Janney CAPITAL MARKETS

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Intercept Pharmaceuticals, Inc.

ICPT - BUY

May 17, 2013

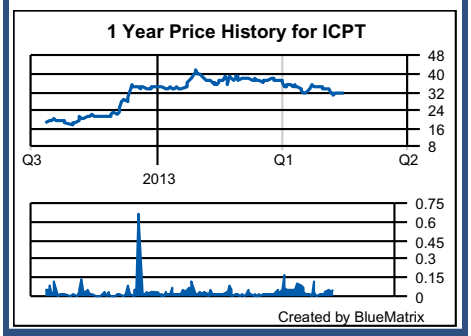
Specialty Pharmaceuticals

Intercept Pharmaceuticals, Inc.

(ICPT) - BUY

Price:	**$31.95**
Fair Value Estimate:	$48.00
52-Week Range:	$15.00-$42.67
Market Cap (MM):	$537
Shr.O/S-Diluted (mm):	16.8
Average Daily Volume:	31,977
Dividend:	NA
Book Value:	$0.52

FYE: Dec	2012A	2013E	2014E
Revenue (M):	$2.4A	$1.6E	$1.6E
Quarterly Revenue (M):			
Q1	$0.8A	$0.4A	$0.4E
Q2	$0.8A	$0.4E	$0.4E
Q3	$0.5A	$0.4E	$0.4E
Q4	$0.4A	$0.4E	$0.4E
FYE: Dec	2012A	2013E	2014E
EPS:	$(7.36)A	$(2.09)E	$(2.31)E
Prior EPS:		NC	NC
Quarterly EPS:			
Q1	$(1.03)A	$(0.62)A	$(0.57)E
Q2	$(1.75)A	$(0.51)E	$(0.56)E
Q3	$(1.86)A	$(0.52)E	$(0.58)E
Q4	$(2.02)A	$(0.54)E	$(0.59)E



Equity Research **Note**

1Q13 Looks Fine, 2H13 Data Next Drivers

INVESTMENT CONCLUSION:

ICPT reported its 1Q13 figures yesterday which were roughly in line with JMS and consensus estimates. With the recent positive news from the interim look at the primary biliary cirrhosis (PBC) "supergroup" study in late April, we remain confident that the odds favor positive phase 3 data from the POISE trial on obeticholic acid (OBC) for PBC. This trial is expected to read out mid-14 and we continue to believe that the FDA will accept ICPT's surrogate endpoint as appropriate for predicting clinical outcomes, as the supergroup interim analysis demonstrates. 2H13 should be busy for ICPT as we anticipate seeing the full data set from the supergroup analysis as well as top-line data from the phase 2 trials of OCA in portal hypertension and bile acid diarrhea. We continue to see ICPT as one of our top small cap picks in specialty pharma, and we reiterate our BUY rating, $48 fair value.

KEY POINTS:

- **Financials in line.** ICPT reported its 1Q13 with revenue of $405M vs JMS $400: (Cons $500M) and EPS of ($0.62) vs JMS ($0.52) and Cons ($0.39). R&D expenses were in-line with estimates coming in at $4.8M vs JMS of $5.2M and SG&A came in slightly below at $2.4M vs JMS of $3.2M. EPS differed on the non-cash item of revaluation of warrants which was ($3.6M).
- **"Supergroup" interim data looked positive.** In late April ICPT announced the positive results of the "supergroup" retrospective analysis of over 2,100 patients with primary biliary cirrhosis (PBC) at the European Association for the Study of the Liver (EASL). The data presented further substantiated that the primary endpoint of lowering serum liver makers used in their phase 3 POISE trial were predictive of clinical outcomes. With the European Medicines Agency (EMA) already on board, we believe that this confirmatory study should tip the scales in the eyes of the FDA.
- **POISE data remains on-track for 2Q14.** We believe that the P3 POISE trail is setup for success as it closely mimics the successful phase 2 trial. Historically in clinical trial design, we've found that phase 3 trials which closely resemble successful phase 2 trails tend to have the best chance for success. Applying the phase 3 endpoints to the 10mg cohort of the phase 2 trial shows 40% of patients hitting the phase 3 trial primary endpoint (p=0.012).
- **PESTO & OBEDIAH top line 4Q13.** We continue to anticipate the phase 2 trials in portal hypertension (PESTO) and bile acid diarrhea (OBEDIAH) in 4Q13. While smaller markets than the anticipated 8M patient indication in non-alcoholic steatohepatitis, these could provide good validation of the efficacy of OCA in helping to repair liver function.
- **Maintain Buy rating, $48 Fair Value:** Our $48/share sum-of-the-parts is based on OCA for PBC at $33/share, OCA for NASH at $9/share, and $6/share for cash (end 2014) and technology value.

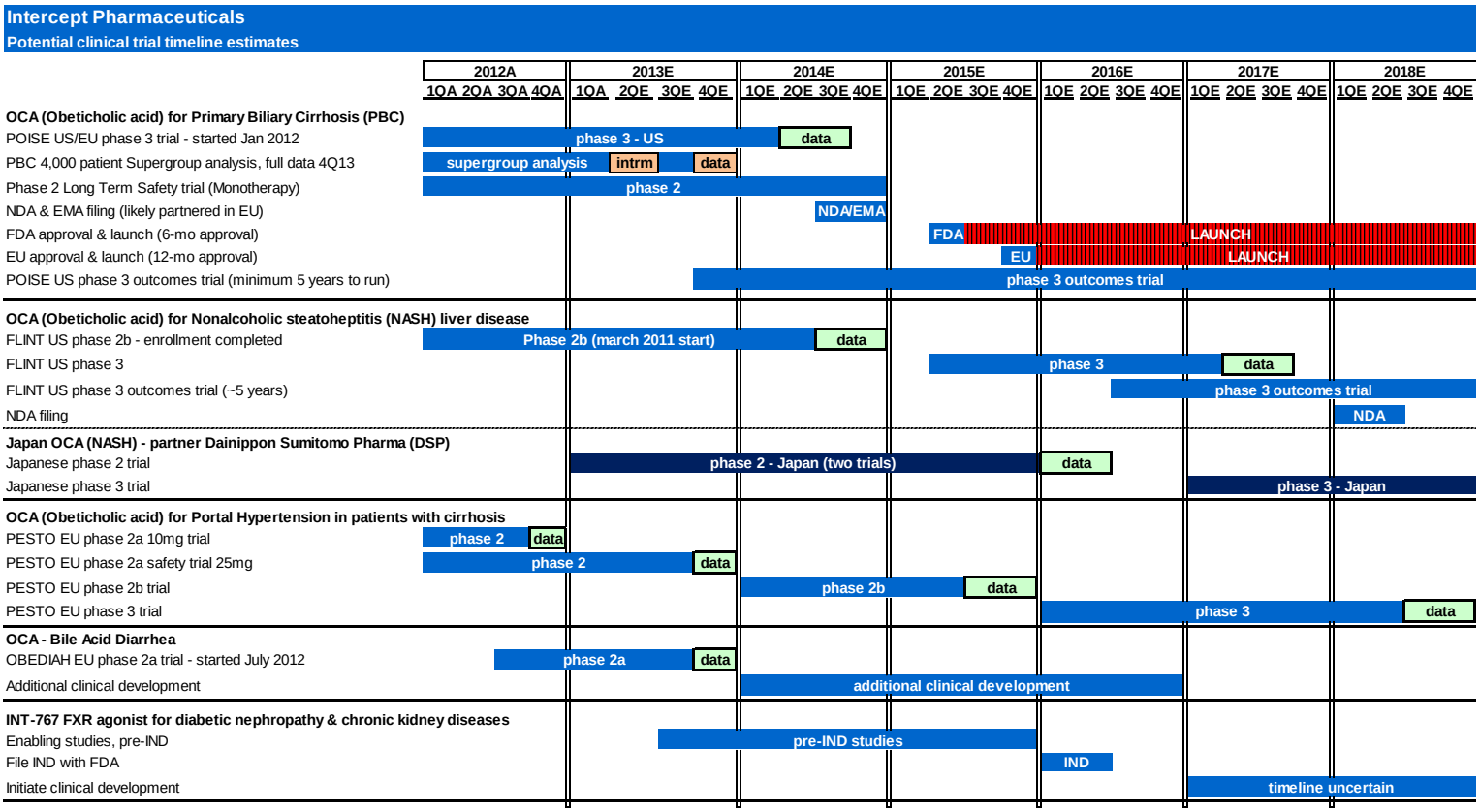
Research Analyst Certifications and Important Disclosures are on pages 5 - 6 of this report

EXHIBIT 1:

Sum-of-the-parts valuation: ICPT		
Segment	Valuation (000's)	Per share value
OCA for PBC in the US	$678,791	$33
OCA for NASH in the US	$206,017	$9
Cash (end of '14E) & tech value	$144,676	$6
	$1,128,174	**$48**
2014 fully diluted shares out		23,433

Source: Janney estimates

EXHIBIT 2:



Source: Company reports and Janney estimates

Specialty Pharmaceuticals
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Intercept Pharmaceuticals
Quarterly income statement

($000's except per share)	2012A 1QA	2012A 2QA	2012A 3QA	2012A 4QA	2012A Year	2013E 1QA	2013E 2QE	2013E 3QE	2013E 4QE	2013E Year
Revenues										
License fees	$759	$759	$523	$405	$2,446	$405	$400	$400	$400	$1,605
Total Revenues	**$759**	**$759**	**$523**	**$405**	**$2,446**	**$405**	**$400**	**$400**	**$400**	**$1,605**
Expenses										
Cost of Goods Sold	0	0	0	0	**0**	0	0	0	0	**0**
Gross Margin	**759**	**759**	**523**	**405**	**2,446**	**405**	**400**	**400**	**400**	**1,605**
Research and Development	3,060	5,018	3,318	4,787	16,183	4,833	6,250	6,500	6,500	24,083
SG&A	1,059	944	991	2,183	5,177	2,397	3,500	3,500	4,000	13,397
Total Operating Expenses	**4,119**	**5,962**	**4,309**	**6,970**	**21,360**	**7,229**	**9,750**	**10,000**	**10,500**	**37,479**
Income (loss) from Ops	**(3,360)**	**(5,203)**	**(3,786)**	**(6,565)**	**(18,914)**	**(6,824)**	**(9,350)**	**(9,600)**	**(10,100)**	**(35,874)**
Warrant Revaluation income	678	301	(1,418)	(24,187)	(24,626)	(3,683)				(3,683)
FOREX loss on liquidation		(198)								
Interest & dividend income	10	7	13	61	(100)	296	10	10	10	326
Interest expense	(7)	0	3	0	(4)					0
QTP grant					0					0
Pretax Income (Loss)	**(2,680)**	**(5,092)**	**(5,187)**	**(30,691)**	**(43,644)**	**(10,210)**	**(9,340)**	**(9,590)**	**(10,090)**	**(39,230)**
Div. pref stock, not declared	(750)	(750)	(1,000)	(130)	(2,630)	0				0
Net income/(loss)	**(3,430)**	**(5,842)**	**(6,187)**	**(30,821)**	**(46,274)**	**(10,210)**	**(9,340)**	**(9,590)**	**(10,090)**	**(39,230)**
EPS as reported	**($1.03)**	**($1.75)**	**($1.86)**	**($2.02)**	**($7.36)**	**($0.62)**	**($0.48)**	**($0.49)**	**($0.51)**	**($2.10)**
Shares out (000)	3,330	3,330	3,330	15,223	6,283	16,558	19,308	19,558	19,808	18,808
Fully diluted shares (000)	11,725	14,326	14,326	19,238	19,238	19,423	22,058	22,308	22,558	21,587

Source: Company reports and Janney estimates

Specialty Pharmaceuticals
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Intercept Pharmaceuticals
Annual income statement

($000's except per share)	2012A	2013E	2014E	2015E	2016E	2017E	2018E
Revenues							
OCA sales	-	-	-	$27,799	$150,913	$396,849	$609,266
OCA royalties (EU & Japan)	-	-	-	-	6,849	35,454	60,236
License fees	$2,446	$1,605	$1,600	1,600	1,800	2,000	2,000
Total Revenues	**$2,446**	**$1,605**	**$1,600**	**$29,399**	**$159,562**	**$434,303**	**$671,502**
Expenses							
Cost of Goods Sold	-	-	-	6,745	22,637	59,527	73,112
Gross Margin	**2,446**	**1,605**	**1,600**	**22,654**	**136,925**	**374,776**	**598,390**
Research and Development	16,183	24,083	28,000	30,000	34,000	45,000	65,000
SG&A	5,177	13,397	18,250	25,000	41,500	93,750	132,500
Total Operating Expenses	**21,360**	**37,479**	**46,250**	**55,000**	**75,500**	**138,750**	**197,500**
Income (loss) from Ops	**(18,914)**	**(35,874)**	**(44,650)**	**(32,346)**	**61,425**	**236,026**	**400,890**
Warrant Revaluation income	(24,626)	(3,683)	-	-	-	-	-
FOREX loss on liquidation	-	-	-	-	-	-	-
Interest & dividend income	(100)	326	40	60	75	100	100
Interest expense	(4)	-	-	-	-	-	-
Pretax Income (Loss)	**(43,644)**	**(39,230)**	**(44,610)**	**(32,286)**	**61,500**	**236,126**	**400,990**
Taxes	-	-	-	-	-	47,225	136,337
Div. pref stock, not declared	(2,630)	-	-	-	-	-	-
Net income/(loss)	**(46,274)**	**(39,230)**	**(44,610)**	**(32,286)**	**61,500**	**188,901**	**264,654**
EPS as reported	**($7.36)**	**($2.10)**	**($2.18)**	**($1.51)**	**$2.52**	**$6.54**	**$8.80**
Shares out (000)	6,283	18,808	20,433	21,558	22,708	23,883	25,083
Fully diluted shares (000)	19,238	21,587	23,433	25,058	24,408	28,883	30,083
Margin & expense analysis							
COGS as % prod sales	NA	NA	NA	24%	14%	14%	11%
R&D	NA	NA	NA	102%	21%	10%	10%
SG&A	NA	NA	NA	85%	26%	22%	20%
Op. margin cont. ops	NA	NA	NA	-110%	38%	54%	60%
Taxes	NA	NA	NA	0%	0%	20%	34%
Net margin	NA	NA	NA	-110%	39%	43%	39%
Year-over-year change							
Net revenue	NA	NA	NA		443%	172%	55%
R&D	42%	49%	16%	7%	13%	32%	44%
SG&A	23%	159%	36%	37%	66%	126%	41%
Operating income	NA	NA	NA	NA	NA	284%	70%
Net income	NA	NA	NA	NA	NA	207%	40%

Source: Company reports and Janney estimates

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Company Description

Intercept Pharmaceuticals is a development stage biopharmaceutical company that is developing therapeutics to treat chronic liver diseases utilizing proprietary bile acid chemistry. The lead candidate is obeticholic acid (OCA), a bile acid analog and farnesoid X receptor (FXR) agonist that is in phase 3 trials for the treatment of primary biliary cirrhosis. ICPT is also conducting phase 2a clinical trials with OCA to treat portal hypertension; phase 2b clinical trials for the nonalcoholic steatohepatitis treatment (NASH) in sponsored by the National Institute of Diabetes and Digestive and Kidney Diseases; and phase 2a trials for the treatment of bile acid diarrhea.

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Jim Molloy, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

Janney Montgomery Scott LLC ("Janney") Equity Research Disclosure Legend

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from Intercept Pharmaceuticals, Inc. in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

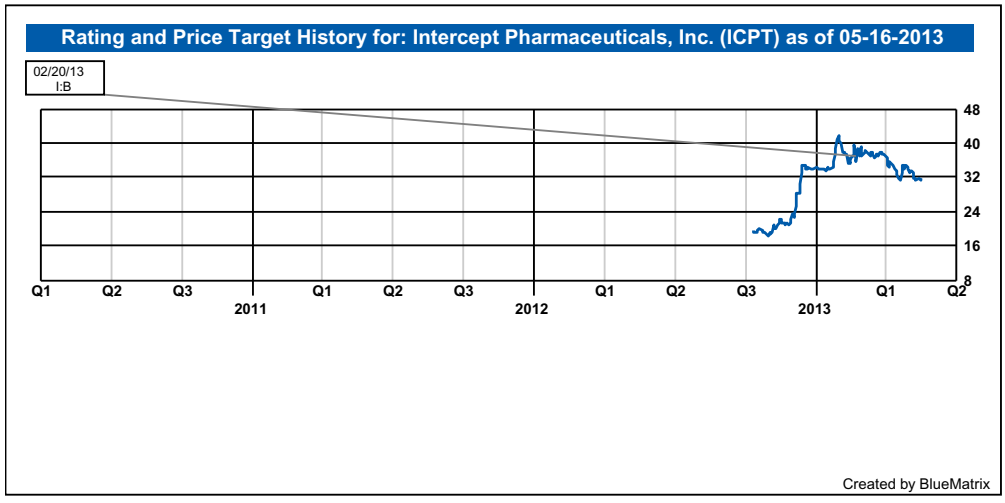
Definition of Ratings

BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 3/31/13

			IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [B]	214	52.58	38	17.76
NEUTRAL [N]	189	46.44	20	10.58
SELL [S]	4	0.98	0	0.00

***Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.**

Other Disclosures

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