

Equity Research

Flexion Therapeutics, Inc.

FLXN: Patent Issuance For FX006 Is More Good News

• **Summary:** On September 9, after market close, FLXN announced the issuance of a composition of matter patent protecting FX006, FLXN's lead product candidate. The patent is No. 8828440, called "Corticosteroids for the Treatment of Joint Pain." This is an important milestone for FX006 development. We think the patent's issuance is not surprising, and the claims are in line with our expectations; however, having the certainty of an issued patent in hand, extending to 2031, is another significant positive for FLXN. This news comes on the heels of the company's September 3 announcement that FX006's development timeline would be accelerated by one year. Please see our notes from September 3 and September 8 discussing the implications of this acceleration and the impact on FLXN's valuation.

• **The patent protects for an injectable sustained-release formulation into 2031.** The patent describes and claims an injectable formulation comprised of controlled or sustained-release microparticles that contain triamcinolone acetonide (TCA) in a poly(lactic-co-glycolic) acid co-polymer (PLGA) matrix. Protection is afforded into 2031. The company had continued to guide toward receiving patent issuance over the next 6-12 months, potentially into 2015, therefore, this news represents another recent win for the company as the FX006 program progresses.

• **Patent perspectives and financial model impact.** The details of the patent are consistent with FLXN's and our expectations and reinforce FX006's positioning due to a set of described specifications that are favorable to the company (e.g., attributes such the product's viscosity, microsphere size, and release rate). Not surprisingly, the patent covers a narrower set of claims than the company's initial intent to pursue broader coverage for class B steroids, the class to which TCA belongs. With the class B steroids described but not included in this patent, there remains some degree of risk of a competitor evading FLXN's patents to develop an alternative corticosteroid and/or delivery mechanism, although the PLGA ratio (ratio of lactic acid to glycolic acid) is important to FX006's sustained-release profile. Such an effort by competitors would essentially mean the creation of a competing branded drug (rather than a generic), which would likely necessitate substantial time and investment. We address this risk in our model by assuming the market entry of branded competition in 2024 (and FX006 peak sales in 2023). Additional details are included within this note.

• **Background:** FX006 is FLXN's sustained release, intra-articular injection of TCA, now in Phase 2b development with recently announced plans to advance to Phase 3 in late 2014, for treatment of osteoarthritis (OA) of the knee.

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.

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

All estimates/forecasts are as of 09/10/14 unless otherwise stated.

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Outperform / V

Sector: Specialty Pharmaceuticals

Overweight

Company Note

	2013A	2014E	2015E
EPS		Curr. Prior	Curr. Prior
Q1 (Mar.)	(\$5.92)	(\$0.86) A	NC (\$0.76)
Q2 (June)	(6.07)	(0.38) A	NC (0.88)
Q3 (Sep.)	(6.38)	(0.66)	NC (0.84)
Q4 (Dec.)	(4.66)	(0.80)	NC (0.81)
FY	(\$23.02)	(\$2.59)	NC (\$3.29)
CY	(\$23.02)	(\$2.59)	(\$3.29)
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 (09/09/2014)	\$17.27
52-Week Range:	\$11-21
Shares Outstanding: (MM)	15.6
Market Cap.: (MM)	\$269.4
S&P 500:	1,988.44
Avg. Daily Vol.:	34,291
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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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.

Additional Background on the Patent

The following is a summary of FLXN's recent patent pursuit efforts leading up to the patent issuance.

FLXN initially pursued broad claims but this effort was not accepted by the Patent Office as described in an Office Action issued on September 13, 2013. FLXN was trying to very broadly patent the idea of creating an injectable, slow-release Class B corticosteroid where the slow-release properties come from a matrix structure that is described in the patent. The Patent Office was resisting this broad claim because prior patents had already talked about the idea of creating slow-release Class B corticosteroid using a matrix of this same general structure.

Following the Office Action, FLXN elected to narrow its claims with the most recent patent application and management filed a response to the Office Action in February 2014. In this response, FLXN narrowed this patent to target a specific corticosteroid (not the whole class) and, at that, to also specifically articulate how much of that corticosteroid should be used in combination with the matrix. The claim is thus not a broad sweeping claim for any Class B corticosteroid or for a wide range of molecular weights. Instead, the claim looks like it is very precisely written to cover the compound that FLXN is in fact testing.

What can be expected with subsequent patent efforts? With an original patent application attempting to broadly capture the whole class and now conservatively claiming and capturing exactly what is needed for FX006, FLXN implemented a patent strategy that was not unexpected, in our view. Moving forward, we, along with our patent expert, expect FLXN to continue to pursue other, broader patents, in the hope of making it harder for potential competitors to pursue similar formulations. But, for now, FLXN has patented the formulation that it is studying, and thus (at a minimum) are forcing potential competitors to find their own corticosteroid and/or their own delivery mechanism. Such an effort by competitors would essentially mean the creation of a competing branded drug (rather than a generic), which would likely necessitate substantial time and investment. We address this risk in our model by assuming the market entry of branded competition in 2024 (and FX006 peak sales in 2023).

Financial Model

ELVN - 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%	2.9%
Number of patients with knee OA and IA steroid Rx																					
Growth, y/y	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
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																					
Growth, y/y	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	1.7
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																					
Growth, y/y	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
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%	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	\$1,957.9	\$2,019.0	\$2,080.9	\$2,143.1	\$2,206.6	\$2,271.4	\$2,337.6	\$2,405.4	\$2,474.8	\$2,545.8	\$2,618.4	\$2,692.7	\$2,768.8	\$2,846.7	\$2,926.5
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%	2.9%
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%	28.1%	30.6%	32.4%	33.6%	34.9%	36.2%	37.4%	38.5%	39.5%	40.5%
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 injs. (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%	28.1%	30.6%	32.4%	33.6%	34.9%	36.2%	37.4%	38.5%	39.5%	40.5%
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 injs. (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	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%)	(46.6%)	(50.8%)
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%	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	\$42.0	\$108.2	\$249.7	\$452.8	\$650.3	\$892.5	\$1,102.1	\$1,270.0	\$1,401.6	\$1,507.6	\$1,595.7	\$1,675.5	\$1,750.9	\$1,822.8	\$1,891.5	\$1,957.2	\$2,021.4
Growth, y/y	NM	NM	NM	NM	NM	157.3%	130.9%	81.3%	43.6%	37.3%	23.5%	(2.9%)	(6.4%)	(7.4%)	(7.8%)	(2.3%)	(2.8%)	(0.6%)	(47.5%)	(47.5%)	(50.0%)
Source: Wells Fargo Securities, LLC estimates and company reports																					

Source: Wells Fargo Securities, LLC estimates and company reports

FLXN - INCOME STATEMENT (In MM except per share data)													CAGR (E)	
	FY 2011A	FY 2012A	FY 2013A	Mar-14 1QA	Jun-14 2QA	Sep-14 3QE	Dec-14 4QE	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	
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	\$146.1	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	\$146.1	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	\$15.5	NM
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	\$130.6	NM
S&M	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.2	\$0.2	\$0.4	\$1.9	\$20.6	\$40.6	\$45.4	\$87.5	387.5%
G&A	\$3.0	\$3.9	\$6.7	\$2.2	\$2.2	\$2.6	\$2.7	\$9.8	\$11.7	\$12.8	\$14.1	\$15.5	\$13.1	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	\$42.3	14.8%
EBITDA	(\$11.2)	(\$15.0)	(\$17.7)	(\$6.4)	(\$5.8)	(\$10.5)	(\$12.7)	(\$35.4)	(\$61.9)	(\$84.5)	(\$55.5)	(\$6.9)	(\$6.9)	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	\$0.1	NM
Operating Income	(\$11.3)	(\$15.0)	(\$17.8)	(\$6.4)	(\$5.8)	(\$10.5)	(\$12.7)	(\$35.5)	(\$62.1)	(\$84.6)	(\$55.7)	(\$7.0)	(\$7.0)	NM
Interest expense	\$0.0	\$0.0	(\$0.4)	(\$0.1)	\$0.0	\$0.0	\$0.0	(\$0.1)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	NM
Interest income	\$0.2	\$0.2	\$0.2	\$0.2	\$0.0	\$0.1	\$0.1	\$0.2	\$0.2	\$0.3	\$0.2	\$0.3	\$0.3	NM
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	NM
Other	(\$0.3)	(\$0.2)	(\$0.2)	(\$0.1)	(\$0.1)	\$0.0	\$0.0	(\$0.1)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	NM
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	\$0.3	NM
Pretax Income	(\$11.4)	(\$15.0)	(\$18.2)	(\$6.5)	(\$5.9)	(\$10.4)	(\$12.6)	(\$35.5)	(\$61.8)	(\$84.3)	(\$55.4)	(\$6.8)	(\$6.8)	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	NM
Net Income	(\$11.4)	(\$15.0)	(\$18.2)	(\$6.5)	(\$5.9)	(\$10.4)	(\$12.6)	(\$35.5)	(\$61.8)	(\$84.3)	(\$55.4)	(\$6.8)	(\$6.8)	NM
Shares outstanding (basic)	0.5	0.5	0.5	7.6	15.619	15.697	15.776	13.681	18.814	24.3	29.6	30.2	30.2	NM
Shares outstanding (diluted)	0.5	0.5	0.5	13.3	15.6	15.7	15.8	15.1	18.8	24.3	29.6	30.2	30.2	NM
Shares outstanding (for EPS)	0.5	0.5	0.5	7.6	15.6	15.7	15.8	13.7	18.8	24.3	29.6	30.2	30.2	NM
EPS	(\$27.59)	(\$23.02)	(\$23.02)	(\$0.86)	(\$0.38)	(\$0.66)	(\$0.80)	(\$2.59)	(\$3.29)	(\$3.47)	(\$1.87)	(\$0.22)	(\$0.22)	NM
Margin Analysis														
Gross Margin	NM	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	NM	96.5%	42.0%	
G&A as % of sales	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	33.6%	14.4%	
R&D % sales	NM	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	NM	(132.1%)	(6.4%)	
Operating margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	(132.4%)	(6.5%)	
Pre-tax margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	(131.8%)	(6.3%)	
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%	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%	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%	0.0%	
Net margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	(131.8%)	(6.3%)	
Year/Year Changes														
FX006 Revenues	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	157.3%	
Total Revenues	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	157.3%	
Gross profit	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	157.3%	
S&M	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	157.3%	
G&A	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	157.3%	
R&D	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	157.3%	
EBITDA	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	157.3%	
Operating Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	157.3%	
Net income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	157.3%	
Earnings per share	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	157.3%	

Source: Wells Fargo Securities, LLC estimates and company reports

FLXN - BALANCE SHEET (In MM except per share data)									
	2014					2013			
	FY 2011A	FY 2012A	FY 2013A	Mar-14 1QA	Jun-14 2QA	Sep-14 3QE	Dec-14 4QE	FY 2014E	FY 2015E
Current Assets									
Cash and Equivalents	\$3.4	\$12.8	\$16.2	\$35.8	\$12.0	\$21.9	\$29.0	\$29.0	\$58.5
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	\$42.7	\$60.0	\$40.0	\$20.0	\$20.0	\$0.0
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	\$1.8	\$0.8	\$0.7	\$1.7	\$1.8	\$1.8	\$2.2
Total Current Assets	\$10.8	\$29.9	\$18.4	\$79.5	\$72.8	\$63.8	\$50.9	\$48.1	\$65.4
Long-term Assets									
Property and equipment, net	\$0.1	\$0.1	\$0.4	\$0.4	\$0.4	\$0.4	\$0.3	\$0.1	\$0.4
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	\$18.8	\$79.9	\$73.2	\$64.2	\$51.3	\$48.3	\$65.9
LIABILITIES AND SHAREHOLDERS' EQUITY									
Current Liabilities									
Accounts payable	\$0.7	\$0.5	\$1.3	\$1.8	\$1.0	\$1.8	\$1.8	\$2.3	\$2.5
Accrued expenses and other current liabilities	\$1.1	\$2.2	\$2.3	\$1.6	\$1.5	\$2.5	\$2.7	\$3.4	\$3.6
Current portion of long-term debt	\$0.0	\$0.0	\$1.5	\$2.0	\$2.0	\$2.0	\$2.0	\$0.0	\$0.0
Total Current Liabilities	\$1.8	\$2.7	\$5.0	\$5.4	\$4.4	\$6.3	\$6.5	\$5.7	\$6.0
Long-term Liabilities									
Long-term debt	\$0.0	\$0.0	\$3.5	\$3.1	\$2.6	\$2.1	\$1.6	\$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
Total Long-term Liabilities	\$0.0	\$0.0	\$3.6	\$3.1	\$2.6	\$2.1	\$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
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	\$1.5	\$144.1	\$144.7	\$144.7	\$144.7	\$290.2	\$363.0
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)	(\$78.6)	(\$89.0)	(\$101.6)	(\$247.8)	(\$303.2)
Total Stockholders' Equity	\$9.2	\$27.3	\$10.1	\$71.4	\$66.1270	\$55.7	\$43.1	\$42.5	\$59.8
Total Liabilities & Stockholders' Equity	\$10.9	\$30.0	\$18.8	\$79.9	\$73.2	\$64.2	\$51.3	\$48.3	\$65.9

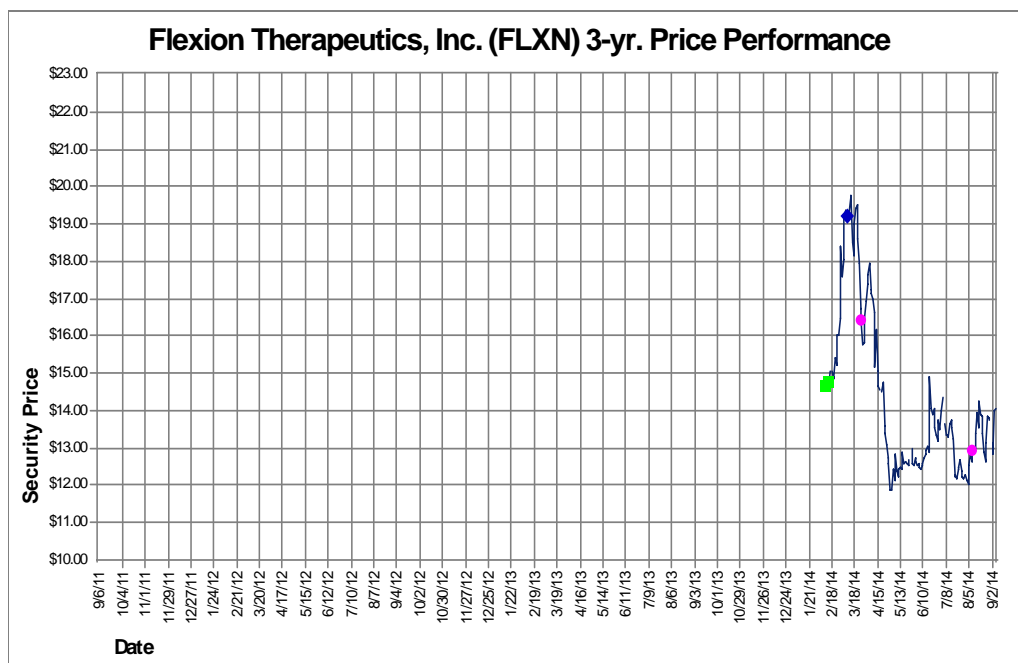
Source: Wells Fargo Securities, LLC estimates and company reports

FLXN - CASHFLOW STATEMENT (In MM except per share data)												
	2014						Dec-14 4QE	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E
	FY 2011A	FY 2012A	FY 2013A	1QA	2QA	3QE						
Net Income (Loss)	(\$11.4)	(\$15.0)	(\$18.2)	(\$6.5)	(\$5.9)	(\$10.4)	(\$12.6)	(\$35.5)	(\$61.8)	(\$84.3)	(\$55.4)	(\$6.8)
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	\$0.8	\$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	\$0.1	\$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												
Prepaid Expenses and other assets	\$0.2	(\$0.2)	\$0.0	(\$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. liab	\$0.4	\$0.9	(\$0.4)	\$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)	(\$17.6)	(\$6.5)	(\$5.8)	(\$9.6)	(\$12.5)	(\$34.3)	(\$61.1)	(\$84.1)	(\$65.9)	(\$21.6)
Cash from Investing Activities												
Purchases of property and equipment	(\$0.0)	(\$0.0)	(\$0.4)	(\$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	(\$0.1)	\$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)	(\$19.5)	\$0.0	\$0.0	(\$62.2)	\$0.0	\$0.0	\$0.0	\$0.0
Redemption of marketable securities	\$12.8	\$19.0	\$31.1	\$0.3	\$2.1	\$20.0	\$20.0	\$42.4	\$20.0	\$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)	(\$17.4)	\$20.0	\$20.0	(\$19.9)	\$20.0	\$0.0	(\$0.4)	(\$1.1)
Cash from Financing Activities												
Proceeds from borrowings under term loan	\$0.0	\$0.0	\$5.0	\$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 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	\$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	\$4.9	\$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	\$3.0	\$19.6	(\$23.8)	\$9.9	\$7.0	\$12.8	\$29.5	(\$12.8)	\$6.5	(\$22.6)
Beginning cash balance	\$4.8	\$3.4	\$12.8	\$16.2	\$35.8	\$12.0	\$21.9	\$16.2	\$29.0	\$58.5	\$45.7	\$52.2
Ending cash balance	\$3.4	\$12.8	\$15.8	\$35.8	\$12.0	\$21.9	\$29.0	\$29.0	\$58.5	\$45.7	\$52.2	\$29.5
Average cash balance	\$4.1	\$8.1	\$14.3	\$26.0	\$23.9	\$17.0	\$25.5	\$22.6	\$43.7	\$52.1	\$48.9	\$40.9

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

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
●	8/8/2014	12.93	1	24.00	26.00	12.95

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

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

Rating Code Key

- 1 Outperform/Buy
- 2 Market Perform/Hold
- 3 Underperform/Sell
- SR Suspended
- NR Not Rated
- NE No Estimate

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