

Intercept Pharmaceuticals (ICPT)

Raising FV to \$46 on Increased Optimism and Clinical Proof-of-Concept for an Additional OCA Indication

- **ICPT is commanding a premium as investor enthusiasm for OCA indications outside of PBC continues to grow.** Our recent conversations with biotech investors suggest that enthusiasm for OCA is high and extends beyond Primary Biliary Cirrhosis (PBC). Specifically, we note a growing appreciation of the drug's potential applicability for treating portal hypertension following the release of new Phase 2a data at AALSD. Portal hypertension represents a significant unmet-medical need with no currently approved therapies. After reviewing the market opportunity for portal hypertension and the available data on OCA, we are now including the indication in our fair value alongside PBC and NASH.
- **Initial Phase 2a data demonstrates the therapeutic potential of OCA in portal hypertension.** Portal hypertension leads to a number of life-threatening complications in cirrhotic patients (e.g., varices, sepsis and renal failure) and is a significant cause of mortality. Initial results of the Phase 2a PESTO study of OCA in portal hypertension demonstrated a reduction in hepatic venous pressure gradient (HVPG) in 6/8 patients, with 5 patients meeting the primary efficacy endpoint of $\geq 15\%$ reduction in HVPG to below 12 mm Hg. We expect data from additional cohorts to be reported later this year, but view the initial proof-of-concept results as highly encouraging.
- **We see additional potential upside to ICPT from continued clinical progress with OCA.** Intercept emerged as the top-performing biotech IPO in 2012. We believe the stock can continue to outperform in 2013 as the company appears to have become a halo-investment in the small-cap biotech space. Potential catalysts during the next 12 months include OCA-related progress in a number of therapeutic areas including PBC, NASH, portal hypertension and bile-acid diarrhea.
- **Reiterate OUPPERFORM rating and raising fair value to \$46 from \$25.** Our fair value is calculated by applying a 30% annual discount to our peak worldwide sales estimates for ICPT's drug candidates, incorporating a 1-10x multiple based on stage of clinical development. Our sum-of-parts valuation has increased after including portal hypertension as a potential indication to OCA, along with PBC and NASH. Given the growing appreciation of this additional indication, as well as the availability of additional data since our initiation report, we believe its inclusion in our fair value is justified at this time.

January 16, 2013

Price
\$34.18

Rating
OUTPERFORM

Fair Value Estimate
\$46 (from \$25)

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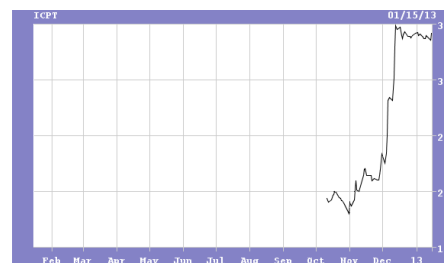
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Company Information

Shares Outst (M)	18.2
Market Cap (M)	\$622.0
52-Wk Range	\$17.96 - \$35.99
Book Value/sh	\$4.97
Cash/sh	\$6.05
Enterprise Value (M)	\$511.9
LT Debt/Cap %	0.0%

Company Description

Intercept Pharmaceuticals is an emerging biopharmaceutical company specializing in the development of bile acid therapies. The company's lead drug, Obeticholic Acid (OCA), is currently in Phase III development for the treatment of Primary Biliary Cirrhosis (PBC).



Source: Thomson Reuters

FYE Dec	2011A	2012E			2013E		
REV (M)	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	\$0.0A	\$0.8A		--	\$0.4E		--
Q2 Jun	0.0A	0.8A		--	0.4E		--
Q3 Sep	0.0A	0.5A		--	0.4E		--
Q4 Dec	0.0A	0.4E		--	0.4E		--
Year*	\$1.8A	\$2.4E		\$4.0E	\$1.6E		\$4.8E
Change	n/a	n/a			n/a		
EPS	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	\$0.00A	(\$1.03)A		--	(\$0.40)E		--
Q2 Jun	0.00A	(1.75)A		--	(0.39)E		--
Q3 Sep	0.00A	(1.86)A		--	(0.39)E		--
Q4 Dec	0.00A	(0.33)E		--	(0.39)E		--
Year*	(\$4.73)A	(\$3.15)E		--	(\$1.57)E		(\$1.56)E
P/E	nm	nm			nm		
Change	n/a	n/a			n/a		

Consensus estimates are from Thomson First Call.

* Numbers may not add up due to rounding.

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Near-term Milestones

We estimate the following near and longer-term milestones for Intercept:

Expected Date	Event
Q2:2013	Presentation of PBC biomarker supergroup analysis (potentially at EASL in April)
Mid:2013	Top-line results from Phase 2a OCA trial in bile acid diarrhea (OBADIAH)
H2:2013	Potential positive clarity from FDA on regulatory pathway for OCA in PBC
H2:2013	Start of Phase 3 OCA confirmatory outcomes study in PBC
FY:2013	Additional data from OCA Phase 2a study in portal hypertension (PESTO)
Q2:2014	Top-line data from pivotal Phase 3 POISE study of OCA in PBC
Q4:2014	Top-line data from Phase 2 FLINT study of OCA in NASH
Mid:2015	Potential US Approval of OCA for the treatment of PBC

Valuation and Risks

Our new fair value of \$46 is calculated using a sum-of-parts analysis, applying a 30% annual discount to our peak worldwide sales estimates for ICPT's drug candidates, incorporating a 1-10x multiple based on stage of clinical development. Our sum-of-parts valuation includes the contribution of OCA for the treatment of PBC, portal hypertension and NASH. Our fair value has increased from \$25 a share after including OCA for portal hypertension following positive proof-of-concept data, as well as an increased contribution from PBC due to the Phase 3 POISE study completing enrollment ahead of schedule (leading to an earlier launch date) as well a modest over-enrollment which we believe bodes favorably for the drug's commercial prospects.

Risks to the attainment of our fair value include: Intercept's products obtain disappointing clinical trial results and/or fail to gain regulatory approval; Intercept is unable to pursue accelerated approval for OCA in the US or faces lengthy regulatory delays; Intercept or a partner fails to effectively commercialize its drug products due to unenthusiastic physician response or superior clinical results are obtained by a third-party competitor; unexpected safety problems emerge with Intercept's drug products; Intercept is unable to raise additional capital, if necessary, at terms favorable to shareholders.

We use multiples to account for clinical and regulatory risk at various stages of development.				Today: 1/16/13 Stock MktCap (\$000) Upside								
NOVEL DRUGS				Wedbush Fair Value for ICPT \$45.70 \$831,690 34%								
1: In preclinical testing		6: In Pivotal Trial		Full Pipeline Value: \$30.50 \$555,031								
2: Passed preclinical		7: Pivotal data		Net Cash: \$6.05 \$110,044								
3: IND filed		8: Regulatory review		ICPT Total Value: \$36.55 \$665,074								
4: Phase I data		9: Approved		Current ICPT Stock: \$34.18 \$621,984								
5: Phase II data		10: Launched		ICPT Diluted Shares Outstanding (000s): 18,197								
Intercept Pipeline Valuation												
Product		Indication	Eligible # Annual WW Treatments Est	Pricing \$ per Patient per Year Est/Actual	Peak Penetration Est	Gross WW Peak Sales Est (\$000)	ICPT Net Peak Revs Est WW (\$000)	Estimated Launch	Multiple	Annual Discount Rate	Wedbush MktCap Fair Value (\$000)	Wedbush Stock Fair Value
FXR Agonist	OCA (INT-747)	PBC	58,200	\$18,844	32%	\$391,323	\$391,323	4/1/2015	6	30%	\$460,907	\$25.33
FXR Agonist	OCA (INT-747)	Portal Hypertension	800,000	\$4,625	19%	\$689,000	\$689,000	7/1/2017	5	30%	\$288,115	\$15.83
FXR Agonist	OCA (INT-747)	NASH	7,225,000	\$2,340	2%	\$321,250	\$321,250	7/1/2018	4	30%	\$82,668	\$4.54
FXR/TGR5 Agonist	INT-767	Fibrosis	2,750,000	\$2,500	5%	\$343,750	\$343,750	1/1/2021	1	30%	\$11,456	\$0.63

Source: Company reports, Wedbush Securities research.

Intercept Pharmaceuticals (NASDAQ: ICPT)

Historical and Projected Income Statement

(In thousands except per share data)

(Fiscal Year Ends on December 31)

Wedbush PacGrow LifeSciences

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	2011A	2012					2013E	2014E	2015E
	FY:11A	Q1A	Q2A	Q3A	Q4	FY:12E	FY:13E	FY:14E	FY:15E
Revenues:									
Revenues/Royalties on Product Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,775
<i>OCA for Primary Biliary Cirrhosis</i>	-	-	-	-	-	-	-	-	26,775
<i>OCA for NASH</i>	-	-	-	-	-	-	-	-	-
Collaboration Revenue	\$ 1,805	\$ 759	\$ 759	\$ 523	\$ 400	\$ 2,441	\$ 1,600	\$ 1,600	\$ 1,600
<i>Licensing revenue and Milestones</i>	1,805	759	759	523	400	2,441	1,600	1,600	1,600
Total Revenues	\$ 1,805	\$ 759	\$ 759	\$ 523	\$ 400	\$ 2,441	\$ 1,600	\$ 1,600	\$ 28,375
Operating Expenses									
Research and Development	11,426	3,060	5,018	3,318	4,200	15,596	20,800	26,000	20,000
Sales, General and Administrative	4,209	1,059	944	991	1,600	4,594	7,200	14,000	24,000
Other	-	-	-	-	-	-	-	-	-
Total Operating Expenses	15,636	4,119	5,962	4,309	5,800	20,190	28,000	40,000	45,787
Operating Income (Loss)	(13,830)	(3,360)	(5,203)	(3,786)	(5,400)	(17,749)	(26,400)	(38,400)	(17,411)
Interest and dividend income	61	10	7	13	6	37	93	71	24
Interest (expense)	(13)	(7)	(0)	3	3	(1)	14	10	-
Revaluation of warrants	1,045	678	302	(1,418)	-	(438)	-	-	-
Other income (expense)	-	-	(192)	-	-	(192)	-	-	-
Income Before Income Taxes	(12,738)	(2,680)	(5,086)	(5,187)	(5,391)	(18,343)	(26,294)	(38,319)	(17,387)
Other comprehensive income (loss)	(3,000)	(750)	(750)	(1,000)	-	(2,500)	-	-	-
Provision for Income Taxes (benefit)	-	-	-	-	-	-	-	-	484
Net Income (Loss)	\$ (15,738)	\$ (3,430)	\$ (5,836)	\$ (6,187)	\$ (5,391)	\$ (20,843)	\$ (26,294)	\$ (38,319)	\$ (17,871)
EPS (Basic & Diluted; Pro forma)	(4.73)	(1.03)	(1.75)	(1.86)	(0.33)	(3.15)	(1.57)	(2.24)	(1.00)
Shares Outstanding (Basic)	3,330	3,330	3,330	3,330	16,483	6,618	16,733	17,133	17,908
Fully Diluted Shares Outstanding					18,197		18,447	18,847	19,247
Net Cash	\$17,908		\$10,026	\$36,049	\$110,121	\$110,121	\$81,317	\$34,445	\$11,787
Change in Cash (Burn)	\$2,412					\$92,213	(\$28,805)	(\$46,871)	(\$22,658)

Source: Company reports, Wedbush Securities research.

Analyst Biography

Mr. Felt is a Research Analyst covering Biopharmaceutical and Medical Technology companies. He previously served as a senior associate on the healthcare team at Wedbush PacGrow Lifesciences from 2009-2012. Prior to joining Wedbush, Mr. Felt worked for two years as an associate analyst covering the biotechnology sector and one year in industry as a clinical research assistant.

Mr. Felt holds a B.S. in Biomedical Engineering from Washington University and a Master's degree in Biotechnology from Columbia University.

Analyst Certification

I, Akiva Felt, Liana Moussatos, Ph.D., certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

Disclosure information regarding historical ratings and price targets is available at <http://www.wedbush.com/ResearchDisclosure/DisclosureQ412.pdf>

Investment Rating System:

Outperform: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

Neutral: Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

Underperform: Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

Rating Distribution (as of December 31, 2012)	Investment Banking Relationships (as of December 31, 2012)
Outperform: 53%	Outperform: 14%
Neutral: 42%	Neutral: 2%
Underperform: 5%	Underperform: 0%

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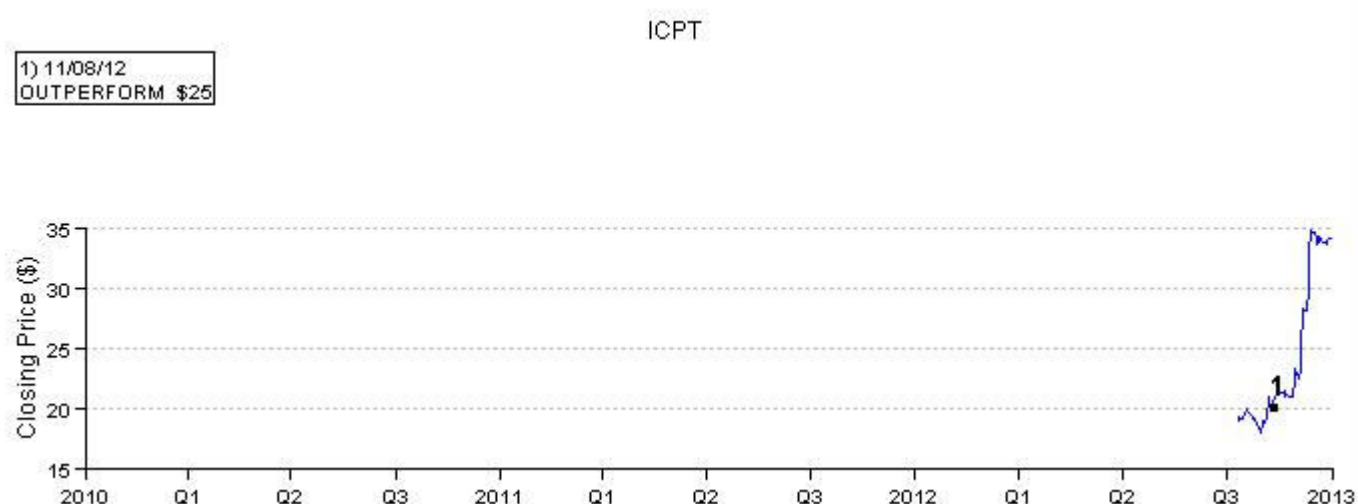
Company	Disclosure
Intercept Pharmaceuticals	1,3,4,5,7

Research Disclosure Legend

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2. WS managed a public offering of securities within the last 12 months.
3. WS co-managed a public offering of securities within the last 12 months.
4. WS has received compensation for investment banking services within the last 12 months.
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12. The analyst maintains Contingent Value Rights that enables him/her to receive payments of cash upon the company's meeting certain clinical and regulatory milestones.

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* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009. Please access the attached hyperlink for WS' Coverage Universe: <http://www.wedbush.com/services/cmg/equities-division/research/equity-research> Applicable disclosure information is also available upon request by contacting Ellen Kang in the Research Department at (213) 688-4529, by email to ellen.kang@wedbush.com, or the Business Conduct Department at (213) 688-8090. You may also submit a written request to the following: Business Conduct Department, 1000 Wilshire Blvd., Los Angeles, CA 90017.

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