

April 3, 2012

Market Outperform / Speculative Risk

### Verastem Compounds and Stem Cell Science Take Center Stage at AACR

#### MARKET DATA 4/2/2012

Price	\$10.91
Exchange	NASDAQ
Target Price	\$19.00
52 Wk Hi - Low	\$12.24 - \$10.05
Market Cap(MM)	\$229.8
EV(MM)	\$236.2
Shares Out (MM)	21.1
Public Mkt Float (MM)	21.1
Avg. Daily Vol	NA
Short Interest	187,582

#### BALANCE SHEET METRICS

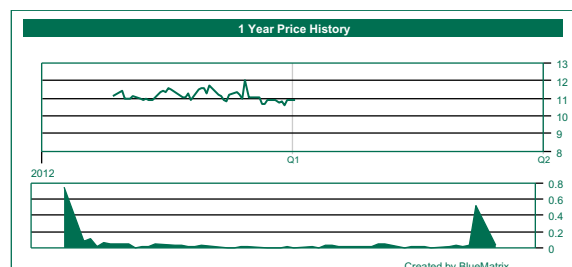
Cash (MM)	\$3.6
LTD (MM)	\$0.0
Total Debt/Capital	NA
Cash/Share	\$1.01
Book Value(MM)	NA
Book Value/Share	\$(1.53)

#### 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	13,264.5
SP-500	1,419.0
NASDAQ	2,784.4
NBI	1,292.4



**VSTM researchers presented three late-breaking posters Monday afternoon at the American Association for Cancer Research (AACR) annual meeting in Chicago.** The posters were varied in their focus, but provided evidence confirming some of our assumptions about the VSTM assets, namely VS-507 and VS-4718 / VS-5095. Dr. Jonathan Pachter, Head of Research at VSTM, and senior researchers from his team were on hand to field questions.

Poster LB-194, "The Wnt Inhibitor VS-507 Reduces Cancer Stem Cell Function In Vitro and Tumorigenicity in Mice" further characterized the mechanism and anti-tumor potency of VS-507 in specific triple negative breast cancer cell lines and mouse models. As had been implied by VSTM researchers previously, VSTM demonstrated in specific Wnt-stimulated breast cancer cell lines that VS-507 inhibits beta-catenin signaling in a dose-dependent manner leading to decreased expression of LRP6, a protein overexpressed in certain triple negative breast cancers.

Further, the poster also outlined that VS-507 is highly selective for breast cancer stem cells relative to epithelial breast lines in an example with HMLE-TWIST cells vs. control HMLE cells. As a reminder, the co-founders of VSTM have shown previously that TWIST can promote the generation of a breast cancer stem cell phenotype. Finally, it was also shown that systemic administration VS-507 had direct anti-tumor efficacy in mouse xenograft models. This was the first published evidence, to our knowledge, describing the drug's efficacy within in vivo models of triple negative breast cancer, and is an encouraging step as the drug nears Phase I trials later this year or early next.

Poster LB-192 demonstrated the first published evidence, to the best of our knowledge, that VSTM's FAK inhibitors could selectively inhibit breast cancer stem cell function in vitro and in vivo. The previous data had been generated based on a legacy compound PND-1186, likely of the same class as VSTM's FAK inhibitors. Poster LB-197 described the process by which VSTM defined an in-house system for detecting relevant splicing signatures in order to identify breast cancer stem cells.

**Yesterday's events culminated in Dr. Robert Weinberg's award lecture for the 2012 Pezcoller Foundation – AACR International Award for Cancer Research.** Dr. Weinberg was honored based on his research in the fields of cancer genetics and cell biology. His lecture was entitled, "Epithelial-Mesenchymal Transition, Cancer Stem Cells and Metastasis". While Dr. Weinberg did not disclose new data during his talk, the lecture did highlight the specific science and biology that VSTM is leveraging in order to develop its portfolio assets. We expect that yesterday's lecture will only bring further attention to the work of VSTM.

**We maintain our Market Outperform and 12-month price target of \$19.00.** We expect multiple drivers over the next 12-24 months that will keep investor attention focused on shares. We have taken several approaches to arrive at our year-end 2012 price target for VSTM. From a more traditional DCF-based analysis, we derive a \$17.83 valuation using a discount rate of 40%. By CAGR analysis we arrive at a valuation of \$19.16. Taken together we arrive at an overall price target of \$19. We also believe the shares warrant a premium given the company's position in the cancer stem cell land grab.

**Key Upcoming Milestones**

Milestone	Date
• Presentations 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	2H 2012
• IND filing of VS-4718/VS-5095 with the FDA and initiation of Phase I trial	1H 2013

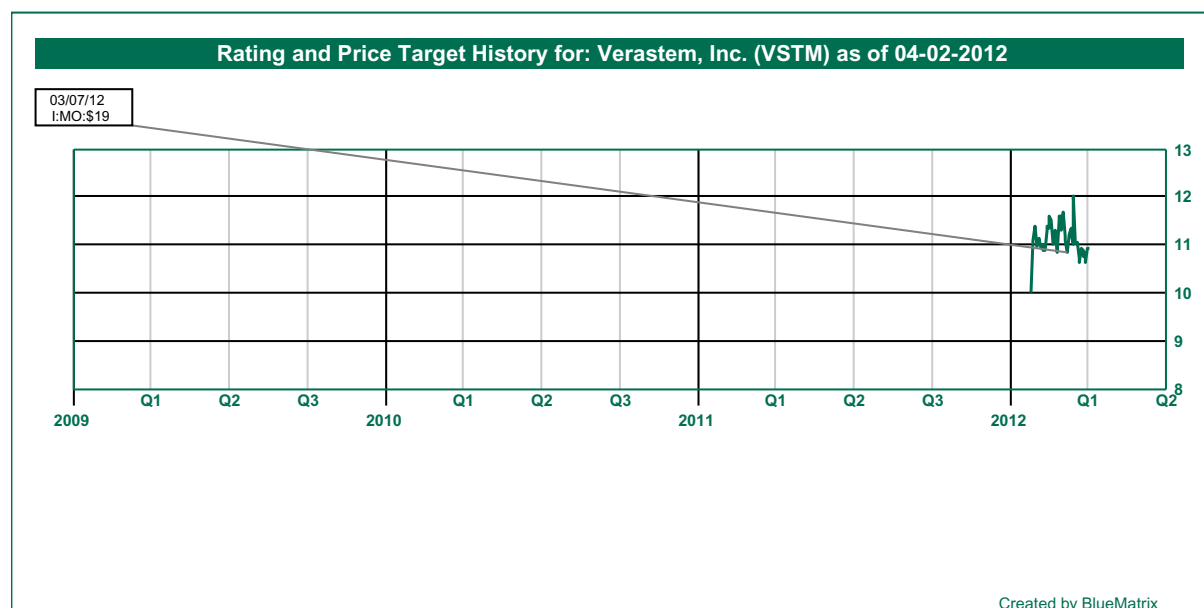
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### RETURN ASSESSMENT

- **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				
Rating	Count	Percent	IB Serv./Past 12 Mos	
			Count	Percent
Market Outperform(MO)	83	63.85%	13	15.66%
Market Perform(MP)	27	20.77%	3	11.11%
Market Underperform(MU)	6	4.62%	0	0.00%
Under Review(UR)	14	10.77%	3	21.43%
Total	130	100%	19	100%

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