

July 28, 2014

FLXN-NASDAQ--Outperform (1) / V

Specialty Pharmaceuticals

## FLXN: Secures Global License For Microsphere Technology, Adding Franchise Protection

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### Sector Rating: Specialty Pharmaceuticals, Overweight

- Summary: FLXN announced on July 28 (after stock market close) that it has executed a global licensing agreement with SwRI to utilize SwRI's proprietary microsphere manufacturing technology. The deal provides FLXN with a global license to SwRI's microsphere manufacturing technology for use in producing FLXN's sustained-release drug candidates, including its lead candidate FX006. FLXN has been using these microspheres in its clinical trials and has planned to use them in commercial production, so the deal doesn't change FLXN's plans, but it does create barriers to competition. This deal is not surprising, in our view, but is a positive step in FLXN's progress toward developing and commercially protecting FX006 from potential competition.

- What's not new - day-to-day operations continue as planned: Recall that FX006 is FLXN's sustained release injection of a steroid (triamcinolone acetonide, or TCA), currently in Phase 2b development for treatment of osteoarthritis of the knee. FLXN has been using the SwRI microsphere technology in its development of FX006, including clinical testing in over 200 patients. FLXN has transferred the technology to Evonik, which has manufactured the FX006 drug product for clinical trials and will perform commercial manufacturing of FX006 using the microsphere technology. Therefore, operationally, this agreement does not change FLXN's plans.

- What is new - barriers to competition are put in place: the deal provides FLXN with an exclusive, worldwide license to SwRI's microsphere technology, in perpetuity. The agreement is exclusive with respect to treatment of osteoarthritis and other musculoskeletal conditions, and with respect to use of the technology with TCA and other commonly used (but undisclosed) steroids. In addition, the technology comes with patent protection, which potentially will be complemented by FLXN's patent on FX006 upon its issuance, expected in 6-12 months by FLXN.

- Upcoming FLXN potential catalysts: issuance of FX006 patent (in 6-12 months); data from FX006 Phase 2b confirmatory study (Q2 2014).

**Flexion Therapeutics, Inc. (FLXN-NASDAQ)**

**Price as of 7/28/2014: \$12.22**

**FY 14 EPS: \$-2.79**

**FY 15 EPS: \$-3.41**

**Shares Out.: 15.6 MM**

**Market Cap.: \$190.63 MM**

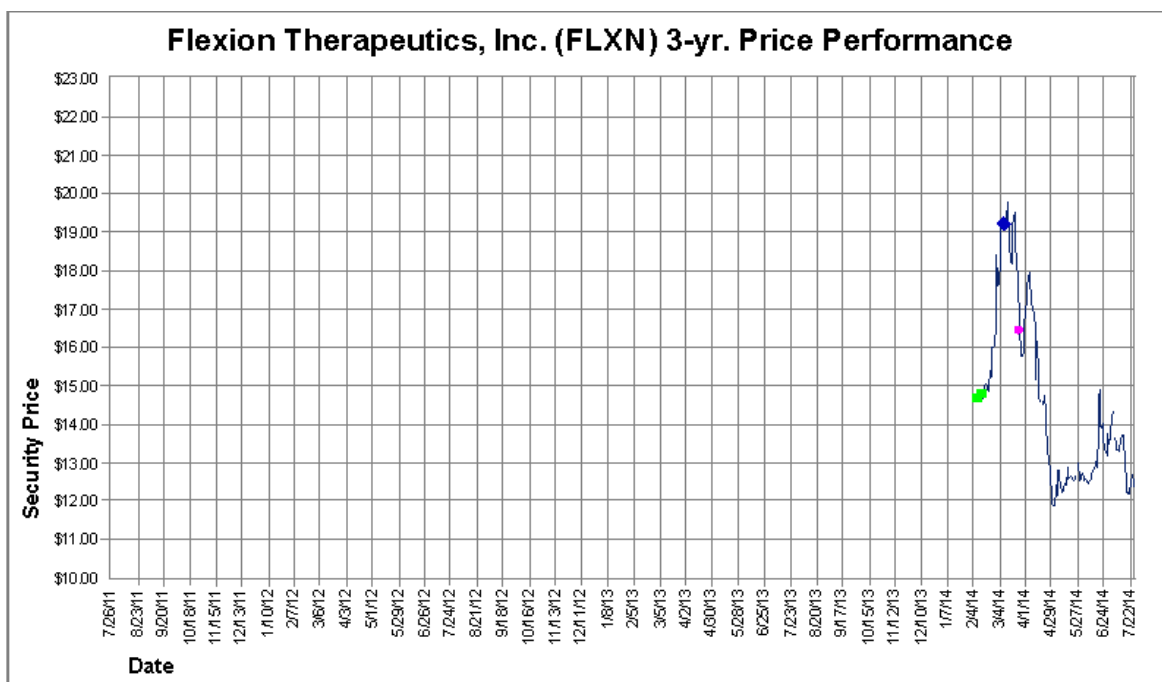
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### Required Disclosures



	Date	Publication Price (\$)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price (\$)
□	2/12/2014		IPO at \$13.00			
◆	3/10/2014	19.26	1	24.00	26.00	19.22
●	3/26/2014	15.76	1	23.00	25.00	16.43

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

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

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