Zacks Equity Research

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Jason Napodano, CFA
312-265-9421
jnapodano@zacks.com

111 North Canal Street, Chicago, IL 60606

Neurocrine Biosciences, Inc.

(NBIX-NASDAQ)

NBIX: Progress With VMAT2…

UPDATE

With a strong financial position, we believe Neurocrine is in an outstanding position to build shareholder value over the next several years. The company exited the second quarter with $145.5 million in cash and receivables, with the potential to earn several hundred million more as clinical development progresses. The company's dramatically improved financial position affords management the opportunity to push forward the development of internal pipeline candidates, including VMAT-2, as well as in-license new pre-phase II molecules within the company's core CNS focus. We recommend accumulating the stock at today's price, up to our $12 target.

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	06/16/2010
Current Price (10/18/10)	$8.11
Six- Month Target Price	**$12.00**

SUMMARY DATA

52-Week High	**$8.04**
52-Week Low	**$2.00**
One-Year Return (%)	**180.14**
Beta	**0.34**
Average Daily Volume (sh)	**469,120**
Shares Outstanding (mil)	**55**
Market Capitalization ($mil)	**$441**
Short Interest Ratio (days)	**7.89**
Institutional Ownership (%)	**69**
Insider Ownership (%)	**5**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-58.7**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2010 Estimate	**N/A**
P/E using 2011 Estimate	**N/A**
Zacks Rank	**3**

Risk Level	**Below Avg.**
Type of Stock	**Small-Growth**
Industry	**Med-Drugs**
Zacks Rank in Industry	**8 of 77**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2009	0.7 A	0.7 A	0.7 A	0.7 A	3.0 A
2010	0.8 A	4.6 A	13.0 E	13.0 E	31.4 E
2011					45.0 E
2012					30.0 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2009	-$0.51 A	-$0.39 A	-$0.21 A	-$0.20 A	-$1.30 A
2010	-$0.18 A	-$0.09 A	$0.05 E	$0.04 E	-$0.17 E
2011					$0.18 E
2012					-$0.11 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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WHAT'S NEW

Progress With VMAT-2…

This morning, Neurocrine Bio announced that it has successfully completed a second phase I clinical trial of its proprietary Vesicular Mono-Amine Transporter 2 (VMAT-2) compound, NBI-98854. The program tested repeated dosing in healthy volunteers looking for favorable signs of safety, tolerability, and pharmacokinetics. The success of the trial now allows management to push forward into a dose exploration phase IIa program in patients with Tardive Dyskinesia (TD) by the end of the year.

Once Neurocrine successfully completes the phase IIa study, management plans to approach the FDA regarding the filing of an Investigational New Drug (IND) application in the U.S. with the express purpose of initiating larger phase IIb studies in patients with Tardive Dyskinesia. In addition, NBI-98854 may well be useful in other disorders, such as Huntington's chorea, schizophrenia, Tourette's syndrome, and Tardive Dystonia

We are particularly excited about the VMAT-2 program at Neurocrine. It represents significant upside and diversification from elagolix. 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.

Neurocrine Looks Well Positioned for the Future

In June 2010, we upgraded our rating on Neurocrine Bio to Outperform and established a price target of $9 per share. The basis for our upgrade was 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 2013 or 2014. Abbott is the pioneer and market leader in GnRH antagonists with Lupron (leuprolide) for the treatment of hormone-responsive cancers such as prostate cancer or breast cancer. The drug is also used by Ob/Gyns for the treatment of endometriosis and uterine fibroids, as well as to treat precocious puberty, and to control ovarian stimulation in In-Vitro Fertilization (IVF). Abbott has a strong appreciation for the GnRH mechanism and the company is clearly committed to see elagolix a success with Lupron expected to lose patent protection in 2015. Abbott's Lupron sales in 2009 were $800 million ($540 million U.S.). We believe that Abbott will look to replace Lupron in the Ob/Gyn market with elagolix thanks to superior efficacy and tolerability, as well as patent protection.

Since that time, the company has signed a second deal with Boehringer Ingelheim and successfully completed two phase I studies on VMAT-2. This has allowed us to raise our target price to $12 per share.

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 on June 30, 2010 reflected total assets of $155.0 million, including cash, investments and receivables of $145.5 million. Cash and investments totaled $131.4 million. Management expects to end the year with roughly $130 million in cash, investments, and receivables. With a strong financial position, we believe Neurocrine is in an outstanding position to build shareholder value over the next several years. The company also has several other outstanding collaboration partners, including with Glaxo on CRF1, DSP on indiplon in Japan, and with the Christchurch Cardioendocrine Research Group and University of Edinburgh for Urocortin-2. We recommend accumulating the stock at today's price, up to our $12 target.

PROJECTED FINANCIALS

Neurocrine Biosciences Inc.
Income Statement

	2009 A	Q1A	Q2A	Q3E	Q4E	2010 E	2011 E	2012 E	2013 E	2014 E
R&D / Milestones & Fees	**$3.0**	**$0.8**	**$4.6**	**$13.0**	**$13.0**	**$31.4**	**$45.0**	**$30.0**	**$30.0**	**$30.0**
YOY Growth	*-25.7%*	*0.8%*	*533.4%*	*1673.5%*	*1656.8%*	*963.2%*	*43.3%*	*-33.3%*	*0.0%*	*0.0%*
elagolix Royalties	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$25.0**
YOY Growth	-	-	-	-	-	-	-	-	-	-
CRF Antagonists	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
YOY Growth	-	-	-	-	-	-	-	-	-	-
Urocortin 2	**$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	**$3.0**	**$0.8**	**$4.6**	**$13.0**	**$13.0**	**$31.4**	**$45.0**	**$30.0**	**$30.0**	**$55.0**
YOY Growth	*-25.7%*	*0.8%*	*533.4%*	*1673.5%*	*1656.8%*	*963.2%*	*43.3%*	*-33.3%*	*0.0%*	*83.3%*
CoGS / Royalties	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Gross Margin	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*
SG&A	$14.9	$3.2	$3.3	$3.4	$3.4	$13.2	$14.0	$15.0	$16.0	$17.0
% SG&A	*505.2%*	*424.8%*	*70.0%*	*26.2%*	*26.2%*	*42.2%*	*31.1%*	*50.0%*	*53.3%*	*30.9%*
R&D	$35.8	$7.6	$7.3	$7.6	$8.2	$30.7	$22.0	$24.0	$26.0	$30.0
% R&D	*1212.7%*	*1006.1%*	*156.9%*	*58.5%*	*63.1%*	*97.7%*	*48.9%*	*80.0%*	*86.7%*	*54.5%*
Operating Income	($47.8)	($10.0)	($5.9)	$2.0	$1.4	($12.5)	$9.0	($9.0)	($12.0)	$8.0
Operating Margin	-	-	-	-	-	-	-	-	-	-
Interest / Other Income	($3.3)	$1.5	$0.7	$0.5	$0.6	$3.4	$1.5	$2.4	$2.5	$2.5
Pre-Tax Income	($51.0)	($8.5)	($5.2)	$2.5	$2.0	($9.1)	$10.5	($6.6)	($9.5)	$10.5
Taxes	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	($51.0)	($8.5)	($5.2)	$2.5	$2.0	($9.1)	$10.5	($6.6)	($9.5)	$10.5
YOY Growth	-	-	-	-	-	-	-	-	-	-
Net Margin	-	-	-	-	-	-	-	-	-	-
Reported EPS	**($1.30)**	**($0.18)**	**($0.09)**	**$0.05**	**$0.04**	**($0.17)**	**$0.18**	**($0.11)**	**($0.15)**	**$0.16**
YOY Growth	-	-	-	-	-	-	-	-	-	-
Stock Options	*$6.1*	*$0.6*	*$0.8*	*$1.0*	*$1.5*	*$3.9*	*$4.5*	*$5.0*	*$5.5*	*$6.0*
EPS Impact of FAS-123R	*$0.16*	*$0.01*	*$0.02*	*$0.02*	*$0.03*	*$0.07*	*$0.08*	*$0.08*	*$0.09*	*$0.09*
Shares Outstanding	39.1	46.6	54.8	55.0	55.5	53.0	57.5	60.0	62.5	65.0

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

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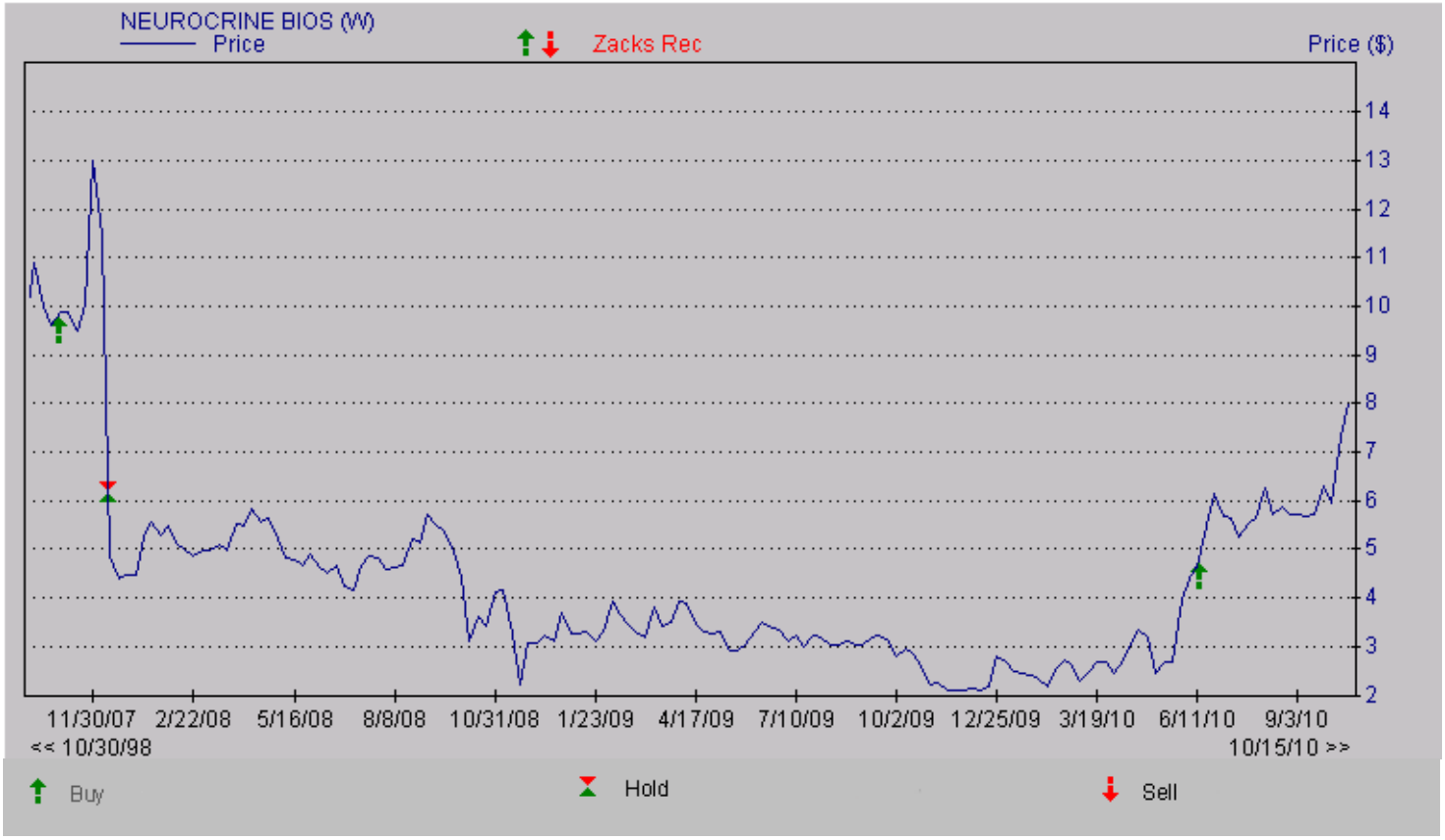

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