

## Equity Research

### Flexion Therapeutics, Inc.

FLXN: FX006 Placed On Clinical Hold Due To Adverse Event

• **Summary:** On September 17, 2014, after market close, FLXN announced that the FDA informed the company on the afternoon of September 16 that a clinical hold has been placed on the ongoing Phase 2b confirmatory clinical trial of FX006. FDA has communicated to FLXN that the clinical hold is due to a single occurrence of an infection in the injected knee joint of a patient in the Phase 2b confirmatory study. Potential impacts to the FX006 timeline and development program are not yet known. It is important to note that the FDA is calling for an investigation, not a mandate for new studies, to better understand this adverse event and to ensure the sterility of the product and procedures. Management plans to provide more detail in a conference call on September 18 at 9:00AM EDT.

• **What is known:** To date, the company estimates that over 300 patients have been treated with FX006 and reports that this case represents the only AE associated with an infection of the knee. Per our discussions with management, this infection was related to an injection of FX006 in a single patient that then required incision and drainage and a treatment of intravenous antibiotics. The company states that such a complication is well-described, reported widely in the literature, but uncommon. Of note, the label for triamcinolone acetonide injectable suspension (the currently marketed version, in an immediate release formulation, of the same active ingredient used in FX006 studies, in extended release formulation) describes the potential for symptoms suggestive of septic arthritis (joint infection). The label goes on to state that if this complication occurs and the diagnosis of sepsis is confirmed, then appropriate antimicrobial therapy should be instituted.

• **What the FDA is requesting from FLXN:** According to FLXN, the FDA has expressed general concerns about the adverse event (AE) and aims to understand the case in greater detail, and has asked the company to provide information (which was not specifically stipulated) that will address these concerns. Although the company believes that the odds of product contamination are low, the FDA especially may want to ensure the sterility of the product. This may include convincing the FDA that the administration of product is sterile, appropriate precautions are taken at the time of injection, and overall treatment techniques are properly administered.

• **Continued on the next page**

#### 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 09/17/14 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 (09/17/2014)	\$19.38
52-Week Range:	\$11-22
Shares Outstanding: (MM)	15.6
Market Cap.: (MM)	\$302.3
S&P 500:	2,001.57
Avg. Daily Vol.:	43,895
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.

**Continued from the previous page**

- **FLXN does not expect any new studies are required at this time.** As the company and FDA aim to understand every aspect of the patient in this case and overall product administration, FDA has indicated that it wants to see the integrity of the Phase 2b confirmatory study preserved in order to potentially use the trial as intended in FX006 development. Therefore, the investigation would not un-blind any patients at this time. Current patients will still be monitored as usual. Recall, this trial calls for patients treated solely at day 0 and then followed thereafter. **Following the clinical hold, the only material change in this trial is that no new patients will be treated until further notice according to the company.**
- **Potential implications:** The company expects to be able to better determine the impact of the clinical hold on the overall FX006 development and the implications to its recently announced acceleration to phase 3 trials (anticipated to start in late 2014) once it has had the opportunity to progress its investigation into this adverse event incident and communicate further with FDA.
- **Company actions and next steps:** Management is organizing to provide the appropriate information on the AE, the product and procedures, and the overall study and expects a timely turnaround and high level of engagement with the FDA.
- **Conference call scheduled for September 18, 2014 at 9:00AM EDT:** Dial-in details are 855-770-0022 for domestic and 908-982-4677 for international.

Flexion Therapeutics, Inc.

Financial Model

FX006 - 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%
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	\$1,848.9	\$1,903.5	\$1,957.9	\$2,007.0	\$2,200.9	\$2,310.1	\$2,424.6	\$2,544.8	\$2,671.0	\$2,803.4	\$2,942.4	\$3,088.3	\$3,241.4	\$3,402.1	\$3,570.8	\$3,747.8	\$3,933.6
Growth, y/y		2.9%	2.9%	2.9%	2.9%	2.9%	3.0%	3.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
FX006 Penetration and Volumes																					
Number of patients receiving IA steroid	3.0	3.1	3.2	3.3	3.4	3.5	3.6	3.7	3.8	3.9	4.0	4.1	4.2	4.4	4.5	4.6	4.7	4.9	5.0	5.2	5.3
Est. % penetration of FX006	0.0%	0.0%	0.0%	0.0%	1.3%	3.1%	6.9%	11.9%	16.3%	21.3%	25.0%	23.1%	20.6%	19.4%	18.1%	16.9%	15.6%	15.0%	14.3%	13.1%	1.3%
Est. no. of FX006 injections/patient	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Total no. FX006 ipts. (steroid group)	-	-	-	-	0.1	0.2	0.4	0.7	0.9	1.2	1.5	1.4	1.3	1.3	1.2	1.2	1.1	1.1	0.5	0.2	0.1
Number of patients receiving HA	1.0	1.0	1.1	1.1	1.1	1.2	1.2	1.2	1.3	1.3	1.3	1.4	1.4	1.5	1.5	1.5	1.6	1.6	1.7	1.7	1.8
Est. % penetration of FX006	0.0%	0.0%	0.0%	0.0%	1.3%	3.1%	6.9%	11.9%	16.3%	21.3%	25.0%	23.1%	20.6%	19.4%	18.1%	16.9%	15.6%	15.0%	14.3%	13.1%	1.3%
Est. no. of FX006 injections/patient	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Total no. FX006 ipts. (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						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%)	(56.8%)
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	\$0.0	\$0.0	\$42.0	\$108.2	\$249.7	\$452.8	\$650.3	\$892.5	\$1,102.1	\$1,070.0	\$1,001.6	\$987.6	\$963.7	\$947.5	\$920.9	\$927.8	\$405.8	\$212.9	\$89.4
Growth, y/y						157.3%	130.9%	81.3%	43.6%	37.3%	23.5%	(2.9%)	(6.4%)	(1.4%)	(1.6%)	(2.3%)	(2.8%)	0.8%	(56.3%)	(47.5%)	(58.0%)
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	2014	Jun-14	Sep-14	Dec-14	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	'14E-'17E
				10A	20A	30E	40E							
FX006 Revenues	\$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	\$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	\$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	\$37.4	\$96.3	NM
S&M	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.2	\$0.2	\$0.2	\$0.4	\$1.9	\$20.6	\$40.6	\$45.4	387.5%
G&A	\$3.0	\$3.9	\$6.7	\$2.3	\$2.2	\$2.6	\$2.7	\$9.8	\$11.7	\$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	\$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)	(\$35.4)	(\$61.9)	(\$84.5)	(\$55.5)	(\$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)	(\$35.5)	(\$62.1)	(\$84.6)	(\$55.7)	(\$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	
Interest income	\$0.2	\$0.2	\$0.2	\$0.2	\$0.1	\$0.1	\$0.1	\$0.1	\$0.2	\$0.2	\$0.3	\$0.2	\$0.3	
Net interest	\$0.2	\$0.2	\$0.2	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.2	\$0.2	\$0.3	\$0.2	\$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	\$0.2	\$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)	(\$35.5)	(\$61.8)	(\$84.3)	(\$55.4)	(\$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)	(\$35.5)	(\$61.8)	(\$84.3)	(\$55.4)	(\$6.8)	NM
Shares outstanding (basic)		0.5	0.8	7.6	15.619	15.697	15.776	13.681	18.814	24.3	29.6	29.6	30.2	
Shares outstanding (diluted)		0.5	0.8	13.3	15.6	15.7	15.8	15.1	18.8	24.3	29.6	29.6	30.2	
Shares outstanding (for EPS)		0.5	0.8	7.6	15.6	15.7	15.8	13.7	18.8	24.3	29.6	29.6	30.2	
EPS		(\$27.59)	(\$23.02)	(\$0.86)	(\$0.38)	(\$0.66)	(\$0.80)	(\$2.59)	(\$3.29)	(\$3.47)	(\$1.87)	(\$0.22)	(\$0.22)	NM
<b>Margin Analysis</b>														
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%)	
<b>Year/Year Changes</b>														
FX006 Revenues														
Total Revenues														
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

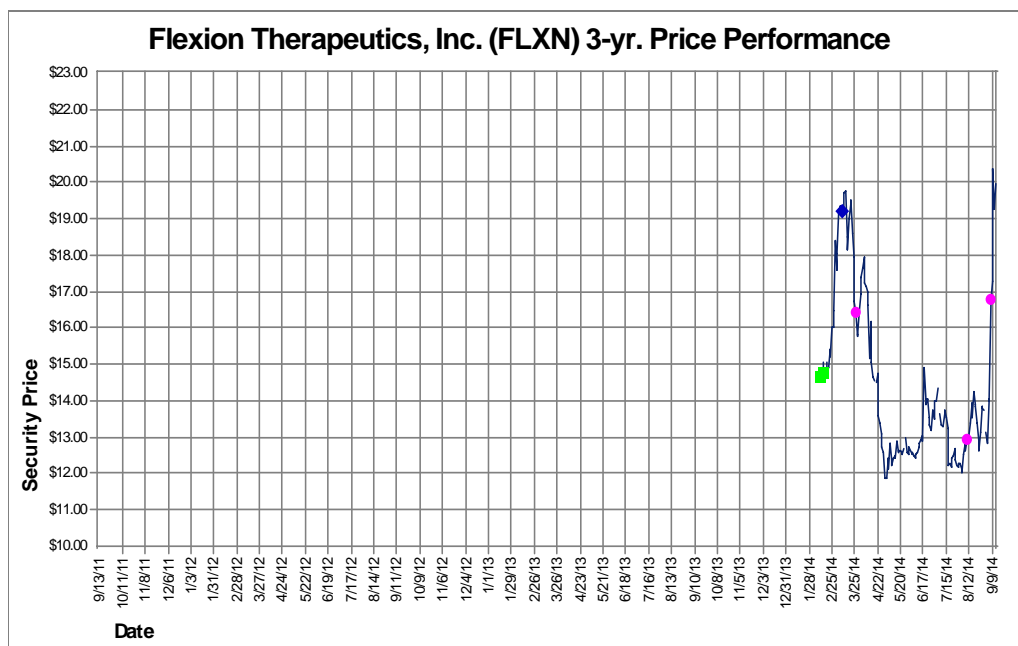
FLXN - BALANCE SHEET (In MM except per share data)													
2014													
			Mar-14		Jun-14		Sep-14		Dec-14				
FY 2011A	FY 2012A	FY 2013A	1QA	2QA	3QE	4QE	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E		
Current Assets													
	Cash and Equivalents	\$3.4	\$12.8	\$16.2	\$35.8	\$12.0	\$21.9	\$29.0	\$58.5	\$45.7	\$52.2	\$29.5	
	Restricted Cash and Restricted Cash Equivalents	\$0.0	\$0.0	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	
	Marketable securities	\$7.2	\$16.5	\$0.3	\$42.7	\$60.0	\$40.0	\$20.0	\$0.0	\$0.0	\$0.0	\$0.0	
	Accounts Receivable			\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$6.9	\$17.8	
	Inventories, net			\$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	\$2.2	\$2.3	\$2.4	\$3.2	
	Total Current Assets	\$10.8	\$29.9	\$18.4	\$79.5	\$72.8	\$63.8	\$50.9	\$60.8	\$48.1	\$65.4	\$60.5	
	Long-term Assets												
		Property and equipment, net	\$0.1	\$0.1	\$0.4	\$0.4	\$0.4	\$0.4	\$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	
Total Assets		\$10.9	\$30.0	\$18.8	\$79.9	\$73.2	\$64.2	\$51.3	\$61.1	\$48.3	\$65.9	\$61.9	
LIABILITIES AND SHAREHOLDERS' EQUITY													
Current Liabilities													
	Accounts payable	\$0.7	\$0.5	\$1.3	\$1.8	\$1.0	\$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	\$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	\$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	\$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	\$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	
Shareholders' Equity													
	Preferred Stock												
	Common stock	\$41.8	\$74.8	\$74.8	\$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	\$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	
	Deficit accumulated during the development stage	(\$33.0)	(\$48.0)	(\$66.2)	(\$72.7)	(\$78.6)	(\$89.0)	(\$101.6)	(\$163.5)	(\$247.8)	(\$303.2)	(\$310.0)	
	Total Stockholders' Equity	\$9.2	\$27.3	\$10.1	\$71.4	\$66.1270	\$55.7	\$43.1	\$54.1	\$42.5	\$59.8	\$53.0	
Total Liabilities & Stockholders' Equity													
	\$10.9	\$30.0	\$18.8	\$79.9	\$73.2	\$64.2	\$51.3	\$61.1	\$48.3	\$65.9	\$61.9		

Source: Wells Fargo Securities, LLC estimates and company reports

FLXN - CASHFLOW STATEMENT (In MM except per share data)											
	FY 2011A	FY 2012A	FY 2013A	2014				2014			
				Mar-14	Jun-14	Sep-14	Dec-14	Mar-14	Jun-14	Sep-14	Dec-14
				10A	20A	3QE	4QE	10A	20A	3QE	4QE
Net Income (Loss)	(\$11.4)	(\$15.0)	(\$18.2)	(\$6.5)	(\$5.9)	(\$10.4)	(\$12.6)	(\$6.5)	(\$5.9)	(\$10.4)	(\$12.6)
<b>Adjustments to Net Income</b>											
Depreciation	\$0.1	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Stock-based Compensation	\$0.1	\$0.1	\$0.8	\$0.4	\$0.7	\$0.0	\$0.0	\$0.4	\$0.7	\$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	\$0.0	\$0.1	\$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
Other	\$0.0	\$0.0	\$0.0	\$0.0	\$0.7	\$0.0	\$0.0	\$0.0	\$0.7	\$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)	(\$0.7)	(\$0.5)	(\$1.0)	(\$0.1)
Accounts Payable, accr. Exps., and other curr. liab	\$0.4	\$0.9	(\$0.4)	\$0.2	(\$0.8)	\$1.8	\$0.2	\$0.2	(\$0.8)	\$1.8	\$0.2
<b>Net Cash From Operations</b>	(\$10.4)	(\$14.0)	(\$17.6)	(\$6.5)	(\$5.8)	(\$9.6)	(\$12.5)	(\$6.5)	(\$5.8)	(\$9.6)	(\$12.5)
<b>Cash from Investing Activities</b>											
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	\$0.0
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
Purchases of marketable securities	(\$16.8)	(\$28.5)	(\$15.0)	(\$42.7)	(\$19.5)	\$0.0	\$0.0	(\$42.7)	(\$19.5)	\$0.0	\$0.0
Redemption of marketable securities	\$12.8	\$19.0	\$31.1	\$0.3	\$2.1	\$20.0	\$20.0	\$0.3	\$2.1	\$20.0	\$20.0
Other	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>Cash from Investing Activities</b>	(\$4.1)	(\$9.5)	\$15.6	(\$42.5)	(\$17.4)	\$20.0	\$20.0	(\$42.5)	(\$17.4)	\$20.0	\$20.0
<b>Cash from Financing Activities</b>											
Proceeds from borrowings under term loan	\$0.0	\$0.0	\$5.0	\$0.0	\$0.0	(\$0.5)	(\$0.5)	\$0.0	\$0.0	(\$0.5)	(\$0.5)
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
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
Proceeds from common stock issuance	\$0.0	\$0.0	\$0.0	\$69.5	\$0.0	\$0.0	\$0.0	\$69.5	\$0.0	\$0.0	\$0.0
Proceeds from exercise of stock options	\$0.0	\$0.0	\$0.0	\$0.2	\$0.0	\$0.0	\$0.0	\$0.2	\$0.0	\$0.0	\$0.0
Other	\$0.0	(\$0.0)	(\$0.1)	(\$1.1)	(\$0.7)	\$0.0	\$0.0	(\$1.1)	(\$0.7)	\$0.0	\$0.0
<b>Cash from financing</b>	\$13.0	\$33.0	\$4.9	\$68.6	(\$0.6)	(\$0.5)	(\$0.5)	\$68.6	(\$0.6)	(\$0.5)	(\$0.5)
Increase/(decrease) in cash and cash equivalents	(\$1.5)	\$9.5	\$3.0	\$19.6	(\$23.8)	\$9.9	\$7.0	\$19.6	(\$23.8)	\$9.9	\$7.0
Beginning cash balance	\$4.8	\$3.4	\$12.8	\$16.2	\$35.8	\$12.0	\$21.9	\$16.2	\$35.8	\$12.0	\$21.9
<b>Ending cash balance</b>	\$3.4	\$12.8	\$15.8	\$35.8	\$12.0	\$21.9	\$29.0	\$35.8	\$12.0	\$21.9	\$29.0
Average cash balance	\$4.1	\$8.1	\$14.3	\$26.0	\$23.9	\$17.0	\$25.5	\$26.0	\$23.9	\$17.0	\$25.5

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
●	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

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