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Company Update

EQUITY RESEARCH

October 27, 2011

Synergy Pharmaceuticals, Inc.

Rating: Buy

Synergy Remains Significantly Undervalued; Reiterate Buy

Key Metrics

SGYP - OTC BB	$2.20
Pricing Date	Oct 27 2011
Price Target	$15.00
52-Week Range	$6.99 - $1.90
Shares Outstanding (mm)	94.5
Market Capitalization ($mm)	$207.9
3-Mo Average Daily Volume	55,316
Institutional Ownership	0%
Debt/Total Capital	NA
ROE	NA
Book Value/Share	$(0.04)
Price/Book	(55.0)x
Dividend Yield	NA
LTM EBITDA Margin	NA

EPS($) FY: December

	2010A	Prior 2011E	Curr. 2011E	Prior 2012E	Curr. 2012E
1Q-Mar	(0.03)	--	(0.04)A	--	(0.08)E
2Q-Jun	(0.07)	--	(0.05)A	--	(0.10)E
3Q-Sep	(0.04)	--	(0.03)E	--	(0.11)E
4Q-Dec	(0.04)	--	(0.06)E	--	(0.13)E
FY	(0.17)	--	(0.18)E	--	(0.42)E
P/E	NM		NM		NM

Revenue($mm)

	2010A	Prior 2011E	Curr. 2011E	Prior 2012E	Curr. 2012E
1Q-Mar	NA	--	NA	--	NA
2Q-Jun	NA	--	NA	--	NA
3Q-Sep	NA	--	NA	--	NA
4Q-Dec	NA	--	NA	--	NA
FY	NA	--	NA	--	NA

Company Description:

Synergy Pharmaceuticals, Inc., a development-stage biopharmaceutical company, focuses on the development of drugs to treat gastrointestinal (GI) disorders and diseases. It is developing SP-304, a guanylyl cyclase C (GC-C) receptor agonist, to treat GI disorders, primarily chronic constipation and IBS-C; and has SP-333, a second-generation GC-C receptor agonist in pre-clinical development stage to treat gastrointestinal inflammatory diseases. The firm is headquartered in New York, New York; the company's website is www.synergypharma.com.

Investment Highlights:

- **Linaclotide NDA Acceptance Highlights Value In Synergy.** We reiterate to investors that we believe the continued regulatory progress of linaclotide only serves to highlight the glaring discrepancy in valuation between Ironwood Pharmaceuticals, the originator of this drug, and Synergy Pharmaceuticals, which is developing a closely-related agent called plecanatide for treatment of the same gastrointestinal disorders. We draw investors' attention to the fact that linaclotide is now one of the most risk-mitigated assets in the biotechnology sector following the acceptance of the linaclotide NDA earlier this month. We have high confidence in linaclotide approval, but now repeat our view that the GI market is clearly large enough to support both linaclotide and plecanatide, as well as delineate the fact that plecanatide is currently in Phase 3 development and does not cause diarrhea, which was a principal reason for patient withdrawal due to adverse events in the Phase 3 development program for linaclotide. In the wake of the linaclotide NDA acceptance, we reiterate our Buy rating and 12-month price target of $15.00 on Synergy shares.
- **Upcoming ACG Conference Provides Catalysts.** Investors should, in our view, be aware of upcoming data presentations at the American College of Gastroenterology (ACG) meeting to be held in Washington DC between October 29 and November 2. While both linaclotide and plecanatide should be showcased at this meeting, we would draw particular attention to the fact that additional preclinical data will be presented that are expected to highlight the breadth of Synergy's platform. We believe that Synergy - unlike anyone else targeting the guanylate cyclase C (GCC) receptor - has been able to develop peptides that not only mitigate disorders like irritable bowel syndrome and chronic constipation, but also more severe conditions like ulcerative colitis and colon cancer.
- **Plecanatide In Phase 3 - Not To Be Ignored.** We previously alerted investors to the fact that Synergy had advanced plecanatide into a large Phase 3 trial in chronic constipation, with a design very similar to those run by Ironwood with linaclotide in this indication. In our view, this program has a high likelihood of success and should not be ignored. With Synergy's valuation down over 50% in recent weeks and the firm holding 100% rights to plecanatide and related peptides, we consider the shares to be significantly undervalued. The opportunity is particularly attractive, in our view, given Ironwood's valuation of $1.3b.

The Disclosure section may be found on pages 10 - 12 of this report.
The Valuation section may be found on page 10 of this report.

American College of Gastroenterology Data

We draw investors' attention to the upcoming American College of Gastroenterology (ACG) 2011 Annual Meeting, which is slated to take place in Washington DC from October 29th (Saturday) to November 2nd (Tuesday), 2011. This is one of the premier events on the conference calendar for the gastroenterology space, leading up to Digestive Disease Week next year. Several firms are expected to present data at this conference, including Ironwood Pharmaceuticals and its partner Forest Laboratories, along with Synergy Pharmaceuticals. We would therefore recommend that investors take note of the following poster presentations:

Ironwood Pharmaceuticals / Forest Laboratories

- Poster P765 describes a pooled analysis from the two pivotal Phase 3 IBS-C trials. This poster is authored by Dr. William D. Chey and will be presented on Monday, October 31st from 10:30 AM – 4:30 PM ET.
- Poster P764 describes patients with at least moderate bloating from the two pivotal Phase 3 CC trials. This poster is authored by Dr. Anthony Lembo and will be presented on Monday, October 31st from 10:30 AM – 4:30 PM ET.
- Poster P1170 provides an assessment of endpoints used in evaluating treatments for IBS-C and is based on the Phase 2b IBS-C clinical study of linaclotide. This poster is authored by Dr. Jeff Johnston and will be presented on Tuesday, November 1st from 10:30 AM – 4:30 PM ET.

Synergy Pharmaceuticals

- Poster P409 discusses a preclinical study assessing the ability of GCC receptor agonists to delay the progression of colitis to colonic tumors in $Apc^{min}/+$ mice, a special genetic strain, which have a mutation in the same gene that causes familial adenomatous polyposis (FAP) and – like individuals with FAP – develop large numbers of intestinal tumors at an early age. Apc^{min} mice have been useful for testing pharmaceuticals that may be useful for the treatment of FAP. In our view, this poster is exciting because it may show the utility of Synergy's platform in delaying or preventing development of colorectal cancer in susceptible individuals. This poster will be presented on Sunday, October 30th, from 10:30 AM – 4:30 PM ET. The data were generated via collaboration between Synergy Pharmaceuticals and the Institute of Hepatitis Virus Research in Doylestown, PA, and Fox Chase Cancer Center in Philadelphia, PA.
- Poster P1174 describes the Phase 2 clinical data generated with plecanatide, Synergy's Phase 3 agent to treat irritable bowel syndrome of the constipation-predominant subtype (IBS-C) and chronic constipation (CC). The poster will be presented on Tuesday, November 1st from 10:30 AM – 4:30 PM ET.
- Poster P1124 describes novel guanylate cyclase C (GCC) receptor agonists for the treatment of inflammatory bowel disease. This lead author is Dr. Kunwar Shailubhai, Synergy's Chief Scientific Officer. The poster will be presented on Tuesday, November 1st from 10:30 AM – 4:30 PM ET.

In our view, the ACG meeting is likely to draw interest from key opinion leaders and the data presented therein is expected to confirm our viewpoint that linaclotide is a highly effective agent with a favorable risk/benefit profile, particularly when compared to existing marketed drugs. In addition, we believe that the presentations made at the ACG meeting are likely to not only show that plecanatide is also a highly effective drug with potentially significant safety advantages (notably the absence of diarrhea) but also indicate that Synergy possesses a much broader platform with the ability to target inflammatory bowel disease (including ulcerative colitis) and colon cancer.

Valuation

Free Cash Flow: Synergy could be free cash flow negative for the foreseeable future. We define free cash flow as operating cash flow minus capital expenditures and dividend payments. We utilize a discounted cash flow analysis supporting a risk-adjusted Net Present Value (rNPV) framework to derive our $15 price target.

Risk-Adjusted Net Present Value Analysis

We have projected peak annual global sales for plecanatide (SP-304) – formerly known as guanilib – to be approximately $4.4 billion in 2021, prior to projected patent expirations in the 2022 time frame. This estimate includes only sales for treatment of chronic constipation and constipation-predominant irritable bowel syndrome. We estimate that at a peak market share of ~24% of all patients seeking therapy, there would be 3.4 million patients receiving plecanatide to treat constipation-related conditions. In valuing this drug candidate, we have assessed the probability of success at 60% – since the molecule recently successfully completed a Phase 2a trial, has also shown proof-of-concept efficacy in animal models, and employs a validated mechanism of action – as is evidenced by the clinical success of linaclotide, a similar agent. Our risk-adjusted base case NPV calculation yields a value of ~$1.5 billion or ~$13 per share for this drug candidate, assuming a partnership with an established pharmaceutical firm that would provide Synergy with 30% royalties on net sales globally. We assume that Synergy or a potential partner could file for approval of plecanatide by late 2013. The drug could be launched in early 2015, in our view, assuming a standard 10-month review period.

Table 1: Plecanatide (SP-304) Market Metrics

Plecanatide - Global	
Total constipation patients[1]	164MM
Patients seeking treatment[2]	14.6MM
Peak market share[3]	24%
Treatment revenue/prescription/course of therapy[4]	$1,275
Peak sales[5]	$4.4B
Launch[6]	2015
Peak sales year	2021
Protection expires[7]	2022
Discount rate	15%
Probability of success[8]	60%
Risk-adjusted NPV[9]	$1.5B
NPV per share	$12.84
Estimated Net Cash Position ($MM; end-2Q 2012)	$72MM
Additional Value Drivers (peptide pipeline, including SP-333)	$150MM
Total enterprise value	$1.7B
Shares Outstanding (MM; end-2Q 2012)	117MM
Present value-derived price target	$15.00

Notes on assumptions:

[1] Constipation patients - worldwide (only includes US and European Union)
(Source: National Institute of Health, American Gastroenterological Association)

[2] Patients with moderate-to-severe chronic constipation and constipation-predominant irritable bowel syndrome (IBS-C)
(Source: Morgan Joseph TriArtisan estimates)

[3] Peak market share - blended; factoring in competition from laxatives, lubiprostone, prokinetics and linaclotide

[4] Revenue/year/prescription - estimated to be similar to linaclotide (wholesale acquisition cost)

[5] Peak sales - treatment revenue/year x treated patients x peak market share

[6] Launch in 2015 (US) / 2016 (EU)

[7] Patent expiry starting in 2022

[8] Probability of success - plecanatide has completed proof-of-concept development and is entering Phase 3

[9] Cash flow fully taxed at 35% following launch; upfront payments and milestones cancel out operating loss carry-forwards

Source: Company reports; Morgan Joseph TriArtisan LLC estimates

Linaclotide Valuation Perspectives

In this section, we provide an overview of the licensing arrangements that have thus far been consummated by Ironwood Pharmaceuticals (formerly Microbia) on linaclotide. We believe that these agreements and the deal economics involved provide important perspectives on the potential value of plecanatide given the substantial similarities between linaclotide and plecanatide and the fact that these agents share a mechanism of action that has now been conclusively validated in large clinical trials. Furthermore, if we assess the relative share of linaclotide that is currently owned by Ironwood and ascribe Ironwood's current enterprise value to this, it is possible to extrapolate to a figure that corresponds to the current market value of linaclotide as an asset. We believe that this number bodes positively for plecanatide's prospects and, by extension, the upside potential inherent in Synergy Pharmaceuticals.

In September 2007, Ironwood entered into a partnership with Forest Laboratories to co-develop and co-market linaclotide in the U.S. Forest and Ironwood are jointly and equally funding the development and commercialization of linaclotide in the U.S., with equal share of any profits. Forest also has exclusive rights to develop and commercialize linaclotide in Canada and Mexico, and is slated to pay Ironwood royalties in the mid-teens on any net sales in these countries. In addition to having reimbursed Ironwood for half of linaclotide's development costs since September 2007, Forest has paid Ironwood $100 million in license fees and milestone payments to date and has purchased $25 million of Ironwood's capital stock pursuant to the collaboration agreement. Remaining pre-commercial milestone payments could total up to $20 million upon NDA acceptance by the FDA and up to $85 million upon NDA approval. Total payment to Ironwood under the Forest collaboration agreement could amount to $330 million, including $125 million that has already been paid. Subsequent to inking the Forest deal, Ironwood entered a license agreement with Almirall S.A., a Spain-based specialty pharmaceuticals firm, in April 2009 to develop and commercialize linaclotide in Europe (including the Commonwealth of Independent States countries and Turkey). Almirall has paid Ironwood $57 million in license fees and milestone payments to date and has purchased $15 million of Ironwood's capital stock. Remaining pre-commercial milestone payments could total up to $20 million. Almirall is funding development and commercialization of linaclotide. Ironwood is slated to receive gross royalties that escalate based on sales volume in the territory, beginning in the mid-twenties, less the transfer price paid for the active pharmaceutical ingredient, or API. In November 2009, Ironwood licensed certain rights to linaclotide to Astellas Pharma, a large Japanese pharmaceutical firm, to develop and commercialize linaclotide in Japan, South Korea, Taiwan, Thailand, the Philippines and Indonesia. Astellas paid Ironwood a $30 million up-front licensing fee. Other pre-commercial milestones could total up to $45 million. Astellas is responsible for funding all development and commercialization-related costs. If Astellas receives approval to market and sell linaclotide, Ironwood is slated to receive gross royalties that escalate based on sales volume in the territory, starting in the low-twenties, less the transfer price paid for the API. Linaclotide is covered by a U.S. composition of matter patent expiring in 2025 and European and Japanese composition of matter patents expiring in 2024.

We believe, therefore, based on the above publicly available information, that Ironwood's share of linaclotide as an asset is roughly 40% of the total value of the drug. Further, we would note that the upfront payments alone in these agreements total $140 million. Given Ironwood's current market cap of roughly $1.5 billion, we believe that the current market value being assigned to linaclotide is in excess of $3 billion. In contrast, Synergy's 100% ownership of rights to plecanatide and related peptides is valued at less than $300 million. Despite linaclotide's substantial lead on plecanatide, we believe that the substantial discrepancy in valuation between Synergy's interest in plecanatide and the market valuation of linaclotide appears to be unwarranted.

Table 2: Linaclotide Partnerships

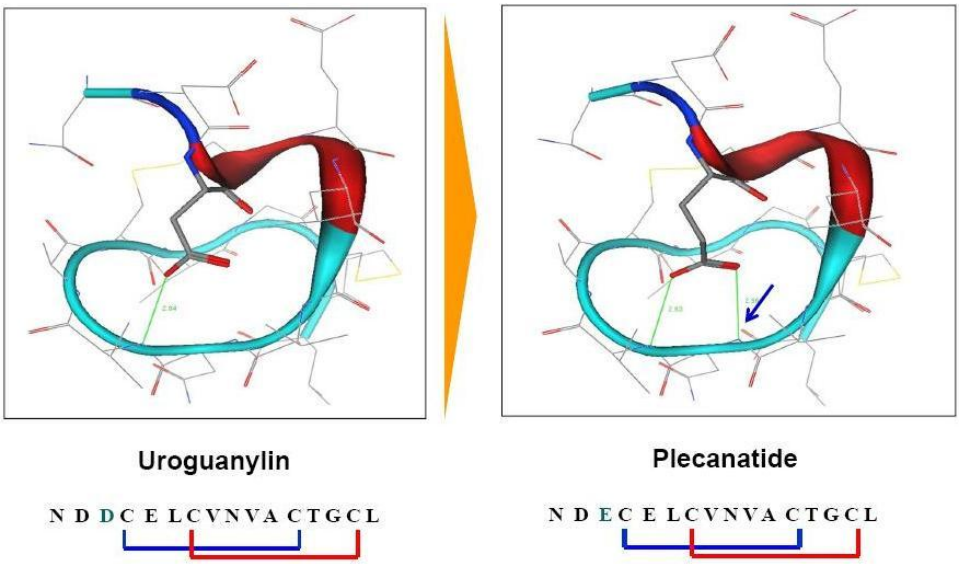
Partner	Year	Geography	Upfront Payment	Equity Stake	Pre-Commercial Milestones	Post-Commercial Milestones	Royalty Rate	Peak Sales Estimate
Forest Laboratories	2007	US	$70 million	$25 million	$135 million	$100 million	50%	$1.5 billion
Forest Laboratories	2007	Canada / Mexico	NA	NA	NA	NA	15%	$100 million
Almirall S.A.	2009	Europe (including Russia and Turkey)	$40 million	$15 million	$40 million	NA	22-25%	$400 million
Astellas	2009	Japan, South Korea, Taiwan, Thailand, Philippines, Indonesia	$30 million	NA	$45 million	NA	18-20%	$250 million
		Totals	**$140 million**	**$40 million**	**$220 million**	**$100 million**	**NA**	**$2.25 billion**

Source: Company Reports, Morgan Joseph TriArtisan LLC estimates

Plecanatide vs. Linaclotide

In our view, one of the most important advantages that Synergy holds is the fact that its primary asset, plecanatide, is based on an endogenous hormone with a well-established mechanism of action. As shown in the figure below, plecanatide is identical to the sequence of uroguanylin, which is produced endogenously, except for a single crucial amino acid change. At the third position, an aspartic acid residue (D) is changed to glutamic acid (E). This makes the overall conformation of the plecanatide peptide substantially more stable. The formation of inter-converting isomers is also attenuated.

Figure 1: Plecanatide Conformation



Source : Synergy Pharmaceuticals

In our view, the safety profile of plecanatide has a substantial likelihood of being more favorable than that of linaclotide longer-term, since plecanatide is virtually identical to the native uroguanylin sequence with the exception of a single amino acid residue. Linaclotide, by contrast, is homologous with uroguanylin but is actually derived from a bacterial enterotoxin (derived from *E. coli*). We must note here that we are not disputing the efficacy of linaclotide. It is clearly a highly potent and effective agent. Nevertheless, we believe that the mechanism of action shared by linaclotide and plecanatide permits plecanatide to have the advantage of being a "fast follower", with the added potential advantage of an improved side-effect profile and the possibility of better tolerability, since, unlike linaclotide, the Synergy agent is based on the native uroguanylin sequence. However, we believe only further large-scale studies assessing the long-term impact of plecanatide therapy will provide conclusive evidence of plecanatide's relative efficacy.

While we do not currently believe that the FDA would require head-to-head trials vs. linaclotide, this may not be the case once plecanatide has completed initial pivotal trials. If linaclotide were approved and considered the standard-of-care in chronic constipation or IBS-C, it is conceivable that head-to-head trials might be necessary. However, we think there's likely to be room for both agents in the GI disorders market although, if all other attributes are equal, we believe over time plecanatide might begin to take the upper hand because of its safety advantages. The strategic advantage that Synergy might hold over Ironwood may only become apparent in the case of SP-333, which is intended to target ulcerative colitis – an area Ironwood and its partners do not intend to pursue with linaclotide. However, the UC market may prove more competitive given the presence of other potently anti-inflammatory agents both on the market and in development.

Plecanatide Market Model

We have modeled sales of plecanatide in select indications within the gastrointestinal (GI) disorders market. These are as follows:

- Chronic constipation, wherein the drug has already demonstrated positive and statistically significant therapeutic impact, and which represents a logical choice for deploying plecanatide given the mechanism that it shares with linaclotide and uroguanylin.
- Constipation-predominant irritable bowel syndrome (IBS-C), wherein the drug has not yet been tested but where we believe it would – in keeping with its activity profile in chronic constipation – show statistically significant activity in patients suffering from this condition. Again, our expectations are driven by the efficacy data that has already been demonstrated with linaclotide in this indication.

Both of the above are extremely large commercial opportunities within the healthcare space. Chronic constipation results from a lack of an adequate number of bowel movements (typically less than three per week) over an extended period of time (usually defined as greater than six months). When suffering from chronic constipation, patients often try laxatives and fiber supplements prior to physician prescribed therapy. Due to limitations in existing treatments, a significant need exists for a safe and effective chronic constipation therapy. Based on a 2004 epidemiology review, it is estimated that between 36 and 57 million people in the U.S. have chronic constipation and that approximately 33% of them see a physician for this condition. Other estimates have placed the number of chronic constipation sufferers in the U.S. as high as 80 million.

IBS is a set of chronic symptoms associated with the lower GI tract, particularly the colon, and is usually experienced as abdominal pain, bloating, and discomfort. This can include constipation with difficult or painful bowel movements or diarrhea due to excess fluid in the colon. While the etiology of IBS remains unclear, lack of colonic motility may be a significant contributory factor. As with chronic constipation, patients need an effective motility agent when other remedies, such as change in diet, reduction of stress, or consumption of laxatives or fibers do not relieve the IBS symptoms. Plecanatide is targeted for use among IBS patients who have constipation-predominant disease. According to a 2005 article in the *Alimentary Pharmacology and Therapeutics* journal, an estimated 5.5 million adults in the U.S. suffer from IBS with constipation and a further 28 million adults suffer from IBS with intermittent constipation.

We have modeled sales of plecanatide in the treatment of IBS-C and chronic constipation as shown overleaf (see Table 3). According to our assumptions, we believe that AMR101 could reach peak worldwide annual sales of ~$6.3 billion in 2018. This peak sales figure represents ~2.2 million patients on therapy. We assume penetration would be highest among those ~10 million patients in the U.S. who are currently classified as having severe constipation and who actively seek treatment for the condition. Furthermore, we also expect substantial use of the drug in severe IBS-C. We do not assume substantial penetration of the patient population segment suffering from IBS with intermittent constipation. In addition, we do not currently model sales of SP-333 in any indication at this juncture, since this agent has yet to begin human clinical testing. Although we fully expect linaclotide to reach the market prior to plecanatide, with a lead time of approximately 24 months or more, we believe that the market presence of linaclotide would likely have a positive impact on receptivity for plecanatide among patients and physicians, since linaclotide would serve as a trailblazer for a completely new class of anti-constipation therapies and thus could facilitate understanding of plecanatide and its attributes. We believe the likelihood of approval of linaclotide is very high, since the NDA has now been accepted and the drug met all its endpoints in four Phase 3 trials.

Table 3: Plecanatide GI Tract Disorders Market Size Model (Estimates)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
US Population	311,000,000	314,887,500	318,823,594	322,808,889	326,844,000	330,929,550	335,066,169	339,254,496	343,495,177	347,788,867	352,136,228	356,537,931	360,994,655	365,507,088	370,075,927
Patients with chronic constipation	62,200,000	62,977,500	63,764,719	64,561,778	65,368,800	66,185,910	67,013,234	67,850,899	68,699,035	69,557,773	70,427,246	71,307,586	72,198,931	73,101,418	74,015,185
Patients seeking treatment for constipation	6,220,000	6,297,750	6,376,472	6,456,178	6,536,880	6,618,591	6,701,323	6,785,090	6,869,904	6,955,777	7,042,725	7,130,759	7,219,893	7,310,142	7,401,519
Patients with constipation-predominant irritable bowel syndrome (IBS-C)	15,550,000	15,744,375	15,941,180	16,140,444	16,342,200	16,546,477	16,753,308	16,962,725	17,174,759	17,389,443	17,606,811	17,826,897	18,049,733	18,275,354	18,503,796
Patients seeking treatment for IBS-C	2,332,500	2,361,656	2,391,177	2,421,067	2,451,330	2,481,972	2,512,996	2,544,409	2,576,214	2,608,417	2,641,022	2,674,034	2,707,460	2,741,303	2,775,569
Plecanatide Penetration Rates															
Chronic constipation					2.5%	7%	11%	15%	19%	22%	25%	21%	17%	11%	9%
Constipation-predominant irritable bowel syndrome (IBS-C)					6%	11%	18%	25%	29%	31%	35%	30%	24%	18%	11%
Patients on plecanatide (SP-304)					310,502	736,318	1,189,485	1,653,866	2,052,384	2,338,880	2,685,039	2,299,670	1,877,172	1,297,550	971,449
Average cost per chronic constipation patient ($)					180	495	916	1,145	1,259	1,322	1,362	1,403	1,445	1,488	1,533
Average cost per IBS-C patient ($)					350	788	1,378	1,516	1,592	1,639	1,689	1,739	1,792	1,845	1,901
US plecanatide (SP-304) sales ($ MM)					**81**	**444**	**1,298**	**2,129**	**2,833**	**3,349**	**3,959**	**3,496**	**2,937**	**2,107**	**1,601**
European Population	395,000,000	399,937,500	404,936,719	409,998,428	415,123,408	420,312,451	425,566,356	430,885,936	436,272,010	441,725,410	447,246,978	452,837,565	458,498,035	464,229,260	470,032,126
Patients with chronic constipation	47,400,000	47,992,500	48,592,406	49,199,811	49,814,809	50,437,494	51,067,963	51,706,312	52,352,641	53,007,049	53,669,637	54,340,508	55,019,764	55,707,511	56,403,855
Patients seeking treatment for constipation	2,370,000	2,399,625	2,429,620	2,459,991	2,490,740	2,521,875	2,553,398	2,585,316	2,617,632	2,650,352	2,683,482	2,717,025	2,750,988	2,785,376	2,820,193
Patients with constipation-predominant irritable bowel syndrome (IBS-C)	19,750,000	19,996,875	20,246,836	20,499,921	20,756,170	21,015,623	21,278,318	21,544,297	21,813,600	22,086,271	22,362,349	22,641,878	22,924,902	23,211,463	23,501,606
Patients seeking treatment for IBS-C	1,975,000	1,999,688	2,024,684	2,049,992	2,075,617	2,101,562	2,127,832	2,154,430	2,181,360	2,208,627	2,236,235	2,264,188	2,292,490	2,321,146	2,350,161
Plecanatide Penetration Rates															
Chronic constipation						0.5%	2%	6%	9%	11%	13%	14%	15%	16%	14%
Constipation-predominant irritable bowel syndrome (IBS-C)						2%	5%	8%	12%	15%	18%	21%	23%	25%	22%
Patients on plecanatide (SP-304)						54,641	157,460	327,473	497,350	622,833	751,375	855,863	939,921	1,025,947	911,862
Average cost per chronic constipation patient ($)						120	288	432	475	499	514	529	545	562	578
Average cost per IBS-C patient ($)						230	403	543	571	588	605	623	642	661	681
European plecanatide (SP-304) sales ($ MM)						**11**	**58**	**161**	**261**	**340**	**423**	**498**	**564**	**634**	**581**
Total plecanatide (SP-304) sales ($ MM)					**81**	**456**	**1,356**	**2,290**	**3,094**	**3,689**	**4,382**	**3,993**	**3,501**	**2,741**	**2,182**

Source: Company Reports and Morgan Joseph TriArtisan LLC estimates

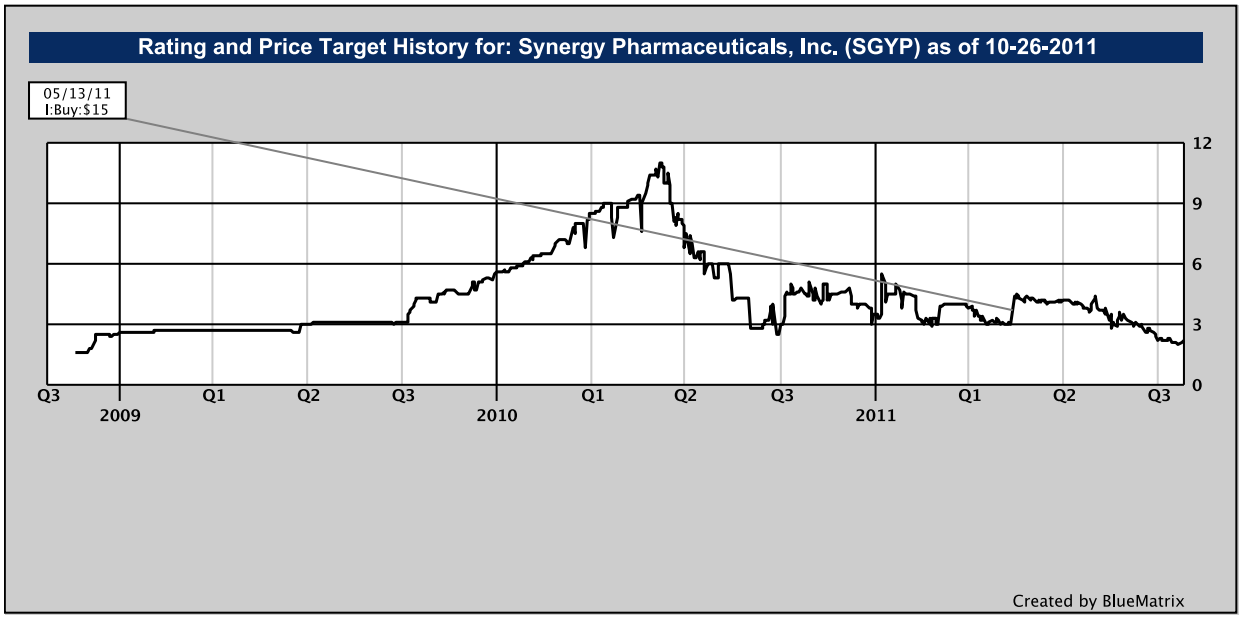
Table 4: Synergy Pharmaceuticals, Inc. (SGYP.PK) – Historical Income Statements, Financial Projections

FY end December 31
$ in thousands, except per share data

			2011E					
	2009A	2010A	1QA	2QA	3QE	4QE	2011E	2012E
Revenue								
Total revenue	-	-	-	-	-	-	-	-
Expenses								
Cost of product and service revenue	-	-	-	-	-	-	-	-
Research & development	4,257	9,559	1,478	2,354	1,500	3,000	8,333	30,000
Selling and marketing	-	-	-	-	-	-	-	-
General and administrative	3,943	6,563	1,898	1,524	1,300	2,500	7,222	17,000
Total expenses	8,200	16,121	3,376	3,879	2,800	5,500	15,555	47,000
Gain (loss) from operations	(8,200)	(16,121)	(3,376)	(3,879)	(2,800)	(5,500)	(15,555)	(47,000)
Other income/expense								
Interest income/expense	75	109	12	20	-	-	32	-
Change in fair value of derivative instruments-warrants	-	297	(339)	(698)	-	-	(1,036)	-
Other income/expense	-	494	-	-	-	-	-	-
Total investment income and other	75	900	(327)	(678)	-	-	(1,004)	-
Loss before provision for income taxes	(8,125)	(15,221)	(3,702)	(4,557)	(2,800)	(5,500)	(16,559)	(47,000)
Deferred income tax benefit	-	-	-	-	-	-	-	-
Net loss/income	(8,125)	(15,221)	(3,702)	(4,557)	(2,800)	(5,500)	(16,559)	(47,000)
Net loss per share (basic)	(0.11)	(0.17)	(0.04)	(0.05)	(0.03)	(0.06)	(0.18)	(0.42)
Net loss per share (diluted)	(0.11)	(0.17)	(0.04)	(0.05)	(0.03)	(0.06)	(0.18)	(0.42)
Weighted average number of shares outstanding (basic)	73,281	89,751	92,335	93,286	93,237	95,162	93,505	111,668
Weighted average number of shares outstanding (diluted)	73,281	89,751	92,335	93,286	93,237	95,162	93,505	111,668

Source: Company Reports and Morgan Joseph TriArtisan LLC estimates

Required Disclosures



Price Target

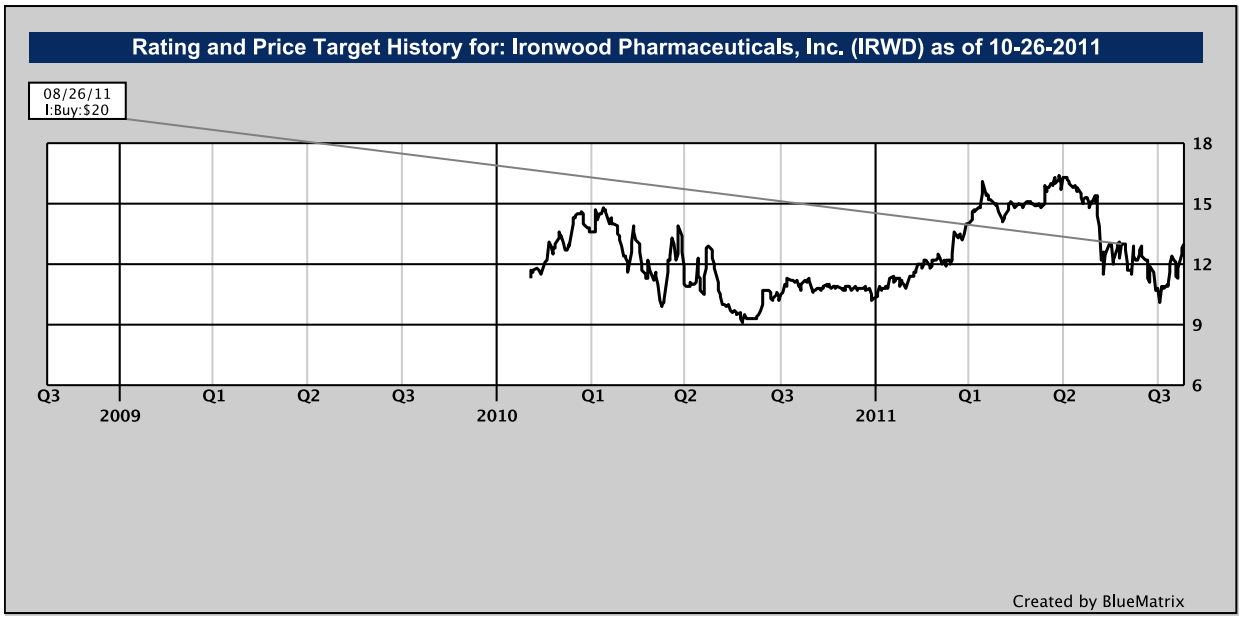
Our price target is $15.00.

Valuation Methodology

We use a risk-adjusted Net Present Value (rNPV) methodology to calculate the price target. Intrinsic value for the company's drug candidates is derived based on the size of the market opportunity and probability of approval, among other factors, using a discounted cash flow approach. Intrinsic values are then added to derive our $15 price target.

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.



I, Raghuram Selvaraju, Ph.D., the author of this research report, certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers, and no part of my 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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Research analyst compensation is dependent, in part, upon investment banking revenues received by Morgan Joseph TriArtisan LLC.

Morgan Joseph TriArtisan LLC intends to seek or expects to receive compensation for investment banking services from the subject company within the next three months.

Rating	Percent	Investment Banking Services/Past 12 Mos. Percent
BUY [B]	68.80	11.63
HOLD [H]	31.20	5.13
SELL [S]	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. Morgan Joseph TriArtisan LLC, its affiliates, shareholders, officers, staff, and/or members of their families, may have a position in the securities mentioned herein, and, before or after your receipt of this report, may make or recommend purchases and/or sales for their own accounts or for the accounts of other customers of the Firm from time to time in the open market or otherwise. Opinions expressed are our present

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