

Q209 disappoint & S. aureus Ph. III delayed

■ Q209 numbers miss UBSe and street expectations

Intercell reported Q209 results below expectations. Revenues were €14.9m versus UBSe €17.2m and Consensus €18.4m. EBIT loss was higher than expected at €6.6m vs UBSe -€2.2m and Consensus -€3.1m and Net Loss also higher at -€3.1m vs UBSe -€1.4 and Consensus of -€1.7.

■ TD Ph. III study reinitiated but S. aureus Phase III delayed

Positive news: the Traveller's Diarrhoea Ph. III study which had been postponed earlier this year because of the swine flu outbreak is to be re-initiated in Q409. Negative news: the first interim analysis of the S. aureus infections Ph. II/III study should read-out in 2010 (was expected in Q309). This is due to slower than expected enrolment rate and accrual of S. aureus infections, UBSe US\$750m expected peak sales.

■ Contract signed with US military could take time to impact top line

A multi-year contract with the US department of defence on Ixiaro (Japanese encephalitis vaccine) has been agreed. While management said that first product deliveries into the military supply chain are on track, we view this contract as a rather small portion of Ixiaro's value and Intercell business.

■ Valuation

We value Intercell using a probability weighted SOTP DCF-based model. We have made no change to our model and our price target remains €25. We still believe the market is expecting too much from Ixiaro, too early.

Highlights (€m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	53	56	90	107	127
EBIT (UBS)	2	(14)	12	12	18
Net Income (UBS)	5	17	18	17	19
EPS (UBS, €)	0.12	0.37	0.39	0.36	0.42
Net DPS (UBS, €)	0.00	0.00	0.00	0.00	0.00

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	-	-24.8	13.4	11.1	14.0
ROIC (EBIT) %	-	(4.3)	3.1	3.0	4.3
EV/EBITDA (core) x	-	<-100	71.4	71.1	52.5
PE (UBS) x	-	70.9	65.1	70.1	60.5
Net dividend yield %	-	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of €25.35 on 17 Aug 2009 21:39 BST

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Global Equity Research

Austria

Biotechnology

12-month rating **Neutral**
Unchanged

12m price target €25.00/US\$35.21
Unchanged

Price €25.35/- (ADR)

RIC: ICELV.I BBG: ICLL AV

18 August 2009

Trading data (local/US\$)

52-wk range	€30.65-18.01/--
Market cap.	€1.20bn/US\$0.00bn
Shares o/s	47.2m (ORD)/47.2m (ADR)
ADR ratio	1 ADR:1 ORD
Free float	100%
Avg. daily volume ('000)	153/-
Avg. daily value (€m)	3.7/-

Balance sheet data 12/09E

Shareholders' equity	€0.36bn
P/BV (UBS)	3.2x
Net Cash (debt)	(€0.03bn)

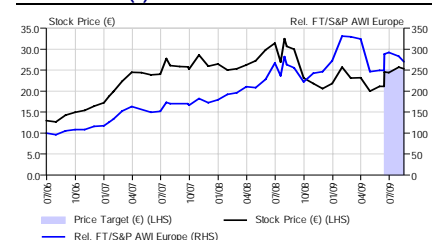
Forecast returns

Forecast price appreciation	-1.4%
Forecast dividend yield	0.0%
Forecast stock return	-1.4%
Market return assumption	5.8%
Forecast excess return	-7.2%

EPS (UBS, €)

	12/09E		12/08
	UBS	Cons.	Actual
Q1	(0.14)	(0.17)	(0.10)
Q2	(0.03)	(0.02)	(0.09)
Q3E	0.08	(0.02)	(0.11)
Q4E	0.51	0.41	0.67
12/09E	0.39	0.26	
12/10E	0.36	0.36	

Performance (€)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 7.

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Q209 miss UBSe and consensus estimates

Intercell reported Q209 results below expectations with revenues of €4.9m, 13% lower than UBSe and 19% lower than consensus expectations (Reuters estimates €8.4m). With operating costs in line, EBIT loss was consequently higher than expected at €6.6m vs UBSe -€2.2m and Consensus -€3.1m and Net Loss also higher at -€3.1m vs UBSe -€1.4 and Consensus of -€1.7.

Table 1: Forecasted and reported Q209 P&L (all amount in € million)

	Q209E	Q209A	Growth	Difference	
Revenue	17.192	14.897	65.2%	(13.3%)	
COGS	(0.978)	(2.700)			
R&D	(13.660)	(13.648)	14.9%	(0.1%)	
SG&A	(4.733)	(4.442)	7.9%	(6.2%)	
Other Income/Expenses	0.000	(0.769)			
Income from Transactions in Associates	0.000	0.000			
Total Operating Expenses	(19.371)	(21.559)			
EBIT	(2.179)	(6.662)	7.3%	205.7%	
D&A	1.271	1.348			
EBITDA	(0.908)	(5.314)	10.5%		
Net Financial Income	0.738	0.653			
Share of Loss from Associates	0.000	0.000			
Profit Before Tax	(1.441)	(6.009)	52.9%	317.1%	
Income Tax	0.000	2.931			
Equity in losses of associates	0.000	0.000			
Profit After Tax	(1.441)	(3.078)	(23.7%)	113.7%	
EPS					
	Basic	(0.031)	(0.065)	(27.6%)	110.0%

Source: Intercell, UBSe

Pipeline update: a mix of positive and negative news

Management gave an update of the ongoing clinical trials and we believe the negative news had more weight than the positives.

Staphylococcus aureus Phase II/III delayed to “beyond 2009”

Because of slower than expected recruitment rate and slower accrual of infections in the ongoing Phase III study in patients undergoing cardiothoracic surgery, the first interim data analysis was postponed to “beyond 2009” (was expected by year-end). Management highlighted that data should be available sometime during 2010.

The guidance of a read-out in 2010 assumes that 3,000-4,000 patients will need to be recruited. According to management, only “a couple of thousands” has been recruited to date. Should partner Merck need to recruit the full 8,000 patients, this could lead to a 6-9 months additional delay, according to management.

Beyond Ixiaro, we view the *S. aureus* vaccine as Intercell’s second best asset and view this delay as a major issue for the company. Although management suggested that the slower accrual infections could suggest that the vaccine was more efficacious than expected, the slower than expected enrolment rate and slower accrual of infections could suggest that more patients may need to be recruited in the study, delaying the read-out by at least a year. It also suggests that the market potential of the drug could be lower than what the market expects. Management guides for a market opportunity of over €3 billion. Although we agree that a real medical need exists for preventing nosocomial infections we believe the market potential of the drug is much lower than what management anticipates and we forecast US\$750 million in peak sales.

[Traveller’s Diarrhoea Phase III to start in Q409 – partnership in sight](#)

This Phase III clinical study in patients going travelling in Mexico and Guatemala had to be postponed in Q109 following the spread of swine flu infections. Management announced that the study was to be re-initiated in Q409 and that a read-out in 2010. Additional Phase II studies are to be conducted in the US and in Asia but that both studies will run in parallel of the Phase III study. This should lead to an approval and launch in 2013.

The company also guided that a partnership for this vaccine was expected over the coming months.

[Main other clinical trials appear on track](#)

Both the Phase II trial of the Vaccine Enhancement Patch for single dose Pandemic Influenza vaccine and the *Pseudomonas aeruginosa* vaccine Phase II study appear on track. The Pandemic Influenza vaccine has completed recruitment and more than 50% of patients for the *P. aeruginosa* Phase II study have already been enrolled.

We anticipate both first data from the *P. aeruginosa* trial and on the single dose pandemic influenza vaccine (with vaccine enhancement patch) by the end of the year.

While we view the Vaccine Enhancement Patch as a low risk product for the company, we believe the *P. aeruginosa* Phase II study carries a much higher level of risk. Our model assumes 30% chance of reaching the market at this stage.

[Updated model](#)

Following management decision to move the start of the Travellers Diarrhoea vaccine forward, management is now guiding for a small increase in R&D expenses over 2008. We also believe that management has done significant efforts on the SG&A side and that the R&D increase should be partially mitigated by weaker than expected SG&A expenses.

We have updated our model to reflect these changes and the table below shows the changes we have made to our model.

Table 2: Intercell forecasted 2009-12 P&L (all amount in € million)

	Old 2009E	Revised 2009E	Change	Old 2010E	Revised 2010E	Change	Old 2011E	Revised 2011E	Change
Revenue	90.079	90.079	0.0%	107.421	107.421	0.0%	126.711	126.711	0.0%
COGS	(9.779)	(9.147)	(6.5%)	(12.907)	(12.907)	0.0%	(17.119)	(17.119)	0.0%
R&D	(50.456)	(56.623)	12.2%	(63.070)	(63.078)	0.0%	(69.377)	(69.385)	0.0%
SG&A	(17.739)	(16.287)	(8.2%)	(19.512)	(19.512)	(0.0%)	(22.439)	(22.439)	(0.0%)
Other Income/Expenses	0.000	0.444		0.000	0.000		0.000	0.000	
Income from Transactions in Associates	0.000	0.000		0.000	0.000		0.000	0.000	
Total Operating Expenses	(77.973)	(81.613)		(95.489)	(95.497)		(108.935)	(108.943)	
EBIT	12.106	8.466	(30.1%)	11.932	11.924	(0.1%)	17.776	17.768	(0.0%)
D&A	5.083	5.083		5.338	5.338		5.604	5.604	
EBITDA	17.189	13.549	(21.2%)	17.269	17.262	(0.0%)	23.381	23.372	(0.0%)
Net Financial Income	2.953	4.862		3.336	3.667		3.849	4.227	
Share of Loss from Associates	0.000	0.000		0.000	0.000		0.000	0.000	
Profit Before Tax	15.059	13.328	(11.5%)	15.268	15.591	2.1%	21.626	21.995	1.7%
Income Tax	3.012	3.998		1.527	1.559		(2.163)	(2.199)	
Equity in losses of associates	0.000	0.000		0.000	0.000		0.000	0.000	
Profit After Tax	18.071	17.326	(4.1%)	16.795	17.150	2.1%	19.463	19.795	1.7%
Basic	0.389	0.367	(5.8%)	0.362	0.363	0.4%	0.419	0.419	(0.0%)
Diluted	0.389	0.367		0.362	0.363		0.419	0.419	

Source: UBSe

Income statement (€m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	5	8	23	53	56	90	61.5	107	19.3	127	18.0
Operating expenses (ex depn)	-	-	-	-	-	(73)	-	(90)	23.7	(103)	14.6
EBITDA (UBS)	(20)	(25)	(16)	3	(11)	17	-	17	0.5	23	35.4
Depreciation	(1)	(1)	(1)	(2)	(3)	(5)	69.7	(5)	5.0	(6)	5.0
Operating income (EBIT, UBS)	(21)	(26)	(17)	2	(14)	12	-	12	-1.4	18	49.0
Other income & associates	0	(1)	0	0	0	0	-	0	-	0	-
Net interest	0	1	1	3	6	3	-54.1	3	13.0	4	15.4
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	(21)	(25)	(16)	5	(7)	15	-	15	1.4	22	41.6
Tax	0	0	0	0	25	3	-87.7	2	-49.3	(2)	-
Profit after tax	(21)	(25)	(16)	5	17	18	5.2	17	-7.1	19	15.9
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	0	0	0	0	0	0	-	0	-	0	-
Net income (local GAAP)	(21)	(25)	(16)	5	17	18	5.2	17	-7.1	19	15.9
Net Income (UBS)	(21)	(25)	(16)	5	17	18	5.2	17	-7.1	19	15.9
Tax rate (%)	0	0	0	0	0	0	-	0	-	10	-
Pre-abnormal tax rate (%)	0	0	0	0	0	0	-	0	-	10	-
Per share (€)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	(0.90)	(0.79)	(0.45)	0.12	0.37	0.39	5.2	0.36	-7.1	0.42	15.9
EPS (UBS)	(0.90)	(0.79)	(0.45)	0.12	0.37	0.39	5.2	0.36	-7.1	0.42	15.9
Net DPS	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash EPS	(0.86)	(0.76)	(0.42)	0.16	0.43	0.50	14.8	0.48	-4.4	0.54	13.3
BVPS	0.80	1.48	2.78	5.81	7.39	7.81	5.7	8.06	3.2	8.36	3.7
Balance sheet (€m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net tangible fixed assets	6	7	10	12	51	53	5.0	56	5.0	59	5.0
Net intangible fixed assets	0	0	0	19	182	195	7.3	195	0.0	195	0.0
Net working capital (incl. other assets)	27	47	86	240	169	167	-1.3	176	5.3	187	6.4
Other liabilities	0	0	0	(5)	(22)	(22)	0.0	(22)	0.0	(22)	0.0
Operating invested capital	33	54	96	267	380	393	3.6	405	2.9	419	3.5
Investments	0	0	0	0	0	0	0.0	0	0.0	0	0.0
Total capital employed	33	54	96	267	380	393	3.6	405	2.9	419	3.5
Shareholders' equity	27	50	93	265	349	362	3.9	374	3.2	388	3.7
Minority interests	0	0	0	0	0	0	-	0	-	0	-
Total equity	27	50	93	265	349	362	3.9	374	3.2	388	3.7
Net debt / (cash)	6	4	3	2	31	31	0.0	31	0.0	31	0.0
Debt deemed provisions	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	33	54	96	267	380	393	3.6	405	2.9	419	3.5
Cash flow (€m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Operating income (EBIT, UBS)	(21)	(26)	(17)	2	(14)	12	-	12	-1.4	18	49.0
Depreciation	1	1	1	2	3	5	69.7	5	5.0	6	5.0
Net change in working capital	2	(2)	4	36	(3)	(6)	120.3	(2)	-63.0	(5)	144.3
Other (operating)	6	2	3	(1)	(28)	(4)	-84.0	(5)	17.1	(5)	4.7
Operating cash flow	(12)	(25)	(8)	38	(41)	7	-	10	40.6	13	28.6
Net interest received / (paid)	0	1	1	3	6	3	-54.1	3	13.0	4	15.4
Dividends paid	0	0	0	0	0	0	-	0	-	0	-
Tax paid	0	0	0	0	25	3	-87.7	2	-49.3	(2)	-
Capital expenditure	(1)	(2)	(4)	(4)	(44)	(8)	-82.8	(8)	5.0	(8)	5.0
Net (acquisitions) / disposals	0	1	0	4	7	(13)	-	0	-	0	-
Other	-	(23)	(22)	(61)	(113)	0	-	0	-	0	-
Share issues	17	47	58	153	1	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	(15)	(1)	25	133	(159)	(8)	-95.1	7	-	6	-10.6
FX / non cash items	-	3	(24)	(132)	130	8	-94.0	(7)	-	(6)	-10.6
Balance sheet (inc)/dec in net debt	-	2	1	1	(29)	0	-	0	-	0	-
Core EBITDA	(20)	(25)	(16)	3	(11)	17	-	17	0.5	23	35.4
Maintenance capital expenditure	-	(2)	(4)	(4)	(44)	(8)	-82.8	(8)	5.0	(8)	5.0
Maintenance net working capital	6	4	5	4	(1)	(6)	731.4	(9)	32.5	(14)	60.0
Operating free cash flow, pre-tax	-	(22)	(14)	3	(56)	3	-	1	-76.0	1	80.6

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Company profile

Intercell is an Austrian Biotech company that develops and markets vaccines in various indications. Its first approved product is Ixiaro, indicated for the prevention of Japanese encephalitis, and is partnered with Novartis and CSL. Intercell's pipeline includes vaccines for the treatment of Traveler's diarrhoea, infections caused by *Pseudomonas aeruginosa* and *Staphylococcus aureus*, as well as Tuberculosis. Intercell is also developing a transdermal patch aimed at improving the efficacy of injected vaccines.

Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	-	NM	70.9	65.1	70.1	60.5
P/E (UBS)	-	>100	70.9	65.1	70.1	60.5
P/CEPS	-	NM	60.4	50.8	53.2	46.9
Net dividend yield (%)	-	0.0	0.0	0.0	0.0	0.0
P/BV	-	4.2	3.6	3.2	3.1	3.0
EV/revenue (core)	-	NM	NM	NM	NM	9.7
EV/EBITDA (core)	-	>100	<-100	71.4	71.1	52.5
EV/EBIT (core)	-	NM	NM	NM	NM	NM
EV/OpFCF (core)	-	NM	NM	NM	NM	NM
EV/op. invested capital	-	5.2	3.8	3.2	3.1	3.0

Enterprise value (€m)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	940	1,211	1,197	1,197	1,197
+ minority interests	0	0	0	0	0
+ average net debt (cash)	3	16	31	31	31
+ pension obligations and other	0	0	0	0	0
- non-core asset value	0	0	0	0	0
Core enterprise value	943	1,228	1,228	1,228	1,228

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	-	127.5	4.5	61.5	19.3	18.0
EBITDA (UBS)	-	-	-	-	0.5	35.4
EBIT (UBS)	-	-	-	-	-1.4	49.0
EPS (UBS)	-	-	NM	5.2	-7.1	15.9
Cash EPS	-	-	164.3	14.8	-4.4	13.3
Net DPS	-	-	-	-	-	-
BVPS	-	109.4	27.1	5.7	3.2	3.7

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	-	6.4	NM	19.1	16.1	18.5
EBIT / revenue	-	3.1	-24.8	13.4	11.1	14.0
Net profit (UBS) / revenue	-	9.4	30.8	20.1	15.6	15.4

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	-	0.9	NM	3.1	3.0	4.3
ROIC post tax	-	0.9	NM	3.1	3.0	3.9
Net ROE	-	2.8	5.6	5.1	4.6	5.1

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	-	-	-	-	-	-
Dividend cover (UBS EPS)	-	-	-	-	-	-
Div. payout ratio (% , UBS EPS)	-	-	-	-	-	-
Net debt / EBITDA	-	0.6	NM	1.8	1.8	1.3

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	-	0.3	0.2	0.2	0.3	0.3
Revenue / fixed assets	-	2.6	0.4	0.4	0.4	0.5
Revenue / net working capital	-	0.3	0.3	0.6	0.7	0.8

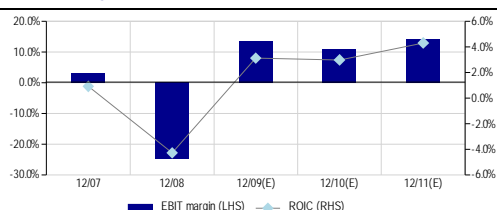
Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	-	2.0	4.0	0.3	0.1	0.1
Capex / revenue (%)	-	8.1	NM	8.5	7.5	6.6
Capex / depreciation	-	2.5	NM	1.5	1.5	1.5

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	-	0.8	8.8	8.5	8.2	7.9
Net debt / (net debt + equity)	-	0.8	8.1	7.8	7.6	7.4
Net debt (core) / EV	-	0.3	1.3	2.5	2.5	2.5

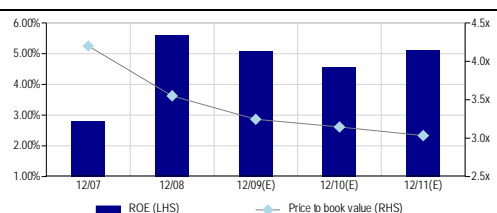
Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items.

Valuations: based on an average share price that year, (E): based on a share price of €25.35 on 17 Aug 2009 21:39 BST Market cap(E) may include forecast share issues/buybacks.

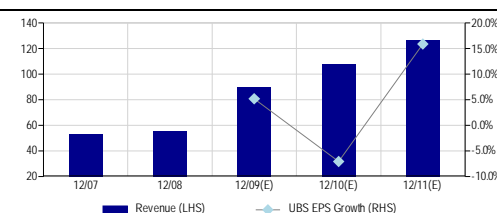
Profitability



ROE v Price to book value



Growth (UBS EPS)



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■ Intercell AG

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■ Statement of Risk

Intercell is involved in developing vaccines for infectious diseases. Although the development of vaccines usually carries less risk than the development of other drugs, clinical development of these vaccines may fail and Intercell may not succeed in getting regulatory approval. Moreover, Intercell's only approved product, a Japanese encephalitis vaccine, may fail to meet sales expectations that could lead to significant pressure on the stock.

■ Analyst Certification

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	44%	38%
Neutral	Hold/Neutral	39%	36%
Sell	Sell	17%	25%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	33%
Sell	Sell	less than 1%	33%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 June 2009.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

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UBS Limited: Guillaume van Renterghem; Martin Wales, PhD.

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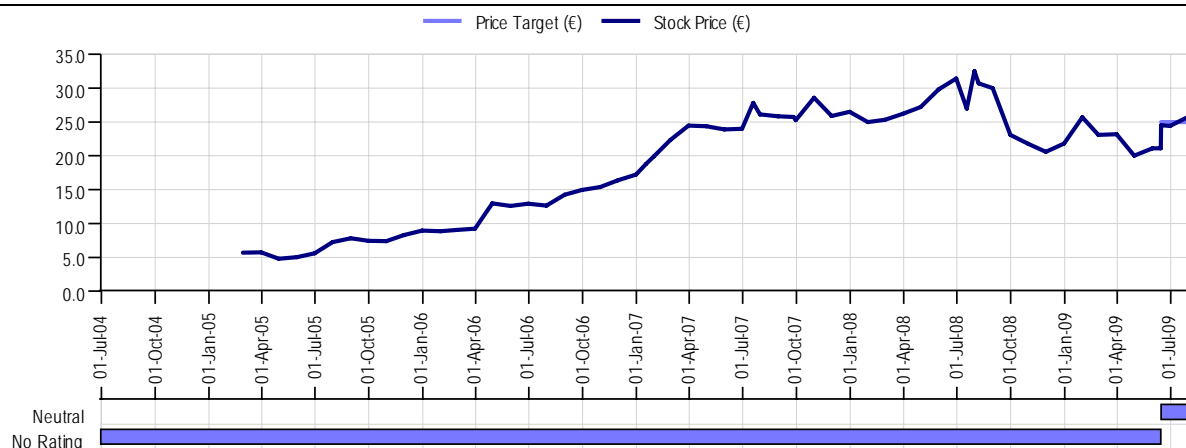
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Intercell AG	ICEL.VI	Neutral	N/A	€25.35	17 Aug 2009

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Intercell AG (€)



Source: UBS; as of 17 Aug 2009

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