

July 1, 2013

Liana Moussatos, Ph.D. (415) 263-6626

Richard Lau (415) 274-6851

Intercept Pharmaceuticals (ICPT - OUTPERFORM): We Believe Recent Publication of Preclinical Data Highlights OCA's Potential Use in NASH; Reiterate OUTPERFORM And \$65 FV

Price: \$44.10

Fair Value Estimate: \$65

- **Preclinical results recently published in the *Journal of Endocrinology* demonstrate the beneficial effect of OCA on liver inflammation and steatosis.** The preclinical study looked at OCA treatment in an animal model of metabolic syndrome. One of the key results from the study was that OCA treatment resulted in a normalization of liver steatosis and inflammation. We believe these data bode well for the ongoing Phase 2b FLINT study in NASH. Recall the primary endpoint is improvement in NAFLD Activity Score and the three components of NAFLD are steatosis, lobular inflammation, and hepatocyte ballooning. The title of the article is "The FXR agonist normalizes insulin sensitivity in visceral preadipocytes of a rabbit model of MetS" (Maneschi et al, The Journal of Endocrinology, June 2013) and can be accessed from Intercept's website (http://www.interceptpharma.com/reading_room.php).
- **We anticipate topline data from the Phase 2 FLINT study testing OCA in NASH in Q4:14.** This Phase 2b study began enrollment in early 2011 and has a 72-week treatment duration (25 mg OCA vs. placebo) with a primary endpoint of biopsy-determined improvement in NAFLD Activity Score. Importantly, the study passed an interim futility analysis in June 2012 conducted after the first 100+ patients reached at least 24 weeks of therapy (with the earliest enrolled patients having reached up to 15 months of therapy).
- **We estimate gross peak annual sales of OCA in NASH could reach over \$350 million worldwide.** Non-Alcoholic Steatohepatitis (NASH) has become an increasingly prevalent medical problem in recent years as the rates of obesity continue to increase. NASH has an incidence rate of approximately 25% in obese individuals, and is estimated to affect roughly 7.5 million adults in the US (increasing to 25 million by 2025) according to the NIH. If left untreated, patients with NASH can progress to liver cirrhosis, becoming susceptible to a high risk of liver failure and liver cancer. There are currently no approved drug therapies for NASH but there were about \$615 million in off-label sales reported in 2010.
- **We see cash runway into 2016 covering transforming milestones.** Key milestones include: (1) Q4: full "supergroup" data; (2) YE: full Phase 2a release for OCA treatment of portal hypertension (PESTO); (3) YE: initiation of the confirmatory OCA/PBC Phase 3 trial (indicating FDA acceptance of ALP endpoint); (4) Q2:14: initial results from the pivotal Phase 3 testing OCA treatment of PBC (NCT01473524); (5) Q4:14: initial results from FLINT Phase 2 trial testing OCA treatment of NASH; (6) Q4:14: NDA and MAA filings for OCA/PBC; (7) mid-2015: potential approval and launch of OCA/PBC.
- **We are maintaining our OUTPERFORM rating and \$65 fair value.** Our fair value is calculated by a summation of applying a 30% annual discount to our net peak WW revenues for each drug/indication and applying a 1-10x multiple depending on stage of development to reflect risk.

Wedbush Securities does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Please see page 3 of this report for analyst certification and important disclosure information.

Investment Thesis

Intercept Pharmaceuticals is an emerging biopharmaceutical company developing small molecule drug treatments for significant unmet medical needs in orphan and other chronic liver diseases by leveraging its expertise and intellectual property in bile acid chemistry. We maintain an optimistic outlook for ICPT's attractive risk/reward profile as: 1) clinical success is likely; 2) regulatory risk is reasonable and continues to decline; and 3) commercial risk is below average. Intercept's lead drug, obeticholic acid or OCA, has generated impressive efficacy data in two Phase 2 studies for the treatment of Primary Biliary Cirrhosis (PBC). In short, we believe OCA possesses one of the more clinically-derisked Phase 2 datasets among biotech drugs in development. PBC is a relatively well defined orphan market with a clear unmet medical need. Should OCA be approved, we believe the barriers to commercial adoption will be relatively low as many patients have been identified and are receiving treatment. Moreover, we see upside potential to our estimates of the eligible patient population as well as pricing. We see a high chance of success for Intercept's ongoing Phase 3 POISE study in PBC, with data expected in Q2:2014. Meanwhile, we see significant upside potential beyond PBC from follow-on indications such as portal hypertension, NASH and bile-acid diarrhea.

Figure 1: Milestones

Expected Date	Event
H2:2013	Additional data presented on complete 4,000+ patient "supergroup" analysis of PBC biomarkers
H2:2013	Start of Phase 3 OCA confirmatory outcomes study in PBC
FY:2013	Additional data from OCA Phase 2a study in portal hypertension (PESTO)
Q2:2014	Topline data from pivotal Phase 3 POISE study of OCA in PBC
Q4:2014	Topline data from Phase 2 FLINT study of OCA in NASH
Mid:2015	Potential US Approval of OCA for the treatment of PBC

Source: Company data, Wedbush Securities, Inc.

Risks to Attainment of our Fair Value

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.

Analyst Certification

I, Liana Moussatos, Ph.D., Richard Lau, 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.

Disclosure information regarding historical ratings and price targets is available at <http://www.wedbush.com/ResearchDisclosure/DisclosureQ113.pdf>

Investment Rating System:

Outperform: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

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.

Underperform: Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

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 March 31, 2013)	Investment Banking Relationships (as of March 31, 2013)
Outperform: 51%	Outperform: 18%
Neutral: 44%	Neutral: 2%
Underperform: 5%	Underperform: 0%

The Distribution of Ratings is required by FINRA rules; however, WS' stock ratings of Outperform, Neutral, and Underperform most closely conform to Buy, Hold, and Sell, respectively. Please note, however, the definitions are not the same as WS' stock ratings are on a relative basis.

The analysts responsible for preparing research reports do not receive compensation based on specific investment banking activity. The analysts receive compensation that is based upon various factors including WS' total revenues, a portion of which are generated by WS' investment banking activities.

Wedbush Equity Research Disclosures as of July 1, 2013

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

Research Disclosure Legend

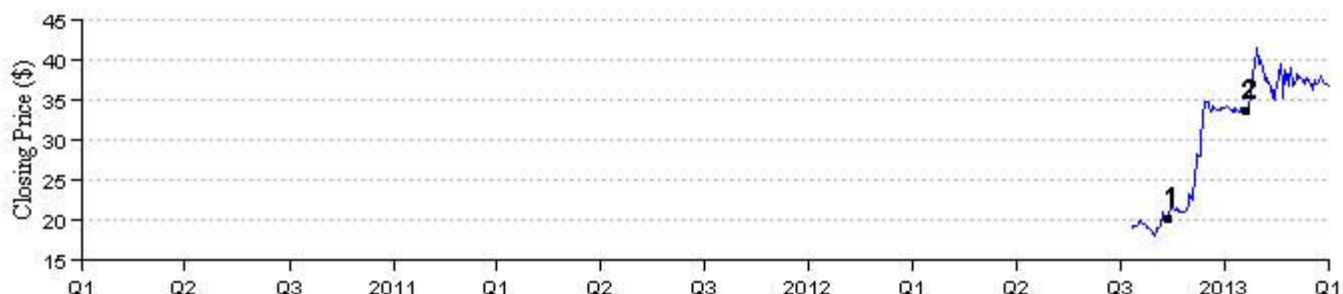
1. WS makes a market in the securities of the subject company.
2. WS managed a public offering of securities within the last 12 months.
3. WS co-managed a public offering of securities within the last 12 months.
4. WS has received compensation for investment banking services within the last 12 months.
5. WS provided investment banking services within the last 12 months.
6. WS is acting as financial advisor.
7. WS expects to receive compensation for investment banking services within the next 3 months.
8. WS provided non-investment banking securities-related services within the past 12 months.
9. WS has received compensation for products and services other than investment banking services within the past 12 months.
10. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report has a long position in the common stocks.
11. WS or one of its affiliates beneficially own 1% or more of the common equity securities.
12. The analyst maintains Contingent Value Rights that enables him/her to receive payments of cash upon the company's meeting certain clinical and regulatory milestones.

Price Charts

Wedbush disclosure price charts are updated within the first fifteen days of each new calendar quarter per FINRA regulations. Price charts for companies initiated upon in the current quarter, and rating and target price changes occurring in the current quarter, will not be displayed until the following quarter. Additional information on recommended securities is available on request.

ICPT

1) 11/08/12	2) 01/16/13
OUTPERFORM \$25	OUTPERFORM \$46



* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009.

Please access the attached hyperlink for WS' Coverage Universe: <http://www.wedbush.com/services/cmg/equities-division/research/equity-research>. Applicable disclosure information is also available upon request by contacting Ellen Kang in the Research Department at (213) 688-4529, by email to ellen.kang@wedbush.com, or the Business Conduct Department at (213) 688-8090. You may also submit a written request to the following: Business Conduct Department, 1000 Wilshire Blvd., Los Angeles, CA 90017.

OTHER DISCLOSURES

RESEARCH DEPT. * (213) 688-4505 * www.wedbush.com

EQUITY TRADING Los Angeles (213) 688-4470 / (800) 421-0178 * EQUITY SALES Los Angeles (800) 444-8076

CORPORATE HEADQUARTERS (213) 688-8000

The information herein is based on sources that we consider reliable, but its accuracy is not guaranteed. The information contained herein is not a representation by this corporation, nor is any recommendation made herein based on any privileged information. This information is not intended to be nor should it be relied upon as a complete record or analysis; neither is it an offer nor a solicitation of an offer to sell or buy any security mentioned herein. This firm, Wedbush Securities, its officers, employees, and members of their families, or any one or more of them, and its discretionary and advisory accounts, may have a position in any security discussed herein or in related securities and may make, from time to time, purchases or sales thereof in the open market or otherwise. The information and expressions of opinion contained herein are subject to change without further notice. The herein mentioned securities may be sold to or bought from customers on a principal basis by this firm. Additional information with respect to the information contained herein may be obtained upon request.

WEDBUSH

EQUITY RESEARCH DEPARTMENT

(213) 688-4529

DIRECTOR OF RESEARCH
Mark D. Benson (213) 688-4435

MANAGER, RESEARCH OPERATIONS
Ellen Kang (213) 688-4529

RETAIL AND CONSUMER

Consumer Products

Rommel T. Dionisio (212) 938-9934
Kurt M. Frederick, CFA CPA (415) 274-6822

Footwear, Apparel and Accessories

Corinna Freedman (212) 668-9876
Alicia Reese (212) 938-9927

Healthy Lifestyles

Kurt M. Frederick, CFA CPA (415) 274-6822

Restaurants

Nick Setyan (213) 688-4519
Colin Radke (213) 688-6624

Specialty Retail: Hardlines

Joan L. Storms, CFA (213) 688-4537
John Garrett, CFA (213) 688-4523

Specialty Retail: Softlines

Betty Chen (415) 273-7328
Alex Pham (415) 273-7315

RETAIL/CONSUMER MARKET RESEARCH

Gabriella Santaniello (213) 688-4557

INDUSTRIAL GROWTH TECHNOLOGY

Clean Technology

Craig Irwin (212) 938-9926
Min Xu (212) 938-9925

Environmental Services / Building Products

Al Kaschalk (213) 688-4539

Industrial Biotechnology

Liana Moussatos, Ph.D. (415) 263-6626
Christopher N. Marai, Ph.D. (415) 274-6861

Water and Renewable Energy Solutions

David Rose, CFA (213) 688-4319

TECHNOLOGY, INTERNET, MEDIA & SOCIAL MEDIA

Communications and Application Software

Shyam Patil, CFA (213) 688-8062

Communications Equipment

Rohit Chopra (212) 668-9871
Sanjit Singh (212) 938-9922
Ryan Flanagan (212) 938-9942

Computer Services: Financial Technology

Gil B. Luria (213) 688-4501
Aaron Turner (213) 688-4429

Enterprise Software

Steve Koenig (415) 274-6801

Entertainment: Retail

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343

Entertainment: Software

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343

Internet and E-Commerce

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343

Media

James Dix, CFA (213) 688-4315

Movies and Entertainment

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343

Semiconductors

Betsy Van Hees (415) 274-6869
Ryan Jue, CFA (415) 263-6669

LIFE SCIENCES

Biotechnology/Biopharmaceuticals/BioDefense

Gregory R. Wade, Ph.D. (415) 274-6863
David M. Nierengarten, Ph.D. (415) 274-6862
Christopher N. Marai, Ph.D. (415) 274-6861

Emerging Pharmaceuticals

Liana Moussatos, Ph.D. (415) 263-6626
Richard Lau (415) 274-6851
Christopher N. Marai, Ph.D. (415) 274-6861

Healthcare Services - Managed Care

Sarah James (213) 688-4503
Daniel Patt (212) 938-9937

Medical Devices

Tao Levy (212) 938-9948

Medical Diagnostics and Life Sciences Tools

Zarak Khurshid (415) 274-6823

EQUITY SALES

Los Angeles (213) 688-4470 / (800) 444-8076
San Francisco (415) 274-6800
New York (212) 938-9931
Boston (617) 832-3700

EQUITY TRADING

Los Angeles (213) 688-4470 / (800) 421-0178
San Francisco (415) 274-6811
New York (212) 344-2382
Boston (617) 832-3700

CORPORATE HEADQUARTERS

1000 Wilshire Blvd., Los Angeles, CA 90017-2465
Tel: (213) 688-8000 www.wedbush.com