

Healthcare: Pharmaceuticals

Synergy Pharmaceuticals, Inc. | SGYP - \$4.53 - NASDAQ | *Buy*

Quarterly Update

Estimates Changed

Stock Data

52-Week Low - High	\$3.17 - \$9.16
Shares Out. (mil)	64.31
Mkt. Cap.(mil)	\$291.3
3-Mo. Avg. Vol.	169,891
12-Mo.Price Target	\$12.00
Cash (mil)	\$51.1
Tot. Debt (mil)	\$0.0

Cash (mil): Cash is proforma of ~\$45 million financing in 2Q12

EPS \$

Yr Dec	—2011—	—2012E—		—2013E—
		Curr	Prev	Curr
1Q	(0.08)A	(0.13)A	(0.14)E	-
2Q	(0.10)A	(0.13)E	(0.15)E	-
3Q	(0.01)A	(0.14)E	(0.13)E	-
4Q	(0.12)A	(0.15)E	(0.15)E	-
YEAR	(0.30)A	(0.55)E	(0.57)E	(0.48)E
P/E	NM	NM	NM	NM

Revenue (\$ millions)

Yr Dec	—2011—	—2012E—	—2013E—
		Curr	Curr
1Q	0.0A	0.0A	-
2Q	0.0A	0.0E	-
3Q	0.0A	0.0E	-
4Q	0.0A	0.0E	-
YEAR	0.0A	0.0E	0.0E

SGYP One-Year Price and Volume History



SGYP: 1Q12 Update - No Surprises, Favorable Financing In Rear view Mirror

SGYP reported an uneventful 1Q12. The company did, however, recently complete a favorable financing, in our opinion. We maintain our Buy rating as we believe that plecanatide is an under-appreciated asset for the treatment of constipation.

- 1Q12 results (10-Q filed) - Uneventful.** SGYP reported no 1Q12 revenues as expected. R&D was about \$700K below our target, and SG&A was in-line. The net was a penny smaller EPS loss than we targeted at minus \$0.13. We viewed the results as not particularly material.
- Pipeline on track.** We continue to target phase 2/3 clinical data for the constipation drug SP-304 in 4Q12. That is the main lever for SGYP shares. That said, we also look forward to phase 1 data for the ulcerative colitis treatment SP-333 in 4Q12. We view SP-333 as an under-appreciated compound that could create value in outer years.
- Model changes.** Minimal changes from prior expectations. EPS and revenue targets are largely unchanged.
- Favorable financing.** The company completed a ~\$50 million financing in May 2012 that netted the company ~\$45 million at \$4.50/share. We view this favorably, as it removes a near-term risk and the pricing was better than our prior \$4/share expectation within our model. The company benefited from a recent up-tick in share price.
- Maintain Buy rating.** We continue to view plecanatide as an undervalued asset within the gastrointestinal arena. We believe that this compound could have similar efficacy to FRX/IRWD's linaclotide with potentially less diarrhea side effects.

VALUATION

We value shares of Synergy Pharmaceuticals based on a sum-of-the-parts analysis. The main driver is plecanatide at \$10/share with lesser contribution from SP-333 (\$1.50/share) and future indications/technology value (\$0.50/share).

Impediments to our price target include, but are not limited to, unexpected adverse clinical outcomes, inability to attain a partnership, and inability to raise additional financial resources on reasonable terms.

RISKS

In addition to the risks inherent in drug development and marketing, key investment risks for Synergy Pharmaceuticals include:

- **Clinical risk** – We anticipate positive clinical data for the plecanatide program. Further, the phase 2/3 clinical data is longer in duration, which adds risk beyond the early stage trials. Failure of this data to match expectations could have a material adverse impact on company shares.
- **Partnership risk** – We expect that Synergy will outlicense, partner, or sell its clinical programs prior to product launch. Failure to monetize these assets on favorable terms could have a material adverse impact on company shares.

COMPANY DESCRIPTION

Synergy Pharmaceuticals, Inc., a development stage biopharmaceutical company, focuses on the development of drugs to treat gastrointestinal disorders and diseases. It is developing plecanatide that completed Phase 2a clinical trial and is undergoing a Phase II/III clinical trial for the treatment chronic idiopathic constipation and constipation-predominant irritable bowel syndrome; and SP-333, a second generation GC-C receptor analog, which is in pre-clinical stage for the treatment of gastrointestinal inflammatory diseases, such as ulcerative colitis. The company is headquartered in New York, New York.

QUARTERLY VARIANCE ANALYSIS

*(values in 000's**except per share data)***Revenues:**

	Actual 1Q12	Estimate 1Q12	Variance	Comments
Total revenue	-	-	-	
R&D	5,338	6,000	(662)	Moderately lower than expected
SG&A	1,731	1,750	(19)	In-line
Operating income (loss)	(7,069)	(7,750)	681	
Other income	39	100	(61)	Non material
FV of fin instruments	8	-	8	Non cash and non material
Pretax income	(7,023)	(7,650)	627	
Taxes	-	-	-	
Net income	(7,023)	(7,650)	627	
EPS	(\$0.13)	(\$0.14)	\$0.01	Upside from lower R&D
FD Shares outstanding	54,298	54,157	141	

Source: ROTH Capital Partners and company reports

Synergy Pharmaceuticals																			
Earnings model (values in 000's)	FY 2010 A	1Q11A	2Q11A	3Q11A	4Q11A	FY 2011 A	1Q12A	2Q12E	3Q12E	4Q12E	FY 2012 E	FY 2013 E	FY 2014 E	FY 2015 E	FY 2016 E	FY 2017 E	FY 2018 E	FY 2019 E	FY 2020 E
Revenues:																			
Plecanatide US revenues														25,000	100,000	190,000	300,000	375,000	450,000
SP-333 end revenues																	47,299	99,384	156,620
Plecanatide royalties														7,500	30,000	57,000	90,000	112,500	135,000
SP-333 royalties																	11,825	24,846	39,155
Total revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	7,500	30,000	57,000	101,825	137,346	174,155
R&D	9,559	1,478	2,354	3,883	5,703	13,419	5,338	6,500	7,250	8,000	27,088	29,000	30,750	24,500	21,500	21,000	20,500	22,000	22,500
G&A	6,562	1,898	1,524	1,103	2,222	6,746	1,731	1,750	1,950	2,250	7,681	7,750	8,000	8,250	8,750	10,000	11,000	11,500	12,500
Total expenses	16,121	3,376	3,879	4,986	7,925	20,165	7,069	8,250	9,200	10,250	34,769	36,750	38,750	32,750	30,250	31,000	31,500	33,500	35,000
Operating loss	(16,121)	(3,376)	(3,879)	(4,986)	(7,925)	(20,165)	(7,069)	(8,250)	(9,200)	(10,250)	(34,769)	(36,750)	(38,750)	(25,250)	(250)	26,000	70,325	103,846	139,155
Other income	494	24	20	363	20	362	-	75	75	75	225	400	425	450	475	500	525	550	575
Interest and inv income	108	(12)	-	-	26	90	39	225	200	175	639	400	100	-	-	-	-	-	-
Interest expense	-	-	-	-	-	(12)	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in FV of fin instruments	297	(339)	(698)	4,383	1,911	5,257	8	-	-	-	8	-	-	-	-	-	-	-	-
Pretax income																26,500	70,850	104,396	139,730
Taxes																	1,325	7,085	14,093
Tax rate																	5%	10%	14%
Net loss	(15,222)	(3,702)	(4,557)	(583)	(5,626)	(14,467)	(7,023)	(7,950)	(8,925)	(10,000)	(33,898)	(35,950)	(38,225)	(24,800)	225	25,175	63,765	90,303	104,099
EPS	(0.34)	(0.08)	(0.10)	(0.01)	(0.12)	(0.30)	(0.13)	(0.13)	(0.14)	(0.15)	(0.55)	(0.48)	(0.50)	(0.30)	0.00	0.30	0.75	1.05	1.20
FD Shares outstanding	44,875	46,167	46,643	47,309	48,657	47,598	54,298	60,000	65,000	65,500	61,200	74,833	75,833	81,833	82,833	83,833	84,833	85,833	86,833

Source: ROTH Capital Partners and Company reports
 Scott R Henry, CFA
shenry@roth.com
 (949) 500-0863

Synergy Pharmaceuticals Pipeline analysis

	2011A				2012E				2013E				2014E				2015E				2016E			
	1QA	2QA	3QA	4QA	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE
Plecanatide (SP-304)																								
For CIC																								
Phase 2/3 CIC Pivotal								DATA																
P3 CIC Pivotal									FDA				DATA											
NDA													PARTNER OR M&A			NDA								
Approval/Launch																								
Scenario 2 (another trial)												DATA												
IBS-C, P2																								
SP-333																								
For ulcerative colitis																								
IND																								
Phase 1								DATA																
Phase 1/2 program																								
Phase 2b																								
Phase 3 program																								

Source: ROTH Capital Partners Forecasts

Scott R Henry, CFA

shenry@roth.com

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Synergy Pharmaceuticals

Balance Sheets
December Year
values in \$000's

Net cash
Per share

6,123
0.11

	2010	2011	1Q12
ASSETS			
Cash and equivalents	1,708	13,245	6,123
Prepaid and other	998	1,063	1,618
Total current assets	2,705	14,308	7,741
Property and equip, net	8	6	5
Security deposits	14	14	14
Due from controlling shareholder	1,674	1,541	1,820
TOTAL ASSETS	4,401	15,870	9,580
LIABILITIES AND SHAREHOLDERS EQUITY			
Accounts payable	2,961	1,416	2,084
Accrued expenses	2,051	1,331	965
Total current liabilities	5,012	2,747	3,050
Derivatives at FV	3,488	3,325	3,317
Total Liabilities	8,500	6,072	6,367
Shareholders equity			
Preferred stock	-	-	-
Common stock	5	5	5
APIC	51,038	79,401	79,839
Accumulated deficit	(55,142)	(69,609)	(76,632)
Total Shareholders equity	(4,099)	9,797	3,213
Total liabs and SE	4,401	15,870	9,580

Source: Company reports

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shenry@roth.com

(949) 500-0863

Synergy Pharmaceuticals

Statement of cash flows

December year

values in \$000's

	2010	2011	1Q12
OPERATING ACTIVITIES			
Net loss	(15,221)	(14,467)	(7,023)
Adjustments:			
Deprec and amort	2	2	0
Stock comp	712	822	438
Loss (gain) on asset sales	-	-	-
Change in FV of derivatives	(297)	(5,257)	(8)
Changes in A and L:			
Accounts payable and accr exp	3,286	(2,265)	303
Prepays and other CA	64	(66)	(554)
CASH FROM OPERATIONS	(11,454)	(21,231)	(6,843)
INVESTING ACTIVITIES			
Loans from related parties	(702)	133	(278)
CASH FROM INVESTING	(702)	133	(278)
FINANCING ACTIVITIES			
Issuance of CS from priv placement	7,179	34,369	-
Warrants, other	(468)	(1,733)	-
CASH FROM FINANCING	6,711	32,636	-
Change in cash	(5,445)	11,537	(7,122)
Cash at beginning of year	7,153	1,708	13,245
Cash at end of the year	1,708	13,245	6,123

Obligations

Less than 1 year	4,903
1-3 years	1,935
3-5 years	-
More than 5 yrs	-

Source: Company reports

Scott R Henry, CFA

shenry@roth.com

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Disclosures:

Within the last twelve months, ROTH has received compensation for investment banking services from Synergy Pharmaceuticals, Inc..

ROTH makes a market in shares of Synergy Pharmaceuticals, Inc. and as such, buys and sells from customers on a principal basis.

Within the last twelve months, ROTH has managed or co-managed a public offering for Synergy Pharmaceuticals, Inc..

On September 28, 2010, ROTH changed its rating system in order to replace the Hold rating with Neutral.

On May 26, 2011, ROTH changed its rating system in order to incorporate coverage that is Under Review.



Each box on the Rating and Price Target History chart above represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first note written during the past three years. **Distribution Ratings/IB Services** shows the number of companies in each rating category from which Roth or an affiliate received compensation for investment banking services in the past 12 month.

Distribution of IB Services Firmwide

Rating	Count	Percent	IB Serv./Past 12 Mos. as of 05/14/12	
			Count	Percent
Buy [B]	184	69.17	59	32.07
Neutral [N]	65	24.44	7	10.77
Sell [S]	1	0.38	0	0
Under Review [UR]	15	5.64	6	40.00

Our rating system attempts to incorporate industry, company and/or overall market risk and volatility. Consequently, at any given point in time, our investment rating on a stock and its implied price movement may not correspond to the stated 12-month price target.

Ratings System Definitions - ROTH employs a rating system based on the following:

Buy: A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return of at least 10% over the next 12 months.

Neutral: A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return between negative 10% and 10% over the next 12 months.

Sell: A rating, which at the time it is instituted and or reiterated, that indicates an expectation that the price will depreciate by more than 10% over the next 12 months.

Under Review [UR]: A rating, which at the time it is instituted and or reiterated, indicates the temporary removal of the prior rating, price target and estimates for the security. Prior rating, price target and estimates should no longer be relied upon for UR-rated securities.

Not Covered [NC]: ROTH does not publish research or have an opinion about this security.

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