

WEDBUSH QUICK NOTE

Gregory R. Wade, Ph.D. (415) 274-6863

Jeremiah B. Shepard, Ph.D. (415) 274-6862

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Ironwood Pharmaceuticals (IRWD – OUTPERFORM): Digestive Disease Week Linaclotide Chronic Constipation Phase III Data Oral Presentation

Price: \$12.38 (intraday 5/4/10)

Price Target: \$24

- **Additional secondary endpoint data was presented for the 2 linaclotide Phase III studies in the chronic constipation (CC) setting yesterday at the DDW meeting in New Orleans.** The results are consistent with the data that was previously presented and there was nothing in the results that should be cause for concern.
- **The street is focused on the differences between existing approved treatments (osmotics, lubiprostone/Amitiza, motility agents) and linaclotide, and in particular for Amitiza, the concern is that this approved agent is not doing well commercially.**
- **Key details emerged from discussions with Dr. Rao and other thought leaders at the reception for the lack of Amitiza's market penetration.** The Physicians stated that linaclotide's impact on pain and bloating will differentiate it from Amitiza; nausea is an adverse event that is thought to limit the market uptake of Amitiza and the absence of dose flexibility impacts this treatment's utility (i.e. too low a dose, no efficacy, too high, nausea). Furthermore, the perception of linaclotide's safety could lead to see physicians readily prescribing this therapy in the front line setting.
- **We expect an update on the timing of the IBS-C Phase III data when the company reports Q1 financial results (date not set).** One IBS-C Phase III study completed recruitment on February 19, the other on March 5, and we believe that patients in the second study are now in the open label extension study. Data timing will be dependent upon whether the company wants the open label phase (to week 26) of the data in hand before releasing primary endpoint top-line (to week 12).
- **Reiterate our OUTPERFORM rating with a \$24/share price target.** We estimate that US linaclotide sales will peak at approximately \$2.4 billion in 2019 in the CC and IBS-C settings. We arrive at our valuation by discounting back the product of the net present value of losses and profits through 2015 plus 18X 2016 linaclotide royalties and US revenues (25% discount rate, estimated current diluted share count of 119.8 million).
- Risks to the attainment of our price target include potential negative data from the IBS-C Phase III studies, regulatory risk associated with the NDA expected to be filed with the FDA and failure to achieve meaningful sales penetration of linaclotide in the IBS-C and/or CC settings.

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Jeremiah Shepard, the associate providing research coverage of Ironwood Pharmaceuticals (IRWD) and Xenoport (XNPT) maintains a long position in the common stocks.

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

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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.

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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

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EQUITY RESEARCH DEPARTMENT
(213) 688-4529

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

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Rommel T. Dionisio (212) 938-9934
Kurt M. Frederick, CPA (213) 688-4459

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Ariel Sokol (212) 668-9874
Denny Galindo (212) 668-9893

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Chris White (213) 688-4423
Edward Woo, CFA (213) 688-4382

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Camilo Lyon (212) 938-9924

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John Garrett (213) 688-4523

Camilo Lyon (212) 938-9924

Specialty Retail: Softlines

Betty Chen (415) 273-7328
Connie Wong (415) 273-7315

Specialty Retail: Sporting Goods

Camilo Lyon (212) 938-9924

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Edward Woo, CFA (213) 688-4382

Entertainment: Toys

Chris White (213) 688-4423
Edward Woo, CFA (213) 688-4382

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Chris White (213) 688-4423
Michael Pachter (213) 688-4474

Internet Advertising/Media

Edward Woo, CFA (213) 688-4382

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Al Kaschalk (213) 688-4539
Kevin Lee (213) 688-4303

Kenneth Herbert (415) 274-6875

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Craig Irwin (212) 938-9926
David Giesecke (212) 938-9925

Solar Technology

Christine Hersey (213) 688-4311

Water & Renewable Energy Solutions

David Rose, CFA (213) 688-4319

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

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Kaushik Roy (415) 274-6873

Hemant Hebbar (415) 274-6874

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Michael B. Nemeroff (212) 668-9876

Software: Infrastructure

J. Derrick Wood, CFA (415) 274-6822
David Kaczorowski (415) 274-6883

Internet: Infrastructure

Kerry Rice, CPA (213) 688-4538
David Epstein (213) 688-6624

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Patrick Wang (212) 938-9938
Michael Lucarelli (212) 938-9927

Betsy Van Hees (415) 274-6869

Leo Choi (415) 263-6669

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Suhail Chandy (213) 688-4380

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Gil B. Luria (213) 688-4501
Nick Setyan (213) 688-4519

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Scott P. Sutherland, CFA (213) 688-4522
Suhail Chandy (213) 688-4380

LIFE SCIENCES

Biotechnology/Biopharmaceuticals

Michael G. King, Jr. (212) 938-9929

Gregory R. Wade, Ph.D. (415) 274-6863

Jeremiah Shepard, Ph.D. (415) 274-6862

Y. Katherine Xu, Ph.D. (212) 938-9955

Cardiovascular, Devices & Regenerative

Duane Nash, MD JD MBA (415) 263-6650
Akiva Felt (415) 263-6648

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

Healthcare Services - Managed Care

Sarah James (213) 688-4503

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Patricia Bank (415) 263-6646

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Jeffrey Chu (415) 274-6885

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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