

Ironwood Pharmaceuticals (IRWD)

SMALL & MID CAP RESEARCH

3Q Earnings: Initial Diagnosis - Results Take a Back Seat to Linacotide Data

- **Solid Quarter, but Nothing Surprising.** IRWD's EPS loss came in lower than expected (\$0.08 vs CS -\$0.18) due to the boost in income from discontinued operations and lower R&D expenses. Furthermore, the reinstatement of the strong cash position of \$220 MM in 2010 and additions from the Microbia divestiture (\$9.5 MM) and Almirall's milestone payment (\$20 MM), are reassuring for the future development of linacotide.
- **Looking ahead to the release of detailed Phase III IBS-C data and the linacotide filing in 2011.** The solid Phase III data for irritable bowel syndrome with constipation, released November 1, reaffirmed linacotide's strong clinical profile. We are expecting a detailed data release on the two Phase III IBS-C trials in May 2011 during Digestive Disease Week. Looking ahead to the 3Q 2011 filing date, we remain confident and continue to estimate 85% probability of success (POS) for the product coming to market. We continue to forecast linacotide's US sales to surpass \$1 Bn by 2020.
- **In updating our IRWD model,** we reiterate our belief that linacotide has a best-in-class profile but will be entering into a challenging market. We maintain our sales estimates for linacotide as well as our Neutral rating on IRWD share and our \$12 target price. Our 2010 EPS goes from -\$0.66 to -\$0.58 while 2011 remains unchanged at -\$0.56.

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Rating	NEUTRAL* [V]
Price (03 Nov 10, US\$)	10.69
Target price (US\$)	12.00 ¹
52-week price range	14.78 - 0
Market cap. (US\$ m)	955.23
Enterprise value (US\$ m)	702.06

^{*}Stock ratings are relative to the relevant country benchmark.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

Financial and valuation metrics

Year	12/09A	12/10E	12/11E	12/12E
EPS (CS adj.) (US\$)	-10.00	-0.58	-0.56	-0.04
Prev. EPS (US\$)	—	-0.66	—	—
P/E (x)	NM	NM	NM	NM
P/E rel. (%)	NM	NM	NM	NM
Revenue (US\$ m)	36.1	39.0	50.4	136.9
EBITDA (US\$ m)	-67.5	-58.6	-55.7	-3.1
OCFPS (US\$)	-0.56	-0.72	-0.20	-0.77
P/OCF (x)	—	-14.9	-52.8	-13.9
EV/EBITDA (current)	-12.4	-12.0	-13.1	-263.7
Net debt (US\$ m)	-120	-253	-228	-140
ROIC (%)	—	—	—	—
Number of shares (m)	89.36	IC (12/09A, US\$ m)		
BV/share (current, US\$)	-3.7	EV/IC (x)		
Net debt (current, US\$ m)	-295.7	Dividend (12/09A, US\$)		
Net debt/tot. cap. (12/09A, %)	—	Dividend yield (%)		

Source: Company data, Credit Suisse estimates

DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS. U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Variance Analysis and Summary of Model Changes

Exhibit 1: Ironwood's 3Q 10 Global Variance Analysis

in thousands, unless otherwise stated

	3Q 2009 Actual	CS Forecast		3Q 2010 Reported	VARIANCE	Consensus	2Q 2010 Actual
		Growth		Growth			
		YoY	QoQ	YoY	QoQ		
Revenue							
Milestone Revenues	\$14,730	\$8,687	(41%) (5%)	\$9,059	(38%) (1%)		\$9,188
Services	527	-	(100%) (100%)	-	(100%) (100%)	\$9,800 High	1,771
Total Revenue	15,257	8,687	(43%) (21%)	9,059	(41%) (17%)	\$9,510 Mean	10,959
Cost of Sales	-	-	0.0%	-	0.0%	\$9,000 Low	-
R&D	18,603	121.9%	19,064	219.5%	18,742		20,953
SG&A	4,941	32.4%	6,408	73.8%	6,482		7,325
Total Expenses	23,544	154.3%	25,472	293.2%	25,224		28,278
EBIT	(8,287)	(54.3%)	(16,785)	(193.2%)	(16,165)		(17,319)
Nonoperating, Net	(44)	#DIV/0!	212	NM	107		110
Pretax Income	(8,331)	(54.6%)	(16,573)	(190.8%)	(16,058)		(17,209)
Tax	(153)	1.8%	-	0.0%	-		-
Minority Interest	(2,724)		-		7,788		73
PF Net Income	(10,902)	(71.5%)	(16,573)	(190.8%)	(8,270)	(91.3%)	(17,136)
PF Diluted EPS	(\$1.53)	(0.17)	(88.9%)	(0.08)	(94.5%)	\$0.08	(\$0.18)
Diluted Shares	7,118	97,923		97,926	3		97,642

Source: Company data, Credit Suisse estimates. Consensus estimates via StreetAccount and FactSet.

Exhibit 2: Summary of Changes to Credit Suisse Model for Ironwood

in thousands, unless otherwise stated

	2010	2011	2012	2013	2014	2015
Sales						
Old	\$38,585	\$50,350	\$136,940	\$34,038	\$127,628	\$193,830
Revised	\$38,957	\$50,350	\$136,940	\$34,038	\$127,628	\$193,830
Change	372.00	-	-	-	-	-
Pro Forma EPS						
Old	(\$0.66)	(\$0.56)	(\$0.04)	(\$1.09)	(\$0.23)	\$0.28
Revised	(\$0.58)	(\$0.56)	(\$0.04)	(\$1.08)	(\$0.23)	\$0.28
Change	0.08	0.00	0.00	0.00	0.00	0.00

Source: Company data, Credit Suisse estimates. Consensus estimates via StreetAccount and FactSet.

Upcoming Catalysts for Ironwood

Exhibit 3: Upcoming Catalysts for Ironwood

in thousands, unless otherwise stated

Timing	Catalyst/Event	Sensitivity	Fundamentals	Read Through
4Q 2010 - 1Q 2011	Xifaxan (Salix) : potential Advisory Committee Meeting	**	Given the new trial design guidelines and history of drugs in IBS-D, Xifaxan could potentially have an Ad Com, although SLXP does not expect one because of the recent Ad Com on HE	FRX, IRWD
March-11	Xifaxan (Salix) : FDA Approval	**	Expect FDA approval for Xifaxan in IBS-non constipation upon priority review; original PDUFA date of December 7, 2011 was postponed	FRX, IRWD
May 7-10, 2011	Linacotide : Detailed data releases	**	Potential detailed data releases on two phase III trials in IBS-C at Digestive Disease Week (DDW) meeting.	FRX, Sucampo, Alimera
3Q 2011	Linacotide : FDA Filing	***	Potential FDA filing in chronic constipation and IBS-C. Results of long term safety studies will be needed prior to filing, but it is uncertain if FRX/IRWD will release the data.	FRX, Sucampo, Alimera
2014	Linacotide : Filing / approval	***	Potential EU approval expected	Sucampo, Alimera
2015	Linacotide : Filing / approval	***	Potential Japan approval expected	Astellas, Sucampo, Alimera

Source: Company data, Credit Suisse estimates. Consensus estimates via StreetAccount and FactSet.

Revised Credit Suisse Model for Ironwood

Exhibit 4: Ironwood – Linacotide Revenues Forecast

U.S. Rx Model	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Total Rx	27,678,008	28,231,568	29,643,147	32,607,461	36,520,357	40,537,596	44,591,355	48,158,664	50,566,597	52,083,595	53,125,267
Absolute Growth	542,706	553,560	1,411,578	2,964,315	3,912,895	4,017,239	4,053,760	3,567,308	2,407,933	1,516,998	1,041,672
YoY growth %	2%	2%	5%	10%	12%	11%	10%	8%	5%	3%	2%
Laxatives/Fecal Softeners	26,501,693	26,961,148	27,864,558	29,672,790	32,137,914	35,267,708	38,571,522	41,657,244	43,487,273	44,791,892	45,422,103
% of Market	96%	96%	94%	91%	88%	87%	87%	87%	86%	86%	86%
Branded Rx	1,176,315	1,270,421	1,778,589	2,934,672	4,382,443	5,269,887	6,019,833	6,501,420	7,079,324	7,291,703	7,703,164
Absolute Growth	58,048	94,105	508,168	1,156,083	1,447,771	887,445	749,946	481,587	577,904	212,380	411,460
YoY growth %	5.2%	8.0%	40.0%	65.0%	49.3%	20.3%	14.2%	8.0%	8.9%	3.0%	5.6%
% of Market	4%	5%	6%	9%	12%	13.0%	13.5%	13.5%	14.0%	14.0%	14.5%
Zelnorm	0	0	0	0	0	0	0	0	0	0	0
% of Prescription Rx Market	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Amitiza (+ generic lubiprostone)	1,176,315	1,270,421	1,600,730	2,054,270	2,410,344	2,371,449	2,407,933	2,275,497	2,194,590	2,041,677	2,002,823
% of Prescription Rx Market	100%	100%	90%	70%	55%	45%	40%	35%	31%	28%	26%
Linacotide	-	-	177,859	733,668	1,972,099	2,898,438	3,491,503	3,965,866	4,530,767	4,739,607	4,852,993
% of Prescription Rx Market	0%	0%	10%	25%	45%	55%	58%	61%	64%	65%	63%
Resolor	0	0	0	0	0	0	0	0	0	0	0
% of Prescription Rx Market	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other (TD-5108,	0	0	-4.93658E-11	146733.5757	-2.43274E-10	0	120396.6597	260056.7849	353966.1795	510419.2308	847348.0067
% of Prescription Rx Market	0%	0%	0%	5%	0%	0%	2%	4%	5%	7%	11%
Cost per Rx											
Zelnorm											
Amitiza	\$187.51	\$191.26	\$195.09	\$198.99	\$202.97	\$207.03	\$211.17	\$215.39	\$219.70	\$224.09	\$228.57
Linacotide			\$180.00	\$183.60	\$187.27	\$191.02	\$194.84	\$198.73	\$202.71	\$206.76	\$210.90
Resolor			\$180.00	\$183.60	\$187.27	\$191.02	\$194.84	\$198.73	\$202.71	\$206.76	\$210.90
Revenues											
Zelnorm (from Novartis)											
Amitiza (from IMS)	221	243	312	409	489	491	508	490	482	458	458
Linacotide (\$ Millions)			32.0	134.7	369.3	553.7	680.3	788.2	918.4	980.0	1,023.5
Resolor			0	0	0	0	0	0	0	0	0
Other											

Source: Company data, Credit Suisse estimates

Exhibit 5: Ironwood/Forest Linacotide Collaboration Profit-Share Model

in thousands, unless otherwise stated

	Contribution	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Product Revenue			0.0	32.0	134.7	369.3	553.7	680.3	788.2	918.4	980.0	1,023.5
COGS	100%	0.6	2.9	3.8	18.9	25.9	38.8	47.6	55.2	64.3	68.6	71.6
% of Sales				12.0%	14.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
SG&A												
Cost per Rep (in 000s)		125.0	126.3	127.5	128.8	130.1	131.4	132.7	134.0	135.4	136.7	138.1
IRWD Reps & MSLs Headcount	20%	0.0	0.0	100.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
IRWD Sales Force Costs		0.0	0.0	12.8	25.8	26.0	26.3	26.5	26.8	27.1	27.3	27.6
IRWD Sales Force Contribution	67%	0.0	0.0	8.5	17.3	17.4	17.6	17.8	18.0	18.1	18.3	18.5
FRX Reps & MSLs Headcount	80%	0.0	0.0	400.0	800.0	800.0	800.0	800.0	800.0	800.0	800.0	800.0
FRX Sales Force Costs		0.0	0.0	51.0	103.0	104.1	105.1	106.2	107.2	108.3	109.4	110.5
FRX Sales force Contribution	67%	0.0	0.0	34.2	69.0	69.7	70.4	71.1	71.8	72.6	73.3	74.0
Total Sales Force Costs Fully Loaded		0.0	0.0	63.8	128.8	130.1	131.4	132.7	134.0	135.4	136.7	138.1
Total Sales Force Cost Allocated to the Deal		0.0	0.0	42.7	86.3	87.2	88.0	88.9	89.8	90.7	91.6	92.5
% of Sales				133.4%	64.1%	23.6%	15.9%	13.1%	11.4%	9.9%	9.3%	9.0%
Marketing	100%	10.0	25.0	100.0	100.0	102.0	104.0	106.1	108.2	110.4	112.6	114.9
% of Sales				312.4%	74.2%	27.6%	18.8%	15.6%	13.7%	12.0%	11.5%	11.2%
G&A	100%	8.6	8.8	9.0	9.2	9.3	9.5	9.7	9.9	10.1	10.3	10.5
% of Sales		na	na	28.0%	6.8%	2.5%	1.7%	1.4%	1.3%	1.1%	1.1%	1.0%
Total SG&A		18.6	33.8	151.7	195.4	198.5	201.6	204.7	207.9	211.2	214.5	217.9
% of Sales				473.8%	145.1%	53.7%	36.4%	30.1%	26.4%	23.0%	21.9%	21.3%
R&D	100%	65.0	45.0	25.0	20.0	15.0	10.0	8.0	5.0	5.0	0.0	0.0
% of Sales				78.1%	14.8%	4.1%	1.8%	1.2%	0.6%	0.5%	0.0%	0.0%
Total Operating Expenses		84.2	81.7	180.5	234.3	239.3	250.3	260.4	268.1	280.5	283.1	289.5
US Pre Tax Profit		(84.2)	(81.7)	(148.5)	(99.6)	130.0	303.3	419.9	520.0	637.9	696.9	734.0
Operating Margin				-463.9%	-73.9%	35.2%	54.8%	61.7%	66.0%	69.5%	71.1%	71.7%
Detailing Reimbursement	0%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
API Reimbursement (based on sales)	4%	0.0	0.0	1.3	5.4	14.8	22.1	27.2	31.5	36.7	39.2	40.9
Adjusted US Pre Tax Profit		(84.2)	(81.7)	(149.8)	(105.0)	115.2	281.2	392.7	488.5	601.2	657.7	693.0
Ironwood profit share	50%	(42.1)	(40.8)	(74.9)	(52.5)	57.6	140.6	196.4	244.3	300.6	328.8	346.5
Ironwood detailing reimbursement		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ironwood API reimbursement		0.0	0.0	1.3	5.4	14.8	22.1	27.2	31.5	36.7	39.2	40.9
Total Ironwood share		(42.1)	(40.8)	(73.6)	(47.1)	72.4	162.7	223.6	275.8	337.3	368.0	387.4

Source: Company data, Credit Suisse estimates. Consensus estimates via StreetAccount and FactSet.

Exhibit 6: Probability Adjusted Europe and Japan Linacotide Revenue and Royalty Income NPV Forecasts

in thousands, unless otherwise stated

PROBABILITY- ADJUSTED	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Probability			85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%
EU Revenue			20	60	100	140	168	202	232	267	293	323	355	373	391	403
YoY Revenue Growth			na	200.0%	66.7%	40.0%	20.0%	20.0%	15.0%	15.0%	10.0%	10.0%	10.0%	5.0%	5.0%	3.0%
Prob. Adjusted Revenue			17	51	85	119	143	171	197	227	249	274	302	317	333	343
EU Royalty			2	5	9	12	17	26	35	45	55	63	72	79	86	92
EU Royalty Rate (post-tax)			10%	10%	10%	10%	12%	15%	18%	20%	22%	23%	24%	25%	26%	27%
NPV of Cash Flows	0	0	1	3	5	6	7	9	11	12	13	13	13	12	11	11
Probability-Adjusted NPV (\$MM)	\$125															

JAPAN PROBABILITY- ADJUSTED	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Probability			60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
Japan Sales			0	0	20	70	98	118	135	149	164	172	180	186	191	197
YoY Sales Growth			na	250.0%	40.0%	20.0%	15.0%	10.0%	10.0%	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Prob. Adjusted Revenue			0	0	12	42	59	71	81	89	98	103	108	111	115	118
Japan Royalty			0	0	1	4	7	11	15	18	22	24	26	28	30	32
Japan Royalty Rate (post-tax)			10%	10%	10%	10%	12%	15%	18%	20%	22%	23%	24%	25%	26%	27%
NPV of Cash Flows	0	0	0	0	1	2	3	4	4	5	5	5	5	4	4	4
Probability-Adjusted NPV (\$MM)	\$44															

Source: Company data, Credit Suisse estimates.

Exhibit 7: Ironwood Projected Income Statement

	2010											
	FY 2008	FY 2009	Mar-10 1Q	Jun-10 2Q	Sep-10 3Q	Dec-10 4Q	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Linacotide Profit Share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	57,604.92	140,584.13
Linacotide ex-US Royalty Income	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,700.00	5,100.00	9,700.00	16,100.00
Linacotide API Reimbursement	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,280.58	5,388.06	14,772.76	22,146.09
Milestones	18,383.00	34,321.00	8,838.00	9,188.00	9,059.00	9,887.00	36,972.00	50,350.00	133,959.00	23,550.00	45,550.00	15,000.00
Collaborative arrangements	18,383.00	34,321.00	8,838.00	9,188.00	9,059.00	9,887.00	36,972.00	50,350.00	136,939.58	34,038.06	127,627.68	193,830.22
Services	3,833.00	1,781.00	214.00	1,771.00	0.00	0.00	1,985.00	0.00	0.00	0.00	0.00	0.00
Total Revenues	22,216.00	36,102.00	9,052.00	10,959.00	9,059.00	9,887.00	38,957.00	50,350.00	136,939.58	34,038.06	127,627.68	193,830.22
COGS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,299.72	5,960.69	9,812.86	14,428.55
Gross Profit	22,216.00	36,102.00	9,052.00	10,959.00	9,059.00	9,887.00	38,957.00	50,350.00	135,639.86	28,077.37	117,814.82	179,401.67
R&D	59,809.00	84,892.00	18,637.00	20,953.00	18,742.00	17,415.78	75,747.78	67,955.01	56,352.22	50,296.33	46,033.29	41,432.86
SG&A	18,328.00	23,980.00	6,643.00	7,325.00	6,482.00	6,970.86	27,420.86	42,805.64	84,899.37	99,011.25	100,547.11	102,537.32
Collaboration Expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Income (Loss)	(55,921.00)	(72,770.00)	(16,228.00)	(17,319.00)	(16,165.00)	(14,499.64)	(64,211.64)	(60,410.65)	(5,611.73)	(121,230.21)	(28,765.59)	35,431.49
Interest, Other Income	2,124.00	843.00	68.00	189.00	107.00	249.20	613.20	1,106.55	994.82	610.95	139.78	555.79
Interest and Other Expense	(1,234.00)	(474.00)	(93.00)	(79.00)	0.00	(48.65)	(220.65)	(101.40)	(15.40)	0.00	0.00	0.00
Other income (expense), net	890.00	369.00	(25.00)	110.00	107.00	200.55	392.55	1,005.15	979.42	610.95	139.78	555.79
Pretax Income (Loss)	(55,031.00)	(72,401.00)	(16,253.00)	(17,209.00)	(16,058.00)	(14,299.08)	(63,819.08)	(59,405.49)	(4,632.31)	(120,619.26)	(28,625.81)	35,987.28
Provision For Income Taxes	0.00	911.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	719.75
Net Loss prior to noncontrolling interest	(55,031.00)	(73,312.00)	(16,253.00)	(17,209.00)	(16,058.00)	(14,299.08)	(63,819.08)	(59,405.49)	(4,632.31)	(120,619.26)	(28,625.81)	35,267.53
Net Loss attributable to noncontrolling interest	1,157.00	2,127.00	329.00	73.00	7,788.00	0.00	8,190.00	0.00	0.00	0.00	0.00	0.00
Net Income (Loss)	(53,874.00)	(71,185.00)	(15,924.00)	(17,136.00)	(8,270.00)	(14,299.08)	(55,629.08)	(59,405.49)	(4,632.31)	(120,619.26)	(28,625.81)	35,267.53
Basic Shares Outstanding	6,889.82	7,116.77	89,357.33	97,642.33	97,925.66	98,886.99	95,953.08	101,149.28	103,887.99	104,808.77	115,482.08	117,133.28
Diluted Shares Outstanding	6,889.82	7,116.77	89,357.33	97,642.33	97,925.66	98,886.99	95,953.08	106,613.65	108,947.05	111,189.94	123,475.16	127,062.47
Earnings Per Share, Basic	(7.82)	(10.00)	(0.18)	(0.18)	(0.08)	(0.14)	(0.580)	(0.59)	(0.04)	(1.15)	(0.25)	0.30
Earnings Per Share, Diluted	(7.82)	(10.00)	(0.18)	(0.18)	(0.08)	(0.14)	(0.58)	(0.56)	(0.04)	(1.08)	(0.23)	0.28

Margin Analysis

Gross margin	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	99.1%	82.5%	92.3%	92.6%
R&D % sales	269.2%	235.1%	205.9%	191.2%	206.9%	176.1%	194.4%	135.0%	41.2%	147.8%	36.1%	21.4%
SG&A % sales	82.5%	66.4%	73.4%	66.8%	71.6%	70.5%	70.4%	85.0%	62.0%	290.9%	78.8%	52.9%
Operating margin	(251.7%)	(201.6%)	(179.3%)	(158.0%)	(178.4%)	(146.7%)	(164.8%)	(120.0%)	(4.1%)	(356.2%)	(22.5%)	18.3%
Pre-tax margin	(247.7%)	(200.5%)	(179.6%)	(157.0%)	(177.3%)	(144.6%)	(163.8%)	(118.0%)	(3.4%)	(354.4%)	(22.4%)	18.6%
Actual Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%
Net margin	(242.5%)	(197.2%)	(175.9%)	(156.4%)	(91.3%)	(144.6%)	(142.8%)	(118.0%)	(3.4%)	(354.4%)	(22.4%)	18.2%

Year/Year Changes

Sales	112.3%	62.5%	73.0%	65.8%	(42.1%)	14.9%	7.9%	29.2%	172.0%	(75.1%)	275.0%	51.9%
Gross profit	na	na	na	na	na	na	na	na	na	358.6%	64.6%	47.0%
R&D	4.5%	41.9%	(5.0%)	6.9%	(4.4%)	(33.2%)	(10.8%)	(10.3%)	(17.1%)	(10.7%)	(8.5%)	(10.0%)
SG&A	69.2%	30.8%	15.1%	27.0%	12.3%	4.5%	14.3%	56.1%	98.3%	16.6%	1.6%	2.0%
Net income	2.1%	32.1%	(11.4%)	(6.8%)	(24.1%)	(40.2%)	(21.9%)	6.8%	(92.2%)	2503.9%	(76.3%)	(223.2%)
Earnings per share	(1.2%)	27.9%	(93.1%)	(93.3%)	(94.5%)	(95.6%)	(94.2%)	(3.9%)	(92.4%)	2451.3%	(78.6%)	(219.7%)

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 03 Nov 10)

Forest Laboratories Inc. (FRX, \$33.73, NEUTRAL, TP \$31.00)

Ironwood Pharmaceuticals (IRWD, \$10.69, NEUTRAL [V], TP \$12.00)

Disclosure Appendix

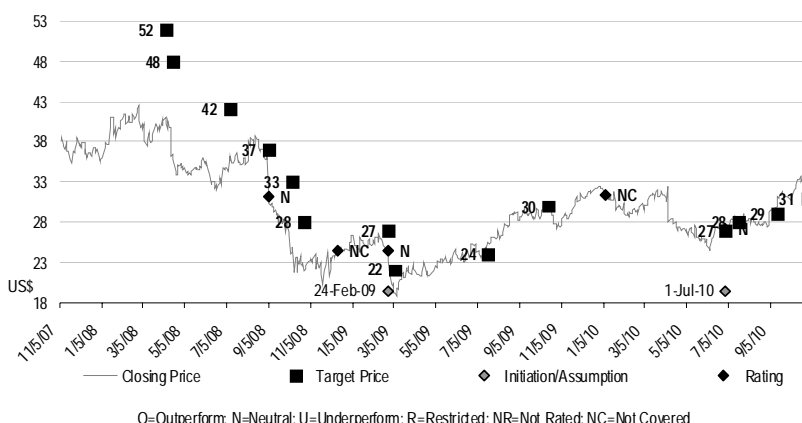
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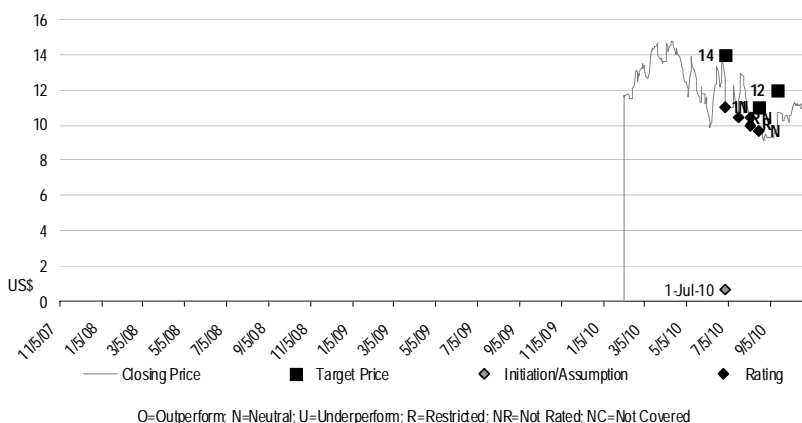
3-Year Price, Target Price and Rating Change History Chart for FRX

FRX	Closing Price	Target Price	Initiation/	
Date	(US\$)	(US\$)	Rating	Assumption
4/7/08	41.13	52		
4/16/08	36.52	48		
7/8/08	36.11	42		
9/3/08	31.08	37	N	
10/7/08	24.26	33		
10/24/08	21.86	28		
12/12/08	24.54		NC	
2/24/09	24.43	27	N	X
3/6/09	19.12	22		
7/20/09	25.4	24		
10/15/09	30.18	30		
1/7/10	31.37		NC	
7/1/10	27.17	27	N	X
7/20/10	28.1	28		
9/14/10	30.65	29		
10/27/10	33.76	31		



3-Year Price, Target Price and Rating Change History Chart for IRWD

IRWD	Closing Price	Target Price	Initiation/	
Date	(US\$)	(US\$)	Rating	Assumption
7/1/10	11	14	N	X
7/19/10	10.47		R	
8/5/10	10.45		N	
8/6/10	10		R	
8/17/10	9.7		N	
8/19/10	9.58	11		
9/14/10	9.99	12		



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**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

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*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

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Restricted	2%	

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Price Target: (12 months) for (FRX)

Method: Our \$31 target price for Forest is based on a 70/30% blend of (DCF) valuation of \$33 and relative valuation of \$27. Our DCF uses a 11.0% WACC (weighted average cost of capital) and a terminal EBITDA multiple of 4.0x. For our P/E valuation, we place FRX at a 10% premium to its Speciality Pharma peers, giving it a multiple of 12.9x applied to its FY 2014 EPS estimate of \$2.06.

Risks: Risks to our \$31 target price for Forest include: (1) development pipeline risks, (2) unexpected declines in key products sales growth, and (3) earlier than expected generic entry for key products.

Price Target: (12 months) for (IRWD)

Method: Our \$12 target price for IRWD is based on a probability weighted net present value (NPV) analysis. We have used a 15% WACC (weighted average cost of capital) for our analysis. Major sources of cash inflow for Ironwood include: (1) Future US linacotide profit share income, (2) linacotide ex-US royalty income, and (3) milestones-based revenues.

Risks: Risk to our \$12 target price include: (1) Regulatory risks related to linacotide approval, (2) single product risk, (3) unexpected change in competitive landscape, and (4) the company's financing risk, due to the potential need to raise additional funds to fund spend related to linacotide launch.

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