

October 31, 2011

Key Metrics

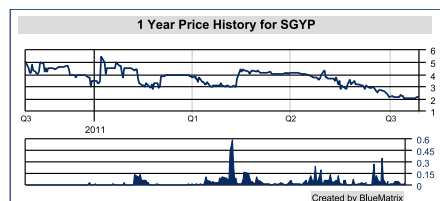
SGYP - OTC BB	\$2.30
Pricing Date	Oct 28 2011
Price Target	\$15.00
52-Week Range	\$6.99 - \$1.90
Shares Outstanding (mm)	94.5
Market Capitalization (\$mm)	\$217.3
3-Mo Average Daily Volume	54,511
Institutional Ownership	0%
Debt/Total Capital	NA
ROE	NA
Book Value/Share	\$(0.04)
Price/Book	(57.5)x
Dividend Yield	NA
LTM EBITDA Margin	NA

EPS(\$) FY: December

	2010A	Prior 2011E	Curr. 2011E	Prior 2012E	Curr. 2012E
1Q-Mar	(0.03)	--	(0.04)A	--	(0.08)E
2Q-Jun	(0.07)	--	(0.05)A	--	(0.10)E
3Q-Sep	(0.04)	--	(0.03)E	--	(0.11)E
4Q-Dec	(0.04)	--	(0.06)E	--	(0.13)E
FY	(0.17)	--	(0.18)E	--	(0.42)E
P/E	NM		NM		NM

Revenue(\$mm)

	2010A	Prior 2011E	Curr. 2011E	Prior 2012E	Curr. 2012E
1Q-Mar	NA	--	NA	--	NA
2Q-Jun	NA	--	NA	--	NA
3Q-Sep	NA	--	NA	--	NA
4Q-Dec	NA	--	NA	--	NA
FY	NA	--	NA	--	NA



Company Description:

Synergy Pharmaceuticals, Inc., a development-stage biopharmaceutical company, focuses on the development of drugs to treat gastrointestinal (GI) disorders and diseases. It is developing SP-304, a guanylyl cyclase C (GC-C) receptor agonist, to treat GI disorders, primarily chronic constipation and IBS-C; and has SP-333, a second-generation GC-C receptor agonist in pre-clinical development stage to treat gastrointestinal inflammatory diseases. The firm is headquartered in New York, New York; the company's website is www.synergypharma.com.

Synergy Pharmaceuticals, Inc. Rating: Buy

Presidential Award Highlights Groundbreaking Synergy Research Platform

Investment Highlights:

Synergy Poster Receives ACG Presidential Award. This morning, Synergy Pharmaceuticals announced that the poster presented today at the annual meeting of the American College of Gastroenterology (ACG) has been awarded the ACG Presidential Award, a recognition given to the most highly ranked abstracts selected for poster sessions in each category. This poster shows that the use of guanylate cyclase C (GC-C) agonists can delay progression of colitis to colonic tumors in a preclinical animal model. The work is a collaborative effort between Synergy scientists and the scientists from Fox Chase Cancer Center, a National Cancer Institute Comprehensive Cancer Center since 1974. We view this as a manifestation of the significant advantages of Synergy's technology platform, which can address not only mild gastrointestinal conditions, such as chronic constipation and irritable bowel syndrome, but also severe ones, like colon cancer. In the wake of the receipt of the ACG Presidential Award for Synergy's research on GC-C receptor agonists, we are reiterating our Buy rating and \$15 price target on Synergy shares.

Considerable Unmet Medical Needs in Ulcerative Colitis. Patients with ulcerative colitis and Crohn's disease, major inflammatory bowel disorders, are at increased risk of developing colorectal cancer, caused by persistent inflammation of the colon. Application of GC-C agonists can potentially ameliorate gastrointestinal inflammation, block the formation of colon tumors, and circumvent the need for hundreds of biopsies and, in some cases, surgery. There are roughly 500,000 Americans with ulcerative colitis and more with Crohn's disease. These painful and debilitating conditions currently have no medical cure and can lead to life-threatening complications, such as colon cancer.

Attractive Valuation. We previously alerted investors to the fact that Synergy had advanced plecanatide into a large Phase 3 trial in chronic constipation, with a design very similar to those run by Ironwood with linaclotide in this indication. In our view, this program has a high likelihood of success and should not be ignored. With Synergy's valuation down over 50% in recent weeks and the firm holding 100% rights to plecanatide and related peptides, we consider the shares to be significantly undervalued. The opportunity is particularly attractive, in our view, given Ironwood's valuation of \$1.3b.

Table 1: Synergy Pharmaceuticals, Inc. (SGYP.PK) – Historical Income Statements, Financial Projections

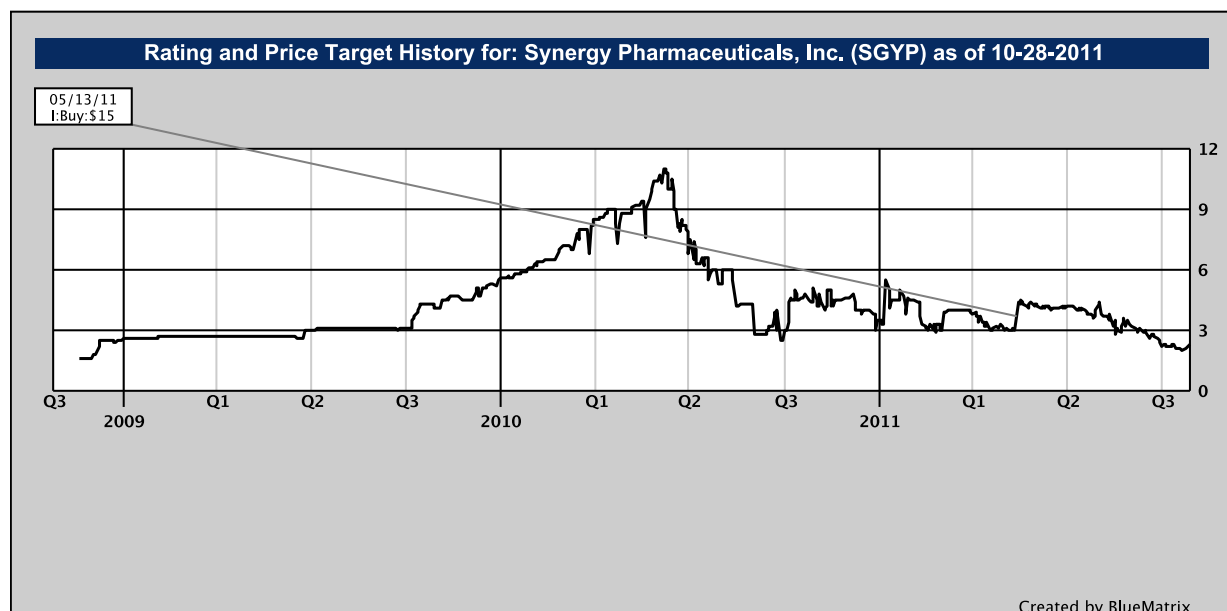
FY end December 31

\$ in thousands, except per share data

	2009A	2010A	2011E				2011E	2012E
			1QA	2QA	3QE	4QE		
Revenue								
Total revenue	-	-	-	-	-	-	-	-
Expenses								
Cost of product and service revenue	-	-	-	-	-	-	-	-
Research & development	4,257	9,559	1,478	2,354	1,500	3,000	8,333	30,000
Selling and marketing	-	-	-	-	-	-	-	-
General and administrative	3,943	6,563	1,898	1,524	1,300	2,500	7,222	17,000
Total expenses	8,200	16,121	3,376	3,879	2,800	5,500	15,555	47,000
Gain (loss) from operations	(8,200)	(16,121)	(3,376)	(3,879)	(2,800)	(5,500)	(15,555)	(47,000)
Other income/expense								
Interest income/expense	75	109	12	20	-	-	32	-
Change in fair value of derivative instruments-warrants	-	297	(339)	(698)	-	-	(1,036)	-
Other income/expense	-	494	-	-	-	-	-	-
Total investment income and other	75	900	(327)	(678)	-	-	(1,004)	-
Loss before provision for income taxes	(8,125)	(15,221)	(3,702)	(4,557)	(2,800)	(5,500)	(16,559)	(47,000)
Deferred income tax benefit	-	-	-	-	-	-	-	-
Net loss/income	(8,125)	(15,221)	(3,702)	(4,557)	(2,800)	(5,500)	(16,559)	(47,000)
Net loss per share (basic)	(0.11)	(0.17)	(0.04)	(0.05)	(0.03)	(0.06)	(0.18)	(0.42)
Net loss per share (diluted)	(0.11)	(0.17)	(0.04)	(0.05)	(0.03)	(0.06)	(0.18)	(0.42)
Weighted average number of shares outstanding (basic)	73,281	89,751	92,335	93,286	93,237	95,162	93,505	111,668
Weighted average number of shares outstanding (diluted)	73,281	89,751	92,335	93,286	93,237	95,162	93,505	111,668

Source: Company Reports and Morgan Joseph TriArtisan LLC estimates

Required Disclosures



Price Target

Our 12-month price target is \$15.00.

Valuation Methodology

We use a risk-adjusted Net Present Value (rNPV) methodology to calculate the price target. Intrinsic value for the company's drug candidates is derived based on the size of the market opportunity and probability of approval, among other factors, using a discounted cash flow approach. Intrinsic values are then added to derive our \$15 price target.

Risk Factors

Issues that could prevent the achievement of our price objective include, but are not limited to, clinical, regulatory, competitive, reimbursement and financial risks. Drugs in clinical development may not advance due to inadequate safety, efficacy, or tolerability. Regulatory agencies may decline to approve regulatory submissions in a timely manner, or may not approve a drug candidate at all. The firm may require substantial funding to advance the clinical progress of its candidates, which could be dilutive to current shareholders. We expect competition for the company's drugs from several public and private companies developing pharmaceuticals. Sales of the firm's drugs could depend upon reimbursement from private, as well as public, reimbursement agencies.

I, Raghuram Selvaraju, Ph.D., the author of this research report, certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers, and no part of my compensation was, is, or will be directly or indirectly tied to the specific recommendations or views contained in this research report.

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Rating	Investment Banking Services/Past 12 Mos.	
	Percent	Percent
BUY [B]	68.80	11.63
HOLD [H]	31.20	5.13
SELL [S]	0.00	0.00

Meaning of Ratings

- A) A Buy rating is assigned when we do not believe the stock price adequately reflects a company's prospects over 12-18 months.
 B) A Hold rating is assigned when we believe the stock price adequately reflects a company's prospects over 12-18 months.
 C) A Sell rating is assigned when we believe the stock price more than adequately reflects a company's prospects over 12-18 months.

Other Disclosures

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