



October 22, 2012

## Key Metrics

SGYP - NASDAQ	\$4.19
Pricing Date	Sep 20 2012
Price Target	\$25.00
52-Week Range	\$7.08 - \$1.86
Shares Outstanding (mm)	65.8
Market Capitalization (\$mm)	\$275.7
3-Mo Average Daily Volume	240,943
Institutional Ownership	NA
Debt/Total Capital	NM
ROE	NM
Book Value/Share	\$0.63
Price/Book	6.7x
Dividend Yield	NM
LTM EBITDA Margin	NM

## EPS (\$) FY: December

	2011A	Prior 2012E	Curr. 2012E	Prior 2013E	Curr. 2013E
1Q-Mar	(0.04)	--	(0.13)A	--	(0.14)E
2Q-Jun	(0.05)	--	(0.17)A	--	(0.14)E
3Q-Sep	(0.01)	--	(0.16)E	--	(0.15)E
4Q-Dec	(0.12)	--	(0.18)E	--	(0.16)E
FY	(0.30)	--	(0.65)E	--	(0.59)E
P/E	NM		NM		NM



## Company Description:

Synergy Pharmaceuticals, Inc., an emerging biopharmaceutical company, develops drugs to treat gastrointestinal (GI) disorders and diseases. It is developing plecanatide (SP-304), a guanylyl cyclase C (GC-C) receptor agonist, to treat GI disorders, primarily chronic constipation and IBS-C. The firm is headquartered in New York, New York; the company's website is [www.synergypharma.com](http://www.synergypharma.com).

## Synergy Pharmaceuticals, Inc.

### Rating: Buy

#### Synergy Advances Its Pipeline Into The Clinic

#### Investment Highlights:

- SP-333 Enters The Clinic.** This morning, Synergy Pharmaceuticals announced that it has commenced dosing in a Phase 1 trial of its second pipeline candidate in the guanylyl cyclase C (GC-C) receptor domain, a peptide designated SP-333. This molecule, while closely related to Synergy's lead product candidate plecanatide, has a unique pharmacokinetic profile. Specifically, we believe that SP-333 possesses unique anti-inflammatory properties that should justify its testing within the context of inflammatory gastrointestinal (GI) tract disorders, such as inflammatory bowel disease (IBD) and ulcerative colitis (UC). In the wake of the progression of SP-333 into formal clinical testing, and in anticipation of the upcoming release of top-line data from the ongoing Phase 2 / 3 trial of plecanatide in chronic idiopathic constipation (CIC), we reiterate our Buy rating and 12-month price target of \$25 per share for SGYP.
- Proof-Of-Concept Ulcerative Colitis Trial Scheduled In 2013.** We note that SP-333 has shown the ability to ameliorate GI tract inflammation in animal models of colitis, likely through blockade of pro-inflammatory cytokine production. If shown to be safe in the currently-ongoing Phase 1 trial, SP-333 is slated to be advanced into a proof-of-concept study in UC in early 2013. We note that Synergy has already demonstrated that SP-333 is stable against proteolysis in simulated intestinal fluid for up to 24 hours, implying that it could be a longer-acting agent than plecanatide with therapeutic activity in more severe inflammatory diseases.
- Phase 3 Plecanatide Data By Year-End 2012.** We currently expect top-line data from Synergy's ongoing Phase 2 / 3 trial in late 2012. Synergy could steal some of Ironwood's thunder if its data with plecanatide are positive, given we believe Linzess™ is not likely to be formally launched until mid-December 2012.
- Proof-Of-Concept Anticipated.** We remind investors that the plecanatide study in constipation is a major component of Synergy's development strategy for the drug. If this trial is positive on the efficacy front without showing any diarrhea in the wake of plecanatide therapy, this study could firmly establish plecanatide as a best-in-class gastrointestinal tract disorder drug.
- In-Licensing Broadens Clinical Pipeline.** In late August, Synergy in-licensed FV-100, a novel anti-shingles drug, from Bristol-Myers Squibb for an upfront payment of only \$1mm. In our view, this was a very shrewd licensing transaction that enhances Synergy's clinical-stage pipeline. We note that Synergy now has three clinical-stage candidates: plecanatide in Phase 3, FV-100 in late-stage Phase 2 development; and SP-333 in Phase 1 development. We expect the firm to continue to expand its pipeline in the near future through a combination of clinical progress and in-licensing.

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

FY end December 31

\$ in thousands, except per share data

	2009A	2010A	2011A	2012E				2012E	2013E				
				1QA	2QA	3QE	4QE		1QE	2QE	3QE	4QE	2013E
<b>Revenue</b>													
<b>Total revenue</b>	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses													
Cost of product and service revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Research & development	4,257	9,559	13,419	5,338	7,626	8,000	10,000	30,964	8,000	9,000	10,000	11,000	38,000
Selling and marketing	-	-	-	-	-	-	-	-	-	-	-	-	-
General and administrative	3,943	6,563	6,746	1,731	1,918	3,000	4,000	10,650	4,000	4,000	4,000	4,000	16,000
<b>Total expenses</b>	8,200	16,121	20,164	7,069	9,545	11,000	14,000	41,614	12,000	13,000	14,000	15,000	54,000
<b>Gain (loss) from operations</b>	(8,200)	(16,121)	(20,164)	(7,069)	(9,545)	(11,000)	(14,000)	(41,614)	(12,000)	(13,000)	(14,000)	(15,000)	(54,000)
Other income/expense													
Interest and investment income	-	-	90	39	48	55	45	187	75	60	50	45	230
Interest income/expense	75	109	(12)	-	-	-	-	-	-	-	-	-	-
Change in fair value of derivative instruments-warrants	-	297	5,257	8	(1,317)	-	-	(1,309)	-	-	-	-	-
Other income/expense	-	494	362	-	256	256	256	767	-	-	-	-	-
<b>Total investment income and other</b>	75	900	5,697	47	(1,014)	311	301	(356)	75	60	50	45	230
<b>Loss before provision for income taxes</b>	(8,125)	(15,221)	(14,467)	(7,023)	(10,558)	(10,689)	(13,699)	(41,970)	(11,925)	(12,940)	(13,950)	(14,955)	(53,770)
Deferred income tax benefit	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net loss/income</b>	(8,125)	(15,221)	(14,467)	(7,023)	(10,558)	(10,689)	(13,699)	(41,970)	(11,925)	(12,940)	(13,950)	(14,955)	(53,770)
<b>Net loss per share (basic)</b>	(0.11)	(0.17)	(0.30)	(0.13)	(0.17)	(0.16)	(0.18)	(0.65)	(0.14)	(0.14)	(0.15)	(0.16)	(0.59)
<b>Net loss per share (diluted)</b>	(0.11)	(0.17)	(0.30)	(0.13)	(0.17)	(0.16)	(0.18)	(0.65)	(0.14)	(0.14)	(0.15)	(0.16)	(0.59)
Weighted average number of shares outstanding (basic)	73,281	89,751	47,598	54,298	60,416	68,446	75,460	64,655	86,560	93,310	93,360	93,385	91,654
Weighted average number of shares outstanding (diluted)	73,281	89,751	47,598	54,298	60,416	68,446	75,460	64,655	86,560	93,310	93,360	93,385	91,654

Source: Company Reports and Aegis Capital Corp. estimates

## Required Disclosures

### Price Target

Our 12-month price target for SGYP is \$25 per share.

### Valuation Methodology

Given that Synergy is currently unprofitable, and considering our belief that this condition is likely to persist for the foreseeable future, we use a discounted cash flow-based approach to value the shares. Based on a comparables analysis, we believe that the stock is worth \$25 per share, given our estimate of a \$2 billion risk-adjusted net present value (rNPV) for the firm's pipeline. This assumes that the shares trade in line with the comp group average enterprise value of roughly \$2 billion and that the firm has roughly 85 million shares outstanding in mid-2013.

### 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.

### For important disclosures go to [www.aegiscap.com](http://www.aegiscap.com).

We, Raghuram Selvaraju and Yi Chen, the authors of this research report, certify that the views expressed in this report accurately reflect our personal views about the subject securities and issuers, and no part of our 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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Aegis Capital Corp. has performed investment banking services for and received fees from Synergy Pharmaceuticals, Inc. within the past 12 months.

Aegis Capital Corp. makes a market in Synergy Pharmaceuticals, Inc..

Rating	Investment Banking Services/Past 12 Mos.	
	Percent	Percent
BUY [BUY]	95.00	36.84
HOLD [HOLD]	5.00	0.00
SELL [SELL]	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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