

Equity Research

Flexion Therapeutics, Inc.

FLXN: Progress Made On Clinical Hold--Phase 3 Start Moving

Outperform / V

Sector: Specialty Pharmaceuticals

Overweight

Earnings Estimates Revised Up

• **Bottom line:** Our main takeaway from Q3 earnings was that the FX006 clinical hold remains in place and that FLXN is making progress in the investigation required by FDA to lift the hold; and that Phase 3 dosing initiation will likely move from Q4 2014E to Q1 2015E. As expected, Q3 2014 results were uneventful, with net income loss of \$7.0MM versus our estimated loss of \$10.4MM, on lower than expected R&D expenses. Our 2014E EPS is raised from -\$2.59 to -\$2.10 mainly due to lower R&D expense; 2015E is lowered from -\$3.29 to -\$3.41 mainly due to slightly fewer shares outstanding. Valuation range remains \$29-\$31.

• **Update on clinical hold.** FLXN provided its first update on its actions to address FDA's clinical hold on the FX006 Phase 2b confirmatory study, since FLXN announced the hold on September 17. FLXN stated that FDA's main concern was assuring the safety of the product used in the study, and to that end it asked FLXN to (1) verify that the study drug was the source of the adverse infection event (in the one affected patient); (2) recover and test unused study drug from the test center; and (3) explore other potential causes of infection such as injection procedures. FLXN is in process on this investigation and declined to provide details, other than it is highly confident that the product is sterile, due to the gamma radiation used in manufacturing, the lack of any batch failures in sterility testing, and the lack of any other infected patients despite over 100 being injected from the same batch.

• **Next steps toward lifting the hold** will be completion of the investigation, submission of a complete response to FDA, and FDA responding within 30 days, at which time FLXN will provide its next update. This update could include, for example, a statement that the clinical hold has been removed, that FDA isn't satisfied with FLXN's response (and more investigative work may be required), or that the hold is partially lifted with a need for protocol revisions.

• **Phase 3 study initiation for FX006 will likely be Q1 2015E rather than the previously planned Q4 2014E, though preparatory activities are underway.** No patient dosing in any study can begin until the clinical hold is lifted, and pre-study logistics are in process, thus Phase 3 dosing will not likely start in Q4 2014E. However FLXN reaffirmed its commitment to its accelerated FX006 program and has begun preparing for Phase 3 with CRO selection and site qualifications, and plans to be ready to begin dosing in Q1 2015E after the clinical hold is lifted.

Valuation Range: \$29.00 to \$31.00

Our valuation range of \$29-\$31 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.

	2013A	2014E	2015E
EPS		Curr. Prior	Curr. Prior
Q1 (Mar.)	(\$5.92)	(\$0.86) A	NC (\$0.77) (0.76)
Q2 (June)	(6.07)	(0.38) A	NC (0.88) NC
Q3 (Sep.)	(6.38)	(0.45) A (0.66)	(0.89) (0.84)
Q4 (Dec.)	(4.66)	(0.58) (0.80)	(0.86) (0.81)
FY	(\$23.02)	(\$2.10) (2.59)	(\$3.41) (3.29)
CY	(\$23.02)	(\$2.10)	(\$3.41)
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 (11/13/2014)	\$19.00
52-Week Range:	\$11-22
Shares Outstanding: (MM)	15.6
Market Cap.: (MM)	\$296.4
S&P 500:	2,039.33
Avg. Daily Vol.:	20,733
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 8 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 11/14/14 unless otherwise stated.

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Together we'll go far



Continued from page 1:

- **Data release from Phase 2b confirmatory study could move from Q2 to H2 2015E.** This data is the most important potential stock catalyst in the next year, in our view. We were expecting data in Q2 2015E, but with the clinical hold now ongoing for about two months and potentially into Q1 2015E, the trial's completion and data release could be pushed out a bit, though we don't see the risk meaningfully impacted by the clinical hold based on what is currently known.
- **Q3 2014 results were uneventful.** Net income was -\$7.0MM, versus our -\$10.4MM and consensus -\$8.0MM. The variance in net income versus our estimate was primarily due to lower R&D expense (a reported \$4.7MM compared to our \$7.8MM and consensus \$5.4MM) and G&A expense of \$2.3MM (versus our \$2.6MM and consensus \$2.5MM). EPS was -\$0.45 versus our -\$0.66 and consensus -\$0.55. R&D expense should continue to rise in Q4 2014E with the ongoing follow-up for previously dosed patients in the Phase 2b study and the preparation for the FX006 Phase 3 study.

Q3 2014 Variances

Exhibit 1. FLXN Q3 2014 Variance Analysis

	Prior Period Actuals		Q3 2014			Q3 2014 Variance		Q3 2014 %Change	
(in MM except per share data)	3Q13	2Q14	Consensus	Wells Fargo Estimate	REPORTED	Vs. Cons.	Vs. Our	Yr/Yr Change	Seq. Change
Total Global Net Sales	\$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	0.2	0.2	0.0	(0.2)	(0.2)	NM	NM
G&A	2.4	2.2	2.5	2.6	2.3	(0.2)	(0.3)	(4.8%)	3.1%
R&D	2.6	3.6	5.4	7.8	4.7	(0.8)	(3.1)	81.2%	28.9%
Operating income	(\$5.0)	(\$5.8)	(\$7.9)	(\$10.5)	(\$7.0)	\$1.0	\$3.5	39.5%	19.0%
Interest expense	(0.1)	0.0	0.1	0.0	0.1	0.0	0.1	(174.7%)	100.0%
Interest income	0.0	0.0	NM	0.1	0.0	NM	(0.1)	NM	NM
Other	(0.0)	(0.1)	(0.1)	0.0	(0.1)	(0.0)	(0.1)	271.4%	18.2%
Total other income	(\$0.1)	(\$0.1)	(\$0.0)	\$0.1	(\$0.1)	(\$0.0)	(\$0.2)	(32.7%)	(9.8%)
Pretax Income	(5.1)	(5.9)	(8.0)	(10.4)	(7.0)	0.9	3.4	38.0%	18.6%
Income tax provision	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM
Net income	(\$5.1)	(\$5.9)	(\$8.0)	(\$10.4)	(\$7.0)	\$0.9	\$3.4	38.0%	18.6%
Adjusted EPS	(\$6.46)	(\$0.38)	(\$0.55)	(\$0.66)	(\$0.45)	\$0.10	\$0.21	(93.0%)	18.6%
Diluted shares outstanding	0.8	15.6	14.5	15.7	15.6	1.1	(0.1)	NM	0.0%
Margin Analysis									
Gross margin	NM	NM	NM	NM	NM	NM	NM	NM	NM
SG&A as % sales	NM	NM	NM	NM	NM	NM	NM	NM	NM
R&D as % sales	NM	NM	NM	NM	NM	NM	NM	NM	NM
Operating margin	NM	NM	NM	NM	NM	NM	NM	NM	NM
Tax rate, effective	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	NM	NM
Net margin	NM	NM	NM	NM	NM	NM	NM	NM	NM

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

Exhibit 2. FLXN Potential Catalysts

Timing	Potential Catalyst/Event
Anytime	FX006: FDA follow-up on clinical hold
2015	FX007: Proof of Concept study initiation
Q1 2015	FX006: Clinical hold lifted
Q1 2015	FX006: Phase 3 trial initiation
H2 2015	FX006: Confirmatory Phase 2B trial data
mid-2015	FX006: Repeat dose and safety study initiation
est 2016	FX007: Proof of Concept data
est 2016	FX007: Phase 2 trial initiation
early 2016	FX006: Phase 3 trial data
H1 2016	FX006: NDA filing
est 2017	FX007: Phase 2 trial data
H1 2017	FX006: Approval & Launch
mid-2017	FX006: Repeat dose and safety trial data
H2 2017	FX006: File sNDA for repeat dosing

Source: Wells Fargo Securities, LLC estimates, company reports

FX06 Revenue Forecast (in MM except price per injection)		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
US Market																						
Overall Patient Pool																						
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%
FX06 Market Opportunity																						
Based on steroid injection volumes and FX06 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
FX06 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 - FX06		\$1,650.0	\$1,687.9	\$1,747.1	\$1,797.8	\$1,849.9	\$1,903.5	\$1,957.9	\$2,019.0	\$2,080.9	\$2,143.1	\$2,204.6	\$2,264.8	\$2,321.0	\$2,380.4	\$2,442.4	\$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%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
FX06 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 FX06		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 FX06 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. FX06 inps. (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 FX06		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 FX06 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. FX06 inps. (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 FX06 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%	40.6%	34.6%	21.1%	(4.6%)	(8.2%)	(3.3%)	(3.7%)	(4.2%)	(4.7%)	(1.2%)	(67.1%)	(48.6%)	(58.8%)
FX06 Pricing and Revenues																						
FX06 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%
FX06 revenues		\$0.0	\$0.0	\$0.0	\$0.0	\$42.0	\$108.2	\$249.7	\$462.8	\$650.3	\$892.5	\$1,021.1	\$1,070.0	\$1,091.6	\$987.6	\$869.7	\$647.5	\$502.9	\$327.8	\$408.8	\$212.9	\$89.4
Growth, y/y			NM	NM	NM	NM	157.3%	131.9%	81.3%	43.6%	37.3%	23.5%	(2.9%)	(6.4%)	(1.4%)	(1.6%)	(2.3%)	(2.8%)	0.8%	(66.3%)	(47.5%)	(58.0%)

Source: Wells Fargo Securities, LLC estimates and company reports

FLXN - INCOME STATEMENT (In MM except per share data)														2014				Dec-14		CAGR (E) '14E-'17E	
	FY 2011A	FY 2012A	FY 2013A	Mar-14		Jun-14		Sep-14		30A		4QE		FY 2014E	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	\$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	\$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	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$4.6	\$11.9	NM		
Gross profit	\$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	\$37.4	\$96.3	NM		
S&M	\$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	\$40.6	\$45.4	NM		
G&A	\$3.0	\$3.9	\$6.7	\$2.3	\$2.2	\$3.6	\$4.7	\$2.3	\$2.5	\$9.4	\$11.2	\$12.3	\$13.6	\$14.9	\$26.1	\$38.4	\$13.6	\$14.9	132%		
R&D	\$8.2	\$11.1	\$19.1	\$4.2	\$3.6	\$4.7	\$6.7	\$2.3	\$2.5	\$9.4	\$11.2	\$12.3	\$13.6	\$14.9	\$26.1	\$38.4	\$13.6	\$14.9	26.1%		
EBITDA	(\$11.2)	(\$15.0)	(\$17.7)	(\$6.4)	(\$5.8)	(\$6.9)	(\$9.2)	(\$6.9)	(\$9.2)	(\$28.4)	(\$31.5)	(\$34.0)	(\$35.0)	(\$36.3)	(\$37.6)	(\$38.9)	(\$35.0)	(\$36.3)	NM		
Amortization and Depreciation	\$0.1	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	NM		
Operating Income	(\$11.3)	(\$15.0)	(\$17.8)	(\$6.4)	(\$5.8)	(\$7.0)	(\$9.2)	(\$7.0)	(\$9.2)	(\$28.5)	(\$31.6)	(\$34.1)	(\$35.1)	(\$36.4)	(\$37.7)	(\$39.0)	(\$35.1)	(\$36.4)	NM		
Interest expense	\$0.0	\$0.0	\$0.4)	(\$0.1)	(\$0.1)	\$0.1	\$0.0	\$0.1	\$0.0	\$0.2)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	NM		
Interest income	\$0.2	\$0.2	\$0.2	\$0.0	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.2	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	NM		
Net interest	\$0.2	\$0.2	\$0.2	\$0.0	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	NM		
Other	(\$0.3)	(\$0.2)	(\$0.2)	(\$0.0)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	NM		
Total other income	(\$0.2)	\$0.0	(\$0.4)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.2)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	NM		
Pretax income	(\$11.4)	(\$15.0)	(\$18.2)	(\$6.5)	(\$5.9)	(\$7.0)	(\$9.2)	(\$7.0)	(\$9.2)	(\$28.7)	(\$31.3)	(\$33.8)	(\$34.8)	(\$36.1)	(\$37.4)	(\$38.7)	(\$34.8)	(\$36.1)	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	\$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)	(\$7.0)	(\$9.2)	(\$28.7)	(\$31.3)	(\$33.8)	(\$34.8)	(\$36.1)	(\$37.4)	(\$38.7)	(\$34.8)	(\$36.1)	NM		
Shares outstanding (basic)	0.5	0.5	0.8	7.6	15.6	15.6	15.703	15.6	15.703	13.645	17.986	22.1	26.1	26.6	26.6	26.6	26.1	26.6	NM		
Shares outstanding (diluted)	0.5	0.5	0.8	13.3	15.6	15.6	15.7	15.6	15.7	15.1	18.0	22.1	26.1	26.6	26.6	26.6	26.1	26.6	NM		
Shares outstanding (for EPS)	0.5	0.5	0.8	7.6	15.6	15.6	15.7	15.6	15.7	13.6	18.0	22.1	26.1	26.6	26.6	26.6	26.1	26.6	NM		
EPS	(\$27.59)	(\$30.02)	(\$33.02)	(\$8.86)	(\$3.38)	(\$4.45)	(\$5.58)	(\$4.45)	(\$5.58)	(\$21.0)	(\$23.41)	(\$23.79)	(\$24.10)	(\$24.23)	(\$24.36)	(\$24.49)	(\$23.41)	(\$24.23)	NM		
Margin Analysis																					
Gross Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	89.0%	89.0%	NM		
S&M as % of sales	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	96.5%	96.5%	NM		
G&A as % of sales	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	32.3%	32.3%	NM		
R&D % sales	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	91.3%	91.3%	NM		
EBITDA margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	130.7%	130.7%	NM		
Operating margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	131.0%	131.0%	NM		
Pre-tax margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	130.4%	130.4%	NM		
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%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	NM		
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%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	NM		
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%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	NM		
Net margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	130.4%	130.4%	NM		
Year/Year Changes																					
FX006 Revenues	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	157.3%	157.3%	NM		
Total Revenues	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	157.3%	157.3%	NM		
Gross profit	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	97.1%	97.1%	NM		
S&M	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	12.0%	12.0%	NM		
G&A	NM	NM	NM	50.2%	57.1%	57.1%	89.0%	89.0%	89.0%	39.6%	19.8%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	NM		
R&D	NM	NM	NM	30.3%	17.8%	17.8%	200.0%	200.0%	200.0%	73.0%	153.3%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	NM		
EBITDA	NM	NM	NM	36.4%	30.3%	30.3%	39.6%	39.6%	39.6%	60.5%	116.5%	36.6%	36.6%	36.6%	36.6%	36.6%	36.6%	36.6%	NM		
Operating income	NM	NM	NM	18.3%	18.3%	18.3%	33.0%	33.0%	33.0%	60.4%	116.2%	36.6%	36.6%	36.6%	36.6%	36.6%	36.6%	36.6%	NM		
Net income	NM	NM	NM	21.4%	21.4%	21.4%	30.9%	30.9%	30.9%	57.6%	113.9%	36.6%	36.6%	36.6%	36.6%	36.6%	36.6%	36.6%	NM		
Earnings per share	NM	NM	NM	16.6%	16.6%	16.6%	21.4%	21.4%	21.4%	57.6%	113.9%	36.6%	36.6%	36.6%	36.6%	36.6%	36.6%	36.6%	NM		
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 1QA	Jun-14 2QA	Sep-14 3QA	Dec-14 4QE					
Current Assets												
Cash and Equivalents	\$3.4	\$12.8	\$16.2	\$35.8	\$12.0	\$15.3	\$25.8	\$25.8	\$65.8	\$53.6	\$60.7	\$38.7
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	\$50.0	\$30.0	\$30.0	\$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	\$1.7	\$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	\$67.1	\$57.7	\$57.7	\$68.1	\$56.0	\$73.9	\$69.6
Long-term Assets												
Property and equipment, net	\$0.1	\$0.1	\$0.4	\$0.4	\$0.4	\$0.4	\$0.3	\$0.3	\$0.2	\$0.1	\$0.4	\$1.4
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	\$67.5	\$58.1	\$58.1	\$68.4	\$56.1	\$74.4	\$71.0
LIABILITIES AND SHAREHOLDERS' EQUITY												
Current Liabilities												
Accounts payable	\$0.7	\$0.5	\$1.3	\$1.8	\$1.0	\$1.8	\$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	\$2.5	\$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	\$6.3	\$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	\$144.7	\$144.7	\$144.7	\$217.5	\$290.2	\$363.0	\$363.0
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)	(\$156.2)	(\$239.9)	(\$294.7)	(\$300.9)
Total Stockholders' Equity	\$9.2	\$27.3	\$10.1	\$71.4	\$66.1270	\$59.1	\$49.9	\$49.9	\$61.4	\$50.3	\$68.3	\$62.2
Total Liabilities & Stockholders' Equity	\$10.9	\$30.0	\$18.8	\$79.9	\$73.2	\$67.5	\$58.1	\$58.1	\$68.4	\$56.1	\$74.4	\$71.0

Source: Wells Fargo Securities, LLC estimates and company reports

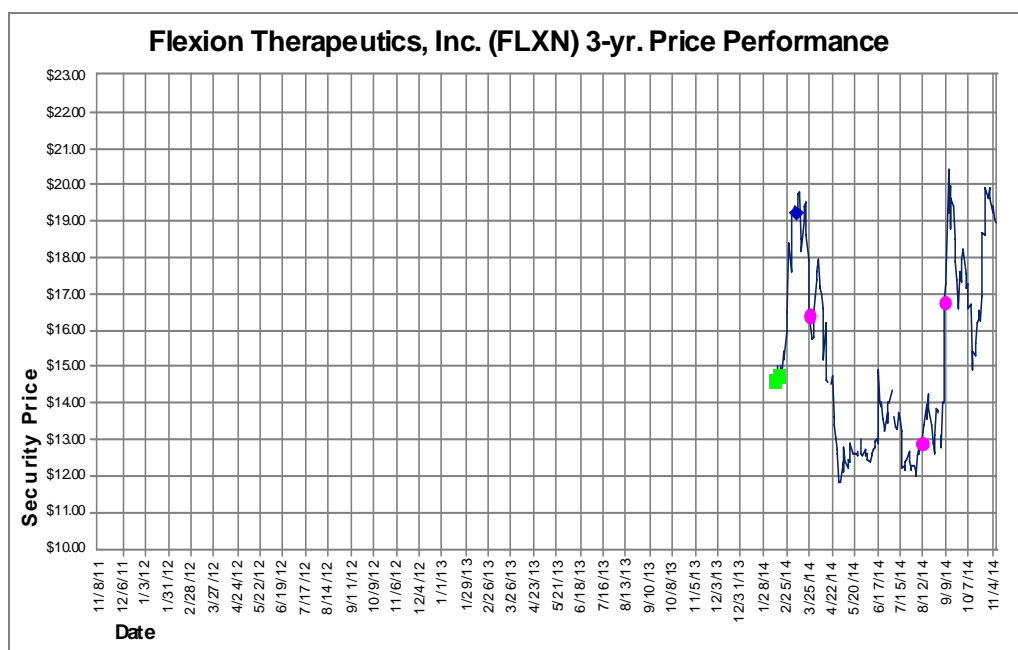
FLXN - CASHFLOW STATEMENT (In MM except per share data)												
	2014											
	Mar-14			Jun-14		Sep-14		Dec-14				
	FY 2011A	FY 2012A	FY 2013A	1QA	2QA	3QA	4QE	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E
Net Income (Loss)	(\$11.4)	(\$15.0)	(\$18.2)	(\$6.5)	(\$5.9)	(\$7.0)	(\$9.2)	(\$28.7)	(\$61.3)	(\$83.8)	(\$54.8)	(\$6.1)
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	\$0.0	\$0.0	\$1.1	\$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	\$0.0	\$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	\$0.0	\$0.0	\$0.0
Other	\$0.0	\$0.0	\$0.0	\$0.0	\$0.7	\$0.0	\$0.0	\$0.7	\$0.0	\$0.0	\$0.0	\$0.0
Changes in operating assets and liabilities												
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)	(\$1.0)	(\$0.1)	(\$2.3)	(\$0.4)	(\$0.1)	(\$0.1)	(\$0.8)
Accounts Payable, accr. Exps., and other curr. liabilities	\$0.4	\$0.9	(\$0.5)	\$0.2	(\$0.8)	\$1.8	\$0.2	\$1.5	\$1.0	\$0.3	\$0.3	\$2.8
Net Cash From Operations	(\$10.4)	(\$14.0)	(\$17.1)	(\$6.5)	(\$5.8)	(\$6.2)	(\$9.0)	(\$27.5)	(\$60.6)	(\$83.5)	(\$65.2)	(\$20.9)
Cash from Investing Activities												
Purchases of property and equipment	(\$0.0)	(\$0.0)	(\$0.7)	(\$0.0)	(\$0.0)	\$0.0	\$0.0	(\$0.1)	\$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)	\$0.0	\$0.0	(\$62.2)	\$0.0	\$0.0	\$0.0	\$0.0
Redemption of marketable securities	\$12.8	\$19.0	\$45.4	\$0.3	\$2.1	\$10.0	\$20.0	\$32.4	\$30.0	\$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	\$0.0	\$0.0	\$0.0
Cash from Investing Activities	(\$4.1)	(\$9.5)	\$18.8	(\$42.5)	(\$17.4)	\$10.0	\$20.0	(\$29.9)	\$30.0	\$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	(\$0.5)	(\$0.5)	(\$1.0)	(\$2.1)	(\$1.5)	\$0.0	\$0.0
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	\$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	\$0.0	\$0.0	\$0.0
Proceeds from common stock issuance	\$0.0	\$0.0	\$0.0	\$69.5	\$0.0	\$0.0	\$0.0	\$69.5	\$72.8	\$72.8	\$72.8	\$0.0
Proceeds from exercise of stock options	\$0.0	\$0.0	\$0.0	\$0.2	\$0.0	\$0.0	\$0.0	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0
Other	\$0.0	(\$0.0)	(\$0.1)	(\$1.1)	(\$0.7)	\$0.0	\$0.0	(\$1.8)	\$0.0	\$0.0	\$0.0	\$0.0
Cash from financing	\$13.0	\$33.0	\$9.9	\$68.6	(\$0.6)	(\$0.5)	(\$0.5)	\$67.0	\$70.7	\$71.3	\$72.8	\$0.0
Increase/(decrease) in cash and cash equivalents	(\$1.5)	\$9.5	\$11.6	\$19.6	(\$23.8)	\$3.3	\$10.5	\$9.6	\$40.0	(\$12.2)	\$7.1	(\$22.0)
Beginning cash balance	\$4.8	\$3.4	\$12.8	\$16.2	\$35.8	\$12.0	\$15.3	\$16.2	\$25.8	\$65.8	\$53.6	\$60.7
Ending cash balance	\$3.4	\$12.8	\$24.4	\$35.8	\$12.0	\$15.3	\$25.8	\$25.8	\$65.8	\$53.6	\$60.7	\$38.7
Average cash balance	\$4.1	\$8.1	\$18.6	\$26.0	\$23.9	\$13.7	\$20.5	\$21.0	\$45.8	\$59.7	\$57.1	\$49.7

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

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 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.

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
●	8/8/2014	12.93	1	24.00	26.00	12.95
●	9/8/2014	14.06	1	29.00	31.00	16.79

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

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

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	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 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.

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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.

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: November 13, 2014

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51% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Market Perform.

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