



August 14, 2012

**Key Metrics**

SGYP - NASDAQ	\$3.74
Pricing Date	Aug 13 2012
Price Target	\$25.00
52-Week Range	\$7.08 - \$1.86
Shares Outstanding (mm)	64.3
Market Capitalization (\$mm)	\$240.5
3-Mo Average Daily Volume	242,377
Institutional Ownership	NA
Debt/Total Capital	NM
ROE	NM
Book Value/Share	\$0.06
Price/Book	62.3x
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
2Q-Jun	(0.05)	--	(0.16)E	--	(0.14)E
3Q-Sep	(0.01)	--	(0.18)E	--	(0.16)E
4Q-Dec	(0.12)	--	(0.20)E	--	(0.19)E
FY	(0.30)	--	(0.67)E	--	(0.64)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](http://www.synergypharma.com).

## Synergy Pharmaceuticals, Inc.

### Rating: Buy

**Plecanatide Powers Towards The Finish Line****Investment Highlights:**

- **Enrollment Target Reached - Data By Year-End 2012.** This morning, Synergy Pharmaceuticals announced that it had reached the pre-specified enrollment target of 880 patients randomized in the Phase 2/3 trial of plecanatide (SP-304), the firm's lead drug candidate. The study is designed to assess the safety and efficacy of various doses of plecanatide vs. placebo in patients with chronic idiopathic constipation (CIC). We currently expect top-line data from this clinical study to be released in late 2012, in accordance with company guidance. In the wake of the achievement of this crucial enrollment milestone, we reiterate our Buy rating and 12-month price target of \$25 per share for SGYP.
- **Phase 3 Data Likely To Confirm Plecanatide Promise.** We would remind investors that the plecanatide study in constipation is a major component of Synergy's development strategy for the drug. This trial would qualify as one of the two pivotal studies necessary to achieve approval of plecanatide in CIC, and we further believe that if it is positive on the efficacy front without showing any evidence of stimulation of diarrhea in the wake of plecanatide therapy, this study could firmly establish plecanatide as a best-in-class gastrointestinal disorders drug. We consider the Phase 2/3 trial to be a risk-mitigated clinical program, as plecanatide was already shown to provide substantial relief to individuals with chronic constipation over a 14-day period in a previous Phase 2a trial.
- **Potential For Superior Safety Vs. Linaclotide.** Plecanatide was exceptionally well-tolerated in its original Phase 2a trial, with no incidence of diarrhea. In our view, this gives plecanatide an advantage over another agent currently under review at the FDA, linaclotide, which we expect to be approved in early September. Linaclotide caused diarrhea severe enough to prompt patient withdrawal from clinical trials in certain cases. We believe that the absence of diarrhea for plecanatide would be a significant marketing advantage. In our view, the fact that Synergy's trial has reached its full randomization target in a timely manner (within nine months of initiating enrollment, which we view as very impressive execution) highlights how close plecanatide is on linaclotide's heels, with only 24 -30 months separating the two drugs.
- **Attractive Valuation.** Synergy's current market cap of about \$250mm does not adequately value the potential of plecanatide and the firm's platform technology, in our view. We also note that linaclotide is currently valued at a level approaching \$3bn based on the market cap of Ironwood Pharmaceuticals (IRWD/NASDAQ - Buy), the originator of this agent.

**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				2013E					
				1QA	2QE	3QE	4QE	2012E	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	7,000	8,000	10,000	30,338	7,000	7,000	9,000	11,000	34,000
Selling and marketing	-	-	-	-	-	-	-	-	-	-	-	-	-
General and administrative	3,943	6,563	6,746	1,731	2,500	4,000	5,000	13,231	5,000	5,000	5,000	5,000	20,000
Total expenses	8,200	16,121	20,164	7,069	9,500	12,000	15,000	43,569	12,000	12,000	14,000	16,000	54,000
Gain (loss) from operations	(8,200)	(16,121)	(20,164)	(7,069)	(9,500)	(12,000)	(15,000)	(43,569)	(12,000)	(12,000)	(14,000)	(16,000)	(54,000)
Other income/expense													
Interest and investment income	-	-	90	39	65	55	45	204	75	60	50	45	230
Interest income/expense	75	109	(12)	-	-	-	-	-	-	-	-	-	-
Change in fair value of derivative instruments-warrants	-	297	5,257	8	-	-	-	8	-	-	-	-	-
Other income/expense	-	494	362	-	-	-	-	-	-	-	-	-	-
Total investment income and other	75	900	5,697	47	65	55	45	212	75	60	50	45	230
Loss before provision for income taxes	(8,125)	(15,221)	(14,467)	(7,023)	(9,435)	(11,945)	(14,955)	(43,358)	(11,925)	(11,940)	(13,950)	(15,955)	(53,770)
Deferred income tax benefit	-	-	-	-	-	-	-	-	-	-	-	-	-
Net loss/income	(8,125)	(15,221)	(14,467)	(7,023)	(9,435)	(11,945)	(14,955)	(43,358)	(11,925)	(11,940)	(13,950)	(15,955)	(53,770)
Net loss per share (basic)	(0.11)	(0.17)	(0.30)	(0.13)	(0.16)	(0.18)	(0.20)	(0.67)	(0.14)	(0.14)	(0.16)	(0.19)	(0.64)
Net loss per share (diluted)	(0.11)	(0.17)	(0.30)	(0.13)	(0.16)	(0.18)	(0.20)	(0.67)	(0.14)	(0.14)	(0.16)	(0.19)	(0.64)
Weighted average number of shares outstanding (basic)	73,281	89,751	47,598	54,298	59,730	67,769	75,784	64,395	82,884	84,634	84,684	84,709	84,228
Weighted average number of shares outstanding (diluted)	73,281	89,751	47,598	54,298	59,730	67,769	75,784	64,395	82,884	84,634	84,684	84,709	84,228

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](http://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.

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Aegis Capital Corp. has performed investment banking services for 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]	91.67	18.18
HOLD [HOLD]	8.33	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

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