

Equity Research

Flexion Therapeutics, Inc.

FLXN: Clinical Programs Progressing--Q2 2014 Results Uneventful

• **Bottom line:** Our primary takeaway from FLXN's Q2 2014 earnings release was that clinical timelines remain on track for lead product FX006 and for FX007. A few catalysts are expected in the coming year, with the key event being the expected release of FX006 confirmatory Phase 2b data in H1 2015. As expected, Q2 2014 results were uneventful, with net income loss of \$5.9MM versus our estimated loss of \$8.6MM, on lower than expected R&D expenses. Our 2014E EPS is raised from -\$2.79 to -\$2.59 (mainly due to lower than expected R&D in Q2); 2015E is raised from -\$3.41 to -\$3.32 due to updated shares outstanding. Valuation range is slightly raised from \$23-\$25 to \$24-\$26 due to updated DCF discounting period.

• **Clinical timelines remain on track.** FLXN reported that its clinical programs are on track after reaching two key milestones over Q2 2014 for its lead product candidate, FX006, including the release of positive topline data from the Phase 2a synovial fluid PK study and the initiation of the confirmatory Phase 2b efficacy trial. 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. Upcoming potential catalysts include the following: (1) the initiation of a proof of concept clinical trial for FX007 in H2 2014, (2) initiation of the repeat dose and safety study for FX006 at the end of 2014, (3) securing patent protection for FX006 expected by late 2014/early 2015 although management states it could potentially grant by the end of 2014, (4) top-line data readout for the FX006 confirmatory Phase 2b trial expected in H1 2015 (the company's most important event), and (5) data release for the FX007 POC study in H1 2015.

• **Q2 2014 results were uneventful, with lower than expected R&D, which should rise in H2 2014E due to ramp up of clinical studies.** Net income was -\$5.9MM, versus our -\$8.6MM and consensus -\$8.2MM. The variance in net income versus our estimate was primarily due to lower R&D expense (a reported \$3.6MM compared to our \$6.0MM and consensus \$5.7MM) and G&A expense of \$2.2MM (versus our \$2.5MM and consensus \$2.4MM). EPS was -\$0.38 versus our -\$0.55 and consensus -\$0.52. R&D expense in should rise in H2 2014E due to ramp up of confirmatory Phase 2b study for FX006 (initiated in Q2), proof of concept study for FX007 (to be initiated in H2 2014E), and repeat dose study for FX006 (to be initiated in H2 2014E).

Valuation Range: \$24.00 to \$26.00 from \$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.

Outperform / V

Sector: Specialty Pharmaceuticals

Overweight

Earnings Estimates Revised Up

EPS	2013A	2014E		2015E	
		Curr.	Prior	Curr.	Prior
Q1 (Mar.)	(\$5.92)	(\$0.86) A	NC	(\$0.76)	NC
Q2 (June)	(6.07)	(0.38) A	(0.55)	(0.88)	NC
Q3 (Sep.)	(6.38)	(0.66)	NC	(0.85)	(0.89)
Q4 (Dec.)	(4.66)	(0.80)	NC	(0.82)	(0.86)
FY	(\$23.02)	(\$2.59)	(2.79)	(\$3.32)	(3.41)
CY	(\$23.02)	(\$2.59)		(\$3.32)	
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 (08/08/2014)	\$12.93
52-Week Range:	\$11-21
Shares Outstanding: (MM)	15.6
Market Cap.: (MM)	\$201.7
S&P 500:	1,917.71
Avg. Daily Vol.:	31,796
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:	08/07/2014

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 08/08/14 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.

Q2 2014 Variances**Exhibit 1. FLXN Q2 2014 Variance Analysis**

	Prior Period Actuals		Q2 2014			Q2 2014 Variance		Q2 2014 %Change	
(in MM except per share data)	2013	1Q14	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	1.7	2.3	2.4	2.5	2.2	(0.2)	(0.3)	32.3%	(2.2%)
R&D	3.0	4.2	5.7	6.0	3.6	(2.1)	(2.4)	21.0%	(12.9%)
Operating income	(\$4.7)	(\$6.4)	(\$8.3)	(\$8.7)	(\$5.8)	\$2.5	\$2.8	25.1%	(9.1%)
Interest expense	(0.1)	(0.1)	0.1	0.0	0.0	(0.1)	0.0	(123.1%)	(134.6%)
Interest income	0.1	0.0	NM	0.1	0.0	NM	(0.1)	(100.0%)	NM
Other	(0.0)	(0.0)	0.0	0.0	(0.1)	(0.1)	(0.1)	129.7%	323.1%
Total other income	(\$0.1)	(\$0.1)	\$0.1	\$0.1	(\$0.1)	(\$0.2)	(\$0.2)	(29.3%)	(23.4%)
Pretax Income	(4.8)	(6.5)	(8.2)	(8.6)	(5.9)	2.3	2.6	23.8%	(9.3%)
Income tax provision	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM
Net income	(\$4.8)	(\$6.5)	(\$8.2)	(\$8.6)	(\$5.9)	\$2.3	\$2.6	23.8%	(9.3%)
Adjusted EPS	(\$6.07)	(\$0.86)	(\$0.52)	(\$0.55)	(\$0.38)	\$0.14	\$0.17	(93.7%)	(55.7%)
Diluted shares outstanding	0.8	7.6	15.7	15.6	15.6	(0.1)	0.0	NM	104.6%

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

Exhibit 2. FLXN Potential Catalysts

Timing	Potential Catalyst/Event
8/10/2014	Expiration of IPO lockup: 180-days post prospectus date
3Q 2014	Ampion: STEP Phase 3 trial initial data for primary outcome
H2 2014	FX007: Proof of Concept study initiation
End of 2014	FX006: Repeat dose and safety study initiation
Q1 2015	Ampion: BLA filing
H1 2015	FX006: Confirmatory Phase 2B trial data
Q2 2015	FX007: Proof of Concept data
Q2 2015	FX007: Phase 2 trial initiation
Late 2014 / early 2015	FX006: Potential patent issuance (Co. guided to 6-12 months from Aug 7, 2014 Q2 earnings call)
Q3 2015	FX006: Phase 3 trial initiations
Q3 2015	Ampion: Potential approval and launch
2Q 2016	FX006: repeat dose and safety trial data
2Q 2016	FX007: Phase 2 trial data
3Q 2016	FX006: Phase 3 trial data
4Q 2016	FX006: NDA filing
4Q 2017	FX006: Approval & Launch

Source: Wells Fargo Securities, LLC estimates, company reports

Summary of Model Revisions

Exhibit 3. FLXN Estimate Revisions Summary

FLXN - Estimate Revision Summary (In MM except per share data)													
	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 14E - 18E
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	0.0	0.2	0.2	0.2	0.5	1.9	14.1	40.5	44.8	207.6%
Revised	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.4	1.9	14.1	40.5	44.8	236.3%
Change	0.0	0.0	0.0	0.0	(0.2)	0.0	0.0	(0.2)	0.0	0.0	0.0	0.0	
G&A													
Old	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%
Revised	3.0	3.9	6.7	2.3	2.2	2.6	2.7	9.8	11.7	12.8	14.1	15.5	12.3%
Change	0.0	0.0	0.0	0.0	(0.3)	0.0	0.0	(0.3)	(0.0)	(0.0)	(0.0)	(0.0)	
R&D													
Old	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%
Revised	8.2	11.1	11.1	4.2	3.6	7.8	9.8	25.3	48.5	51.2	38.4	42.3	13.7%
Change	0.0	0.0	0.0	0.0	(2.4)	0.0	0.0	(2.4)	0.0	0.0	0.0	0.0	
Operating Income													
Old	(\$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
Revised	(\$11.3)	(\$15.0)	(\$17.8)	(\$6.4)	(\$5.8)	(\$10.5)	(\$12.7)	(\$35.5)	(\$62.1)	(\$78.2)	(\$74.3)	(\$25.6)	NM
Change	\$0.0	\$0.0	\$0.0	\$0.0	\$2.8	\$0.0	\$0.0	\$2.8	\$0.0	\$0.0	\$0.0	\$0.0	
EPS													
Old	\$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
Revised	\$0.00	(\$27.59)	(\$23.02)	(\$0.86)	(\$0.38)	(\$0.66)	(\$0.80)	(\$2.59)	(\$3.32)	(\$3.22)	(\$2.39)	(\$0.80)	NM
Change	\$0.00	\$0.00	\$0.00	\$0.00	\$0.17	\$0.00	\$0.00	\$0.19	\$0.09	\$0.21	\$0.23	\$0.08	
Weighted average shares outstanding													
Old	0.0	0.5	0.8	7.6	15.6	15.7	15.8	13.7	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	18.6	24.2	31.0	31.6	
Change	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	1.5	2.7	2.7	

Source: Wells Fargo Securities, LLC estimates, company reports

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 ins. (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 ins. (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		\$2.10	\$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%	108.9%	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 - INCOMESTATEMENT (In MM except per share data)													
2014													
	FY 2011A	FY 2012A	FY 2013A	Mar-14 1QA	Jun-14 2QA	Sep-14 3QE	Dec-14 4QA	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	CAGR (E) '14E-'17E
FX006 Revenues	\$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
Total Revenues	\$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
Cost of Products Sold	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$2.3	\$9.5	NM
Gross profit	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$18.7	\$77.0	NM
S&M	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.2	\$0.2	\$0.4	\$1.9	\$14.1	\$40.5	\$44.8	387.1%
G&A	\$3.0	\$3.9	\$6.7	\$2.3	\$2.2	\$2.6	\$2.7	\$9.8	\$11.7	\$12.8	\$14.1	\$15.5	13.1%
R&D	\$8.2	\$11.1	\$11.1	\$4.2	\$3.6	\$7.8	\$9.8	\$25.3	\$48.5	\$51.2	\$38.4	\$42.3	14.8%
EBITDA	(\$11.2)	(\$15.0)	(\$17.7)	(\$6.4)	(\$5.8)	(\$10.5)	(\$12.7)	(\$35.4)	(\$62.0)	(\$78.1)	(\$74.2)	(\$25.5)	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	NM
Operating Income	(\$11.3)	(\$15.0)	(\$17.8)	(\$6.4)	(\$5.8)	(\$10.5)	(\$12.7)	(\$35.5)	(\$62.1)	(\$78.2)	(\$74.3)	(\$25.6)	NM
Interest expense	\$0.0	\$0.0	(\$0.5)	(\$0.1)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Interest income	\$0.2	\$0.2	\$0.2	\$0.0	\$0.0	\$0.1	\$0.1	\$0.2	\$0.2	\$0.3	\$0.2	\$0.3	\$0.3
Net interest	\$0.2	\$0.2	\$0.2	\$0.1	\$0.0	\$0.1	\$0.1	\$0.1	\$0.2	\$0.3	\$0.2	\$0.3	\$0.3
Other	(\$0.3)	(\$0.2)	(\$0.2)	(\$0.0)	(\$0.1)	\$0.0	\$0.0	(\$0.1)	\$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	(\$0.0)	\$0.2	\$0.3	\$0.2	\$0.3	NM
Pretax Income	(\$11.4)	(\$15.0)	(\$18.2)	(\$6.5)	(\$5.9)	(\$10.4)	(\$12.6)	(\$35.5)	(\$61.8)	(\$77.9)	(\$74.0)	(\$25.3)	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)	(\$10.4)	(\$12.6)	(\$35.5)	(\$61.8)	(\$77.9)	(\$74.0)	(\$25.3)	NM
Shares outstanding (basic)	0.5	0.5	0.8	7.6	15.619	15.697	15.776	13.681	18.638	24.2	31.0	31.6	
Shares outstanding (diluted)	0.5	0.5	10.6	13.3	15.6	15.7	15.8	15.1	18.6	24.2	31.0	31.6	
Shares outstanding (for EPS)	0.5	0.5	0.8	7.6	15.6	15.7	15.8	13.7	18.6	24.2	31.0	31.6	
EPS	(\$27.59)	(\$23.02)	(\$23.02)	(\$0.86)	(\$0.38)	(\$0.66)	(\$0.80)	(\$2.59)	(\$3.32)	(\$3.22)	(\$2.39)	(\$0.80)	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	192.5%	51.8%	
G&A as % of sales	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	67.2%	18.0%	
R&D % sales	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	182.6%	48.9%	
EBITDA margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	(352.8%)	(29.5%)	
Operating margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	(353.3%)	(29.6%)	
Pre-tax margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	(352.2%)	(29.3%)	
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	(352.2%)	(29.3%)	
Year/Year Changes													
FX006 Revenues	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	311.6%	
Gross profit	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	311.6%	
S&M	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	186.7%	10.7%	
G&A	29.5%	34.3%	69.9%	70.0%	32.3%	10.0%	100.0%	45.6%	442.9%	642.6%	10.0%	10.0%	
R&D	34.3%	33.9%	(0.0%)	28.3%	21.0%	198.8%	338.5%	129.1%	19.6%	10.0%	(25.0%)	10.2%	
EBITDA	33.9%	33.0%	18.2%	40.5%	25.1%	112.9%	255.9%	99.9%	75.2%	26.0%	(5.0%)	(65.6%)	
Operating income	33.0%	33.0%	18.3%	40.5%	25.1%	112.6%	254.7%	99.6%	75.0%	26.0%	(5.0%)	(65.5%)	
Net income	30.9%	30.9%	21.4%	40.1%	23.8%	106.5%	241.7%	95.1%	74.3%	26.0%	(5.0%)	(65.8%)	
Earnings per share	NM	NM	(16.6%)	(85.5%)	(93.7%)	(89.6%)	(82.8%)	(88.7%)	27.9%	(2.8%)	(25.9%)	(66.5%)	

Source: Wells Fargo Securities, LLC estimates and company reports

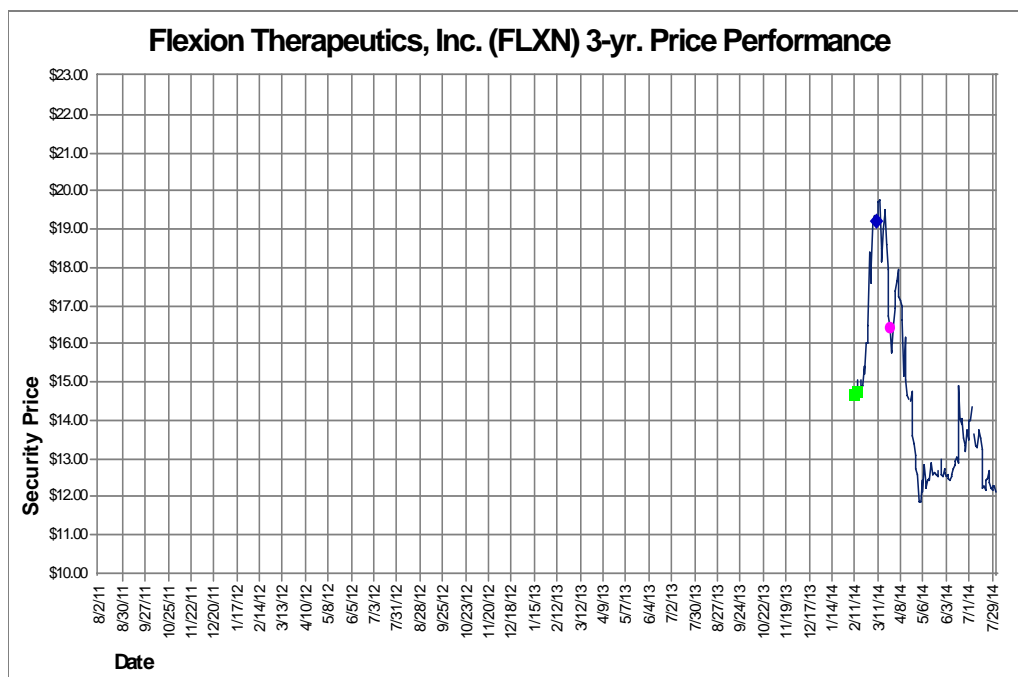
FLXN - BALANCE SHEET (In MM except per share data)										
	2014				2014					
	FY 2011A	FY 2012A	FY 2013A	Mar-14 1QA	Jun-14 2QA	Sep-14 3QE	Dec-14 4QE	FY 2014E	FY 2015E	FY 2016E
Current Assets										
Cash and Equivalents	\$3.4	\$12.8	\$16.3	\$35.8	\$12.0	\$1.3	\$31.0	\$31.0	\$36.1	\$29.7
Restricted 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
Marketable securities	\$7.2	\$16.5	\$0.3	\$42.7	\$60.0	\$60.0	\$17.3	\$17.3	\$17.3	\$17.3
Accounts Receivable			\$0.0	\$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	\$0.0
Prepaid expenses and other assets	\$0.3	\$0.5	\$1.5	\$0.8	\$1.6	\$1.7	\$1.8	\$1.8	\$2.2	\$2.3
Total Current Assets	\$10.8	\$29.9	\$18.2	\$79.5	\$73.8	\$63.1	\$50.2	\$50.2	\$55.7	\$49.4
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
Other assets	\$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	\$18.6	\$79.9	\$74.2	\$63.5	\$50.6	\$50.6	\$55.9	\$49.6
LIABILITIES AND SHAREHOLDERS' EQUITY										
Current Liabilities										
Accounts payable	\$0.7	\$0.5	\$1.5	\$1.8	\$1.7	\$1.8	\$1.8	\$1.8	\$2.2	\$2.3
Accrued expenses and other current liabilities	\$1.1	\$2.2	\$2.2	\$1.6	\$2.4	\$2.5	\$2.7	\$2.7	\$3.2	\$3.4
Current portion of long-term debt	\$0.0	\$0.0	\$1.0	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0	\$1.5	\$0.0
Total Current Liabilities	\$1.8	\$2.7	\$4.7	\$5.4	\$6.1	\$6.3	\$6.5	\$6.5	\$7.0	\$5.7
Long-term Liabilities										
Long-term debt	\$0.0	\$0.0	\$4.0	\$3.1	\$2.6	\$2.1	\$1.6	\$1.6	\$0.0	\$0.0
Other Long-term Liabilities	\$0.0	\$0.0	\$0.0	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Total Long-term Liabilities	\$0.0	\$0.0	\$4.0	\$3.1	\$2.6	\$2.1	\$1.6	\$1.6	\$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
Common stock	\$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	\$1.2	\$144.1	\$144.1	\$144.1	\$144.1	\$144.1	\$212.3	\$285.1
Accumulated other comprehensive income	\$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)	(\$89.0)	(\$101.6)	(\$101.6)	(\$163.5)	(\$241.4)
Total Stockholders' Equity	\$9.2	\$27.3	\$9.9	\$71.4	\$65.4	\$55.1	\$42.4	\$42.4	\$48.9	\$43.7
Total Liabilities & Stockholders' Equity	\$10.9	\$30.0	\$18.6	\$79.9	\$74.2	\$63.5	\$50.6	\$50.6	\$55.9	\$49.6

Source: Wells Fargo Securities, LLC estimates and company reports

FLXN - CASH FLOW STATEMENT (In MM except per share data)												
	2014				2013				2012			
	Mar-14	Jun-14	Sep-14	Dec-14	Mar-13	Jun-13	Sep-13	Dec-13	Mar-12	Jun-12	Sep-12	Dec-12
	1QA	2QA	3QE	4QE	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E			
Net Income (Loss)	(\$11.4)	(\$15.0)	(\$18.2)	(\$6.5)	(\$5.9)	(\$10.4)	(\$12.6)	(\$35.5)	(\$61.8)	(\$77.9)	(\$74.0)	(\$25.3)
Adjustments to Net Income												
Depreciation	\$0.1	\$0.0	\$0.1	\$0.0	\$0.0	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Stock-based Compensation	\$0.1	\$0.1	\$0.8	\$0.4	\$0.0	\$0.0	\$0.0	\$0.4	\$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	\$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	\$0.0	\$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	(\$0.7)	(\$0.8)	(\$0.1)	(\$1.6)	(\$0.4)	(\$0.4)	(\$0.1)	(\$0.1)	(\$0.2)
Accounts Payable, accr. Exps., and other curr. liab	\$0.4	\$0.9	(\$0.3)	\$0.2	\$0.7	\$0.2	\$1.4	\$1.0	\$1.0	\$0.3	\$0.3	\$1.0
Net Cash From Operations	(\$10.4)	(\$14.0)	(\$17.1)	(\$6.5)	(\$6.0)	(\$10.3)	(\$12.5)	(\$35.2)	(\$61.2)	(\$77.6)	(\$79.1)	(\$41.1)
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	\$0.0	(\$0.2)	(\$0.9)
Change in restricted cash	\$0.0	\$0.0	(\$0.1)	\$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)	(\$15.0)	(\$42.7)	(\$17.3)	\$0.0	\$0.0	(\$60.0)	\$0.0	\$0.0	\$0.0	\$0.0
Redemption of marketable securities	\$12.8	\$19.0	\$31.1	\$0.3	\$0.0	\$0.0	\$42.7	\$43.0	\$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	\$0.0	\$0.0	\$0.0
Cash from Investing Activities	(\$4.1)	(\$9.5)	\$15.6	(\$42.5)	(\$17.3)	\$0.0	\$42.7	(\$17.1)	\$0.0	\$0.0	(\$0.2)	(\$0.9)
Cash from Financing Activities												
Proceeds from borrowings under term loan	\$0.0	\$0.0	\$5.0	\$0.0	(\$0.5)	(\$0.5)	(\$0.5)	(\$1.5)	(\$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	\$69.5	\$69.5	\$68.3	\$72.8	\$97.0	\$0.0
Proceeds from exercise of stock options	\$0.0	\$0.0	\$0.0	\$0.2	\$0.0	\$0.0	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other	\$0.0	(\$0.0)	(\$0.1)	(\$1.1)	\$0.0	\$0.0	(\$1.1)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Cash from financing	\$13.0	\$33.0	\$4.9	\$68.6	(\$0.5)	(\$0.5)	\$67.1	\$66.2	\$66.2	\$71.3	\$97.0	\$0.0
Increase/(decrease) in cash and cash equivalents	(\$1.5)	\$9.5	\$3.5	\$19.6	(\$23.8)	(\$10.8)	\$29.7	\$14.8	\$5.0	(\$6.4)	\$17.7	(\$41.9)
Beginning cash balance	\$4.8	\$3.4	\$12.8	\$16.2	\$35.8	\$12.0	\$1.3	\$16.2	\$31.0	\$36.1	\$29.7	\$47.4
Ending cash balance	\$3.4	\$12.8	\$16.3	\$35.8	\$12.0	\$1.3	\$31.0	\$31.0	\$36.1	\$29.7	\$47.4	\$5.4
Average cash balance	\$4.1	\$8.1	\$14.6	\$26.0	\$23.9	\$6.7	\$16.1	\$23.6	\$33.5	\$32.9	\$38.5	\$26.4

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	◆ 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

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