Intercept Pharmaceuticals (ICPT)

Q1 Financials: Cash Runway to Mid-2015 Includes Seven Milestones. Next: OCA Phase 2 In Bile Acid Diarrhea. Reiterate OUTPERFORM & $56 FV.

- **Q1 Financials were in-line with our estimates.** Intercept reported $405,000 in revenues from the amortization of the $15 million upfront payment from Dainippon Sumitomo Pharma, R&D of $4.8 million, G&A of about $2.4 million, and GAAP EPS (loss) of $(0.62). These were in-line with our $400,000, $4.97 million, $2.3 million, and $(0.61), respectively. The company ended Q1 with about $110.2 million in cash, cash equivalents, and short-term investments which the company previously projected to last into mid-2015.
- **We see cash runway to mid-2005 covering seven transforming milestones.** Key milestones include: (1) May 19th: Phase 2 top-line results for OCA treatment of bile acid diarrhea (OBADIAH trial, NCT01585025); (2) Q4: full "supergroup" data; (3) YE: full Phase 2a release for OCA treatment of portal hypertension (PESTO); (4) YE: initiation of the confirmatory OCA/PBC Phase 3 trial (indicating FDA acceptance of ALP endpoint); (5) Q2:14: initial results from the pivotal Phase 3 testing OCA treatment of PBC (NCT01473524); (6) Q4:14: Initial results from FLINT Phase 2 trial testing OCA treatment of NASH as well as (7) NDA and MAA filings for OCA/PBC.
- **Next:** May 19th presentation of Phase 2 results testing OCA treatment of bile acid diarrhea at Digestive Disease Week (DDW. May 18-21, 2013, Orlando). If positive, initial Phase 2 results could have a significant impact on ICPT's valuation as bile acid diarrhea is considered one of the most undiagnosed conditions with about 3 million patients estimated in the US. If approved, we project gross peak sales in the US could reach over $390 million and over $690 million worldwide.
- **Reiterate OUTPERFORM rating and $56 fair value.** Our fair value is calculated by 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. Each combination is added in a sum-of-parts to calculate fair value for ICPT.

FYE Dec	2012A	2013E			2014E		
REV (M)	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	$0.8A	$0.4E		$0.5E	$0.4E		$0.0E
Q2 Jun	0.8A	0.4E		0.5E	0.4E		0.0E
Q3 Sep	0.5A	0.4E		0.5E	0.4E		0.0E
Q4 Dec	0.4A	0.4E		0.5E	0.4E		0.0E
Year*	**$2.4A**	**$1.6E**		**$2.0E**	**$1.6E**		**$2.4E**
Change	n/a	n/a			n/a		
	2012A	**2013E**			**2014E**		
EPS	**ACTUAL**	**CURR.**	**PREV.**	**CONS.**	**CURR.**	**PREV.**	**CONS.**
Q1 Mar	($1.03)A	($0.62)E		($0.44)E	($0.50)E		($0.57)E
Q2 Jun	(1.75)A	(0.56)E		(0.46)E	(0.54)E		(0.56)E
Q3 Sep	(1.86)A	(0.59)E		(0.56)E	(0.57)E		(0.58)E
Q4 Dec	(2.02)A	(0.62)E		(0.62)E	(0.60)E		(0.59)E
Year*	**($7.36)A**	**($2.38)E**		**($2.08)E**	**($2.21)E**		**($2.40)E**
P/E	nm	nm			nm		
Change	n/a	n/a			n/a		

Consensus estimates are from Thomson First Call.
** Numbers may not add up due to rounding.*

May 15, 2013

Price
$31.41

Rating
OUTPERFORM

Fair Value Estimate
$56

Liana Moussatos, Ph.D.
(415) 263-6626
liana.moussatos@wedbush.com

Richard Lau
(415) 274-6851
richard.lau@wedbush.com

Company Information

Shares Outst (M)	18.2
Market Cap (M)	$571.6
52-Wk Range	$17.96 - $42.67
Book Value/sh	$3.60
Cash/sh	$6.06
Enterprise Value (M)	$461.4
LT Debt/Cap %	0.0%

Company Description

Intercept Pharmaceuticals is an emerging biopharmaceutical company specializing in the development of bile acid therapies. The company's lead drug, Obeticholic Acid (OCA), is currently in Phase III development for the treatment of Primary Biliary Cirrhosis (PBC).

Source: Thomson Reuters

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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 MODEL UPDATE

Intercept Pharmaceuticals (NASDAQ: ICPT)

Historical and Projected Income Statement

(In thousands except per share data)

(Fiscal Year Ends on December 31)

Wedbush PacGrow LifeSciences

Liana Moussatos, Ph.D.

Richard Lau

	2012A	2013E					2014E	2015E	2016E	2017E
	FY:12A	Q1A	Q2	Q3	Q4	FY:13E	FY:14E	FY:15E	FY:16E	FY:17E
Gross Product Sales:										
OCA (INT-747)										
PBC								*30,314*	*105,097*	*221,472*
Portal Hypertension								-	-	*6,696*
Bile Acid Diarrhea										*14,062*
Revenues/Royalties on Product Sales	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 30,314	$ 104,236	$ 224,671
OCA (INT-747)										
PBC	-	-	-	-	-	-	-	*30,314*	*104,236*	*214,037*
Portal Hypertension	-	-	-	-	-	-	-	-	-	*6,696*
Bile Acid Diarrhea								-	-	*3,937*
Licensing Revenue	$ 2,446	$ 405	$ 400	$ 400	$ 400	$ 1,605	$ 1,600	$ 1,600	$ 1,600	$ 1,600
Total Revenues	**$ 2,446**	**$ 405**	**$ 400**	**$ 400**	**$ 400**	**$ 1,605**	**$ 1,600**	**$ 31,914**	**$ 105,836**	**$ 226,271**
Operating Expenses										
Cost of Goods								1,819	6,240	13,125
Research and Development	16,183	4,833	5,123	5,481	5,920	21,356	28,146	33,286	38,940	45,555
Sales, General and Administrative	5,177	2,397	2,517	2,643	2,775	10,331	12,875	29,330	45,353	53,056
Other	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	**21,360**	**7,229**	**7,639**	**8,124**	**8,694**	**31,686**	**41,021**	**64,435**	**90,534**	**111,737**
Operating Income (Loss)	(18,914)	(6,824)	(7,239)	(7,724)	(8,294)	(30,081)	(39,421)	(32,521)	15,303	114,534
Interest and dividend income	82	-	19	19	25	63	78	37	23	23
Interest (expense)	3	-	-	-	-	-	-	-	-	-
Revaluation of warrants	(24,625)	(3,683)	(2,500)	(2,500)	(2,500)	(11,183)	-	-	-	-
Other income (expense)	(189)	296	296	296	296	1,185	1,185	1,185	1,185	1,185
Income Before Income Taxes	**(43,644)**	**(10,210)**	**(9,423)**	**(9,909)**	**(10,473)**	**(40,015)**	**(38,157)**	**(31,299)**	**16,512**	**115,743**
Other comprehensive income (loss)	(2,630)	-	-	-	-	-	-	-	-	-
Provision for Income Taxes (benefit)	-	-	-	-	-	-	-	-	2,861	25,327
Net Income (Loss)	**$ (46,274)**	**$ (10,210)**	**$ (9,423)**	**$ (9,909)**	**$ (10,473)**	**$ (40,015)**	**$ (38,157)**	**$ (31,299)**	**$ 13,650**	**$ 90,416**
EPS (Basic & Diluted; Pro forma)	(7.36)	(0.62)	(0.56)	(0.59)	(0.62)	(2.38)	(2.21)	(1.74)	0.69	4.48
Shares Outstanding (Basic)	**6,283**	16,558	16,805	16,905	17,005	**16,818**	**17,255**	**18,030**	**19,030**	**20,030**
Fully Diluted Shares Outstanding		18,297	18,544	18,644	18,744	**18,557**	**18,994**	**19,394**	**19,794**	**20,194**
Net Cash	**$110,272**	$ 110,194	$104,332	$96,775	$88,709	**$88,709**	**$47,149**	**$14,107**	**$26,692**	**$116,235**
Change in Cash (Burn)	**$92,363**					**($21,563)**	**($41,560)**	**($33,042)**	**$12,585**	**$89,543**

Sources: Intercept Pharmaceuticals and Wedbush Pacgrow Life Sciences

Q1 Financials were in-line with our estimates. Intercept reported $405,000 in revenues from the amortization of the $15 million upfront payment from Dainippon Sumitomo Pharma, R&D of $4.8 million, G&A of about $2.4 million, and GAAP EPS (loss) of $(0.62). These were in-line with our $400,000, $4.97 million, $2.3 million, and $(0.61), respectively. The company ended Q1 with about $110.2 million in cash, cash equivalents, and short-term investments which the company previously projected to last into mid-2015.

We see cash runway to mid-2005 covering seven transforming milestones. Key milestones include: (1) May 19th: Phase 2 top-line results for OCA treatment of bile acid diarrhea (OBADIAH trial, NCT01585025); (2) Q4: full "supergroup" data; (3) YE: full Phase 2a release for OCA treatment of portal hypertension (PESTO); (4) YE: initiation of the confirmatory OCA/PBC Phase 3 trial (indicating FDA acceptance of ALP endpoint); (5) Q2:14: initial results from the pivotal Phase 3 testing OCA treatment of PBC (NCT01473524); (6) Q4:14: Initial results from FLINT Phase 2 trial testing OCA treatment of NASH as well as (7) NDA and MAA filings for OCA/PBC.

FIGURE 2. MILESTONES

Expected Date	Event
May 19	**Topline results from Phase 2a OCA trial in bile acid diarrhea (OBADIAH) (DDW 5/18-21 Orlando)**
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

Sources: Intercept Pharmaceuticals and Wedbush Pacgrow Life Sciences

Next: May 19th presentation of Phase 2 results testing OCA treatment of bile acid diarrhea at Digestive Disease Week (DDW. May 18-21, 2013, Orlando). If positive, initial Phase 2 results could have a significant impact on ICPT's valuation as bile acid diarrhea is considered one of the most undiagnosed conditions with about 3 million patients estimated in the US. If approved, we project gross peak sales in the US could reach over $390 million and over $690 million worldwide.

FIGURE 3. VALUATION

We use multiples to account for clinical and regulatory risk at various stages of development.

1: In preclinical testing	6: Phase III testing
2: Passed preclinical	7: Phase III data (positive)
3: IND filed	8: Regulatory review
4: Phase I data (positive)	9: Approved
5: Phase II data (positive)	10: Launched

Today: 5/15/13	Stock	MktCap ($000)	Upside
Wedbush Fair Value for ICPT	**$56.83**	**$1,034,224**	**81%**
Full Pipeline Value:	$57.38	$1,044,199	
Net Cash:	$6.06	$110,194	
ICPT Total Value:	$63.44	$1,154,393	
Current ICPT Stock:	$31.41	$571,577	
ICPT Diluted Shares Outstanding (000s):	18,197		

Intercept Pipeline Valuation

Product		Indication	Eligible # Annual WW Treatable 2nd Line Patients Est	Pricing (WW Wtd Avg $USD / Patient / Year)	WW Wtd Avg Peak Penetration Est	Gross WW Peak Sales Est ($000)	ICPT Net Peak Revs Est WW + Upfront & Miles ($000)	1st Estimated Launch	Multiple	Annual Discount Rate	Wedbush MktCap Fair Value ($000)	Wedbush Stock Fair Value
FXR Agonist	OCA (INT-747)	PBC	18,040	$67,400	40%	$517,440	$586,544	4/1/2015	6	30%	$752,536	$41.35
FXR Agonist	OCA (INT-747)	Portal Hypertension	432,000	$12,008	11%	$684,000	$422,100	7/1/2017	5	30%	$192,270	$10.57
FXR Agonist	OCA (INT-747)	NASH	10,440,000	$2,047	2%	$360,000	$318,995	7/1/2018	4	30%	$89,418	$4.91
FXR Agonist	OCA (INT-747)	Bile Acid Diarrhea	3,960,000	$1,915	12%	$697,500	$326,500	7/1/2017	3	30%	$89,234	$4.90
TGR5 Agonist	INT-777	Type II Diabetes	34,400,000	$3,844	1%	$2,437,000	$181,850	6/1/2019	1	30%	$10,017	$0.55
FXR/TGR5 Agonist	INT-767	Fibrosis	13,200,000	$1,915	1%	$421,953	$181,098	6/1/2019	1	30%	$9,975	$0.55

Sources: Intercept Pharmaceuticals and Wedbush Pacgrow Life Sciences

Reiterate OUTPERFORM rating and $56 fair value. Our fair value is calculated by 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. Each combination is added in a sum-of-parts to calculate fair value for ICPT.

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 Biography

Ms. Moussatos is a Managing Director, Equity Research responsible for the coverage of stocks in the Emerging Pharmaceuticals sector. Liana joined Wedbush from Pacific Growth Equities where she was a Senior Research Analyst. Prior to that she came from UBS Global Asset Management where she was Director and Portfolio Manager of the UBS Global Biotech Funds for five years. Previously Liana was with Bristol-Meyers Squibb where she was a manager in University and Government Licensing External Science and Technology and she also worked with Sloan-Kettering Cancer Institute in the Office of Industrial Affairs and the National Cancer Institute in the Office of Technology Development.

Liana received a B.S. in Entomology and a M.S. in Zoology and Biochemistry from Clemson University and a Ph.D. in Plant Pathology from the University of California Davis and completed a postdoctoral research fellowship in Cellular and Molecular Physiology at the Yale School of Medicine.

Liana's Edge: Liana's industry and buy-side experience provide depth in her understanding of what investors need to know along with her 13 years experience in following healthcare stocks. Her pipeline valuation includes all drug candidates / disease indications in active development and provides investors with a stock value for each program.

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.

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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).*

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

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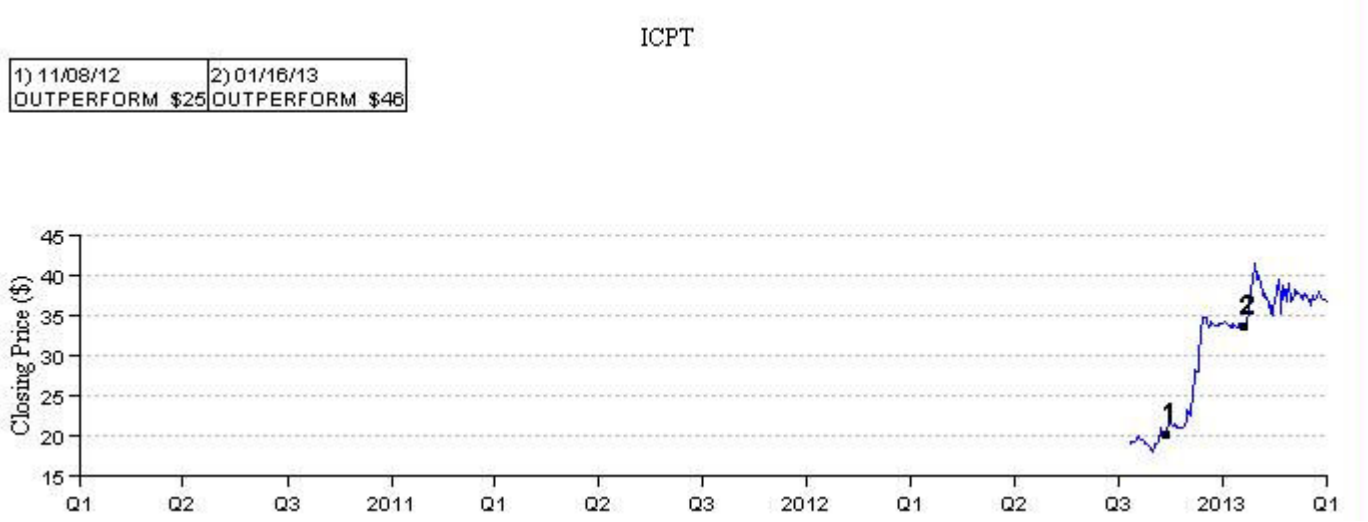

* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009.
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CORPORATE HEADQUARTERS (213) 688-8000

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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

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

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Alicia Reese (212) 938-9927

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John Garrett, CFA (213) 688-4523

Specialty Retail: Softlines
Betty Chen (415) 273-7328
Alex Pham (415) 273-7315

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Min Xu (212) 938-9925

Environmental Services
Al Kaschalk (213) 688-4539
Scott Buck (213) 688-4303

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

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Entertainment: Retail
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Michael Pachter (213) 688-4474
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Ryan Jue, CFA (415) 263-6669

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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

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