

Flexion Therapeutics

(FLXN-NASDAQ)

Stock Rating: Outperform
Stock Price: US\$16.43
Target Price: US\$33.00

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Specialty Pharmaceuticals

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4Q Results in Line; Focus Now on 2014 Milestones

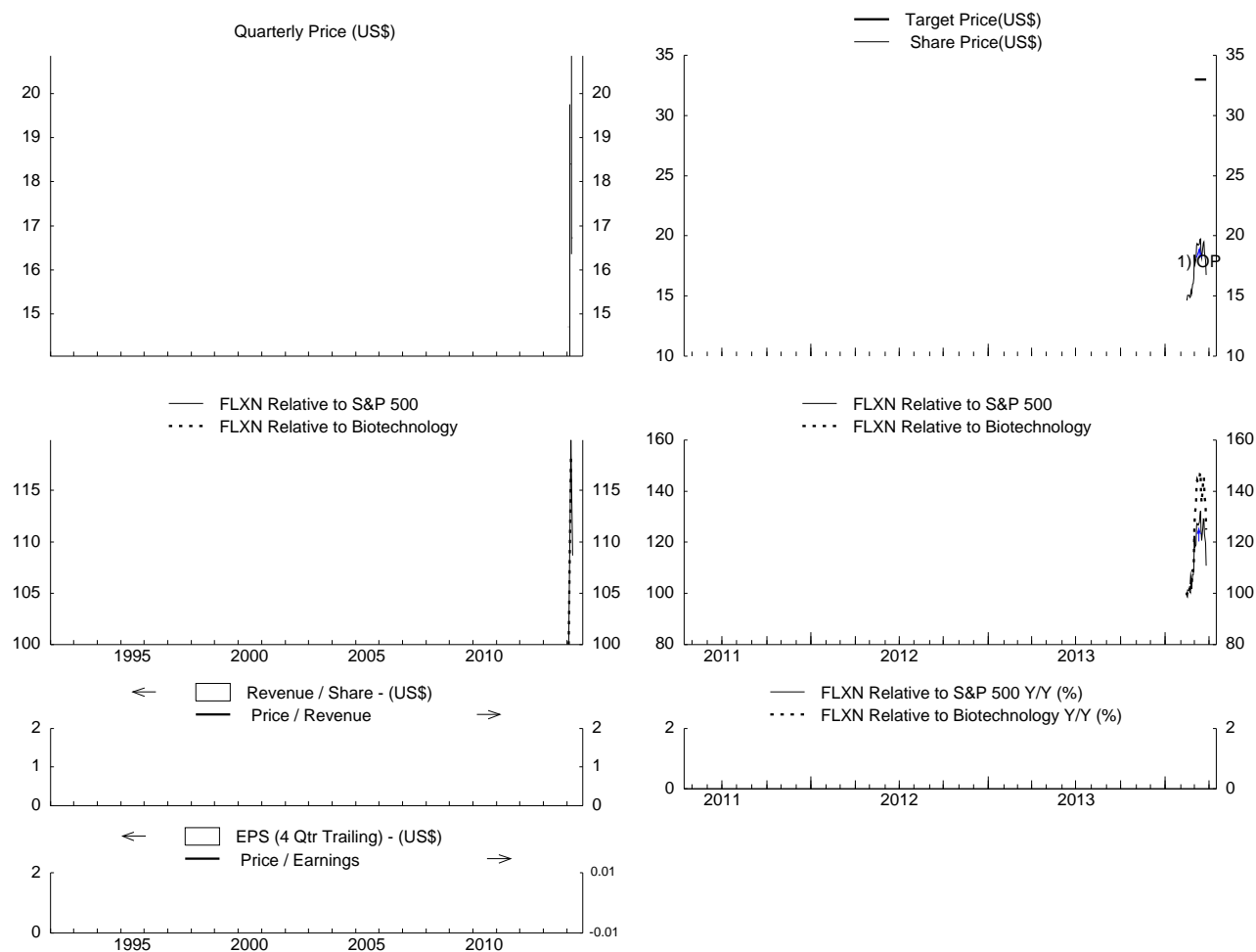
Flexion Therapeutics reported 4Q13 results, its first quarterly report as a public company. Flexion reported 4Q13 net loss of \$3.7 million, lower than our estimate of a net loss of \$7 million due to lower R&D spending in quarter than our projections. The R&D expense for the quarter of \$2.3 million was roughly \$3.3 million below our estimate of \$5.6 million, while SG&A was in line with our expectations. Cash, cash equivalents, and marketable securities totaled \$16.4 million at December 31, 2013 and gross proceeds from the IPO in February 2014 were approximately \$75 million.

Our View:

- Flexion is a development-stage company, which recently completed an IPO, and as such, most investors will be less focused on the financial results just reported than the upcoming clinical milestones.
- In 2013, Flexion made noteworthy progress in advancing FX006 by completing the Phase IIb dose-ranging clinical trial, reporting top-line clinical data and initiating a Phase IIa synovial fluid pharmacokinetic clinical trial. The company expects to deliver top-line data from its Phase IIa trial in 2014.
- In 2014, Flexion also plans to initiate a Phase IIb study to assess the safety, tolerability, and efficacy of certain doses of FX006, a clinical trial to assess the safety and tolerability of repeat doses of FX006, and initiate a proof-of-concept clinical trial for FX007.
- We continue to believe that Flexion's FX006 could be a game-changer in the treatment of osteoarthritis knee pain and if data from the Phase IIa trial is positive, it could further build investor confidence and be a positive catalyst for the shares.
- Flexion is hosting its first earnings call today at 4:00pm EST.

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	-4.4	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 (March 25, 2014): \$16.73
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

IMPORTANT DISCLOSURES**Analyst's Certification**

I, David Maris, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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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 (December 31, 2013)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	20.4%	49.0%	38.8%	50.4%	52.5%
Hold	Market Perform	56.1%	13.8%	49.0%	54.0%	46.5%	41.8%
Sell	Underperform	5.8%	5.6%	2.0%	7.2%	3.1%	5.7%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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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

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

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