



November 14, 2012

Key Metrics

SGYP - NASDAQ	\$3.75
Pricing Date	Nov 14 2012
Price Target	\$25.00
52-Week Range	\$7.08 - \$2.00
Shares Outstanding (mm)	65.8
Market Capitalization (\$mm)	\$246.8
3-Mo Average Daily Volume	274,116
Institutional Ownership	NA
Debt/Total Capital	NM
ROE	NM
Book Value/Share	\$0.63
Price/Book	6.0x
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	(0.14)E	(0.16)E
2Q-Jun	(0.05)	--	(0.17)A	(0.14)E	(0.16)E
3Q-Sep	(0.01)	(0.16)E	(0.15)A	(0.15)E	(0.18)E
4Q-Dec	(0.12)	(0.18)E	(0.19)E	(0.16)E	(0.19)E
FY	(0.30)	--	(0.65)E	(0.59)E	(0.69)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

3Q 2012 Results - Plecanatide Phase 3 Data Next

Investment Highlights:

- Plecanatide Phase 3 Trial On Track - Data Near-Term.** Late yesterday, Synergy Pharmaceuticals reported 3Q 2012 results and indicated that its Phase 3 trial of plecanatide in chronic idiopathic constipation (CIC) is expected to be completed on approximately December 7. This double-blinded, placebo-controlled, randomized 12-week study enrolled 951 patients, above the original target of 880 subjects. Top-line data are now expected in early January 2013, slightly behind Synergy's original guidance of late 2012, but still fundamentally on track. We are encouraged by the progress that the company has made and expect positive data from this study from the perspective of both safety (where we anticipate superiority to the safety profile of linaclotide) and efficacy (where we expect comparable effectiveness to linaclotide in stimulating normalized bowel function). The firm reported a net loss of \$0.15 per share for 3Q 2012, in-line with our estimate of a net loss of \$0.16 per share. Synergy closed the third quarter of 2012 with \$37.4mm in cash and we expect the firm to close 2012 with over \$25mm in cash. In anticipation of favorable top-line data from the plecanatide Phase 3 trial in CIC, we reiterate our Buy rating and 12-month price target of \$25 per share for SGYP.
- Proof-Of-Concept Anticipated.** We remind investors that the plecanatide Phase 3 CIC study could firmly establish plecanatide as a best-in-class gastrointestinal tract disorder drug. Thus far, discontinuation rates have been substantially lower than those seen with linaclotide in a comparative chronic constipation setting.
- Additional Clinical Milestones Projected.** Investors should note that Synergy is currently expecting to initiate a 350-patient Phase 2b trial of plecanatide in irritable bowel syndrome of the constipation-predominant subtype (IBS-C) in early December. We consider it a strong vote of confidence in plecanatide by company management that the firm is starting the Phase 2b trial of the drug in IBS-C prior to the release of data from the Phase 3 CIC study. In our view, the IBS-C trial could report results in 2H 2013. We also note that Synergy is likely to complete Phase 1 testing of SP-333, the firm's second GC-C receptor agonist compound, in early 2013 and could enter Phase 2 development in ulcerative colitis in the first half of the year. Data would be available before year-end, meaning that 2013 should be a transformative year for the company.
- In-Licensing Broadens Clinical Pipeline.** In late August, Synergy in-licensed FV-100, a novel anti-shingles drug, from Bristol-Myers Squibb for an upfront payment of only \$1mm. Synergy now has three clinical-stage candidates: plecanatide in Phase 3, FV-100 in late-stage Phase 2; and SP-333 in Phase 1 testing.

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				
				1QA	2QA	3QA	4QE		1QE	2QE	3QE	4QE	2013E
Revenue													
Total revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses													
Cost of product and service revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Research & development	4,257	9,559	13,419	5,338	7,626	8,246	10,000	31,210	9,000	10,000	11,000	12,000	42,000
Selling and marketing	-	-	-	-	-	-	-	-	-	-	-	-	-
General and administrative	3,943	6,563	6,746	1,731	1,918	1,843	2,500	7,993	3,000	3,500	4,000	4,500	15,000
Total expenses	8,200	16,121	20,164	7,069	9,545	10,089	12,500	39,203	12,000	13,500	15,000	16,500	57,000
Gain (loss) from operations	(8,200)	(16,121)	(20,164)	(7,069)	(9,545)	(10,089)	(12,500)	(39,203)	(12,000)	(13,500)	(15,000)	(16,500)	(57,000)
Other income/expense													
Interest and investment income	-	-	90	39	48	63	45	195	75	60	50	45	230
Interest income/expense	75	109	(12)	-	-	-	-	-	-	-	-	-	-
Change in fair value of derivative instruments-warrants	-	297	5,257	8	(1,317)	140	-	(1,169)	-	-	-	-	-
Other income/expense	-	494	362	-	256	-	-	256	-	-	-	-	-
Total investment income and other	75	900	5,697	47	(1,014)	203	45	(719)	75	60	50	45	230
Loss before provision for income taxes	(8,125)	(15,221)	(14,467)	(7,023)	(10,558)	(9,885)	(12,455)	(39,921)	(11,925)	(13,440)	(14,950)	(16,455)	(56,770)
Deferred income tax benefit	-	-	-	-	-	-	-	-	-	-	-	-	-
Net loss/income	(8,125)	(15,221)	(14,467)	(7,023)	(10,558)	(9,885)	(12,455)	(39,921)	(11,925)	(13,440)	(14,950)	(16,455)	(56,770)
Net loss per share (basic)	(0.11)	(0.17)	(0.30)	(0.13)	(0.17)	(0.15)	(0.19)	(0.65)	(0.16)	(0.16)	(0.18)	(0.19)	(0.69)
Net loss per share (diluted)	(0.11)	(0.17)	(0.30)	(0.13)	(0.17)	(0.15)	(0.19)	(0.65)	(0.16)	(0.16)	(0.18)	(0.19)	(0.69)
Weighted average number of shares outstanding (basic)	73,281	89,751	47,598	54,298	60,416	65,806	66,106	61,657	75,331	84,581	84,631	84,656	82,300
Weighted average number of shares outstanding (diluted)	73,281	89,751	47,598	54,298	60,416	65,806	66,106	61,657	75,331	84,581	84,631	84,656	82,300

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.

Research analyst compensation is dependent, in part, upon investment banking revenues received by Aegis Capital Corp.

Aegis Capital Corp. intends to seek or expects to receive compensation for investment banking services from the subject company within the next three months.

Aegis Capital Corp. has performed investment banking services for and received fees from 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]	95.00	36.84
HOLD [HOLD]	5.00	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

The information contained herein is based upon sources believed to be reliable but is not guaranteed by us and is not considered to be all inclusive. It is not to be construed as an offer or the solicitation of an offer to sell or buy the securities mentioned herein. Aegis Capital

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