

March 19, 2013

Intercept Pharmaceuticals

(ICPT-NASDAQ)

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

Biotechnology

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Chuck Whitesell / Nick Abbott, PhD.

Solid Progress With Bile Acid Therapeutic Pipeline

Event

Intercept Pharmaceuticals reported 4Q12 operating results late yesterday, and provided an update on key initiatives during a call with investors. Net loss per share of \$2.02 was in line with our expectations and ICPT ended 4Q12 with \$110M in cash, sufficient to fund operations through mid-2015. With focus on development of its pipeline of novel bile acid therapeutics, ICPT highlighted completion of enrollment in the phase 3 POISE study of OCA in patients with primary biliary cirrhosis (PBC) in December 2012 with data expected in 2Q14. Baseline characteristics in POISE are described as consistent with phase 2, and the trial has been over-enrolled by 20%. Upcoming data include "super-group" data at EASL in April, confirming correlation of surrogates in POISE with transplant free survival, as well as initial phase 2a OBADIAH data for OCA in bile acid diarrhea at DDW in May. Additional programs include the phase 2 PESTO trial of OCA in portal hypertension with trial completion expected in 4Q13 and the NIH sponsored phase 2 FLINT trial in non-alcoholic steatohepatitis (NASH), with data expected by year-end 2014.

Impact

We reiterate our Outperform rating on ICPT after release of 4Q12 results. Progress with key programs, in particular POISE, has been ahead of expectations, and we see significant option value emerging from several pipeline opportunities. With primary focus on POISE data in 2Q14, we believe that strong phase 2 results for OCA, a significant cushion in phase 3, overpowering of the study, and validation of the primary composite endpoint should bode well for study success. We believe that the opportunity for OCA in PBC has been underestimated and would recommend ICPT at current levels.

Forecasts

We estimate a loss per share of \$1.45 in 2013.

Valuation

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

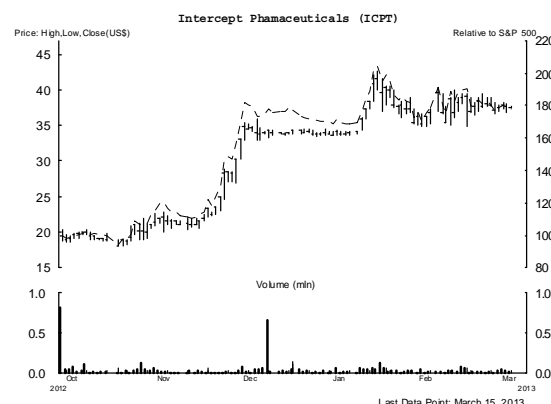
Recommendation

We rate Intercept Pharmaceuticals Outperform.

Securities Info

Price (18-Mar)	\$36.48	Target Price	\$44
52-Wk High/Low	\$43/\$18	Dividend	--
Mkt Cap (mm)	\$554	Yield	--
Shs O/S (mm, BASIC)	15.2	Float O/S (mm)	5.7
Options O/S (mm)	na	ADVol (30-day, 000s)	24

Price Performance



Valuation/Financial Data

(FY-Dec.)	2011A	2012A	2013E	2014E
EPS GAAP	-\$1.17	-\$7.36	-\$1.45↓	-\$2.03↓
P/E			nm	nm
First Call Cons.		-\$3.17	-\$1.78	-\$2.09
FCF	na	na	-\$1.14	na
P/FCF			nm	na
EBITDA (\$mm)	-\$14	-\$19	-\$23	-\$33
EV/EBITDA			nm	nm
Rev. (\$mm)	\$2	\$2	\$13	\$19
EV/Rev			40.7x	28.3x
Quarterly EPS	1Q	2Q	3Q	4Q
2012A	-\$0.07	-\$0.30	-\$1.86	-\$2.02
2013E	-\$0.31	-\$0.35	-\$0.38	-\$0.41

Balance Sheet Data (30-Sep)

Net Debt (\$mm)	-\$18	Total Debt/EBITDA	nm
Total Debt (\$mm)	\$0	EBITDA/IntExp	na
Net Debt/Cap.	na	Price/Book	7.9x

Notes: All values in US\$.

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

Changes

Annual EPS

2013E -\$1.17 to -\$1.45
2014E -\$1.70 to -\$2.03

Quarterly EPS

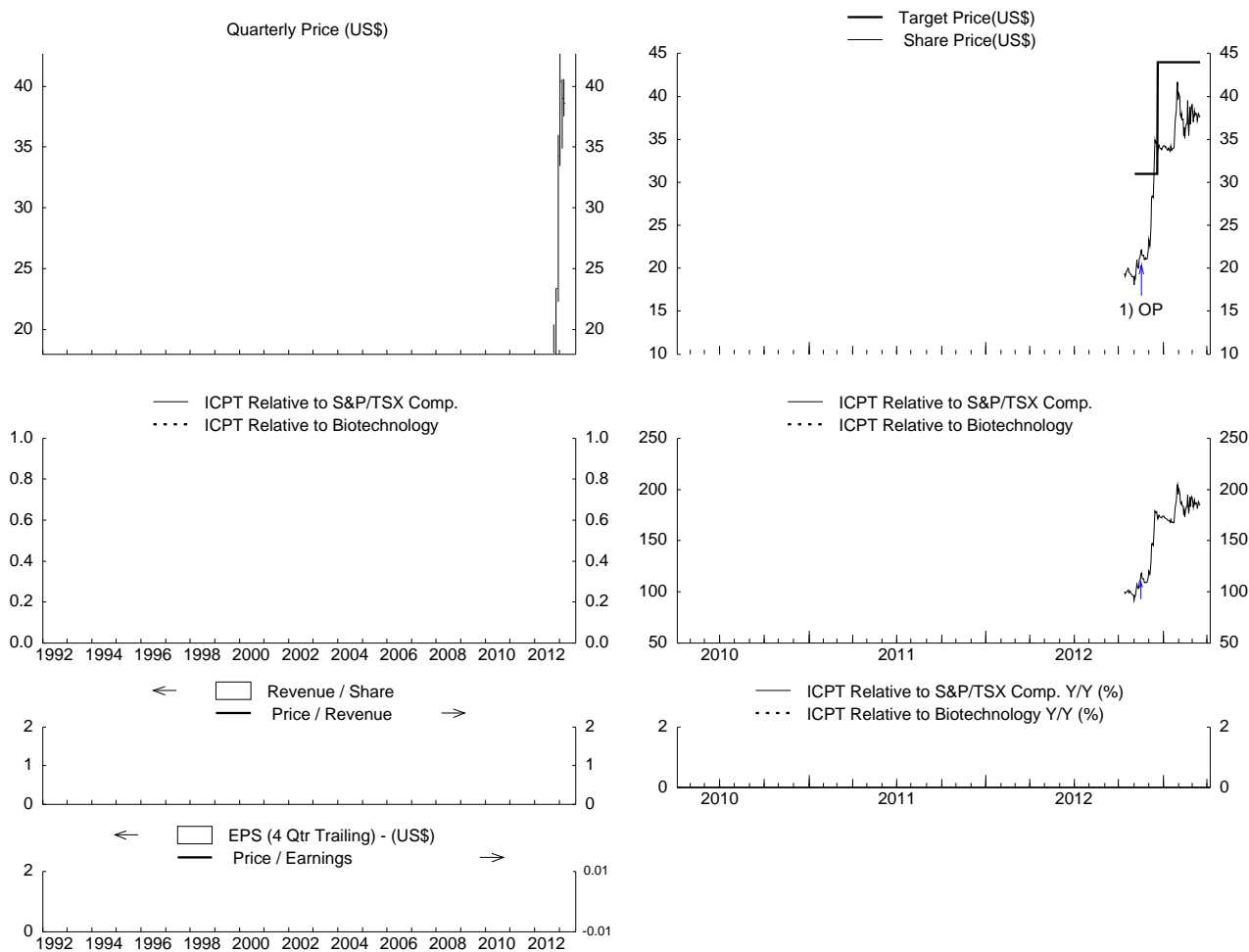
Q1/13E na to -\$0.31
Q2/13E na to -\$0.35
Q3/13E na to -\$0.38
Q4/13E na to -\$0.41

Exhibit 1: ICPT Income Statement 2012A-2018E

INCOME STATEMENT (\$M)	2012A	1Q13E	2Q13E	3Q13E	4Q13E	2013E	2014E	2015E	2016E	2017E	2018E
REVENUES											
Product Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5.8	\$ 58.9	\$ 128.2	\$ 180.7	\$ 231.1
Licensing Revenue	2.4	3.3	3.3	3.3	3.3	13.2	13.2	13.2	13.2	13.2	13.2
Grant revenue and other	-	-	-	-	-	-	-	-	-	-	-
TOTAL REVENUES	\$ 2.4	\$ 3.3	\$ 3.3	\$ 3.3	\$ 3.3	\$ 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	16.2	5.1	5.2	5.3	5.3	20.9	29.4	26.8	30.0	33.2	37.8
SG&A Expense	5.2	3.0	3.5	4.0	4.5	15.0	27.9	40.9	45.9	49.2	53.2
Other	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	21.4	8.1	8.7	9.3	9.8	35.9	51.8	70.7	82.3	91.4	102.5
Operating Income	(18.9)	(4.8)	(5.4)	(6.0)	(6.5)	(22.7)	(32.8)	1.4	59.1	102.6	141.8
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-
EBIT	(18.9)	(4.8)	(5.4)	(6.0)	(6.5)	(22.7)	(32.8)	1.4	59.1	102.6	141.8
Interest and other income	0.1	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)	(0.0)	0.2
Interest and other expense	(0.0)	-	-	-	-	-	-	-	-	-	-
Other Income (Expense)	(27.4)	-	-	-	-	-	-	-	-	-	-
Interest and Other Income (Expense)	(27.4)	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)	(0.0)	0.2
Pre-Tax Income	(46.3)	(4.8)	(5.4)	(6.0)	(6.5)	(22.7)	(32.9)	1.3	59.0	102.5	141.9
Income Taxes	-	-	-	-	-	-	-	2.1	16.5	28.7	39.7
Net Income (GAAP)	\$ (46.3)	\$ (4.8)	\$ (5.4)	\$ (6.0)	\$ (6.5)	\$ (22.7)	\$ (32.9)	\$ (0.9)	\$ 42.5	\$ 73.8	\$ 102.2
EPS (GAAP) (basic)	\$ (7.36)	\$ (0.31)	\$ (0.35)	\$ (0.38)	\$ (0.41)	\$ (1.45)	\$ (2.03)	\$ (0.06)	\$ 2.20	\$ 3.45	\$ 4.58
EPS (GAAP) (diluted)	\$ (7.36)	\$ (0.31)	\$ (0.35)	\$ (0.38)	\$ (0.41)	\$ (1.45)	\$ (2.03)	\$ (0.06)	\$ 2.20	\$ 3.45	\$ 4.58
Total of Reconciliation Items	3.2	2.0	2.0	2.0	2.0	8.0	8.0	8.0	8.0	8.0	8.0
Net Income (Non-GAAP)	\$ (43.1)	\$ (2.8)	\$ (3.4)	\$ (4.0)	\$ (4.5)	\$ (14.7)	\$ (24.9)	\$ 7.1	\$ 50.5	\$ 81.8	\$ 110.2
Impact of Adjustments to EPS	0.28	0.13	0.13	0.13	0.13	0.51	0.49	0.47	0.42	0.37	0.36
EPS (Non-GAAP) (basic)	\$ (3.98)	\$ (0.18)	\$ (0.22)	\$ (0.26)	\$ (0.28)	\$ (0.94)	\$ (1.53)	\$ 0.41	\$ 2.62	\$ 3.82	\$ 4.94
EPS (Non-GAAP) (diluted)	\$ (3.98)	\$ (0.18)	\$ (0.22)	\$ (0.26)	\$ (0.28)	\$ (0.94)	\$ (1.53)	\$ 0.41	\$ 2.62	\$ 3.82	\$ 4.94
Weighted average shares outstanding (basic)	6.3	15.4	15.5	15.7	15.8	15.6	16.2	16.9	19.1	21.4	22.3
Weighted average shares outstanding (diluted)	6.3	15.4	15.5	15.7	15.8	15.6	16.2	16.9	19.1	21.4	22.3

Source: Company reports and BMO Capital Markets

Intercept Phamaceuticals (ICPT)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %	ICPT - Rating as of 10-Oct-12 = NR		
Range*:		na na		NC			>15 >15		Date	Rating Change	Share Price
Current*	NC	NC	0.00	0.0	na	-0.5	-79.6	na	1 15-Nov-12	NR to OP	\$22.12

* Current EPS is the 4 Quarter Trailing to Q3/2012.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (March 15, 2013): \$38.60
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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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	37.0%	17.7%	52.9%	38.5%	50.5%	54.0%
Hold	Market Perform	60.7%	9.6%	47.1%	57.3%	48.4%	40.6%
Sell	Underperform	2.4%	0.0%	0.0%	4.2%	1.0%	5.4%

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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;

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