

December 20, 2012

Biotechnology

Intercept Pharmaceuticals

(ICPT-NASDAQ)

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

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Chuck Whitesell / Nick Abbott, PhD.

POISE Progressing Better Than Expected With Earlier Enrollment and Improved Powering

Event

Intercept Pharmaceuticals announced yesterday the completion of enrollment in the pivotal POISE phase 3 study for obeticholic acid (OCA) in patients with primary biliary cirrhosis. With a target enrollment of 180 patients underlying powering assumptions, the study was over-enrolled with a total of 218 patients. The POISE study enrolled patients with PBC and inadequate response/intolerance to front-line URSO and is designed with 90% power to detect an absolute 25% difference in the proportion of patients achieving treatment response, defined as ALP < 1.67x ULN with 15% reduction from baseline and normal bilirubin at 12 months. With the earlier-than-expected enrollment completion we expect the last patient visit by December 17, 2013, and data by early 2Q14. With the primary focus on the adequacy of the biochemical surrogate endpoint, an abstract has been submitted for the EASL meeting, April 24-28, 2013, from an initial analysis of a "supergroup" study designed to evaluate optimal response criteria and correlation with harder clinical endpoints.

Impact

We are reiterating our Outperform rating on ICPT shares and increasing our price target to \$44 after the positive POISE update. Rapid enrollment increases our confidence in estimates around the unmet need of URSO failures, and overenrollment increases the powering of the study, to 95% from 90%, to detect a benefit, if it's there. We expect "supergroup" analysis to validate the POISE response criteria and further de-risk OCA development in PBC. We continue to recommend buying ICPT shares at current levels.

Forecasts

We estimate a loss per share in 2012 of (\$1.16), remaining stable in 2013 at (\$1.17) and expanding to (\$1.70) in 2014 on OCA pre-launch expense. We expect a narrowed loss to (\$0.04) in 2015 on OCA commercialization and first profitability in 2016 at \$2.01. We estimate 2017 and 2018 EPS of \$3.27 and \$4.58, with a 22% three-year EPS CAGR estimated beyond 2018.

Valuation

\$44 price target based on 20x our 2018E EPS of \$4.58 discounted 20%.

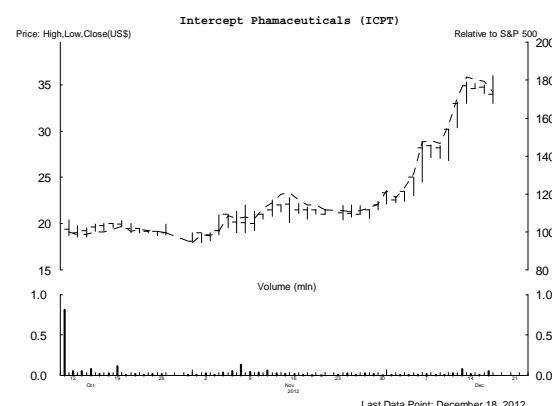
Recommendation

We rate Intercept Pharmaceuticals Outperform.

Securities Info

Price (19-Dec)	\$33.71	Target Price	\$44 ↑
52-Wk High/Low	\$36/\$18	Dividend	--
Mkt Cap (mm)	\$647	Yield	--
Shs O/S (mm, BASIC)	19.2	Float O/S (mm)	6.0
Options O/S (mm)	na	ADVol (30-day, 000s)	23

Price Performance



Valuation/Financial Data

(FY-Dec.)	2011A	2012E	2013E	2014E
EPS GAAP	-\$1.17	-\$2.45↓	-\$1.17	-\$1.70
P/E		nm	nm	nm
First Call Cons.		-\$2.25	-\$1.55	-\$1.89
FCF	na	na	-\$1.14	na
P/FCF		na	nm	na
EBITDA (\$mm)	-\$14	-\$16	-\$23	na
EV/EBITDA		nm	nm	na
Rev. (\$mm)	\$2	\$5	\$13	na
EV/Rev		115.3x	46.3x	na
Quarterly EPS	1Q	2Q	3Q	4Q
2011A	na	na	na	na
2012E	-\$0.07A	-\$0.30A	-\$1.86A	-\$0.21

Balance Sheet Data (30-Sep)

Net Debt (\$mm)	-\$36	Total Debt/EBITDA	nm
Total Debt (\$mm)	\$0	EBITDA/IntExp	na
Net Debt/Cap.	na	Price/Book	7.3x

Notes: All values in US\$.

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

Changes

Annual EPS
2012E -\$1.16 to -\$2.45

Target
\$31.00 to \$44.00

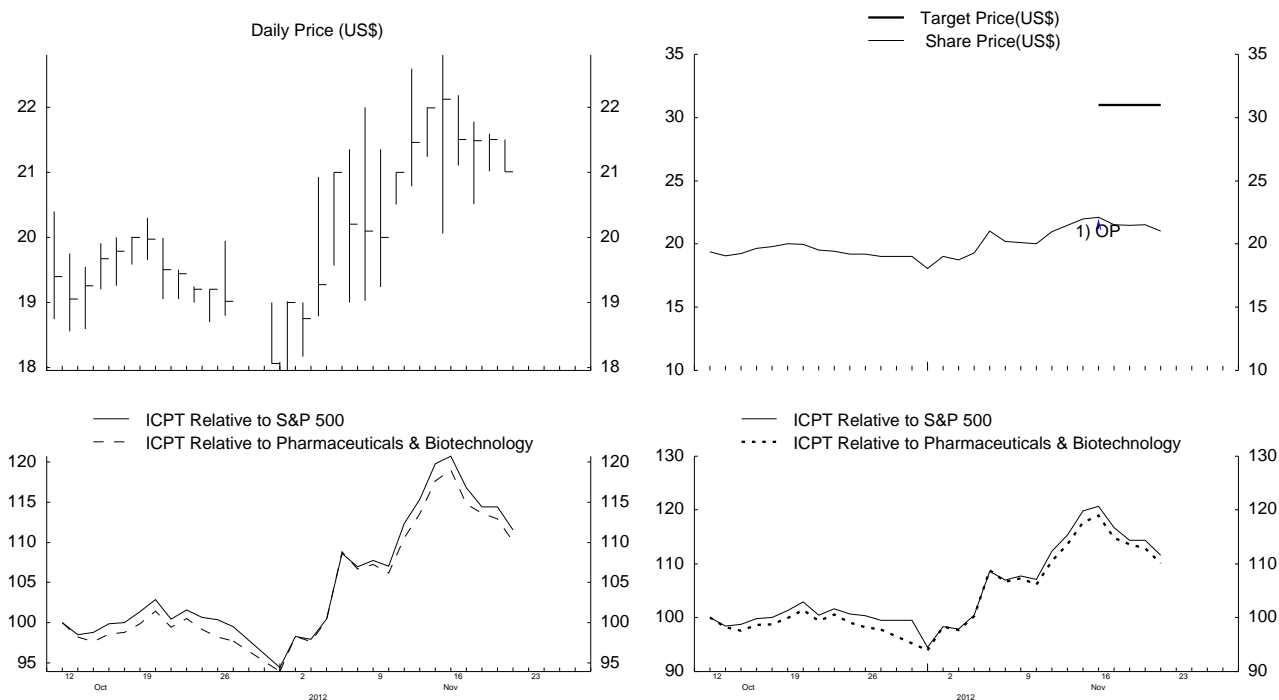
Please refer to pages 3 to 6 for Important Disclosures, including the Analyst's Certification.

Exhibit 1: ICPT Income Statement 2011A-2018E

INCOME STATEMENT (\$M)	2011A	1Q12A	2Q12A	3Q12A	4Q12E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
REVENUES												
Product Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5.8	\$ 58.9	\$ 128.2	\$ 180.7	\$ 231.1
Licensing Revenue	1.8	0.8	0.8	0.5	3.3	5.3	13.2	13.2	13.2	13.2	13.2	13.2
Grant revenue and other	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL REVENUES	\$ 1.8	\$ 0.8	\$ 0.8	\$ 0.5	\$ 3.3	\$ 5.3	\$ 13.2	\$ 19.0	\$ 72.1	\$ 141.4	\$ 193.9	\$ 244.3
EXPENSES (GAAP)												
Cost of Goods Sold (COGS)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.3	\$ 3.0	\$ 6.4	\$ 9.0	\$ 11.6
R&D Expense	11.4	3.1	5.0	3.3	4.9	16.3	20.9	29.4	26.8	30.0	33.2	36.4
SG&A Expense	4.2	1.1	0.9	1.0	2.5	5.5	15.0	27.9	40.9	45.9	49.2	52.4
Other	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	15.6	4.1	6.0	4.3	7.4	21.8	35.9	51.8	70.7	82.3	91.4	100.3
Operating Income	(13.8)	(3.4)	(5.2)	(3.8)	(4.1)	(16.4)	(22.7)	(32.8)	1.4	59.1	102.6	144.0
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	-
EBIT	(13.8)	(3.4)	(5.2)	(3.8)	(4.1)	(16.4)	(22.7)	(32.8)	1.4	59.1	102.6	144.0
Interest and other income	0.1	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	(0.1)	(0.1)	0.0	0.2
Interest and other expense	(0.0)	(0.0)	(0.0)	0.0	-	(0.0)	-	-	-	-	-	-
Other Income (Expense)	(2.0)	(0.1)	(0.6)	(2.4)	-	(3.1)	-	-	-	-	-	-
Interest and Other Income (Expense)	(1.9)	(0.1)	(0.6)	(2.4)	0.0	(3.1)	0.0	(0.0)	(0.1)	(0.1)	0.0	0.2
Pre-Tax Income	(15.7)	(3.4)	(5.8)	(6.2)	(4.1)	(19.5)	(22.7)	(32.9)	1.3	59.1	102.6	144.2
Income Taxes	-	-	-	-	-	-	-	-	2.2	16.5	28.7	40.4
Net Income (GAAP)	\$ (15.7)	\$ (3.4)	\$ (5.8)	\$ (6.2)	\$ (4.1)	\$ (19.5)	\$ (22.7)	\$ (32.9)	\$ (0.8)	\$ 42.5	\$ 73.9	\$ 103.8
EPS (GAAP) (basic)	\$ (1.17)	\$ (0.07)	\$ (0.30)	\$ (1.86)	\$ (0.25)	\$ (2.48)	\$ (1.37)	\$ (1.98)	\$ (0.05)	\$ 2.31	\$ 3.73	\$ 5.22
EPS (GAAP) (diluted)	\$ (1.17)	\$ (0.07)	\$ (0.30)	\$ (1.86)	\$ (0.21)	\$ (2.45)	\$ (1.17)	\$ (1.70)	\$ (0.04)	\$ 2.01	\$ 3.27	\$ 4.58
Total of Reconciliation Items	-	0.4	0.4	0.4	2.0	3.2	8.0	8.0	8.0	8.0	8.0	8.0
Net Income (Non-GAAP)	\$ (10.6)	\$ (3.0)	\$ (5.4)	\$ (5.8)	\$ (2.1)	\$ (16.4)	\$ (14.7)	\$ (24.9)	\$ 7.2	\$ 50.5	\$ 81.9	\$ 111.8
Impact of Adjustments to EPS	-	0.01	0.02	0.12	0.10	0.25	0.41	0.41	0.41	0.38	0.35	0.35
EPS (Non-GAAP) (basic)	\$ (0.79)	\$ (0.06)	\$ (0.28)	\$ (1.74)	\$ (0.13)	\$ (2.21)	\$ (0.89)	\$ (1.50)	\$ 0.43	\$ 2.75	\$ 4.13	\$ 5.63
EPS (Non-GAAP) (diluted)	\$ (0.79)	\$ (0.06)	\$ (0.28)	\$ (1.74)	\$ (0.11)	\$ (2.20)	\$ (0.76)	\$ (1.28)	\$ 0.37	\$ 2.39	\$ 3.63	\$ 4.93
Weighted average shares outstanding (basic)	13.5	47.0	19.2	3.3	16.5	21.5	16.6	16.6	16.7	18.2	19.8	19.9
Weighted average shares outstanding (diluted)	13.5	47.0	19.2	3.3	19.2	22.2	19.3	19.4	19.4	21.0	22.6	22.7

Source: Company reports and BMO Capital Markets

Intercept Pharmaceuticals (ICPT)



ICPT - Rating as of 10-Oct-12 = NR

Date	Rating Change	Share Price
1 15-Nov-12	NR to OP	\$21.99

Last Daily Data Point: November 21, 2012

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Methodology and Risks to Our Price Target/Valuation

Methodology: Our \$44 price target is based on 20x our 2018E EPS of \$4.58 discounted 20%. We believe that the 20x multiple is in-line with current biotech growth companies and supported by a 20%-plus EPS CAGR beyond 2018. We believe that the 20% discount rate adequately reflects risk to our estimates.

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
Buy	Outperform	38.3%	17.9%	57.8%	39.0%	49.5%	54.3%
Hold	Market Perform	58.5%	7.9%	39.1%	56.4%	48.5%	40.3%
Sell	Underperform	3.1%	11.8%	3.1%	4.6%	2.0%	5.3%

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OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

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