

October 13, 2011

Key Metrics

SGYP - OTC BB	\$2.30
Pricing Date	Oct 12 2011
Price Target	\$15.00
52-Week Range	\$6.99 - \$1.91
Shares Outstanding (mm)	94.5
Market Capitalization (\$mm)	\$217.4
3-Mo Average Daily Volume	54,039
Institutional Ownership	0%
Debt/Total Capital	NA
ROE	NA
Book Value/Share	\$(0.04)
Price/Book	(57.5)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	--	(0.43)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.

Synergy Pharmaceuticals, Inc. Rating: Buy

Plecanatide Enters Phase 3 Development; Reiterate Buy

Investment Highlights:

- **Plecanatide Phase 3 Trial Up And Running.** We note that, as disclosed on ClinicalTrials.gov, the plecanatide Phase 3 clinical development program has formally started. The first trial is a Phase 2/3 study being conducted in chronic idiopathic constipation (CIC) patients. This is a randomized, placebo-controlled, double-blind, dose-ranging multi-center trial evaluating plecanatide in patients with chronic constipation over a 12-week period. It is powered to detect at least a 10% difference in overall complete spontaneous bowel movement (CSBM) responders between each dose of plecanatide and placebo. In the trial, three doses of plecanatide are being evaluated - 0.3mg/day, 1mg/day, and 3mg/day. In total, 880 patients are being enrolled. The trial is being conducted by the well-known clinical research organization Parexel. In the wake of the initiation of Phase 3 development with plecanatide, we reiterate our Buy rating and \$15.00 price target on Synergy shares.
- **Design Closely Mirrors Successful Linaclotide Studies.** We are encouraged by the fact that this study - in terms of overall design, powering assumptions and endpoints selected - closely mirrors the designs of clinical trials conducted with linaclotide, a very similar drug. As in the linaclotide trials, the primary endpoint is the difference in overall CSBM responders between drug and placebo arms, while the inclusion and exclusion criteria are similar (e.g. <3 spontaneous bowel movements per week, no diagnosis of irritable bowel syndrome).
- **Linaclotide NDA Acceptance Could Drive Positive Sentiment.** We note that, in the coming weeks, we would expect the FDA to formally provide notice to Ironwood Pharmaceuticals that the New Drug Application (NDA) for linaclotide has been accepted for review. We believe investors are likely to view linaclotide approval as highly likely, since the drug has met all 66 primary and secondary endpoints across four Phase 3 clinical trials. Therefore, the acceptance of the linaclotide NDA should, in our view, drive positive sentiment on plecanatide, since the two drugs are so closely related and plecanatide does not cause diarrhea, which is a known side effect in the case of linaclotide.
- **Attractive Valuation.** We would draw investors' attention to the fact that, while plecanatide is two to three years behind linaclotide in development, Synergy owns 100% of the rights to this asset, and yet the company trades at a valuation that is less than 10% of the implied value of linaclotide. We continue to feel that this discrepancy is unwarranted.

Table 1: Synergy Pharmaceuticals, Inc. (SGYP.PK) – Historical Income Statements, Financial Projections

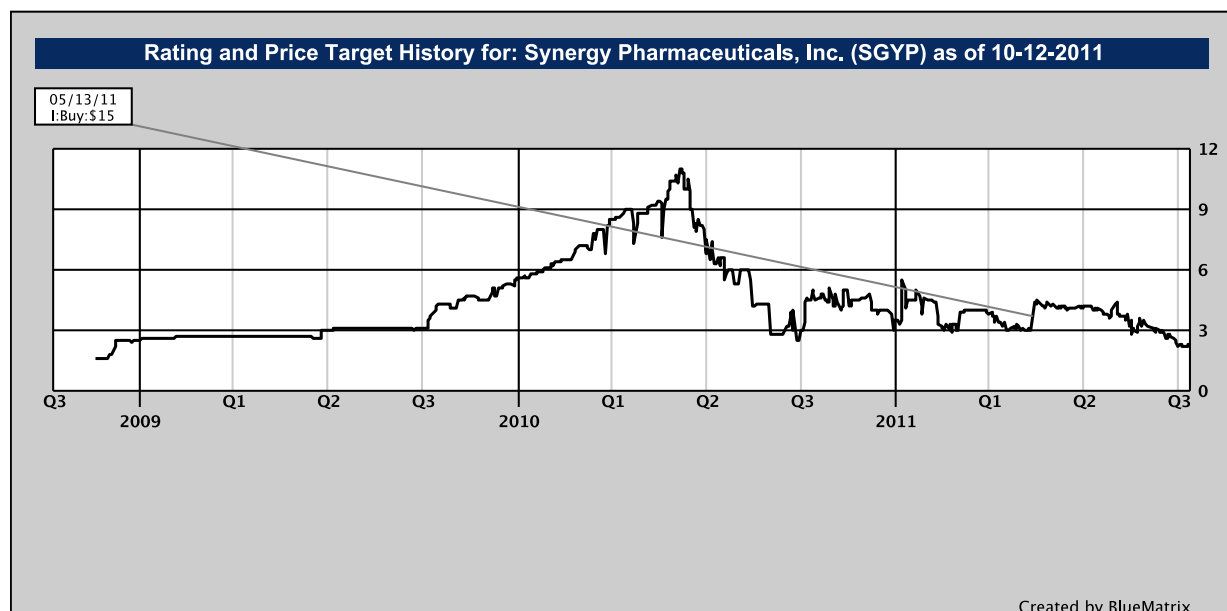
FY end December 31

\$ in thousands, except per share data

	2009A	2010A	2011E				2011E	2012E
			1QA	2QA	3QE	4QE		
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)	(0.43)
Net loss per share (diluted)	(0.11)	(0.17)	(0.04)	(0.05)	(0.03)	(0.06)	(0.18)	(0.43)
Weighted average number of shares outstanding (basic)	73,281	89,751	92,335	93,286	93,237	95,162	93,505	110,418
Weighted average number of shares outstanding (diluted)	73,281	89,751	92,335	93,286	93,237	95,162	93,505	110,418

Source: Company Reports and Morgan Joseph TriArtisan LLC estimates

Required Disclosures



Price Target

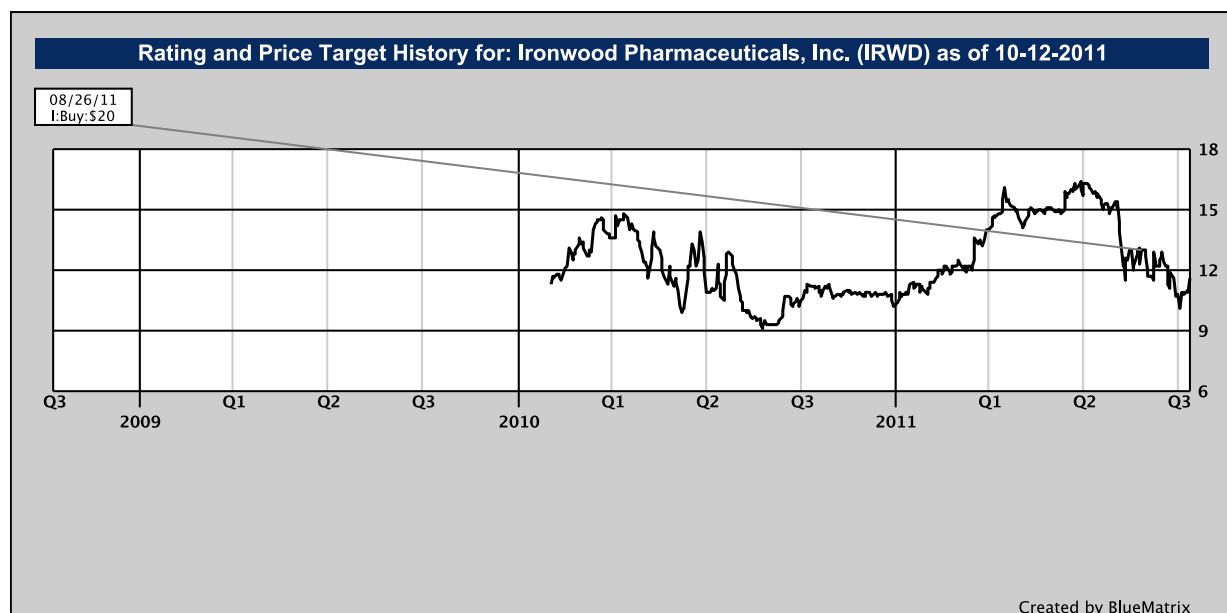
Our price target is \$15.00.

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.



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Rating	Investment Banking Services/Past 12 Mos.	
	Percent	Percent
BUY [B]	69.10	11.76
HOLD [H]	30.90	5.26
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

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Morgan Joseph TriArtisan LLC

600 Fifth Avenue, 19th Fl

New York, NY 10020

Tel. 212.218.3700

Fax. 212.218.3789

Sales and Trading

New York

Tel. 212.218.3701

Fax. 212.218.3705

Pittsford

Tel. 877.237.6542

Fax. 585.899.6029