BREAN MURRAY CARRET & CO.

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This Morning's Highlights

SGYP: Second To Start, But Not To Finish Second – Initiating Coverage of Synergy Pharmaceuticals with A Buy And $13 Target Price

Gaming: Regional Revenue Trends Gain Traction

Synergy Pharmaceuticals

SGYP $3.99
Initiating Coverage at Buy/Target Price: $13

Second To Start, But Not To Finish Second – Initiating Coverage of Synergy Pharmaceuticals with A Buy And $13 Target Price

Jonathan Aschoff, 212-702-6652
Jonathan.Aschoff@bmur.com

EPS	Mar	Jun	Sep	Dec	FY	P/E	FY Rev.
FY11	$(0.08)	$(0.10)	$(0.01)	$(0.11)	$(0.30)	NM	-
Prior	-	-	-	-	-	-	-
FY12	$(0.16)	$(0.16)	$(0.16)	$(0.16)	$(0.64)	NM	-
Prior	-	-	-	-	-	-	-
FY13	-	-	-	-	$(0.71)	NM	-
Prior	-	-	-	-	-	-	-

Price	$3.99
52-Week High/Low	$5.24 - 1.86
Shares Outstanding (000)	50,274
Market Cap. (000)	$200,593
Average Daily Volume	46,921

Investment Summary

- We are initiating coverage of Synergy Pharmaceuticals, Inc. with a Buy rating and 12-month target price of $13. Synergy is focused on developing drugs for gastrointestinal disease, and its lead drug plecanatide, a guanylate cyclase receptor agonist, is in Phase 2/3 for chronic idiopathic constipation (CIC) and a Phase 2b trial in IBS-C should start in 3Q12. A key investment catalyst is the 4Q12 release of Phase 2/3 plecanatide results in CIC, a significant de-risking event. Another important positive catalyst is the 2Q12 PDUFA date for competing drug linaclotide, which we expect to result in an approval that formally validates the mechanism, driving Synergy shares higher.

- Close peer drug linaclotide has completed extensive clinical testing in CIC and IBS-C. If approved, we expect Ironwood and partners Forest and Almirall to demonstrate the significant, unmet need that exists in these indications. Our plecanatide optimism draws from the positive Phase 2a results, the clear lack of an effective therapy in CIC or IBS-C, and the well-validated mechanism of action. (FRX, $34.62, Not Rated) (IRWD, $13.23, Not Rated)

- Should Synergy's Phase 2/3 succeed, we note the company's large discount to Ironwood (about 15% of the valuation), but we believe that even before data are available, the mere approval of linaclotide in June should increase interest in Synergy and its differentiated drug. It is important to note that Forest and Almirall both signed their linaclotide agreements prior to the release of any pivotal results in CIC or IBS-C. Given that a drug like plecanatide would be best marketed broadly to general practitioners, we would not expect Synergy to go the distance itself, and view any clear, differentiating success in the Phase 2/3 trial as likely sufficient to attract the attention of an acquirer. As a company with fewer than a dozen employees, a possible acquisition to us sounds far more likely than a commercialization partnership.

- We believe that being three years behind linaclotide is advantageous because the constipation market must be developed for this new class of drugs, and why not leave that heavy lifting up to linaclotide. More importantly, we believe that the diarrhea differential between the two drugs will persist after pivotal plecanatide trials, thus allowing Synergy to benefit out of the gate from a reservoir of constipated patients motivated enough to seek linaclotide, but unable to tolerate its chief diarrhea side effect. Being second to the market with a clear competitive advantage is no disadvantage at all, in our view.

- Synergy is also in late preclinical stage with SP-333, its next-generation GC-C receptor agonist that has been further optimized to have a longer half-life within the gut due to its resistance to proteolysis. We anticipate an IND filing in 3Q12, initiation of a Phase 1 trial safety trial in healthy volunteers by YE12, and further development in ulcerative colitis.

Gaming

ASCA, CHDN, ISLE, PENN, PNK

Regional Revenue Trends Gain Traction

Ryan Worst, 212-702-6645
Ryan.Worst@bmur.com

- **Regional gaming revenue continued a strengthening trend through February as seen in the chart below. Although more difficult comps and higher gas prices could curb growth in March, with 2 extra weekend days during the month we expect in-line to better-than-expected 1Q results.**
- **Penn National's Charles Town drives our 1Q estimate higher but pending competition in the market, slower March trends in Pennsylvania, and valuation keeps us on the sideline.**
- **We are maintaining our estimates for Ameristar and Pinnacle, but we do expect PNK to report 1Q above Consensus due to strong trends in the first two months of the quarter for Missouri and Louisiana.**
- **As seen in the table, most valuations remain attractive (EV/EBITDA multiples of 6.0x-7.0x). We continue to recommend ASCA, ISLE, and CHDN.**

Raising estimates for Penn. Penn's 1Q benefited from very strong trends at its Charles Town, West Virginia casino and in Pennsylvania where slot revenue increased approximately 11% and 7%, respectively through February. Better-than-expected trends despite a slowdown at both properties in March and the inclusion of a $1.5MM contribution from Penn's Kansas Speedway casino (opened on February 3rd), results in our increased estimates, as seen below. Our estimates exclude pre-opening expenses and compare to the company's 1Q guidance of $181MM and $0.60 on the same basis.

Important Disclosures

Ratings and Target Price History

For historical rating and target price information please use the following links:

ASCA: http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=ASCA&analystid=93&re=1&width=500&height=350&wmf=1

CHDN: http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=CHDN&analystid=93&re=1&width=500&height=350&wmf=1

ISLE: http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=ISLE&analystid=93&re=1&width=500&height=350&wmf=1

PENN: http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=PENN&analystid=93&re=1&width=500&height=350&wmf=1

PNK: http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=PNK&analystid=93&re=1&width=500&height=350&wmf=1

SGYP: http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=SGYP&analystid=93&re=1&width=500&height=350&wmf=1

THRX: http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=THRX&analystid=93&re=1&width=500&height=350&wmf=1

All prices are as of the market close on 3/28/12.

At the time this report was published, Brean Murray, Carret & Co., LLC made a market in the securities of Ameristar Casinos, Inc., Churchill Downs, Inc., Isle of Capri Casinos, Inc., Penn National Gaming, Inc., Synergy Pharmaceuticals and Theravance, Inc.

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Brean Murray, Carret & Co. Stock Rating System

Buy - Expected to appreciate by at least 10% within the next 12 months.
Hold - Fully valued, not expected to appreciate or decline materially within the next 12 months.
Sell - Expected to decline by at least 10% within the next 12 months.

	# of Securities	% of Total Securities	# of IB-Related Securities in Past 12 mos.	% of Total Securities
BUY	133	60.18%	11	8.27%
HOLD	70	31.67%	2	2.86%
SELL	7	3.17%	0	0%
NOT RATED	11	4.98%	1	9.09%
TOTAL	**221**			

Note : Stock price volatility may cause temporary non-alignment of some ratings with some target prices.

Valuation Methodology and Risks

Ameristar Casinos (ASCA): Our target price of $31 is based on a 2013 FCF multiple of 7.5x. Risks to our target price include: (1) negative changes in the legislative or regulatory environment in which ASCA operates, such as an increase in gaming taxes, new gaming licenses, or smoking bans; (2) the pursuit of projects that do not garner an acceptable return; and/or (3) a weakened economy that results in decreased consumer spending on gaming.

Churchill Downs (CHDN): Our 12-month target price of $65 is based on a 2012E EV/EBITDA multiple of 8.2x and awards no value for its Ohio JV slot facility expected to open towards the end of 2013, its real estate in Arlington Park that could benefit from proposed legislation in Illinois, or its ability to capture some share of an online poker market that should it become legal in the U.S. Risks to our target price include: (1) changes in the regulatory or legal framework including the prospects for slot legalization, taxes, and new competition; (2) disputes with horsemen disrupt operations; (3) a weakened economy decreases consumer spending on wagering; and (4) management uses the company's healthy balance sheet to make uncharacteristic, low-returning acquisitions.

Isle of Capri Casinos (ISLE): Our $8 target price is based on a FY13 EV/EBITDA multiple of 6.5x plus the new casino expected to open by the end of 2012. Risks to the achievement of our target price include: (1) negative changes in the legislative or regulatory environment in which Isle operates, such as an increase in gaming taxes, new gaming licenses, or smoking bans; (2) the pursuit of projects/acquisitions that do not garner an acceptable return; and/or (3) a weakened economy that results in decreased consumer spending on gaming.

Synergy Pharmaceuticals (SGYP): We are initiating coverage of Synergy Pharmaceuticals with a Buy rating and 12-month target price of $13. Our target price is supported by a DCF analysis that utilizes a 40% discount rate and a 5x multiple of the projected 2019 EBITDA as the terminal value. Clinical risk – Plecanatide may fail to deliver statistically significant results in late stage clinical trials, substantially reducing the value of Synergy and our target price. Regulatory risk – Plecanatide, even if successful in the clinic, may fail to be approvable by domestic and/or foreign regulatory bodies, which would reduce Synergy's value and our target price. Financing risk – Synergy does not have enough capital to fund its operations into 2013, and thus is reliant on obtaining additional outside funding, which may not occur or which could be substantially dilutive to existing investors. Competitive risk – Even if plecanatide is approved, it still may not be well adopted by the marketplace, which would adversely affect Synergy's value and our target price. High stock price volatility. This issue is common among small cap biotechnology companies with relatively low trading volumes.

Theravance Inc (THRX): Our target price of $24 is derived from a probability adjusted scenario analysis of different sum-of-the-parts valuation models. Risks: Theravance is a development-stage company with no significant revenue stream. Clinical failure of Relovair, Zephyr, '081, or TD-2111 could result in a significant loss of value. Clinical success does not necessarily translate into higher valuation. The share price will also be susceptible to changes in the competitive landscape. Should Theravance's drugs receive approval, commercial success is not a given and failure to generate meaningful sales would also significantly impair the stock value. Theravance is unlikely to be profitable for a number of years, and the company's ongoing operating costs may require additional rounds of financing that would further dilute shareholders.

Analyst Certification

We, Jonathan Aschoff and Ryan Worst, hereby certify that the views expressed in this research report accurately reflect our personal views about any and all of the subject securities or issuers referred to in this document. The analyst and associate analyst further certify that they have not received and will not be receiving direct or indirect compensation in exchange for expressing the recommendation contained in this publication.

Disclaimers