

Ironwood Pharma (IRWD)

\$14.01 (As of 01/06/20)

Price Target (6-12 Months): **\$15.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/03/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: B

Summary

Ironwood's Linzess has performed encouragingly on the back of strong demand and expansion in new patient population and geographic regions. Ironwood is focused on further label expansions of the drug. Meanwhile, Ironwood's separation into two companies is increasing operational performance and strategic flexibility. The amendment of agreements related to Linzess rights in China and Japan with its partners is likely to boost margins. Shares have outperformed the industry in the past year. However, competition in CIC and IBS-C, Linzess' target markets is intensifying. Any Linzess-related pipeline/regulatory setbacks will weigh heavily on the stock as the rest of its pipeline is mostly mid-stage in nature.

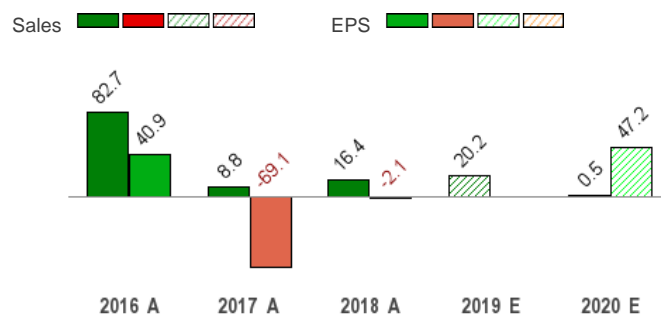
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$14.10 - \$7.91
20 Day Average Volume (sh)	1,541,606
Market Cap	\$2.2 B
YTD Price Change	5.3%
Beta	1.91
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Drugs
Zacks Industry Rank	Top 22% (55 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	300.0%
Last Sales Surprise	36.6%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/12/2020
Earnings ESP	0.0%
P/E TTM	70.1
P/E F1	18.0
PEG F1	NA
P/S TTM	5.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	112 E	115 E	119 E	124 E	419 E
2019	69 A	102 A	131 A	110 E	417 E
2018	69 A	81 A	66 A	131 A	347 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.30 E	\$0.31 E	\$0.32 E	\$0.34 E	\$0.78 E
2019	-\$0.26 A	\$0.08 A	\$0.40 A	\$0.22 E	\$0.53 E
2018	-\$0.27 A	-\$0.28 A	-\$0.38 A	-\$0.02 A	-\$0.95 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/06/2020. The reports text is as of 01/07/2020.

Overview

Cambridge, MA-based Ironwood Pharmaceuticals, Inc. is focused on the development and commercialization of treatments primarily addressing gastrointestinal (GI) diseases. Linzess (linaclotide) was launched in December 2012 in collaboration with Allergan for patients suffering from irritable bowel syndrome with constipation (IBS-C; 290 mcg) or chronic idiopathic constipation (CIC; 145 mcg & 72 mcg). Ironwood and Allergan co-develop and co-commercialize Linzess and equally share Linzess U.S. collaboration profits or losses as well as all development costs. Linzess is marketed by Allergan for IBS-C in Europe and Canada under the brand name Constella. Ironwood receives royalties on sales of Constella in Europe and Canada from Allergan.

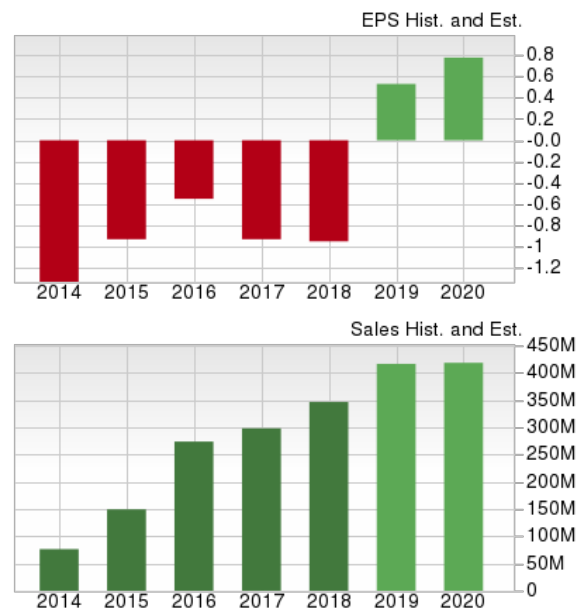
In Japan, Ironwood has partnered with Astellas Pharma for the development and commercialization of Linzess and with AstraZeneca in China, Hong Kong and Macau. Linzess received approval for IBS-C indication in Japan in December 2016 and for chronic constipation (CC) in August 2018. Meanwhile in January 2019, the drug was approved in China for IBS-C.

Ironwood has also partnered with Allergan for the development and commercialization of Linzess in all other territories worldwide.

Meanwhile, in a bid to expand its reach among primary care physicians and gastroenterologists and earn additional funds, Ironwood has signed co-promotion deals with Allergan for Viberzi (irritable bowel syndrome with diarrhea/IBS-D) in the United States.

In April 2019, the company completed the spin-off of its soluble guanylate cyclase (sGC) segment into a separate, publicly traded company, Cycleric Therapeutics.

Revenues in 2018 were up 16.2% to \$346.6 million. Ironwood expects greater than 25% revenue CAGR between 2016 and 2020.



Reasons To Buy:

- ▲ **Linness Performance Encouraging:** Following the approval of Linness in 2012, the sales of the drug has grown significantly on back of strong demand.

Ironwood is working on expanding managed care access to Linness and lowering out-of-pocket costs. Moreover, since 2016 CVS/Caremark has granted Linness an exclusive preferred position on its formulary. The company commenced a new direct-to-consumer (DTC) campaign in April 2018 focusing on digital space as well as the social media space. These initiatives have supported the drug's growth.

Linness has blockbuster potential, if approved for additional indications. We are also encouraged by Ironwood's partnership deals with companies like Allergan.

Linness has the potential to be a blockbuster product with global sales crossing \$750 million in 2018. By the end of 2020, Ironwood expects annual sales of Linness to cross \$1 billion. The company is also progressing well with development of the drug in Japan and China. Per IQVIA data, Linness is the leading prescribed drug for adult patients in the United States with IBS-C or CIC. Ironwood estimates that its IBS-C/CIC franchise, including Linness and the delayed release formulation (upon approval), may represent a peak U.S. sales opportunity of over \$2 billion, with additional global potential. Moreover, Linness is well protected by patents and is unlikely to face generic competition before 2030. Ironwood and Allergan are working to strengthen the patent further.

- ▲ **Linness Label Expansion Efforts:** Ironwood and Allergan are looking to broaden Linness' label to include new indications, populations and formulations.

The companies are developing Linness for label expansion in additional abdominal symptoms associated with IBS-C, including bloating and discomfort. In June 2019, the companies announced positive top-line data from a phase IIb study showing that the drug improved overall abdominal symptoms of bloating, pain and discomfort in adult patients with IBS-C as compared to placebo. The company is planning to submit a supplemental new drug application for Linness based on these data by 2019 end. A label expansion in pediatric patients is also being planned in similar indication. Ironwood and Allergan are developing a delayed release formulation of Linness - delayed release-2 (MD-7246) to address patient populations suffering from all forms of IBS. In May 2019, the company initiated a phase IIb study to evaluate MD-7246 for treating IBS-D. Linness is also being evaluated as a potential treatment of the GI dysfunction associated with opioid-induced constipation, or OIC and in pediatric studies in IBS-C patients. Efforts are on to expand in ex-U.S. territories as well.

Meanwhile, to capture the lucrative GI market, Ironwood is developing several candidates. Its most advanced pipeline candidate is IW-3718, which is being evaluated in two identical phase III studies for treating persistent refractory gastroesophageal reflux disease (GERD).

- ▲ **Strong Partnerships:** We are positive on Ironwood's agreement with Allergan for the development and commercialization of Linness both in the United States and Europe. Given Allergan's expertise and strong presence both in the United States and EU markets, we believe it is a suitable partner for Ironwood. The company is co-promoting Viberzi (IBS-D) with Allergan in the United States.

The company also has a deal with Astellas for the development of Linness in Japan. Ironwood has an agreement with AstraZeneca for Linness in China, Hong Kong and Macau. The collaborations have not only reduced the cost of developing the drug, these also act as a source of revenues for Ironwood. Additional partnerships in other territories will be a positive for the company.

- ▲ **Spin-off of Cyclierion Encouraging:** Separation of Ironwood's sGC pipeline into another entity, Cyclierion, should be a positive. The transaction improved operating margin in the past couple of quarters, following the separation, by bringing down research and development costs. The company will also be able to put more efforts in building its GI products, especially Linness. Moreover, the spin-off along with some restructuring initiatives is also reducing the workforce, leading to further decrease in operating expenses. The company's operating cash flow turned positive in the third quarter of 2019.
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Reasons To Sell:

▼ **Over-Dependence on Linzess:** While we are pleased with the performance of Linzess, we are concerned about the company's dependence on the product for growth. Any negative news related to Linzess would adversely impact the company and its growth prospects. Although the performance of Linzess improved in 2018, customer buying patterns can have unfavorable impact in future years as seen earlier. Moreover, the product is more than a year away from achieving blockbuster status.

Competition in CIC and IBS-C, Linzess' target markets, is intensifying.

Meanwhile in August 2018, Ironwood terminated its licensing agreement with AstraZeneca related to Zurampic and all products containing lesinurad, including Duzallo (fixed-dose combination of lesinurad and allopurinol). The termination was based on unfavorable data from a study exploring a path for value creation of lesinurad-based products. This has impacted the top line unfavorably as expected. Moreover, upon completion of the termination of lenisurad franchise, the company solely depends on Linzess for the majority of its revenues.

▼ **Pipeline Candidates Still a Few Years from Commercialization:** Ironwood's mid/late-stage nature of the pipeline runs its own risk. Although the company has a few mid/late-stage candidates in its pipeline, it will be several years before any of these candidates are close to commercialization. Moreover, we note that clinical development involves a high degree of risk. Gaining approval for pipeline candidates has become more difficult given the tough regulatory environment. Development and regulatory setbacks for pipeline candidates would be a major disappointment for the company and have an adverse impact on the shares.

In April 2016, Ironwood announced disappointing top-line data from an exploratory phase IIa study on IW-9179 in patients with diabetic gastroparesis and decided to discontinue the development of the candidate for gastroparesis.

▼ **Competitive and Pricing Pressure:** Currently approved products for IBS-C and CIC include Takeda's Amitiza and recently approved Motegrity as well as laxatives and over-the-counter fiber supplements. Additional competition has entered the market in the form of Synergy's Trulance (plecanatide), which is marketed for treating CIC as well as IBS-C. We are concerned about stiff competition limiting the sales potential of Linzess. Linzess is also facing pricing pressure in the United States, which is impacting sales.

Last Earnings Report

Ironwood Q3 Earnings and Revenues Beat Estimates

Ironwood reported third-quarter 2019 adjusted earnings of 40 cents per share, surpassing the Zacks Consensus Estimate of 10 cents. In the year-ago period, the company had reported a loss of 38 cents.

Total revenues of \$131.2 million comprehensively beat the Zacks Consensus Estimate of \$96.01 million. Revenues nearly doubled year over year. The significant increase in revenues was due to certain negative adjustment related to Linzess sales in the year-ago quarter and one-time payments received during the third quarter of 2019 related to amendments of license/collaboration agreements for Linzess.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	36.62%
EPS Surprise	300.00%
Quarterly EPS	0.40
Annual EPS (TTM)	0.20

Quarter in Detail

As reported by partner Allergan, Linzess net sales totaled \$214.7 million in the United States, up 4.8% year over year.

Ironwood's share of net profits from sales of Linzess in the United States (included in collaborative revenues) was \$84.6 million in the third quarter, up approximately 61.8% year over year. Total commercial profit in the reported quarter was \$134.4 million.

Per data provided by IQVIA, volume of prescribed Linzess capsules in the third quarter increased about 15% year over year.

Sales of linaclotide API to Ironwood's Japanese partner, Astellas Pharma, were \$0.6 million compared with 10.3 million in the year-ago period.

2019 Guidance

Ironwood increased its guidance for total revenues to the range of \$410-\$420 million from the previously announced range of \$370-\$390 million for 2019 on the back of strong growth momentum in Linzess sales. Net interest expenses are anticipated to be approximately \$35 million.

The company also raised its EBITDA guidance for 2019 including the positive impact of the business separation. The company expects adjusted EBITDA to be more than \$130 million (previously \$65 million), indicating strong top-line growth, and license and milestone payments received during the third quarter. It also expects net sales of Linzess to grow by mid-single digit percentage point (previously low- to mid-single digit).

The company expects to save \$25 million over the next five years by shifting its headquarters to downtown Boston from its current location in Cambridge, MA. The relocation was completed in October.

Recent News

Settles Linzess Patent Litigation With Sandoz – Jan 6

Ironwood and partner Allergan announced that they have settled a patent litigation related to Linzess with Sandoz, the generic division of Novartis. Sandoz had filed an abbreviated new drug application, seeking approval for a generic version of Linzess in the United States. Per the settlement terms, Sandoz will be able to market generic version of Linzess, beginning Feb 5, 2030, subject to FDA approval

Amends Collaboration Agreement with AstraZeneca – Sep 18

Ironwood announced that it has amended the collaboration agreement with AstraZeneca related to development and commercialization of Linzess in China, including Hong Kong and Macau. Per the amended terms, Ironwood has granted AstraZeneca exclusive rights to develop, manufacture, and commercialize Linzess in these territories. AstraZeneca will be responsible for all expenses associated with Linzess and Ironwood will no longer be jointly funding the development and commercialization of Linzess neither will it share profits on the drug's sales in China. The company will receive royalties on net sales of Linzess in China and included territories.

Per the terms of the amended agreement, Ironwood is eligible to receive payments up to a total of \$125 million, which includes \$35 million in non-contingent payments and \$90 million payment contingent to achieving certain annual net sales targets. It received \$32.4 million of the non-contingent payments and recorded the same as revenues in the third quarter.

Valuation

Ironwood's shares are up 17.3% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the Zacks sector are up 0.1% and 4.8%, respectively.

The S&P 500 Index is up 24.5% in the past year.

The stock is currently trading at 5.25X forward 12-month sales per share, which compares with 2.67X for the Zacks sub-industry, 2.79X for the Zacks sector and 3.47X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 13.09X and as low as 3.31X, with a 5-year median of 6.46X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$15.00 price target reflects 5.62X forward 12-month sales per share.

Industry Analysis Zacks Industry Rank: Top 22% (55 out of 254)



Top Peers

Evoked Pharma, Inc. (EVOK)	Outperform
Allergan plc (AGN)	Neutral
Ardelyx, Inc. (ARDX)	Neutral
Bausch Health Cos Inc. (BHC)	Neutral
Horizon Therapeutics Public Limited Company (HZNP)	Neutral
Mallinckrodt public limited company (MNK)	Neutral
Teva Pharmaceutical Industries Ltd. (TEVA)	Neutral
Tetraphase Pharmaceuticals, Inc. (TPPH)	Neutral

Industry Comparison Industry: Medical - Drugs				Industry Peers		
	IRWD Neutral	X Industry	S&P 500	HZNP Neutral	TEVA Neutral	TPPH Neutral
VGM Score	B	-	-	A	B	C
Market Cap	2.20 B	122.41 M	23.72 B	6.78 B	9.91 B	8.20 M
# of Analysts	1	2	13	6	13	2
Dividend Yield	0.00%	0.00%	1.79%	0.00%	0.00%	0.00%
Value Score	D	-	-	C	A	C
Cash/Price	0.07	0.28	0.04	0.13	0.13	2.84
EV/EBITDA	-10.74	-1.81	13.90	20.62	-43.59	0.18
PEG Ratio	NA	1.31	2.00	1.67	0.88	NA
Price/Book (P/B)	NA	3.25	3.34	4.34	0.66	0.28
Price/Cash Flow (P/CF)	NA	10.00	13.67	9.15	1.96	NA
P/E (F1)	17.56	14.99	18.72	17.87	3.62	NA
Price/Sales (P/S)	5.08	5.71	2.66	5.25	0.57	0.82
Earnings Yield	5.57%	-14.39%	5.31%	5.60%	27.67%	-335.66%
Debt/Equity	-2.78	0.03	0.72	0.87	1.62	0.14
Cash Flow (\$/share)	-0.85	-0.56	6.94	3.96	4.63	-26.70
Growth Score	A	-	-	B	D	B
Hist. EPS Growth (3-5 yrs)	NA%	8.54%	10.56%	13.57%	-17.10%	NA
Proj. EPS Growth (F1/F0)	46.70%	19.67%	7.42%	8.19%	4.99%	65.59%
Curr. Cash Flow Growth	5.16%	13.56%	14.83%	27.11%	-26.03%	-37.29%
Hist. Cash Flow Growth (3-5 yrs)	8.45%	8.32%	9.00%	78.04%	-4.41%	NA
Current Ratio	4.88	3.65	1.23	2.33	0.89	2.70
Debt/Capital	NA%	8.10%	42.92%	46.41%	61.86%	12.64%
Net Margin	-9.67%	-118.66%	11.08%	5.25%	-22.88%	-804.43%
Return on Equity	-15.83%	-67.23%	17.16%	27.71%	15.41%	-152.06%
Sales/Assets	1.29	0.29	0.55	0.33	0.29	0.11
Proj. Sales Growth (F1/F0)	0.47%	10.87%	4.15%	9.85%	-1.01%	238.40%
Momentum Score	B	-	-	A	B	C
Daily Price Chg	6.30%	0.00%	0.10%	0.33%	-0.22%	-4.90%
1 Week Price Chg	-2.15%	0.00%	-0.30%	-0.69%	-8.73%	-5.61%
4 Week Price Chg	13.63%	4.11%	2.33%	13.58%	-7.64%	19.82%
12 Week Price Chg	61.03%	5.05%	7.02%	32.77%	34.77%	-29.81%
52 Week Price Chg	21.19%	-18.18%	24.61%	70.61%	-48.67%	-91.50%
20 Day Average Volume	1,541,606	205,407	1,589,897	1,538,784	11,576,092	257,431
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.41%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.08%	0.00%	0.00%
(F1) EPS Est 12 week change	48.80%	0.38%	-0.56%	0.76%	0.41%	3.18%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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