



**2022 Convertible Senior Notes  
Financial Statement Presentation**

**November 2015**

# Introduction

- In June 2015, Ironwood issued approximately \$336 million in Convertible Notes
  - As part of this offering, Ironwood purchased a Convertible Note Hedge (comprising a convertible note hedge and a convertible note warrant), raising the effective conversion premium and minimizing shareholder dilution
  - The Convertible Note Hedge is reflected as a derivative instrument in our financial statements
  - As a result of this classification, the convertible note hedge is marked-to-market each quarter
- Ironwood will provide non-GAAP financial measures in its quarterly Investor Updates, which will exclude the non cash mark-to-market adjustments on the derivatives as they are primarily driven by market fluctuations
- The following slides are intended to illustrate the financial statement presentation of the Convertible Notes and the Convertible Note Hedge and how they influence non-GAAP financial measures
- ***Slides 3 – 7 are for illustrative purposes only and do not represent Ironwood financial results or expectations***

# Convertible Offering Overview

- **Issued \$335.7 million in 2022 Convertible Senior Notes in June 2015**
  - Offering size: \$300M
  - Over-allotment: ~\$35.7M
  - Interest rate: 2.25%
  - Term: 7 years (due 2022)
  - Initial equivalent conversion price: \$16.58/share
  - Debt issuance cost: \$11.7 million
  - Reflected as liability and equity on consolidated balance sheet
- **Purchased Convertible Note Hedge to mitigate dilution**
  - Increased equivalent conversion price to \$21.50/share
  - Purchase of convertible note hedge: \$91.9 million
    - Reflected as asset on consolidated balance sheet
  - Sale of convertible note warrants: \$70.8 million
    - Reflected as liability on consolidated balance sheet
- **Net Proceeds: \$303.0 million**

# Condensed Consolidated Balance Sheet

(In thousands, except share and per share amounts)

Liabilities:		
<b>Total current liabilities</b>	\$	<b>62,000</b>
Capital lease obligations		2,000
Deferred rent		9,000
Deferred revenue		5,000
Note hedge warrants		69,000
<b>Convertible senior notes</b>		<b>215,000</b>
PhaRMA notes payable		147,000
Other liabilities		4,000
<b>Total Liabilities</b>	\$	<b>513,000</b>
Stockholders' equity:		
Common stock		140
<b>Additional paid-in capital</b>		<b>1,200,000</b>
Accumulated deficit		(1,000,000)
Accumulated other comprehensive income (loss)		20
<b>Total stockholders' equity</b>		<b>200,160</b>
<b>Total liabilities and stockholders' equity</b>	\$	<b>713,160</b>

## 2022 Notes:

- Principal of \$335.7M has two components:
  - Debt component
  - Equity component

- Debt component:**
  - Debt discount = difference between debt component and principal
  - Portion of issuance costs are netted against debt component
  - Issuance costs and debt discount are recorded to Interest Expense and added to debt component each period; debt component will increase over time

- Equity component:**
  - Recorded as part of additional paid-in capital (APIC)
  - APIC also contains portion of issuance costs
  - Not remeasured each period

# Condensed Consolidated Balance Sheet

(In thousands, except share and per share amounts)

Assets:		Liabilities:	
<b>Total current assets</b>	\$ 575,160	<b>Total current liabilities</b>	\$ 62,000
Restricted cash	8,000	Capital lease obligations	2,000
Property and equipment, net	36,000	Deferred rent	9,000
<b>Convertible note hedges</b>	<b>90,000</b>	Deferred revenue	5,000
Other assets	4,000	<b>Note hedge warrants</b>	<b>69,000</b>
<b>Total assets</b>	\$ 713,160	Convertible senior notes	215,000
		PhARMA notes payable	147,000
		Other liabilities	4,000
		<b>Total Liabilities</b>	\$ 513,000
		<b>Stockholders' equity:</b>	
		Common stock	140
		Additional paid-in capital	1,200,000
		Accumulated deficit	(1,000,000)
		Accumulated other comprehensive income (loss)	20
		<b>Total stockholders' equity</b>	200,160
		<b>Total liabilities and stockholders' equity</b>	\$ 713,160

## Convertible Note Derivatives:

*Both derivative financial instruments are marked to market and the change in valuation is recorded as Gain (Loss) on Derivatives on the Statement of Operations each period*

# Condensed Consolidated Statement of Operations

(In thousands, except share and per share amounts)

<b>Revenue</b>	<b>\$ 50,000</b>
Cost and expenses:	
Cost of revenue	1,000
Research and development	30,000
Selling, general and administrative	30,000
Total cost and expenses	61,000
Loss from operations	(11,000)
Other (expense) income:	
<b>Interest expense</b>	<b>(10,000)</b>
Interest and investment income	100
Loss on derivatives	(6,000)
Other expense, net	(15,900)
<b>Net loss</b>	<b>\$ (26,900)</b>
<b>Loss Per Share*</b>	<b>\$ (0.27)</b>
<b>Non-GAAP Net loss</b>	<b>\$ (20,900)</b>
<b>Non-GAAP Net loss per share *</b>	<b>\$ (0.21)</b>

## Interest Expense on 2022 Notes:

- Coupon interest expense: 2.25% (cash)
- Amortization of debt discount & issuance costs (non-cash)

\*Assumes 100,000,000 shares for illustrative example

# Condensed Consolidated Statement of Operations

## Loss on Derivatives

(In thousands, except share and per share amounts)

Revenue	\$	50,000
Cost and expenses:		
Cost of revenue		1,000
Research and development		30,000
Selling, general and administrative		30,000
Total cost and expenses		61,000
Loss from operations		(11,000)
Other (expense) income:		
Interest expense		(10,000)
Interest and investment income		100
<b>Loss on derivatives</b>		<b>(6,000)</b>
Other expense, net		(15,900)
<b>Net loss</b>	\$	<b>(26,900)</b>
<b>Net loss per share*</b>	\$	<b>(0.27)</b>
<b>Non-GAAP Net loss</b>	\$	<b>(20,900)</b>
<b>Non-GAAP Net loss per share *</b>	\$	<b>(0.21)</b>

### Convertible Note Derivatives:

Inputs to the fair market valuation include:

- U.S. Treasury Curve Interest Rates
- Time to maturity
- The Company's stock price as of the end of the period
- The strike price of each instrument
- Volatility of the Company's common stock

Loss on derivatives:

Change in fair value of convertible note hedge	(\$12,000)
Change in fair value of note hedge warrant	\$6,000
<b>Net loss on derivatives</b>	<b>(\$6,000)</b>

### Reconciliation of GAAP to Non-GAAP:

<b>GAAP Net Loss:</b>	(\$26,900)
<b>Loss on derivatives:</b>	\$6,000
<b>Non-GAAP Net Loss:</b>	(\$20,900)
<b>GAAP loss per share*:</b>	(\$0.27)
<b>Loss on derivatives:</b>	\$0.06
<b>Non-GAAP loss per share:</b>	(\$0.21)

\*Assumes 100,000,000 shares for illustrative example

# Condensed Consolidated Statement of Operations

## Gain on Derivatives

(In thousands, except share and per share amounts)

Revenue	\$	50,000
Cost and expenses:		
Cost of revenue		1,000
Research and development		30,000
Selling, general and administrative		30,000
Total cost and expenses		61,000
Loss from operations		(11,000)
Other (expense) income:		
Interest expense		(10,000)
Interest and investment income		100
<b>Gain on derivatives</b>		<b>6,000</b>
Other expense, net		(3,900)
<b>Net loss</b>	\$	<b>(14,900)</b>
<b>Net loss per share*</b>	\$	<b>(0.15)</b>
<b>Non-GAAP Net loss</b>	\$	<b>(20,900)</b>
<b>Non-GAAP Net loss per share *</b>	\$	<b>(0.21)</b>

### Convertible Note Derivatives:

Inputs to the fair market valuation include:

- U.S. Treasury Curve Interest Rates
- Time to maturity
- The Company's stock price as of the end of the period
- The strike price of each instrument
- Volatility of the Company's common stock

Gain on derivatives:

Change in fair value of convertible note hedge	\$12,000
Change in fair value of note hedge warrant	(\$6,000)
<b>Net gain on derivatives</b>	<b>\$6,000</b>

### Reconciliation of GAAP to Non-GAAP:

<b>GAAP Net Loss:</b>	(\$14,900)
<b>Gain on derivatives:</b>	(\$6,000)
<b>Non-GAAP Net Loss:</b>	(\$20,900)
<b>GAAP loss per share*:</b>	(\$0.15)
<b>Gain on derivatives:</b>	(\$0.06)
<b>Non-GAAP loss per share:</b>	(\$0.21)

\*Assumes 100,000,000 shares for illustrative example





Ironwood