Morgan Stanley

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Stock Rating
Overweight

Industry View
In-Line

Ironwood Pharmaceuticals, Inc.

Linzess Launch Yields Solid IMS Ramp, Steady Growth

We are updating our IMS TRx analysis which we first published (11/20/12) pre-Linzess launch. We believe the launch has been strong to date.

We are updating our IMS TRx analysis which shows our estimate of the TRx ramp necessary to meet our and (Forest) consensus US Linzess estimates from 2013-2016 (Ex. 1-3). Below, we highlight some key points of our analysis and the launch to date.

Launch is Strong: We believe that the Linzess launch, based on a few key metrics, has been strong to date. **A)** There have been ~575 TRx's added per wk on avg. since leaving the holiday period (Ex. 2, starting with 1/11/13 wk which is the first one post holidays). This avg 1) has held over the most recent month as well, 2) has been augmented with recent wk over wk TRx gains topping 700 TRx, and 3) is slightly ahead of our expected, above consensus 525-550 wkly 2013 TRx adds (minimally changed from prior analysis). **B)** Our modified slope analysis (Ex. 4), which evaluates the magnitude of TRx's and the growth trends, signals a trajectory that still reflects an initial rapid growth phase, despite being a few months into the launch. **C)** Our analysis of Linzess and Amitiza TRx suggests that the Linzess launch has led to IBS-C/CC mkt expansion (Ex. 4). Given that Amitiza TRx are roughly flat, we see all of this growth (and currently ~20% share of the wkly TRx) are attributable to Linzess.

11/20/12 Analysis: We performed a similar analysis pre-launch, which despite two important changes below yielded similarly positive conclusions. The two changes are a) a lower price per TRx, in line with management's comments implying a >15% gross to net rebate vs. our previously assumed 10%, and b) a slower ramp around the 2012 holiday/new year time (we used the actual IMS TRx's from that period). To the second change, given that a) all wks of this type of analysis build/compound off of the initial ones and b) our original analysis did not include typical holiday slowness, we wanted to re-set our initial ests., which we view as fair.

Key Ratios and Statistics

Reuters: IRWD.O Bloomberg: IRWD US
Biotechnology / United States of America

Price target	**$21.00**
Shr price, close (Mar 18, 2013)	$18.49
Mkt cap, curr (mm)	$1,988
52-Week Range	$19.15-10.01

Fiscal Year ending	**12/12**	**12/13e**	**12/14e**	**12/15e**
ModelWare EPS ($)	**(0.68)**	**(2.18)**	**(1.12)**	**0.07**
Prior ModelWare EPS ($)	**-**	**(2.18)**	**(1.08)**	**0.24**
P/E	**NM**	**NM**	**NM**	**247.7**
Consensus EPS ($)§	**(0.74)**	**(2.27)**	**(1.34)**	**(0.23)**
Div yld (%)	0.0	0.0	0.0	0.0

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by Thomson Reuters Estimates.
e = Morgan Stanley Research estimates

IMS Methodology and Assumptions:

1) We have chosen to use FRX analyst estimates for our consensus modeling as our source for consensus numbers (Thomson) appears to have a more reliable (only including US revenue) and robust (many more analysts included) consensus sample than they have for IRWD.

2) We model Linzess actual TRx numbers through early January 2013 in the Morgan Stanley *and* consensus launch to account for the year-end holidays.

3) We model a linear ramp in '13 and beyond. Most primary care drug launches have tended to be relatively linear in terms of their initial IMS ramp. For simplicities sake, we have assumed a linear launch in our quarterly projections, adding an equal number of prescriptions per week on top of the prior week's number.

4) We use a price per prescription of ~$179 ($7.10/day with a 17.5% gross to net discount) in 2012 and 2013 with 3% per year price increases thereafter. This is below Amitiza's monthly WAC of $246.92.

Exhibit 1

FRX Consensus vs. MS Estimates 2013-2016

2013

Forest Consensus	1Q13	2Q13	3Q13	4Q13	Total
TRx	39,888	109,683	186,144	261,793	**597,507**
Revenue (000's)	$7,126	$19,595	$33,255	$46,770	**$106,747**

Morgan Stanley	1Q13	2Q13	3Q13	4Q13	Total
TRx	54,169	147,114	241,402	332,817	**775,503**
Revenue (000's)	$9,677	$26,283	$43,127	$59,459	**$138,546**

2014

Forest Consensus	1Q14	2Q14	3Q14	4Q14	Total
TRx	329,145	369,308	382,299	391,281	**1,472,032**
Revenue (000's)	$60,567	$67,958	$70,348	$72,001	**$270,874**

Morgan Stanley	1Q14	2Q14	3Q14	4Q14	Total
TRx	412,369	502,542	593,835	678,322	**2,187,069**
Revenue (000's)	$75,881	$92,474	$109,273	$124,820	**$402,450**

2015

Forest Consensus	1Q15	2Q15	3Q15	4Q15	Total
TRx	391,814	464,204	582,333	695,979	**2,134,331**
Revenue (000's)	$74,262	$87,982	$110,372	$131,912	**$404,528**

Morgan Stanley	1Q15	2Q15	3Q15	4Q15	Total
TRx	743,679	830,782	918,781	996,342	**3,489,583**
Revenue (000's)	$140,952	$157,461	$174,140	$188,840	**$661,394**

2016

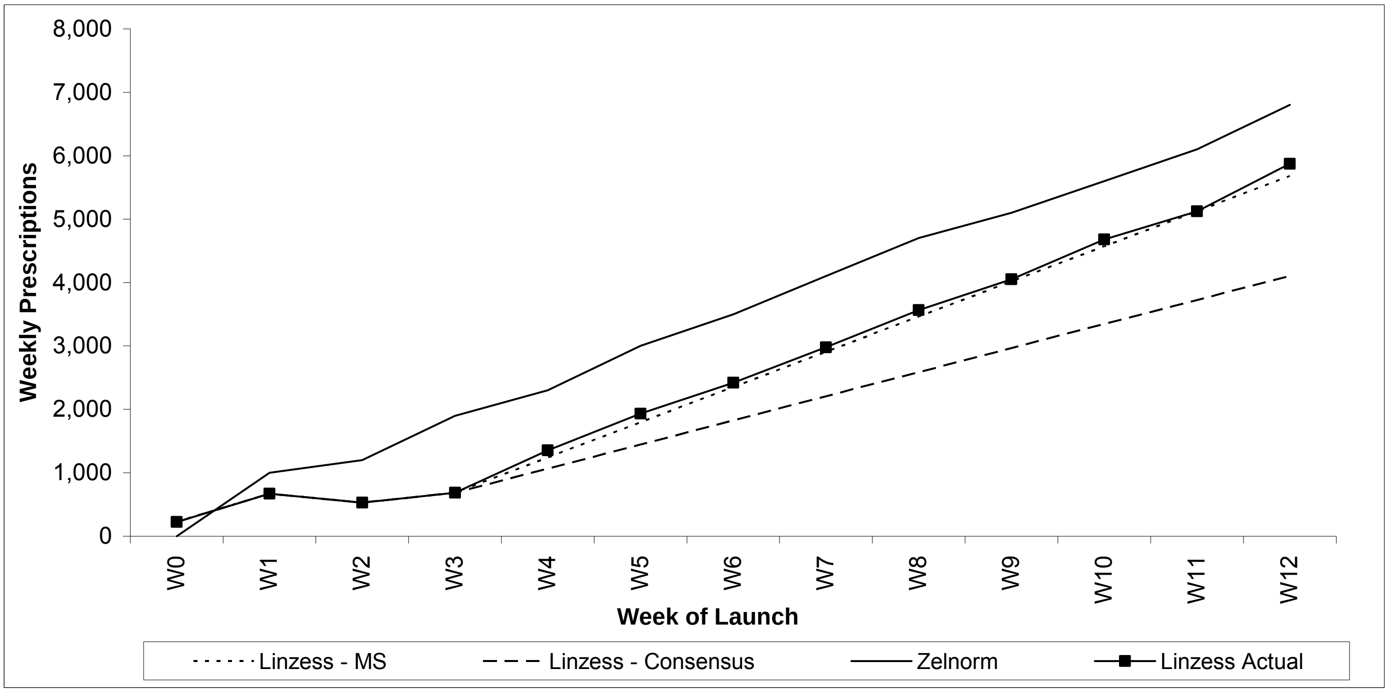
Forest Consensus	1Q16	2Q16	3Q16	4Q16	Total
TRx	799,936	873,561	932,448	982,058	**3,588,004**
Revenue (000's)	$156,163	$170,536	$182,032	$191,717	**$700,449**

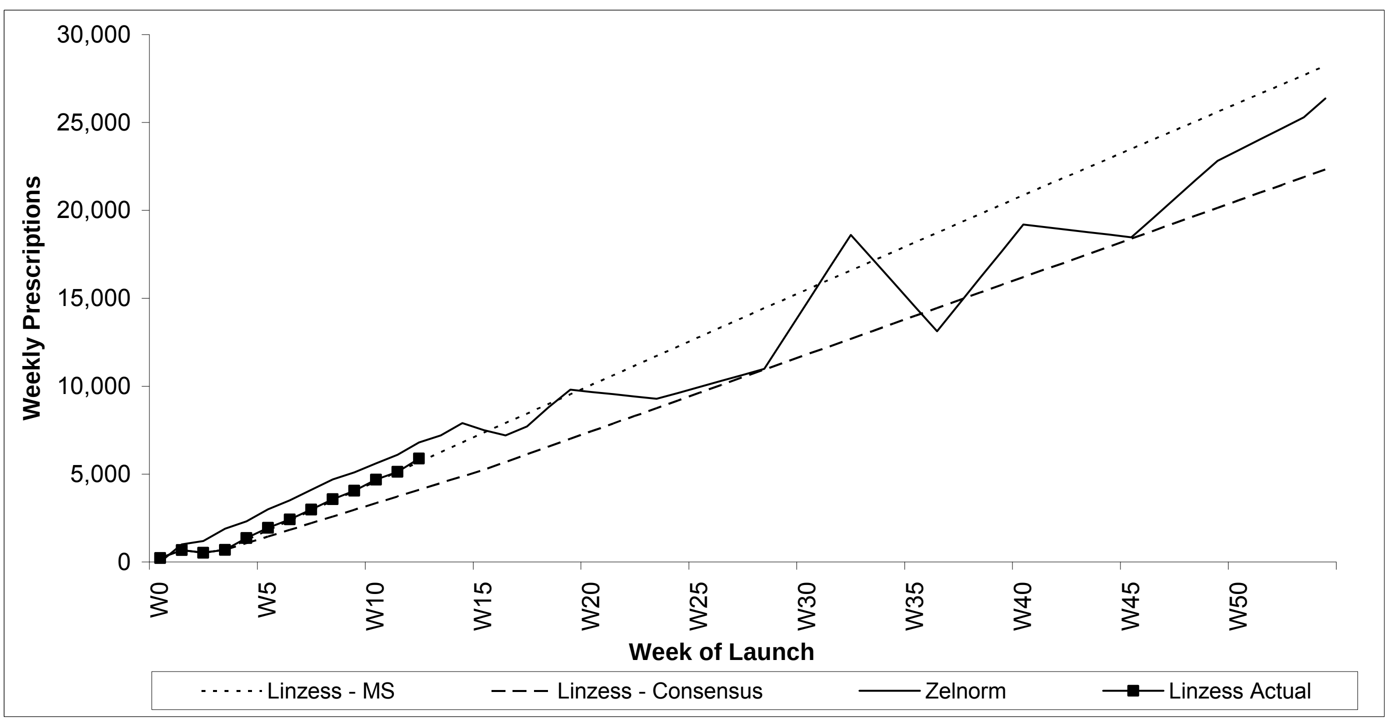
Morgan Stanley	1Q16	2Q16	3Q16	4Q16	Total
TRx	1,060,127	1,132,620	1,217,021	1,287,825	**4,697,593**
Revenue (000's)	$206,958	$221,110	$237,587	$251,409	**$917,063**

Source: Company Data, Morgan Stanley Research

Exhibit 2

Linzess Prescription Ramp:
TOP) Progress to Date vs. MS and Consensus (Zelnorm is a comparator)
BOTTOM) MS vs Consensus through 2013 (Zelnorm is a comparator)



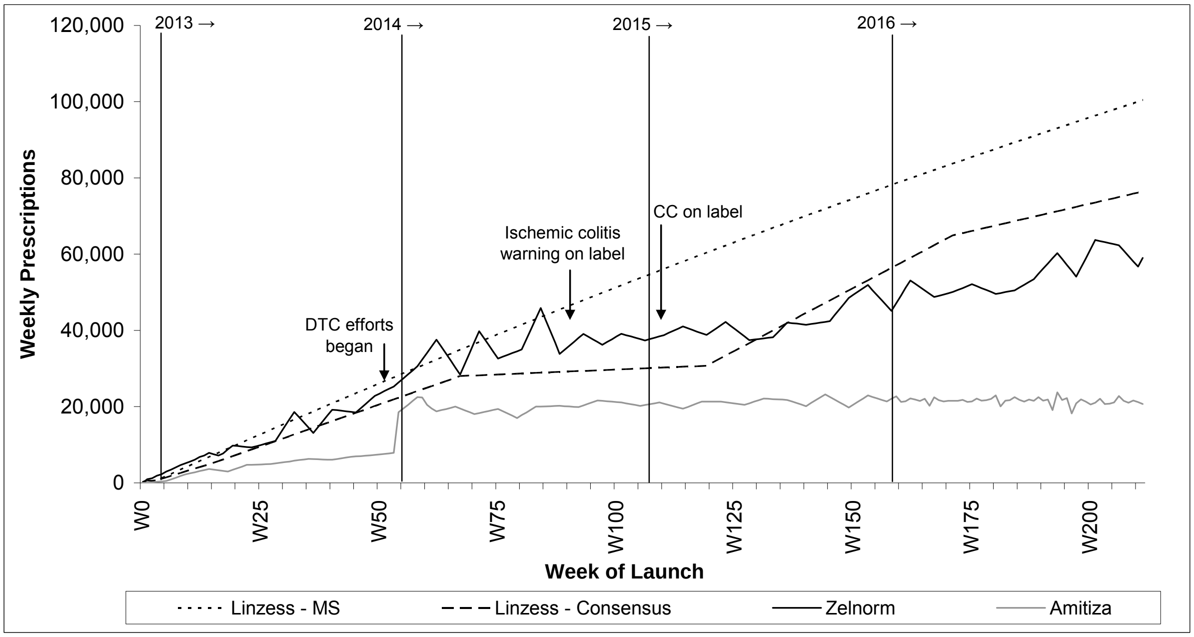


Source: Company Data, Morgan Stanley Research

Exhibit 3

2013-2016 IMS Forecast – MS vs. Consensus

Labeling on graphs highlight Zelnorm data points that help explain TRx trajectory over time
Year markers on top of graph are for Linzess related estimates (not Zelnorm)

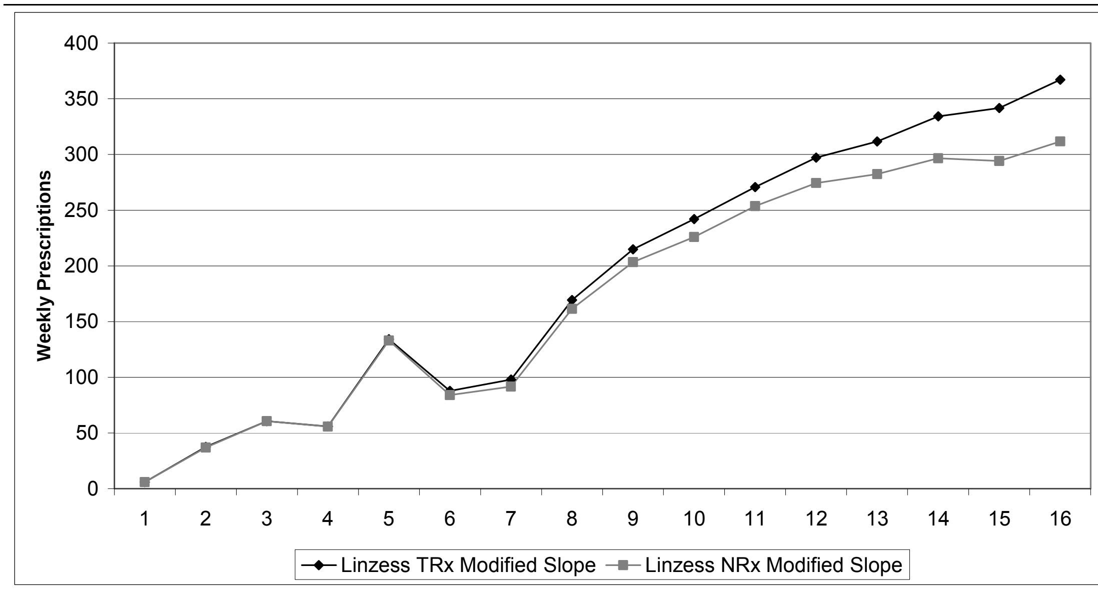


Source: Company Data, Morgan Stanley Research

Exhibit 4

Linzess Modified Slope Ramp Appears Strong

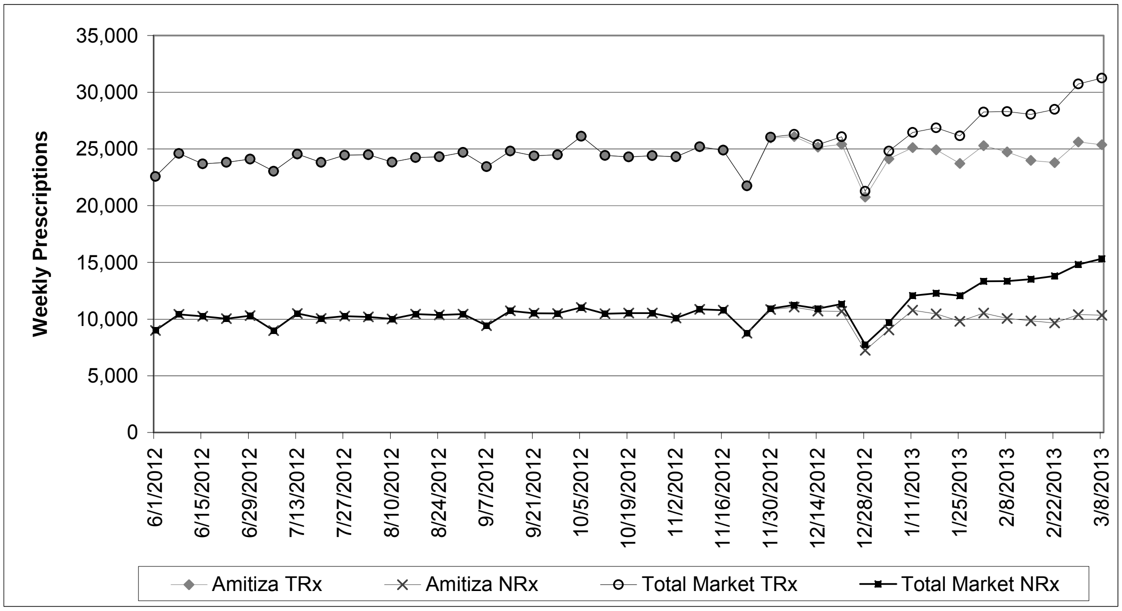
This analysis was performed by calculating the slope of the line that connects baseline (launch-time) to each week's TRx level. As the TRx growth tapers down, the line connecting it to baseline is shallower (i.e. lower slope). This modified slope line is impacted by the absolute TRx level as well as the trajectory of the IMS curve.



Source: Company Data, Morgan Stanley Research

Exhibit 5

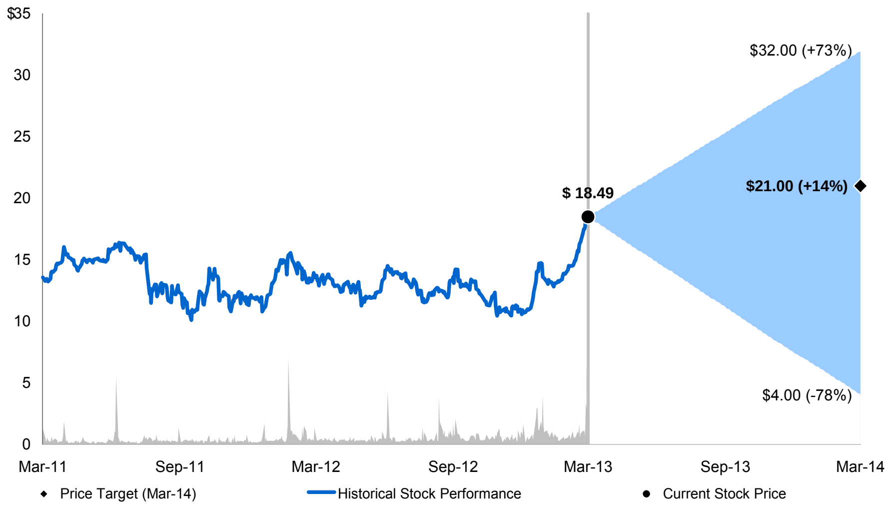
Amitiza Prescriptions Have Been Stable, Market Seems to be Growing



Source: Company Data, Morgan Stanley Research

Risk-Reward Snapshot: Ironwood Pharmaceuticals (IRWD, OW, PT $21)

Linzess Success Drives Risk Reward



Source: Thomson Reuters, Morgan Stanley Research

Price Target $21	Our $21 price target is derived from a discounted cash flow analysis using a WACC of 10% and a terminal growth rate of 0% post 2029. The revenue driver in our model is the launch of Linzess.	
Bull Case $32	**DCF**	**Linzess becomes dominant player in IBS and CC markets.** Linzess becomes a preferred treatment in both IBS *and* CC. The key difference from our base case is greater penetration into the chronic constipation market, which will likely be the more difficult market as CC patients tend to have milder disease than IBS (pain is defining characteristic of IBS-C). This scenario assumes rapid adoption by physicians, no reimbursement issues, and that hundreds of thousands of patients who deemed themselves previously satisfied with current treatment decide to switch therapies due to a potentially even better benefit with Linzess.
Base Case $21	**DCF**	**Linzess becomes a notable player in IBS market, but less so in CC.** Linzess takes meaningful share of the IBS market, but gains <20% of the Linzess eligible CC patients. We expect the CC market to be more difficult to penetrate as the disease is less urgent for many. Nevertheless, we expect Linzess' profile will help it gain enough uptake to reach ~$2bn peak sales globally. This scenario also assumes that cost and reimbursement is not a significant issue for most patients, and a proportion of patients previously relatively satisfied on laxatives decide to switch to Linzess for a potentially more convenient and effective therapy.
Bear Case $4	**DCF**	**Linzess falters commercially.** This scenario assume Linzess struggles to gain significant uptake due to physician hesitancy to adopt a novel agent or reimbursement issues. Patient awareness remains limited and there are few patients that switch from laxatives to Linzess.

Investment Thesis

- We are OW IRWD as we believe the Street underestimates Linzess' sales potential. Linzess is a first-in-class GC-C (guanylate cyclase type-C) receptor agonist for chronic constipation (CC) and irritable bowel syndrome with constipation (IBS-C).
- **We model peak WW sales of ~$2bn, and believe the stock is pricing in peak sales lower than that.**
- Linzess' advantages are its strong benefits on both bowel movements and pain, with relatively limited side effects aside from diarrhea in ~14-20% of pts (typically mild/moderate, led to discontinuation in ~4-6% of pts).
- The unmet need in CC and IBS-C is large. Many people remain untreated, and of those that are treated with current therapeutic options (diet, laxatives, Amitiza), a majority remain unsatisfied. We believe an effective therapy, such as Linzess, could make a big impact on these markets.
- Linzess' cost is a concern as the CC and IBS-C markets are dominated by generic and OTC drugs, but we see a competitive cost/benefit profile and use mainly in a laxative refractory patient population.

Risks to our price target

- Linzess could fail to meet our sales expectations. Physicians may be hesitant to adopt a new drug, or an unforeseen safety issue or issues with reimbursement could stunt growth.

Valuation and Catalysts

Exhibit 5

DCF Drives Valuation

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Free Cash Flow	($169)	($147)	($10)	$116	$254	$397	$505	$591	$616	$622	$624	$624	$624	$62	$62	$62	$62
YoY Growth	*101.8%*	*NM*	*NM*	*NM*	*118.3%*	*56.0%*	*27.3%*	*17.0%*	*4.2%*	*1.1%*	*0.3%*	*0.1%*	*0.0%*	*-90.0%*	*0.0%*	*0.0%*	*0.0%*
Net Cash Proxy for Dilution	-$26.4	-$25.9	-$24.5	-$21.6	-$17.1	-$10.7	-$3.4	-$4.3	-$4.3	-$4.3	-$4.3	-$4.3	-$4.3	-$4.3	-$4.3	-$4.3	-$4.3
Free Cash Flow for DCF	-$195.1	-$172.6	-$34.6	$94.8	$237.2	$385.9	$501.5	$586.3	$611.3	$617.8	$619.5	$619.9	$620.0	$58.2	$58.2	$58.2	$58.2
Present Value of Free Cash Flow	($195)	($157)	($29)	$71	$162	$240	$283	$301	$285	$262	$239	$217	$198	$17	$15	$14	$13

Source: Company data, Morgan Stanley Research

Exhibit 6

DCF Valuation Supports Upside to Stock Price

Valuation Date	**2013**
Discount Rate	**10%**
Terminal Growth Rate	0%
Terminal Value Year	2029

Sum of Discounted FCF	$1,936
Discounted Terminal Value	$127
Net Cash	$168
Equity Value	**$2,230**
Equity Value/Sh	**$21**
Shares Outstanding (Basic)	108

Source: Company data, Morgan Stanley Research

$21 PT includes Linzess Launch

We derive our PT from a discounted cash flow (DCF) analysis using a WACC of 10% and a terminal growth rate of 0% post 2029. We incorporate the cash cost of stock options.

Valuation Methodology: We use DCF to value Ironwood as well as most other companies under coverage. We believe DCF best captures the longer term nature of drug development and commercialization. We do not feel that a multiples analysis accomplishes the same goal, as it only evaluates a company during a snapshot in time.

Discount Rate: We typically apply a discount rate of 10% to commercial stage companies.

Terminal Growth Rate: We model a 0% terminal growth rate post-2029 after a steep decline in cash flows in 2026 as Linzess' composition of matter patent expires in 2025. The rest of Ironwood's pipeline is relatively early-stage, thus Linzess-independent longer-term growth is uncertain.

Revenue The revenue driver in our model is the launch of Linzess.

Economics: Ironwood has partnerships in place in the US (**Forest:** 50/50 profit split), EU (**Almirall;** royalty where Ironwood has stated the terms approach ~50% of the profits assuming modest sales) and most of Asia (**Astellas:** we estimate royalty of high-teens/low 20s).

COGS: We expect Linzess, a pill, will have "pharmaceutical-like" margins of >90%.

Operating Expenses:

R&D: We expect R&D will decline modestly in the near-term as Linzess spending winds down.

SG&A: We expect SG&A will remain relatively stable near-term as Ironwood works to sell/market Linzess. Over time, we expect SG&A to decline modestly as the company focuses on profitability.

Collaboration Expense: Forest will staff ~1,400 primary care sales reps and Ironwood will build its own ~150 patient GI physician focused sales force. Ironwood splits all salesforce and marketing costs with Forest 50/50. Given the significant spending needed to build a strong primary care salesforce, we expect these companies will take a loss on Linzess in the first year of launch. This loss is accounted for in collaboration expenses.

Financings: We do not model any future financings for Ironwood.

Risks to our price target include: Linzess could fail to gain commercial traction.

Exhibit 7

Upcoming Catalysts

Drug	Type	Event	Expected Timing
IW-2143	Clinical Data	Ph 1	2013
Linaclotide	Clinical Data	Ph 3b in CC	2H13
IW-9179	Clinical Data	Ph 2a in functional dyspepsia	2H13

Source: Company Data, Morgan Stanley Research

Exhibit 8

Changes to Model

	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	Comments
Linaclotide US Sales ($mn)										
Current	19	139	404	660	914	1,162	1,402	1,616	1,778	
Prior	19	139	412	696	960	1,167	1,425	1,611	1,770	
Linaclotide ex-US Sales ($mn)										
Current	0	13	43	120	197	279	362	367	371	
Prior	0	13	46	140	211	301	362	367	371	
Linaclotide US Profit Split ($mn)										
Current	0	7	94	205	319	429	534	628	698	
Prior	0	8	97	221	341	431	545	626	694	
Total Revenues ($mn)										
Current	150	58	133	268	381	518	650	746	818	
Prior	150	58	137	290	407	527	661	744	814	
COGS ($mn)										
Current	1	1	4	12	19	28	36	37	38	
Prior	1	1	5	14	20	30	36	37	38	
R&D ($mn) -ex-ESOs										
Current	104	104	95	90	85	80	75	75	75	
Prior	104	104	95	90	85	80	75	75	75	
SG&A ($mn) - ex-ESOs										
Current	92	124	120	119	117	116	114	112	111	
Prior	91	124	120	119	117	116	114	112	111	
Interest and Other Income, net										
Current	0	0	1	0	0	1	2	5	8	
Prior	0	0	1	0	0	2	4	7	11	
Net Income ($MM) - Non GAAP, excludes options										
Current	(55)	(220)	(106)	29	145	287	427	526	602	
Prior	(55)	(219)	(102)	49	170	295	439	526	601	
EPS Non-GAAP, Diluted, excludes options										
Current	($0.52)	($2.02)	($0.96)	$0.26	$1.28	$2.50	$3.69	$4.50	$5.10	
Prior	($0.51)	($2.01)	($0.93)	$0.44	$1.51	$2.58	$3.80	$4.51	$5.11	
EPS - GAAP (Diluted)										
Current	($0.68)	($2.18)	($1.12)	$0.07	$1.03	$2.17	$3.33	$4.23	$4.79	
Prior	($0.68)	($2.18)	($1.08)	$0.24	$1.24	$2.25	$3.42	$4.14	$4.67	
Basic Shares Outstanding										
Current	106	109	110	111	113	114	116	117	118	
Prior	106	109	110	111	113	114	115	117	118	
Dilluted Shares Outstanding										
Current	106	109	110	120	122	123	122	120	122	
Prior	106	109	110	119	121	122	123	122	125	

Source: Company data, Morgan Stanley Research

Exhibit 9

Quarterly Income Statement

($ in millions)	1Q13E	2Q13E	3Q13E	4Q13E	2013E
Linaclotide US Sales	9.7	26.3	43.1	59.5	139
Linaclotide EU Sales	0	2	4	7	13
Linaclotide Astellas Sales	0	0	0	0	0
Linaclotide Total Sales	9.7	28.3	47.1	66.5	151.6
Revenue to IRWD:					
Linaclotide US Profit Split	0.00	0.00	0.00	6.93	6.9
Linaclotide EU Royalty	0	0.4	0.8	1.4	2.6
Linaclotide Astellas Royalty	0	0	0	0	0
Collaboration agreement	12	12	12	12	48
Services					
Revenues	$12.00	$12.40	$12.80	$20.33	$57.53
Operating Expenses:					
Cost of Sales	0	0.2	0.4	0.7	1.30
% ex-US sales	*10.0%*	*10.0%*	*10.0%*	*10.0%*	
R&D	26.00	26.00	26.00	26.00	104.00
% of revenue	*216.7%*	*209.7%*	*203.1%*	*127.9%*	*180.8%*
% growth	*0.5%*	*0.0%*	*0.0%*	*0.0%*	
SG&A	31.00	31.00	31.00	31.00	124.00
% of revenue	*258.3%*	*250.0%*	*242.2%*	*152.5%*	*215.5%*
% growth	*-0.1%*	*0.0%*	*0.0%*	*0.0%*	
Collaboration Expenses	17.97	9.67	1.27	0.00	28.90
% of revenue	*149.7%*	*77.9%*	*9.9%*	*0.0%*	*50.2%*
% growth	-	-	-	-	
Total Operating Expenses	$74.97	$66.87	$58.67	$57.70	$258.20
Operating Income (Loss)	($62.97)	($54.47)	($45.87)	($37.37)	($200.66)
Operating Margin					
Interest expense	0.00	(1.45)	(8.90)	(8.90)	-19.25
Interest and investment income	0.05	0.05	0.05	0.05	0.20
Other Expense / Forward Purchase Contracts					
Pretax Income (Loss)	($62.916)	($55.87)	($54.72)	($46.22)	($219.71)
Provision for Income Taxes / Benefit					
Effective tax rate					
Net Loss pre MI					
Net Loss attributed to minority interest					
Net Income (Loss)	($62.92)	($55.87)	($54.716)	($46.22)	($219.71)
EPS, basic	($0.58)	($0.51)	($0.50)	($0.42)	($2.02)
EPS, diluted	($0.58)	($0.51)	($0.50)	($0.42)	($2.02)
Options Expense	5.25	4.68	4.11	4.04	18.07
% of operating expense	*7.0%*	*7.0%*	*7.0%*	*7.0%*	*7.0%*
Tax benefit from options					
Net Income (excl one-time items)	($68.16)	($60.55)	($58.82)	($50.25)	($237.79)
Non-GAAP, diluted (inc. ESOs)	($0.63)	($0.56)	($0.54)	($0.46)	($2.18)
One-time items					
GAAP net income	($68.16)	($60.55)	($58.8)	($50.25)	($237.79)
GAAP EPS, diluted (inc. options expense)	($0.63)	($0.56)	($0.54)	($0.46)	($2.18)
Basic Shares Outstanding	108.03	108.57	109.11	109.66	108.84
Diluted Shares Outstanding	108.03	108.57	109.11	109.66	108.84

Source: Company data, Morgan Stanley Research estimates

Exhibit 10

Annual Income Statement

($ in millions except per share data)	2010A	2011A	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Linaclotide US Sales			19.20	138.60	404.27	660.39	913.69	1,161.83	1,402.39	1,616.11	1,778.28
Linaclotide EU Sales			0.00	13.00	42.70	119.69	197.25	279.50	361.56	366.51	371.13
Linaclotide Astellas Sales			0.00	0.00	0.00	0.00	12.93	31.87	38.20	44.17	48.25
Linaclotide Total Sales			19.20	151.60	446.97	780.08	1,123.87	1,473.20	1,802.15	2,026.78	2,197.65
Revenue to IRWD:											
Collaboration Revenue (Linaclotide US Profit Split)			0.0	6.9	93.8	205.0	319.2	428.6	534.4	627.9	697.8
Linaclotide EU Royalty			0.0	2.6	10.7	33.5	59.2	83.8	108.5	110.0	111.3
Linaclotide Astellas Royalty			0.0	0.0	0.0	0.0	2.3	5.7	6.9	8.0	8.7
Collaboration Revenue (upfront & milestones)	43.86	65.87	150.25	48.00	28.00	29.75	0.00	0.00	0.00	0.00	0.00
Revenues	$43.86	$65.87	$150.25	$57.53	$132.51	$268.24	$380.73	$518.20	$649.77	$745.79	$817.79
Operating Expenses:											
COGS			0.965	1.30	4.27	11.97	18.92	28.02	35.98	36.96	37.74
% total product sales			*5.0%*	*0.9%*	*1.0%*	*1.5%*	*1.7%*	*1.9%*	*2.0%*	*1.8%*	*1.7%*
% total Ex-US sales					*10.0%*	*10.0%*	*9.0%*	*9.0%*	*9.0%*	*9.0%*	*9.0%*
R&D	77.45	80.02	104.39	104.00	95.21	90.21	85.21	80.21	75.21	75.21	75.21
% of revenue	*176.6%*	*121.5%*	*69.5%*	*180.8%*	*71.8%*	*33.6%*	*22.4%*	*15.5%*	*11.6%*	*10.1%*	*9.2%*
SG&A	27.17	40.26	91.71	124.00	120.10	118.71	117.37	115.72	114.09	112.48	110.89
% of revenue	*61.9%*	*61.1%*	*61.0%*	*215.5%*	*90.6%*	*44.3%*	*30.8%*	*22.3%*	*17.6%*	*15.1%*	*13.6%*
Collaboration Expenses			8.37	28.90	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Operating Expenses	$104.6	$120.3	$205.4	$258.2	$219.6	$220.9	$221.5	$223.9	$225.3	$224.6	$223.8
Operating Income (Loss)	($60.8)	($54.4)	($55.2)	($200.7)	($87.1)	$47.4	$159.2	$294.3	$424.5	$521.1	$593.9
Operating Margin					*-65.7%*	*17.7%*	*41.8%*	*56.8%*	*65.3%*	*69.9%*	*72.6%*
Interest expense	(0.20)	(0.03)	0.00	(19.25)	(19.25)	(18.03)	(14.57)	(8.63)	0.00	0.00	0.00
Interest and investment income	0.61	1.33	0.14	0.20	0.53	0.08	0.20	0.89	2.43	4.80	7.68
Other Income / Forward Purchase Contracts	0.99										
Pretax Income (Loss)	($59.4)	($53.1)	($55.1)	($219.7)	($105.8)	$29.4	$144.9	$286.5	$426.9	$525.9	$601.6
Provision for Income Taxes	2.94	(0.00)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Effective tax rate	5%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Net Loss Pre MI	($56.41)	($53.12)	($55.05)	($219.71)	($105.78)	$29.41	$144.87	$286.51	$426.92	$525.95	$601.63
Net (income) loss from disc operations	4.55										
Net Income (Loss)	($51.9)	($53.1)	($55.1)	($219.7)	($105.8)	$29.4	$144.9	$286.5	$426.9	$525.9	$601.6
Net Loss attributed to minority interest	($1.1)										
Net Income (Loss) to Ironwood Pharma	($53.0)	($53.1)	($55.1)	($219.7)	($105.8)	$29.4	$144.9	$286.5	$426.9	$525.9	$601.6
Options Expense		11.73	17.57	18.07	17.02	20.43	19.93	19.60	19.15	19.09	19.03
% of operating expense	*0.0%*	*9.8%*	*8.6%*	*7.0%*	*7.8%*	*9.3%*	*9.0%*	*8.8%*	*8.5%*	*8.5%*	*8.5%*
Tax benefit from options		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Income (excl one-time items)	($52.98)	($64.85)	($72.62)	($237.79)	($122.79)	$8.97	$124.94	$266.91	$407.77	$506.85	$582.61
Non-GAAP, diluted (inc. ESOs)	**($0.59)**	**($0.65)**	**($0.68)**	**($2.18)**	**($1.12)**	**$0.07**	**$1.03**	**$2.17**	**$3.33**	**$4.23**	**$4.79**
One-time items		0.00									
GAAP net income	($52.98)	($64.85)	($72.62)	($237.79)	($122.79)	$8.97	$124.94	$266.91	$407.77	$506.85	$582.61
GAAP EPS, diluted (including ESOs)	**($0.59)**	**($0.65)**	**($0.68)**	**($2.18)**	**($1.12)**	**$0.07**	**$1.03**	**$2.17**	**$3.33**	**$4.23**	**$4.79**
GAAP Net Income Excluding MI	($51.86)	($64.85)	($72.62)	($237.79)	($122.79)	$8.97	$124.94	$266.91	$407.77	$506.85	$582.61
Basic Shares Outstanding	89.7	99.9	106.4	108.8	109.8	111.4	112.9	114.4	115.8	116.9	118.1
Diluted Shares Outstanding	89.7	99.9	106.4	108.8	109.8	120.2	121.8	122.8	122.5	119.9	121.7

Source: Company data, Morgan Stanley Research

Exhibit 11

Balance Sheet

$ in mn	2010A	2011A	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Cash and cash equivalents	44.3	87.3	136.7	149.4	0.3	0.4	78.2	273.5	693.7	1,223.9	1,846.7
Available-for-sale securities	203.71	76.73	31.53	31.53	31.53	1.53	1.53	1.53	1.53	1.53	1.53
Accounts receivable	0.02	0.07	0.46	2.88	6.63	5.36	7.61	10.36	13.00	14.92	16.36
Inventory	0.00	0.00	6.70	2.57	5.91	13.41	19.04	25.91	32.49	37.29	40.89
Related party accounts receivable, net	2.88	0.58	1.03	1.03	1.03	1.03	1.03	1.03	1.03	1.03	1.03
Prepaid expenses & other current assets	5.32	2.90	8.03	3.07	7.08	13.41	19.04	25.91	32.49	37.29	40.89
Restricted Cash	2.83	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Current assets of discontinued operations											
Total Current Assets	**259.08**	**167.57**	**184.44**	**190.48**	**52.51**	**35.11**	**126.44**	**338.23**	**774.22**	**1,315.99**	**1,947.37**
Restricted Cash	7.65	7.65	7.65	7.65	7.65	7.65	7.65	7.65	7.65	7.65	7.65
Property and equipment, net	34.37	33.63	37.54	37.98	43.14	55.22	69.84	85.81	100.12	109.33	111.42
Other Assets	0.27	0.14	0.28	0.11	0.25	0.51	0.72	0.98	1.22	1.40	1.54
Long-term assets of discontinued operations											
Total Assets	**301.4**	**209.0**	**229.9**	**236.2**	**103.5**	**98.5**	**204.7**	**432.7**	**883.2**	**1,434.4**	**2,068.0**
Accounts payables	4.30	6.44	21.73	27.31	23.22	23.36	23.42	23.68	23.82	23.76	23.67
Accrued research and development costs	8.14	7.01	5.66	5.64	5.17	4.89	4.62	4.35	4.08	4.08	4.08
Accrued expenses	8.94	11.12	21.17	26.61	22.63	22.76	22.83	23.08	23.22	23.15	23.07
Current portion of long-term debt		0.00	0.00	11.07	31.50	53.96	78.47	0.00	0.00	0.00	0.00
Current portion of capital lease obligations	0.20	0.23	0.26	0.33	0.28	0.28	0.28	0.28	0.29	0.29	0.28
Deferred rent	2.80	4.04	2.74	3.44	2.92	2.94	2.95	2.98	3.00	2.99	2.98
Deferred revenue	40.05	36.29	3.38	13.00	14.75	0.00	0.00	0.00	0.00	0.00	0.00
Current liabilities of discont operations											
Total Current Liabilities	**64.4**	**65.134**	**54.9**	**87.4**	**100.5**	**108.2**	**132.6**	**54.4**	**54.4**	**54.3**	**54.1**
Long Term Debt, net of current	0.00	0.00	0.00	163.93	132.43	78.47	0.00	0.00	0.00	0.00	0.00
Capital lease obligations	0.39	0.42	0.31	0.39	0.33	0.33	0.33	0.34	0.34	0.34	0.34
Deferred rent	14.61	12.44	11.59	14.57	12.39	12.47	12.50	12.64	12.71	12.68	12.63
Deferred revenue	62.38	21.13	18.02	37.94	23.19	23.19	23.19	23.19	23.19	23.19	23.19
Long-term liabilities of discont operations	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other liabilities	0.00	0.00	0.99	1.25	1.06	1.07	1.07	1.08	1.09	1.08	1.08
Total Liabilities	**141.81**	**99.12**	**85.86**	**305.46**	**269.86**	**223.72**	**169.66**	**91.62**	**91.73**	**91.55**	**91.32**
Convertible preferred stock	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Common Stock	0.10	0.10	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11
Additional paid-in capital	526.99	542.14	648.96	673.44	699.17	731.27	766.56	805.70	848.37	892.84	944.09
Accumulated deficit	(367.54)	(432.39)	(505.02)	(742.80)	(865.60)	(856.62)	(731.68)	(464.77)	(57.00)	449.86	1,032.46
Accumulated other comprehensive income	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Noncontrolling Interest											
Total stockholders' equity	**159.6**	**109.9**	**144.1**	**(69.2)**	**(166.3)**	**(125.2)**	**35.0**	**341.0**	**791.5**	**1,342.8**	**1,976.7**
Total liabilities and stockholders' equity	**301.4**	**209.0**	**229.9**	**236.2**	**103.5**	**98.5**	**204.7**	**432.7**	**883.2**	**1,434.4**	**2,068.0**

Source: Company data, Morgan Stanley Research

Exhibit 12

Cash Flow Statement

$ in mn	2010A	2011A	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Net loss	(51.86)	(64.85)	(72.62)	(237.79)	(122.79)	8.97	124.94	266.91	407.77	506.85	582.61
Minority Interest Add-Back		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Income (loss) from discontinued operations	4.551	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Income / (Loss) from continuing operations	(56.41)	(64.85)	(72.62)	(237.79)	(122.79)	8.97	124.94	266.91	407.77	506.85	582.61
Depreciation and amortization	6.16	10.00	11.33	4.74	5.44	6.70	8.22	9.95	11.68	13.17	14.26
Loss (gain) on disposal of property and equipment	0.47	0.01	0.02								
Impairment loss on long-lived assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Remeasurement of forward purchase contracts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share-based compensation expense	7.50	11.73	17.57	18.07	17.02	20.43	19.93	19.60	19.15	19.09	19.03
Accretion of discount / premium on investment securities	1.62	2.23	1.16								
Changes in operating assets liabilities:											
Accounts receivable	2.32	2.24	(0.84)	(2.42)	(3.75)	1.26	(2.25)	(2.75)	(2.63)	(1.92)	(1.44)
Change in inventory	0.00	0.00	(6.70)	4.13	(3.34)	(7.50)	(5.62)	(6.87)	(6.58)	(4.80)	(3.60)
Restricted cash	(2.35)	2.83	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Prepaid expenses and other current assets	(2.65)	2.42	(5.13)	4.95	(4.01)	(6.33)	(5.62)	(6.87)	(6.58)	(4.80)	(3.60)
Other noncurrent assets	(0.25)	0.14	(0.15)	0.17	(0.14)	(0.26)	(0.21)	(0.26)	(0.25)	(0.18)	(0.14)
Accounts payable and accrued expenses	2.74	5.09	24.24	11.02	(8.07)	0.27	0.13	0.51	0.28	(0.13)	(0.17)
Accrued research and development costs	(4.26)	(1.13)	(1.35)	(0.02)	(0.48)	(0.27)	(0.27)	(0.27)	(0.27)	0.00	0.00
Deferred revenue	(23.57)	(45.01)	(36.02)	29.53	(13.00)	(14.75)	0.00	0.00	0.00	0.00	0.00
Deferred rent & Capital Lease Obligations	6.75	(0.93)	(2.15)	3.83	(2.80)	0.10	0.04	0.18	0.10	(0.05)	(0.06)
Other liabilities			0.99	0.25	(0.19)	0.01	0.00	0.01	0.01	(0.00)	(0.00)
Net cashed used in operating activities from disc ops	-5.97	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net cash used in operating activities	(67.899)	(75.24)	(69.63)	(163.53)	(136.10)	8.62	139.28	280.13	422.67	527.24	606.89
Investing Activities:											
Purchases of available-for-sale securities	(441.8)	(97.5)	(96.71)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sales and maturities of available-for-sale securities	236.5	222.3	140.76	0.00	0.00	30.00	0.00	0.00	0.00	0.00	0.00
Purchases of PPE	(17.2)	(9.7)	(13.98)	(5.18)	(10.60)	(18.78)	(22.84)	(25.91)	(25.99)	(22.37)	(16.36)
Proceeds from the sale of property and equipment / subsidi	0.00	0.0	0.01								
Proceeds from sale of subsidiary	9.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net cashed used in investing activities from disc ops	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net cash used in investing activities	(213.0)	115.1	30.08	(5.18)	(10.60)	11.22	(22.84)	(25.91)	(25.99)	(22.37)	(16.36)
Financing activities:											
Proceeds from issuance of preferred stock, net of issuance costs											
Proceeds from share issuance	203.17	0.00	85.23	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Proceeds from exercise of stock options, stock purchase pl	2.02	3.39	4.02	6.42	8.71	11.67	15.35	19.54	23.52	25.38	32.22
Proceeds from sale of noncotrolling interest in subsidiary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tax benefit from stock options		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Disbursements from repurchase of common stock		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Proceeds from borrowings			0.00	175.00							
Payments on borrowings and capital lease obligations	(1.96)	(0.26)	(0.28)	0.00	(11.07)	(31.50)	(53.96)	(78.47)	0.00	0.00	0.00
Net cash (used in) provided by fin activities from disc ops	(0.28)										
Net cash provided by financing activities	203.0	3.13	88.97	181.42	(2.36)	(19.82)	(38.61)	(58.93)	23.52	25.38	32.22
Increase in cash and cash equivalents	(78.0)	42.96	49.42	12.71	(149.07)	0.02	77.83	195.29	420.20	530.24	622.75
Cash and equivalents at beginning of year	122.3	44.32	87.28	136.70	149.41	0.34	0.37	78.20	273.49	693.69	1,223.93
Cash and equivalents at end of year	44.3	87.3	136.70	149.4	0.3	0.4	78.2	273.5	693.7	1,223.9	1,846.7

Source: Company data, Morgan Stanley Research

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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(as of February 28, 2013)

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Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1025**	**36%**	**394**	**39%**	**38%**
Equal-weight/Hold	**1242**	**44%**	**477**	**47%**	**38%**
Not-Rated/Hold	**104**	**4%**	**26**	**3%**	**25%**
Underweight/Sell	**474**	**17%**	**114**	**11%**	**24%**
Total	**2,845**		**1011**		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.
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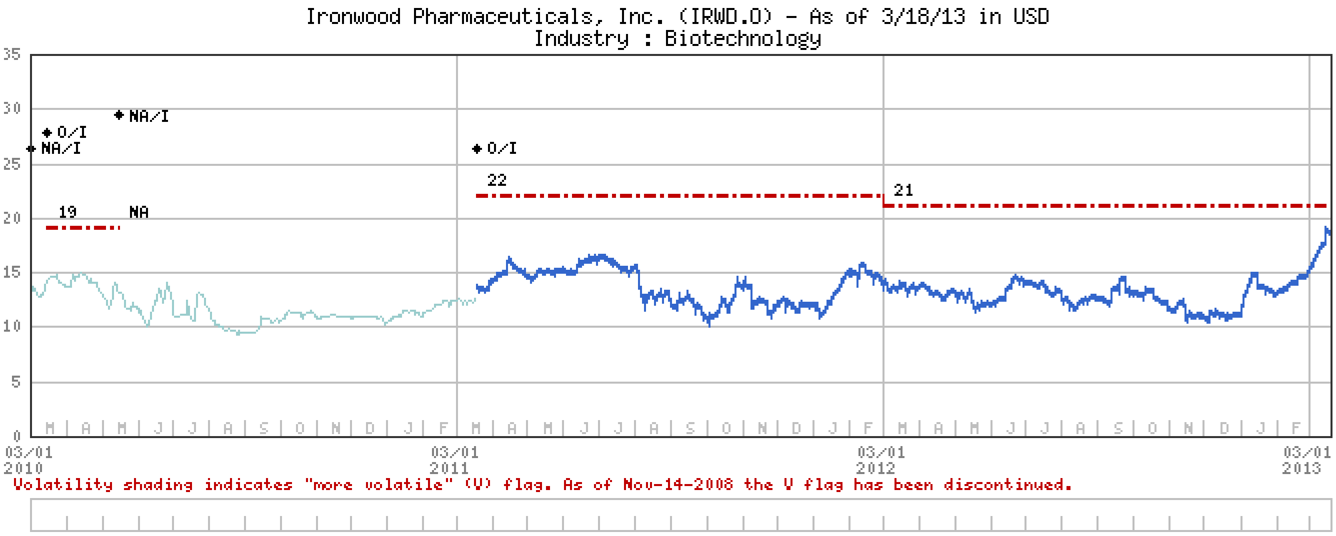
Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 3/1/10 : NA/I; 3/15/10 : O/I; 5/16/10 : NA/I; 3/18/11 : O/I

Price Target History: 3/15/10 : 19; 5/16/10 : NA; 3/18/11 : 22; 3/1/12 : 21

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Industry Coverage:Biotechnology

Company (Ticker)	Rating (as of)	Price* (03/18/2013)
David Friedman, M.D.		
AMAG Pharmaceuticals, Inc. (AMAG.O)	E (11/21/2011)	$21.94
Alexion Pharmaceuticals (ALXN.O)	O (09/07/2010)	$93.64
Auxilium Pharmaceuticals (AUXL.O)	U (08/21/2012)	$16.95
Cubist Pharmaceuticals Inc. (CBST.O)	O (10/03/2012)	$46.53
Idenix Pharmaceuticals, Inc. (IDIX.O)	E (03/18/2011)	$4.57
Incyte Corporation (INCY.O)	U (01/23/2013)	$23.79
InterMune (ITMN.O)	E (09/07/2010)	$8.87
Ironwood Pharmaceuticals, Inc. (IRWD.O)	O (03/18/2011)	$18.49
Lexicon Pharmaceuticals, Inc. (LXRX.O)	E (09/07/2010)	$2.17
NPS Pharmaceuticals (NPSP.O)	O (10/03/2012)	$9.04
Synageva Biopharma Corp (GEVA.O)	O (04/20/2012)	$51.07
Theravance Inc (THRX.O)	U (01/31/2012)	$23.52
Vertex Pharmaceuticals (VRTX.O)	E (05/08/2012)	$51.37
XenoPort Inc (XNPT.O)	E (08/26/2011)	$7.17
Sara Slifka		
Neurocrine Biosciences Inc (NBIX.O)	O (10/03/2012)	$11.05
Optimer Pharmaceuticals (OPTR.O)	U (10/03/2012)	$12.25
Marshall Urist, M.D., Ph.D.		
Amgen Inc. (AMGN.O)	E (02/09/2012)	$90.39
Aveo Pharmaceuticals (AVEO.O)	E (02/09/2012)	$7.45
Biogen Idec Inc. (BIIB.O)	O (02/09/2012)	$175.52
Celgene Corp (CELG.O)	O (02/09/2012)	$111.9
Elan Corporation PLC (ELN.N)	++	$11.84
Gilead Sciences Inc. (GILD.O)	O (02/09/2012)	$44.8
Immunogen Inc. (IMGN.O)	E (11/13/2012)	$15.85
Infinity Pharmaceuticals Inc (INFI.O)	O (02/19/2013)	$49.04
Onyx Pharmaceuticals Inc. (ONXX.O)	E (06/21/2012)	$86.61
Tesaro Inc. (TSRO.O)	O (07/23/2012)	$24.37

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.