

Flexion Therapeutics

(FLXN-NASDAQ)

Stock Rating: Outperform
Stock Price: US\$12.39
Target Price: US\$33.00

May 8, 2014
Specialty Pharmaceuticals

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1Q14 Earnings Are a Non-Event

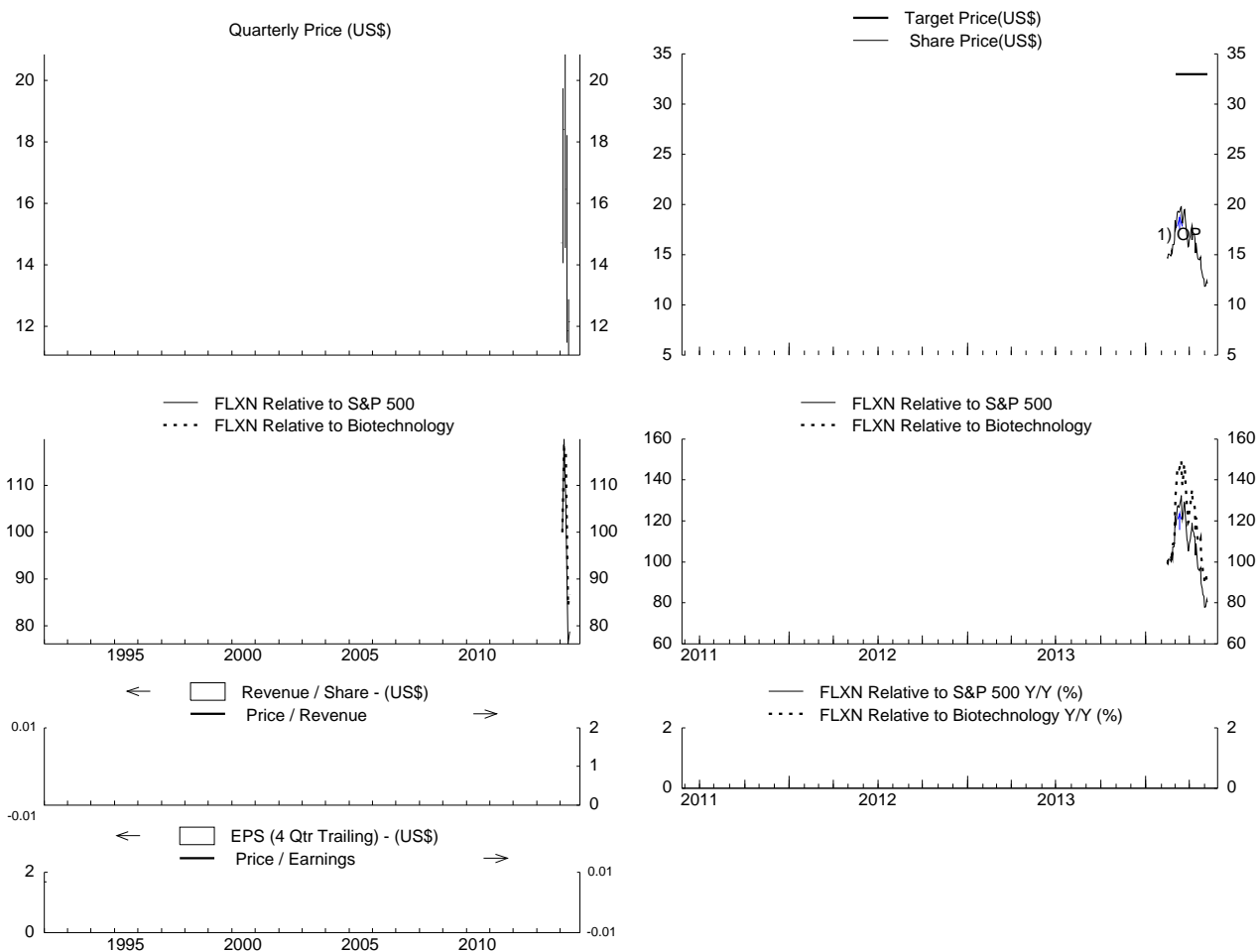
Flexion Therapeutics reported 1Q14 results, recording a 4Q13 net loss of \$6.5 million, better than our estimate of a net loss of \$8.1 million due to lower operating expense than our projections.

Our View:

- The call was a non-event, and everything was in line with what we expected. Flexion is a development-stage company, which recently completed an IPO, and most investors will be less focused on the financial results just reported than the upcoming clinical milestones.
- The R&D expense for the quarter of \$4 million was roughly \$2.5 million below our estimate of \$6.5 million, while SG&A was \$2.3 million, less than a million above our forecast of \$1.6 million.
- FLXN had \$78.5 million in cash and cash equivalents and marketable securities at March 31, 2014, compared with \$16.4 million as of December 31, 2013.
- Upcoming catalysts include the synovial data by the end of 2Q, data from the Phase IIb repeat dose study in 1H15, and data from FX007 study in 1H15, and the patent for FX006 is expected to be issued within the next 12 months.
- We maintain our Outperform rating.

Please refer to pages 2 to 5 for Important Disclosures, including the Analyst's Certification.

Flexion Therapeutics (FLXN)



| FYE (Dec.) | EPS US\$ | P/E Hi - Lo | DPS US\$ | Yield% Hi - Lo | Payout % | BV US\$ | P/B Hi - Lo | ROE % | FLXN - Rating as of 11-Feb-14 = NR | | |
|------------|----------|-------------|----------|----------------|----------|---------|-------------|-------|------------------------------------|---------------|-------------|
| Range*: | | na na | | NC | | | >15 >15 | | Date | Rating Change | Share Price |
| Current* | ND | na | 0.00 | 0.0 | na | -4.2 | -2.9 | na | 1 11-Mar-14 | NR to OP | \$19.29 |

* Current EPS is the 4 Quarter Trailing to Q3/2013.
 * Valuation metrics are based on high and low for the fiscal year.
 * Range indicates the valuation range for the period presented above.

Last Price (May 6, 2014): \$12.14
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Methodology and Risks to Price Target/Valuation

Methodology: We arrive at our target price using a discounted cash flow analysis, as well as a sector multiple applied to discounted earnings.

Risks: In addition to the normal risks inherent in pharmaceutical companies, such as regulatory, reimbursement, and competitive risks, our valuation of FLXN carries several other risks. Among the risks to our valuation is FLXN's dependence on approval of their lead product and anticipated sales and profitability to drive the value of FLXN.

Unseen side effects, safety issues, and competitive threats have not been taken into account in our valuation and if any of these were to emerge, it is likely FLXN shares would be significantly and negatively impacted. FLXN is currently running at a substantial loss, and with this fact comes several other risks, including the potential need for financing. One cannot be certain that FLXN would be able to secure additional financing and at what cost. Our valuation includes a value for the current pipeline of additional products FLXN is investigating. We have estimated a public market value for these assets based on what a similar company might be valued in a public market. Less is known about these programs relative to FLXN's lead program and given their early nature, they carry substantial development risk.

Distribution of Ratings (March 31, 2014)

| Rating Category | BMO Rating | BMOCM US Universe* | BMOCM US IB Clients** | BMOCM US IB Clients*** | BMOCM Universe**** | BMOCM IB Clients***** | Starmine Universe |
|-----------------|----------------|--------------------|-----------------------|------------------------|--------------------|-----------------------|-------------------|
| Buy | Outperform | 42.0% | 21.5% | 60.7% | 40.8% | 53.6% | 53.6% |
| Hold | Market Perform | 52.8% | 10.8% | 38.2% | 52.8% | 43.8% | 40.8% |
| Sell | Underperform | 5.2% | 3.2% | 1.1% | 6.3% | 2.7% | 5.6% |

- * Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
- ** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
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OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

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