

Flamel Technologies (FLML - \$21.23)

New Hires Highlight Continued Momentum at FLML

We recently spent time with FLML management and we come away incrementally more positive on the name as we believe that management continues to execute on FLML's transition to a fully integrated specialty pharmaceutical company. Current launches of Bloxiverz & Vazculep continue to meet or exceed our expectations, and new filings of Eclat and the internal pipeline remain on track. FLML has met with the FDA on their key Micropump sodium oxybate (an improved Xyrem) drug in 2Q15, and the Phase 3 registration trial appears on-track for 4Q15 initiation. The recently announced hires in Quality & Regulatory Affairs and Business Development continue to flesh out the management ranks of FLML, and we anticipate FLML should soon announce the hiring of a CFO as well. As FLML continues to hit on all cylinders we continue to see upside to the stock from current levels, and we reiterate our buy rating, \$30 price target based on the Eclat platform valued at \$16/share and the emerging drug development pipeline and cash at \$14/share.

- **Bloxiverz and Vazculep on track.** Bloxiverz is still dominating the neostigmine market with a 65% share for Bloxiverz even 1Q after competitor Fresenius (35%) entered the market. We believe that even after a 3rd entrant (expected 2H16) the market "tail" under the current \$98/vial pricing will remain substantial. Vazculep is currently at ~23% market share in phenylephrine market overall (only ~12% in 1ml vial size, 100% in 5ml & 10ml vial sizes).
- **Sodium oxybate FDA meeting concluded successfully.** FLML met with the FDA in 2Q15 and nothing in their discussions materially changed expectations for a 4Q15 start of the Phase 3 registration trial. The company is awaiting meeting minutes from the FDA before publicly commenting on Phase 3 trial plan in more detail. FLML's Micropump version of sodium oxybate compound could eliminate the middle-of-the-night dosing for Jazz Pharmaceuticals' Xyrem for narcolepsy, a ~\$780M seller in 2014. FLML anticipates data & NDA filing by 1H17, potential launch 1H18, and plans to self-launch this compound.
- **Maintain Buy rating, \$30 price target.** Our \$30/share price target is based on a sum-of-the-parts analysis. We value the Eclat platform at \$16/share and the emerging drug development pipeline and cash at \$14/share. Our Eclat valuation is derived from a 2.5x multiple of future sales of Bloxiverz, Vazculep, and Eclat #3 & #4, discounted back at 12% (Bloxiverz & Vazculep) and 20% (Eclat #3 & #4). The emerging drug development pipeline is a multiple of expected future royalties discounted back.

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-16E	0.19	0.19	0.21	0.26	0.85	NM
FY-15E	0.27A	0.38	0.31	0.21	1.17	NM
FY-14A	(0.94)	(0.55)	(0.26)	(0.69)	(2.34)	NM
FY-13A	(0.35)	(1.29)	(0.27)	0.20	(0.63)	NM

Source: Company data and Laidlaw & Company estimates

Healthcare/Biotechnology

Ticker: **FLML**
Rating: **Buy**
Price Target: **\$ 30.00**

Trading Data:

Last Price (06/26/2015)	\$ 21.23
52-Week High	\$22.75
52-Week Low	\$9.30
Market Cap. (MM)	\$854.6
Shares Out. (MM)	40.25

James Molloy

Managing Director /
Specialty Pharmaceutical &
Biotechnology Analyst
(857) 317-5061
jmolloy@laidlawltd.com

FOR ANALYST CERTIFICATION AND DISCLOSURES, PLEASE SEE DISCLOSURES SECTION AT THE END OF THIS REPORT. This report has been prepared by Laidlaw & Co (UK), Ltd. Investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. All prices are those current at the end of the previous trading session unless otherwise indicated. Prices and consensus estimates are sourced from a reliable market source

Trigger Lock (abuse resistant opioids) Phase 1 trial data completed in 2Q15.

We anticipate this could be announced in the “next few days”, and is expected by the end of 2Q15, which is tomorrow (Tuesday 6/30).

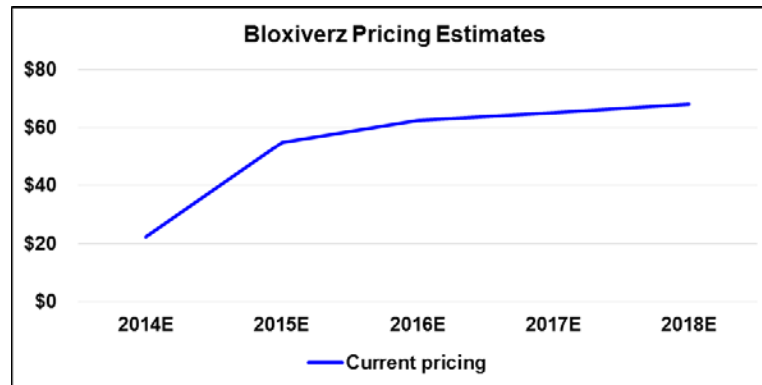
LiquiTime deal could be a 2H15 event. FLML anticipates signing a licensing deal by year end for these initial OTC compounds. It could be structured as a ~\$10M milestones and low single digit royalties. Management is seeing a lot of interest in the LiquiTime program from potential partners, and remains on track for a 4Q15 launch of pivotal trial for oral ibuprofen. CEO sees this is the most undervalued asset at FLML, anticipates developing oral liquid branded products following the OTC compounds for the geriatric population.

Figure 1: Valuation

Sum-of-the-parts valuation: FLML		
Segment	Valuation (000's)	Per share value
Eclat products	\$725,431	\$16.00
Pipeline & royalties value	\$470,695	\$10.00
Cash (end of '16E)	\$193,410	\$4.00
	\$1,389,536	\$30.00
2016 fully diluted shares out		44,857

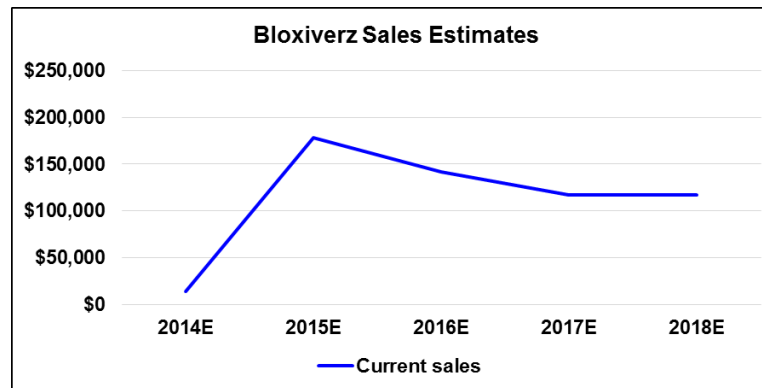
Source: Laidlaw & Company estimates.

Figure 2: Bloxiverz pricing projections



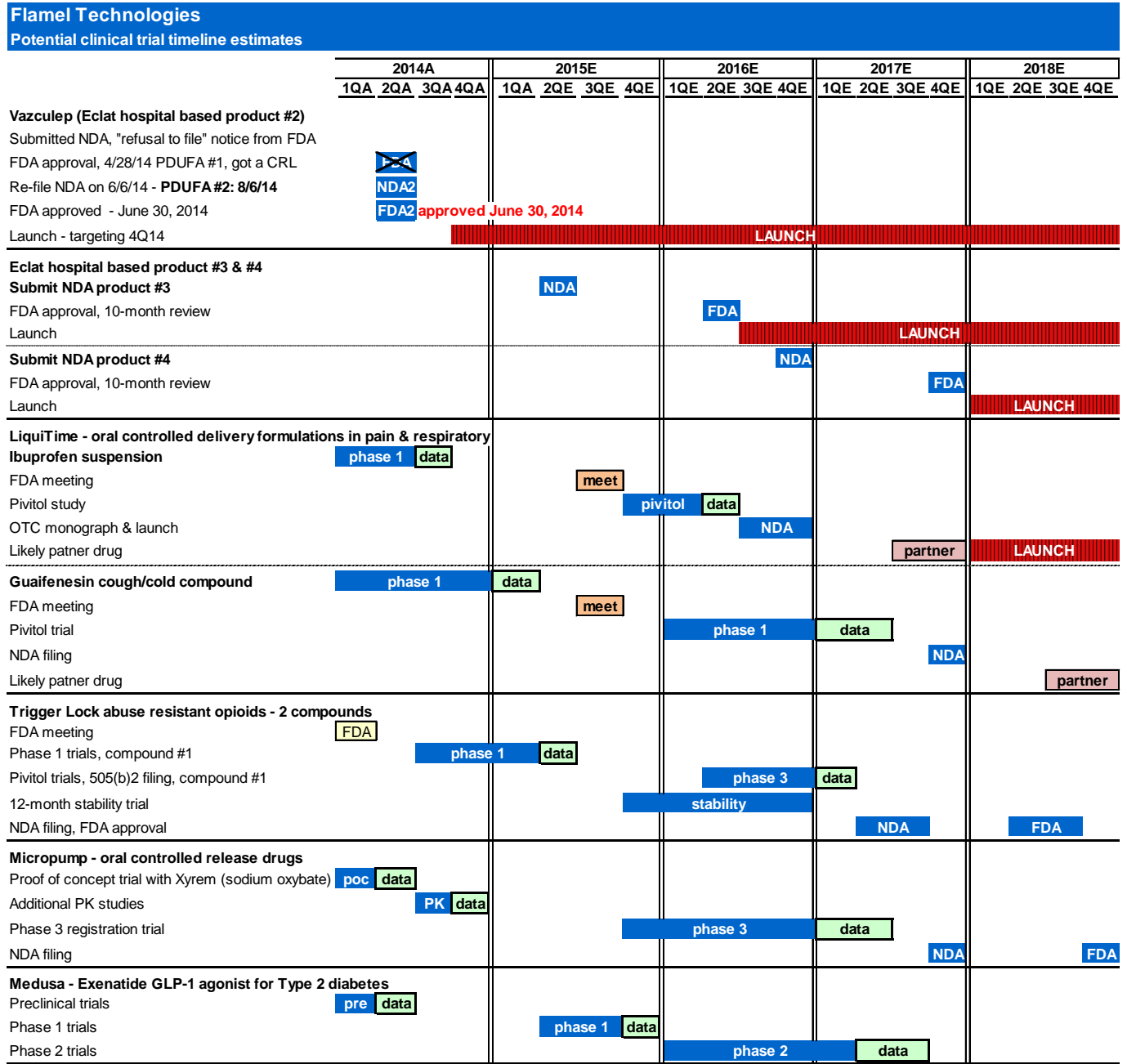
Source: Bloomberg LP.

Figure 3: Bloxiverz sales projections



Source: Company reports; Laidlaw & Company estimates.

Figure 4: Clinical trials timeline



Specialty Pharmaceuticals

Source: Company reports and Laidlaw estimates

Jim Molloy (857) 317-5061 jmolloy@laidlawltd.com

Source: Company reports; Laidlaw & Company estimates.

Quarterly Income Statement

Flamel Technologies
 Quarterly income statement

(\$000's except per share)	2014A				2014A Year	2015E				2015E Year
	1QA	2QA	3QA	4QA		1QA	2QE	3QE	4QE	
Revenues										
Bloxiverz (neostigmine)	\$3,840	\$2,200	\$2,200	\$2,907	\$11,147	\$29,200	\$61,680	\$49,667	\$38,191	\$178,738
Vazculep (phenylephrine hci)						3,511	2,250	2,250	2,250	10,261
License & research	1,433	2,270	681	30	4,414	(38)				
Product sales & service	2,100	1,928	2,547		6,575					
1x, other, milestones (license)	1,802	1,683	1,600	29	5,114	53	50	50	50	203
Total Revenues	\$9,175	\$8,081	\$7,028	\$2,966	\$27,250	\$32,726	\$63,980	\$51,967	\$40,491	\$189,164
Expenses										
Cost of Goods Sold	1,249	1,636	1,494	1,396	5,775	3,630	7,102	5,770	4,497	20,998
Gross Margin	7,926	6,445	5,534	1,570	21,475	29,096	56,878	46,197	35,994	168,165
R&D	7,094	6,742	7,028	5,636	26,500	6,022	6,250	6,250	6,250	24,772
SG&A	3,555	4,732	4,105	4,093	16,485	4,463	4,500	4,500	4,500	17,963
Acq. liab. remeasurement					0					0
Impairment of assets										0
Total Operating Expenses	10,649	11,474	11,133	9,729	42,985	10,485	10,750	10,750	10,750	42,735
Income (loss) from Ops	(2,723)	(5,029)	(5,599)	(8,159)	(21,510)	18,611	46,128	35,447	25,244	125,430
Royalty payments - Eclat					0	(5,796)	(13,159)	(10,687)	(8,324)	(37,966)
Interest income	(2,173)	94	86	543	(1,450)	657	25	25	25	732
Royalty remeasurement					0					0
FOREX gain/(loss)	179	292	(620)		(149)	2,264				2,264
Other income/(loss)	52	30	71	(188)	(35)	(852)	50	50	50	(702)
Pretax Income (Loss)	(4,665)	(4,613)	(6,062)	(7,804)	(23,144)	14,884	33,044	24,836	16,994	89,758
Income tax exp/(benefit)	(459)	273	(29)	(1,272)	(1,487)	10,473	16,522	11,424	7,648	46,067
NI from discontinued ops				4,735						
Net income/(loss)	(4,206)	(4,886)	(6,033)	(6,532)	(21,657)	4,411	16,522	13,411	9,347	43,691
EPS - adjusted	(\$0.15)	(\$0.13)	(\$0.16)	(\$0.17)	(\$0.60)	\$0.10	\$0.38	\$0.31	\$0.21	\$1.00
EPS as reported	(\$0.94)	(\$0.55)	(\$0.26)	(\$0.69)	(\$2.34)	\$0.27				\$1.17
Shares out (000)	28,200	38,438	38,767	39,208	36,211	40,207	40,507	40,807	41,107	40,657
Fully diluted shares (000)	34,800	42,038	42,367	42,808	40,503	42,834	43,507	43,807	44,107	43,564
Margin & expense analysis										
COGS	14%	20%	21%	47%	21%	11%	11%	11%	11%	11%
R&D	77%	83%	100%	190%	97%	18%	10%	12%	15%	13%
SG&A	39%	59%	58%	138%	60%	14%	7%	9%	11%	9%
Operating margin	-30%	-62%	-80%	-275%	-79%	57%	72%	68%	62%	66%
Taxes	-10%	6%	0%	16%	6%	70%	50%	46%	45%	51%
Net margin	-46%	-60%	-86%	-220%	-79%	13%	26%	26%	23%	23%
Year-over-year change										
Net revenue	79%	46%	30%	-52%	21%	257%	692%	639%	1265%	594%
COGS	26%	28%	0%	317%	33%	191%	334%	286%	222%	264%
Gross margin	91%	51%	42%	-73%	19%	267%	783%	735%	2193%	683%
R&D	-17%	-8%	13%	35%	-1%	-15%	-7%	-11%	11%	-7%
SG&A	43%	75%	29%	-29%	14%	26%	-5%	10%	10%	9%
Operating income	-72%	-13%	1%	98%	-7%	-783%	-1017%	-733%	-409%	-683%
Net income	-52%	10%	9%	11162%	35%	-205%	-438%	-322%	-243%	-302%

Specialty Pharmaceuticals

Jim Molloy (857) 317-5061 jmolloy@laidlawltd.com

Source: Company reports and Laidlaw estimates

Source: Bloomberg LP; Company reports; Laidlaw & Company estimates.

Annual Income Statement

Flamel Technologies
Annual income statement

(\$000's except per share)	2014A	2015E	2016E	2017E	2018E	Comments
Revenues						
Bloxiverz (neostigmine)	\$11,147	\$178,738	\$141,858	\$117,197	\$116,756	~\$500M mkt oppty; 100% share 2Q15
Vazculep (phenylephrine hci)		10,261	16,250	22,000	30,000	\$80M-\$90M market opportunity
Eclat products #3 & #4			6,650	117,225	195,000	~\$70M & \$30M-\$40M peak each
LiquiTime royalty				0	10,200	oral ibuprofen & guarifenesin
TriggerLock royalty					0	Less abusable opioids
License & research	4,414	0	0	0	0	Sold to Recipharm AB 12/1/14
Product sales & service	6,575	0	0	0	0	Sold to Recipharm AB 12/1/14
1x milestones (license deals)	5,114	203	200	200	0	Partnership milestones here
Total Revenues	\$27,250	\$189,164	\$164,958	\$256,622	\$351,956	
Expenses						
Cost of Goods Sold	5,775	20,998	18,171	28,236	34,176	
Gross Margin	21,475	168,165	146,786	228,385	317,780	
R&D	26,500	24,772	28,000	30,500	35,000	Deep pipeline entering clinic
SG&A	16,485	17,963	19,750	24,000	32,250	
Total Operating Expenses	42,985	42,735	47,750	54,500	67,250	
Income (loss) from Ops	(21,510)	125,430	99,036	173,885	250,530	
Royalty payments - Eclat	0	(37,966)	(33,914)	(52,782)	(70,347)	Deerfield & Broadfin payments
Interest income	(1,450)	732	1,050	2,275	3,750	
FOREX gain/(loss)	(149)	2,264	0	0	0	non-cash item
Other income/(loss)	(35)	(702)	400	400	400	
Pretax Income (Loss)	(23,144)	89,758	66,573	123,778	184,333	
Taxes	(1,487)	46,067	28,657	49,511	64,517	NOLs limit taxes
Net income/(loss)	(21,657)	43,691	37,915	74,267	119,817	
1x & non-cash items	63,249	(7,235)	0	0	0	non-cash item
NI as reported	(84,906)	50,926	37,915	74,267	119,817	
EPS - adjusted	(\$0.60)	\$1.00	\$0.85	\$1.60	\$2.50	
EPS as reported	(\$2.34)	\$1.17				
Shares out (000)	36,211	40,657	41,857	43,057	44,257	
Fully diluted shares (000)	40,503	43,564	44,857	46,307	48,007	
Margin & expense analysis						
COGS	21%	11%	11%	11%	10%	
R&D	97%	13%	17%	12%	10%	
SG&A	60%	9%	12%	9%	9%	
Operating margin	-79%	66%	60%	68%	71%	
Taxes	6%	51%	43%	40%	35%	
Net margin	-79%	23%	23%	29%	34%	
Year-over-year change						
Net revenue	21%	594%	-13%	56%	37%	
COGS	33%	264%	-13%	55%	21%	
Gross margin	19%	683%	-13%	56%	39%	
R&D	-1%	-7%	13%	9%	15%	
SG&A	14%	9%	10%	22%	34%	
Operating income	-7%	-683%	-21%	76%	44%	
Net income	35%	-302%	-13%	96%	61%	

Specialty Pharmaceuticals

Source: Company reports and Laidlaw estimates

Jim Molloy (857) 317-5061 jmolloy@laidlawltd.com

Source: Bloomberg LP; Company reports; Laidlaw & Company estimates.

Major risks

Exogenous events could impact our outlook. We believe pharmaceutical companies have the least control over competitive, political, and regulatory risks. Although we have incorporated competitive assumptions into our forecasts, there may be other risks beyond the scope of our analysis. Changes in the drug reimbursement system, as well as any political or regulatory amendments, may significantly influence the earnings power of these companies.

Actual clinical results and the FDA's conclusions may deviate from expectations. Many of our assumptions are based on a review of incomplete clinical trial data available in the public domain. Often, our conclusions are drawn from early stage data, which may not be reflected by pivotal studies. Furthermore, the FDA's conclusions may not coincide with our own, materially changing our revenue and earnings assumptions.

Compliance issues, product recalls, and other mandates by regulatory authorities could materially change our expectations. Regulatory compliance issues, ranging from accounting irregularities to defective manufacturing practices, could materially change our assumptions and earnings outlook. Unanticipated product recalls and labeling changes could also have adverse consequences on our earnings assumptions.

Legal risks could lead to additional liabilities and revenue loss. In addition to the expenses incurred by patent challenges, product liability and other legal suits could occur and lead to additional liabilities and revenue loss, which could substantially change our financial assumptions.

DISCLOSURES:

ANALYST CERTIFICATION

The analyst responsible for the content of this report hereby certifies that the views expressed regarding the company or companies and their securities accurately represent his personal views and that no direct or indirect compensation is to be received by the analyst for any specific recommendation or views contained in this report. Neither the author of this report nor any member of his immediate family or household maintains a position in the securities mentioned in this report.

EQUITY DISCLOSURES

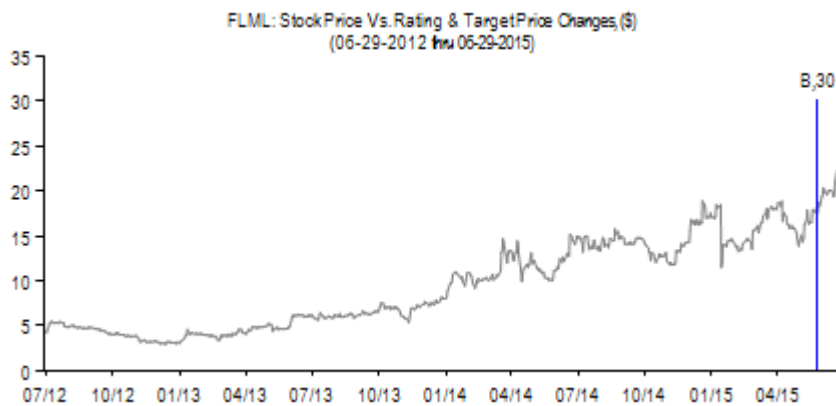
For the purpose of ratings distributions, regulatory rules require the firm to assign ratings to one of three rating categories (i.e. Strong Buy/Buy-Overweight, Hold, or Underweight/Sell) regardless of a firm's own rating categories. Although the firm's ratings of Buy/Overweight, Hold, or Underweight/Sell most closely correspond to Buy, Hold and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis against the analyst sector universe of stocks. An analyst's coverage sector is comprised of companies that are engaged in similar business or share similar operating characteristics as the subject company. The analysis sector universe is a sub-sector to the analyst's coverage sector, and is compiled to assist the analyst in determining relative valuations of subject companies. The composition of an analyst's sector universe is subject to change over time as various factors, including changing market conditions occur. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12-months relative to the analyst's sector universe.

Additional information available upon request.

Laidlaw & Co (UK) Ltd. has not provided any investment banking services for the company (ies) mentioned in this report over the last 12 months.

RATINGS INFORMATION

Rating and Price Target Change History



3 Year Rating Change History		
Date	Rating	Closing Price (\$)
05/26/2015	Buy (B)	17.48

3 Year Price Change History		
Date	Target Price (\$)	Closing Price, (\$)
05/26/2015	30.00	17.48

Source: Laidlaw & Company

Created by: Blue-Compass.net

Laidlaw & Company Rating System*		% of Companies Under Coverage With This Rating	% of Companies for which Laidlaw & Company has performed services for in the last 12 months	
			Investment Banking	Brokerage
Strong Buy (SB)	Expected to significantly outperform the sector over 12 months.	0.00%	0.00%	0.00%
Buy (B)	Expected to outperform the sector average over 12 months.	75.00%	32.14%	7.14%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	3.57%	0.00%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

ADDITIONAL COMPANIES MENTIONED

Fresenius Medical Care (FMS – Not Rated)
Jazz Pharmaceuticals (JAZZ – Not Rated)

ADDITIONAL DISCLOSURES

As of the date of this report, neither the author of this report nor any member of his immediate family or household maintains an ownership position in the securities of the company (ies) mentioned in this report.

This report does not provide individually tailored investment advice and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Laidlaw & Co (UK), Ltd. recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in this report may not be suitable for all investors, and certain investors may

not be eligible to purchase or participate in some or all of them. This report is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy.

Associated persons of Laidlaw & Co (UK), Ltd not involved in the preparation of this report may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned herein and may trade them in ways different from those discussed in this report. While Laidlaw & Co (UK), Ltd., prohibits analysts from receiving any compensation. Bonus or incentive based on specific recommendations for, or view of, a particular company, investors should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

With the exception of information regarding Laidlaw & Co (UK), Ltd. this report is based on public information. Laidlaw & Co (UK), Ltd makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete and it should not be relied upon as such. Any opinions expressed are subject to change and Laidlaw & Co (UK), Ltd disclaims any obligation to advise you of changes in opinions or information or any discontinuation of coverage of a subject company. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other Laidlaw & Co (UK), Ltd business areas. Laidlaw & Co (UK), Ltd associated persons conduct site visits from time to time but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

Any trademarks and service marks contained in this report are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data. This report or any portion thereof may not be reprinted, sold or redistributed without the written consent of Laidlaw & Co (UK), Ltd. This report is disseminated and available primarily electronically, and, in some cases, in printed form.

The information and opinions in this report were prepared by Laidlaw & Co (UK), Ltd. For important disclosures, please see Laidlaw & Co (UK), Ltd.'s disclosure website at www.LaidlawLtd.com, or contact your investment representative or Laidlaw & Co (UK), Ltd at 546 Fifth Ave, 5th Floor, New York, NY 10036 USA.

© 2015 Laidlaw & Co. (UK), Ltd.

NOTES: