Zacks Small-Cap Research

July 31, 2012
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Neurocrine Biosciences, Inc.

(NBIX-NASDAQ)

NBIX: Business Chugging Along…

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	06/16/2010
Current Price (07/31/12)	$7.80
Target Price	**$11.00**

UPDATE

We remain optimistic on Neurocrine Bio and believe the company is on track with key pipeline products elagolix and NBI-98854. We have previously written that the collaboration with Abbott Labs for endometriosis and uterine fibroid drug elagolix was a “homerun” deal for the company. We think NBI-98854 for tardive dyskinesia and other related disorders could be a meaningful driver of shareholder value over the next few quarters.

At the end of the second quarter 2012, Neurocrine held nearly $178 million in cash and investments. With a strong pipeline, plenty of cash, and great collaboration partners in Abbott and Boehringer Ingelheim, we think Neurocrine makes sense for a long-term investment in biotech.

SUMMARY DATA

52-Week High	**$9.79**
52-Week Low	**$5.50**
One-Year Return (%)	**3.75**
Beta	**0.37**
Average Daily Volume (sh)	**268,884**
Shares Outstanding (mil)	**66**
Market Capitalization ($mil)	**$513**
Short Interest Ratio (days)	**6.20**
Institutional Ownership (%)	**80**
Insider Ownership (%)	**1**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**36.2**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**13.9**
P/E using 2012 Estimate	**N/A**
P/E using 2013 Estimate	**N/A**

Risk Level	**Below Avg.**
Type of Stock	**Small-Growth**
Industry	**Med-Drugs**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	12.5 A	12.2 A	41.6 A	11.1 A	77.4 A
2012	11.3 A	10.6 A	10.0 E	10.5 E	42.3 E
2013					40.0 E
2014					40.0 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	$0.05 A	$0.04 A	$0.56 A	$0.02 A	$0.67 A
2012	-$0.01 A	-$0.01 A	-$0.03 E	-$0.04 E	-$0.09 E
2013					-$0.15 E
2014					-$0.02 E

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WHAT'S NEW

Recent Financial Results

On July 31, 2012, Neurocrine Bio reported financial results for the second quarter 2012. The company reported total revenues in the quarter of $10.6 million, just below our expectations at $11.5 million. Revenues in the quarter consisted of $1.5 million in sponsored R&D and reimbursement from Abbott Labs, and $9.0 million in amortization of upfront payments from Abbott, Boehringer Ingelheim (BI), and Dainippon Sumitomo Pharma (DSP).

For the second quarter 2012, Neurocrine reported net loss of $0.5 million, or $0.01 per share. This was slightly greater than our estimate on lower revenues than we modeled. SG&A and R&D were in-line with expectations. Operating costs in the quarter also included $0.8 million in deferred gain on real estate. Nevertheless, results were still generally in line with the company's previously reported financial guidance.

The company's balance sheet on June 30, 2012 reflected total assets of $202.1 million, including cash and short-term investments of $177.5 million. We remind investors that in January 2012, Neurocrine raised approximately $82.9 million in cash through an underwritten public offering of 10.925 million shares of common stock at $8.10 per share. We find the existing cash balance sufficient to fund operations for the foreseeable future. The additional cash should allow management to accelerate the clinical development for its VMAT-2 program, which is nearing the start of a phase 2b trial, as well as bring new candidates into the clinic later in 2012.

…Financial Guidance…

For the full year 2012, management expects revenues to be between $40 and $45 million, about $34 million of which will be amortization of previous upfront payments. Operating expenses should total between $55 and $60 million. For 2012, management is expecting a net loss of approximately $9 to $14 million. Based on roughly 66.5 million shares outstanding, we forecast EPS in 2012 will be between ($0.21) and ($0.09). Management expects to exit 2012, barring no additional financial transactions or out-licensing activity, with approximately $170 million in cash, investments and receivables.

Neurocrine Looks Well Positioned for the Future

We continue to very positive on Neurocrine Bio. The basis for our optimism is our belief that the collaboration deal with Abbott Labs for elagolix was a 'Homerun'. Neurocrine received $75 million upfront and has the potential to earn an additional $530 million in future milestones, of which CEO Kevin Gorman noted the "vast majority" are for development. This gives us confidence that Neurocrine will recognize a significant portion of these milestones prior to potential FDA approval in 2014 or 2015.

The company has also signed a second deal with Boehringer Ingelheim and successfully completed phase 2a studies on internal candidate, NBI-98854, VMAT-2 inhibitor for tardive dyskinesia. The collaboration with BI focuses on the research and development of G-protein coupled receptor (GPCR) small molecules for the treatment of Type-2 diabetes. The activation of GPR119 receptors located in the digestive system stimulates incretins, resulting in increased insulin production, while activation of GPR119 receptors located on pancreatic islet beta cells also stimulates insulin secretion. As part of terms of the collaboration, Neurocrine received another $10 million upfront milestone payment for research funding, and is eligible to receive up to $225 million in future milestone payments based on the achievement of development, regulatory and commercial goals. Again, CEO Kevin Gorman noted that a "substantial amount" can be achieved in clinical development.

The company's balance sheet reflected total assets of $202.1 million, including cash and short-term investments of $177.5 million. The company's lead product candidate, elagolix, recently entered phase 3 trials during the second quarter 2012 at Abbott Labs. Our market research shows elagolix as a $1.5 billion drug in the U.S., potentially $2-3 billion worldwide. Meanwhile, a phase 2b trial on VMAT-2 inhibitor, NBI-98854, should start in the third quarter 2012. We believe Neurocrine is in an outstanding position to build shareholder value over the next several years based on these factors. We recommend accumulating the stock at today's price, up to our $11 target

INVESTMENT OVERVIEW

Elagolix Development Continues At Abbott

In Endometriosis

In June 2012, Abbott initiated a phase 3 trial with elagolix to evaluate the safety and efficacy in female patients with endometriosis. We remind investors that Neurocrine previously earned a $20 million milestone payment from Abbott on advancing discussions with the U.S. FDA on the phase 3 trial in 2011. Abbott was previously pursuing a special protocol assessment (SPA) on the phase 3 trial, but recently chose to move forward without the SPA. Management at Neurocrine believes that all the components of the SPA are in place but that Abbott did not want to wait any further to start the trial. SPA or not, we are confident in the design of the program.

The phase 3 trial (M12-665, ClinicalTrial.gov identifier: NCT01620528) is a 24-week, multinational, randomized, double-blind, placebo-controlled study designed to evaluate the safety and efficacy of elagolix in 875 women, age 18 to 49, with moderate-to-severe endometriosis-associated pain. It will be conducted at approximately 160 sites in the United States, Puerto Rico and Canada.

Arms	Assigned Interventions
Experimental: Elagolix Dose 1 Elagolix Dose 1	Drug: Elagolix Elagolix Dose 1 for 6 month treatment period Other Name: ABT-620, elagolix sodium
Experimental: Elagolix Dose 2 Elagolix Dose 2	Drug: Elagolix Elagolix Dose 2 for 6 month treatment period Other Name: ABT-620, elagolix sodium
Placebo Comparator: Placebo Placebo	Other: Placebo Placebo for 6 Month Treatment Period

The primary endpoint will be a dual-endpoint in reduction in Dysmenorrhea and Non-Menstrual Pelvic Pain (NMPP) for women on two doses of elagolix (150mg and a yet unannounced higher dose) vs. placebo in a 1-1-2 randomization over 6 months. Efficacy will be assessed by a responder analysis for statistical evaluation. The inclusion of a higher dose of elagolix, perhaps 250mg or 300mg (150mg BID) is intriguing. It allows for a potential full label with dose titration and prescribing options post approval.

An electronic diary will be dispensed to participants in the trial and training provided to record endometriosis-associated pain, uterine bleeding, and analgesic medication use for endometriosis-associated pain on a daily basis. Pregnancy testing will be performed monthly throughout the study. Subjects will be required to use non-hormonal dual contraception during the study, and will be counseled on appropriate and effective forms of birth control to promote pregnancy prevention.

Responder analysis from the phase 2b trial showed an 85% response rate with 150mg elagolix. We believe Abbott is looking for greater than 90% response rate in the phase 3 trial through the inclusion of a higher dose. Secondary endpoints include Dyspareunia and Patient Global Impression of Change (PGIC), as well as analgesic use. Following the 6 month controlled portion of the trial, patients will enroll in a 6 month open-label extension study where Abbott will look for signs of persistent efficacy. For the safety analysis, patients will be followed for an additional 12 months, after which Abbott will conduct a DXA scan to assess changes in bone mineral density.

We expect that this program will take 12 months to enroll. Top-line data from the phase 3 trial should be available in the first half of 2014, with the full analysis in 2015. Abbott plans to conduct a second confirmatory phase 3 trial mirroring the M12-665 trial expected to start in 2013. We expect that this program will include sites outside North America, with an emphasis on Western Europe. Full analysis from the second trial is expected in 2016, along with the New Drug Application (NDA) planned for 2016.

…Confident In Design…

We are confident in the design of the phase 3 trials, and the efficacy and safety previously seen with elagolix. In total, Neurocrine has presented data from 12 phase 1 programs and 6 phase 2 programs (2 phase 2a and 4 phase 2b) on roughly 1,000 patients. Results from the phase 2b (n=137) Daisy PETAL (Study-901) program first released in May 2010 provide the best proof-of-concept data for the planned phase 3 trials. Final results, released in November 2010, were statistically significant in all primary and secondary endpoints.

The phase 3 program will seek to enroll patients with more severe disease and employ a two-cycle (two-month) run-in period both designed to mitigate the placebo response. We note the 33% placebo response on both primary endpoints in the Daisy PETAL program was rather high, but elagolix at 63% for both was statistically significant at a p-value less than 0.01. All Abbott needs to do is replicated these results in the two phase 3 trials noted above and then show no clinically meaningful changes in bone mineral density and we think approval is likely.

In Uterine Fibroids

On September 13, 2011, Abbott Labs announced it had commenced a phase 2 clinical trial to evaluate elagolix in an exploratory trial for the treatment of uterine fibroids. The trial is expected to enroll up to 325 women with heavy uterine bleeding associated with uterine fibroids at clinical sites around the U.S. for a total of 3 months. The doses for the trial have not been disclosed, but Neurocrine describes them as a broad range with previous work done in phase 1 trial. We expect the trial to take about twelve months to complete, meaning we should see data over the summer of 2013. The primary endpoint will be quantified blood loss assessed by alkaline hematin.

The initiation of the trial triggered a $10 million milestone payment from Abbott to Neurocrine Bio. We think this is an important step forward for Abbott and Neurocrine because development of elagolix outside the U.S., specifically in Europe, will probably focus on the uterine fibroids indication.

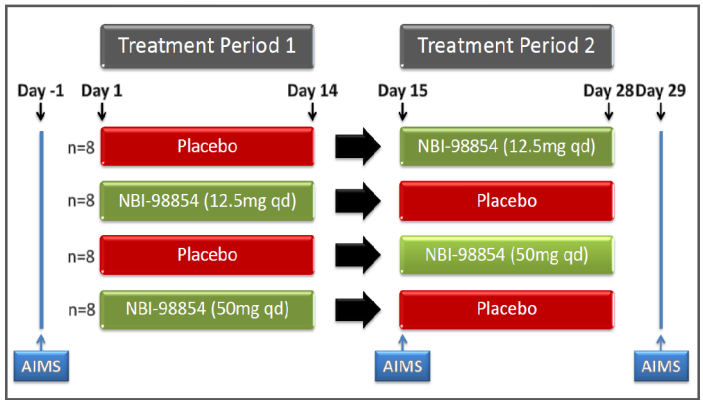
Encouraging Signals In Phase 2a For VMAT2

On March 26, 2012, Neurocrine Bio announced results from the company's phase 2a program with NBI-98854, a VMAT2 inhibitor for the treatment of tardive dyskinesia (TD). We believe the results were overall a positive for the company, despite what management referred to as "inconsistent and incorrect application of the efficacy assessment protocol" at one of the eight sites used during the trial. When this site was removed (post-hoc), analysis of the primary and secondary endpoints showed encouraging results, we believe strong enough to warrant movement into a larger-scale phase 2b study.

…The Design…

The trial was a double-blind, placebo-controlled, design in which patients were randomized to receive either 12.5mg or 50mg of NBI-98854 or placebo for 14 days, then crossed-over to the placebo or active 12.5mg or 50mg arm for another 14 days.

The primary efficacy endpoint in the trial was the change in Abnormal Involuntary Movement Scale (AIMS) from active to placebo groups. AIMS assessments were taken at baseline (Day-1), after the first period (Day-15) and after the second period (Day-29). The trial was powered to detect a 3 point change in AIMS from active to placebo group.



Secondary endpoints included the Clinical Global Impression of Tardive Dyskinesia (CGI-TD) and the Patient Global Impression of Change (PGIC) questionnaire. Management also measured adverse events, Brief Psychiatric Rating Scale (BPRS), Columbia Suicide Severity Rating Scale (CSSRS), Calgary Depression Scale for Schizophrenia (CDSS), Barnes Akathisia Rating Scale (BARS), and the Simpson-Angus Scale (SAS).

…Inconsistencies Found At One Site Lead To Post-Hoc Analysis…

Following analysis of the unblinded data, management found inconsistent application of the AIMS efficacy assessment at one of the eight clinical sites. Management noted that the issues were not a result of randomization or dosing errors, but rather incorrect application of the AIMS assessment that lead to discrepancies between the clinical scores and the video record of the analysis. Application of the AIMS assessment at the other seven sites was found to be consistent with the video record.

Neurocrine performed two analyses of the primary AIMS endpoint, one that included all eight sites and one post-hoc analysis that included only the seven sites in which the AIMS assessment was performed correctly. We present the results below on the primary AIMS endpoint for the active vs. placebo periods.

AIMS – All 8 Sites			
Baseline = 14.7	**Placebo**	**12.5mg**	**50mg**
…LS Mean	9.9	9.1	8.8
…Difference		-0.7	-1.1
…p-value		0.59	0.42

AIMS – 7 Site Post-Hoc			
Baseline = 14.9	**Placebo**	**12.5mg**	**50mg**
…LS Mean	10.3	9.9	6.1
…Difference		-0.4	-4.2
…p-value		0.68	0.002

Analysis of the primary endpoint was also assessed on a change in baseline. The data below shows the post-hoc analysis including both crossover periods. The data show a significant reduction from baseline in subjects randomized to the 50mg dose, which we believe is clinically meaningful for patients with Tardive Dyskinesia.

Change From Baseline			
	Placebo	**12.5mg**	**50mg**
…Change	-4.7	-4.9	-9.2
…Difference		-0.2	-4.5
…p-value		0.79	0.0004

Responder analysis of the secondary efficacy endpoints conducted post-hoc showed strong trends in favor of both the 12.5mg and 50mg doses.

Responder Rates By Treatment			
	Placebo	**12.5mg**	**50mg**
CGI-TD …"much or very much improved"	46%	67%	80%
PGIC …much or very much improved"	38%	62%	80%

…Good Safety Profile…

Data from the trial showed that NBI-98854 was generally safe and well tolerated. The most common adverse event was headache. Treatment-emergent adverse events were limited, a surprise to management given the severity of the underlying schizophrenia and the rigorous trial protocol (patients had to come into the study center for several hours, once per day for 29 days). There were no serious adverse events during the active portion of the trial. One patient in the 50mg group discontinued due to akathisia (restless leg). One patient with a history of emphysema experienced an acute exacerbation of COPD after the trial completed. However, investigators deemed the episode not related to NBI-98854.

Safety & Tolerability			
	Placebo	**12.5mg**	**50mg**
Treatment-Emergent Adverse Events	17%	24%	32%
Serious Adverse Events (Days 1-29)	-	-	-
Serious Adverse Events (Day 29+)	-	-	1
Discontinuations (Days 1-29)	-	-	1

We note there was no drug-drug interactions seen during the study, a very encouraging sign considering patients were on a mix of typical and atypical antipsychotic drugs. Analysis showed no gender, smoking, or body weight impact on the results. Patients were assessed for depression, suicidal ideation, and parkinsonism, with no affect found attributed to NBI-98854. A total of 37 patients were randomized for treatment, and 32 were included in the ITT database. 31 patients completed the study.

…Up Next, Phase 2b…

Despite the inconsistencies found at one of the eight clinical sites, we believe the trial was a success. We remind investors that the ultimate goal of a phase 2a program is to confirm proof-of-concept, safety, and help design the protocol for a larger-scale phase 2b trial designed to truly assess efficacy. We believe Neurocrine clearly accomplished this goal.

Management has begun screening patients for the phase 2b trial that will assess NBI-98854 in patients with confirmed moderate-to-severe schizophrenia and tardive dyskinesia by an independent rater prior to randomization. The trial will seek to enroll approximately 125 patients in a placebo-controlled, double-blind, parallel group, multiple dose format. Management plans to test 25mg and 50mg NBI-98854 over a 12 week treatment period, with six weeks of placebo-controlled dosing followed by six-weeks of active treatment. The trial will incorporate a new capsule formulation of NBI-98854.

We expect that the AIMS assessment in the phase 2b program will be altered slightly to separate the clinician and the reader, with added certification training and monitoring. Scoring will be done by an independent AIMS reader at the clinical site. The rater will have no other contact with the patient other than the live scoring. The rating will be video-taped for quality control. We expect this trial to offer data in the first quarter 2013.

…Background on VMAT2 & TD…

VMAT-2 is a protein concentrated in the human brain that is primarily responsible for re-packaging and transporting monoamines (dopamine, norepinephrine, serotonin, and histamine) among nerve cells. Neurocrine's molecule, NBI-98854, is a novel, highly-selective VMAT2 inhibitor that modulates presynaptic dopamine release during nerve communication, while at the same time having minimal impact on the other monoamines thereby reducing the likelihood of "off target" side effects. NBI-98854 is designed to provide low, sustained, plasma and brain concentrations of the active drug to minimize side effects associated with excessive dopamine depletion.

We see TD as a meaningful market opportunity for Neurocrine. There are an estimated 500,000 TD patients in the U.S. with no real treatment options. In January 2012, the U.S. FDA granted "Fast Track" designation to NBI-98854 for neuroleptic-induced tardive dyskinesia. NBI-98854 is patent protected until May 2029. In addition, NBI-98854 may well be useful in other disorders, such as Huntington's chorea, schizophrenia, Tourette's syndrome, and Tardive Dystonia. We expect that management will move into a second indication, most likely schizophrenia, during the second half of the year. The above planned phase 2b trials in schizophrenia patients with TD should give us an early look at the potential for the drug in this indication. We are particularly excited about the VMAT-2 program at Neurocrine. It represents significant upside and diversification from elagolix. We note that management plans to retain the U.S. rights to VMAT-2 all the way to commercialization.

Looking to Monetize Urocortin-2

In May 2012, Neurocrine reported safety and proof-of-concept results from study with Urocortin-2 in 53 patients with acute decompensated heart failure. The phase 2 study, called UNICORN, was conducted at the Christchurch Cardioendocrine Research Group (CCRG) from the University of Otago in Christchurch, New Zealand. After initial stabilization, subjects were randomized to receive a 4-hour infusion of either placebo or Urocortin-2 in addition to standard-of-care treatments.

UNICORN was primarily a safety study. Infusion of Urocortin-2 was generally well tolerated and there were no treatment-related serious adverse events (SAEs). Clinical chemistry, hematology and urinalysis values were assessed and no statistically significant differences were reported between the subjects who received Urocortin-2 or placebo, with the exception of an increase in plasma creatinine concentration during the 4-hour infusion period. Adverse event reporting indicates that 55% of subjects randomized to Urocortin-2 reported transient flushing (vs. 23% in the placebo group). We note that 4 subjects had lowering of systolic blood pressure below pre-set "stop" values which, although asymptomatic, per protocol required a decrease or cessation of Urocortin-2 infusion.

Efficacy results show the hemodynamic profile of infusion was consistent with what had been established in earlier clinical studies, including improved cardiac output, reduction in peripheral vascular resistance and absence of sympathetic overstimulation.

- Mean arterial pressures were significantly reduced (p<0.001) from 92 +/- 3 mmHg at baseline to 80+/-3 mmHg at end of the Urocortin-2 infusion (n=27) in contrast to placebo (n=26) where the mean arterial pressure was 92 +/- 3 mmHg at baseline and 89 +/- 4 mmHg at the end of the placebo infusion.

- Heart rates were slightly higher during Urocortin-2 infusion than placebo although these remained in normal range and comparable in both groups post infusion.

- In the subset of subjects undergoing right heart catheterization (n=20, 10 per arm), cardiac output increased markedly by over 50% in those randomized to Urocortin-2 compared to unchanging values in the placebo group (p=0.003).

We expect that Neurocrine will seek to out-license Urocortin-2 to a cardiology-focused pharmaceutical company in the coming quarters. We are not expecting a sizable upfront payment to Neurocrine, however. While results above look encouraging, we believe significant development risk with Urocortin-2 still exists. We believe any deal for Urocortin-2 will most likely include only a modest upfront payment with more meaningful backend payments and royalties on sales if commercialized.

IND's Later In 2012

In June 2010, Neurocrine Bio announced a worldwide collaboration with Boehringer Ingelheim to research and develop small molecule GPR119 agonists for the treatment of Type-2 diabetes and other indications, with BI responsible for the global development and commercialization. BI is currently conducting preclinical studies looking at candidate selection for an IND. We anticipate an IND in 2012.

Management also noted that it has several neuroscience compounds in the discovery stage. We are expecting to see the first IND on one of these novel compounds perhaps during the second half of 2012 or in 2013.

RECOMMENDATION

We continue to very positive on Neurocrine Bio. Our price target is $11, derived by DCF (below).

Neurocrine Biosciences (NBIX)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Royalties on Elagolix	$0	$0	$0	$0	$0	$5	$28	$72	$102	$142	$173
YoY Growth	-	-	-	-	-	-	*423%*	*153%*	*42%*	*39%*	*22%*
Royalties on NBI-98854	$0	$0	$0	$0	$0	$6	$14	$24	$35	$47	$59
YoY Growth	-	-	-	-	-	-	*123%*	*65%*	*46%*	*36%*	*24%*
Royalties on GSK-5616679	$0	$0	$0	$0	$0	$0	$3	$7	$11	$17	$21
YoY Growth	-	-	-	-	-	-	-	*113%*	*64%*	*45%*	*29%*
Pipeline	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Licensing & Collaborative	$11	$20	$21	$15	$35	$60	$20	$10	$20	$15	$25
Revenues (in Millions)	$11	$20	$21	$15	$35	$72	$66	$113	$168	$221	$278
CoGS	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*
R&D	*$38*	*$40*	*$35*	*$35*	*$35*	*$30*	*$30*	*$35*	*$35*	*$40*	*$45*
SG&A	*$14*	*$14*	*$15*	*$15*	*$18*	*$20*	*$22*	*$25*	*$30*	*$35*	*$40*
Other Expenses	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*
EBITDA	($40)	($34)	($29)	($35)	($18)	$22	$14	$53	$103	$146	$193
Depreciation and amortization	*$3*	*$3*	*$3*	*$3*	*$3*	*$3*	*$3*	*$3*	*$3*	*$3*	*$3*
EBIT	($43)	($37)	($32)	($38)	($21)	$19	$11	$50	$100	$143	$190
EBITDA margin	-	*-180.4%*	*-150.0%*	*-253.3%*	*-60.0%*	*26.3%*	*16.8%*	*44.2%*	*59.6%*	*64.7%*	*68.4%*
Cash Taxes	$0	$0	$0	$0	$0	$0	($1.7)	($12.5)	($30.1)	($42.9)	($57.1)
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*15.0%*	*25.0%*	*30.0%*	*30.0%*	*30.0%*
Balance Sheet											
Capital Expenditures	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1
Working Capital	($1)	($1)	($1)	($1)	($1)	($1)	($1)	($1)	($1)	($1)	($1)
Non-Cash Adjustments	($2)	($2)	($2)	($2)	($2)	($2)	($2)	($2)	($2)	($2)	($2)
Capital Adjustments	($2)	($2)	($2)	($2)	($2)	($2)	($2)	($2)	($2)	($2)	($2)
Net Margin	*-382.9%*	*-180.4%*	*-150.0%*	*-253.3%*	*-60.0%*	*26.3%*	*14.2%*	*33.1%*	*41.7%*	*45.3%*	*47.9%*
Discounted Cash Flow											
Net Income	($43)	($37)	($32)	($38)	($21)	$19	$9	$37	$70	$100	$133
Depreciation and amortization	$3	$3	$3	$3	$3	$3	$3	$3	$3	$3	$3
Net Cash Changes	$2	$2	$2	$2	$2	$2	$2	$2	$2	$2	$2
Post-Tax Operating Cash Flow	($38)	($32)	($27)	($33)	($16)	$24	$14	$42	$75	$105	$138
Dividends	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Free Cash Flow	($38)	($32)	($27)	($33)	($16)	$24	$14	$42	$75	$105	$138

Assumptions	
Beta:	1.35
Equity Risk Premium:	6.5%
Risk Free Rate:	1.5%
Firm Risk Premium:	35%
Discount Rate:	**10.3%**

Valuation	
10-Year Model:	$45
Terminal Growth:	2%
Terminal Value:	$545
Net Cash - LT Debt:	$181
Firm Value:	**$771**

Price Target	
Basic Outstanding:	66.3
Warrants / Options:	5.3
Dilution:	0
Fully Diluted:	67.7
Target Price:	**$11.40**

Source: Zacks Investment Research, Inc. Jason Napodano, CFA

PROJECTED FINANCIALS

Neurocrine Biosciences Inc.
Income Statement

Neurocrine Bio	2010 A	2011 A	Q1A	Q2 A	Q3 E	Q4 E	2012 E	2013 E	2014 E	2015 E
R&D / Milestones & Fees	**$33.5**	**$77.4**	**$11.3**	**$10.6**	**$10.0**	**$10.5**	**$42.8**	**$40.0**	**$40.0**	**$40.0**
YOY Growth	*1034.5%*	*131.1%*	*-10.0%*	*-13.1%*	*-74.8%*	*-5.5%*	*-44.7%*	*-6.6%*	*0.0%*	*0.0%*
elagolix Royalties	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0.0**	**$0.0**
YOY Growth	-	-	-	-	-	-	-	-	-	-
VMAT-2	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
YOY Growth	-	-	-	-	-	-	-	-	-	-
Total Revenues	**$33.5**	**$77.4**	**$11.3**	**$10.6**	**$10.0**	**$10.5**	**$42.8**	**$40.0**	**$40.0**	**$40.0**
YOY Growth	*1034.5%*	*131.1%*	*-10.0%*	*-13.1%*	*-74.8%*	*-5.5%*	*-44.7%*	*-6.6%*	*0.0%*	*0.0%*
CoGS / Royalties	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0.0
Gross Margin	*100.0%*	*100.0%*	*100.0%*	*0.0%*	*0.0%*	*0.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*
SG&A	$16.1	$12.4	$3.7	$3.1	$3.3	$3.4	$13.5	$14.0	$14.5	$15.0
% SG&A	*48.0%*	*16.0%*	*32.6%*	*29.6%*	*31.4%*	*32.4%*	*31.5%*	*35.0%*	*36.3%*	*37.5%*
R&D	$31.2	$31.0	$9.4	$8.8	$9.5	$10.5	$38.2	$40.0	$30.0	$30.0
% R&D	*93.0%*	*40.0%*	*83.3%*	*83.4%*	*90.5%*	*100.0%*	*89.2%*	*100.0%*	*75.0%*	*75.0%*
Operating Income	($13.7)	$34.1	($1.8)	($1.4)	($2.8)	($3.4)	($8.9)	($14.0)	($4.5)	($5.0)
Operating Margin	-	*44.0%*	-	-	-	-	*-20.7%*	*-35.0%*	*-11.3%*	*-12.5%*
Interest / Other Income	$5.8	$3.6	$0.9	$0.9	$0.9	$0.9	$3.6	$3.5	$3.0	$2.5
Pre-Tax Income	($8.0)	$37.6	($0.9)	($0.5)	($1.9)	($2.5)	($5.3)	($10.5)	($1.5)	($2.5)
Taxes	$0	$0	$0	$0	$0	$0	$0	$0	$0.2	$0.8
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*5.0%*	*15.0%*	*30.0%*
Net Income	($8.0)	$37.6	($0.9)	($0.5)	($1.9)	($2.5)	($5.3)	($10.5)	($1.3)	($1.8)
YOY Growth	-	-	-	-	-	-	-	-	-	-
Net Margin	-	*48.5%*	-	-	-	-	*-12.3%*	*-26.3%*	*-3.2%*	*-4.4%*
Reported EPS	**($0.15)**	**$0.67**	**($0.01)**	**($0.01)**	**($0.03)**	**($0.04)**	**($0.09)**	**($0.15)**	**($0.02)**	**($0.02)**
YOY Growth	-	-	-				*-112.0%*	*91.9%*	*-88.1%*	*32.5%*
Stock Options	*$3.1*	*$2.9*	*$0.7*	*$2.1*	*$0.8*	*$1.0*	*$4.6*	*$3.5*	*$4.0*	*$5.0*
EPS Impact of FAS-123R	*$0.06*	*$0.05*	*$0.01*	*$0.03*	*$0.01*	*$0.01*	*$0.07*	*$0.05*	*$0.06*	*$0.07*
Shares Outstanding	52.8	56.3	63.4	66.3	67.5	67.6	66.2	68.5	70.0	72.5

Source: Zacks Investment Research, Inc. *Jason Napodano, CFA*

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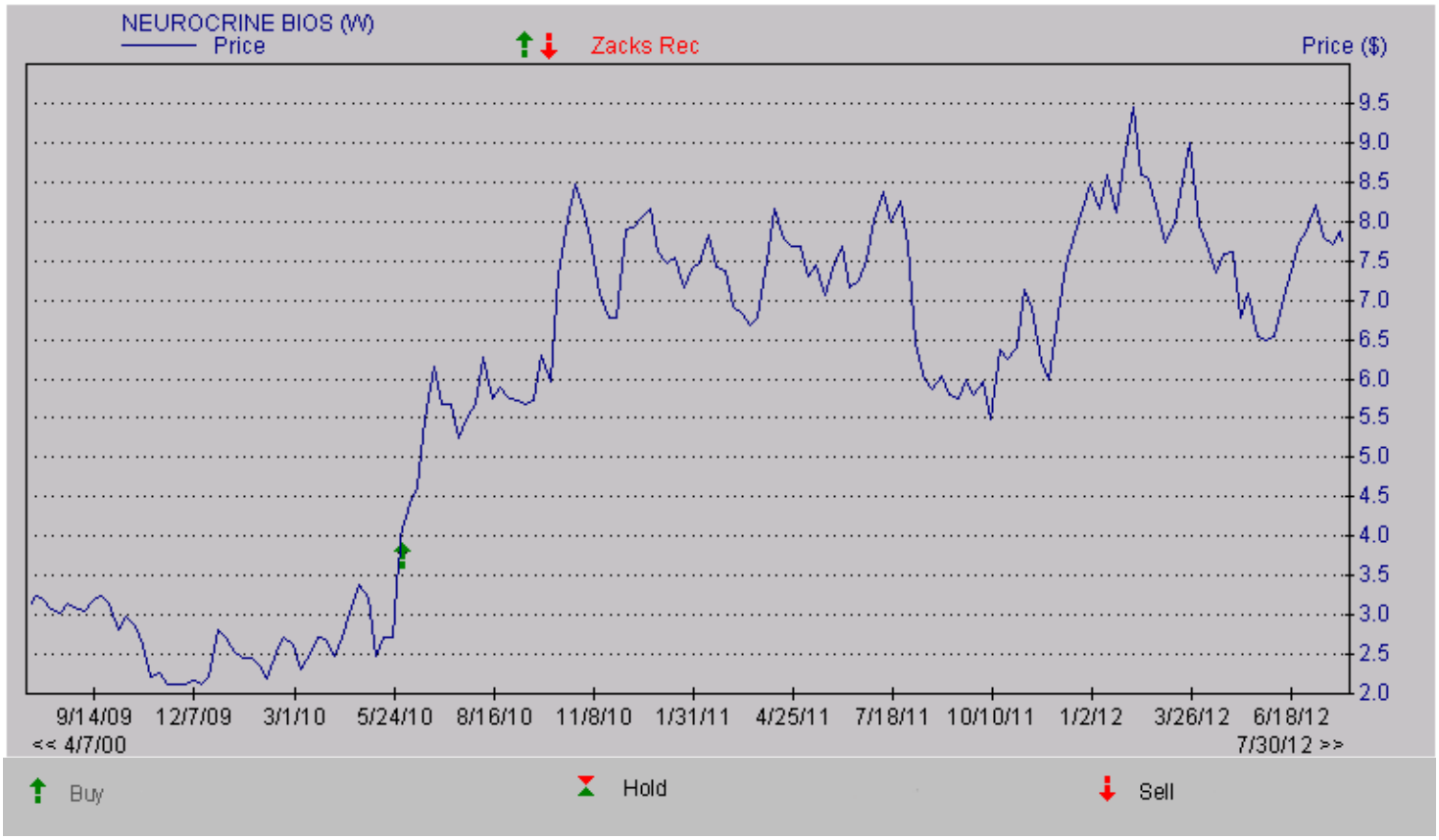

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