Rodman &Renshaw

First Take

Verastem, Inc. (VSTM)

Price: $10.01 (07/12/2012 - Intraday), Rating: Market Outperform, Price Target: $19.00, Market Cap(MM): $210.8, 52 Week Hi/Low: ($12.24/$8.89)

Michael G. King, Jr., Senior Biotechnology Analyst 212-430-1794 mking@rodm.com

Verastem Positions FAK and Mesothelioma as Lead Clinical Program During R&D Update

Yesterday morning, Verastem held its first annual R&D event in which the Company provided several updates to its three ongoing development programs directed at prolonging anti-tumor responses through targeting cancer stem cells. It marked the most significant update we have received from Verastem since the Company's IPO in January. Briefly, some of the key takeaways from the yesterday's update event include:

- The reprioritization of FAK as the lead clinical development program
- The acquisition of the FAK inhibitor VS-6063 from Pfizer (PFE, Not Rated) allowing for the start of Phase II activity testing much sooner than anticipated
- Clinical development with the dual PI3K/mTOR inhibitor VS-5548 beginning in mid-2013
- The deferral of VS-507 development in favor of a small molecule Wnt inhibitor discovery effort in collaboration with Eisai Ltd (JPN-4523, Not Rated)

Beginning with FAK, the recent acquisition of VS-6063 brings the FAK program 12-18 months closer to Phase-II evaluation. As we reviewed in a note published yesterday, VSTM has licensed exclusive global commercial and development rights to Pfizer's FAK inhibitor program with economics that we regard as quite favorable for VSTM (please see our note from July 12th, 'Verastem Doubles Down on FAK'). This acquisition encompasses PF-04554848 (now VS-6063) and a related, early generation compound PF-0562271. Citing preclinical studies that demonstrated synthetic sensitivity to FAK inhibition of in context of low NF2/Merlin expression (a prevalent genetic background to mesothelioma) VSTM announced plans to initiate Phase II testing with of VS-6063 in patients with mesothelioma beginning mid-2013. Given the absence of available second-line therapies in this indication after failure with pemetrexed (Alimta)/carboplatin, a meaningful PFS improvement in this study could potentially warrant accelerated approval. Future clinical trials with VS-6063 will also include Phase I combination assessment with standard chemotherapy and additional Phase II trials in recurrent breast and/or serous ovarian cancer. For VS-4718, VSTM's second most advanced FAK inhibitor, acquired through the Company's originating deal with Poniard, clinical development plans remain in place with Phase I analysis in solid tumor indications where FAK is overexpressed slated for 2Q13.

Switching to PI3K/mTOR, clinical development with VS-5548 is anticipated to begin mid next year. Recall that in May 2012 VSTM announced the acquisition of a dual PI3K/mTOR inhibitor program from S*Bio for $350,000 in cash up front and up to $21 million in potential milestones (refer to our note from May 14, 'VSTM FY1Q12 Earnings'). Here again, preclinical studies presented by VSTM pointed to VS-5548's preferential cytotoxic activity in cancer stem cells, which could potentially translate into more durable responses in patients in conjunction with standard therapy. Accordingly, VSTM plans to initiate IND tox enabling studies in 4Q12 with an eye toward beginning Phase I clinical testing by mid-2013.

Lastly with Wnt, VSTM announced a 12-month research collaboration with Eisai to develop next generation, small molecule Wnt pathway inhibitors. Under the terms of the collaboration, VSTM will own all candidates generated from the collaboration while Eisai will eligible to receive royalties from sales of potential products. The announcement was accompanied by the decision to suspend further development with the salinomycin derivative VS-507 and concentrate the clinical development resources to the other two arms of the VSTM portfolio.

The shift in trajectories for each of the development programs in light of these recent announcements has significant implications for our current model and valuation for VSTM shares. Currently, our model anticipates initial commercial revenues from VS-507 in the treatment of triple negative breast cancer in the neoadjuvant setting, followed by VS-4718 revenue from the treatment of serous ovarian cancer and inflammatory breast cancer. In the coming days, we will be updating our models to reflect the accelerated timeline with the FAK program and VS-6063 use in the treatment mesothelioma, as well as the delayed development timeline for the Wnt program. Revenue forecasts attributable to VS-5548 will also be incorporated.

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 related to any VSTM central development programs including VS-6063, VS-4718 and VS-5584 for reasons of safety or inactivity. In our view, the value of VSTM shares will continue to be primarily milestone-driven over the next six to twelve months, as VS-6063 is prepared for Phase II evaluation and as VS-4718 and VS-5584 complete IND tox assessment heading into Phase I trials beginning 2013.

Table 1. Upcoming Milestones

Milestone	Date
• Initiation of VS-4718 Phase I healthy volunteer study	1Q 2013
• Initiation of VS-4718 Phase I study in patients with solid tumors	2Q 2013
• Initiation of VS-6063 Phase II study in patients with mesothelioma	2Q 2013
• Initiation of VS-5584 Phase I study in patients with solid tumors	2H 2013
• VS-6063 Phase I combination study	1H 2014

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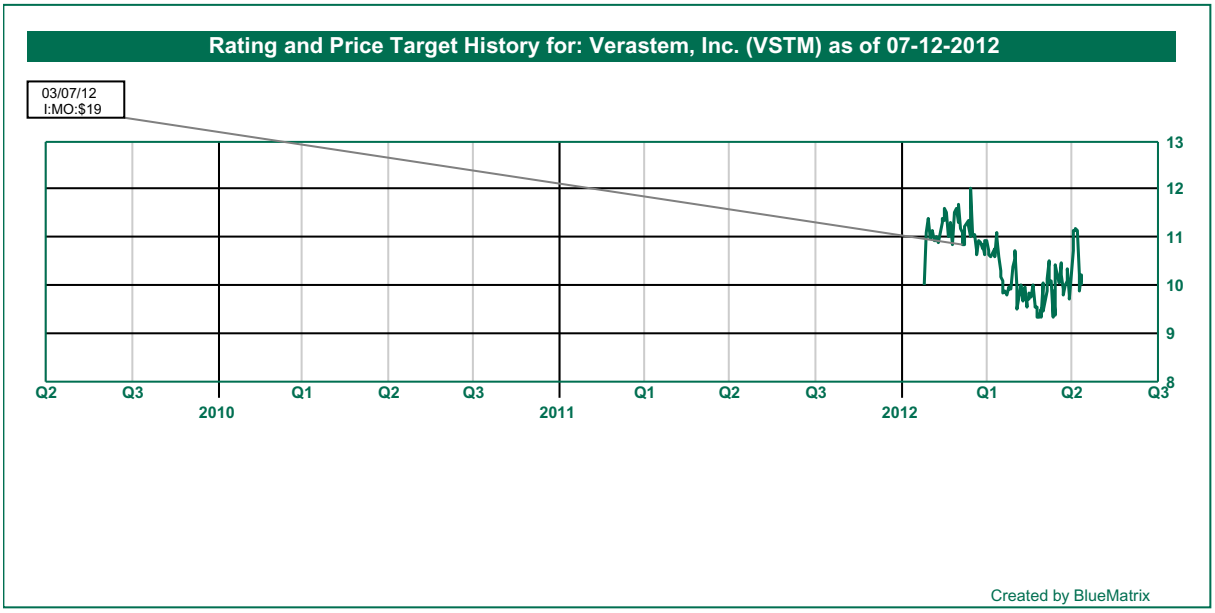
RETURN ASSESSMENT

- 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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