July 13, 2012

OUTPERFORM

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Reason for report:

COMPANY UPDATE

LEERINK SWANN

HEALTHCARE EQUITY RESEARCH

VERASTEM, INC.

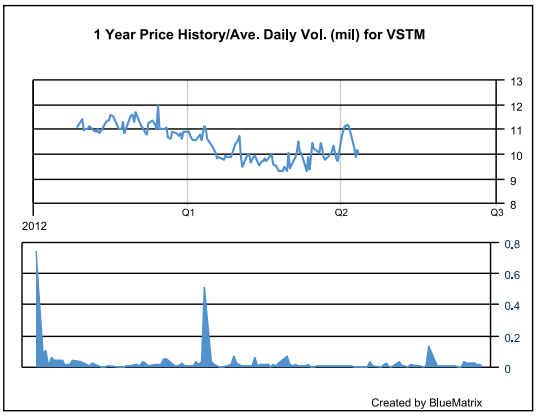
Transformative Deals Vault VSTM into a Clinical Stage Story

• **Bottom Line:** We are impressed with the company's progress in recent months in developing its pipeline that now includes a Phase II-ready FAK inhibitor VS6063 in-licensed from PFE (MP), a preclinical PI3 kinase / mTOR inhibitor VS5584 in-licensed from S*Bio, as well as VS4718, a FAK inhibitor that VSTM had been developing and continuing to advance toward the clinic in 1Q:13.. Based on our review of available data on FAK inhibitors, we believe VS6063 has an attractive profile that may be differentiated from competition. Clinical data on another FAK inhibitor GSK2256098 (GSK, MP) presented at the recent ASCO support VSTM's development plan in mesothelioma. While in the near-term, the focus remains on execution, we find the developing thesis of FAK inhibitors in Merlin-negative mesothelioma to be very intriguing and believe it could increase interest as further biomarker data become available from the GSK trial and as VS6063 advances into Phase II in 2Q:13. Our valuation remains $15/share.

• **Potential leadership position in FAK inhibition.** With the in-licensing of VS6063 (PF-04554878), VSTM continues to advance its interest in focal adhesion kinase (FAK) inhibitors which the company found to be active in its cancer stem cell assays. VS6063 looks to be a good compound that has the typical strong big pharma chemistry and pharmacology efforts behind it and is already PFE's second clinical-stage FAK inhibitor. Compared to the first-generation agent PF-00562271, VS6063 has greater potency against both FAK as well as Pyk2, and low potential for CYP3A drug-drug interaction. Compensatory increase in Pyk2 activity has been reported after FAK inhibition therefore dual inhibition could be advantageous. In the Phase I study involving 46 patients, the drug appears to be well tolerated and 16/37 patients (43%) receiving doses of >= 100 mg twice a day had stable disease. Unconjugated hyperbilirubinemia was observed in 37% of the patients but only 4% with grade 3. This was thought by investigators to be due to the biochemical competition by the drug with bilirubin conjugation and disposition, therefore, may not be a true toxicity. GI toxicities (nausea, diarrhea and vomiting) seen in 56-78% of patients on the GSK2256098 trial appear less an issue for VS6063 and were seen in 22-37% of patients (all grade 1-2 for both drugs). The compound is dosed twice a day but the long half life of 11 hours may even support once a day dosing.

• **Clinical signal has been noted for a FAK inhibitor in mesothelioma.** In the GSK2256098 trial presented at ASCO, 10 of 19 patients with mesothelioma had stable disease. Biomarker studies are underway to determine if there is correlation with Merlin loss, which is thought to be correlated with sensitivity to FAK inhibition.

Key Stats:	**(NASDAQ:VSTM)**
S&P 600 Health Care Index:	**827.81**
Price:	**$10.01**
52 Week High:	$12.24
52 Week Low:	$8.89
Shares Outstanding (mil):	21.1
Market Capitalization (mil):	$211.2
Book Value/Share:	$2.74
Cash Per Share:	$5.75
Dividend (ann):	NA
Valuation:	$15 on multiple of sales



Dec Yr	1Q	2Q	3Q	4Q	FY Rev	1Q	2Q	3Q	4Q	FY EPS	P/E
2011A	**--**	**--**	**--**	**0.0**	**0.0**	**--**	**--**	**($1.33)**	**($0.39)**	**($10.59)**	**NM**
2012E - New	**0.0A**	**0.0**	**0.0**	**0.0**	**0.0**	**($0.47)A**	**($0.35)**	**($0.37)**	**($0.39)**	**($1.54)**	**NM**
2012E - Old	0.0A	0.0	0.0	0.0	0.0	($0.56)	($0.20)	($0.21)	($0.22)	($1.10)	NM
2013E - New	**--**	**--**	**--**	**--**	**0.0**	**--**	**--**	**--**	**--**	**($1.81)**	**NM**
2013E - Old	--	--	--	--	0.0	--	--	--	--	($0.97)	NM

Source: Company Information and Leerink Swann LLC Research
EPS are GAAP. 3Q:11 loss is cumulative for 2011's first nine months. Quarterly figures may not sum to annual total due to change in shares out.

Please refer to pages 6 - 10 for Important Disclosures, Price Charts and Analyst Certification.

INVESTMENT THESIS

VSTM is a biotechnology company focused on novel cancer therapies targeting cancer stem cells. With few exceptions, current cancer treatments are generally unsatisfactory and new approaches to cancer therapy are needed. One issue encountered by most of the current agents has been the recurrence of cancer, despite intense chemotherapy and radiation therapy. Recent studies show a small subset of cancer cells, known as cancer stem cells (CSCs), are resistant to traditional chemotherapy but are capable of initiating tumors. While experimental and some controversies remain, targeting cancer stem cells (CSCs) represents a novel, potentially ground-breaking approach to cancer treatment, in our view. We believe our interest in CSCs is shared by major pharmaceutical companies including some that have designated CSC as a key area of focus for business development. This is evidenced by the recent announcement of the acquisition of CSC-focused biotechnology company Boston Biomedical Inc. by Dainippon Sumitomo. In our view, VSTM has an exceptionally strong management team. The scientific founders of VSTM include some of the world's most renowned cancer biologists who developed technologies to recreate CSCs and screen compounds that target CSCs. Its business founders have proven track records in multiple prior biotech start-ups. With over $102M in pro-forma cash, we believe VSTM has sufficient cash resources through the end of 2015 and into 2016, and through Phase II for its lead candidate.

Clinical signal has been noted for a FAK inhibitor in mesothelioma. In the GSK2256098 trial presented at ASCO, 10 of 19 patients with mesothelioma had stable disease. Biomarker studies are underway to determine if there is correlation with Merlin loss, which is thought to be correlated with sensitivity to FAK inhibition.

Model update: we are updating our VSTM model to reflect full year 2011 and 1Q:12 reports. In addition, we moved up launch timeline of VSTM's lead agent by approximately a year from 2019 to 2018 as a result of recent progress by management in advancing the pipeline.

VALUATION

We rate Verastem Outperform with a 12-month valuation on VSTM shares of $15. We reach this $15 valuation by using a multiple-of-sales analysis based on a 5 x multiple applied to 2022E probability-weighted US sales of VS-6063 and VS-4718 totaling $370M, and a 13x multiple applied to 2022E royalties for ex-US probability-weighted sales of VS-6063 and VS-4718 of $55M, each discounted back at 20% for 8.47 years. We believe the multiples used are consistent with other biotechnology companies.

RISKS TO VALUATION

The field of cancer stem cells is a relatively new scientific arena. The overall concept of cancer stem cells, while continuing to build supportive scientific evidence, remains controversial within the academic community. There is also no clinical validation that targeting cancer stem cells

will yield therapies that have improved outcomes relative to currently available agents. In addition, the clinical and registration paths for developing agents that target cancer stem cells remain to be paved, and appropriate clinical endpoints for this unique class of agents may need to be worked out.

Some competition has a longer presence in the field. While the technology behind Verastem's platform has been built on many years of scientific research, the company itself is very young, having been established in August 2010. Other companies with a focus on cancer stem cells have more advanced clinical candidates, and several have established collaborations with large biopharma companies.

Early stage of development, high risk for failure, and likely need for further financing. Verastem's lead candidates are still in preclinical development, therefore have high risks of failure due to unproven safety and efficacy. As of the end of 1Q:12, the company had $102M in pro-forma cash and management has guided that would be sufficient for supporting operations into 2016, assuming Phase I programs on two compounds and a Phase II program on one compound. A broader, more aggressive development program could potentially shorten this cash runway and it seems likely that additional financing would be required prior to profitability.

VSTM Expected Events

Timing	Event
VS 6063 (FAK inhibitor)	
4Q:12 - 1Q:13	Manufacture clinical trial material
2Q:13	Initiate Phase II in mesothelioma
Early 2014	Initiate Phase Ib combination studies
VS 4718 (FAK inhibitor)	
YE:12	Substantially complete pre-IND studies
1Q:13	Initiate Phase I trial in healthy volunteers
1H:13	Initiate Phase I in solid tumor patients
VS 5584 (PI3K/mTOR inhibitor)	
4Q:12	Start IND-enabling toxicology studies
Mid 2013	Initiate Phase I in solid tumor patients

Source: Company reports and Leerink Swann LLC

VSTM Product Pipeline

Program	Indication	Status
VS6063 (Focal adhesion kinase (FAK) inhibitor)	Mesothelioma and others	Phase I completed
VS4718 (Focal adhesion kinase (FAK) inhibitor)	Breast cancer and other solid tumors	Pre-clinical
VS-5584 (pan PI3 kinase and mTOR1/2 inhibitor)	Cancer	Pre-clinical
VS-507 (Salinomycin- Wnt inhibitor)	Cancer	Pre-clinical (deferred)
Companion diagnostic product	Oncology	Pre-clinical
NCE (New undisclosed target)	Cancer	Pre-clinical

Source: Company reports and Leerink Swann LLC

Figures in $000, except EPS	2010A	2011A	Mar-12A	Jun-12E	Sep-12E	Dec-12E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
VS-6063 US sales	0									-	-	-	50,000	100,000	150,000	200,000	250,000
VS-6063 Ex-US royalties (assume 20%)										-	-	-	0	4,858	7,287	21,521	27,534
VS-4718 sales										-	-	-	0	0	25,000	70,000	120,000
VS-4718 Ex-US royalties (assume 20%)										-	-	-	0	0	5,005	19,763	26,997
Total Product Sales	0	-								-	-	-	50,000	100,000	175,000	270,000	370,000
Total Royalties	0									-	-	-	0	4,858	12,293	41,283	54,531
Collaborative revenues																	
Total Revenue	0	-	-	-						-	-	-	50,000	104,858	187,293	311,283	424,531
COGS	0	-					-	-	-	-	0	0	5,500	11,000	19,250	29,700	40,700
Research and Development	400	9,883	4,803	5,187	5,602	6,050	21,643	30,252	31,765	38,117	43,880	46,513	49,769	53,252	56,447	58,705	61,054
General and Administrative	384	3,815	2,125	2,189	2,254	2,322	8,890	9,753	10,338	10,855	11,397	34,192	68,384	89,380	95,637	104,244	109,456
Total Operating Expense	**$784**	**$13,698**	**6,928**	**7,376**	7,857	8,372	**$30,533**	**$40,005**	**$42,102**	**$48,972**	**$55,277**	**$80,705**	**$123,653**	**$153,633**	**$171,334**	**$192,650**	**$211,210**
Interest Income/Expense Net	0	15	57	15	12	9	93	83	73	63	33	3	(27)	(57)	(3,643)	(8,683)	(15,040)
Accretion of preferred stock	(2)	(32)	(6)														
Net Income Before Taxes	**($786)**	**($13,715)**	**($6,877)**	**($7,361)**	**(7,845)**	**(8,363)**	**($30,440)**	**($39,922)**	**($42,029)**	**($48,909)**	**($55,244)**	**($80,702)**	**($73,680)**	**($48,831)**	**$12,315**	**$109,951**	**$198,281**
Income Taxes	0	0					0	0	0	0	0	0	0	0	4,310	38,483	69,398
Tax rate	*0%*	*0%*					*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*35%*	*35%*	*35%*
Net Income After Taxes	**($786)**	**($13,715)**	**($6,877)**	**($7,361)**	**($7,845)**	**($8,363)**	**($30,440)**	**($39,922)**	**($42,029)**	**($48,909)**	**($55,244)**	**($80,702)**	**($73,680)**	**($48,831)**	**$8,005**	**$71,468**	**$128,883**
GAAP EPS	**($0.59)**	**($10.59)**	**($0.47)**	**($0.35)**	**($0.37)**	**($0.39)**	**($1.54)**	**($1.81)**	**($1.88)**	**($1.91)**	**($2.13)**	**($2.57)**	**($2.32)**	**($1.50)**	**$0.23**	**$1.99**	**$3.52**
Basic Weighted Average Shares	1,325	1,295	14,693	21,270	21,482	21,697	19,785	22,023	22,353	25,578	25,961	31,351	31,821	32,458	33,107	33,769	34,444
Diluted Weighted Average Shares	1,325	1,295	14,693	22,954	23,166	23,381	21,048	24,207	24,537	27,762	28,145	33,535	34,005	34,642	35,291	35,953	36,628

Source: Company documents and Leerink Swann LLC estimates

Disclosures Appendix

Analyst Certification

I, Howard Liang, Ph.D., certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

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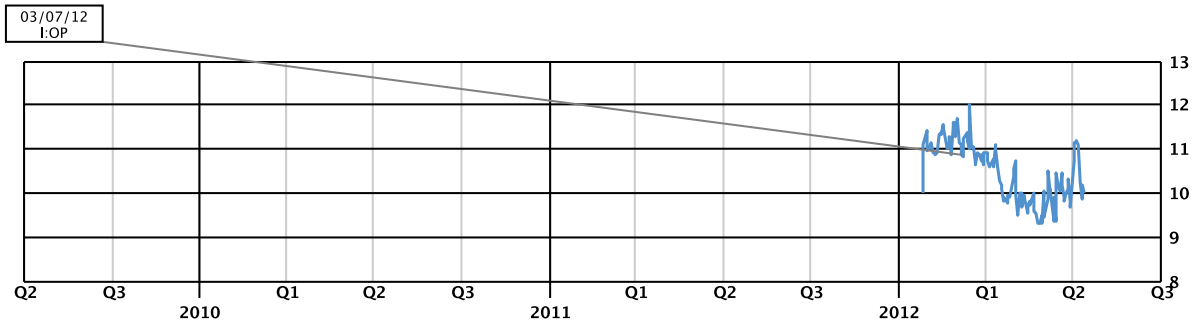
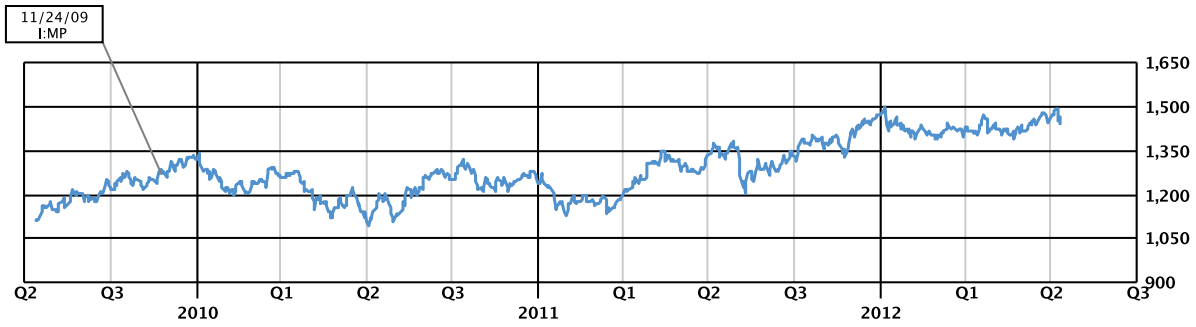
Rating and Price Target History for: Verastem, Inc. (VSTM) as of 07-12-2012



OP=Outperform MP=Market Perform UP=Underperform D=Drop Coverage I=Initiate SC=Suspend Coverage

Created by BlueMatrix

Rating and Price Target History for: GlaxoSmithKline plc (GSK LN) as of 07-12-2012

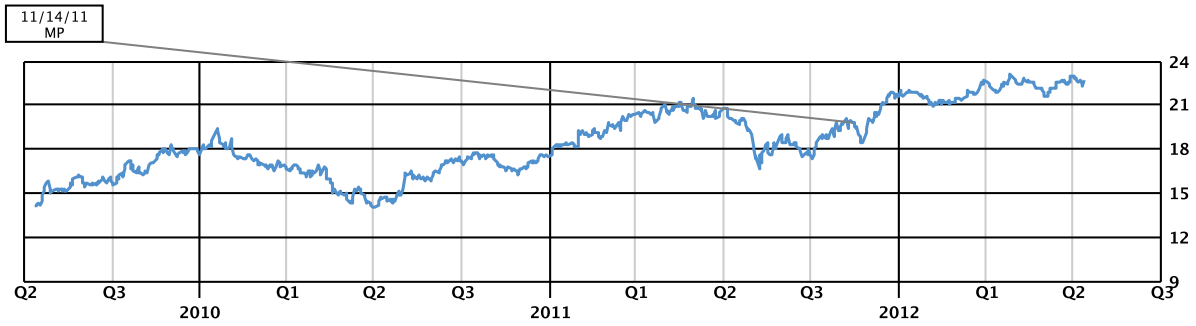


OP=Outperform MP=Market Perform UP=Underperform D=Drop Coverage I=Initiate SC=Suspend Coverage

Created by BlueMatrix

LEERINK SWANN

Rating and Price Target History for: Pfizer, Inc. (PFE) as of 07-12-2012



Leerink Swann placed an Outperform rating on PFE on Feb. 12, 2009.

OP=Outperform MP=Market Perform UP=Underperform D=Drop Coverage I=Initiate SC=Suspend Coverage

Created by BlueMatrix

Distribution of Ratings/Investment Banking Services (IB) as of 06/30/12				
			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [OP]	92	57.1	23	25.0
HOLD [MP]	69	42.9	4	5.8
SELL [UP]	0	0.0	0	0.0

Explanation of Ratings

Outperform (Buy): We expect this stock to outperform its benchmark over the next 12 months.

Market Perform (Hold/Neutral): We expect this stock to perform in line with its benchmark over the next 12 months.

Underperform (Sell): We expect this stock to underperform its benchmark over the next 12 months.The degree of outperformance or underperformance required to warrant an Outperform or an Underperform rating should be commensurate with the risk profile of the company.

For the purposes of these definitions the relevant benchmark will be the S&P 600® Health Care Index for issuers with a market capitalization of less than $2 billion and the S&P 500® Health Care Index for issuers with a market capitalization over $2 billion.

From October 1, 2006 through January 8, 2009, the relevant benchmarks for the above definitions were the Russell 2000® Health Care Index for issuers with a market capitalization of less than $2 billion and the S&P 500® Health Care Index for issuers with a market capitalization over $2 billion.

Definitions of Leerink Swann Ratings prior to October 1, 2006 are shown below:

Outperform (Buy): We expect this stock to outperform its benchmark by more than 10 percentage points over the next 12 months.

Market Perform (Hold/Neutral): We expect this stock to perform within a range of plus or minus 10 percentage points of its benchmark over the next 12 months.

Underperform (Sell): We expect this stock to underperform its benchmark by more than 10 percentage points over the next 12 months.

For the purposes of these definitions, the relevant benchmark were the Russell 2000® Health Care Index for issuers with a market capitalization of less than $2 billion and the S&P 500® Index for issuers with a market capitalization over $2 billion.

Important Disclosures

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Leerink Swann Consulting LLC, an affiliate of Leerink Swann LLC, is a provider of evidence-based strategy and consulting to the healthcare industry.

In the past 12 months, the Firm has received compensation for providing investment banking services to Verastem, Inc.

Leerink Swann LLC makes a market in Verastem, Inc.

Leerink Swann LLC is willing to sell to, or buy from, clients the common stock of GlaxoSmithKline plc on a principal basis.

Leerink Swann LLC is willing to sell to, or buy from, clients the common stock of Pfizer, Inc. on a principal basis.

In the past 12 months, an affiliate of the Firm, Leerink Swann Consulting LLC, has received compensation for providing non-securities services to: GlaxoSmithKline plc.

In the past 12 months, an affiliate of the Firm, Leerink Swann Consulting LLC, has received compensation for providing non-securities services to: Pfizer, Inc.

Leerink Swann LLC has acted as a co-manager for a public offering of Verastem, Inc. in the past 12 months.

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