

March 15, 2012

Market Outperform / Speculative Risk

FY2011 Earnings: Not Much New Since IPO

MARKET DATA 3/14/2012

Price	\$11.00
Exchange	NASDAQ
Target Price	\$19.00
52 Wk Hi - Low	\$11.99 - \$10.00
Market Cap(MM)	\$231.7
EV(MM)	\$238.1
Shares Out (MM)	21.1
Public Mkt Float (MM)	21.1
Avg. Daily Vol	NA
Short Interest	177,835

BALANCE SHEET METRICS

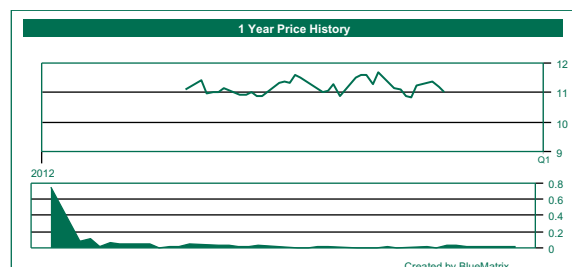
Cash (MM)	\$112.0
LTD (MM)	\$0.0
Total Debt/Capital	NA
Cash/Share	\$5.10
Book Value(MM)	NA
Book Value/Share	\$(1.53)

EARNINGS DATA (\$)

FY - Dec	2011E	2012E	2013E
Q1 (Mar)	--	(0.18)	--
Q2 (Jun)	--	(0.19)	--
Q3 (Sep)	--	(0.21)	--
Q4 (Dec)	(4.01)	(0.23)	--
Full Year EPS	(10.59)	(0.45)	(0.81)

INDICES

DJIA	13,194.1
SP-500	1,394.3
NASDAQ	2,708.4
NBI	1,245.5



VSTM released earnings before the open yesterday morning, reporting GAAP EPS of (\$10.59) for the full year 2011. The company reported a net loss of \$13.7MM for the year, greater than our estimate of \$8.46MM. No revenues were reported, in line with our estimates. Reported R&D expense of \$9.88MM was greater than our estimate of \$5.88mm, as was SG&A expense at \$3.82MM compared with our estimate of \$2.58MM.

Little news was added in the way of the Wnt and FAK development programs since we initiated coverage. The company reaffirmed the trajectory of its lead candidate program VS-507 which is currently in IND-enabling toxicology analysis. The timeline for the VS-507 IND was modestly reset to early 2013 from a prior late 2012/early 2013 timeframe. In the FAK program, key preclinical studies are ongoing in order to determine which of the two FAK inhibitor candidates, VS-4718 or VS-5095, is most suited for IND tox assessment and clinical trial on the basis of potency, specificity, and in vivo bioavailability.

Backfilling the early stage portfolio. In what limited news came forward yesterday, the company announced that it had expanded its portfolio of potential drugs candidates by in-licensing three families of novel compounds from the Broad Institute that were identified from a screen of over 300,000 compounds. While these steps will have little influence on near term valuation, we are encouraged that the company is proactively seeking to expand its pipeline of potential clinical small molecule drug candidates that will drive long term value.

We have had made minor changes to our model to reflect increases to the level of operating expenditure over the course of 2012. Previous spend forecasts were based on pro forma financial statements reflecting less R&D and SG&A expense than the actual reported yesterday. Accordingly, we have adjusted our income statement to reflect a similar ramp in R&D and SG&A expense over the course of 2012. Guidance by management maintained that the company's current cash position would be sufficient to fund R&D activities into 2016. We anticipate that positive clinical data on VS-507 and the FAK inhibitor program may prove to be drivers of significant share value that will enable the company to raise money sometime in the 2014 timeframe despite a cash runway that currently runs out to 2016.

We maintain our Market Outperform rating for VSTM shares with a \$19 price target. We derive our price target through a combination of methodologies, including DFC-based analysis and a CAGR analysis. In our view the value VSTM shares will be primarily milestone-driven over the next six to twelve months, as VS-507 completes IND tox assessment and enters the clinical setting. As a nearer term catalyst, we expect to see some preclinical data related to biomarker selection for VS-507 at or around the time of the AACR conference in late March/early April.

Figure 1. Actual Results vs. R&R Estimates

Verastem, Inc. (VSTM)				
Forecasted Results vs. Actual (FY4Q11 and FY2011)	4Q11 Estimates		FY2011 Estimates	
(\$MM)	R&R Estimates	Actual	R&R Estimates	Actual
Total Revenues	0.00	0.00	0.00	0.00
R&D Expense	0.40	4.40	5.88	9.88
SG&A Expense	0.38	1.62	2.58	3.82
Operating Expenses	0.78	6.02	8.46	13.70
Operating Income (loss)	(0.78)	(6.02)	(8.46)	(13.70)
Other Income	0.00	0.02	0.00	0.02
Net Income (loss)	(0.78)	(6.01)	(8.46)	(13.68)
Accretion of preferred stock	0.02	(0.01)	0.00	(0.03)
Net Income Spplicable to Shareholders	(0.77)	(6.02)	(8.46)	(13.72)
Basic Shares Outstanding	2.99	1.50	1.67	1.30
Diluted Shares Outstanding	2.99	1.50	1.67	1.30
Basic EPS	(0.26)	(4.01)	(5.07)	(10.59)
Diluted EPS	(0.26)	(4.01)	(5.07)	(10.59)

Figure 2. Upcoming Milestones

Milestone	Date
• Potential presentation at AACR on biomarkers related to VS-507 and VS-4718/5095 development programs.	April 1-4, 2012
• Presentation at ASCO	June 1-5, 2012
• Peer-review scientific journal publication	2H 2012
• IND filing of VS-507 with FDA and initiation of Phase I trial	1H 2013
• IND filing of VS-4718/VS-5095 with the FDA and initiation of Phase I trial	2H 2013

Figure 3. Changes to our Estimates

Verastem, Inc (VSTM)								
New vs. Old Income Statement								
(\$MM)	Old 2012	New 2012	Old 2013	New 2013	Old 2014	New 2014	Old 2015	New 2015
	FY2012E	FY2012E	FY2013E	FY2013E	FY2014E	FY2014E	FY2015	FY2015
Total Revenues	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
R&D Expense	8.70	12.20	15.66	15.66	25.84	25.84	62.01	62.01
SG&A Expense	2.63	5.30	3.54	6.25	5.32	8.00	15.95	15.95
Operating Expenses	11.33	17.50	19.20	21.91	31.15	33.84	77.96	77.96
Operating Income (loss)	(11.33)	(17.50)	(19.20)	(21.91)	(31.15)	(33.84)	(77.96)	(77.96)
Other Income	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Income	(11.33)	(17.50)	(19.20)	(21.91)	(31.15)	(33.84)	(77.96)	(77.96)
Basic Shares Outstanding	21.38	21.38	26.94	26.94	31.21	31.21	31.52	31.52
Dilute Shares Outstanding	21.38	21.38	26.94	26.94	31.21	31.21	31.52	31.52
Basic EPS (GAAP)	(0.53)	(0.82)	(0.71)	(0.81)	(1.00)	(1.08)	(2.47)	(2.47)
Diluted EPS (GAAP)	(0.53)	(0.82)	(0.71)	(0.81)	(1.00)	(1.08)	(2.47)	(2.47)

Figure 4. Updated Income statement

Verastem, Inc. (VSTM)										
Income Statement (\$MM)	2010A	2011E	1Q12E	2Q12E	3Q12E	4Q12E	2012E	2013E	2014E	2015E
Product Sales and Royalties										
VS-507, US Sales										0.0
VS-507, Ex-US Royalties										0.0
FAK Inhibitor, US Sales										0.0
Fak Inhibitors, Ex-US Royalties										0.0
Total Product Sales and Royalties										0.0
License and Milestone Revenue										
Collaboration Revenue										
Total Revenue										
Cost of Goods Sold										
% Growth										
% of Total US Sales										
Gross Profit										0.0
Operating expenses:										
R&D	0.4	9.9	2.5	2.8	3.3	3.7	12.2	15.7	25.8	62.0
% Growth				10%	18%	14%	23.4%	128.4%	65.0%	140.0%
% of Total Revenue										
SG&A	0.4	3.8	1.3	1.3	1.4	1.4	5.3	6.3	8.0	15.9
% Growth				4%	4%	4%	38.9%	117.9%	128.0%	199.3%
% of Total US Sales										
Total operating expenses	0.8	13.7	3.8	4.1	4.6	5.1	17.5	21.9	33.8	78.0
		0.0								
Operating income (loss)	(0.8)	(13.7)	(3.8)	(4.1)	(4.6)	(5.1)	(17.5)	(21.9)	(33.8)	(78.0)
Other income (expense)										
Interest income		0.0								
Interest (expense)										
Total other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Income	(0.8)	(13.7)	(3.8)	(4.1)	(4.6)	(5.1)	(9.7)	(21.9)	(33.8)	(78.0)
Provision for Income Tax										
Effective Tax Rate										
Net income	(0.8)	(13.7)	(3.75)	(4.05)	(4.60)	(5.10)	(9.7)	(21.9)	(33.8)	(78.0)
Accretion of preferred stock	(0.0)	(0.0)								
Net income applicable to common shareholders	(0.8)	(13.7)	(3.8)	(4.1)	(4.6)	(5.1)	(17.5)	(21.9)	(33.8)	(78.0)
Basic EPS to common shareholders	\$ (0.92)	\$ (10.59)	\$ (0.18)	\$ (0.19)	\$ (0.21)	\$ (0.23)	\$ (0.45)	\$ (0.81)	\$ (1.08)	\$ (2.47)
Diluted EPS to common shareholders	\$ (0.92)	\$ (10.59)	\$ (0.18)	\$ (0.19)	\$ (0.21)	\$ (0.23)	\$ (0.45)	\$ (0.81)	\$ (1.08)	\$ (2.47)
Basic Shares Outstanding	0.850	1.295	21.059	21.375	21.696	22.021	21.377	26.939	31.208	31.521
Diluted Shares Outstanding	0.850	1.295	21.059	21.375	21.696	22.021	21.377	26.939	31.208	31.521

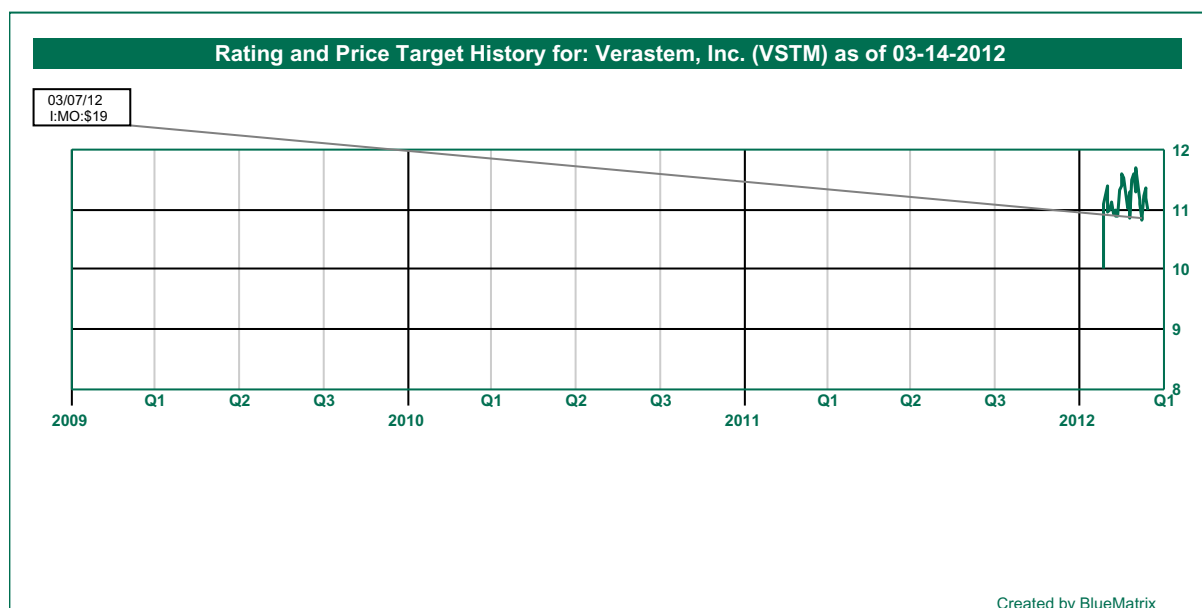
RODMAN & RENSHAW RATING SYSTEM: Rodman & Renshaw employs a three tier rating system for evaluating both the potential return and risk associated with owning common equity shares of rated firms. The expected return of any given equity is measured on a RELATIVE basis of other companies in the same sector, as defined by First Call. The price objective is calculated to estimate the potential movement in price a given equity could achieve given certain targets are met over a defined time horizon. Price objectives are subject to exogenous factors including industry events and market volatility. The risk assessment evaluates the company specific risk and accounts for the following factors, maturity of market, maturity of technology, maturity of firm, cash utilization, and valuation considerations. Potential factors contributing to risk: relatively undefined market, new technologies, immature firm, high cash burn rates, intrinsic value weighted toward future earnings or events.

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				
Rating	Count	Percent	IB Serv./Past 12 Mos	
			Count	Percent
Market Outperform(MO)	96	61.15%	16	16.67%
Market Perform(MP)	30	19.11%	3	10.00%
Market Underperform(MU)	6	3.82%	0	0.00%
Under Review(UR)	25	15.92%	4	16.00%
Total	157	100%	23	100%

Investment Banking Services include, but are not limited to, acting as a manager/co-manager in the underwriting or placement of securities, acting as financial advisor, and/or providing corporate finance or capital markets-related services to a company or one of its

affiliates or subsidiaries within the past 12 months.

ADDITIONAL DISCLOSURES

Rodman & Renshaw, LLC. (the "Firm") is a member of FINRA and SIPC and a registered U.S. Broker-Dealer.

ANALYST CERTIFICATION

I, Michael G. King, Jr., hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities.

None of the research analysts or the research analyst's household has a financial interest in the securities of Verastem, Inc. (including, without limitation, any option, right, warrant, future, long or short position).

As of Feb 29 2012 neither the Firm nor its affiliates beneficially own 1% or more of any class of common equity securities of Verastem, Inc..

Neither the research analyst nor the Firm has any material conflict of interest with Verastem, Inc., of which the research analyst knows or has reason to know at the time of publication of this research report.

The research analyst principally responsible for preparation of the report does not receive compensation that is based upon any specific investment banking services or transaction but is compensated based on factors including total revenue and profitability of the Firm, a substantial portion of which is derived from investment banking services.

The Firm or its affiliates have received compensation from Verastem, Inc. for investment banking services within twelve months before, and intends to seek compensation from the companies mentioned in this report for investment banking services within three months, following publication of the research report.

Neither the research analyst nor any member of the research analyst's household nor the Firm serves as an officer, director or advisory board member of Verastem, Inc..

The Firm does make a market in Verastem, Inc. securities as of the date of this research report.

Any opinions expressed herein are statements of our judgment as of the date of publication and are subject to change without notice.

Reproduction without written permission is prohibited. The closing prices of securities mentioned in this report are as of Mar 14 2012. Additional information is available to clients upon written request. For complete research report on Verastem, Inc., please call (212) 356-0500.

Readers are advised that this analysis report is issued solely for informational purposes and is not to be construed as an offer to sell or the solicitation of an offer to buy. The information contained herein is based on sources which we believe to be reliable but is not guaranteed by us as being accurate and does not purport to be a complete statement or summary of the available data. Past performance is no guarantee of future results.