

Equity Research

Flexion Therapeutics, Inc.

FLXN: Lowering Valuation Range Due To Greater Share Dilution

• **Summary:** FLXN closed its recent equity offering on December 17, selling approximately 5.8MM shares, above the approximately 4.1MM indicated by the initial offering filing on December 2. We are updating our model for the greater share dilution and as a result are lowering our valuation range from \$28-30 to \$26-28. We are revising our EPS estimates as follows: 2014E from -\$2.06 to -\$2.07, and 2015E from -\$2.88 to -\$2.67.

• **Final equity offering terms were set as follows:** On December 17, FLXN announced the closing of its follow-on equity offering. FLXN sold 5.796MM shares (5.04MM + 15% overallotment option), at \$17.00 each, raising \$98.5MM gross proceeds, \$92.1MM net of underwriters' spread and offering expenses (Exhibit 1 within).

• **Our valuation range is reduced due to substantially more shares issued than indicated in initial filing.** The deal size was raised from an initially filed 4.1MM shares (an estimate based on the \$69MM proceeds indicated in the initial S-1, at the \$16.85 December 2 closing price). We have revised our model to include the impact of the additional share dilution, raising shares issued from 4.1MM to 5.8MM. Taking into account the benefit of the offering proceeds, the new share count reduces our DCF-based valuation range to \$26-28.

• **Future capital raises are likely needed before FLXN reaches cash flow breakeven.** FLXN exits the recent offering with a cash and marketable securities balance of approximately \$159MM (as of September 30, 2014, pro forma for the net proceeds of the offering). R&D expenses will ramp up in 2015E and 2016E as the FX006 confirmatory phase 2b and phase 3 trials are conducted in parallel, and we anticipate revenues to commence in late 2017E with the launch of FX006. Without future capital raises, we estimate that FLXN would run out of cash in approximately late 2016E/early 2017E; however, we would not expect the company to wait that long to raise additional funds. If clinical trials are successful, FLXN will potentially have 2 major FX006 catalysts driven before that time: confirmatory phase 2b data and phase 3 data. We model an equity offering after each of these events: (1) \$75MM in Q4 2015E (after confirmatory phase 2b data) and (2) \$75MM in mid-2016E (after Phase 3 data), as shown in Exhibit 2 within. It's possible that the company could outlicense some or all of its ex-U.S. rights to FX006 and thereby reduce the need for equity raises.

Valuation Range: \$26.00 to \$28.00 from \$28.00 to \$30.00

Our valuation range of \$26-\$28 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.

Outperform / V

Sector: Specialty Pharmaceuticals

Overweight

Earnings Estimates Revised Up

EPS	2013A	2014E		2015E	
		Curr.	Prior	Curr.	Prior
Q1 (Mar.)	(\$6.08)	(\$0.86) A	NC	(\$0.55)	(0.60)
Q2 (June)	(5.83)	(0.38) A	NC	(0.63)	(0.69)
Q3 (Sep.)	(6.38)	(0.45) A	NC	(0.81)	(0.88)
Q4 (Dec.)	(4.66)	(0.55)	NC	(0.68)	(0.71)
FY	(\$23.02)	(\$2.07)	(2.06)	(\$2.67)	(2.88)
CY	(\$23.02)	(\$2.07)		(\$2.67)	
FY P/EPS	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

Quarterly 2014 EPS do not add to FY2014 EPS due to change in share counts and February 2014 IPO

Ticker	FLXN
Price (12/18/2014)	\$21.02
52-Week Range:	\$11-22
Shares Outstanding: (MM)	15.6
Market Cap.: (MM)	\$327.9
S&P 500:	2,061.23
Avg. Daily Vol.:	111,402
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/EPS-to-Growth:	NM
Last Reporting Date:	11/13/2014

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

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Please see page 7 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 12/18/14 unless otherwise stated.

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Together we'll go far



Offering Summary and Forecasted Cash and Capital Raises

A summary of terms for FLXN's recent equity offering is shown in Exhibit 1. The deal closed on December 17 and added about 5.8MM shares to FLXN's shares outstanding.

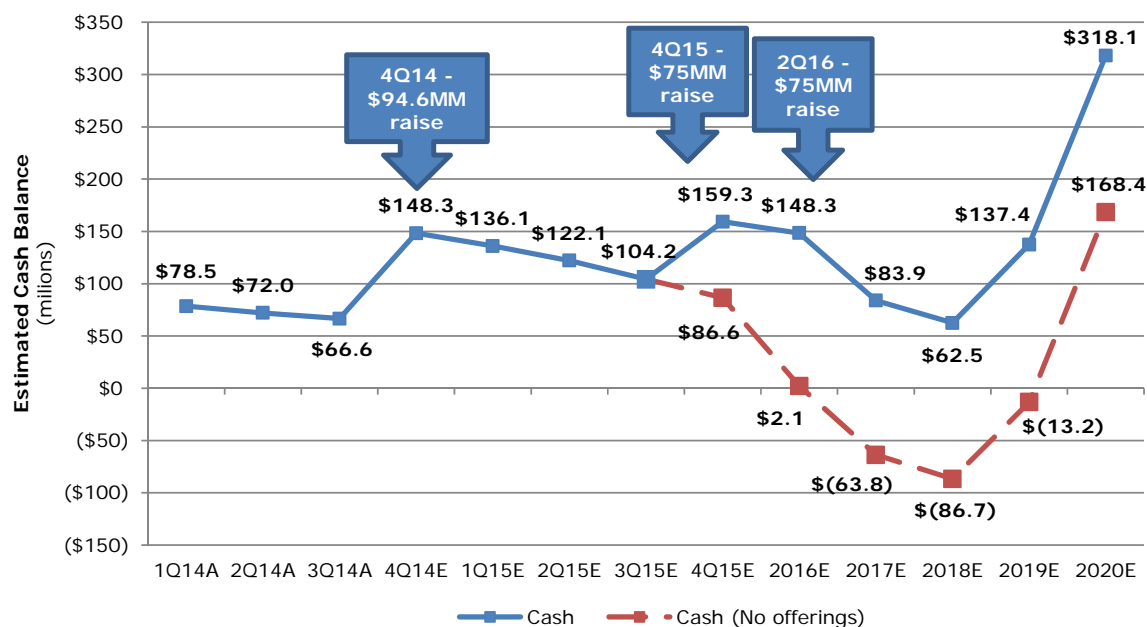
Exhibit 1. Parameters of New Offering (\$ in millions)**Offering parameters**

Shares issued (in millions), incl 15% overallotment	5.796
Offering price	\$17.0
Gross proceeds (in millions US\$)	\$98.5
Gross spread	\$5.9
Offering expenses	\$0.5
Net proceeds	\$92.1

Source: Wells Fargo Securities, LLC and company reports

Our forecasted balances of FLXN's cash and marketable securities are shown in Exhibit 2, (1) assuming 2 additional equity offerings (solid line) and (2) no additional equity offerings (dashed line). FLXN's cash and marketable securities balance at September 30, 2014, or 158.7MM pro forma for the recent equity offering (\$92.1MM net proceeds).

Without future capital raises, we estimate that FLXN would run out of cash in approximately late 2016E/early 2017E. However, we would not expect the company to wait that long to raise additional funds. If clinical trials are successful, FLXN will potentially have 2 major FX006 catalysts driven before that time: confirmatory phase 2b data and phase 3 data. We model an equity offering after each of these events: (1) \$75MM in Q4 2015E (after confirmatory phase 2b data) and (2) \$75MM in mid 2016E (after Phase 3 data), as shown in Exhibit 2 within. It's possible that the company could outlicense some or all of its ex-U.S. rights to FX006 and thereby reduce the need for equity raises.

Exhibit 2. Estimated Cash Balance (\$ in millions)

Source: Wells Fargo Securities, LLC estimates and company reports

Financial Model

FLXN - Revenue Forecast
(In MM except price per injection)

US Market

Overall Patient Pool

	FY 2013A	FY 2014E	FY 2015E	FY 2016E	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
Number of patients with knee OA diagnosis	12.0	12.3	12.7	13.1	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%	2.9%	2.9%	2.9%
Number of patients with knee OA and IA steroid Rx	3.0	3.1	3.2	3.3	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%	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	1.1	1.1	1.1	1.1
Total number of steroid injections	3.3	3.4	3.5	3.6	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	1.0	1.0	1.1	1.1	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%	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	1.2	1.2	1.2	1.2
Total number of HA injections	1.2	1.2	1.3	1.3	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	4.0	4.1	4.2	4.4	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%	2.9%	2.9%	2.9%
Total injections - steroid and HA	4.5	4.6	4.8	4.9	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%	2.9%	2.9%	2.9%

FX006 Market Opportunity

Based on steroid injection volumes and FX006 pricing

Total injections - steroid	3.3	3.4	3.5	3.6	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	\$500	\$500	\$500	\$500	\$510	\$520	\$531	\$541	\$552	\$563	\$574	\$586	\$598	\$609	\$622	\$634	\$647	\$660	\$673
Market opportunity - FX006	\$1,650.0	\$1,697.9	\$1,747.1	\$1,797.8	\$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%	2.9%	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	3.0	3.1	3.2	3.3	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	0.0%	0.0%	0.0%	0.0%	1.3%	3.1%	6.9%	11.9%	16.3%	21.3%	25.0%	23.1%	20.6%	19.4%	18.1%	16.9%	15.6%	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	1.5	1.5	1.5	1.5
Total no. FX006 inj. (steroid group)	-	-	-	-	0.1	0.2	0.4	0.7	0.9	1.2	1.5	1.4	1.3	1.3	1.2	1.2	1.1	1.1	0.5	0.2	0.1
Number of patients receiving HA	1.0	1.0	1.1	1.1	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	0.0%	0.0%	0.0%	0.0%	1.3%	3.1%	6.9%	11.9%	16.3%	21.3%	25.0%	23.1%	20.6%	19.4%	18.1%	16.9%	15.6%	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	1.5	1.5	1.5	1.5
Total no. FX006 inj. (HA group)	-	-	-	-	0.0	0.1	0.1	0.2	0.3	0.4	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.2	0.1	0.0
Total FX006 injections	-	-	-	-	0.1	0.2	0.5	0.9	1.2	1.6	2.0	1.9	1.7	1.7	1.6	1.6	1.5	1.5	0.6	0.3	0.1
Growth, y/y		NM	NM	NM	NM	157.3%	126.4%	77.7%	40.8%	34.6%	21.1%	(4.8%)	(8.2%)	(3.3%)	(3.7%)	(4.2%)	(4.7%)	(1.2%)	(57.1%)	(48.6%)	(58.8%)

FX006 Pricing and Revenues

FX006 price/injection	\$500	\$500	\$500	\$500	\$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%	0.0%	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	\$0.0	\$0.0	\$0.0	\$0.0	\$42.0	\$108.2	\$249.7	\$452.8	\$650.3	\$892.5	\$1,102.1	\$1,070.0	\$1,001.6	\$987.6	\$969.7	\$947.5	\$920.9	\$927.8	\$405.8	\$212.9	\$89.4
Growth, y/y		NM	NM	NM	NM	157.3%	130.9%	81.3%	43.6%	37.3%	23.5%	(2.9%)	(6.4%)	(1.4%)	(1.8%)	(2.3%)	(2.8%)	0.8%	(56.3%)	(47.5%)	(58.0%)

Source: Wells Fargo Securities, LLC estimates and company reports

FLXN - INCOME STATEMENT (In MM except per share data)													
	2014												CAGR (E)
	FY 2011A	FY 2012A	FY 2013A	Mar-14 1QA	Jun-14 2QA	Sep-14 3QA	Dec-14 4QE	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	'14E-'17E
FX006 Revenues	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$42.0	\$108.2	NM
Total Revenues	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$42.0	\$108.2	NM
Cost of Products Sold	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$4.6	\$11.9	
Gross profit	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$37.4	\$96.3	NM
S&M	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1.9	\$20.6	\$40.6	\$45.4	NM
G&A	\$3.0	\$3.9	\$6.7	\$2.3	\$2.2	\$2.3	\$2.5	\$9.4	\$11.2	\$12.3	\$13.6	\$14.9	13.2%
R&D	\$8.2	\$11.1	\$11.1	\$4.2	\$3.6	\$4.7	\$6.7	\$19.1	\$48.5	\$51.2	\$38.4	\$42.3	26.1%
EBITDA	(\$11.2)	(\$15.0)	(\$17.7)	(\$6.4)	(\$5.8)	(\$6.9)	(\$9.2)	(\$28.4)	(\$61.5)	(\$84.0)	(\$55.0)	(\$6.3)	NM
Amortization and Depreciation	\$0.1	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	
Operating Income	(\$11.3)	(\$15.0)	(\$17.8)	(\$6.4)	(\$5.8)	(\$7.0)	(\$9.2)	(\$28.5)	(\$61.6)	(\$84.1)	(\$55.1)	(\$6.4)	NM
Interest expense	\$0.0	\$0.0	(\$0.4)	(\$0.1)	(\$0.1)	(\$0.1)	\$0.0	(\$0.3)	\$0.0	\$0.0	\$0.0	\$0.0	
Interest income	\$0.2	\$0.2	\$0.2	\$0.0	\$0.1	\$0.2	\$0.1	\$0.4	\$1.3	\$1.6	\$1.5	\$0.8	
Net interest	\$0.2	\$0.2	(\$0.2)	(\$0.1)	\$0.0	\$0.1	\$0.1	\$0.1	\$1.3	\$1.6	\$1.5	\$0.8	
Other	(\$0.3)	(\$0.2)	(\$0.2)	(\$0.0)	(\$0.1)	(\$0.1)	\$0.0	(\$0.3)	\$0.0	\$0.0	\$0.0	\$0.0	
Total other income	(\$0.2)	\$0.0	(\$0.4)	(\$0.1)	(\$0.1)	(\$0.1)	\$0.1	(\$0.2)	\$1.3	\$1.6	\$1.5	\$0.8	NM
Pretax Income	(\$11.4)	(\$15.0)	(\$18.2)	(\$6.5)	(\$5.9)	(\$7.0)	(\$9.2)	(\$28.7)	(\$60.3)	(\$82.5)	(\$53.6)	(\$5.6)	NM
Income tax provision	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	NM
Net Income	(\$11.4)	(\$15.0)	(\$18.2)	(\$6.5)	(\$5.9)	(\$7.0)	(\$9.2)	(\$28.7)	(\$60.3)	(\$82.5)	(\$53.6)	(\$5.6)	NM
Shares outstanding (basic)		0.5	0.8	7.6	15.6	15.6	16.6	13.9	22.6	27.3	29.3	29.9	
Shares outstanding (diluted)		0.5	10.6	13.3	15.6	15.6	17.3	15.5	23.2	27.9	30.0	30.6	
Shares outstanding (for EPS)		0.5	0.8	7.6	15.6	15.6	16.6	13.9	22.6	27.3	29.3	29.9	
EPS		(\$27.59)	(\$23.02)	(\$0.86)	(\$0.38)	(\$0.45)	(\$0.55)	(\$2.07)	(\$2.67)	(\$3.03)	(\$1.83)	(\$0.19)	NM
Margin Analysis													
Gross Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	89.0%	89.0%	
S&M as % of sales	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	96.5%	42.0%	
G&A as % of sales	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	32.3%	13.8%	
R&D % sales	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	91.3%	39.1%	
EBITDA margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	(130.7%)	(5.8%)	
Operating margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	(131.0%)	(5.9%)	
Pre-tax margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	(127.5%)	(5.2%)	
Statutory tax rate	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	
AMT tax rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	
Tax rate, effective	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Net margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	(127.5%)	(5.2%)	
Year/Year Changes													
FX006 Revenues		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	157.3%	
Total Revenues		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	157.3%	
Gross profit		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	157.3%	
S&M		NM	NM	NM	NM	NM	NM	NM	NM	983.1%	97.1%	12.0%	
G&A		29.5%	69.9%	50.2%	57.1%	(4.8%)	89.0%	39.6%	19.8%	10.0%	10.0%	10.0%	
R&D		34.3%	(0.0%)	30.3%	17.8%	81.2%	200.0%	73.0%	153.3%	5.6%	(25.0%)	10.2%	
EBITDA		33.9%	18.2%	36.4%	30.3%	39.5%	159.3%	60.4%	116.6%	36.6%	(34.6%)	(88.6%)	
Operating income		33.0%	18.3%	36.7%	30.3%	39.5%	158.4%	60.4%	116.2%	36.6%	(34.5%)	(88.4%)	
Net income		30.9%	21.4%	36.4%	29.0%	38.0%	148.2%	57.6%	110.3%	36.8%	(35.0%)	(89.6%)	
Earnings per share		NM	(16.6%)	(85.9%)	(93.5%)	(93.0%)	(88.2%)	(91.0%)	29.2%	13.3%	(39.6%)	(89.8%)	

Source: Wells Fargo Securities, LLC estimates and company reports

FLXN - BALANCE SHEET												
(In MM except per share data)												
	FY 2011A	FY 2012A	FY 2013A	2014				FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E
				Mar-14	Jun-14	Sep-14	Dec-14					
				1QA	2QA	3QA	4QE					
Current Assets												
Cash and Equivalents	\$3.4	\$12.8	\$16.2	\$35.8	\$12.0	\$14.4	\$116.0	\$116.0	\$159.3	\$148.3	\$83.9	\$62.5
Restricted Cash and Restricted Cash Equivalents	\$0.0	\$0.0	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Marketable securities	\$7.2	\$16.5	\$0.3	\$42.7	\$60.0	\$52.2	\$32.2	\$32.2	\$0.0	\$0.0	\$0.0	\$0.0
Accounts Receivable			\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$6.9	\$17.8
Inventories, net			\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$3.8	\$9.8
Prepaid expenses and other assets	\$0.3	\$0.5	\$1.8	\$0.8	\$0.7	\$0.7	\$1.8	\$1.8	\$2.2	\$2.3	\$2.4	\$3.2
Total Current Assets	\$10.8	\$29.9	\$18.4	\$79.5	\$72.8	\$67.4	\$150.2	\$150.2	\$161.6	\$150.8	\$97.2	\$93.4
Long-term Assets												
Property and equipment, net	\$0.1	\$0.1	\$0.4	\$0.4	\$0.4	\$0.7	\$0.7	\$0.7	\$0.5	\$0.4	\$0.7	\$1.7
Other assets	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Assets	\$10.9	\$30.0	\$18.8	\$79.9	\$73.2	\$68.1	\$150.9	\$150.9	\$162.2	\$151.2	\$97.9	\$95.1
LIABILITIES AND SHAREHOLDERS' EQUITY												
Current Liabilities												
Accounts payable	\$0.7	\$0.5	\$1.3	\$1.8	\$1.0	\$1.5	\$1.8	\$1.8	\$2.2	\$2.3	\$2.5	\$3.9
Accrued expenses and other current liabilities	\$1.1	\$2.2	\$2.3	\$1.6	\$1.5	\$2.7	\$2.7	\$2.7	\$3.2	\$3.4	\$3.6	\$4.9
Current portion of long-term debt	\$0.0	\$0.0	\$1.5	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0	\$1.5	\$0.0	\$0.0	\$0.0
Total Current Liabilities	\$1.8	\$2.7	\$5.0	\$5.4	\$4.4	\$6.2	\$6.5	\$6.5	\$7.0	\$5.7	\$6.0	\$8.8
Long-term Liabilities												
Long-term debt	\$0.0	\$0.0	\$3.5	\$3.1	\$2.6	\$2.1	\$1.6	\$1.6	\$0.0	\$0.0	\$0.0	\$0.0
Other Long-term Liabilities	\$0.0	\$0.0	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Total Long-term Liabilities	\$0.0	\$0.0	\$3.6	\$3.1	\$2.6	\$2.1	\$1.6	\$1.6	\$0.1	\$0.1	\$0.1	\$0.1
Shareholders' Equity												
Preferred Stock	\$41.8	\$74.8	\$74.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Common stock	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Additional paid-in capital	\$0.3	\$0.4	\$1.5	\$144.1	\$144.7	\$145.4	\$237.5	\$237.5	\$310.3	\$383.0	\$383.0	\$383.0
Accumulated other comprehensive income	\$0.0	\$0.0	(\$0.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Deficit accumulated during the development stage	(\$33.0)	(\$48.0)	(\$66.2)	(\$72.7)	(\$78.6)	(\$85.7)	(\$94.8)	(\$94.8)	(\$155.1)	(\$237.6)	(\$291.3)	(\$296.8)
Total Stockholders' Equity	\$9.2	\$27.3	\$10.1	\$71.4	\$66.1270	\$59.8	\$142.7	\$142.7	\$155.2	\$145.4	\$91.8	\$86.2
Total Liabilities & Stockholders' Equity	\$10.9	\$30.0	\$18.8	\$79.9	\$73.2	\$68.1	\$150.9	\$150.9	\$162.2	\$151.2	\$97.9	\$95.1

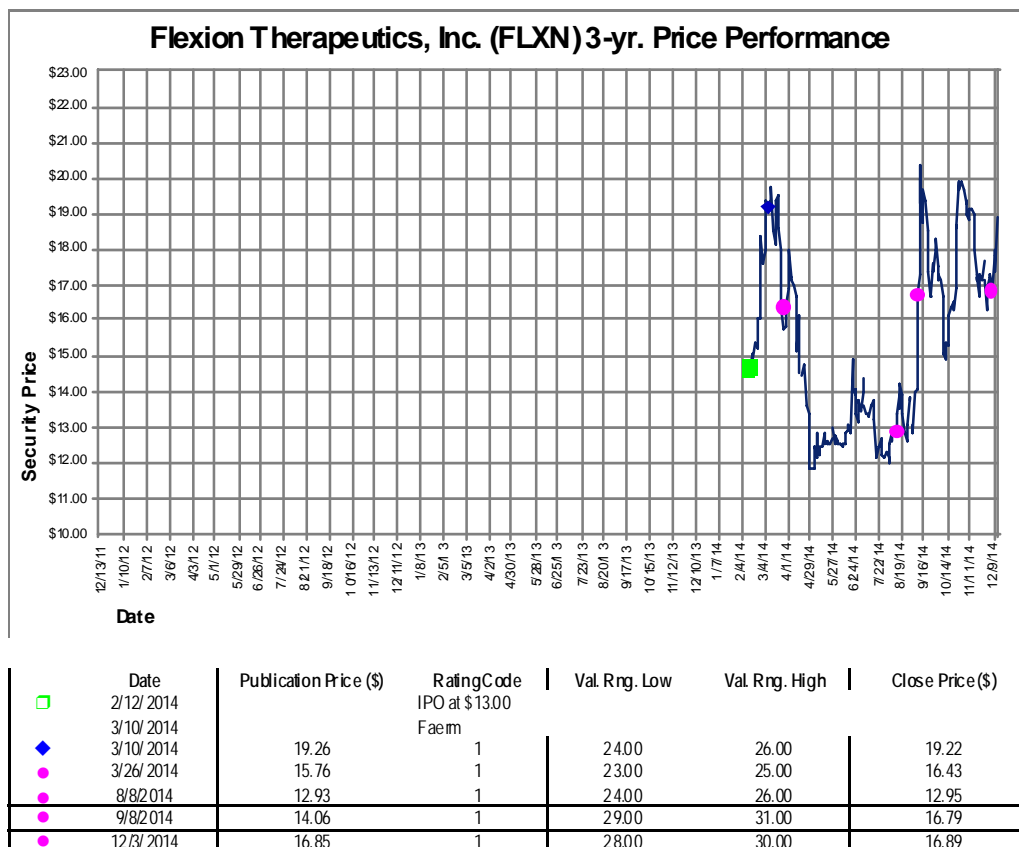
Source: Wells Fargo Securities, LLC estimates and company reports

FLXN - CASH FLOW STATEMENT (In MM except per share data)												
	2014											
	FY 2011A	FY 2012A	FY 2013A	Mar-14 1QA	Jun-14 2QA	Sep-14 3QA	Dec-14 4QE	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E
Net Income (Loss)	(\$11.4)	(\$15.0)	(\$18.2)	(\$6.5)	(\$5.9)	(\$7.0)	(\$9.2)	(\$28.7)	(\$60.3)	(\$82.5)	(\$53.6)	(\$5.6)
Adjustments to Net Income												
Depreciation	\$0.1	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Stock-based Compensation	\$0.1	\$0.1	\$0.9	\$0.4	\$0.7	\$0.7	\$0.0	\$1.8	\$0.0	\$0.0	\$0.0	\$0.0
Amortization of premium (discount) on marketable securities	\$0.1	\$0.1	\$0.3	\$0.0	\$0.1	\$0.1	\$0.0	\$0.2	\$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	\$0.0	\$0.0	\$0.0
Other	\$0.0	\$0.0	\$0.0	\$0.0	\$0.7	(\$0.7)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<u>Changes in operating assets and liabilities</u>												
Accounts Receivable			\$0.0			\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$6.9)	(\$10.9)
Inventories			\$0.0			\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$3.8)	(\$6.0)
Prepaid Expenses and other assets	\$0.2	(\$0.2)	\$0.3	(\$0.7)	(\$0.5)	\$0.8	(\$1.1)	(\$1.4)	(\$0.4)	(\$0.1)	(\$0.1)	(\$0.8)
Accounts Payable, accr. Exps., and other curr. liab	\$0.4	\$0.9	(\$0.5)	\$0.2	(\$0.8)	\$1.5	\$0.3	\$1.3	\$1.0	\$0.3	\$0.3	\$2.8
Net Cash From Operations	(\$10.4)	(\$14.0)	(\$17.1)	(\$6.5)	(\$5.8)	(\$4.6)	(\$9.9)	(\$26.7)	(\$59.6)	(\$82.2)	(\$64.0)	(\$20.3)
Cash from Investing Activities												
Purchases of property and equipment	(\$0.0)	(\$0.0)	(\$0.7)	(\$0.0)	(\$0.0)	(\$0.3)	\$0.0	(\$0.3)	\$0.0	\$0.0	(\$0.4)	(\$1.1)
Change in restricted cash	\$0.0	\$0.0	(\$0.2)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Purchases of marketable securities	(\$16.8)	(\$28.5)	(\$25.6)	(\$42.7)	(\$19.5)	(\$10.2)	\$0.0	(\$72.4)	\$0.0	\$0.0	\$0.0	\$0.0
Redemption of marketable securities	\$12.8	\$19.0	\$45.4	\$0.3	\$2.1	\$17.8	\$20.0	\$40.2	\$32.2	\$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	\$0.0	\$0.0	\$0.0
Cash from Investing Activities	(\$4.1)	(\$9.5)	\$18.8	(\$42.5)	(\$17.4)	\$7.4	\$20.0	(\$32.5)	\$32.2	\$0.0	(\$0.4)	(\$1.1)
Cash from Financing Activities												
Proceeds from borrowings under term loan	\$0.0	\$0.0	\$10.0	\$0.0	\$0.0	\$0.0	(\$0.5)	(\$0.5)	(\$2.1)	(\$1.5)	\$0.0	\$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	\$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	\$0.0	\$0.0	\$0.0
Proceeds from common stock issuance	\$0.0	\$0.0	\$0.0	\$69.5	\$0.0	(\$1.3)	\$92.1	\$160.3	\$72.8	\$72.8	\$0.0	\$0.0
Proceeds from exercise of stock options	\$0.0	\$0.0	\$0.0	\$0.2	\$0.0	\$0.0	\$0.0	\$0.3	\$0.0	\$0.0	\$0.0	\$0.0
Other	\$0.0	(\$0.0)	(\$0.1)	(\$1.1)	(\$0.7)	\$0.8	\$0.0	(\$1.0)	\$0.0	\$0.0	\$0.0	\$0.0
Cash from financing	\$13.0	\$33.0	\$9.9	\$68.6	(\$0.6)	(\$0.5)	\$91.6	\$159.1	\$70.7	\$71.3	\$0.0	\$0.0
Increase/(decrease) in cash and cash equivalents	(\$1.5)	\$9.5	\$11.6	\$19.6	(\$23.8)	\$2.3	\$101.7	\$99.8	\$43.3	(\$11.0)	(\$64.4)	(\$21.4)
Beginning cash balance	\$4.8	\$3.4	\$12.8	\$16.2	\$35.8	\$12.0	\$14.4	\$16.2	\$116.0	\$159.3	\$148.3	\$83.9
Ending cash balance	\$3.4	\$12.8	\$24.4	\$35.8	\$12.0	\$14.4	\$116.0	\$116.0	\$159.3	\$148.3	\$83.9	\$62.5
Average cash balance	\$4.1	\$8.1	\$18.6	\$26.0	\$23.9	\$13.2	\$65.2	\$66.1	\$137.7	\$153.8	\$116.1	\$73.2

Source: Wells Fargo Securities, LLC estimates and company reports. Note: Quarterly cash flow statement historical figures for 1Q-3Q:2013 not available.

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 concurrent Phase 2b and Phase 3 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.

Required Disclosures

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key		Rating Code Key	
▼	Rating Downgrade	1	Outperform/Buy
▲	Rating Upgrade	2	Market Perform/Hold
●	Valuation Range Change	3	Underperform/Sell
◆	Initiation, Resumption, Drop or Suspend	SR	Suspended
■	Analyst Change	NR	Not Rated
□	Split Adjustment	NE	No Estimate

Additional Information Available Upon Request

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- 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.

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- Wells Fargo Securities, LLC or its affiliates managed or co-managed a public offering of securities for Flexion Therapeutics, Inc.

Specialty Pharmaceuticals

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.
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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.

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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.

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As of: December 18, 2014

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