



July 24, 2012

Key Metrics

SGYP - NASDAQ	\$4.42
Pricing Date	Jul 23 2012
Price Target	\$25.00
52-Week Range	\$7.08 - \$1.86
Shares Outstanding (mm)	64.3
Market Capitalization (\$mm)	\$284.2
3-Mo Average Daily Volume	242,377
Institutional Ownership	NA
Debt/Total Capital	NM
ROE	NM
Book Value/Share	\$0.06
Price/Book	73.7x
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	(0.15)E	(0.14)E
2Q-Jun	(0.05)	--	(0.16)E	(0.15)E	(0.14)E
3Q-Sep	(0.01)	--	(0.18)E	(0.17)E	(0.16)E
4Q-Dec	(0.12)	(0.21)E	(0.20)E	(0.20)E	(0.19)E
FY	(0.30)	(0.69)E	(0.67)E	(0.68)E	(0.64)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.

Synergy Pharmaceuticals, Inc.

Rating: Buy

Synergy Brings Callisto Into The Fold

Investment Highlights:

- Synergy Announces Merger With Callisto Pharmaceuticals.** Last week, Synergy Pharmaceuticals announced that it would be merging another firm, Callisto Pharmaceuticals, into the Synergy corporate structure. Callisto was a development-stage drug company that was effectively being managed by the executive management team of Synergy. While Callisto was initially involved in developing several novel anti-cancer agents, all clinical development of these compounds had ceased prior to the merger with Synergy and Callisto was operating as a shell entity. In the wake of the merger, we reiterate our Buy rating and 12-month price target of \$25 per share for SGYP.
- Callisto Shareholders No Longer An Overhang.** We are encouraged by this merger because, originally, Callisto shareholders held 22.3mm freely tradeable shares of Synergy. Under the terms of the merger, those shares have been canceled and have been replaced with roughly 27mm shares of Synergy common stock, subject to an 18-month lock-up from the date that the transaction closes. We expect the transaction to close in October of this year. Since, post-merger, the former Callisto shareholders would own roughly 38% of the currently outstanding shares of Synergy, we believe that the lengthy lock-up period should benefit current and future investors in SGYP and removes a significant overhang, because the shares that the Callisto shareholders previously held were trading freely. We do not expect substantial opposition to this transaction, as Synergy and Callisto are effectively controlled by the same people.
- Plecanatide Gaining Ground.** Plecanatide is in a Phase 2/3 trial in chronic idiopathic constipation (CIC), which is currently slated to complete enrollment in August of this year and report top-line data in late November / early December. Synergy's lead compound, plecanatide (SP-304), provided substantial relief to individuals with chronic constipation over a 14-day period in a Phase 2a trial. The agent was exceptionally well-tolerated, with no incidence of diarrhea. In our view, this gives plecanatide an advantage over another agent currently under review at the FDA that shares the same mechanism of action, linaclotide, which we expect to be approved in early September.
- Attractive Valuation.** Synergy's current market cap of about \$300mm does not adequately value the potential of plecanatide and the firm's platform technology, in our view. We derive our 12-month price target using a risk-adjusted Net Present Value (rNPV) approach, which ascribes a \$2bn total enterprise value to Synergy, resulting in a price objective of \$25 per share, assuming roughly 85mm shares outstanding in mid-2013. We also note that linaclotide is currently valued at a level approaching \$3bn based on the market cap of Ironwood Pharmaceuticals (IRWD/NASDAQ - Buy), the originator of this agent.

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					2013E
				1QA	2QE	3QE	4QE		1QE	2QE	3QE	4QE		
Revenue														
Total revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	
Expenses														
Cost of product and service revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	
Research & development	4,257	9,559	13,419	5,338	7,000	8,000	10,000	30,338	7,000	7,000	9,000	11,000	34,000	
Selling and marketing	-	-	-	-	-	-	-	-	-	-	-	-	-	
General and administrative	3,943	6,563	6,746	1,731	2,500	4,000	5,000	13,231	5,000	5,000	5,000	5,000	20,000	
Total expenses	8,200	16,121	20,164	7,069	9,500	12,000	15,000	43,569	12,000	12,000	14,000	16,000	54,000	
Gain (loss) from operations	(8,200)	(16,121)	(20,164)	(7,069)	(9,500)	(12,000)	(15,000)	(43,569)	(12,000)	(12,000)	(14,000)	(16,000)	(54,000)	
Other income/expense														
Interest and investment income	-	-	90	39	65	55	45	204	75	60	50	45	230	
Interest income/expense	75	109	(12)	-	-	-	-	-	-	-	-	-	-	
Change in fair value of derivative instruments-warrants	-	297	5,257	8	-	-	-	8	-	-	-	-	-	
Other income/expense	-	494	362	-	-	-	-	-	-	-	-	-	-	
Total investment income and other	75	900	5,697	47	65	55	45	212	75	60	50	45	230	
Loss before provision for income taxes	(8,125)	(15,221)	(14,467)	(7,023)	(9,435)	(11,945)	(14,955)	(43,358)	(11,925)	(11,940)	(13,950)	(15,955)	(53,770)	
Deferred income tax benefit	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net loss/income	(8,125)	(15,221)	(14,467)	(7,023)	(9,435)	(11,945)	(14,955)	(43,358)	(11,925)	(11,940)	(13,950)	(15,955)	(53,770)	
Net loss per share (basic)	(0.11)	(0.17)	(0.30)	(0.13)	(0.16)	(0.18)	(0.20)	(0.67)	(0.14)	(0.14)	(0.16)	(0.19)	(0.64)	
Net loss per share (diluted)	(0.11)	(0.17)	(0.30)	(0.13)	(0.16)	(0.18)	(0.20)	(0.67)	(0.14)	(0.14)	(0.16)	(0.19)	(0.64)	
Weighted average number of shares outstanding (basic)	73,281	89,751	47,598	54,298	59,730	67,769	75,784	64,395	82,884	84,634	84,684	84,709	84,228	
Weighted average number of shares outstanding (diluted)	73,281	89,751	47,598	54,298	59,730	67,769	75,784	64,395	82,884	84,634	84,684	84,709	84,228	

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.

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 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]	87.50	14.29
HOLD [HOLD]	12.50	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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