

**Acquires FV-100 For Shingles From Bristol Myers****Investment Summary****Buy****Target Price: \$13**

Synergy, announced the acquisition of FV-100, a drug indicated to treat shingles, from Bristol-Myers Squibb. FV-100 displayed clinically meaningful reductions in pain and nerve specific pain (post-herpetic neuralgia) in a Phase 2a trial. The Phase 2a trial enrolled 230 patients, which were randomized into 2 cohorts of 200mg and 400mg (115 patients each). Synergy has not disclosed any of the financial details of the transaction yet, thus it is too early to determine if and when this product acquisition could be accretive. However, we can say that the market is large with an incidence of over 500,000 annually and growing as the elderly population over age 65 increases. The post-herpetic neuralgia pain primarily affects those over age 65, and the incidence of shingles in this age group is about 11.8 per 1000.

**Valuation.** We derive our target price of \$13 through a DCF analysis, assuming a 40% discount rate that is applied to all cash flows and the terminal value, which is based on a 6 multiple of the projected 2019 EBITDA.

**Risks.** Risks to the achievement of our target price include clinical, regulatory, financing, competitive risks, as well as stock price volatility.

Price	\$4.40
52-Week High/Low	\$7.10 - 2.10
Shares Outstanding (000)	65,806.00
Market Cap. (000)	\$289,546.40
Average Daily Volume (000)	34.91

EPS	FY11A	FY12E	FY13E
Mar	\$(0.08)	\$(0.13)A	NA
Jun	\$(0.10)	\$(0.17)A	NA
Sep	\$(0.01)	\$(0.16)	NA
Dec	\$(0.11)	\$(0.16)	NA
<b>FY</b>	<b>\$(0.30)</b>	<b>\$(0.63)</b>	<b>\$(0.65)</b>
Prior	NA	NA	NA
Consensus	NA	\$(0.59)	\$(0.55)
P/E	NA	NA	NA
FY Rev. (000)	\$0.00	\$0.00	\$0.00



Source: BigCharts.com

**Synergy Pharmaceuticals, Inc.****Income Statement**

Fiscal Year ends December

(in 000, except per share items)

	2009A	2010A	1Q11	2Q11	3Q11	4Q11	2011A	1Q12A	2Q12A	3Q12E	4Q12E	2012E	2013E	2014E	2015E	2016E	2017E
Plecanatide CIC revenue															84,591	192,296	361,243
Plecanatide IBS-C revenue															57,676	125,678	227,285
<b>Total Revenue</b>															<b>142,268</b>	<b>317,974</b>	<b>588,528</b>
COGS															7,904	22,126	48,967
R&D	3,733	9,559	1,478	2,354	3,883	5,704	13,419	5,338	7,626	8,008	8,408	29,380	36,725	44,070	50,680	55,748	58,536
SG&A	4,467	6,562	1,898	1,524	1,103	2,221	6,746	1,731	1,918	1,957	1,996	7,602	9,123	18,246	36,492	72,984	94,879
<b>Total Operating Expenses</b>	<b>8,200</b>	<b>16,121</b>	<b>3,376</b>	<b>3,879</b>	<b>4,986</b>	<b>7,925</b>	<b>20,165</b>	<b>7,069</b>	<b>9,545</b>	<b>9,964</b>	<b>10,404</b>	<b>36,982</b>	<b>45,848</b>	<b>62,316</b>	<b>95,076</b>	<b>150,858</b>	<b>202,381</b>
<b>Operating Income</b>	<b>(8,200)</b>	<b>(16,121)</b>	<b>(3,376)</b>	<b>(3,879)</b>	<b>(4,986)</b>	<b>(7,925)</b>	<b>(20,165)</b>	<b>(7,069)</b>	<b>(9,545)</b>	<b>(9,964)</b>	<b>(10,404)</b>	<b>(36,982)</b>	<b>(45,848)</b>	<b>(62,316)</b>	<b>47,191</b>	<b>167,116</b>	<b>386,147</b>
Interest income	75	108	24	20	20	26	90	39	48	51	53	190	196	202	208	214	221
Interest expense			(12)				(12)										
Other income (expense), net		494				363	363		256		200	456	433	411	391	371	352
Change in fair value of financial instrument		297	(339)	(698)	4,383	1,911	5,257	8	(1,317)	(1,357)	(1,398)	(4,064)	(4,186)	(4,311)	(4,441)	(4,574)	(4,711)
<b>Pretax income</b>	<b>(8,125)</b>	<b>(15,222)</b>	<b>(3,702)</b>	<b>(4,557)</b>	<b>(583)</b>	<b>(5,625)</b>	<b>(14,467)</b>	<b>(7,023)</b>	<b>(10,558)</b>	<b>(11,271)</b>	<b>(11,548)</b>	<b>(40,400)</b>	<b>(49,405)</b>	<b>(66,014)</b>	<b>43,349</b>	<b>163,127</b>	<b>382,009</b>
Provision for income tax (benefit)																4,894	95,502
<b>Net Income</b>	<b>(8,125)</b>	<b>(15,222)</b>	<b>(3,702)</b>	<b>(4,557)</b>	<b>(583)</b>	<b>(5,625)</b>	<b>(14,467)</b>	<b>(7,023)</b>	<b>(10,558)</b>	<b>(11,271)</b>	<b>(11,548)</b>	<b>(40,400)</b>	<b>(49,405)</b>	<b>(66,014)</b>	<b>43,349</b>	<b>158,234</b>	<b>286,507</b>
<b>EPS</b>	<b>(0.22)</b>	<b>(0.34)</b>	<b>(0.08)</b>	<b>(0.10)</b>	<b>(0.01)</b>	<b>(0.11)</b>	<b>(0.30)</b>	<b>(0.13)</b>	<b>(0.17)</b>	<b>(0.16)</b>	<b>(0.16)</b>	<b>(0.63)</b>	<b>(0.65)</b>	<b>(0.82)</b>	<b>0.51</b>	<b>1.83</b>	<b>3.26</b>
<b>EPS diluted, GAAP</b>	<b>(0.22)</b>	<b>(0.34)</b>	<b>(0.08)</b>	<b>(0.10)</b>	<b>(0.01)</b>	<b>(0.11)</b>	<b>(0.30)</b>	<b>(0.13)</b>	<b>(0.17)</b>	<b>(0.16)</b>	<b>(0.16)</b>	<b>(0.63)</b>	<b>(0.65)</b>	<b>(0.82)</b>	<b>0.47</b>	<b>1.71</b>	<b>3.05</b>
Shares Outstanding Basic/Diluted	36,641	44,875	46,167	46,643	47,309	50,274	47,598	54,298	60,416	69,838	72,285	64,209	75,899	80,453	85,280	86,560	87,858
Diluted shares outstanding	36,641	44,875	46,167	46,643	47,309	50,274	47,598	54,298	60,416	69,838	72,285	64,209	75,899	80,453	91,280	92,650	94,039

Source: Company reports, Brean Murray, Carret &amp; Co. estimates

## Important Disclosures

## Ratings and Target Price History



All prices are as of the market close on 08/23/2012.

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Buy - Expected to appreciate by at least 10% within the next 12 months.

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Sell - Expected to decline by at least 10% within the next 12 months.

	# of Securities	% of Total Securities	# of IB-Related Securities in Past 12 mos.	% of Total Securities
BUY	128	53.78%	9	7.03%
HOLD	50	21.01%	2	4%
SELL	4	1.68%	0	0%
NOT RATED	56	23.53%	1	1.79%
<b>TOTAL</b>	<b>238</b>			

*Note : Stock price volatility may cause temporary non-alignment of some ratings with some target prices.*

**Valuation Methodology and Risks**

**Synergy Pharmaceuticals (SGYP):** We derive our target price of \$13 through a DCF analysis, assuming a 40% discount rate that is applied to all cash flows and the terminal value, which is based on a 5x multiple of the projected 2019 EBITDA. Risks to the achievement of our target price include clinical, regulatory, financing, competitive risks, as well as stock price volatility.

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