

Specialty Pharmaceuticals

Price:	\$20.48
Fair Value Estimate:	\$30.00
52-Week Range:	\$11.06 - \$23.64
Market Cap (MM):	\$424
Shr.O/S-Diluted (mm):	20.7
Average Daily Volume:	66,500
Yield:	0.0%
Cash/Share:	\$(20.49)
FCF Yield:	(10.2)%
Debt/Cap:	33%

FYE: Dec	2013A	2014E	2015E
EPS:	\$(2.69)A	\$(1.82)E	\$(1.75)E
Prior EPS:		\$(2.02)	\$(2.36)
Consensus	NM	NM	-2.05
P/E Ratio:	NA	NA	NA

Quarterly EPS:

Q1	\$(0.75)A	\$(0.86)A	\$(0.54)E
Q2	\$(0.75)A	\$(0.38)A	\$(0.40)E
Q3	\$(0.75)A	\$(0.45)A	\$(0.41)E
Q4	\$(0.51)A	\$(0.37)E	\$(0.41)E

Quarterly Revenue (M):

Q1	\$0A	\$0E	\$0E
Q2	\$0A	\$0E	\$0E
Q3	\$0A	\$0E	\$0E
Q4	\$0A	\$0E	\$0E
Year:	\$0A	\$0E	\$0E

January 6, 2015

## Flexion Therapeutics, Inc.

(FLXN) - BUY

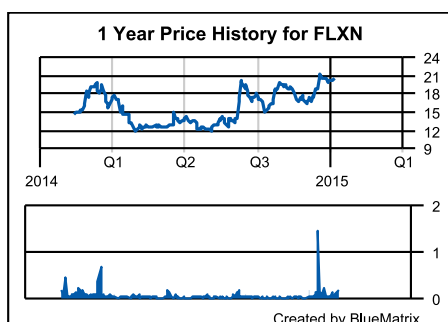
### FLXN: Updating Fair Value Estimate to \$30

#### PORTFOLIO MANAGER BRIEF

We are updating our model following the lift of the clinical halt on FLXN's pivotal Phase 2b trial for FX006. We are allowing for the 2.5 month delay due to the halt, though there is potential in the clinical timeline to make that up further in the process. We are also factoring in the recent news of the \$98M offering, which should easily bring FLXN through to the NDA filing in 2H16. Slight adjustments are made to 4Q14 EPS where we model a (\$0.37) with YE14 at (\$1.82), accounting for the share increase.

#### ANALYST NOTES

- Value Catalysts for FX006 in 2015: Though delayed a few months, top-line data from the confirmatory Phase 2 trial for FX006 is expected to read out in 2H15. We anticipate a positive result here with some additional color on the longevity of pain relief. Though the FDA mandated endpoint is 12 weeks, FX006 could show efficacy at 16 weeks. Also, FLXN is expected to begin enrollment in their Phase 3 in 1Q15 with top-line data expected in 1H16.
- Maintain Buy Rating, \$30 FV up from \$24.50: We value FLXN at \$30/share based on a sum-of-the-parts analysis with FX006 sales at \$25/share based on 3.5x multiple of 2020 US sales discounted 5 years at 32%. The remaining \$5/share value is based on cash (end 2015) and tech value.



## EXHIBIT 1:

### Flexion

#### Quarterly Financial Statements

FYE December		Mar	Jun	Sept	Dec		Mar	Jun	Sept	Dec	
	F13A	1Q14A	2Q14A	3Q14A	4Q14E	F14E	1Q15E	2Q15E	3Q15E	4Q15E	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	0	0	0
<b>Cost of Sales</b>	0	0	0	0	0	0	0	0	0	0	0
<b>Operating Expenses:</b>											
Research & Development	11,061	4,151	3,615	4,658	5,500	17,924	8,500	6,200	6,200	6,200	27,100
Selling, General and Administration	6,704	2,284	2,234	2,304	2,500	9,322	3,200	2,500	2,800	3,000	11,500
% of Sales											
Total Operating Expenses	17,765	6,435	5,849	6,962	8,000	27,246	11,700	8,700	9,000	9,200	38,600
% of Sales											
<b>Operating Income (Loss)</b>	(17,765)	(6,435)	(5,849)	(6,962)	(8,000)	(27,246)	(11,700)	(8,700)	(9,000)	(9,200)	(38,600)
<b>Operating Margin</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Interest Income</b>	234	(81)	28	56	(25)	(22)	(25)	(25)	(25)	(25)	(100)
<b>Interest Expense</b>	(449)					0					0
<b>Other income (expense)</b>	(207)	(26)	(110)	(130)	(50)	(316)	(50)	(50)	(50)	(50)	(200)
<b>Pretax Income</b>	(18,188)	(6,542)	(5,931)	(7,036)	(8,075)	(27,584)	(11,775)	(8,775)	(9,075)	(9,275)	(38,900)
<b>Pretax Margin</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Income Tax</b>	0	0	0	0	0	0	0	0	0	0	0
<b>Tax Rate</b>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>GAAP Net Income</b>	(18,188)	(6,542)	(5,931)	(7,036)	(8,075)	(27,584)	(11,775)	(8,775)	(9,075)	(9,275)	(38,900)
<b>Net Margin</b>											
<b>GAAP EPS</b>	(2.51)	(0.86)	(0.38)	(0.45)	(0.37)	(1.82)	(0.54)	(0.40)	(0.41)	(0.41)	(1.75)
Weighted Avg Shares (000)	7,247	7,633	15,483	15,625	21,734	15,119	21,951	22,170	22,392	22,616	22,282
Diluted Shares (000)		9,383	17,233	17,375	23,484	16,869	24,701	24,920	25,142	25,366	25,032
<b>Non-GAAP Net Income</b>	(18,188)	(6,542)	(5,931)	(7,036)	(8,075)	(27,584)	(11,775)	(8,775)	(9,075)	(9,275)	(38,900)
<b>Net Margin</b>											
<b>Non-GAAP EPS</b>	\$ (2.51)	\$ (0.86)	\$ (0.38)	\$ (0.45)	\$ (0.37)	\$ (1.82)	\$ (0.54)	\$ (0.40)	\$ (0.41)	\$ (0.41)	\$ (1.75)
Weighted Avg Shares (000)	7,247	7,633	15,483	15,625	21,734	15,119	21,951	22,170	22,392	22,616	22,282
Diluted Shares (000)		9,383	17,233	17,375	23,484	16,869	24,701	24,920	25,142	25,366	25,032

## EXHIBIT 2:

Sum-of-the-parts value: Flexion		
Segment	Valuation	Per share
	(000's)	value
FX006 value	\$565,361	\$25.0
Cash (end '15) & tech value	\$108,286	\$5.0
<b>SUM</b>	<b>\$673,647</b>	<b>\$30</b>
Shares out '15E (000)		22,282

Source: Janney estimates

## 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 9/30/14

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
<b>BUY [B]</b>	169	52.81	24	14.20
<b>NEUTRAL [N]</b>	150	46.88	18	12.00
<b>SELL [S]</b>	1	0.31	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.