

Intercept Pharmaceuticals (ICPT)

Updating Model Following 10-Q Filing; Reiterate OUTPERFORM

November 29, 2012

Price
\$22.06

Rating
OUTPERFORM

Fair Value Estimate
\$25

- Q3:12 earnings and changes to model.** We are updating our FY:2012-FY:2013 estimates for ICPT following the company's recent 10-Q filing containing third quarter financial results. Our new FY:12 and FY:13 EPS estimates of (\$3.15) and (\$1.57) reflect changes to the accounting treatment of pre-IPO share count and the timing of projected expenses for Intercept's clinical programs. Due to Intercept's development stage, we do not view the company's near-term financial results to be of significant importance to investors.
- Reiterate OUTPERFORM and \$25 fair value.** Our fair value of \$25 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 and NASH.
- 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.

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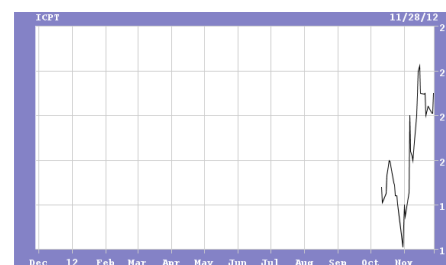
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Company Information

Shares Outst (M)	18.2
Market Cap (M)	\$401.4
52-Wk Range	\$17.96 - \$22.80
Book Value/sh	\$4.97
Cash/sh	\$6.05
Enterprise Value (M)	\$291.4
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	\$2.5E	\$4.0E	\$1.6E		\$4.8E
Change	n/a	n/a			n/a		
	2011A	2012E			2013E		
EPS	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	\$0.00A	(\$1.03)A	(\$0.25)A	--	(\$0.40)E	(\$0.41)E	--
Q2 Jun	0.00A	(1.75)A	(0.47)A	--	(0.39)E	(0.41)E	--
Q3 Sep	0.00A	(1.86)A	(0.42)A	--	(0.39)E	(0.40)E	--
Q4 Dec	0.00A	(0.33)E	(0.30)E	--	(0.39)E	(0.40)E	--
Year*	(\$4.73)A	(\$3.15)E	(\$1.53)E	--	(\$1.57)E	(\$1.62)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
H1:2013	Completion of enrollment in Phase 3 POISE trial of OCA in PBC
H1:2013	Presentation and publication of PBC biomarker supergroup analysis
Mid:2013	Topline 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
Mid:2014	Topline data from pivotal Phase 3 POISE study of OCA in PBC
H2:2014	Topline data from Phase 2 FLINT study of OCA in NASH
Mid:2015	Potential US Approval of OCA for the treatment of PBC

We use multiples to account for clinical and regulatory risk at various stages of development.				Today: 11/28/12 Stock MktCap (\$000) Upside																	
NOVEL DRUGS													Wedbush Fair Value for ICPT \$24.90 \$453,074 16%								
1: In preclinical testing		6: In Pivotal Trial											Full Pipeline Value: \$25.51 \$464,133								
2: Passed preclinical		7: Pivotal data		Net Cash: \$6.04 \$109,986																	
3: IND filed		8: Regulatory review		ICPT Total Value: \$31.55 \$574,119																	
4: Phase I data		9: Approved		Current ICPT Stock: \$21.50 \$391,242																	
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	30%	\$351,705	\$351,705	7/1/2015	6	30%	\$374,587	\$20.58									
FXR Agonist	OCA (INT-747)	NASH	7,225,000	\$2,340	2%	\$315,938	\$315,938	7/1/2018	4	30%	\$78,487	\$4.31									
FXR/TGR5 Agonist	INT-767	Fibrosis	2,750,000	\$2,500	5%	\$343,750	\$343,750	1/1/2021	1	30%	\$11,060	\$0.61									

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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,632
<i>OCA for Primary Biliary Cirrhosis</i>	-	-	-	-	-	-	-	-	15,632
<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	\$ 17,232
Operating Expenses									
Research and Development	11,426	3,060	5,018	3,318	4,200	15,596	20,800	22,000	17,000
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	36,000	41,938
Operating Income (Loss)	(13,830)	(3,360)	(5,203)	(3,786)	(5,400)	(17,749)	(26,400)	(34,400)	(24,706)
Interest and dividend income	61	10	7	13	6	37	93	72	27
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)	(34,318)	(24,679)
Other comprehensive income (loss)	(3,000)	(750)	(750)	(1,000)	-	(2,500)	-	-	-
Provision for Income Taxes (benefit)	-	-	-	-	-	-	-	-	26
Net Income (Loss)	\$ (15,738)	\$ (3,430)	\$ (5,836)	\$ (6,187)	\$ (5,391)	\$ (20,843)	\$ (26,294)	\$ (34,318)	\$ (24,705)
EPS (Basic & Diluted; Pro forma)	(4.73)	(1.03)	(1.75)	(1.86)	(0.33)	(3.15)	(1.57)	(2.00)	(1.38)
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	\$38,035	\$8,709
Change in Cash (Burn)	\$2,412					\$92,213	(\$28,805)	(\$43,281)	(\$29,326)

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.

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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.

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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 September 30, 2012)	Investment Banking Relationships (as of September 30, 2012)
Outperform: 54%	Outperform: 13%
Neutral: 42%	Neutral: 0%
Underperform: 4%	Underperform: 0%

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

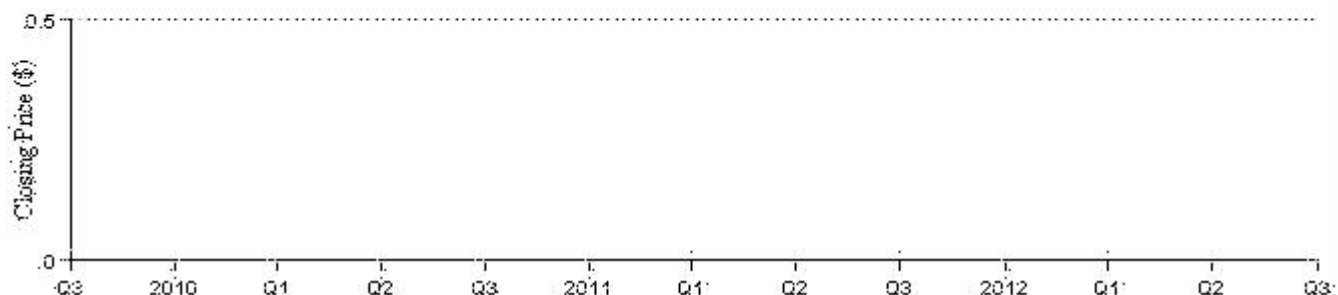
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ICPT



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