

Receptos (RCPT)

SMALL & MID CAP RESEARCH



Rating **OUTPERFORM* [V]**
Price (12 May 14, US\$) 30.43
Target price (US\$) 58.00¹
52-week price range 53.78 - 13.85
Market cap. (US\$ m) 674.61
Enterprise value (US\$ m) 324.43

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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All Eyes on Mid'14E RPC1063 PII Data in RRMS

- **Summary:** RCPT is not an earnings-driven story hence Q1 financials were a relative non-event. The focus continues to remain on topline PII RADIANCE (RRMS) data expected in mid'14 (unchanged). Recall, the PIIa interim safety data for RADIANCE successfully passed in early Dec'13 following which RCPT initiated enrollment for the PII portion of the PII/III RADIANCE trial. A moving of UC PII data to Q4'14 (previously mid '14) was notable but not a fundamental negative. We have updated our model post Q1 earnings, leading to '14, '15, and '16 EPS of (\$3.76), (\$0.06) and (\$6.40) respectively.
 - **Q1 Earnings Summary:** RCPT ended Q1'14 with \$158.6M in cash and cash equivalents and \$5.0M in debt. The company's operating activities totaled \$20.5M in Q1'14.
 - **Key Pipeline Updates and Conference Call Updates:** (1) RPC1063 in Relapsing Remitting Multiple Sclerosis (RRMS): RCPT announced that it sought scientific advice from the EMA regarding the adequacy of the PII trials/overall development program in support of a future MAA. RCPT reported that with minor adjustments, the proposed development program is sufficient to support an MAA in the EU. (2) RPC1063 in Ulcerative Colitis (UC): RCPT continues to enroll the TOUCHSTONE PII trials in UC (more than 80% enrolled). Topline data for this trial is now expected in Q4'14 (vs. mid'14 previously due to delays from seasonality in enrollment and holidays in certain geographies). (3) RPC4046 in Eosinophilic Esophagitis (EoE): RCPT is planning a proof-of-concept PII trial in EoE. RCPT announced that it filed an IND with the Division of Gastroenterology of the FDA in Q1'14 and plans to begin the enrollment of this trial in H2'14. (4) GLP-1R in Type 2 Diabetes: RCPT will begin IND-enabling studies for GLP-1R (Oral small molecule, positive allosteric modulator of the GLP-1 receptor) in 2014.
- Valuation:** We retain our DCF-derived TP of \$58.

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US\$)	-4.23	-3.76	-0.06	-6.40
Prev. EPS (US\$)	—	-3.24	0.23	-6.10
P/E (x)	-7.2	-8.1	-526.4	-4.8
P/E rel. (%)	-41.9	-50.8	NM	-37.0
Revenue (US\$ m)	4.6	5.4	150.0	—
EBITDA (US\$ m)	-47.5	-88.9	-1.3	-182.2
OCFPS (US\$)	-3.09	-3.13	0.81	-5.68
P/OCF (x)	-9.4	-9.7	37.5	-5.4
EV/EBITDA (current)	-13.8	-3.6	-225.6	-2.5
Net debt (US\$ m)	-19	-350	-373	-211
ROIC (%)	-150.11	467.93	4.55	483.09
Number of shares (m)	22.17	IC (current, US\$ m)		31.90
BV/share (Next Qtr., US\$)	—	EV/IC (x)		—
Net debt (Next Qtr., US\$ m)	—	Dividend (current, US\$)		—
Net debt/tot eq (Next Qtr., %)	—	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates

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Exhibit 1: RCPT Quarterly Income Statement

Receptos Quarterly Income Statement										
<i>(Dollars in thousands, except share and per share amounts)</i>										
	Q1'13A	Q2'13A	Q3'13A	Q4'13A	2013A	Q1'14A	Q2'14E	Q3'14E	Q4'14E	2014E
RPC1063 Royalty	0	0	0	0	0	0	0	0	0	0
Milestones	0	0	0	0	0	0	0	0	0	0
Collaborative Revenues	1,488	1,238	1,142	773	4,641	1,350	1,350	1,350	1,350	5,400
Total Revenues	1,488	1,238	1,142	773	4,641	1,350	1,350	1,350	1,350	5,400
COGS	0	0	0	0	0	0	0	0	0	0
Gross Profit	1,488	1,238	1,142	773	4,641	1,350	1,350	1,350	1,350	5,400
R&D	8,020	9,441	13,500	12,624	43,585	20,007	15,620	17,751	25,770	79,148
SG&A	1,062	1,589	3,050	3,248	8,949	2,759	3,476	4,394	4,638	15,267
Total Operating Expenses	9,082	11,030	16,550	15,872	52,534	22,766	19,096	22,146	30,408	94,415
Operating Income/(Loss)	(7,594)	(9,792)	(15,408)	(15,099)	(47,893)	(21,416)	(17,746)	(20,796)	(29,058)	(89,015)
Interest Income	1	0	0	0	1	73	73	73	73	292
Interest Expense	0	0	0	0	0	(157)	(157)	(157)	(157)	(628)
Other Income/(Expense)	(2,056)	(126)	(157)	(145)	(2,484)	0	0	0	0	0
Total Other Income/(Expense)	(2,055)	(126)	(157)	(145)	(2,483)	(84)	(84)	(84)	(84)	(336)
Pre-Tax Profit/(Loss)	(9,649)	(9,918)	(15,565)	(15,244)	(50,376)	(21,500)	(17,830)	(20,880)	(29,142)	(89,351)
Provision/(Benefit) for Income Taxes	0	0	0	0	0	0	0	0	0	0
Effective Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income/(Loss)	(9,649)	(9,918)	(15,565)	(15,244)	(50,376)	(21,500)	(17,830)	(20,880)	(29,142)	(89,351)
GAAP Basic EPS	(\$5.46)	(\$0.98)	(\$0.88)	(\$0.86)	(\$4.23)	(\$1.01)	(\$0.81)	(\$0.85)	(\$1.07)	(\$3.76)
GAAP Diluted EPS	(\$5.46)	(\$0.98)	(\$0.88)	(\$0.86)	(\$4.23)	(\$1.01)	(\$0.81)	(\$0.85)	(\$1.07)	(\$3.76)
Basic Shares Outstanding	1,767	10,151	17,715	17,806	11,916	21,195	22,149	24,585	27,167	23,774
Diluted Shares Outstanding	1,767	10,151	17,715	17,806	11,916	21,195	22,149	24,585	27,167	23,774

Source: Company data, Credit Suisse estimates

Exhibit 2: RCPT Annual Income Statement

Receptos Annual Income Statement									
<i>(Dollars in thousands, except share and per share amounts)</i>									
	2012A	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E
RPC1063	0	0	0	0	0	0	13,247	354,860	812,755
Milestones	0	0	0	150,000	0	0	75,000	0	0
Collaborative Revenues	8,647	4,641	5,400	0	0	0	0	0	0
Total Revenues	8,647	4,641	5,400	150,000	0	0	88,247	354,860	812,755
COGS	0	0	0	0	0	0	2,186	40,809	85,339
Gross Profit	8,647	4,641	5,400	150,000	0	0	86,061	314,051	727,416
R&D	22,927	43,585	79,148	127,912	140,967	145,402	110,213	97,178	91,895
SG&A	3,430	8,949	15,267	23,509	41,305	118,014	195,735	228,806	252,274
Total Operating Expenses	26,357	52,534	94,415	151,421	182,273	263,416	305,949	325,984	344,170
Operating Income/(Loss)	(17,710)	(47,893)	(89,015)	(1,421)	(182,273)	(263,416)	(219,887)	(11,933)	383,246
Interest Income	18	1	292	302	173	189	32	16	242
Interest Expense	0	0	(628)	0	0	0	0	0	0
Other Income/(Expense)	(18)	(2,484)	0	(500)	(400)	(300)	(200)	(100)	(100)
Total Other Income/(Expense)	0	(2,483)	(336)	(198)	(227)	(111)	(168)	(84)	142
Pre-Tax Profit/(Loss)	(17,710)	(50,376)	(89,351)	(1,618)	(182,500)	(263,527)	(220,056)	(12,017)	383,388
Provision/(Benefit) for Income Taxes	0	0	0	0	0	0	0	0	0
Effective Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income/(Loss)	(17,710)	(50,376)	(89,351)	(1,618)	(182,500)	(263,527)	(220,056)	(12,017)	383,388
GAAP Basic EPS	(\$13.73)	(\$4.23)	(\$3.76)	(\$0.06)	(\$6.40)	(\$7.85)	(\$6.47)	(\$0.35)	\$10.99
GAAP Diluted EPS	(\$13.73)	(\$4.23)	(\$3.76)	(\$0.06)	(\$6.40)	(\$7.85)	(\$6.47)	(\$0.35)	\$10.99
Basic Shares Outstanding	1,290	11,916	23,774	27,996	28,523	33,557	34,018	34,455	34,870
Diluted Shares Outstanding	1,290	11,916	23,774	27,996	28,523	33,557	34,018	34,455	34,870

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 12-May-2014)**Receptos** (RCPT.OQ, \$30.43, OUTPERFORM[V], TP \$58.0)

Disclosure Appendix

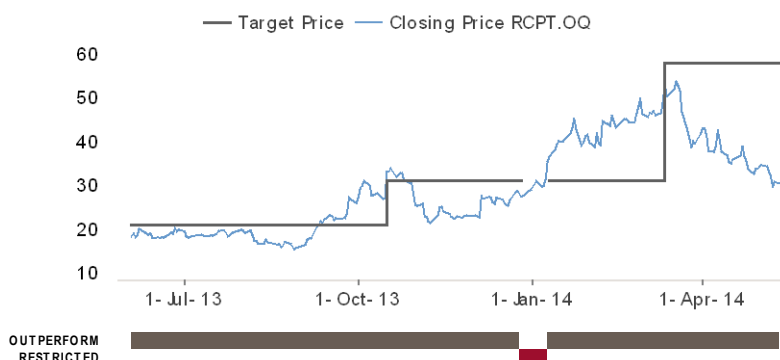
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3-Year Price and Rating History for Receptos (RCPT.OQ)

RCPT.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
03-Jun-13	18.36	21.00	O *
16-Oct-13	33.22	31.00	
26-Dec-13	27.54		R
10-Jan-14	36.67	31.00	O
12-Mar-14	53.10	58.00	

* Asterisk signifies initiation or assumption of coverage.



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Price Target: (12 months) for Receptos (RCPT.OQ)

Method: Our DCF-derived TP of \$58 is based on annual cash flows through 2029, 10% discount rate, and no terminal value. The cash flows are based on royalties on RPC1063 in relapsing multiple sclerosis and ulcerative colitis in a co-commercialization framework.

Risk: The risks to our TP of \$58 are: (1) RPC1063 not approved or significantly delayed in relapsing multiple sclerosis and/or ulcerative colitis; (2) RPC1063 does not demonstrate efficacy and safety expected from studies to date; (3) RPC1063 could underperform our expectations for the product launch ramp or peak sales; (4) Competition is more acute than we model; (5) The relapsing multiple sclerosis and/or ulcerative colitis market may not become as large as expected.

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