Rodman &Renshaw®

Verastem, Inc. (VSTM)

COMPANY UPDATE

LIFE SCIENCES

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Market Outperform / Speculative Risk

Verastem Doubles Down on FAK, Picking Up a Phase II-Ready Asset for a Pittance

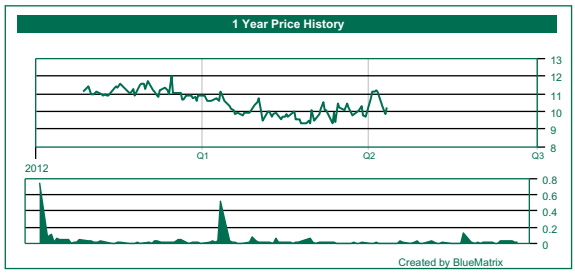
MARKET DATA	7/11/2012
Price	$10.19
Exchange	NASDAQ
Target Price	$19.00
52 Wk Hi - Low	$12.24 - $8.89
Market Cap(MM)	$214.6
EV(MM)	$173.5
Shares Out (MM)	21.1
Public Mkt Float (MM)	21.1
Avg. Daily Vol	16,313
Short Interest	423,807

BALANCE SHEET METRICS	
Cash (MM)	$47.8
LTD (MM)	$0.0
Total Debt/Capital	NA
Cash/Share	$30.67
Book Value(MM)	NA
Book Value/Share	$5.44

Cash (MM): Includes cash and equivalents, short-term and long-term securities.

EARNINGS DATA ($)			
FY - Dec	**2011E**	**2012E**	**2013E**
Q1 (Mar)	--	(0.47)*A*	--
Q2 (Jun)	--	(0.49)	--
Q3 (Sep)	--	(0.52)	--
Q4 (Dec)	(4.01)	(0.54)	--
Full Year EPS	(10.59)	(2.04)	(1.64)

INDICES	
DJIA	12,604.5
SP-500	1,341.4
NASDAQ	2,571.0
NBI	1,347.0



A day ahead of its annual R&D presentation, VSTM announced yesterday that it had licensed the exclusive worldwide rights to a clinical stage FAK inhibitor from Pfizer. VS-6063 (formerly PF-04554878) is a potent, oral, selective inhibitor of focal adhesion kinase (FAK) that has already completed Phase I clinical testing in advanced solid tumor indications. Under the terms of its agreement with Pfizer, VSTM assumed full global rights and development responsibilities related to VS-6063 in exchange for an upfront cash payment of $1.5mm and 192,012 shares of VSTM equity, with the potential for $2mm in development milestones, up to $125mm in regulatory and commercial milestones, and single to mid double-digit royalty on future net sales.

We regard this acquisition as one that dramatically advances VSTM's portfolio as well as the timeline for its FAK program. Prior to yesterday's announcement, VSTM's FAK program was still up to 12 months away from initiating clinical testing. By contrast, VS-6063 has already completed Phase I trials and has demonstrated an acceptable safety profile (please refer to data excerpts from the Phase I trial of PF-04454878/VS-6063 presented at ASCO 2011 on page 3). In a total of 36 treated patients, the most common adverse events with VS-6063 were low grade nausea vomiting, and unconjugated hyperbiliruminemia. The most severe adverse events were grade 3 headache and hyperbiliruminemia observed in one and two patients, respectively. The acquisition of VS-6063 allows VSTM to accelerate the feasibility of combining cancer stem cell targeted therapy with chemotherapy, which is likely to be the required approach in order for VS-6063 to demonstrate added clinical benefit in intended indications like high-risk neoadjuvant breast cancer. Furthermore, as the preclinical data would suggest, VS-6063 is more potent that other FAK inhibitors currently in development, including the prior VS-4718/5095 series of candidates. In securing VS-6063, VSTM has transformed a competitive liability into a formidable asset. We anticipate the discussion around VS-6063 at VSTM's R&D event today will provide insights into additional potential value driving milestones heading to YE12.

We maintain our Market Outperform rating for VSTM shares and $19 price target. We derive our price target through a combination of methodologies, including a DCF-based valuation of $17 and a CAGR valuation of $22. Risks to our valuation include the risk of clinical failure with VS-507, VS-6063 for reasons of safety or inactivity. In our view, the value of VSTM shares will be primarily milestone-driven over the next six to twelve months, as VS-507 completes IND tox assessment and VS-6063 initiates continued clinical evaluation.

Figure 1. VS-6063 (PF-04554878) related adverse events during Phase I

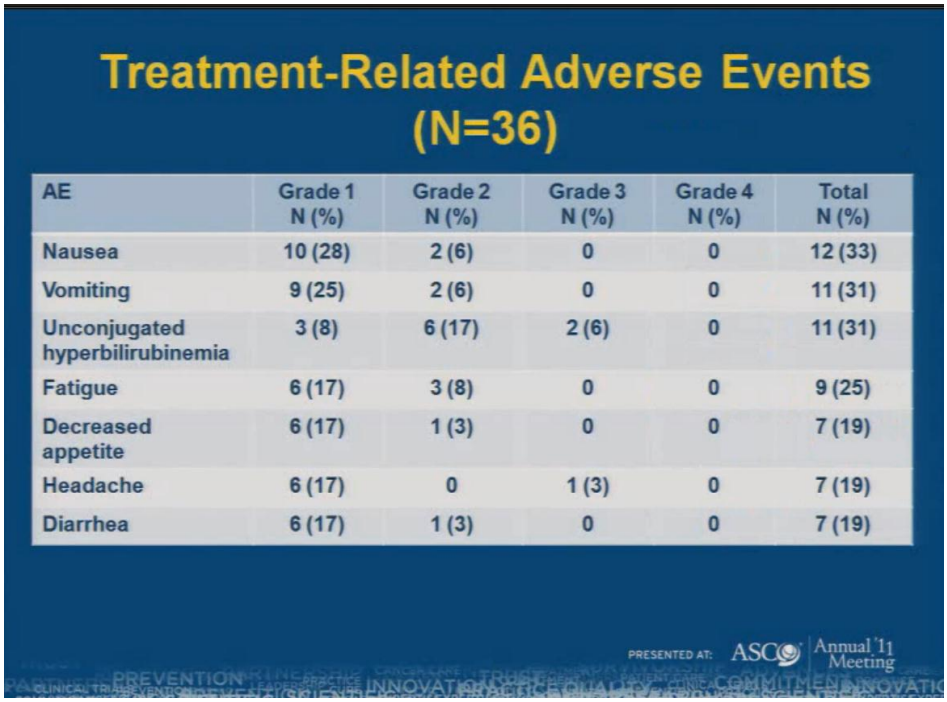


Figure 2. PK profiling with VS-6063 (PF-04554878)

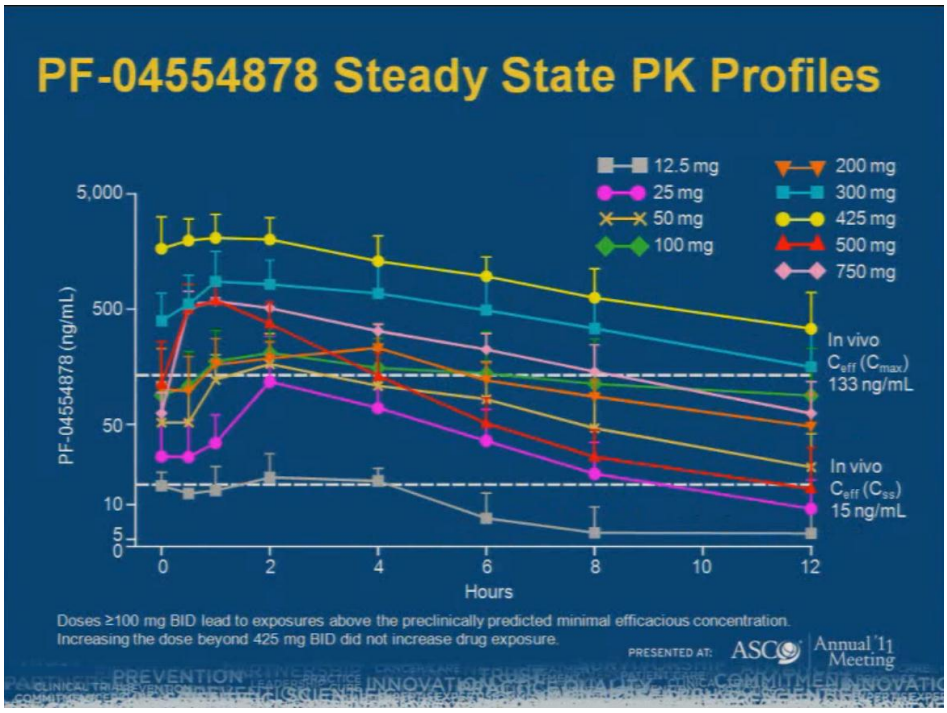


Figure 3. Phase I clinical activity observed with VS-6063 (PF-04554878)

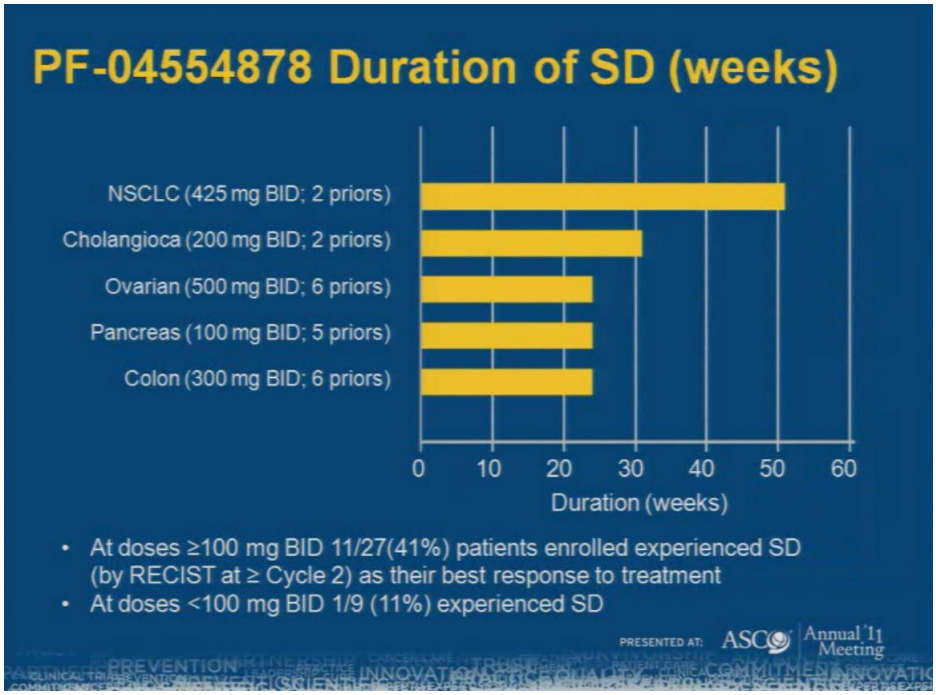


Table 1. Upcoming Milestones

Milestone	Date
• Peer-review scientific journal publication	2H 2012
• IND filing of VS-507 with FDA and initiation of Phase I trial	2H 2012
• Resumed clinical trial with VS-6063 (PF-04554878)	2H12/1H13

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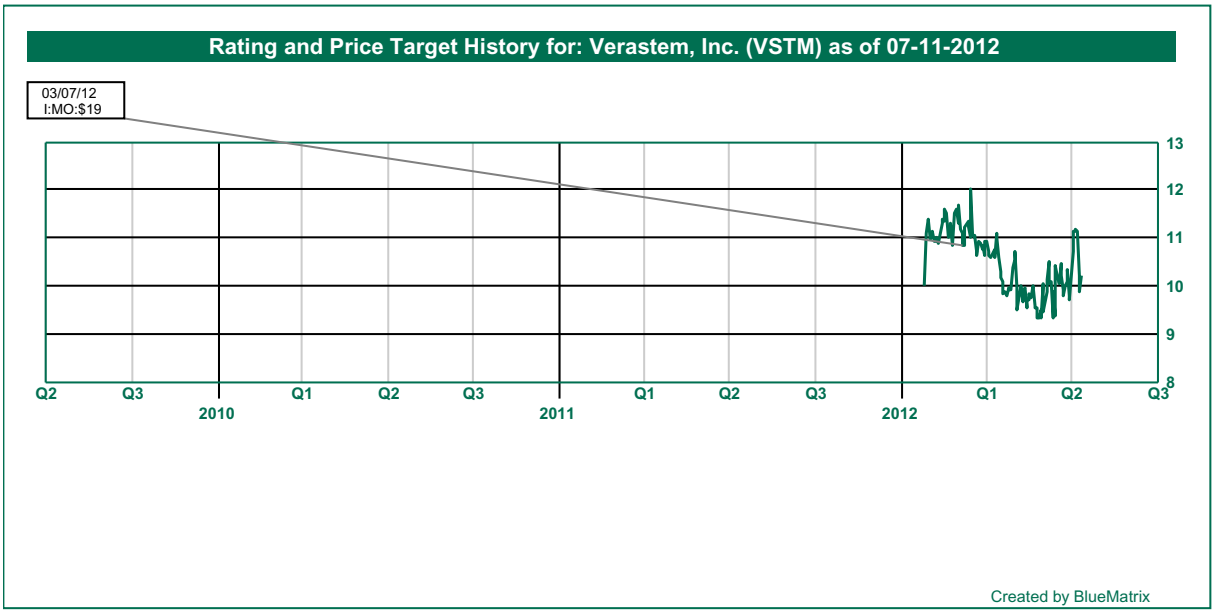
RETURN ASSESSMENT

- Market Outperform (Buy): The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
- Market Perform (Hold): The common stock of the company is expected to mimic the performance of a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
- Market Underperform (Sell): The common stock of the company is expected to underperform a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.

RISK ASSESSMENT

- Speculative - The common stock risk level is significantly greater than market risk. The stock price of these equities is exceptionally volatile.
- Aggressive - The common stock risk level is materially higher than market level risk. The stock price is typically more volatile than the general market.
- Moderate - The common stock is moderately risky, or equivalent to stock market risk. The stock price volatility is typically in-line with movements in the general market.



RATING SUMMARY

Distribution of Ratings Table

			IB Serv./Past 12 Mos	
Rating	**Count**	**Percent**	**Count**	**Percent**
Market Outperform(MO)	27	31.40%	3	11.11%
Market Perform(MP)	14	16.28%	0	0.00%
Market Underperform(MU)	3	3.49%	0	0.00%
Under Review(UR)	42	48.84%	9	21.43%
Total	86	100%	12	100%

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