

Specialty Pharmaceuticals

Flexion Therapeutics, Inc.

(FLXN) - BUY

Price: **\$12.88**

Fair Value Estimate: \$22.00

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

Market Cap (MM): \$201

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

Average Daily Volume: 60,349

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

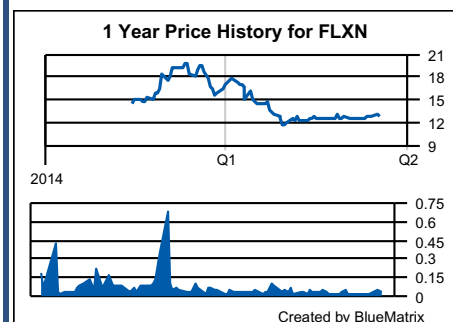
Quarterly EPS:

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: FX006 Can Go the Distance

Positive Data in PK Study

INVESTMENT CONCLUSION:

After the close of the market yesterday FLXN announced positive results from the Phase 2a synovial fluid PK study. Their lead product candidate, FX006 (a sustained-release corticosteroid injection for arthritis of the knee) demonstrated that a single injection can provide at least 12 weeks of pain relief for patients. Results also showed meaningful levels of drug at 16 weeks. Though the drug was detectable in the fluid at 16 weeks, it does remain to be seen if those level are actually therapeutic to patients. We continue to believe that joint arthritis is a fast growing market and that FX006 will have a compelling product profile if approved. Maintain Buy rating, \$22 fair value.

KEY POINTS:

- **Going the distance:** FLXN announced positive results from their synovial fluid PK study after the close yesterday. Results showed that a single 40mg joint injection of FX006 maintained therapeutic concentrations at 12 weeks with drug being detected as far out as 16 weeks. Though positive news indeed, this was not surprising considering that these results were consistent with what was observed in the Phase 2b dose-ranging trial in June 2013.
- **Kicking the tires of the competition:** The product profile of FX006 is in our opinion is a compelling one. Current immediate release (IR) corticosteroid shots are highly effective in pain relief for patients with knee arthritis but the benefit only lasts 3 to 4 weeks. Dosing is limited as well with no more than 3 to 4 injections a year. With hyaluronic acid injections, though long-lasting (3 to 6 months), actual pain relief for patients is debatable with some patients experiencing no benefit. FX006 could potentially bridge the gap of providing pain relief that lasts at least up to 3 months if not beyond.
- **Safety first:** Another element that the PK trial reiterated was that peak plasma concentrations for FX006 do not spike the same way that immediate-release corticosteroids do. This could represent a better safety profile for patients, especially for diabetics (a significant sub-group in the 4.4M target patient population) who experience and have to manage a spike in blood sugar after receiving a IR corticosteroid injections.
- **Next catalysts:** With the Phase 2b confirmatory dose-ranging trial for FX006 already under way, we still anticipate top-line data in late 1Q15. We also anticipate the initiation of the repeat dose/safety trial in 4Q14.
- **Maintain Buy rating, \$22 fair value:** 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 the program. Our remaining \$5/share value is based on cash (end 2014) and tech value.

Research Analyst Certifications and Important Disclosures
are on pages 2 - 3 of this report

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.

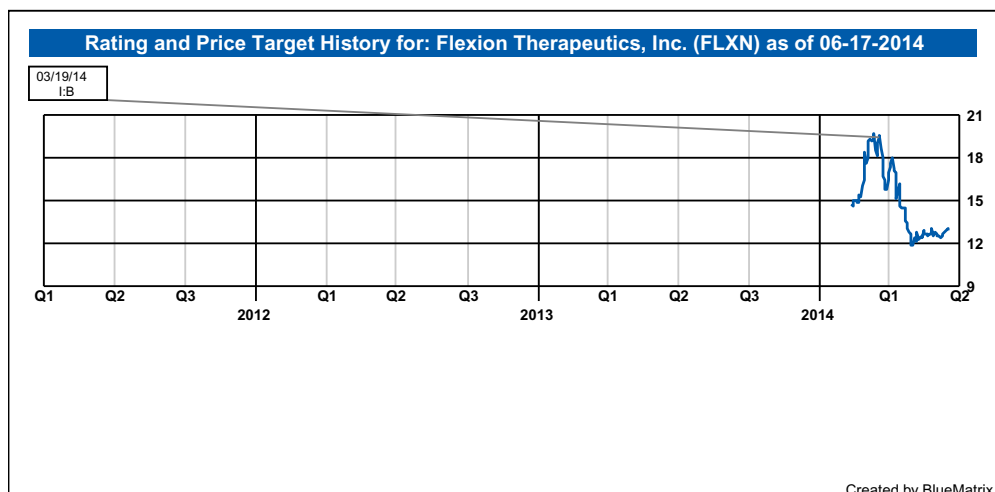
Definition of Ratings

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.

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