

May 18, 2011

Key Metrics

SGYP - OTC BB	\$4.25
Pricing Date	May 17 2011
Price Target	\$15.00
52-Week Range	\$11.00 - \$1.01
Shares Outstanding (mm)	93.2
Market Capitalization (\$mm)	\$396.2
3-Mo Average Daily Volume	40,596
Institutional Ownership	0%
Debt/Total Capital	NA
ROE	NA
Book Value/Share	\$(0.04)
Price/Book	(106.3)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	--	(0.15)E
2Q-Jun	(0.07)	--	(0.04)E	--	(0.14)E
3Q-Sep	(0.04)	--	(0.10)E	--	(0.15)E
4Q-Dec	(0.04)	--	(0.13)E	--	(0.16)E
FY	(0.17)	--	(0.31)E	--	(0.60)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 web site is www.synergypharma.com.

Synergy Pharmaceuticals, Inc. Rating: Buy

Using Peptide Platform Power to Lower Cholesterol

Investment Highlights:

- Novel Platform Application.** This morning, Synergy Pharmaceuticals announced that it has successfully completed preclinical *in vitro* studies showing that peptides derived from its unique and proprietary platform focusing on agonism of the guanylate cyclase C (GC-C) receptor can inhibit bile acid uptake. This may indicate an important role for these peptides in managing cholesterol levels. In the wake of this development, which we believe showcases the breadth of Synergy's platform technology, we reiterate our Buy rating and 12-month price target of \$15 per share.
- Peptide Potential Beyond Plecanatide.** While Synergy's core focus remains on the development of plecanatide for the treatment of chronic constipation and constipation-predominant irritable bowel syndrome, we note that the discovery of cholesterol-modulating activity with related peptides clearly shows that the platform has potential beyond gastrointestinal (GI) tract disorders. The possibility of applying Synergy's GC-C receptor-modulating technology to disorders unrelated to the GI tract is not currently reflected in our valuation, and could constitute a source of significant upside to our projections longer-term.
- Historic Finding.** This is the first time that GC-C receptor agonist activity has been implicated in the inhibition of bile acid uptake. It is well documented that dietary or pharmacological manipulation of the enterohepatic circulation of either cholesterol or bile acids can potentially cause marked changes in plasma cholesterol levels. Given the substantial size of the cholesterol-lowering market - Lipitor (atorvastatin) is the world's most popular drug with >\$10 billion in annual sales - we believe that the potential for use of GC-C receptor agonists in cholesterol-lowering could be a substantial value driver for Synergy if the preclinical data obtained thus far can be confirmed clinically.
- Patent Filed.** Synergy has filed a patent application covering the use of proprietary GC-C agonists as drug candidates for prevention and treatment of elevated cholesterol, heart stroke, atherosclerosis, type II diabetes, coronary heart disease, gallstones, hypertension, obesity, and other cardiovascular diseases. GC-C agonists may also be used in combination with statins to produce synergistic effects to reduce the dose of statins such as Lipitor®, Zocor® and Crestor® necessary to lower low-density lipoprotein-associated cholesterol (LDL-cholesterol).
- Valuation.** We believe that Synergy's current market cap of roughly \$400mm does not adequately reflect the value of plecanatide and the firm's platform technology. Currently, we only ascribe a \$150mm value to Synergy's pipeline, which includes SP-333, a novel, patent-protected peptide derived from the native uroguanylin sequence that is being developed as a potential therapy for ulcerative colitis.

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

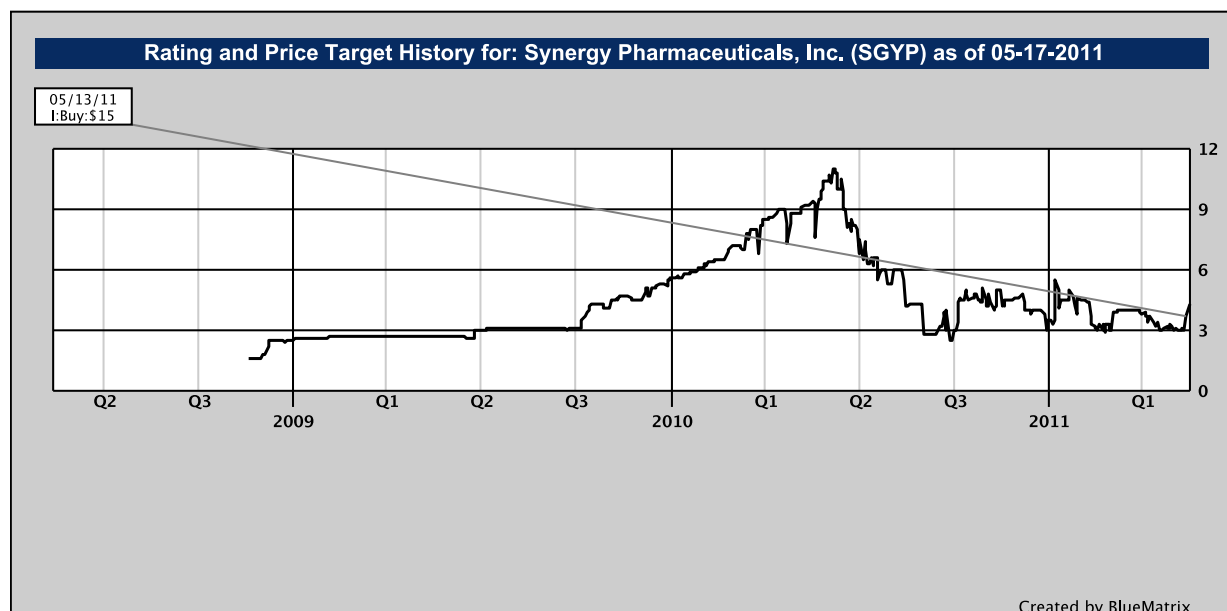
FY end December 31

\$ in thousands, except per share data

	2009A	2010A	2011E				2011E	2012E
			1QA	2QE	3QE	4QE		
Revenue								
Total revenue	-	-	-	-	-	-	-	-
Expenses								
Cost of product and service revenue	-	-	-	-	-	-	-	-
Research & development	4,257	9,559	1,478	1,300	6,000	9,000	17,778	46,000
Selling and marketing	-	-	-	-	-	-	-	-
General and administrative	3,943	6,563	1,898	2,200	4,000	5,000	13,098	21,000
Total expenses	8,200	16,121	3,376	3,500	10,000	14,000	30,876	67,000
Gain (loss) from operations	(8,200)	(16,121)	(3,376)	(3,500)	(10,000)	(14,000)	(30,876)	(67,000)
Other income/expense								
Interest income/expense	75	109	12	-	-	-	12	-
Change in fair value of derivative instruments-warrants	-	297	(339)	-	-	-	(339)	-
Other income/expense	-	494	-	-	-	-	-	-
Total investment income and other	75	900	(327)	-	-	-	(327)	-
Loss before provision for income taxes	(8,125)	(15,221)	(3,702)	(3,500)	(10,000)	(14,000)	(31,202)	(67,000)
Deferred income tax benefit	-	-	-	-	-	-	-	-
Net loss/income	(8,125)	(15,221)	(3,702)	(3,500)	(10,000)	(14,000)	(31,202)	(67,000)
Net loss per share (basic)	(0.11)	(0.17)	(0.04)	(0.04)	(0.10)	(0.13)	(0.31)	(0.60)
Net loss per share (diluted)	(0.11)	(0.17)	(0.04)	(0.04)	(0.10)	(0.13)	(0.31)	(0.60)
Weighted average number of shares outstanding (basic)	73,281	89,751	92,335	94,905	102,046	107,096	99,096	111,674
Weighted average number of shares outstanding (diluted)	73,281	89,751	92,335	94,905	102,046	107,096	99,096	111,674

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.

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]	67.70	10.47
HOLD [H]	30.70	0.00
SELL [S]	1.60	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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