

Receptos (RCPT)

SMALL & MID CAP RESEARCH

Assuming co-commercialization vs. co-development strategy: Increasing TP to \$58

Increasing TP to \$58: We are increasing our DCF-derived TP on RCPT to \$58 (previously \$31) and retain our Outperform recommendation. We have made significant changes to our modeling assumptions and now model lead product RPC1063 (unchanged \$1.5B peak sales) within a co-commercialization structure (and RCPT-funded PIII development) vs. our previous assumption of an out-licensing post PII, co-development, and royalty income in our previous modeling. The three key factors and/or changes to our investment thesis are:

- **(1) Lead Asset RPC1063 Could Be A Significant Winner In The MS Revolution:** We continue to believe the MS market (which we estimate will reach \$21B by 2018, the expected launch year for RPC1063) is currently going through a revolution, catalyzed by a plethora of new therapeutic agents, most notably by BiIB's Tecfidera. In our view, the main losers in this revolution are the incumbent ABCR class of drugs while the biggest winners will be oral agents. We think the totality of RPC1063's clinical profile, notably improved half-life/fast recovery of lymphocytes, and CV/hepatotoxicity over Gilenya (the "1st-generation" S1P1 launched in 2010; CS estimates \$3.1B in 2017) may effectively position RPC1063 in a different "bucket" from Gilenya. Whilst the above is an unchanged stance to our June 2013 initiation of RCPT we note: (a) The US Tecfidera launch (April 2013) has very much validated our "MS revolution" thesis – Orals (Tecfidera, Aubagio and Gilenya) now represent >25% TRx market share. (b) RCPT remains the most advanced clinical-stage unencumbered asset in the space and newswire reports on potential bids (such as those in October – [LINK](#)) for RCPT are likely to continue from time-to-time. (c) The PIIa interim safety look for RADIANCE successfully passed in early Dec 2013 with top-line efficacy/safety data still due mid-2014. *(Continued on next page)*

Rating **OUTPERFORM*** [V]
Price (11 Mar 14, US\$) 49.57
Target price (US\$) (from 31.00) 58.00¹
52-week price range 49.81 - 13.85
Market cap. (US\$ m) 1,098.85
Enterprise value (US\$ m) 741.48

*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	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US\$)	-4.23	-3.24	0.23	-6.10
Prev. EPS (US\$)	—	-2.46	-2.05	-1.68
P/E (x)	-11.7	-15.3	220.2	-8.1
P/E rel. (%)	-69.7	-98.6	NM	-64.7
Revenue (US\$ m)	4.6	3.1	150.0	—
EBITDA (US\$ m)	-47.5	-77.7	6.7	-173.7
OCFPS (US\$)	-3.09	-2.78	1.10	-5.44
P/OCF (x)	-9.4	-17.8	45.2	-9.1
EV/EBITDA (current)	-22.7	-9.5	106.2	-5.0
Net debt (US\$ m)	-19	-357	-388	-233
ROIC (%)	-150.11	479.97	-22.22	480.78
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 cap (Next Qtr., %)	—	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates

DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS. US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

- **(2) RPC1063's potential in IBD starting to become appreciated – PII trigger due mid-2014.** RCPT is currently evaluating RPC1063 in patients with UC in the PII TOUCHSTONE trial (n=180). A top-line read-out is expected in mid-2014 and we note: (a) If successful, TOUCHSTONE could be considered a PIII trial. (b) The notable potential of the WW IBD marketplace (ca\$5B in 2013, of which \$2.8B are last-line biologics). RPC1063's potential in IBD with investors could significantly increase with the upcoming data.
- **(3) Upside to company valuation leveraged by co-commercialization vs. co-development strategy for RPC1063.** Given the above described advancement of RPC1063 and different capital markets environment (and the concomitant early 2014 \$120M capital raise by RCPT), management has vocalized a significant change in development strategy for RPC1063, most importantly flagging that partnership is required for commercialization (at least in the MS indication), but not for development. We think the likely strategy for RPC1063 (assuming PII readouts mid-year are positive) is that the company will fund PIII development (in both MS and IBD), which will likely enhance a commercial partnership. Whilst this clearly requires additional capital (we estimate the PIII trial for MS alone is around \$300M) and inherently amplifies downside risk upon ultimate failure, it also leverages the upside and overall enhances risk/reward.
- **Our DCF-derived target price of \$58 is based on assumptions with still some upside.** We assume that RPC1063 in MS is still partnered in a co-commercialization deal, but RCPT leads and funds development. For modeling/valuation purposes we assume that before a RPC1063 launch, RCPT raises another \$250M in equity in 2014 and 2017 (and \$150M in upfront/milestones from co-commercialization deal). Again for modeling purposes, we assume RCPT books RPC1063 revenues, all associated R&D costs, and co-markets the product with a partner (with partner marketing costs within SG&A). Whilst clearly the ultimate deal may be structured differently, we note that our modeling essentially reflects an effective 45% "max-out" royalty rate (our previous valuation assumed RPC1063 in RMS is out-licensed after PII with \$100M in milestones, launched in 2018, garners 20% royalties). We also flag that our RPC1063 WW peak sales of ~\$1.5B in 2024 for combined MS and IBD indications (unchanged) is the greatest area of upside in our view. We risk-weight cash flows by ~70%. Our DCF does not include the rest of RCPT's pipeline assets, specifically RPC4046 as a potential treatment for the orphan disease eosinophilic esophagitis (EoE).

Exhibit 1: RCPT Quarterly Income Statement 2013-2014

Receptos Quarterly Income Statement										
(Dollars in thousands, except share and per share amounts)										
	Q1'13A	Q2'13A	Q3'13A	Q4'13A	2013A	Q1'14E	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	775	775	775	775	3,100
Total Revenues	1,488	1,238	1,142	773	4,641	775	775	775	775	3,100
COGS	0	0	0	0	0	0	0	0	0	0
Gross Profit	1,488	1,238	1,142	773	4,641	775	775	775	775	3,100
R&D	8,020	9,441	13,500	12,624	43,585	13,264	9,322	16,271	25,646	64,503
SG&A	1,062	1,589	3,050	3,248	8,949	3,407	3,556	4,611	4,762	16,335
Total Operating Expenses	9,082	11,030	16,550	15,872	52,534	16,671	12,878	20,882	30,408	80,838
Operating Income/(Loss)	(7,594)	(9,792)	(15,408)	(15,099)	(47,893)	(15,896)	(12,103)	(20,107)	(29,633)	(77,738)
Interest Income	1	0	0	0	1	0	0	0	0	0
Interest Expense	0	0	0	0	0	0	0	0	0	0
Other Income/(Expense)	(2,056)	(126)	(157)	(145)	(2,484)	(150)	(150)	(150)	(150)	(600)
Total Other Income/(Expense)	(2,055)	(126)	(157)	(145)	(2,483)	(150)	(150)	(150)	(150)	(600)
Pre-Tax Profit/(Loss)	(9,649)	(9,918)	(15,565)	(15,244)	(50,376)	(16,046)	(12,253)	(20,257)	(29,783)	(78,338)
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)	(16,046)	(12,253)	(20,257)	(29,783)	(78,338)
GAAP Basic EPS	(\$5.46)	(\$0.98)	(\$0.88)	(\$0.86)	(\$4.23)	(\$0.74)	(\$0.54)	(\$0.79)	(\$1.10)	(\$3.24)
GAAP Diluted EPS	(\$5.46)	(\$0.98)	(\$0.88)	(\$0.86)	(\$4.23)	(\$0.74)	(\$0.54)	(\$0.79)	(\$1.10)	(\$3.24)
Basic Shares Outstanding	1,767	10,151	17,715	17,806	11,916	21,545	22,515	25,554	27,088	24,175
Diluted Shares Outstanding	1,767	10,151	17,715	17,806	11,916	21,545	22,515	25,554	27,088	24,175

Source: Company data, Credit Suisse estimates

Exhibit 2: RCPT Annual Income Statement 2011-2020

Receptos Annual Income Statement									
(Dollars in thousands, except share and per share amounts)									
	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	3,100	0	0	0	0	0	0
Total Revenues	8,647	4,641	3,100	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	3,100	150,000	0	0	86,061	314,051	727,416
R&D	22,927	43,585	64,503	120,096	132,342	136,602	103,322	91,070	90,789
SG&A	3,430	8,949	16,335	23,299	41,481	120,274	200,087	233,918	257,837
Total Operating Expenses	26,357	52,534	80,838	143,395	173,823	256,876	303,409	324,988	348,626
Operating Income/(Loss)	(17,710)	(47,893)	(77,738)	6,605	(173,823)	(256,876)	(217,348)	(10,937)	378,790
Interest Income	18	1	0	197	119	132	34	24	163
Interest Expense	0	0	0	0	0	0	0	0	0
Other Income/(Expense)	(18)	(2,484)	(600)	(500)	(400)	(300)	(200)	(100)	(100)
Total Other Income/(Expense)	0	(2,483)	(600)	(303)	(281)	(168)	(166)	(76)	63
Pre-Tax Profit/(Loss)	(17,710)	(50,376)	(78,338)	6,302	(174,104)	(257,044)	(217,513)	(11,013)	378,853
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)	(78,338)	6,302	(174,104)	(257,044)	(217,513)	(11,013)	378,853
GAAP Basic EPS	(\$13.73)	(\$4.23)	(\$3.24)	\$0.23	(\$6.10)	(\$7.66)	(\$6.39)	(\$0.32)	\$10.86
GAAP Diluted EPS	(\$13.73)	(\$4.23)	(\$3.24)	\$0.23	(\$6.10)	(\$7.66)	(\$6.39)	(\$0.32)	\$10.86
Basic Shares Outstanding	1,290	11,916	24,175	27,996	28,523	33,557	34,018	34,455	34,870
Diluted Shares Outstanding	1,290	11,916	24,175	27,996	28,523	33,557	34,018	34,455	34,870

Source: Company data, Credit Suisse estimates

Exhibit 3: RCPT Balance Sheet 2012-2020

Receptos Balance Sheet									
<i>(Dollars in thousands, except share and per share amounts)</i>									
	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
ASSETS									
Current Assets									
Cash & Cash Equivalents	5,453	23,805	362,281	393,109	238,068	263,262	68,711	47,907	325,532
Short-Term Marketable Securities	0	45,685	0	0	0	0	0	0	0
Accounts Receivable	0	0	0	0	0	0	4,835	29,167	133,604
Inventory	0	0	0	0	0	0	299	10,062	35,071
Prepaid Expenses & Other Current Assets	786	914	1,300	2,388	2,906	4,329	5,454	6,102	6,867
Total Current Assets	6,239	70,404	363,581	395,496	240,975	267,590	79,300	93,238	501,074
Property & Equipment, Net	549	269	295	336	389	451	521	617	733
Long-Term Marketable Securities	0	0	0	0	0	0	0	0	0
Other Assets	141	555	555	555	555	555	555	555	555
Total Assets	6,929	71,228	364,431	396,387	241,919	268,596	80,376	94,410	502,362
LIABILITIES									
Current Liabilities									
Accounts Payable	1,019	5,096	7,422	13,628	16,588	24,707	30,751	34,021	37,897
Accrued Compensation and Benefits	1,028	1,998	2,890	5,306	6,458	9,619	11,482	12,204	13,080
Accrued Expenses	1,682	7,612	7,224	13,264	16,146	24,048	28,706	30,510	32,700
Repurchase Liability (Unvested Restricted Stock)	188	0	0	0	0	0	0	0	0
Current Portion of Term Loan	0	735	735	735	735	735	735	735	735
Deferred Revenue, Current Portion	2,225	700	700	700	700	700	700	700	700
Total Current Liabilities	6,142	16,141	18,970	33,633	40,628	59,810	72,374	78,169	85,112
Term Loan	0	4,180	4,180	4,180	4,180	4,180	4,180	4,180	4,180
Deferred Revenue, Less Current Portion	700	0	0	0	0	0	0	0	0
Deferred Rent	228	112	112	112	112	112	112	112	112
Total Liabilities	7,070	20,433	23,262	37,925	44,920	64,102	76,666	82,461	89,404
SHAREHOLDER'S EQUITY									
Common Stock	72	18	27	28	29	34	34	34	35
Additional Paid in Capital	47,376	146,680	515,383	526,374	539,013	803,548	820,276	839,527	861,683
Accumulated Comprehensive Income	0	6	6	6	6	6	6	6	6
Accumulated Surplus/(Deficit)	(47,589)	(95,909)	(174,247)	(167,945)	(342,049)	(599,093)	(816,606)	(827,619)	(448,766)
Total Shareholders' Equity	(141)	50,795	341,169	358,462	196,999	204,494	3,710	11,949	412,958
Total Liabilities and Shareholders' Equity	6,929	71,228	364,431	396,387	241,919	268,596	80,376	94,410	502,362

Source: Company data, Credit Suisse estimates

Exhibit 4: RCPT Cash Flow Statement 2012-2020

Receptos Cash Flow Statement									
<i>(Dollars in thousands, except share and per share amounts)</i>									
	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Net Income/(Loss)	(17,710)	(48,320)	(78,338)	6,302	(174,104)	(257,044)	(217,513)	(11,013)	378,853
Adjustments:									
Depreciation & Amortization Expense	656	350	74	84	97	113	130	154	183
Deferred Revenue	(2,228)	0	0	0	0	0	0	0	0
Stock-Based Compensation	220	2,969	8,600	10,750	12,363	14,217	16,349	18,802	21,622
Deferred Rent	27	(116)	0	0	0	0	0	0	0
Other	0	213							
Change in Operating Assets and Liabilities:									
Accounts Receivables	0	0	0	0	0	0	(4,835)	(24,331)	(104,437)
Inventory	0	0	0	0	0	0	(299)	(9,763)	(25,008)
Prepaid Expenses & Other Current Assets	(278)	(388)	(386)	(1,087)	(519)	(1,422)	(1,125)	(648)	(765)
Accounts Payable	557	4,077	2,326	6,206	2,960	8,119	6,044	3,270	3,876
Accrued Expenses	122	5,643	(388)	6,041	2,882	7,902	4,658	1,804	2,191
Accrued Compensation and Benefits	216	970	892	2,416	1,153	3,161	1,863	722	876
Deferred Revenue	(2,228)	(2,225)	0	0	0	0	0	0	0
Cash from Operating Activities	(20,646)	(36,827)	(67,222)	30,712	(155,168)	(224,955)	(194,730)	(21,004)	277,390
Purchases of Marketable Securities	0	(45,743)	0	0	0	0	0	0	0
Sales of Marketable Securities	0	0	45,685	0	0	0	0	0	0
Purchases of Property, Plant, & Equipment	(214)	(70)	(100)	(125)	(150)	(175)	(200)	(250)	(300)
Cash from Investing Activities	(214)	(45,813)	45,585	(125)	(150)	(175)	(200)	(250)	(300)
Proceeds from Issuance of Convertible Preferred Stock and Common Stock Warrants	12,556	21,192	0	0	0	0	0	0	0
Proceeds from Exercise of Stock Options	41	27	212	241	278	323	379	450	535
Proceeds/(Payments) of IPO and Other	126	75,009	359,900	0	0	250,000	0	0	0
Net Proceeds from Borrowings under Term Loan	0	4,790	0	0	0	0	0	0	0
Repurchase of Unvested Restricted Stock	0	0	0	0	0	0	0	0	0
Cash from Financing Activities	12,723	101,018	360,112	241	278	250,323	379	450	535
Net Change in Cash & Cash Equivalents	(8,137)	18,378	338,476	30,828	(155,040)	25,193	(194,551)	(20,804)	277,625

Source: Company data, Credit Suisse estimates

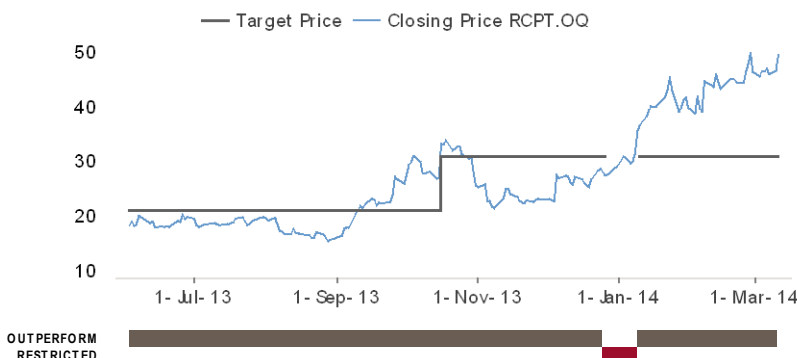
Companies Mentioned (Price as of 11-Mar-2014)**Receptos** (RCPT.OQ, \$49.57, OUTPERFORM[V], TP \$58.0)**Disclosure Appendix****Important Global Disclosures**

Ravi Mehrotra PhD, Jason Kantor, PhD and Lee Kalowski each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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

* 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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Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

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Underperform/Sell*	14%	(43% banking clients)
Restricted	2%	

*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

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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.

Please refer to the firm's disclosure website at <https://rave.credit-suisse.com/disclosures> for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names

The subject company (RCPT.OQ) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

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