

November 17, 2011

#### Key Metrics

SGYP - OTC BB	\$2.15
Pricing Date	Nov 17 2011
Price Target	\$15.00
52-Week Range	\$6.99 - \$1.86
Shares Outstanding (mm)	96.6
Market Capitalization (\$mm)	\$207.7
3-Mo Average Daily Volume	41,955
Institutional Ownership	0%
Debt/Total Capital	NA
ROE	NA
Book Value/Share	\$(0.04)
Price/Book	(53.8)x
Dividend Yield	NA
LTM EBITDA Margin	NA

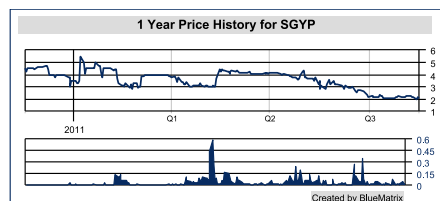
#### EPS(\$)

 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)	--	(0.01)A	--	(0.12)E
4Q-Dec	(0.04)	--	(0.06)E	--	(0.13)E
FY	(0.17)	--	(0.15)E	--	(0.44)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.synerglypharma.com](http://www.synerglypharma.com).

## Synergy Pharmaceuticals, Inc. Rating: Buy

### Synergy Raises Capital, Advancing Pipeline

#### Investment Highlights:

- Synergy Buttresses Its Financial Position.** Earlier this week, we noted that Synergy consummated a financing transaction that yielded gross proceeds of \$5.6mm, which in our view should enable the firm to substantially advance the Phase 3 program for its lead drug candidate plecanatide and also allow the company to complete preclinical development for its follow-on candidate SP-333. The substantial insider participation in this most recent round provides us with confidence that Synergy's management team is extremely committed to the development of plecanatide and, indeed, the overall platform of the company focusing on modulation of the guanylyl cyclase C (GC-C) receptor pathway. In the wake of this most recent financing, we reiterate our Buy rating and 12-month price target of \$15.00 on Synergy shares.
- Pipeline Advances.** As we have previously commented, Synergy has demonstrated its commitment to the progress of plecanatide by initiating a large, 880-patient Phase 3 trial of the drug in chronic idiopathic constipation. We believe that data from this study could be available in the second half of 2012. The firm's most recent financing is expected to contribute to defraying the costs associated with this study and also enable the firm to complete all preclinical activities associated with SP-333 so that this follow-on molecule can be brought into the clinic. Synergy expects to file an Investigational New Drug (IND) application on SP-333 early in 2012 and begin a Phase 1 trial with the drug later that year. This agent would most likely be developed to treat inflammatory disorders in the gastrointestinal (GI) disorders space, particularly ulcerative colitis. Investors would be well-advised, in our view, to follow the progress of plecanatide and SP-333. We consider these agents to be the most exciting GI drug candidates, and believe that they are likely to constitute highly differentiated entrants into the therapy of diseases such as constipation, irritable bowel syndrome, inflammatory bowel disease and ulcerative colitis.
- Attractive Valuation.** In our view, there may be certain advantages to Synergy's approach vs. a compound like linaclotide, which was recently filed with the FDA for review as a therapeutic for chronic constipation and irritable bowel syndrome of the constipation-predominant subtype. Some patients given linaclotide exhibit diarrhea, which we do not anticipate to be an issue with plecanatide. Given the significant valuation discrepancy between Ironwood Pharmaceuticals, the originator of linaclotide, and Synergy, we continue to view Synergy as an under-appreciated opportunity in the GI space.

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

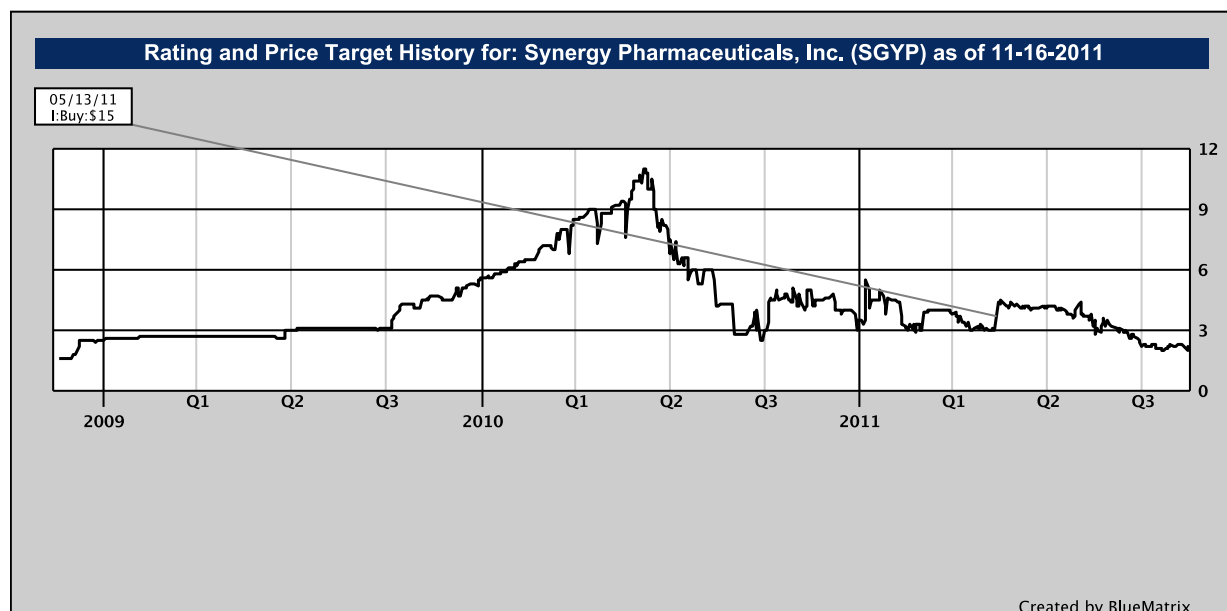
FY end December 31

\$ in thousands, except per share data

	2009A	2010A	2011E				2012E					
			1QA	2QA	3QA	4QE	2011E	1QE	2QE	3QE	4QE	2012E
Revenue												
Total revenue	-	-	-	-	-	-	-	-	-	-	-	-
Expenses												
Cost of product and service revenue	-	-	-	-	-	-	-	-	-	-	-	-
Research & development	4,257	9,559	1,478	2,354	3,883	4,000	11,715	5,000	7,000	8,000	10,000	30,000
Selling and marketing	-	-	-	-	-	-	-	-	-	-	-	-
General and administrative	3,943	6,563	1,898	1,524	1,103	1,500	6,025	3,000	4,000	5,000	5,000	17,000
Total expenses	8,200	16,121	3,376	3,879	4,986	5,500	17,740	8,000	11,000	13,000	15,000	47,000
Gain (loss) from operations	(8,200)	(16,121)	(3,376)	(3,879)	(4,986)	(5,500)	(17,740)	(8,000)	(11,000)	(13,000)	(15,000)	(47,000)
Other income/expense												
Interest income/expense	75	109	12	20	20	-	52	-	-	-	-	-
Change in fair value of derivative instruments-warrants	-	297	(339)	(698)	4,383	-	3,346	-	-	-	-	-
Other income/expense	-	494	-	-	-	-	-	-	-	-	-	-
Total investment income and other	75	900	(327)	(678)	4,403	-	3,399	-	-	-	-	-
Loss before provision for income taxes	(8,125)	(15,221)	(3,702)	(4,557)	(583)	(5,500)	(14,342)	(8,000)	(11,000)	(13,000)	(15,000)	(47,000)
Deferred income tax benefit	-	-	-	-	-	-	-	-	-	-	-	-
Net loss/income	(8,125)	(15,221)	(3,702)	(4,557)	(583)	(5,500)	(14,342)	(8,000)	(11,000)	(13,000)	(15,000)	(47,000)
Net loss per share (basic)	(0.11)	(0.17)	(0.04)	(0.05)	(0.01)	(0.06)	(0.15)	(0.08)	(0.10)	(0.12)	(0.13)	(0.44)
Net loss per share (diluted)	(0.11)	(0.17)	(0.04)	(0.05)	(0.01)	(0.06)	(0.15)	(0.08)	(0.10)	(0.12)	(0.13)	(0.44)
Weighted average number of shares outstanding (basic)	73,281	89,751	92,335	93,286	94,618	95,798	94,009	96,649	105,534	110,584	115,609	107,094
Weighted average number of shares outstanding (diluted)	73,281	89,751	92,335	93,286	94,618	95,798	94,009	96,649	105,534	110,584	115,609	107,094

Source: Company Reports and Morgan Joseph TriArtisan LLC estimates

## Required Disclosures



### Price Target

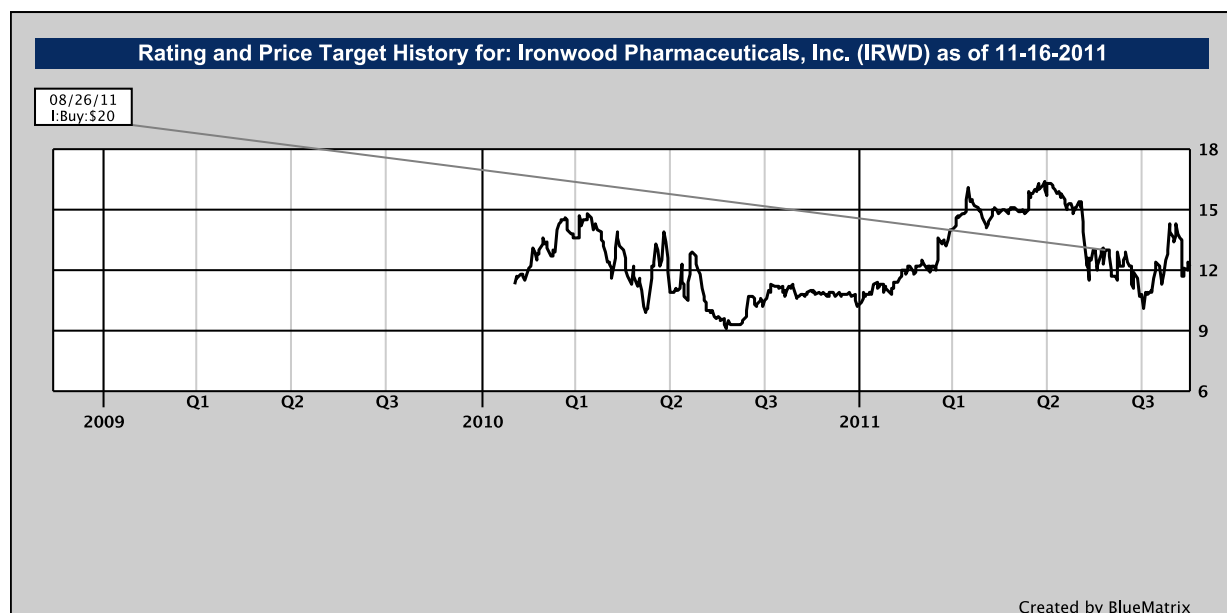
Our price target is \$15.00.

### 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.



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Rating	Investment Banking Services/Past 12 Mos.	
	Percent	Percent
<b>BUY [B]</b>	<b>68.90</b>	<b>10.71</b>
<b>HOLD [H]</b>	<b>31.10</b>	<b>2.63</b>
<b>SELL [S]</b>	<b>0.00</b>	<b>0.00</b>

#### 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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