

Receptos

(RCPT-NASDAQ)

Stock Rating: Outperform**Industry Rating:** Outperform

Pipeline Progressing Well Toward Mid-Year Catalysts in MS and UC

Event

Receptos reported 4Q13 operating results late yesterday and provided an update on key pipeline programs. Net loss per share of \$0.86 was in line with consensus of \$0.86 net loss per share. The company ended the year with \$69.5 mn in cash, and in addition raised \$109.9 mn in net proceeds in a public offering in January 2014. With primary focus on selective S1P1 modulator RPC1063, RCPT highlighted the initiation of enrollment of the phase 3 portion of RADIANCE study in relapsing multiple sclerosis (RMS) following a positive interim analysis of the phase 2 portion, and expected phase 2 data readout in mid-2014. During the Q&A session, RCPT also discussed the concept of a non-registrational phase 3b study evaluating RPC1063 in a head-to-head comparison with TECFIDERA, with initiation in the 2016 timeframe. RCPT highlighted a greater market opportunity of RPC1063 in ulcerative colitis (UC) with 1.1 million patients in the US; top-line data from the ongoing phase 2 TOUCHSTONE study in moderate-to-severe UC are expected in mid-2014. Additional pipeline updates included IND filing and phase 2 initiation for RPC4046 in eosinophilic esophagitis (EoE) expected in 1H14.

Impact & Analysis

We are reiterating our Outperform rating on shares of RCPT, following review of 4Q13 results. With a rapidly expanding oral MS market and with less selective S1P modulator GILENYA sales growing in the face of a strong TECFIDERA launch, we continue to see significant upside on improved QT profile, lower heart rate effects, better liver safety, shorter half-life, and more rapid lymphocyte recovery with RPC1063 in RRMS. We expect positive detailed analysis from RADIANCE in mid-2014 will be a value inflection point for RCPT and lead to a high value collaboration for RCP1063 development and commercialization. In addition, with limited value attached to RPC1063 in UC, we believe that another \$1B+ opportunity could emerge from a first-in-class/best-in-class profile in this indication. EoE and GLP-1 programs are early but could support longer-term value creation.

Valuation & Recommendation

Our \$41 price target is based on 25x 2020 EPS of \$4.17, discounted 20%. We rate shares of RCPT stock as Outperform.

March 6, 2014

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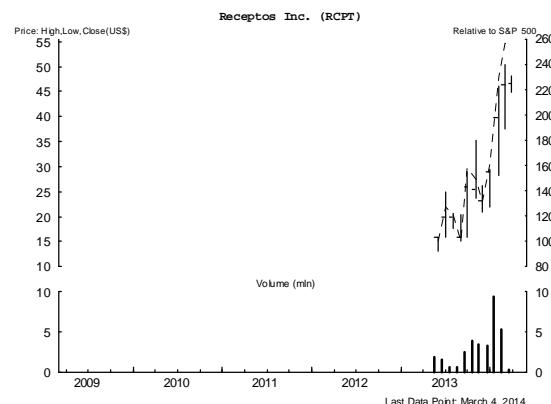
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Securities Info

Price (5-Mar)	\$46.49	Target Price	\$41.00
52-Wk High/Low	\$50/\$13	Dividend	--
Mkt Cap (mm)	\$828	Yield	--
Shs O/S (mm, BASIC)	17.8	Float O/S (mm)	12.4
Options O/S (mm)	na	ADVol (30-day, 000s)	302

Price Performance



Valuation/Financial Data

(FY-Dec.)	2012A	2013A	2014E	2015E
EPS GAAP	-\$0.28	-\$4.23	-\$4.68	-\$2.75
P/E			nm	nm
First Call Cons.		-\$6.82	-\$3.34	-\$2.59
FCF	-\$18.40	-\$10.30	-\$30.80	na
P/FCF			nm	na
EBITDA (\$mm)	-\$18	-\$48	-\$96	-\$63
EV/EBITDA			nm	nm
Rev. (\$mm)	\$9	\$5	\$0	\$115
EV/Rev			na	6.3x
Quarterly EPS	1Q	2Q	3Q	4Q
2013A	-\$5.46	-\$0.98	-\$0.88	-\$0.86
2014E	-\$0.93	-\$1.21	-\$1.16	-\$1.38

Balance Sheet Data (30-Sep)

Net Debt (\$mm)	-\$98	Total Debt/EBITDA	nm
Total Debt (\$mm)	\$0	EBITDA/IntExp	na
Net Debt/Cap.	nm	Price/Book	13.2x

Notes: Quarterly EPS may not sum due to share count. All values in US\$.

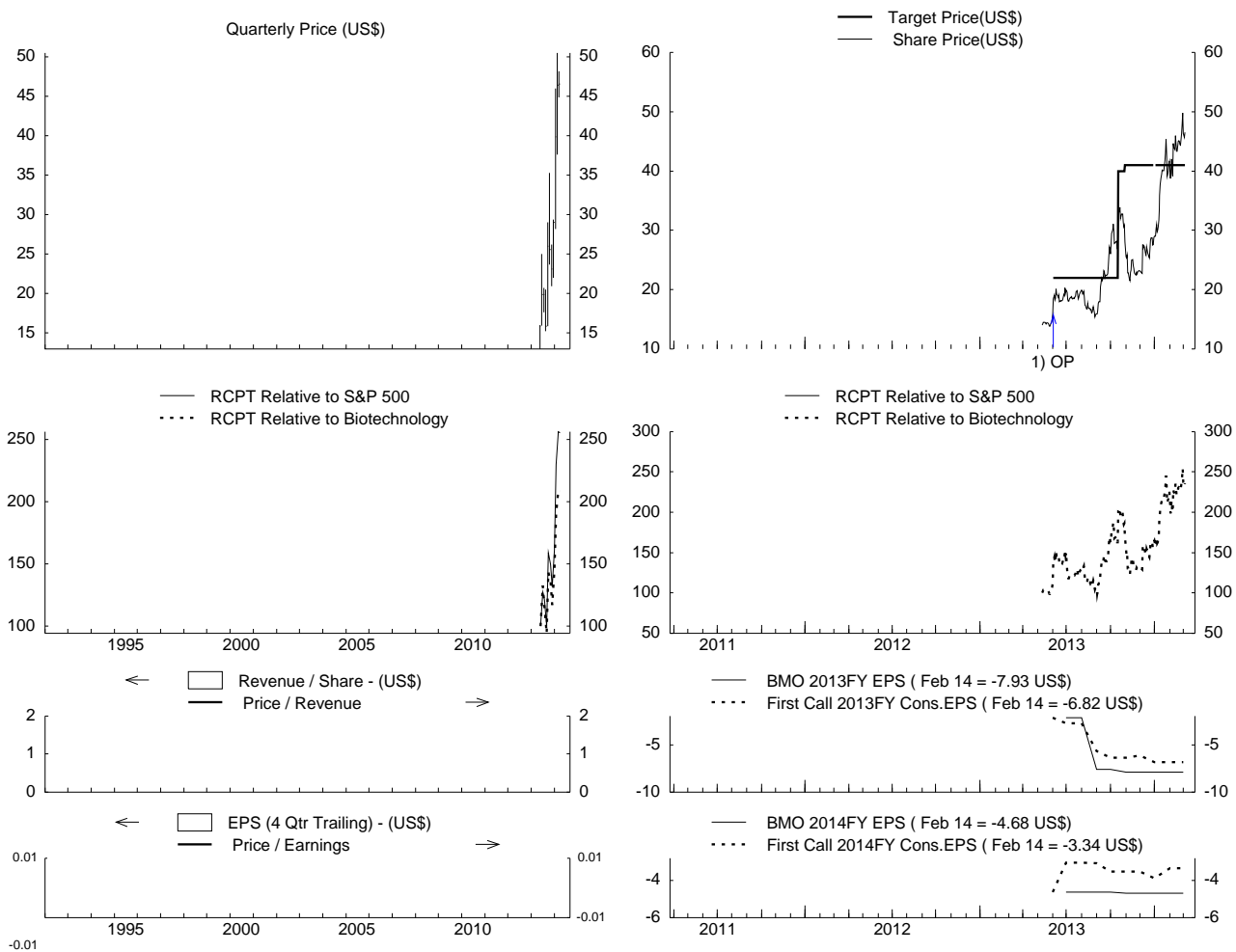
Source: BMO Capital Markets estimates, Bloomberg, Thomson Reuters, and IHS Global Insight.

Exhibit 1: RCPT Income Statement 2013A–2020E

INCOME STATEMENT (\$M)	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
REVENUES												
Product Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68.5	\$ 190.2	\$ 283.6
Collaborative Revenue	4.6	-	-	-	-	-	57.0	93.0	87.0	43.0	28.3	27.8
Milestones, grant revenue and other	-	-	-	-	-	-	50.0	50.0	50.0	-	-	-
TOTAL REVENUES	\$ 4.6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 115.0	\$ 155.0	\$ 145.0	\$ 123.5	\$ 230.4	\$ 323.4
EXPENSES (GAAP)												
Cost of Goods Sold (COGS)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3.4	\$ 9.5	\$ 14.2
R&D Expense	43.6	13.0	18.0	23.0	28.0	82.0	162.0	242.0	222.0	142.0	112.5	111.5
SG&A Expense	8.9	3.6	3.6	3.5	3.6	14.3	16.1	18.2	21.4	24.9	28.8	29.7
Other	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	52.5	16.6	21.6	26.5	31.6	96.3	178.1	260.2	243.4	170.3	150.8	155.4
Operating Income	(47.9)	(16.6)	(21.6)	(26.5)	(31.6)	(96.3)	(63.1)	(105.2)	(98.4)	(46.8)	79.7	168.0
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	-
EBIT	(47.9)	(16.6)	(21.6)	(26.5)	(31.6)	(96.3)	(63.1)	(105.2)	(98.4)	(46.8)	79.7	168.0
Interest and other income	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3
Interest and other expense	(0.1)	-	-	-	-	-	-	-	-	-	-	-
Other Income (Expense)	(2.4)	-	-	-	-	-	-	-	-	-	-	-
Interest and Other Income (Expense)	(2.5)	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3
Pre-Tax Income	(50.4)	(16.6)	(21.6)	(26.5)	(31.5)	(96.2)	(63.0)	(105.1)	(98.3)	(46.7)	79.8	168.3
Income Taxes	-	-	-	-	-	-	-	-	2.3	0.7	19.9	42.1
Net Income (GAAP)	\$ (50.4)	\$ (16.6)	\$ (21.6)	\$ (26.5)	\$ (31.5)	\$ (96.2)	\$ (63.0)	\$ (105.1)	\$ (100.6)	\$ (47.4)	\$ 59.8	\$ 126.2
EPS (GAAP) (basic)	\$ (4.23)	\$ (0.93)	\$ (1.21)	\$ (1.16)	\$ (1.38)	\$ (4.68)	\$ (2.75)	\$ (4.13)	\$ (3.56)	\$ (1.59)	\$ 2.00	\$ 4.17
EPS (GAAP) (diluted)	\$ (4.23)	\$ (0.93)	\$ (1.21)	\$ (1.16)	\$ (1.38)	\$ (4.68)	\$ (2.75)	\$ (4.13)	\$ (3.56)	\$ (1.59)	\$ 2.00	\$ 4.17
Total of Reconciliation Items	1.7	-	-	-	-	-	-	-	-	-	-	-
Net Income (Non-GAAP)	\$ (48.7)	\$ (16.6)	\$ (21.6)	\$ (26.5)	\$ (31.5)	\$ (96.2)	\$ (63.0)	\$ (105.1)	\$ (100.6)	\$ (47.4)	\$ 59.8	\$ 126.2
Impact of Adjustments to EPS	0.17	-	-	-	-	-	-	-	-	-	-	-
EPS (Non-GAAP) (basic)	\$ (8.01)	\$ (0.93)	\$ (1.21)	\$ (1.16)	\$ (1.38)	\$ (4.68)	\$ (2.75)	\$ (4.13)	\$ (3.56)	\$ (1.59)	\$ 2.00	\$ 4.17
EPS (Non-GAAP) (diluted)	\$ (8.01)	\$ (0.93)	\$ (1.21)	\$ (1.16)	\$ (1.38)	\$ (4.68)	\$ (2.75)	\$ (4.13)	\$ (3.56)	\$ (1.59)	\$ 2.00	\$ 4.17
Weighted average shares outstanding (basic)	11.9	17.8	17.8	22.9	22.9	20.4	22.9	25.5	27.5	29.9	30.0	30.3
Weighted average shares outstanding (diluted)	11.9	17.8	17.8	22.9	22.9	20.4	22.9	25.5	27.5	29.9	30.0	30.3

Source: Company reports and BMO Capital Markets.

Receptos Inc. (RCPT)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS US\$	Yield% Hi - Lo	Payout %	BV US\$	P/B Hi - Lo	ROE %	RCPT - Rating as of 8-May-13 = NR		
Range*:		na na		NC		>15 >15			Date	Rating Change	Share Price
Current*	0.00	na	0.00	0.0	na	4.3	10.8	0	1 3-Jun-13	NR to OP	\$18.36

* Current EPS is the 4 Quarter Trailing to Q3/2013.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

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Methodology and Risks to Our Price Target/Valuation

Methodology: We arrive at our price target by applying a 25x multiple to 2020 EPS estimate of \$4.17 and discounting 20%.

Risks: There are a number of risks associated with investment in biotechnology companies. These risks include, but are not limited to, risk of clinical trial delay or failure, adverse regulatory decisions including product non-approval, unanticipated adverse effects of drugs which may result in removal from market, risk of manufacturing difficulties, capital market risk which may impair the ability to fund product discovery, research, regulatory filing, manufacture and/or commercialization, risk in attaining and retaining appropriate development or commercial partners, lower-than-expected product adoption, difficulties in gaining appropriate reimbursement for products from payors, unforeseen generic and branded competition, risk to patents being invalidated, and failure to meet earnings and revenue expectations.

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Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
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Hold	Market Perform	56.1%	13.8%	49.0%	54.0%	46.5%	41.8%
Sell	Underperform	5.8%	5.6%	2.0%	7.2%	3.1%	5.7%

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(S) = Speculative investment;

NR = No rating at this time; and

R = Restricted – Dissemination of research is currently restricted.

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