

Equity Research

Flexion Therapeutics, Inc.

FLXN: Clinical Study Plans Progress--Q1 2014 Results Uneventful

Outperform / V

Sector: Specialty Drugs

Market Weight

• **Bottom line:** Our main takeaway from FLXN's Q1 2014 earnings release and call was that clinical timelines remain on track, for lead product FX006 and also for FX007. Several catalysts are expected in the coming year, with the key event for the company (and the stock) being the expected release of FX006 confirmatory Phase 2b data in H1 2015. As expected, Q1 2014 results were uneventful, with net income of -\$6.5 MM vs. our estimated -\$5.4 MM, on higher R&D and G&A expenses. Our EPS estimates are lowered modestly to reflect higher expenses. Lowering 2014 EPS to -\$2.79 from -\$2.59 and lowering 2015 EPS to -\$3.41 from -\$3.32. Valuation range remains \$23-25.

• **Clinical timelines remain on track.** The key near-term and medium-term drivers of FLXN's stock price, in our view, relate to successful execution of the company's clinical study plans, the timelines of which remain on track per the earnings call. Upcoming potential catalysts include the following: (1) data release for the FX006 synovial fluid PK study expected in Q2 2014, (2) the initiation of a proof of concept clinical trial for FX007 in H2 2014, (3) top-line data readout for the confirmatory FX006 Phase 2b trial expected in H1 2015 (the company's most important event), and (4) data release for the FX007 POC study in H1 2015.

• **Q1 2014 results were uneventful.** Net income was -\$6.5MM, vs. our -\$5.4MM and consensus -\$6.3MM. The variance in net income vs. our estimate was primarily due to higher R&D expense (\$4.2MM compared to our \$3.4MM and consensus \$4.0MM), as the company began preparations for the FX006 confirmatory Phase 2b study. G&A expense of \$2.3MM (vs. our \$1.7MM and consensus \$4.0MM) was driven by increases in salary and headcount (including two additions to the management team), and expenses associated with the company's IPO in February 2014.

Valuation Range: \$23.00 to \$25.00

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.

Earnings Estimate Revised Down

EPS	2013A	2014E		2015E	
		Curr.	Prior	Curr.	Prior
Q1 (Mar.)	(\$5.92)	(\$0.86) A	(0.62)	(\$0.76)	(0.72)
Q2 (June)	(6.07)	(0.55)	(0.52)	(0.88)	(0.85)
Q3 (Sep.)	(6.38)	(0.66)	(0.65)	(0.89)	(0.88)
Q4 (Dec.)	(4.66)	(0.80)	(0.79)	(0.86)	(0.85)
FY	(\$23.02)	(\$2.79)	(2.59)	(\$3.41)	(3.32)
CY	(\$23.02)	(\$2.79)		(\$3.41)	
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 (05/08/2014)	\$12.39
52-Week Range:	\$11-21
Shares Outstanding: (MM)	15.6
Market Cap.: (MM)	\$193.3
S&P 500:	1,875.63
Avg. Daily Vol.:	42,517
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:	05/08/2014
	After Close

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

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

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

All estimates/forecasts are as of 05/09/14 unless otherwise stated.

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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.

Exhibit 1. FLXN Q1 2014 Variance Analysis

	Prior Period Actuals		Q1 2014			Q1 2014 Variance		Q1 2014 % Change	
(in MM except per share data)	Q1 2013	Q4 2013	Consensus	Wells Fargo 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	\$0.3	\$0.3	\$0.0	(\$0.3)	(\$0.3)	NM	NM
G&A	\$1.3	\$1.3	\$2.0	\$1.7	\$2.3	\$0.3	\$0.5	70.0%	70.4%
R&D	\$3.2	\$2.2	\$4.0	\$3.4	\$4.2	\$0.2	\$0.8	28.3%	85.6%
Operating income	(\$4.6)	(\$3.6)	(\$6.3)	(\$5.4)	(\$6.4)	(\$0.2)	(\$1.0)	40.5%	79.9%
Interest expense	(\$0.1)	(\$0.1)	\$0.1	\$0.0	(\$0.1)	(\$0.1)	(\$0.1)	(25.2%)	(35.2%)
Interest income	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$0.0)	(100.0%)	(100.0%)
Other	(\$0.1)	(\$0.0)	\$0.1	\$0.0	(\$0.0)	(\$0.1)	(\$0.0)	(74.2%)	74.4%
Total other income	(\$0.1)	(\$0.1)	\$0.1	\$0.0	(\$0.1)	(\$0.2)	(\$0.1)	18.3%	(5.9%)
Pretax Income	(\$4.7)	(\$3.7)	(\$6.1)	(\$5.4)	(\$6.5)	(\$0.4)	(\$1.2)	40.1%	77.3%
Income tax provision	\$0.0	\$0.0	(\$0.0)	\$0.0	\$0.0	\$0.0	\$0.0	NM	NM
Net income	(\$4.7)	(\$3.7)	(\$6.1)	(\$5.4)	(\$6.5)	(\$0.4)	(\$1.2)	40.1%	77.3%
EPS	NA	(\$4.66)	(\$0.49)	(\$0.62)	(\$0.86)	(\$0.36)	(\$0.24)	NM	(81.6%)
Diluted shares outstanding	NA	0.8	NM	8.7	7.6	NM	(1.1)	NM	863.8%

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

Exhibit 2. FLXN Estimate Revision Summary

FLXN - Estimate Revision Summary (In MM except per share data)													
	2014												
	FY 2011	FY 2012	FY 2013	Mar-14	Jun-14	Sep-14	Dec-14	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	CAGR 14 - 18
Total Sales													
Old	\$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	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	
S&M													
Old	\$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	0.2	0.2	0.2	0.5	1.9	14.1	40.5	44.8	207.6%
Change	0.0	0.0	0.0	(0.3)	0.0	0.0	0.0	(0.3)	0.0	0.0	0.0	0.0	
G&A													
Old	\$3.0	\$3.9	\$6.7	\$1.7	\$2.1	\$2.3	\$2.5	\$8.7	\$10.0	\$11.1	\$12.2	\$13.4	11.2%
Revised	3.0	3.9	6.7	2.3	2.5	2.6	2.7	10.1	11.7	12.9	14.1	15.6	11.5%
Change	0.0	0.0	0.0	0.5	0.4	0.2	0.1	1.3	1.6	1.8	2.0	2.2	
R&D													
Old	\$8.2	\$11.1	\$11.1	\$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	11.1	4.2	6.0	7.8	9.8	27.7	48.5	51.2	38.4	42.3	11.2%
Change	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0	
Operating Income													
Old	(\$11.3)	(\$15.0)	(\$17.8)	(\$5.4)	(\$8.2)	(\$10.3)	(\$12.6)	(\$36.4)	(\$60.4)	(\$76.4)	(\$72.3)	(\$23.5)	NM
Revised	(11.3)	(15.0)	(17.8)	(6.4)	(8.7)	(10.5)	(12.7)	(38.3)	(62.1)	(78.2)	(74.3)	(25.6)	NM
Change	0.0	0.0	0.0	(1.0)	(0.4)	(0.2)	(0.1)	(1.8)	(1.6)	(1.8)	(2.0)	(2.2)	
EPS													
Old	\$0.00	(\$27.59)	(\$23.02)	(\$0.62)	(\$0.52)	(\$0.65)	(\$0.79)	(\$2.59)	(\$3.32)	(\$3.35)	(\$2.55)	(\$0.80)	NM
Revised	0.00	(27.59)	(23.02)	(0.86)	(0.55)	(0.66)	(0.80)	(2.79)	(3.41)	(3.43)	(2.62)	(0.88)	NM
Change			0.00	(0.24)	(0.03)	(0.01)	(0.01)	(0.19)	(0.09)	(0.08)	(0.07)	(0.08)	
Weighted average shares outstanding													
Old	0.0	0.5	0.8	8.7	15.6	15.7	15.8	13.9	18.1	22.7	28.3	28.9	
Revised	0.0	0.5	0.8	7.6	15.6	15.7	15.8	13.7	18.1	22.7	28.3	28.9	
Change	0.0	0.0	0.0	(1.1)	0.0	0.0	0.0	(0.3)	0.0	0.0	0.0	0.0	

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 EPS.

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 Growth, yy	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
	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 Growth, yy	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
	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 Growth, yy	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
	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 Growth, yy	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
	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 Growth, yy	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
	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 FX006 price/injection	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
	\$500	\$500	\$510	\$520	\$531	\$541	\$552	\$563	\$574	\$586	\$598	\$609	\$622	\$634	\$647	\$660	\$673
Market opportunity - FX006 Growth, yy	\$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
	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 Est % penetration of FX006	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
	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 Est % penetration of FX006	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
	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 Growth, yy	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
	nm	311.6%	105.6%	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 Price increase, yy	\$500	\$500	\$510	\$520	\$531	\$541	\$552	\$563	\$574	\$586	\$598	\$609	\$622	\$634	\$647	\$660	\$673
	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, yy	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%)	(56.3%)	(47.5%)	(58.0%)

Source: Wells Fargo Securities, LLC estimates and company reports

FLXN - INCOME STATEMENT (In MM except per share data)																		
	FY 2011			FY 2012			FY 2013			2014								
										Mar-14	Jun-14	Sep-14	Dec-14					
										1QE	2QE	3QE	4QA	FY 2014	FY 2015E	FY 2016E	FY 2017E	FY 2018E
FX006 Revenues		▲	\$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
Total Revenues		▲	\$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
Cost of Products Sold		▲	\$0.0	▲	\$0.0	▲	\$0.0	▲	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$2.3	\$9.5
Gross profit		▲	\$0.0	▲	\$0.0	▲	\$0.0	▲	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$18.7	\$77.0
S&M		▲	\$0.0	▲	\$0.0	▲	\$0.0	▲	\$0.0	\$0.0	\$0.2	\$0.2	\$0.2	\$0.5	\$1.9	\$14.1	\$40.5	\$44.8
G&A		▲	\$3.0	▲	\$3.9	▲	\$6.7	▲	\$2.3	\$2.5	\$2.6	\$2.7	\$10.1	\$11.7	\$12.9	\$14.1	\$15.6	\$15.6
R&D		▲	\$8.2	▲	\$11.1	▲	\$11.1	▲	\$4.2	\$6.0	\$7.8	\$7.8	\$9.8	\$27.7	\$48.5	\$51.2	\$38.4	\$42.3
EBITDA		▲	(\$11.2)	▲	(\$15.0)	▲	(\$17.7)	▲	(\$6.4)	(\$8.6)	(\$10.5)	(\$12.7)	(\$12.7)	(\$38.2)	(\$62.0)	(\$78.1)	(\$74.2)	(\$25.5)
Amortization and Depreciation		▲	\$0.1	▲	\$0.0	▲	\$0.1	▲	\$0.0	\$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)	(\$8.7)	(\$10.5)	(\$12.7)	(\$12.7)	(\$38.3)	(\$62.1)	(\$78.2)	(\$74.3)	(\$25.6)
Interest expense		▲	\$0.0	▲	\$0.0	▲	(\$0.5)	▲	(\$0.1)	\$0.0	\$0.0	\$0.0	\$0.0	(\$0.1)	\$0.0	\$0.0	\$0.0	\$0.0
Interest income		▲	\$0.2	▲	\$0.2	▲	\$0.2	▲	\$0.0	\$0.1	\$0.1	\$0.1	\$0.1	\$0.3	\$0.2	\$0.2	\$0.2	\$0.3
Net interest		▲	\$0.2	▲	\$0.2	▲	(\$0.2)	▲	(\$0.1)	\$0.1	\$0.1	\$0.1	\$0.1	\$0.3	\$0.2	\$0.2	\$0.2	\$0.3
Other		▲	(\$0.2)	▲	(\$0.2)	▲	(\$0.2)	▲	(\$0.0)	\$0.0	\$0.0	\$0.0	\$0.0	(\$0.0)	\$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	\$0.1	\$0.1	\$0.2	\$0.2	\$0.2	\$0.3
Pretax Income		▲	(\$11.4)	▲	(\$15.0)	▲	(\$18.2)	▲	(\$6.5)	(\$8.6)	(\$10.4)	(\$12.6)	(\$12.6)	(\$38.1)	(\$61.9)	(\$77.9)	(\$74.1)	(\$25.3)
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	\$0.0
Net Income		▲	(\$11.4)	▲	(\$15.0)	▲	(\$18.2)	▲	(\$6.5)	(\$8.6)	(\$10.4)	(\$12.6)	(\$12.6)	(\$38.1)	(\$61.9)	(\$77.9)	(\$74.1)	(\$25.3)
Shares outstanding (basic)		▲	0.5	▲	0.5	▲	0.8	▲	7.6	15.6	15.7	15.8	15.8	13.7	18.1	22.7	28.3	28.9
Shares outstanding (diluted)		▲	0.5	▲	0.5	▲	10.6	▲	13.7	16.3	16.4	16.5	16.5	15.7	18.9	23.4	29.1	29.7
Shares outstanding (for EPS)		▲	0.5	▲	0.5	▲	0.8	▲	7.6	15.6	15.7	15.8	15.8	13.7	18.1	22.7	28.3	28.9
EPS		▲	(\$27.59)	▲	(\$23.02)	▲	(\$23.02)	▲	(\$0.86)	(\$0.55)	(\$0.66)	(\$0.80)	(\$0.80)	(\$2.79)	(\$3.41)	(\$3.43)	(\$2.62)	(\$0.88)
Year/Year Changes																		
FX006 Revenues		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	311.6%
Total Revenues		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	311.6%
Gross profit																		
S&M																		
G&A																		
R&D																		
EBITDA																		
Operating income																		
Net income																		
Earnings per share																		

Source: Wells Fargo Securities, LLC estimates and company reports

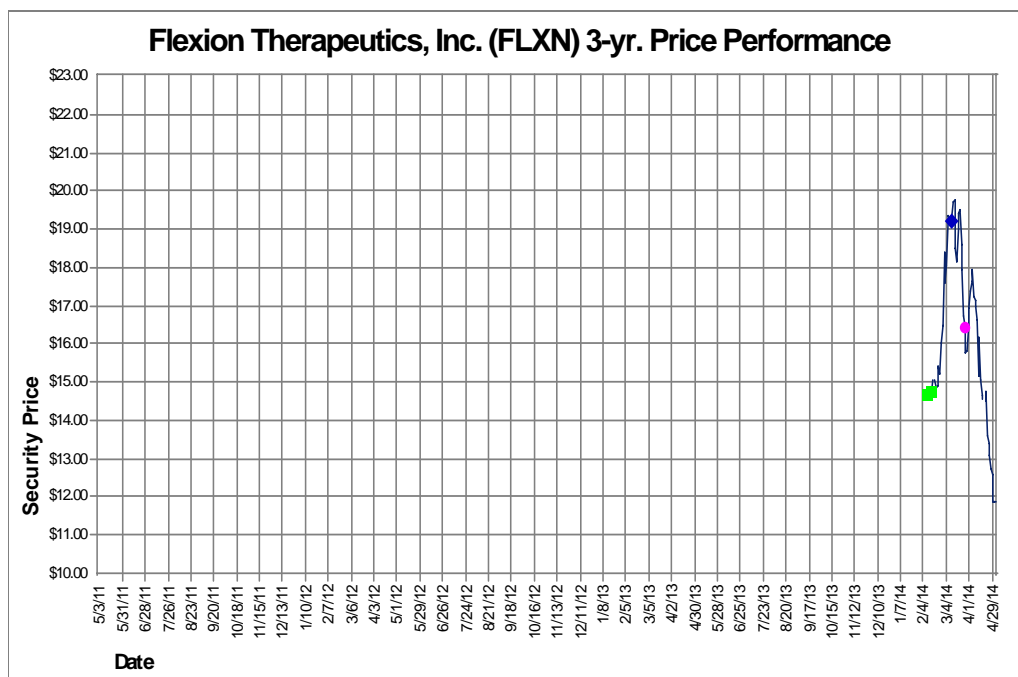
FLXN - BALANCE SHEET (In MM except per share data)									
	2014			2014			2014		
	FY 2011	FY 2012	FY 2013	Mar-14 1QE	Jun-14 2QE	Sep-14 3QE	Dec-14 4QE	FY 2014E	FY 2015E
Current Assets									
Cash and Equivalents	\$3.4	\$12.8	\$16.3	\$34.5	\$25.4	\$14.5	\$44.1	\$44.1	\$48.5
Restricted Cash and Restricted Cash Equivalents	\$0.0	\$0.0	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Marketable securities	\$7.2	\$16.5	\$0.3	\$43.0	\$43.0	\$43.0	\$0.3	\$0.3	\$0.3
Accounts Receivable			\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Inventories, net			\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Prepaid expenses and other assets	\$0.3	\$0.5	\$1.5	\$1.6	\$1.6	\$1.7	\$1.8	\$1.8	\$2.2
Total Current Assets	\$10.8	\$29.9	\$18.2	\$79.2	\$70.2	\$59.3	\$46.3	\$46.3	\$51.2
Long-term Assets									
Property and equipment, net	\$0.1	\$0.1	\$0.4	\$0.4	\$0.3	\$0.3	\$0.3	\$0.3	\$0.2
Other assets	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Assets	\$10.9	\$30.0	\$18.6	\$79.5	\$70.5	\$59.7	\$46.6	\$46.6	\$51.4
LIABILITIES AND SHAREHOLDERS' EQUITY									
Current Liabilities									
Accounts payable	\$0.7	\$0.5	\$1.5	\$1.6	\$1.7	\$1.8	\$1.8	\$1.8	\$2.2
Accrued expenses and other current liabilities	\$1.1	\$2.2	\$2.2	\$2.3	\$2.4	\$2.5	\$2.7	\$2.7	\$3.2
Current portion of long-term debt	\$0.0	\$0.0	\$1.0	\$1.0	\$0.9	\$0.7	\$0.6	\$0.6	\$0.1
Total Current Liabilities	\$1.8	\$2.7	\$4.7	\$4.9	\$5.0	\$5.0	\$5.1	\$5.1	\$5.6
Long-term Liabilities									
Long-term debt	\$0.0	\$0.0	\$4.0	\$4.0	\$3.5	\$3.0	\$2.5	\$2.5	\$0.4
Other Long-term Liabilities	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Long-term Liabilities	\$0.0	\$0.0	\$4.0	\$4.0	\$3.5	\$3.0	\$2.5	\$2.5	\$0.4
Shareholders' Equity									
Preferred Stock	\$41.8	\$74.8	\$74.8	\$74.8	\$74.8	\$74.8	\$74.8	\$74.8	\$74.8
Common stock	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Additional paid-in capital	\$0.3	\$0.4	\$1.2	\$68.5	\$68.5	\$68.5	\$68.5	\$68.5	\$136.8
Accumulated other comprehensive income	\$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)	(\$81.3)	(\$91.7)	(\$104.3)	(\$104.3)	(\$166.1)
Total Stockholders' Equity	\$9.2	\$27.3	\$9.9	\$70.6	\$62.1	\$51.7	\$39.1	\$39.1	\$45.4
Total Liabilities & Stockholders' Equity	\$10.9	\$30.0	\$18.6	\$79.5	\$70.5	\$59.7	\$46.6	\$46.6	\$51.4

Source: Wells Fargo Securities, LLC estimates and company reports

FLXN - CASHFLOW STATEMENT (In MM except per share data)									
	2014				2013				
	FY 2011	FY 2012	FY 2013	Mar-14 1QE	Jun-14 2QE	Sep-14 3QE	Dec-14 4QE	FY 2014E	
Net Income (Loss)	(\$11.4)	(\$15.0)	(\$18.2)	(\$6.5)	(\$8.6)	(\$10.4)	(\$12.6)	(\$38.1)	FY 2015E (\$61.9)
Adjustments to Net Income									
Depreciation	\$0.1	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1	\$0.1
Stock-based Compensation	\$0.1	\$0.1	\$0.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Amortization of premium (discount) on marketable securities	\$0.1	\$0.1	\$0.1	\$0.0	\$0.0	\$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)	\$0.3	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.3)	(\$0.4)
Accounts Payable, accr. Exps., and other curr. liab.	\$0.4	\$0.9	(\$0.3)	\$0.2	\$0.2	\$0.2	\$0.2	\$0.8	\$1.0
Net Cash From Operations	(\$10.4)	(\$14.0)	(\$17.1)	(\$6.4)	(\$8.4)	(\$10.3)	(\$12.5)	(\$37.6)	(\$61.2)
Cash from Investing Activities									
Purchases of property and equipment	(\$0.0)	(\$0.0)	(\$0.4)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Change in restricted cash	\$0.0	\$0.0	(\$0.1)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Purchases of marketable securities	(\$16.8)	(\$28.5)	(\$15.0)	(\$42.7)	\$0.0	\$0.0	\$0.0	(\$42.7)	\$0.0
Redemption of marketable securities	\$12.8	\$19.0	\$31.1	\$0.0	\$0.0	\$0.0	\$42.7	\$42.7	\$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)	\$15.6	(\$42.7)	\$0.0	\$0.0	\$42.7	(\$0.0)	\$0.0
Cash from Financing Activities									
Proceeds from borrowings under term loan	\$0.0	\$0.0	\$5.0	\$0.0	(\$0.7)	(\$0.7)	(\$0.7)	(\$2.0)	(\$2.6)
Proceeds from issuance of Series A Cvt Prd 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 Prd 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	\$67.3	\$0.0	\$0.0	\$0.0	\$67.3	\$68.3
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	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Cash from financing	\$13.0	\$33.0	\$4.9	\$67.3	(\$0.7)	(\$0.7)	(\$0.7)	\$65.4	\$65.7
Increase/(decrease) in cash and cash equivalents	(\$1.5)	\$9.5	\$3.5	\$18.2	(\$9.1)	(\$10.9)	\$29.6	\$27.8	\$4.5
Beginning cash balance	\$4.8	\$3.4	\$12.8	\$16.3	\$34.5	\$25.4	\$14.5	\$16.3	\$44.1
Ending cash balance	\$3.4	\$12.8	\$16.3	\$34.5	\$25.4	\$14.5	\$44.1	\$44.1	\$48.5
Average cash balance	\$4.1	\$8.1	\$14.6	\$25.4	\$29.9	\$19.9	\$29.3	\$30.2	\$46.3

Source: Wells Fargo Securities, LLC estimates and company reports. Note: Quarterly cash flow statement historical figures for 1Q-3Q 2013 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
◆	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

Additional Information Available Upon Request

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