

Reports 2Q Results – Looking Forward To Phase 2/3 Plecanatide Data**Buy**
Target Price: \$13**Investment Summary**

2Q12 results. Synergy reported 2Q12 revenue of \$0 and EPS of \$(0.17), both of which were in line enough with consensus of \$0 million and \$(0.13), as neither matter at this point in Synergy's development. Additionally, Synergy ended 2Q12 with about \$27 million in cash and cash equivalents on hand. R&D expense increased to \$7.6 million in 2Q12 from \$5.3 million in 1Q12, due to continued development of plecanatide and SP-333.

Synergy is still recruiting participants for its Phase 2/3 trial of plecanatide and plans to enroll a total of 900 CIC patients. The trial is a dose-ranging study that evaluates the efficacy and safety of 3 doses of plecanatide (0.3mg, 1.0mg, and 3.0mg) for 12 consecutive weeks in patients with CIC, 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 we believe that the full dataset will be presented as a late breaker at DDW in May 2013.

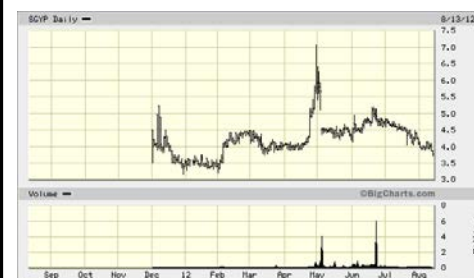
Close peer drug linaclotide, (Ironwood Pharmaceuticals) already has established the utility of employing plecanatide's mechanism of action, hence our Phase 2/3 optimism when also considering the strong power of the trial. Therefore, linaclotide's September 12, 2012, PDUFA date should serve as a meaningful 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. (IRWD, \$11.48, Not Rated)

Synergy is also in the process of initiating a Phase 2b trial of plecanatide for the indication of IBS-C in 2H12. In addition to plecanatide, the company will move forward with SP-333, a preclinical-stage drug candidate indicated for the treatment of ulcerative colitis. Synergy plans to file an IND for SP-333 and initiate a Phase 1 trial in 2H12, which is expected to be conducted at 40 U.S. sites and enroll more than 300 patients. We look forward to the top-line results of plecanatide in CIC and the Phase 2b initiation of plecanatide in IBS-C by YE12.

On the business development side, Synergy entered into a definitive merger agreement with Callisto Pharmaceuticals. According to the agreement, Callisto will merge into Synergy and Callisto stockholders will own 38.3% of the combined company. Synergy expects the transaction to close by the end of October 2012. (CLSP, \$0.68, Not Rated)

Price	\$3.76
52-Week High/Low	\$7.58 - 3.17
Shares Outstanding (mm)	65.81
Market Cap. (mm)	\$247.43
Average Daily Volume (000)	144.130

EPS	FY11A	FY12E	FY13E
Mar	\$(0.08)	\$(0.13)A	-
Jun	\$(0.10)	\$(0.17)A	-
Prior	-	\$(0.12)	-
Sep	\$(0.01)	\$(0.16)	-
Prior	-	\$(0.11)	-
Dec	\$(0.11)	\$(0.16)	-
Prior	-	\$(0.11)	-
FY	\$(0.30)	\$(0.63)	\$(0.65)
Prior	-	\$(0.47)	\$(0.51)
Consensus	-	\$(0.55)	-
P/E	-	-	-
FY Rev. (000)	\$0.00	\$0.00	\$0.00



Source: BigCharts.com

Exhibit 1: Catalyst Calendar

Timing	Compound	Event	Indication
3Q12	plecanatide	Complete enrollment in Phase 2/3 trial	CIC
3Q12	plecanatide	Initiate Phase 2b trial	IBS-C
3Q12	SP-333	File IND	Ulcerative colitis
4Q12	plecanatide	Top-line results from Phase 2/3 trial	CIC
4Q12	SP-333	Initiate Phase 1 trial	Ulcerative colitis
3Q13	plecanatide	Top-line results from Phase 2b trial	IBS-C

Source: Company documents

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.

Synergy Pharmaceuticals, Inc.																	
Income Statement																	
Fiscal Year ends December																	
(in 000, except per share items)																	
	2009A	2010A	1Q11	2Q11	3Q11	4Q11	2011A	1Q12A	2Q12A	3Q12E	4Q12E	2012E	2013E	2014E	2015E	2016E	2017E
Plecanatide CIC revenue															84,591	192,296	361,243
Plecanatide IBS-C revenue															57,676	125,678	227,285
Total Revenue															142,268	317,974	588,528
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	7,626	8,008	8,408	29,380	36,725	44,070	50,680	53,214	55,875
SG&A	4,467	6,562	1,898	1,524	1,103	2,221	6,746	1,731	1,918	1,957	1,996	7,602	9,123	18,246	36,492	72,984	94,879
Total Operating Expenses	8,200	16,121	3,376	3,879	4,986	7,925	20,165	7,069	9,545	9,964	10,404	36,982	45,848	62,316	95,076	148,324	199,721
Operating Income	(8,200)	(16,121)	(3,376)	(3,879)	(4,986)	(7,925)	(20,165)	(7,069)	(9,545)	(9,964)	(10,404)	(36,982)	(45,848)	(62,316)	47,191	169,650	388,808
Interest income	75	108	24	20	20	26	90	39	48	51	53	190	196	202	208	214	221
Interest expense			(12)				(12)										
Other income (expense), net		494				363	363		256		200	456	433	411	391	371	352
Change in fair value of financial instrument		297	(339)	(698)	4,383	1,911	5,257	8	(1,317)	(1,357)	(1,398)	(4,064)	(4,186)	(4,311)	(4,441)	(4,574)	(4,711)
Pretax income	(8,125)	(15,222)	(3,702)	(4,557)	(583)	(5,625)	(14,467)	(7,023)	(10,558)	(11,271)	(11,548)	(40,400)	(49,405)	(66,014)	43,349	165,661	384,670
Provision for income tax (benefit)																4,970	96,167
Net Income	(8,125)	(15,222)	(3,702)	(4,557)	(583)	(5,625)	(14,467)	(7,023)	(10,558)	(11,271)	(11,548)	(40,400)	(49,405)	(66,014)	43,349	160,692	288,502
EPS	(0.22)	(0.34)	(0.08)	(0.10)	(0.01)	(0.11)	(0.30)	(0.13)	(0.17)	(0.16)	(0.16)	(0.63)	(0.65)	(0.82)	0.51	1.86	3.28
EPS diluted, GAAP	(0.22)	(0.34)	(0.08)	(0.10)	(0.01)	(0.11)	(0.30)	(0.13)	(0.17)	(0.16)	(0.16)	(0.63)	(0.65)	(0.82)	0.47	1.73	3.07
Shares Outstanding Basic/Diluted	36,641	44,875	46,167	46,643	47,309	50,274	47,598	54,298	60,416	69,838	72,285	64,209	75,899	80,453	85,280	86,560	87,858
Diluted shares outstanding	36,641	44,875	46,167	46,643	47,309	50,274	47,598	54,298	60,416	69,838	72,285	64,209	75,899	80,453	91,280	92,650	94,039
Source: Company reports, Brean Murray, Carret & Co. estimates																	

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Priced intraday on 8/13/12.

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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	127	53.59%	9	7.09%
HOLD	48	20.25%	2	4.17%
SELL	6	2.53%	0	0%
NOT RATED	56	23.63%	1	1.79%
TOTAL	237			

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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