Taryn Kuida (213) 688-4505

RETAIL/CONSUMER MARKET RESEARCH

Gabriella Santaniello (213) 688-4557

INDUSTRIAL GROWTH TECHNOLOGY

Clean Technology
Craig Irwin (212) 938-9926

Environmental Services / Building Products
Al Kaschalk (213) 688-4539

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

Enterprise Security
Sanjit Singh (415) 273-7323

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
Dilip Joseph (415) 273-7308

Emerging Pharmaceuticals
Liana Moussatos, Ph.D. (415) 263-6626

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	
Los Angeles	(213) 688-4470 / (800) 444-8076	Los Angeles	(213) 688-4470 / (800) 421-0178
San Francisco	(415) 274-6800	San Francisco	(415) 274-6811
New York	(212) 938-9931	New York	(212) 344-2382
Boston	(617) 832-3700	Boston	(617) 832-3700

CORPORATE HEADQUARTERS
1000 Wilshire Blvd., Los Angeles, CA 90017-2465
Tel: (213) 688-8000 www.wedbush.com