

## 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): Q1:10 Earnings – Both IBS-C Phase III Studies to Report Out in Q4:10

Price: \$13.57 (intraday 5/13/10)

Price Target: \$24

- **Ironwood announced that the 2 linacotide Phase III studies in the IBS-C setting will report out separately in Q4:10.** Data from the Forest Labs-led IBS-C Phase III study is expected to be released first and the Ironwood-led Phase III study will follow shortly thereafter. IRWD expects to submit the NDA to the FDA in mid:2011 for both CC and IBS-C.
- **The EMEA has notified Almirall, Ironwood's European partner, that Almirall can utilize the data from the 2 US IBS-C Phase III studies for an MAA filing, but the EMEA wants different primary endpoints for the MAA data package.** The EMEA wants an independent and separate analysis for primary endpoints of improvement in abdominal pain and discomfort, as well as an improvement in a global of measure of IBS-C relief. Importantly, the FDA has agreed to the separate analysis.
- **Ironwood finished Q1 with about \$299 million in cash and expects to complete the year with at least \$220 million in cash.**
- **Reiterate our OUTPERFORM rating with a \$24/share price target.** We estimate that US linacotide 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 linacotide 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 linacotide in the IBS-C and/or CC settings.

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#### ANALYST CERTIFICATION

I, Gregory Wade, 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.

#### IMPORTANT DISCLOSURES

Disclosure information regarding historical ratings and price targets is available at  
<http://www.wedbush.com/ResearchDisclosure/DisclosureQ110.pdf>

## INVESTMENT RATINGS

**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).\*

## DISTRIBUTION OF RATINGS (as of March 31, 2010)

**OUTPERFORM** – 50% (9% of this rating category were investment banking clients within the last 12 months).

**NEUTRAL** – 37% (2% of this rating category were investment banking clients within the last 12 months).

**UNDERPERFORM** – 13% (0% of this rating category were investment banking clients within the last 12 months).

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WS makes a market in the securities mentioned herein.

WS managed a public offering of securities for Dynavax (DVAX) within the last 12 months.

WS co-managed a public offering of securities for Clinical Data (CLDA), Delcath Systems (DCTH), Ironwood Pharmaceuticals (IRWD) and ZymoGenetics (ZGEN) within the last 12 months.

WS has received compensation for investment banking services from Clinical Data (CLDA), CombinatoRx (CRXX), Delcath Systems (DCTH), Dynavax (DVAX), Ironwood Pharmaceuticals (IRWD) and ZymoGenetics (ZGEN) within the last 12 months.

WS provided investment banking services to Clinical Data (CLDA), CombinatoRx (CRXX), Delcath Systems (DCTH), Dynavax (DVAX), Ironwood Pharmaceuticals (IRWD) and ZymoGenetics (ZGEN) within the last 12 months.

WS is acting as financial advisor to Dynavax (DVAX).

WS expects to receive compensation for investment banking services from Dynavax (DVAX) within the next 3 months.

WS provided non-investment banking securities-related services to Dynavax (DVAX) within the past 12 months.

WS has received compensation for products and services other than investment banking services from Dynavax (DVAX) within the past 12 months.

Greg Wade, the analyst providing research coverage of Adolor (ADLR), BioMimetic (BMTI), Cubist (CBST), CombinatoRx (CRXX), OncoGenex Pharmaceuticals (OGXI) and ZymoGenetics (ZGEN), maintains long positions in the common stocks.

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.

Please access the attached hyperlink for WS' Coverage Universe: <http://www.wedbush.com/inside/CapitalMarkets/CoverageList.asp>

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](mailto: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](http://www.wedbush.com)

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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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Denny Galindo (212) 668-9893

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Chris White (213) 688-4423  
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John Garrett (213) 688-4523

Camilo Lyon (212) 938-9924

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Camilo Lyon (212) 938-9924

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Edward Woo, CFA (213) 688-4382

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Edward Woo, CFA (213) 688-4382

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Michael Pachter (213) 688-4474

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Edward Woo, CFA (213) 688-4382

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Kevin Lee (213) 688-4303

Kenneth Herbert (415) 274-6875

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David Giesecke (212) 938-9925

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Christine Hersey (213) 688-4311

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Sanjit Singh (212) 938-9922

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Hemant Hebbar (415) 274-6874

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### Software: Infrastructure

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

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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

### Emerging Pharmaceuticals

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

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Sarah James (213) 688-4503

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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