

Receptos (RCPT)

SMALL & MID CAP RESEARCH

Comments on news wire reports on RCPT bid by Teva and CELG

- A newswire report from Bloomberg has been released indicating that Teva and Celgene are bidding for Receptos (and that Eli Lilly had showed interest, but had dropped out).
- The newswire report cites \$750m-\$800m bid by Celgene (\$41-\$44/share) and Teva's offer at \$700m (\$38/share).
- We have no way of assessing the validity or quality of the newswire reports, but make the following key points (more details are included in our initiation report – [LINK](#)).
 1. Ultimate partnering/sale of company is stated end-goal by RCPT management.
 2. RPC1063 in MS is lead asset key and valuation driver.
 3. RPC1063 is currently in PII "RADIANCE" MS study (n=210) – enrollment started in Q2'13 and is expected to be complete by Q4. There is an interim safety look by year end (cardiovascular profile, hepatic effects, any impact on other major organ systems, as well as its tolerability profile) and topline read out mid-2014. This adaptive trial will be extended into a PIII trial, with a readout in 2017.
 4. We reiterate our view that the PII readout in mid 2014 (primary end point superiority compared to placebo in reduction in cumulative number of total gadolinium enhancing (GdE) lesions via MRI from Week 12 to Week 24) is the major value inflection point.

Rating **OUTPERFORM* [V]**
 Price (15 Oct 13, US\$) 27.00
 Target price (US\$) 31.00¹
 52-week price range 31.02 - 13.85
 Market cap. (US\$ m) 495.12
 Enterprise value (US\$ m) -71,678.96

*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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Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (US\$)	-13.73	-3.60	-1.67	-1.44
Prev. EPS (US\$)	—	—	—	—
P/E (x)	-2.0	-7.5	-16.2	-18.8
P/E rel. (%)	-11.8	-47.7	-113.6	-145.5
Revenue (US\$ m)	8,647.0	4,226.0	22,150.0	—
EBITDA (US\$ m)	-17,054.0	-41,685.2	-42,430.2	-36,994.5
OCFPS (US\$)	-14.28	-3.33	-1.51	-1.45
P/OCF (x)	—	-8.1	-17.9	-18.6
EV/EBITDA (current)	0.3	1.7	3.0	2.4
Net debt (US\$ m)	-5,453	-72,174	-126,554	-88,964
ROIC (%)	316.59	535.46	444.96	585.96
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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A point to note, we increased our TP to \$31 (previously \$21) for RCPT this morning ([LINK](#)) assuming a 70% probability (previously 45%) of RPC1063 in the MS indication only - \$1.5B peak sales (RPC1063 is also in PII for Ulcerative Colitis, RCPT also has RPC4046 in eosinophilic esophagitis due to enter PII in 2014). **Exhibit 1** below illustrates TP's based on RPC1063 in MS only under different probabilities (at a 10% discount rate).

Exhibit 1: Probability of Acquisition at different TP's based on RPC1063 in MS only

Probability	Price
100%	\$42.28
90%	\$38.44
80%	\$34.59
70%	\$30.75
60%	\$26.90
50%	\$23.06
45%	\$21.14
40%	\$19.22
35%	\$17.29
30%	\$15.37
25%	\$13.45
20%	\$11.53
10%	\$7.68
0%	\$3.84

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 15-Oct-2013)**Celgene Corp.** (CELG.OQ, \$155.25)**Eli Lilly & Co.** (LLY.N, \$48.81)**Receptos** (RCPT.OQ, \$27.0, OUTPERFORM[V], TP \$31.0)**Teva Pharmaceutical Ind.** (TEVA.N, \$39.52)

Disclosure Appendix

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3-Year Price and Rating History for Celgene Corp. (CELG.OQ)

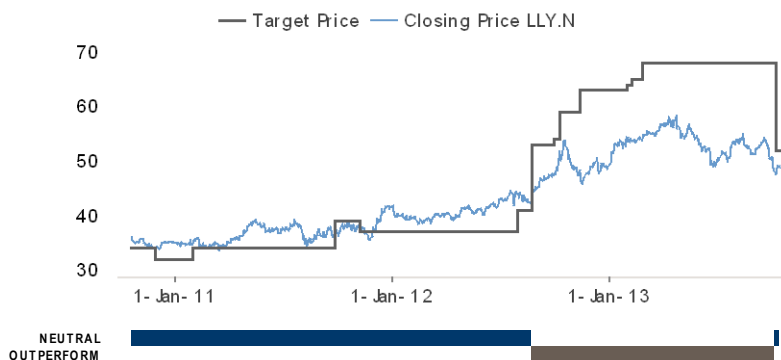
CELG.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
06-Dec-10	55.55	60.00	N *
20-Jan-11	56.63	58.00	
29-Jul-11	59.30	62.00	
19-Jan-12	72.21	75.00	
12-Nov-12	75.66	80.00	
03-Jan-13	81.71	85.00	
04-Mar-13	105.56	110.00	
04-Apr-13	115.95	125.00	
17-May-13	124.91	135.00	

* Asterisk signifies initiation or assumption of coverage.

**3-Year Price and Rating History for Eli Lilly & Co. (LLY.N)**

LLY.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
20-Oct-10	36.01	34.00	N
29-Nov-10	33.89	32.00	
31-Jan-11	34.77	34.00	
27-Sep-11	37.18	39.00	
09-Nov-11	37.85	37.00	
30-Jul-12	44.05	41.00	
24-Aug-12	43.86	53.00	O
30-Sep-12	47.41	54.00	
09-Oct-12	51.81	59.00	
12-Nov-12	48.30	60.00	
13-Nov-12	47.14	63.00	
31-Jan-13	53.69	64.00	
07-Feb-13	53.78	65.00	
26-Feb-13	54.43	68.00	
08-Oct-13	48.05	52.00	N *

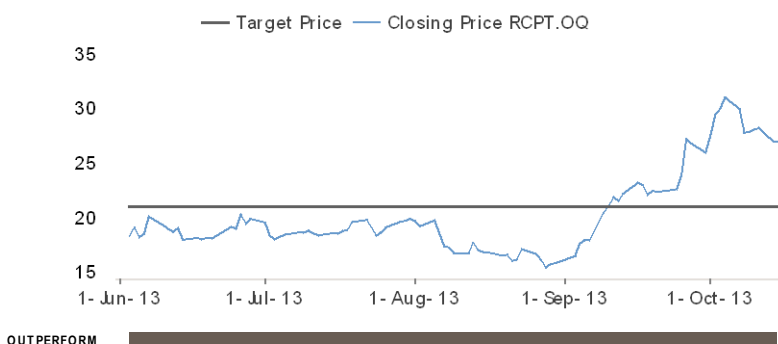
* Asterisk signifies initiation or assumption of coverage.



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 *

* Asterisk signifies initiation or assumption of coverage.



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Neutral/Hold*	40%	(48% banking clients)
Underperform/Sell*	15%	(39% banking clients)
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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