

**Still On Track – But Still Undervalued****Investment Summary**

- Synergy's Phase 2/3 trial, its primary value driver in which patients with chronic idiopathic constipation (CIC) are treated with plecanatide or placebo, is mostly enrolled at present, with enrollment of the roughly 900 required patients to complete this summer. This randomized, double-blind, placebo-controlled trial doses patients daily for 12-weeks (placebo, 0.3mg, 1mg, or 3mg), and its size should enable it to be used as one of the CIC registrational trials, in our view. The primary endpoint is a complete spontaneous bowel movement (CSBM) responder analysis, and it is 90% powered to detect at least a 10% difference in response rate between groups of plecanatide and placebo. We are anticipating positive top-line results as early as late 2012 in at least the 1mg and 3mg dose groups versus placebo, and believe that the full dataset will be presented as a late breaker at DDW in May 2013.
- Close peer drug linaclotide, (Ironwood Pharmaceuticals) already has established the utility of employing plecanatide's mechanism of action, hence our Phase 2/3 optimism when also considering the strong power of the trial. Therefore, linaclotide's September 12, 2012 PDUFA date should serve as a meaningful catalyst for Synergy, driving the company's shares up in sympathy with this mechanism's approvability. We firmly believe that the low hanging fruit for Synergy will be patients motivated enough to seek treatment for CIC and IBS-C, but unable to tolerate linaclotide.
- Other clinical programs of note include the start of a Phase 2b trial with plecanatide in IBS-C in October (we believe that the design is essentially final), and initiation of a Phase 1 safety trial with SP-333 in healthy volunteers which will report out by YE12. SP-333 will ultimately be indicated for ulcerative colitis. Last Friday, Synergy was added to the Russell 3000, Russell Global, and Russell Microcap Indices.

**Valuation.** We derive our target price of \$13 through a DCF analysis, assuming a 40% discount rate that is applied to all cash flows and the terminal value, which is based on a 5x multiple of the projected 2019 EBITDA.

**Risks.** Risks to the achievement of our target price include clinical, regulatory, financing, competitive risks, as well as stock price volatility.

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.

**Buy****Target Price: \$13**

Price	\$4.68
52-Week High/Low	\$8.70 - 2.10
Shares Outstanding (000)	54,298.00
Market Cap. (000)	\$254,114.64
Average Daily Volume (000)	37.38

EPS	FY11A	FY12E	FY13E
Mar	\$(0.08)	\$(0.13)A	-
Jun	\$(0.10)	\$(0.12)	-
Prior	-	\$(0.16)	-
Sep	\$(0.01)	\$(0.11)	-
Prior	-	\$(0.16)	-
Dec	\$(0.11)	\$(0.11)	-
Prior	-	\$(0.16)	-
FY	\$(0.30)	\$(0.47)	\$(0.51)
Prior	-	\$(0.64)	\$(0.71)
Consensus	-	\$(0.60)	NA
P/E	NM	NM	NM
FY Rev. (000)	\$0.00	\$0.00	\$0.00



Source: BigCharts.com

**Synergy Pharmaceuticals, Inc.****Income Statement**

Fiscal Year ends December

(in 000, except per share items)

	2009 A	2010 A	1Q 11	2Q 11	3Q 11	4Q 11	2011 A	1Q 12 A	2Q 12 E	3Q 12 E	4Q 12 E	2012 E	2013 E	2014 E	2015 E	2016 E	2017 E
Plecanatide CIC revenue															84,591	192,296	361,243
Plecanatide IB-S-C revenue															57,676	125,678	227,285
<b>Total Revenue</b>															<b>142,268</b>	<b>317,974</b>	<b>588,528</b>
COGS															7,904	22,126	48,967
R&D	3,733	9,559	1,478	2,354	3,883	5,704	13,419	5,338	5,605	5,885	6,180	23,008	28,760	34,512	39,689	41,673	43,757
SG&A	4,467	6,562	1,898	1,524	1,103	2,221	6,746	1,731	1,766	1,801	1,837	7,135	8,562	17,124	34,248	68,496	89,045
<b>Total Operating Expenses</b>	<b>8,200</b>	<b>16,121</b>	<b>3,376</b>	<b>3,879</b>	<b>4,986</b>	<b>7,925</b>	<b>20,165</b>	<b>7,069</b>	<b>7,371</b>	<b>7,686</b>	<b>8,017</b>	<b>30,143</b>	<b>37,322</b>	<b>51,636</b>	<b>81,841</b>	<b>132,296</b>	<b>181,769</b>
<b>Operating Income</b>	<b>(8,200)</b>	<b>(16,121)</b>	<b>(3,376)</b>	<b>(3,879)</b>	<b>(4,986)</b>	<b>(7,925)</b>	<b>(20,165)</b>	<b>(7,069)</b>	<b>(7,371)</b>	<b>(7,686)</b>	<b>(8,017)</b>	<b>(30,143)</b>	<b>(37,322)</b>	<b>(51,636)</b>	<b>60,427</b>	<b>185,678</b>	<b>406,759</b>
Interest income	75	108	24	20	20	26	90	39	41	43	45	167	172	177	182	188	193
Interest expense			(12)				(12)										
Other income (expense), net		494				363	363				200	200	190	181	171	163	155
Change in fair value of financial instrument		297	(339)	(698)	4,383	1,911	5,257	8	8	8	9	33	34	35	36	37	39
<b>Pretax income</b>	<b>(8,125)</b>	<b>(15,222)</b>	<b>(3,702)</b>	<b>(4,557)</b>	<b>(583)</b>	<b>(5,625)</b>	<b>(14,467)</b>	<b>(7,023)</b>	<b>(7,322)</b>	<b>(7,635)</b>	<b>(7,763)</b>	<b>(29,743)</b>	<b>(36,926)</b>	<b>(51,244)</b>	<b>60,817</b>	<b>186,066</b>	<b>407,146</b>
Provision for income tax (benefit)																5,582	10,187
<b>Net Income</b>	<b>(8,125)</b>	<b>(15,222)</b>	<b>(3,702)</b>	<b>(4,557)</b>	<b>(583)</b>	<b>(5,625)</b>	<b>(14,467)</b>	<b>(7,023)</b>	<b>(7,322)</b>	<b>(7,635)</b>	<b>(7,763)</b>	<b>(29,743)</b>	<b>(36,926)</b>	<b>(51,244)</b>	<b>60,817</b>	<b>180,484</b>	<b>305,360</b>
<b>EPS</b>	<b>(0.22)</b>	<b>(0.34)</b>	<b>(0.08)</b>	<b>(0.10)</b>	<b>(0.01)</b>	<b>(0.11)</b>	<b>(0.30)</b>	<b>(0.13)</b>	<b>(0.12)</b>	<b>(0.11)</b>	<b>(0.11)</b>	<b>(0.47)</b>	<b>(0.51)</b>	<b>(0.67)</b>	<b>0.75</b>	<b>2.19</b>	<b>3.66</b>
<b>EPS diluted, GAAP</b>	<b>(0.22)</b>	<b>(0.34)</b>	<b>(0.08)</b>	<b>(0.10)</b>	<b>(0.01)</b>	<b>(0.11)</b>	<b>(0.30)</b>	<b>(0.13)</b>	<b>(0.12)</b>	<b>(0.11)</b>	<b>(0.11)</b>	<b>(0.47)</b>	<b>(0.51)</b>	<b>(0.67)</b>	<b>0.70</b>	<b>2.04</b>	<b>3.40</b>
Shares Outstanding Basic/Diluted	36,641	44,875	46,167	46,643	47,309	50,274	47,598	54,298	61,370	67,361	68,709	62,935	72,144	76,473	81,061	82,277	83,511
Diluted shares outstanding	36,641	44,875	46,167	46,643	47,309	50,274	47,598	54,298	61,370	67,361	68,709	62,935	72,144	76,473	87,061	88,367	89,692

Source: Company reports, Brean Murray, Carret &amp; Co. estimates

## Important Disclosures

## Ratings and Target Price History



All prices are as of the market close on 6/26/12.

At the time this report was published, Brean Murray, Carret & Co., LLC made a market in the securities of Synergy Pharmaceuticals

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Brean Murray, Carret & Co., LLC expects to receive compensation or intends to seek compensation for investment banking and/or advisory services from Synergy Pharmaceuticals within the next 3 months.

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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	148	63.79%	11	7.43%
HOLD	66	28.45%	4	6.06%
SELL	7	3.02%	0	0%
NOT RATED	11	4.74%	0	0%
<b>TOTAL</b>	<b>232</b>			

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

**Valuation Methodology and Risks**

**Synergy Pharmaceuticals (SGYP):** We derive our target price of \$13 through a DCF analysis, assuming a 40% discount rate that is applied to all cash flows and the terminal value, which is based on a 5x multiple of the projected 2019 EBITDA. Risks to the achievement of our target price include clinical, regulatory, financing, competitive risks, as well as stock price volatility.

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I, Jonathan Aschoff, hereby certify that the views expressed in this research report accurately reflect my 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.

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