

## Biotechnology

### Flexion Therapeutics, Inc.

#### (FLXN) - BUY

**Price:** **\$12.39**

Fair Value Estimate: \$22.00

52-Week Range: \$11.06-\$20.85

Market Cap (MM): \$193

Shr.O/S-Diluted (mm): 15.6

Average Daily Volume: NA

FYE: Dec	2013A	2014E	2015E
EPS:	\$(2.69)A	\$(2.67)E	\$(3.28)E
Prior EPS:		\$(3.42)	NC
P/E:	NA	NA	NA

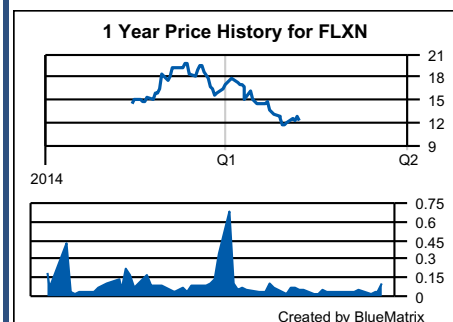
#### Quarterly EPS:

Q1	\$(0.75)A	\$(0.86)A	--
Q2	\$(0.75)A	\$(0.54)E	--
Q3	\$(0.75)A	\$(0.64)E	--
Q4	\$(0.51)A	\$(0.73)E	--

FYE: Dec	2013A	2014E	2015E
Revenue (M):	\$0.0A	\$0.0E	--

#### Quarterly Revenue (M):

Q1	\$0.0A	\$0.0E	--
Q2	\$0.0A	\$0.0E	--
Q3	\$0.0A	\$0.0E	--
Q4	\$0.0A	\$0.0E	--



Equity Research  
Note

## FLXN: 1Q14 Pipeline Remains on Track Catalyst-Rich 2014

### INVESTMENT CONCLUSION:

FLXN reported 1Q14 earnings after the close last night reporting an EPS of (\$0.86), below estimates though most likely because of share count differences from the recent IPO. On the call management pressed the continued forward progress of their lead product candidate FX006 (a sustained-release corticosteroid intra-articular injection for osteoarthritis of the knee) as in April, they initiated a Phase 2b trial with expected results in the 1H15 as well as the anticipated synovial fluid PK study expected to read out 2Q14. FLXN continues to management their burn rate appropriately, in our opinion as we anticipate several catalysts in 2014 to come. Maintain Buy rating, \$22 fair value (from \$25).

### KEY POINTS:

- **Don't be fooled by shares - 1Q14 financials look in-line:** FLXN reported 1Q14 earnings after the close of the market last night with an EPS of (\$0.86) compared to Janney estimates of (\$0.43) and consensus of (\$0.62). We believe that the difference is due to share count used per the recent IPO in February. Both R&D and SG&A expense were in-line with expectations. We expect to see a modest up-tick in R&D going forward to support the clinical development program as well as a smaller increase in SG&A.
- **Pipeline highlights:** Management confirmed on yesterday's call that they expect top-line read out from their synovial fluid PK study in late 2Q14 for FX006, right on target. Also on track for FX006 is the initiation of the Phase 2b safety and efficacy trial which began enrollment in April. Also in 2H14 is the initiation of the clinical repeat-dosage trial for FX006. For FX007, the proof-of-concept in bunionectomy is still scheduled to being in 2H14.
- **De-risking the name:** While we remain positive on FLXN, there are several points that we are going to keep an eye on going forward. First and foremost, there is weakness in the IP, namely that the patents are currently in prosecution and waiting to be granted. Management expects the patents to be granted in the next 12-months. The other potential hick-up is the P2b trial. This is a large 300+ patient trial and currently there are four other large P2/P3 trials in OA of the knee also recruiting per clinicaltrials.gov. This makes us wonder how easy it will be to grab the needed caliber of patient and how long the enrollment will take though management did maintain high confidence in their recruiting sights. As for the trial itself, we are incrementally positive on its success due to the similarities from the first Phase 2b, minus the 60mg dose.
- **Maintain Buy rating, moving fair value to \$22 (from \$25):** We are lowering our FV due to adjustments in sales figures based on competition and a more conservative launch. We value FLXN at \$22/share based on a sum-of-the-parts with FX006 sales of \$17/share based on a 3.5x multiple of 2019 US sales discounted 5 years at 45% to account for risks remaining in this program. Our remaining \$5/share value is based on cash (end 2014) and technology value.

Research Analyst Certifications and Important Disclosures  
are on pages 4 - 5 of this report

## EXHIBIT 1:

Sum-of-the-parts value: Flexion		
Segment	Valuation (000's)	Per share value
FX006 value	\$249,292	\$17.0
Cash (end '14) & tech value	\$62,025	\$5.0
<b>SUM</b>	<b>\$311,317</b>	<b>\$22</b>
Shares out '14E (000)		14,746

Source: Janney estimates

## EXHIBIT 2:

Flexion Clinical development trial timelines																							
2013E				2014E				2015E				2016E				2017E							
1QA	2QA	3QA	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE				
<b>FX006 - Osteoarthritic pain; 505(b)(2) study</b>																							
PK study - Phase 2a				pk		data																	
Confirmatory phase 2b study				phase 2				data															
LT Safety/repeat dose study				LT safety																			
Phase 3				phase 3										data									
NDA filing																NDA							
FDA approval & launch																				FDA			
EU comparatory trial																phase 3				data			
EU filing																				EU			
EMA approval & launch																							
<b>FX007 - post operative pain; 505(b)(2) study</b>																							
Pre-IND meeting with FDA				meet																			
Proof of concept study - bunionectomy				p-o-c		data																	
Phase 2				phase 2										data									
Phase 3 trials																phase 3				data			
NDA filing																							
FDA approval & launch																							
<b>FX005 - end stage osteoarthritic pain; 505(b)(2) study</b>																							
Phase 2				phase 2										data									
Phase 3 trials																phase 3				data			
NDA filing																							
FDA approval & launch (expedited approval likely)																							

Source: Company reports and Janney estimates

### EXHIBIT 3:

#### Flexion

#### Quarterly Financial Statements

FYE December

			Mar	Jun	Sept	Dec		
	F12A	F13A	1Q14A	2Q14E	3Q14E	4Q14E	F14E	F15E
<b>INCOME STATEMENT (\$000's except per share)</b>								
<b>Product Revenue</b>								
<b>Other Revenue</b>								
<b>Total Revenues</b>	0	0	0	0	0	0	0	0
<b>Cost of Sales</b>		0	0	0	0	0	0	0
<b>Operating Expenses:</b>								
Research & Development	11,065	11,061	4,151	6,000	7,500	8,900	26,551	43,000
Selling, General and Administration	3,947	6,704	2,284	2,350	2,500	2,750	9,884	10,800
% of Sales								
Total Operating Expenses	15,012	17,765	6,435	8,350	10,000	11,650	36,435	53,800
% of Sales								
<b>Operating Income (Loss)</b>	(15,012)	(17,765)	(6,435)	(8,350)	(10,000)	(11,650)	(36,435)	(53,800)
<b>Operating Margin</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Interest Income	194	234	(81)	(25)	(25)	(25)	(156)	(100)
Interest Expense		(449)					0	0
Other income (expense)	(164)	(207)	(26)	(50)	(50)	(50)	(176)	(200)
<b>Pretax Income</b>	(14,982)	(18,188)	(6,542)	(8,425)	(10,075)	(11,725)	(36,767)	(54,100)
<b>Pretax Margin</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Income Tax	0	0	0	0	0	0	0	0
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>GAAP Net Income</b>	(14,982)	(18,188)	(6,542)	(8,425)	(10,075)	(11,725)	(36,767)	(54,100)
Net Margin								
<b>GAAP EPS</b>	(3.39)	(2.51)	(0.86)	(0.54)	(0.64)	(0.73)	(2.67)	(3.28)
Weighted Avg Shares (000)	4,417	7,247	7,633	15,483	15,793	16,109	13,755	16,516
Diluted Shares (000)			9,383	17,233	17,543	17,859	15,505	19,266
<b>Non-GAAP Net Income</b>	(14,982)	(18,188)	(6,542)	(8,425)	(10,075)	(11,725)	(36,767)	(54,100)
Net Margin								
<b>Non-GAAP EPS</b>	\$ (3.39)	\$ (2.51)	\$ (0.86)	\$ (0.54)	\$ (0.64)	\$ (0.73)	\$ (2.67)	\$ (3.28)
Weighted Avg Shares (000)	4,417	7,247	7,633	15,483	15,793	16,109	13,755	16,516
Diluted Shares (000)			9,383	17,233	17,543	17,859	15,505	19,266

## **IMPORTANT DISCLOSURES**

### **Research Analyst Certification**

I, Chiara Russo, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

### **Janney Montgomery Scott LLC ("Janney") Equity Research Disclosure Legend**

Flexion Therapeutics, Inc. currently is, or during the past 12 months was, a Janney Montgomery Scott LLC client. Janney Montgomery Scott LLC, provided investment banking related services.

Janney Montgomery Scott LLC managed or co-managed a public offering of securities for Flexion Therapeutics, Inc. in the past 12 months.

Janney Montgomery Scott LLC received compensation for investment banking services from Flexion Therapeutics, Inc. in the past 12 months.

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from Flexion Therapeutics, Inc. in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

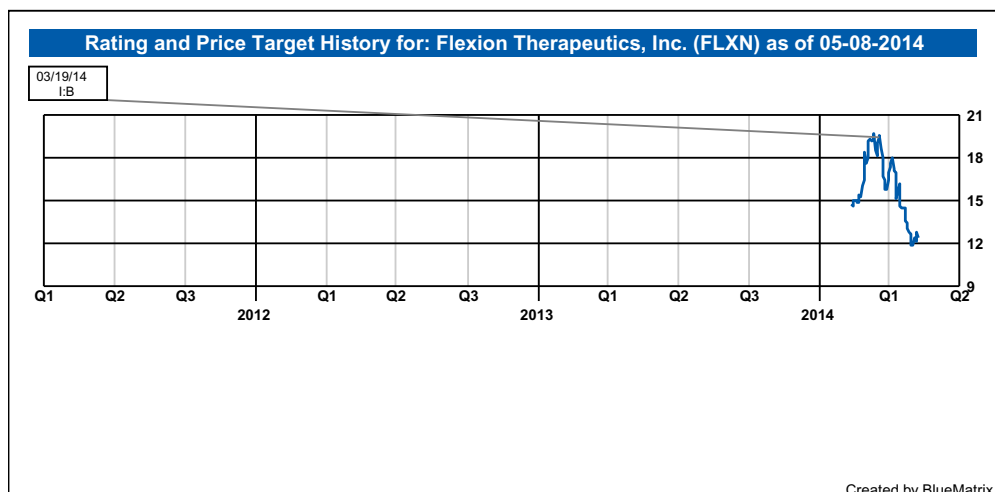
### **Definition of Ratings**

**BUY:** Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

**NEUTRAL:** Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

**SELL:** Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

### **Price Charts**



---

### **Janney Montgomery Scott Ratings Distribution as of 3/31/14**

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [B]	218	51.12	44	20.18
NEUTRAL [N]	205	48.12	21	10.24
SELL [S]	3	0.70	0	0.00

**\*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.**

#### **Other Disclosures**

Janney Montgomery Scott LLC, is a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the New York Stock Exchange, the Financial Industry Regulatory Authority and the Securities Investor Protection Corp.

This report is for your information only and is not an offer to sell or a solicitation of an offer to buy the securities or instruments named or described in this report. Interested parties are advised to contact the entity with which they deal or the entity that provided this report to them, should they desire further information. The information in this report has been obtained or derived from sources believed by Janney Montgomery Scott LLC, to be reliable. Janney Montgomery Scott LLC, however, does not represent that this information is accurate or complete. Any opinions or estimates contained in this report represent the judgment of Janney Montgomery Scott LLC at this time and are subject to change without notice.

Investment opinions are based on each stock's 6-12 month return potential. Our ratings are not based on formal price targets, however, our analysts will discuss fair value and/or target price ranges in research reports. Decisions to buy or sell a stock should be based on the investor's investment objectives and risk tolerance and should not rely solely on the rating. Investors should read carefully the entire research report, which provides a more complete discussion of the analyst's views. Supporting information related to the recommendation, if any, made in the research report is available upon request.