Janney CAPITAL MARKETS

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Intercept Pharmaceuticals, Inc.

ICPT - BUY

March 19, 2013

Specialty Pharmaceuticals

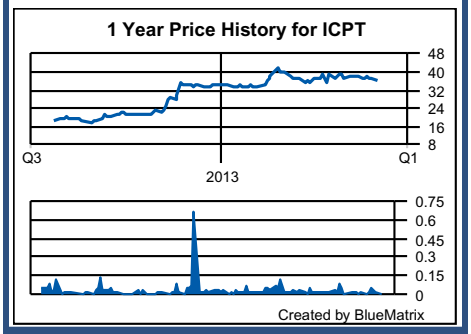
Intercept Pharmaceuticals, Inc.

(ICPT) - BUY

Price:	**$36.48**
Fair Value Estimate:	$48.00
52-Week Range:	$15.00-$42.67
Market Cap (MM):	$601
Shr.O/S-Diluted (mm):	16.5
Average Daily Volume:	38,590
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	$0.4E	$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:	$(1.11)	$(1.67)	$(1.87)
Quarterly EPS:			
Q1	$(1.03)A	$(0.52)E	$(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**

ICPT Reports 4Q12 In-Line, PBC Study Next Data Point in Late April

INVESTMENT CONCLUSION:

Intercept reported 4Q12 EPS last night after the close, and the near term focus remains on the upcoming "interim" Global PBC Study Group data which will be presented at the European Association for the Study of the Liver (EASL) April 24th-28th 2013. At that point ICPT will present poster data on ~2,100 patients demonstrating that the composite of improving alkaline phosphatase (ALP) and bilirubin is a highly statistically significant predictive surrogate marker for determining improved long-term liver transplant-free survival in patients with Primary Biliary Cirrhosis (PBC). This is the primary end-point of the currently ongoing phase 3 POISE trial (data expected 2H14). The full data set of an additional ~2,000 patients from the study group is expected in 2H13 and should further corroborate the ALP/bilirubin endpoint of the phase 3 trial as valid.

KEY POINTS:

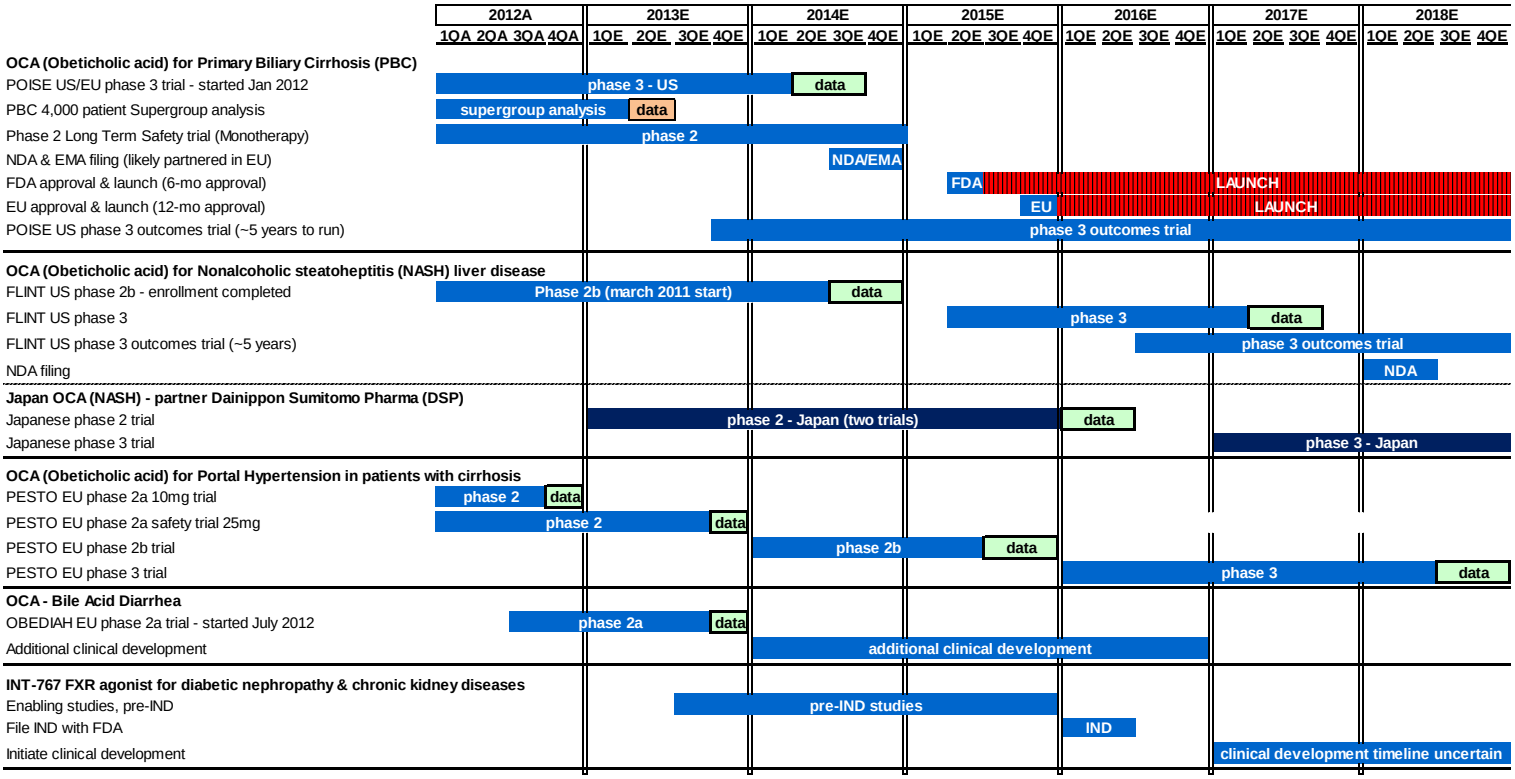
- **Europe's on board, FDA appears to be coming around.** OCA is a first-in-class FXR agonist targeting the significant unmet medical need to treat PBC Urso failures. With approximately 30,000 patients in the US & EU each and pricing in the ~$100,000/year typical of an orphan drug, we believe that OCA could be north of $600M by 2018 in the US alone. We believe that the PBC phase 3 trial results (due mid-2014) are set up for success.The key question remains if the FDA will ultimately accept the surrogate endpoints of lowering alkaline phosphatase (ALP) while maintaining normal bilirubin as predictive of the clinical outcome of maintaining liver function. We believe the FDA will accept those endpoints.
- **UK PBC study group data appears positive too.** The March 2013 issue of *Gastroenterology* reported data from an observational study in PBC from over 2,300 PBC patients in the UK which demonstrated that there is a highly statistically significant correlation between ALP, both alone and together with other biochemical parameters such as bilirubin, demonstrated that reductions in ALP levels down through to less than 1.5x upper limit normal (ULN) are strongly predictive of clinical benefit.
- **OCA remains a "pipeline in a product".** NASH is similar to alcoholic cirrhosis of the liver, and the advanced form of NASH affects ~8M people in the US alone with no FDA approved treatments available. OCA is currently in a phase 2 NASH trial sponsored by the National Institute of Diabetes and Digestive and Kidney Diseases. ICPT is also examining using OCA for the treatment of portal hypertension, which has no FDA approved treatment options and bile acid diarrhea, which is currently in a phase 2a open label trial with data expected in 1H13.
- **Maintain Buy rating, $48 Fair Value.** Our $48/share sum-of-the-parts is based on sales of OCA at $29/share based on a 3.5x multiple of 2018 US PBC sales and the EU royalties at $4/share based on a 5x multiple of 2018 EU PBC royalties, both discounted 5 years at 25% to account for the risks remaining in this program. We value OCA for NASH at $9/share based on a 3.5x multiple of 2020 sales of $1.1B discounted 7 years at 50% to account for risk. Our remaining $6/share value is based on cash (end 2013) and technology value.

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

Sum-of-the-parts valuation: ICPT		
Segment	Valuation (000's)	Per share value
OCA for PBC in the US	$698,755	$33
OCA for NASH in the US	$225,332	$9
Cash (end of '13E) & tech value	$132,291	$6
	$1,155,069	**$48**
2013 fully diluted shares out		24,488

Source: Janney estimates

Intercept Pharmaceuticals
Potential clinical trial timeline estimates



Source: Company reports and Janney estimates

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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 1QE	2013E 2QE	2013E 3QE	2013E 4QE	2013E Year
Revenues										
License fees	$759	$759	$523	$405	$2,446	$400	$400	$400	$400	$1,600
Total Revenues	**$759**	**$759**	**$523**	**$405**	**$2,446**	**$400**	**$400**	**$400**	**$400**	**$1,600**
Expenses										
Cost of Goods Sold	0	0	0	0	**0**	0	0	0	0	**0**
Gross Margin	**759**	**759**	**523**	**405**	**2,446**	**400**	**400**	**400**	**400**	**1,600**
Research and Development	3,060	5,018	3,318	4,787	16,183	5,250	6,250	6,500	6,500	24,500
SG&A	1,059	944	991	2,183	5,177	3,250	3,500	3,500	4,000	14,250
Total Operating Expenses	**4,119**	**5,962**	**4,309**	**6,970**	**21,360**	**8,500**	**9,750**	**10,000**	**10,500**	**38,750**
Income (loss) from Ops	**(3,360)**	**(5,203)**	**(3,786)**	**(6,565)**	**(18,914)**	**(8,100)**	**(9,350)**	**(9,600)**	**(10,100)**	**(37,150)**
Warrant Revaluation income	678	301	(1,418)	(24,187)	(24,626)					0
FOREX loss on liquidation		(198)								
Interest & dividend income	10	7	13	61	(100)	10	10	10	10	40
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)**	**(8,090)**	**(9,340)**	**(9,590)**	**(10,090)**	**(37,110)**
Div. pref stock, not declared	(750)	(750)	(1,000)	(130)	(2,630)					0
Net income/(loss)	**(3,430)**	**(5,842)**	**(6,187)**	**(30,821)**	**(46,274)**	**(8,090)**	**(9,340)**	**(9,590)**	**(10,090)**	**(37,110)**
EPS as reported	**($1.03)**	**($1.75)**	**($1.86)**	**($2.02)**	**($7.36)**	**($0.52)**	**($0.51)**	**($0.52)**	**($0.54)**	**($2.09)**
Shares out (000)	3,330	3,330	3,330	15,223	6,283	15,473	18,223	18,473	18,723	17,723
Fully diluted shares (000)	14,326	14,326	14,326	19,238	19,238	18,223	20,973	21,223	21,473	20,473

Source: Company reports and Janney estimates

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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	$1,600	$1,600	1,600	1,800	2,000	2,000
Total Revenues	**$2,446**	**$1,600**	**$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**	**1,600**	**1,600**	**22,654**	**136,925**	**374,776**	**598,390**
Research and Development	16,183	24,500	28,000	30,000	34,000	45,000	65,000
SG&A	5,177	14,250	18,250	25,000	41,500	93,750	132,500
Total Operating Expenses	**21,360**	**38,750**	**46,250**	**55,000**	**75,500**	**138,750**	**197,500**
Income (loss) from Ops	**(18,914)**	**(37,150)**	**(44,650)**	**(32,346)**	**61,425**	**236,026**	**400,890**
Warrant Revaluation income	(24,626)	-	-	-	-	-	-
FOREX loss on liquidation	-	-	-	-	-	-	-
Interest & dividend income	(100)	40	40	60	75	100	100
Interest expense	(4)	-	-	-	-	-	-
Pretax Income (Loss)	**(43,644)**	**(37,110)**	**(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)**	**(37,110)**	**(44,610)**	**(32,286)**	**61,500**	**188,901**	**264,654**
EPS as reported	**($7.36)**	**($2.09)**	**($2.31)**	**($1.59)**	**$2.64**	**$6.80**	**$9.13**
Shares out (000)	6,283	17,723	19,348	20,473	21,623	22,798	23,998
Fully diluted shares (000)	19,238	20,473	22,348	23,973	23,323	27,798	28,998
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%	51%	14%	7%	13%	32%	44%
SG&A	23%	175%	28%	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.

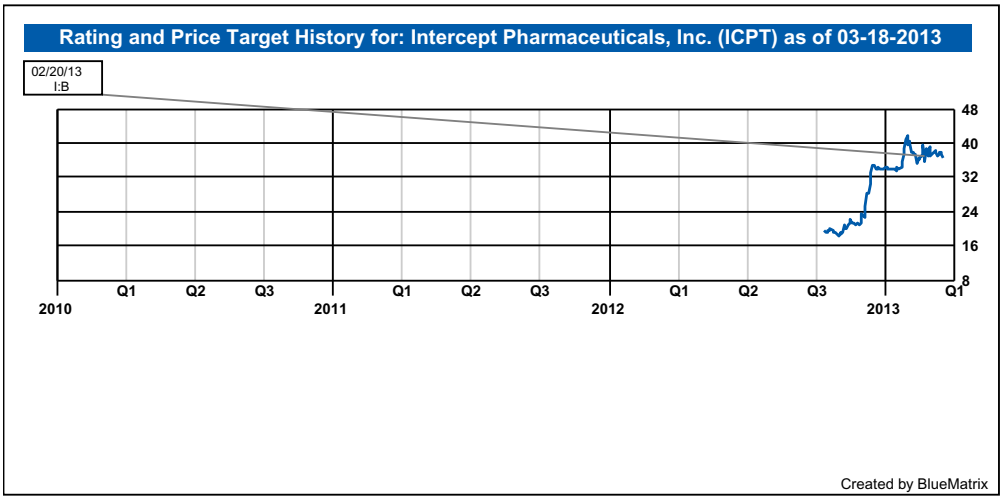
Definition of Ratings

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 12/31/12

			IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [B]	207	53.35	32	15.46
NEUTRAL [N]	177	45.61	15	8.47
SELL [S]	4	1.03	0	0.00

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

Other Disclosures

Janney Montgomery Scott LLC, is a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the New York Stock Exchange, the Financial Industry Regulatory Authority and the Securities Investor Protection Corp.

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