

Equity Research

Flexion Therapeutics, Inc.

FLXN: Clinical Study Plans On Track--Q4 2013 Results Uneventful

• **Bottom line:** FLXN reported results, the company's first earnings release as a public company following its February 11, 2014 IPO. The Q4 2013 figures were uneventful, as we expected; more notably, the company's clinical timelines remain on track, with one data readout and three trial starts scheduled for 2014. 2014E EPS revised from \$2.52 to \$2.59; 2015E from \$3.44 to \$3.32. Valuation range revised from \$24-26 to \$23-25.

• **Clinical timeline remains on track.** The key near- to medium-term driver of FLXN's stock price, in our view, is successful execution of the company's clinical study plans, and per the earnings call FLXN's timelines remain on track. For FX006, synovial PK study data are due in mid-2014; the confirmatory Phase 2b start date remains 2Q14; and the repeat dose/safety study is due to begin by year-end 2014 (along with the proof of concept study for FX007).

• **FX006 confirmatory Phase 2b study design discussed.** The company stated that the trial will include 3 arms, two with FX006 at 40 mg and at an unspecified lower strength, and a placebo arm. FLXN does not plan to include an active comparator arm (which the Phase 2b study included, using TCA IR), as the company's goal is to focus on FDA's request for a placebo-controlled study without additional complexity in the trial design. We think that rationale makes sense for the confirmatory Phase 2b, but also believe that including TCA IR in a subsequent pre-approval study (such as Phase 3) may be worth exploring for potential commercial benefit.

• **International partnering discussions are ongoing.** FLXN remains committed to self-commercializing FX006 in the U.S. market, which we believe is an important potential driver of margin expansion and earnings growth. The company stated that it is having ongoing discussions with potential partners about licensing rights to markets in Europe and Japan.

• **Q4 2013 results were uneventful, and slightly better than expectations.** FLXN's near-term operating results are an insignificant part of the story in our view, but we note that Q4 2013 results were modestly better than our and consensus expectations. Net income was -\$3.7MM, vs. our -\$4.5MM and consensus -\$5.0MM. The primary source of the beat vs. our forecast was G&A at \$1.3MM (vs. our \$2.3MM and consensus \$2.0MM). R&D was virtually in line with our estimate at \$2.2MM (vs. our \$2.1MM), and was below consensus \$3.0MM. EPS was below our estimate mainly due to difference in shares outstanding.

Continued on page 2

Valuation Range: \$23.00 to \$25.00 from \$24.00 to \$26.00

Our valuation range of \$23-\$25 is DCF-based and assumes WACC=15% and no terminal value. Risks to our valuation pertain to FLXN's ability to successfully develop and commercialize FX006, including product concentration, clinical, regulatory, commercial, intellectual property, and future financing risk.

Investment Thesis:

We believe that FX006 can generate strong revenue and earnings growth due to 3 key positives: a large and growing market opportunity in OA; the potential to address an unmet medical need; and the opportunity for self-commercialization and strong revenue growth to drive operating margin expansion.

Please see page 8 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 03/28/14 unless otherwise stated.

Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.

Outperform / V

Sector: Specialty Drugs

Market Weight

Earnings Estimate Revised Down

| EPS | 2013A | 2014E | | 2015E | |
|-----------|-----------|-----------------|---------------|----------|----------|
| | | Curr. | Prior | Curr. | Prior |
| Q1 (Mar.) | (\$5.92) | (\$0.62) | (0.47) | (\$0.72) | |
| Q2 (June) | (6.07) | (0.52) | (0.55) | (0.85) | |
| Q3 (Sep.) | (6.38) | (0.65) | (0.67) | (0.88) | |
| Q4 (Dec.) | (4.66) | (0.79) | (0.81) | (0.85) | |
| FY | (\$23.02) | (\$2.59) | (2.52) | (\$3.32) | (\$3.44) |
| CY | (\$23.02) | (\$2.59) | | (\$3.32) | |
| FY P/E | NM | NM | | NM | |
| Rev.(MM) | \$0 | \$0 | | \$0 | |

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, * = Company is on the Priority Stock List

| | |
|-----------------------------|-------------|
| Ticker | FLXN |
| Price (03/27/2014) | \$15.76 |
| 52-Week Range: | \$14-21 |
| Shares Outstanding: (MM) | 15.6 |
| Market Cap.: (MM) | \$245.9 |
| S&P 500: | 1,849.04 |
| Avg. Daily Vol.: | 83,636 |
| Dividend/Yield: | \$0.00/0.0% |
| LT Debt: (MM) | \$4.0 |
| LT Debt/Total Cap.: | 27.0% |
| ROE: | NM |
| 3-5 Yr. Est. Growth Rate: | NM |
| CY 2014 Est. P/E-to-Growth: | NM |
| Last Reporting Date: | 03/27/2014 |
| | Before Open |

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

Michael Faerm, Senior Analyst
(212) 214-8026 /
michael.faerm@wellsfargo.com

Together we'll go far



Company Description:

Flexion Therapeutics, Inc. is a development stage specialty pharmaceutical company, focused on osteoarthritis (OA) pain treatments. The lead product candidate, FX006, is a sustained-release intra-articular steroid injection in Phase 2b trials for the treatment of moderate to severe OA pain in the knee. FLXN is also developing FX007 for post-operative pain, and FX005 for end stage OA pain.

Continued from page 1

- **Estimates and valuation:** Our net income is slightly increased due to lower G&A, while our EPS is reduced due to updated share counts. The share revisions also cause a slight reduction in our valuation range, from \$24-26 to \$23-25.

Exhibit 1. FLXN Q4 2013 Variance Analysis

| | Prior Period Actuals | | Q4 2013 | | | Q4 2013 Variance | | Q4 2013 %Change | |
|-------------------------------|----------------------|-----------------|-----------------|-----------------|-----------------|------------------|-----------------|-----------------|----------------|
| | | | Wells Fargo | | | | | | |
| (in MM except per share data) | Q4 2012 | Q3 2013 | Consensus | Estimate | REPORTED | Vs. Cons. | Vs. WF | Yr/Yr Change | Seq. Change |
| Total Revenues | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | NM | NM |
| Cost of products sold | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | NM | NM |
| Gross Profit | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | NM | NM |
| S&M | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | NM | NM |
| G&A | \$1.1 | \$2.3 | \$2.0 | \$2.3 | \$1.3 | (\$0.7) | (\$1.0) | 21.3% | (42.5%) |
| R&D | \$3.0 | \$2.6 | \$3.0 | \$2.1 | \$2.2 | (\$0.8) | \$0.2 | (25.5%) | (14.0%) |
| Operating income | (\$4.1) | (\$4.9) | (\$5.0) | (\$4.4) | (\$3.6) | \$1.4 | \$0.8 | (12.9%) | (27.5%) |
| Interest expense | \$0.0 | (\$0.1) | \$0.1 | (\$0.1) | (\$0.1) | (\$0.2) | (\$0.0) | NM | 18.3% |
| Interest income | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | (43.8%) | (44.2%) |
| Other | (\$0.0) | (\$0.0) | (\$0.1) | \$0.0 | (\$0.0) | \$0.0 | (\$0.0) | (60.4%) | (65.6%) |
| Total other income | \$0.0 | (\$0.1) | \$0.0 | (\$0.1) | (\$0.1) | (\$0.2) | (\$0.0) | (1354.2%) | 11.5% |
| Pretax Income | (\$4.1) | (\$5.0) | (\$5.0) | (\$4.5) | (\$3.7) | \$1.3 | \$0.8 | (9.9%) | (26.7%) |
| Income tax provision | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | NM | NM |
| Net income | (\$4.1) | (\$5.0) | (\$5.0) | (\$4.5) | (\$3.7) | \$1.3 | \$0.8 | (9.9%) | (26.7%) |
| EPS | NA | (\$6.38) | (\$0.51) | (\$0.46) | (\$4.66) | (\$4.15) | (\$4.20) | NM | (27.0%) |
| Diluted shares outstanding | NA | 0.8 | NM | 9.8 | 0.8 | NM | (9.0) | NM | 0.4% |

Source: Wells Fargo Securities, LLC estimates, company reports, and FactSet

Exhibit 2. FLXN Estimate Revisions Summary

| FLXN- Estimate Revision Summary (In MM except per share data) | | | | | | | | | | | | | | | | | |
|--|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---------|
| | | | 2013 | | | | | 2014 | | | | | | | | CAGR | |
| | FY 2011 | FY 2012 | Mar-13 | Jun-13 | Sep-13 | Dec-13 | FY 2013 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | FY 2014E | FY 2015E | FY 2016E | FY 2017E | FY 2018E | 14 - 18 |
| | | | 1QA | 2QA | 3QA | 4QA | | 1QE | 2QE | 3QE | 4QE | | | | | | |
| Total Sales | | | | | | | | | | | | | | | | | |
| Old | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$21.0 | \$86.5 | NM |
| Revised | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 21.0 | 86.5 | NM |
| Change | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| S&M | | | | | | | | | | | | | | | | | |
| Old | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.3 | \$0.2 | \$0.2 | \$0.2 | \$0.8 | \$1.9 | \$14.1 | \$40.5 | \$44.8 | 178.0% |
| Revised | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.2 | 0.2 | 0.2 | 0.8 | 1.9 | 14.1 | 40.5 | 44.8 | 178.0% |
| Change | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| G&A | | | | | | | | | | | | | | | | | |
| Old | \$3.0 | \$3.9 | \$1.3 | \$1.7 | \$2.3 | \$2.3 | \$7.7 | \$2.4 | \$2.5 | \$2.6 | \$2.7 | \$10.2 | \$11.7 | \$12.9 | \$14.2 | \$15.6 | 11.2% |
| Revised | 3.0 | 3.9 | 1.3 | 1.7 | 2.3 | 1.3 | 6.7 | 1.7 | 2.1 | 2.3 | 2.5 | 8.7 | 10.0 | 11.1 | 12.2 | 13.4 | 11.2% |
| Change | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (1.0) | (1.0) | (0.7) | (0.4) | (0.2) | (0.1) | (1.5) | (1.7) | (1.8) | (2.0) | (2.2) | |
| R&D | | | | | | | | | | | | | | | | | |
| Old | \$8.2 | \$11.1 | \$3.2 | \$3.0 | \$2.6 | \$2.1 | \$10.9 | \$3.4 | \$6.0 | \$7.8 | \$9.8 | \$26.9 | \$48.5 | \$51.2 | \$38.4 | \$42.3 | 11.9% |
| Revised | 8.2 | 11.1 | 3.2 | 3.0 | 2.6 | 2.2 | 11.1 | 3.4 | 6.0 | 7.8 | 9.8 | 26.9 | 48.5 | 51.2 | 38.4 | 42.3 | 11.9% |
| Change | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Operating Income | | | | | | | | | | | | | | | | | |
| Old | (\$11.3) | (\$15.0) | (\$4.6) | (\$4.7) | (\$4.9) | (\$4.4) | (\$18.6) | (\$6.1) | (\$8.7) | (\$10.5) | (\$12.7) | (\$37.9) | (\$62.1) | (\$78.2) | (\$74.3) | (\$25.7) | NM |
| Revised | (11.3) | (15.0) | (4.6) | (4.7) | (4.9) | (3.6) | (17.8) | (5.4) | (8.2) | (10.3) | (12.6) | (36.4) | (60.4) | (76.4) | (72.3) | (23.5) | NM |
| Change | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.8 | 0.8 | 0.7 | 0.4 | 0.2 | 0.1 | 1.5 | 1.7 | 1.8 | 2.0 | 2.2 | |
| EPS | | | | | | | | | | | | | | | | | |
| Old | \$0.00 | (\$2.04) | (\$0.48) | (\$0.49) | (\$0.52) | (\$0.46) | (\$1.94) | (\$0.47) | (\$0.55) | (\$0.67) | (\$0.81) | (\$2.52) | (\$3.44) | (\$3.46) | (\$2.63) | (\$0.88) | NM |
| Revised | 0.00 | (27.59) | (5.92) | (6.07) | (6.38) | (4.66) | (23.02) | (0.62) | (0.52) | (0.65) | (0.79) | (2.59) | (3.32) | (3.35) | (2.55) | (0.80) | NM |
| Change | | | (5.44) | (5.58) | (5.86) | (4.20) | (21.08) | (0.15) | 0.03 | 0.02 | 0.01 | (0.07) | 0.12 | 0.10 | 0.08 | 0.08 | |
| Weighted average shares outstanding | | | | | | | | | | | | | | | | | |
| Old | 0.0 | 7.3 | 9.7 | 9.7 | 9.7 | 9.8 | 9.8 | 12.9 | 15.5 | 15.6 | 15.6 | 14.9 | 18.0 | 22.6 | 28.2 | 28.7 | |
| Revised | 0.0 | 0.5 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 8.7 | 15.6 | 15.7 | 15.8 | 13.9 | 18.1 | 22.7 | 28.3 | 28.9 | |
| Change | 0.0 | (6.8) | (9.0) | (9.0) | (9.0) | (9.0) | (9.0) | (4.2) | 0.1 | 0.1 | 0.1 | (1.0) | 0.1 | 0.1 | 0.1 | 0.1 | |

Source: Wells Fargo Securities, LLC estimates, company reports and FactSet

The above exhibit shows our model revisions. The changes are modest down to net income, and the EPS changes are primarily due to refinements in shares outstanding.

Financial Model

| FLXN - Revenue Forecast (in MM except price per injection) | | FY 2017E | FY 2018E | FY 2019E | FY 2020E | FY 2021E | FY 2022E | FY 2023E | FY 2024E | FY 2025E | FY 2026E | FY 2027E | FY 2028E | FY 2029E | FY 2030E | FY 2031E | FY 2032E | FY 2033E |
|---|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| US Market | | | | | | | | | | | | | | | | | | |
| Overall Patient Pool | | | | | | | | | | | | | | | | | | |
| Number of patients with knee OA diagnosis | | 13.5 | 13.8 | 14.2 | 14.7 | 15.1 | 15.5 | 16.0 | 16.4 | 16.9 | 17.4 | 17.9 | 18.4 | 19.0 | 19.5 | 20.1 | 20.7 | 21.3 |
| Growth, y/y | | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% |
| Number of patients with knee OA and IA steroid Rx | | 3.4 | 3.5 | 3.6 | 3.7 | 3.8 | 3.9 | 4.0 | 4.1 | 4.2 | 4.4 | 4.5 | 4.6 | 4.7 | 4.9 | 5.0 | 5.2 | 5.3 |
| Growth, y/y | | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% |
| Avg No. of steroid injections/patient | | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Total number of steroid injections | | 3.7 | 3.8 | 3.9 | 4.0 | 4.1 | 4.3 | 4.4 | 4.5 | 4.7 | 4.8 | 4.9 | 5.1 | 5.2 | 5.4 | 5.5 | 5.7 | 5.8 |
| Number of patients with knee OA and HA Rx | | 1.1 | 1.2 | 1.2 | 1.2 | 1.3 | 1.3 | 1.3 | 1.4 | 1.4 | 1.5 | 1.5 | 1.5 | 1.6 | 1.6 | 1.7 | 1.7 | 1.8 |
| Growth, y/y | | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% |
| Avg No. of HA injections/patient | | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| Total number of HA injections | | 1.3 | 1.4 | 1.4 | 1.5 | 1.5 | 1.6 | 1.6 | 1.6 | 1.7 | 1.7 | 1.8 | 1.8 | 1.9 | 2.0 | 2.0 | 2.1 | 2.1 |
| Total patients - steroid and HA | | 4.5 | 4.6 | 4.7 | 4.9 | 5.0 | 5.2 | 5.3 | 5.5 | 5.6 | 5.8 | 6.0 | 6.1 | 6.3 | 6.5 | 6.7 | 6.9 | 7.1 |
| Growth, y/y | | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% |
| Total injections - steroid and HA | | 5.0 | 5.2 | 5.3 | 5.5 | 5.7 | 5.8 | 6.0 | 6.2 | 6.3 | 6.5 | 6.7 | 6.9 | 7.1 | 7.3 | 7.5 | 7.7 | 8.0 |
| Growth, y/y | | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% |
| FX006 Market Opportunity | | | | | | | | | | | | | | | | | | |
| Based on steroid injection volumes and FX006 pricing | | | | | | | | | | | | | | | | | | |
| Total injections - steroid | | 3.7 | 3.8 | 3.9 | 4.0 | 4.1 | 4.3 | 4.4 | 4.5 | 4.7 | 4.8 | 4.9 | 5.1 | 5.2 | 5.4 | 5.5 | 5.7 | 5.8 |
| FX006 price/injection | | \$500 | \$500 | \$510 | \$520 | \$531 | \$541 | \$552 | \$563 | \$574 | \$586 | \$598 | \$609 | \$622 | \$634 | \$647 | \$660 | \$673 |
| Market opportunity - FX006 | | \$1,849.9 | \$1,903.5 | \$1,997.9 | \$2,097.0 | \$2,200.9 | \$2,310.1 | \$2,424.6 | \$2,544.8 | \$2,671.0 | \$2,803.4 | \$2,942.4 | \$3,088.3 | \$3,241.4 | \$3,402.1 | \$3,570.8 | \$3,747.8 | \$3,933.6 |
| Growth, y/y | | 2.9% | 2.9% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| FX006 Penetration and Volumes | | | | | | | | | | | | | | | | | | |
| Number of patients receiving IA steroid | | 3.4 | 3.5 | 3.6 | 3.7 | 3.8 | 3.9 | 4.0 | 4.1 | 4.2 | 4.4 | 4.5 | 4.6 | 4.7 | 4.9 | 5.0 | 5.2 | 5.3 |
| Est % penetration of FX006 | | 0.6% | 2.5% | 5.0% | 8.8% | 12.5% | 17.5% | 22.5% | 25.0% | 22.5% | 20.0% | 18.8% | 17.5% | 16.3% | 15.0% | 6.3% | 3.1% | 1.3% |
| Est. no. of FX006 injections/patient | | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Total no. FX006 injs. (steroid group) | | 0.0 | 0.1 | 0.3 | 0.5 | 0.7 | 1.0 | 1.3 | 1.5 | 1.4 | 1.3 | 1.3 | 1.2 | 1.2 | 1.1 | 0.5 | 0.2 | 0.1 |
| Number of patients receiving HA | | 1.1 | 1.2 | 1.2 | 1.2 | 1.3 | 1.3 | 1.3 | 1.4 | 1.4 | 1.5 | 1.5 | 1.5 | 1.6 | 1.6 | 1.7 | 1.7 | 1.8 |
| Est % penetration of FX006 | | 0.6% | 2.5% | 5.0% | 8.8% | 12.5% | 17.5% | 22.5% | 25.0% | 22.5% | 20.0% | 18.8% | 17.5% | 16.3% | 15.0% | 6.3% | 3.1% | 1.3% |
| Est. no. of FX006 injections/patient | | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Total no. FX006 injs. (HA group) | | 0.0 | 0.0 | 0.1 | 0.2 | 0.2 | 0.3 | 0.4 | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.2 | 0.1 | 0.0 |
| Total FX006 injections | | 0.0 | 0.2 | 0.4 | 0.6 | 0.9 | 1.4 | 1.8 | 2.1 | 1.9 | 1.7 | 1.7 | 1.6 | 1.5 | 1.5 | 0.6 | 0.3 | 0.1 |
| Growth, y/y | | nm | 311.6% | 105.8% | 80.1% | 47.0% | 44.1% | 32.3% | 14.3% | (7.4%) | (8.5%) | (3.5%) | (4.0%) | (4.5%) | (5.0%) | (57.1%) | (48.6%) | (58.8%) |
| FX006 Pricing and Revenues | | | | | | | | | | | | | | | | | | |
| FX006 price/injection | | \$500 | \$500 | \$510 | \$520 | \$531 | \$541 | \$552 | \$563 | \$574 | \$586 | \$598 | \$609 | \$622 | \$634 | \$647 | \$660 | \$673 |
| Price increase, y/y | | 0.0% | 0.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| FX006 revenues | | \$21.0 | \$86.5 | \$181.6 | \$333.6 | \$500.2 | \$735.0 | \$991.9 | \$1,156.7 | \$1,092.7 | \$1,019.4 | \$1,003.1 | \$982.6 | \$957.7 | \$927.8 | \$405.8 | \$212.9 | \$89.4 |
| Growth, y/y | | nm | 311.6% | 109.9% | 83.7% | 49.9% | 46.9% | 34.9% | 16.6% | (5.5%) | (6.7%) | (1.6%) | (2.0%) | (2.5%) | (3.1%) | (50.3%) | (47.5%) | (58.0%) |
| Source: Wells Fargo Securities, LLC estimates and company reports | | | | | | | | | | | | | | | | | | |

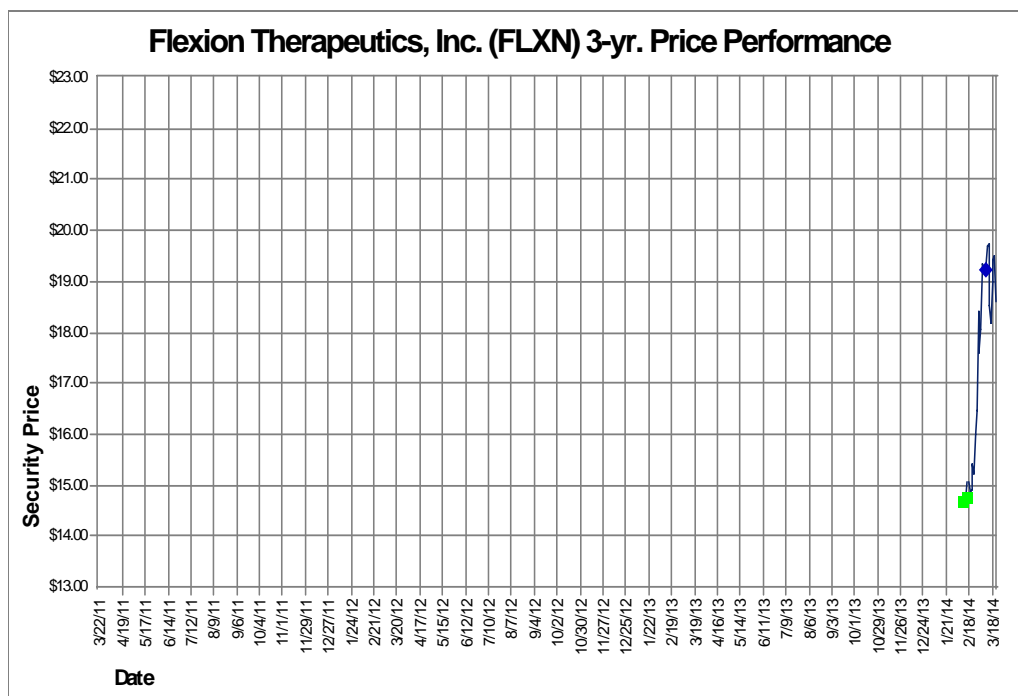
| Earnings per share | Source: Wells Fargo Securities, LLC estimates and company reports |
|--------------------|---|
|--------------------|---|

| FLXN - BALANCE SHEET | | | | | | | | | |
|---|--|----------|----------|----------|----------|----------|----------|--|--|
| (In MM except per share data) | | | | | | | | | |
| | 2013 | | | 2013 | | | 2013 | | |
| | FY 2011 | FY 2012 | Mar-13 | Jun-13 | Sep-13 | Dec-13 | | | |
| | | | 1QA | 2QA | 3QA | YTD | 4QA | | |
| Current Assets | Cash and Equivalents | \$3.4 | \$12.8 | \$15.3 | \$12.1 | \$13.5 | \$16.3 | | |
| | Restricted Cash and Restricted Cash Equivalents | \$0.0 | \$0.0 | \$0.0 | \$0.1 | \$0.1 | \$0.1 | | |
| | Marketable securities | \$7.2 | \$16.5 | \$14.0 | \$12.8 | \$7.5 | \$0.3 | | |
| | Accounts Receivable | | | | \$0.0 | \$0.0 | \$0.0 | | |
| | Inventories, net | | | | \$0.0 | \$0.0 | \$0.0 | | |
| | Prepaid expenses and other assets | \$0.3 | \$0.5 | \$0.4 | \$0.3 | \$1.4 | \$1.5 | | |
| | Total Current Assets | \$10.8 | \$29.9 | \$29.7 | \$25.3 | \$22.5 | \$18.2 | | |
| Long-term Assets | Property and equipment, net | \$0.1 | \$0.1 | \$0.1 | \$0.3 | \$0.4 | \$0.4 | | |
| | Other assets | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | | |
| | Total Assets | \$10.9 | \$30.0 | \$29.8 | \$25.7 | \$23.0 | \$18.6 | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | | | | |
| Current Liabilities | Accounts payable | \$0.7 | \$0.5 | \$0.2 | \$0.2 | \$1.9 | \$1.5 | | |
| | Accrued expenses and other current liabilities | \$1.1 | \$2.2 | \$2.0 | \$2.5 | \$2.5 | \$2.2 | | |
| | Current portion of long-term debt | \$0.0 | \$0.0 | \$0.0 | \$0.5 | \$1.0 | \$1.0 | | |
| Total Current Liabilities | \$1.8 | \$2.7 | \$2.2 | \$3.2 | \$5.4 | \$4.7 | | | |
| Long-term Liabilities | Long-term debt | \$0.0 | \$0.0 | \$5.0 | \$4.5 | \$4.0 | \$4.0 | | |
| | Other Long-term Liabilities | \$0.0 | \$0.0 | | | \$0.0 | \$0.0 | | |
| | Total Long-term Liabilities | \$0.0 | \$0.0 | \$5.0 | \$4.5 | \$4.0 | \$4.0 | | |
| Shareholders' Equity | Preferred Stock | \$41.8 | \$74.8 | \$74.8 | \$74.8 | \$74.8 | \$74.8 | | |
| | Common stock | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | | |
| | Additional paid-in capital | \$0.3 | \$0.4 | \$0.3 | \$0.5 | \$1.2 | \$1.2 | | |
| | Accumulated other comprehensive income | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | | |
| | Deficit accumulated during the development stage | (\$33.0) | (\$48.0) | (\$52.6) | (\$57.4) | (\$62.5) | (\$66.2) | | |
| | Total Stockholders' Equity | \$9.2 | \$27.3 | \$22.6 | \$18.7 | \$13.6 | \$9.9 | | |
| | Total Liabilities & Stockholders' Equity | \$10.9 | \$30.0 | \$29.8 | \$25.7 | \$23.0 | \$18.6 | | |
| Source: Wells Fargo Securities, LLC estimates and company reports | | | | | | | | | |

| FLXN - CASHFLOW STATEMENT (In MM except per share data) | | | | | | | | | | | | |
|---|----------|----------|---------|---------|---------|----------|---------|----------|----------|----------|----------|----------|
| | FY 2011 | FY 2012 | Mar-13 | | Jun-13 | | Sep-13 | | Dec-13 | | FY 2018E | |
| | | | 1QA | 2QA | 3QA | YTD | 4QA | FY 2013 | FY 2014E | FY 2015E | | FY 2016E |
| Net Income (Loss) | (\$11.4) | (\$15.0) | | | | (\$14.5) | (\$3.7) | (\$18.2) | (\$36.2) | (\$60.2) | (\$76.1) | (\$72.1) |
| Adjustments to Net Income | | | | | | | | | | | | |
| Depreciation | \$0.1 | \$0.0 | | | | \$0.1 | \$0.0 | \$0.1 | \$0.1 | \$0.1 | \$0.1 | \$0.1 |
| Stock-based Compensation | \$0.1 | \$0.1 | | | | \$0.8 | \$0.0 | \$0.8 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Amortization of premium (discount) on marketable securities | \$0.1 | \$0.1 | | | | \$0.1 | \$0.0 | \$0.1 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Loss on disposal of property and equipment | \$0.2 | \$0.0 | | | | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Other | \$0.0 | \$0.0 | | | | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Changes in operating assets and liabilities | | | | | | | | | | | | |
| Prepaid Expenses and other assets | \$0.2 | (\$0.2) | | | | \$0.4 | (\$0.1) | \$0.3 | (\$0.3) | (\$0.4) | (\$0.1) | (\$0.1) |
| Accounts Payable, accr. Exps., and other curr. liabilities | \$0.4 | \$0.9 | | | | \$0.4 | (\$0.7) | (\$0.3) | \$0.8 | \$1.0 | \$0.3 | \$1.0 |
| Net Cash From Operations | (\$10.4) | (\$14.0) | (\$4.7) | (\$4.8) | (\$5.0) | (\$12.7) | (\$4.4) | (\$17.1) | (\$35.6) | (\$59.5) | (\$75.8) | (\$77.1) |
| Cash from Investing Activities | | | | | | | | | | | | |
| Purchases of property and equipment | (\$0.0) | (\$0.0) | | | | (\$0.4) | \$0.0 | (\$0.4) | \$0.0 | \$0.0 | \$0.0 | (\$0.2) |
| Change in restricted cash | \$0.0 | \$0.0 | | | | (\$0.1) | \$0.0 | (\$0.1) | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Purchases of marketable securities | (\$16.8) | (\$28.5) | | | | (\$15.0) | \$0.0 | (\$15.0) | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Redemption of marketable securities | \$23.9 | \$19.0 | | | | \$31.1 | \$7.3 | \$31.1 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Other | \$0.0 | \$0.0 | | | | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Cash from Investing Activities | (\$4.1) | (\$9.5) | \$0.0 | \$0.0 | \$0.0 | \$8.4 | \$7.3 | \$15.6 | \$0.0 | \$0.0 | \$0.0 | (\$0.9) |
| Cash from Financing Activities | | | | | | | | | | | | |
| Proceeds from borrowings under term loan | \$0.0 | \$0.0 | | | | \$5.0 | \$0.0 | \$5.0 | (\$2.0) | (\$2.6) | (\$2.1) | \$0.0 |
| Proceeds from issuance of Series A Cvt Pfd Stock, net | \$13.0 | \$13.1 | | | | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Proceeds from issuance of Series B Cvt Pfd Stock, net | \$0.0 | \$19.9 | | | | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Proceeds from common stock issuance | \$0.0 | \$0.0 | | | | \$0.0 | \$0.0 | \$0.0 | \$67.3 | \$68.3 | \$72.8 | \$97.0 |
| Proceeds from exercise of stock options | \$0.0 | \$0.0 | | | | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Other | \$0.0 | (\$0.0) | | | | (\$0.1) | \$0.0 | (\$0.1) | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Cash from financing | \$13.0 | \$33.0 | \$0.0 | \$0.0 | \$0.0 | \$4.9 | \$0.0 | \$4.9 | \$65.4 | \$65.7 | \$70.6 | \$97.0 |
| Increase/(decrease) in cash and cash equivalents | (\$1.5) | \$9.5 | | | | \$0.6 | \$2.8 | \$3.5 | \$29.8 | \$6.1 | (\$5.2) | \$19.6 |
| Beginning cash balance | \$4.8 | \$3.4 | | | | \$12.8 | \$13.5 | \$12.8 | \$16.3 | \$46.1 | \$52.2 | \$47.0 |
| Ending cash balance | \$3.4 | \$12.8 | \$8.2 | \$3.4 | (\$1.6) | \$13.5 | \$16.3 | \$16.3 | \$46.1 | \$52.2 | \$47.0 | \$66.6 |
| Average cash balance | \$4.1 | \$8.1 | | | | \$13.2 | \$14.9 | \$14.6 | \$31.2 | \$49.1 | \$49.6 | \$56.8 |

Source: Wells Fargo Securities, LLC estimates and company reports. Note: Quarterly cash flow statement historical figures for 1Q-3Q2013 not available.

Required Disclosures



| | Date | Publication Price (\$) | Rating Code | Val. Rng. Low | Val. Rng. High | Close Price (\$) |
|---|-----------|------------------------|----------------|---------------|----------------|------------------|
| □ | 2/12/2014 | | IPO at \$13.00 | | | |
| | 3/10/2014 | | Faerm | | | |
| ◆ | 3/10/2014 | 19.26 | 1 | 24.00 | 26.00 | 19.22 |

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

- ▼ Rating Downgrade
- ▲ Rating Upgrade
- Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- Analyst Change
- Split Adjustment

Rating Code Key

- 1 Outperform/Buy
- 2 Market Perform/Hold
- 3 Underperform/Sell
- SR Suspended
- NR Not Rated
- NE No Estimate

Additional Information Available Upon Request

I certify that:

- 1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
- 2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

- Wells Fargo Securities, LLC maintains a market in the common stock of Flexion Therapeutics, Inc.
- Wells Fargo Securities, LLC or its affiliates managed or co-managed a public offering of securities for Flexion Therapeutics, Inc. within the past 12 months.
- Wells Fargo Securities, LLC or its affiliates intends to seek or expects to receive compensation for investment banking services in the next three months from Flexion Therapeutics, Inc.
- Wells Fargo Securities, LLC or its affiliates received compensation for investment banking services from Flexion Therapeutics, Inc. in the past 12 months.
- Flexion Therapeutics, Inc. currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided investment banking services to Flexion Therapeutics, Inc.
- Flexion Therapeutics, Inc. currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided noninvestment banking securities-related

Flexion Therapeutics, Inc.

services to Flexion Therapeutics, Inc.

- Wells Fargo Securities, LLC received compensation for products or services other than investment banking services from Flexion Therapeutics, Inc. in the past 12 months.

FLXN: Risks to our valuation pertain to FLXN's ability to successfully develop and commercialize FX006, including product concentration, clinical, regulatory, commercial, intellectual property, and future financing risk.

Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue.

STOCK RATING

1=Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY

2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD

3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING

O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

VOLATILITY RATING

V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: March 28, 2014

48% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Outperform.

Wells Fargo Securities, LLC has provided investment banking services for 47% of its Equity Research Outperform-rated companies.

49% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Market Perform.

Wells Fargo Securities, LLC has provided investment banking services for 35% of its Equity Research Market Perform-rated companies.

3% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underperform.

Wells Fargo Securities, LLC has provided investment banking services for 12% of its Equity Research Underperform-rated companies.

Important Disclosure for International Clients

EEA – The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited (“WFSIL”). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (“the Act”), the content of this report has been approved by WFSIL a regulated person under the Act. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

Australia – Wells Fargo Securities, LLC is exempt from the requirements to hold an Australian financial services license in respect of the financial services it provides to wholesale clients in Australia. Wells Fargo Securities, LLC is regulated under U.S. laws which differ from Australian laws. Any offer or documentation provided to Australian recipients by Wells Fargo Securities, LLC in the course of providing the financial services will be prepared in accordance with the laws of the United States and not Australian laws.

Hong Kong – This report is issued and distributed in Hong Kong by Wells Fargo Securities Asia Limited (“WFSAL”), a Hong Kong incorporated investment firm licensed and regulated by the Securities and Futures Commission to carry on types 1, 4, 6 and 9 regulated activities (as defined in the Securities and Futures Ordinance, “the SFO”). This report is not intended for, and should not be relied on by, any person other than professional investors (as defined in the SFO). Any securities and related financial instruments described herein are not intended for sale, nor will be sold, to any person other than professional investors (as defined in the SFO).

Japan – This report is distributed in Japan by Wells Fargo Securities (Japan) Co., Ltd, registered with the Kanto Local Finance Bureau to conduct broking and dealing of type 1 and type 2 financial instruments and agency or intermediary service for entry into investment advisory or discretionary investment contracts. This report is intended for distribution only to professional investors (Tokutei Touseika) and is not intended for, and should not be relied upon by, ordinary customers (Ippan Touseika).

The ratings stated on the document are not provided by rating agencies registered with the Financial Services Agency of Japan (JFSA) but by group companies of JFSA-registered rating agencies. These group companies may include Moody's Investors Services Inc, Standard & Poor's Rating Services and/or Fitch Ratings. Any decisions to invest in securities or transactions should be made after reviewing policies and methodologies used for assigning credit ratings and assumptions, significance and limitations of the credit ratings stated on the respective rating agencies' websites.

About Wells Fargo Securities, LLC

Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including but not limited to Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of NYSE, FINRA, NFA and SIPC, Wells Fargo Institutional Securities, LLC, a member of FINRA and SIPC, Wells Fargo Prime Services, LLC, a member of FINRA, NFA and SIPC, Wells Fargo Bank, N.A. and Wells Fargo Securities International Limited, authorized and regulated by the Financial Conduct Authority.

Wells Fargo Securities, 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, if they desire further information. The information in this report has been obtained or derived from sources believed by Wells Fargo Securities, LLC, to be reliable, but Wells Fargo Securities, LLC, does not represent that this information is accurate or complete. Any opinions or estimates contained in this report represent the judgment of Wells Fargo Securities, LLC, at this time, and are subject to change without notice. For the purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. Each of Wells Fargo Securities, LLC, and Wells Fargo Securities International Limited is a separate legal entity and distinct from affiliated banks. Copyright © 2014 Wells Fargo Securities, LLC.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE