

July 31, 2013

# Intercept Pharmaceuticals

(ICPT-NASDAQ)

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

## Biotechnology

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## Positive Update on OCA at BMO Capital Markets Corporate Access Event

### Event

The BMO Capital Markets US biotechnology team hosted Intercept management at our corporate access event in Boston on Tuesday. The meeting with CEO Dr. Mark Pruzanski focused on progress of the POISE phase 3 study for obeticholic acid (OCA) and broader indications. Overall timelines remain on track for POISE data in 2Q14, with patients enrolled very similar to those enrolled previously in a positive phase 2 study. Discontinuations due to pruritus through eight months are lower overall in the study than the 8% rate seen in phase 2 through three months. Commercial leadership has been put in place from Genzyme and market outreach/research is ongoing. Additional orphan indications emerging as a potential focus include portal hypertension with high risk for variceal bleeding and a newer indication of primary sclerosing cholangitis (PSC).

### Impact

We are reiterating our Outperform rating on shares of ICPT following our meeting at the BMO Capital corporate access conference. We continue to believe that likelihood of success in POISE is high and that the ability to access a ~\$3 billion opportunity has been under-estimated. Upside potential from PSC and portal hypertension has been similarly under-estimated and we expect significant upside into 2014.

### Forecasts

We estimate a loss per share of \$1.67 in 2013.

### Valuation

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

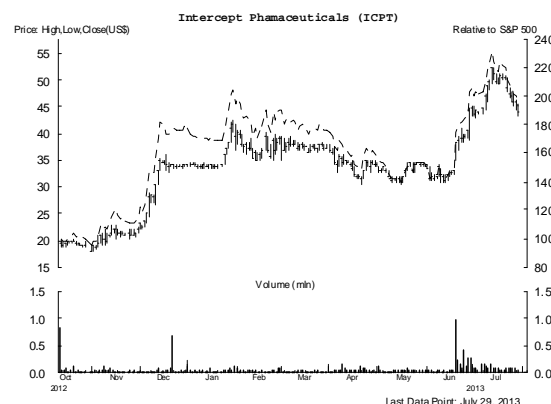
### Recommendation

We rate Intercept Pharmaceuticals Outperform.

### Securities Info

<b>Price (30-Jul)</b>	<b>\$44.95</b>	<b>Target Price</b>	<b>\$44</b>
52-Wk High/Low	\$52/\$18	Dividend	--
Mkt Cap (mm)	\$746	Yield	--
Shs O/S (mm, BASIC)	16.6	Float O/S (mm)	6.1
Options O/S (mm)	na	ADVOL (30-day, 000s)	139

### Price Performance



### Valuation/Financial Data

(FY-Dec.)	2011A	2012A	2013E	2014E
EPS GAAP	-\$1.17	-\$7.36	-\$1.67	-\$1.88
P/E			nm	nm
First Call Cons.			-\$2.14	-\$2.15
FCF	na	na	-\$1.14	na
P/FCF			nm	na
EBITDA (\$mm)	-\$14	-\$19	-\$25	-\$33
EV/EBITDA			nm	nm
Rev. (\$mm)	\$2	\$2	\$10	\$19
EV/Rev			62.3x	33.8x
<b>Quarterly EPS</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>
2012A	-\$1.03	-\$0.30	-\$1.86	-\$2.02
2013E	-\$0.62A	-\$0.33	-\$0.35	-\$0.38

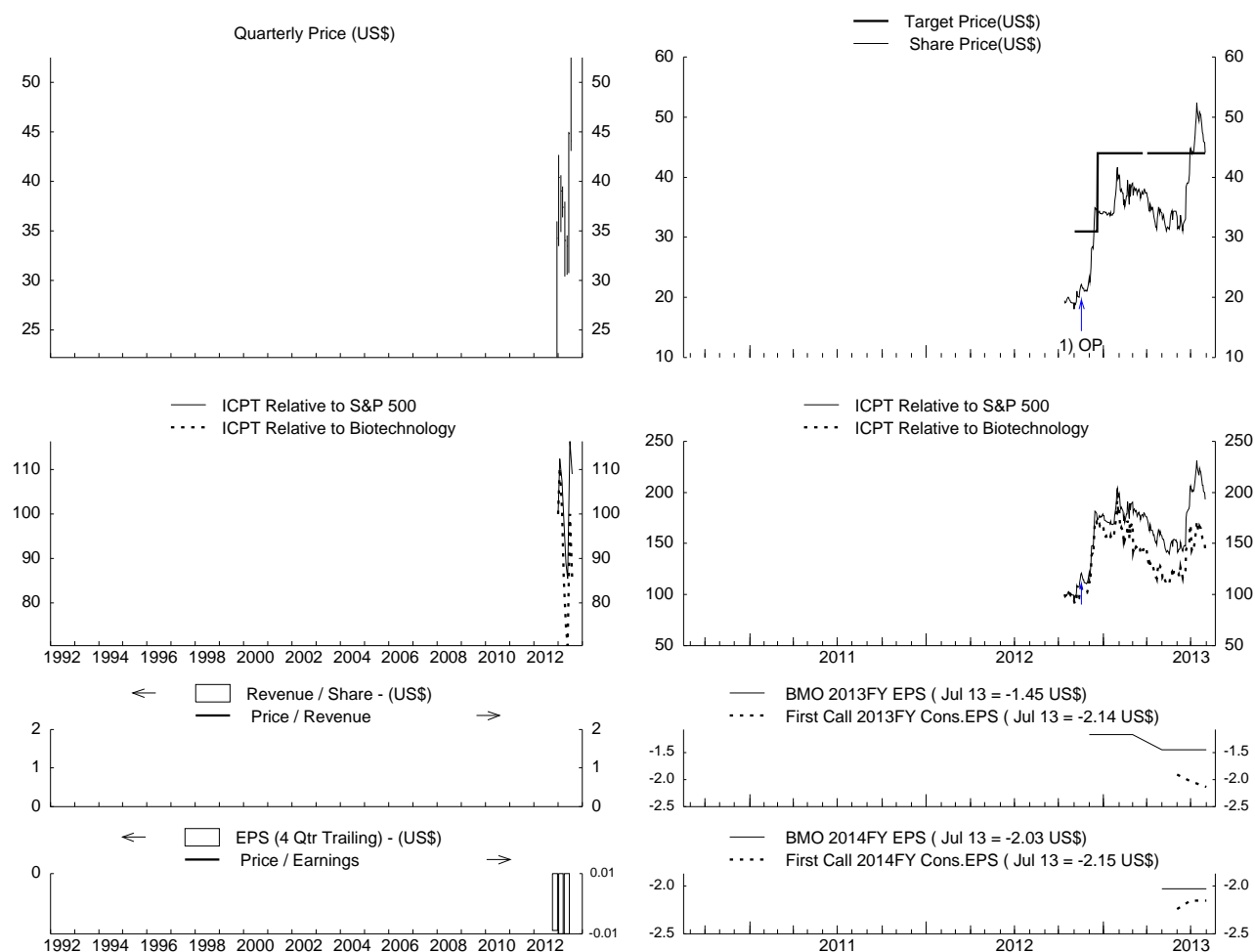
### Balance Sheet Data (31-Mar)

Net Debt (\$mm)	-\$104	Total Debt/EBITDA	nm
Total Debt (\$mm)	\$0	EBITDA/IntExp	na
Net Debt/Cap.	na	Price/Book	9.8x

Notes: All values in US\$.

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

## Intercept Pharmaceuticals (ICPT)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS US\$	Yield% Hi - Lo	Payout %	BV US\$	P/B Hi - Lo	ROE %
2012	-7.36	na na	0.00	0.0 0.0	0	-0.5	-73.4 -36.7	
Range*		na na		0.0 0.0			-73.4 -36.7	
Current*	-4.49	na	0.00	0.0	0	4.6	9.7	na

ICPT - Rating as of 10-Oct-12 = NR

Date	Rating Change	Share Price
1 15-Nov-12	NR to OP	\$22.12

\* Current EPS is the 4 Quarter Trailing to Q1/2013.  
 \* Valuation metrics are based on high and low for the fiscal year.  
 \* Range indicates the valuation range for the period presented above.

Last Price ( July 29, 2013): \$44.07  
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

## Important Disclosures

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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.

### Distribution of Ratings (June 30, 2013)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
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Hold	Market Perform	56.8%	10.2%	45.9%	53.9%	45.5%	41.1%
Sell	Underperform	5.3%	3.2%	1.4%	6.5%	3.5%	5.6%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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(S) = Speculative investment;

NR = No rating at this time; and

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