

## Receptos (RCPT)

### SMALL & MID CAP RESEARCH



Rating **OUTPERFORM\* [V]**  
Price (30 Oct 13, US\$) 28.04  
Target price (US\$) 31.00<sup>1</sup>  
52-week price range 33.91 - 13.85  
Market cap. (US\$ m) 514.20  
Enterprise value (US\$ m) -64,618.46

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

<sup>1</sup>Target price is for 12 months.

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

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## Development timelines for pipeline are intact

**Focus remains on RPC1063 in Relapsing Multiple Sclerosis (RMS):** RCPT is not an earnings-driven story hence Q3 financials were a relative non-event. RCPT announced the completion of enrollment (over-enrollment in fact!) for the PII RADIANCE Study with topline data expected in mid-2014 (unchanged). The next catalyst for RPC1063 is the interim review expected in Q4'13, which will gate their decision to advance into Phase III trials.

**RPC1063 in Ulcerative Colitis (UC):** RCPT continues to enroll the TOUCHSTONE PII trials in UC. The primary endpoint is induction of clinical remission in moderately to severely active UC after eight weeks of treatment. Topline data for this trial is expected in mid-2014 as well. If the data are positive, RCPT considers the next logical step to be initiation of trials for treatment of Crohn's disease.

**RPC4046 in Eosinophilic Esophagitis (EoE):** RCPT is planning a proof-of-concept PII trial in EoE. RCPT plans to transfer previous IND to Division of Gastroenterology of the FDA and request a pre-IND meeting in Q4'13. Submission of IND expected in H1'14 followed by initiation of PII trial (PI trial already conducted for another indication)

**M&A Speculation:** RPC1063 has the potential to be a valuable asset to a significant number of potential acquiring companies (at some moment in time). However, we reiterate our view that the key valuation inflection point is after the Phase II results are available in mid-2014 and do not expect any M&A activity until then.

**Valuation:** We believe that RPC1063 could be a significant winner in the multiple sclerosis "revolution". Our DCF-derived TP remains \$31 based on a 70% probability of RPC1063 in the MS indication only.

### Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (US\$)	-13.73	-4.03	-2.46	-2.05
Prev. EPS (US\$)	—	-3.60	-1.67	-1.44
P/E (x)	-2.0	-7.0	-11.4	-13.7
P/E rel. (%)	-12.2	-44.2	-80.1	-105.9
Revenue (US\$ m)	8,647.0	4,618.0	22,150.0	—
EBITDA (US\$ m)	-17,054.0	-51,133.2	-57,364.7	-48,482.6
OCFPS (US\$)	-14.28	-3.59	-2.11	-1.88
P/OCF (x)	—	-7.8	-13.3	-14.9
EV/EBITDA (current)	0.3	1.3	1.9	1.3
Net debt (US\$ m)	-5,453	-65,133	-108,407	-63,317
ROIC (%)	316.59	585.57	531.35	686.08
Number of shares (m)	18.34	IC (current, US\$ m)		-5,594.00
BV/share (Next Qtr., US\$)	—	EV/IC (x)		—
Net debt (Next Qtr., US\$ m)	—	Dividend (current, US\$)		—
Net debt/tot cap (Next Qtr., %)	—	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates

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**Exhibit 1: Quarterly Income Statement**

<b>RCPT Quarterly Income Statement</b>	<b>Q1'13A</b>	<b>Q2'13A</b>	<b>Q3'13A</b>	<b>Q4'13E</b>	<b>2013E</b>
(Dollars in thousands, except share and per share amounts)					
RPC1063 Royalty	0	0	0	0	0
Milestones	0	0	0	0	0
Collaborative Revenues	1,488	1,238	1,142	750	4,618
<b>Total Revenues</b>	<b>1,488</b>	<b>1,238</b>	<b>1,142</b>	<b>750</b>	<b>4,618</b>
<b>COGS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Gross Profit</b>	<b>1,488</b>	<b>1,238</b>	<b>1,142</b>	<b>750</b>	<b>4,618</b>
R&D	8,020	9,441	13,500	15,975	46,936
SG&A	1,062	1,589	3,050	3,345	9,046
<b>Total Operating Expenses</b>	<b>9,082</b>	<b>11,030</b>	<b>16,550</b>	<b>19,320</b>	<b>55,982</b>
<b>Operating Income/(Loss)</b>	<b>(7,594)</b>	<b>(9,792)</b>	<b>(15,408)</b>	<b>(18,570)</b>	<b>(51,364)</b>
Interest Income	1	0	0	0	1
Interest Expense	0	0	0	0	0
Other Income/(Expense)	(2,056)	(126)	(157)	(150)	(2,489)
Total Other Income/(Expense)	(2,055)	(126)	(157)	(150)	(2,488)
<b>Pre-Tax Profit/(Loss)</b>	<b>(9,649)</b>	<b>(9,918)</b>	<b>(15,565)</b>	<b>(18,720)</b>	<b>(53,852)</b>
Provision/(Benefit) for Income Taxes	0	0	0	0	0
Effective Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Net Income/(Loss)</b>	<b>(9,649)</b>	<b>(9,918)</b>	<b>(15,565)</b>	<b>(18,720)</b>	<b>(53,852)</b>
<b>GAAP Basic EPS</b>	<b>(\$5.46)</b>	<b>(\$0.98)</b>	<b>(\$0.88)</b>	<b>(\$1.01)</b>	<b>(\$4.03)</b>
<b>GAAP Diluted EPS</b>	<b>(\$5.46)</b>	<b>(\$0.98)</b>	<b>(\$0.88)</b>	<b>(\$1.01)</b>	<b>(\$4.03)</b>
<b>Basic Shares Outstanding</b>	<b>1,767</b>	<b>10,151</b>	<b>17,715</b>	<b>18,601</b>	<b>13,372</b>
<b>Diluted Shares Outstanding</b>	<b>1,767</b>	<b>10,151</b>	<b>17,715</b>	<b>18,601</b>	<b>13,372</b>

Source: Company data, Credit Suisse estimates

**Exhibit 2: Annual Income Statement 2011-2020E**

<b>RCPT Annual Income Statement</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
(Dollars in thousands, except share and per share amounts)										
RPC1063 Royalty	0	0	0	0	0	0	0	2,649	70,972	162,551
Milestones	0	0	0	20,000	0	0	25,000	75,000	0	0
Collaborative Revenues	9,232	8,647	4,618	2,150	0	0	0	0	0	0
<b>Total Revenues</b>	<b>9,232</b>	<b>8,647</b>	<b>4,618</b>	<b>22,150</b>	<b>0</b>	<b>0</b>	<b>25,000</b>	<b>77,649</b>	<b>70,972</b>	<b>162,551</b>
COGS	0	0	0	0	0	0	0	132	3,549	8,128
<b>Gross Profit</b>	<b>9,232</b>	<b>8,647</b>	<b>4,618</b>	<b>22,150</b>	<b>0</b>	<b>0</b>	<b>25,000</b>	<b>77,517</b>	<b>67,423</b>	<b>154,423</b>
R&D	12,803	22,927	46,936	70,090	38,372	29,764	33,499	33,059	36,084	37,163
SG&A	2,756	3,430	9,046	9,540	10,199	10,551	10,932	11,347	11,799	12,294
<b>Total Operating Expenses</b>	<b>15,559</b>	<b>26,357</b>	<b>55,982</b>	<b>79,630</b>	<b>48,571</b>	<b>40,315</b>	<b>44,431</b>	<b>44,406</b>	<b>47,883</b>	<b>49,457</b>
<b>Operating Income/(Loss)</b>	<b>(6,327)</b>	<b>(17,710)</b>	<b>(51,364)</b>	<b>(57,480)</b>	<b>(48,571)</b>	<b>(40,315)</b>	<b>(19,431)</b>	<b>33,111</b>	<b>19,540</b>	<b>104,967</b>
Interest Income	7	18	1	54	32	15	10	33	48	108
Interest Expense	0	0	0	0	0	0	0	0	0	0
Other Income/(Expense)	210	(18)	(2,489)	(500)	(500)	(500)	(500)	(100)	(100)	(100)
Total Other Income/(Expense)	217	0	(2,488)	(446)	(468)	(485)	(490)	(67)	(52)	8
<b>Pre-Tax Profit/(Loss)</b>	<b>(6,110)</b>	<b>(17,710)</b>	<b>(53,852)</b>	<b>(57,925)</b>	<b>(49,039)</b>	<b>(40,800)</b>	<b>(19,921)</b>	<b>33,043</b>	<b>19,489</b>	<b>104,975</b>
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%
<b>Net Income/(Loss)</b>	<b>(6,110)</b>	<b>(17,710)</b>	<b>(53,852)</b>	<b>(57,925)</b>	<b>(49,039)</b>	<b>(40,800)</b>	<b>(19,921)</b>	<b>33,043</b>	<b>19,489</b>	<b>104,975</b>
<b>GAAP Basic EPS</b>	<b>(\$7.72)</b>	<b>(\$13.73)</b>	<b>(\$4.03)</b>	<b>(\$2.46)</b>	<b>(\$2.05)</b>	<b>(\$1.68)</b>	<b>(\$0.81)</b>	<b>\$1.32</b>	<b>\$0.76</b>	<b>\$4.05</b>
<b>GAAP Diluted EPS</b>	<b>(\$7.72)</b>	<b>(\$13.73)</b>	<b>(\$4.03)</b>	<b>(\$2.46)</b>	<b>(\$2.05)</b>	<b>(\$1.68)</b>	<b>(\$0.81)</b>	<b>\$1.32</b>	<b>\$0.76</b>	<b>\$4.05</b>
<b>Basic Shares Outstanding</b>	<b>791</b>	<b>1,290</b>	<b>13,372</b>	<b>23,541</b>	<b>23,888</b>	<b>24,267</b>	<b>24,665</b>	<b>25,074</b>	<b>25,490</b>	<b>25,909</b>
<b>Diluted Shares Outstanding</b>	<b>791</b>	<b>1,290</b>	<b>13,372</b>	<b>23,541</b>	<b>23,888</b>	<b>24,267</b>	<b>24,665</b>	<b>25,074</b>	<b>25,490</b>	<b>25,909</b>

Source: Company data, Credit Suisse estimates

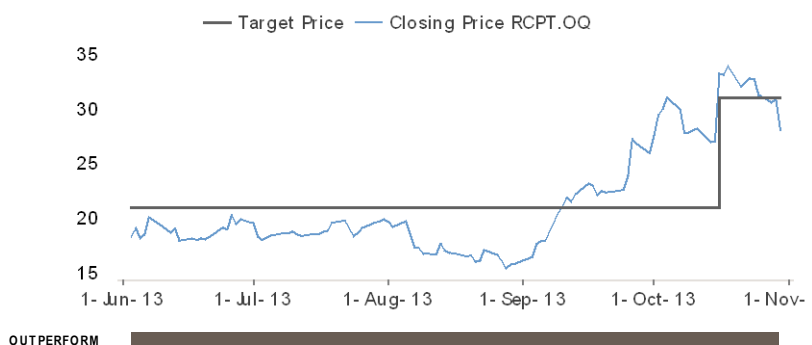
**Companies Mentioned** (Price as of 30-Oct-2013)**Receptos** (RCPT.OQ, \$28.04, OUTPERFORM[V], TP \$31.0)**Disclosure Appendix****Important Global Disclosures**

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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	

\* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

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Restricted	3%	

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

**Method:** Our DCF-derived TP of \$31 is based on annual cash flows through 2029, 10% discount rate, and no terminal value. The cash flows are based on royalties on worldwide sales of RPC1063 in relapsing multiple sclerosis only and add-back of all R&D expenses not associated with RPC1063 for relapsing multiple sclerosis.

**Risk:** The risks to our TP of \$31 are: (1) RPC1063 not approved or significantly delayed in relapsing multiple sclerosis; (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 market may not become as large as expected.

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See the Companies Mentioned section for full company names

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