

Epizyme (EPZM)

Epizyme Reported Q4:13 and 2013 Financial Results

- **EPZM finished the year with cash and cash equivalents of \$123.6M, ahead of our \$113.9M estimate.** Collaboration revenue for 2013 of \$68.5M (representing a 51.5% growth from 2012) came in ahead of our estimate of \$42.2M, largely due to the recognition of the \$25M milestone. R&D and G&A expenses for 2013 were \$57.6M and \$14.0M vs. our \$57.2M and \$13.3M estimates, representing year-over-year increases of 49.6% and 86.7%, respectively. The increase in spending is largely due to EPZ-5676 clinical studies, advancement in GSK collaboration programs, expansion of the product platform, and support for public company operations.
- **EPZM guided YE:14 cash and cash equivalents of approximately \$170M and cash burn of approximately \$80M excluding ex-2014 milestones.**
- **EPZM may have up to three EPZ-5676 and two EPZ-6438 proof of concept clinical trials ongoing in 2014.** The company is anticipating EPZ-5676 studies in the adult MLL-r expansion stage, MLL-r pediatric patients, and partial tandem duplication MLL adult patients. For EPZ-6438, pending the completion of the ongoing EPZ-6438 Phase 1 study, EPZM is anticipating studies in the non-Hodgkin lymphoma adult patients and pediatric and young adult patients with synovial sarcomas.
- **Upcoming milestones include:** Top-line data from the Phase I dose escalation and expansion stage study of the DOT1L inhibitor (EPZ-5676) in the acute leukemia setting and from the Phase I study of EZH2 inhibitor (EPZ-6438) in the advanced solid tumors or relapsed/refractory B-cell lymphoma settings at a major medical conference (potentially at ASCO May 30-June 3 or ASH Dec. 6-9) (H2:14); Initiation of a Phase Ib study of the DOT1L inhibitor (EPZ-5676) in the pediatric MLL-r setting (H1:14); Initiation of Phase II studies of EZH2 inhibitor (EPZ-6438) in the non-Hodgkin lymphoma with a EZH2 point mutation setting and in the synovial sarcoma setting (2014)
- **Reiterate OUTPERFORM rating and \$52 price target.** Our price target of \$52 per share is derived from applying 8x and 15x multiples to our 2019 estimated sales and royalty revenues, respectively, discounted by 25% annually back to YE:14 and using our 2019 fully-diluted shares estimate of 35.7 million.

February 27, 2014

Price
\$31.82

Rating
OUTPERFORM

12-Month Price Target
\$52

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Company Information

Shares Outst (M)	30.9
Market Cap (M)	\$983.5
52-Wk Range	\$18.10 - \$45.72
Book Value/sh	\$3.07
Cash/sh	\$7.65
Enterprise Value (M)	\$747.2
LT Debt/Cap %	0.0
Cash Burn (M)	\$76.9

Company Description

Epizyme, Inc. is based in Cambridge, MA and is focused on the development of histone methyltransferase inhibitors in genetically defined cancers. The company has two candidates in Phase I testing: EPZ-5676 for MLL-r AML and ALL and EPZ-6438 for a subtype of NHL.



Source: Thomson Reuters

FYE Dec	2012A	2013E			2014E		
REV	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	--	\$8.9A		N/A	\$4.5E	\$0.0E	\$3.8E
Q2 Jun	--	14.8A		14.8A	2.5E	0.0E	12.1E
Q3 Sep	--	8.4E		8.4E	2.5E	25.0E	18.8E
Q4 Dec	--	36.3E	10.0E	36.3E	2.5E	15.0E	22.1E
Year*	\$45.2A	\$68.5E	\$42.2E	\$68.5E	\$12.0E	\$40.0E	\$57.6E
Change	--	51%			-82%		
EPS	2012A	2013E			2014E		
	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	--	(\$0.33)A	(\$4.19)A	N/A	(\$0.56)E	(\$0.70)E	(\$0.56)E
Q2 Jun	--	(0.25)A		(0.25)A	(0.60)E	(0.72)E	(0.26)E
Q3 Sep	--	(0.34)E		(0.34)E	(0.63)E	0.12E	0.00E
Q4 Dec	--	0.57E	(0.33)E	0.52E	(0.66)E	(0.26)E	0.04E
Year*	(\$0.03)A	(\$0.18)E	(\$5.11)E	(\$0.22)E	(\$2.45)E	(\$1.56)E	(\$1.09)E
P/E	--	--			--		
Change	--	-462%			-1232%		

Consensus estimates are from Thomson First Call.

* Numbers may not add up due to rounding.

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Risks to achievement of our price target include clinical, regulatory, or market failure of EPZ-5676 and/or EPZ-6438.

2/27/2014
 Ticker: (EPZM:Nasdaq)
 Epizyme, Inc

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 PAC GROW LIFE SCIENCES
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Epizyme, Inc (EPZM)
in thousands except per share data

	2012A	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues:									
Net Product Sales	\$0	\$0	\$0	\$0	\$0	\$78,726	\$340,782	\$551,426	\$687,705
Other Revenues	\$0	0	0	0	0	10,453	50,936	79,644	98,918
Royalties	\$45,222	68,482	12,000	25,000	40,000	60,000	0	0	0
Total Revenues	45,222	68,482	12,000	25,000	40,000	149,180	391,717	631,070	786,623
Cost and Expenses:									
Cost of Sales	0	0	0	0	0	3,936	17,039	27,571	34,385
R&D	38,482	57,567	74,313	82,757	89,579	96,963	104,956	113,608	122,973
SG&A	7,508	14,042	19,335	22,070	26,303	49,907	105,103	149,339	177,957
Total Operating Expenses	45,990	71,609	93,648	104,827	115,882	150,807	227,098	290,518	335,315
Operating Income (Loss)	(768)	(3,127)	(81,648)	(79,827)	(75,882)	(1,627)	164,619	340,553	451,308
Net Interest Income (Expense)/Other Income	67	(7)	3,573	2,150	(487)	(2,485)	(1,750)	3,154	5,710
Income Before Income Taxes	(701)	(3,134)	(78,075)	(77,677)	(76,369)	(4,112)	162,869	343,706	457,018
Provision for Income Taxes	1	349	0	0	0	1,667	8,632	110,461	178,237
Net Income (Loss)	(702)	(3,483)	(78,075)	(77,677)	(76,369)	(5,779)	154,237	233,245	278,781
GAAP EPS	(0.03)	(0.22)	(2.45)	(2.41)	(2.36)	(0.18)	4.73	7.14	8.51
Total Shares Outstanding	21,448	17,049	31,864	32,270	32,370	32,470	32,570	32,670	32,770
Cash Burn	44,154	(2,352)	(76,944)	(76,717)	(75,562)	(4,925)	155,434	234,800	280,661
Cash Balance	97,981	123,564	175,503	97,826	21,457	9,790	109,732	299,333	360,760

Source: Wedbush PacGrow Life Sciences

Analyst Biography

Gregory Wade, Ph.D.

Greg is a Managing Director and joined Wedbush in March 2009 from Pacific Growth Equities where he was a Senior Research Analyst covering emerging Pharmaceutical and Biotechnology companies. He started at Pacific Growth in February 2000 as a Research Associate and became an Analyst in 2004. Prior to Pacific Growth Equities, Greg was a Director in the business development group at ISIS Pharmaceuticals and prior to that was with Procyon BioPharma in London, Canada. While completing his Ph.D. in Physiology at the University of Western Ontario Greg worked as an Associate at the venture capital company Helix Investments Canada where he focused on early stage investments in life science companies.

Greg's team includes Dr. David Nierengarten (Analyst) and Dr. Christopher Marai (Analyst) and together they cover 30+ companies focused on antibiotics, rare diseases, prostate cancer, hematology/oncology, gastrointestinal disorders, vaccines, biodefense and drug/device combinations.

Greg's Edge: Greg's edge comes from the breadth and duration of his tenure on the sell-side. Coverage of nearly 60 different companies over 13 years provides him with a measured perspective and industry and key opinion leader contacts help to inform his view.

Analyst Certification

I, Gregory R. Wade, Ph.D., David M. Nierengarten, Ph.D., Christopher N. Marai, Ph.D., certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

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Investment Rating System:

Outperform: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

Neutral: Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

Underperform: Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

Rating Distribution (as of December 31, 2013)	Investment Banking Relationships (as of December 31, 2013)
Outperform: 54%	Outperform: 18%
Neutral: 43%	Neutral: 2%
Underperform: 3%	Underperform: 0%

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Company	Disclosure
Epizyme	1,3,4,5,7

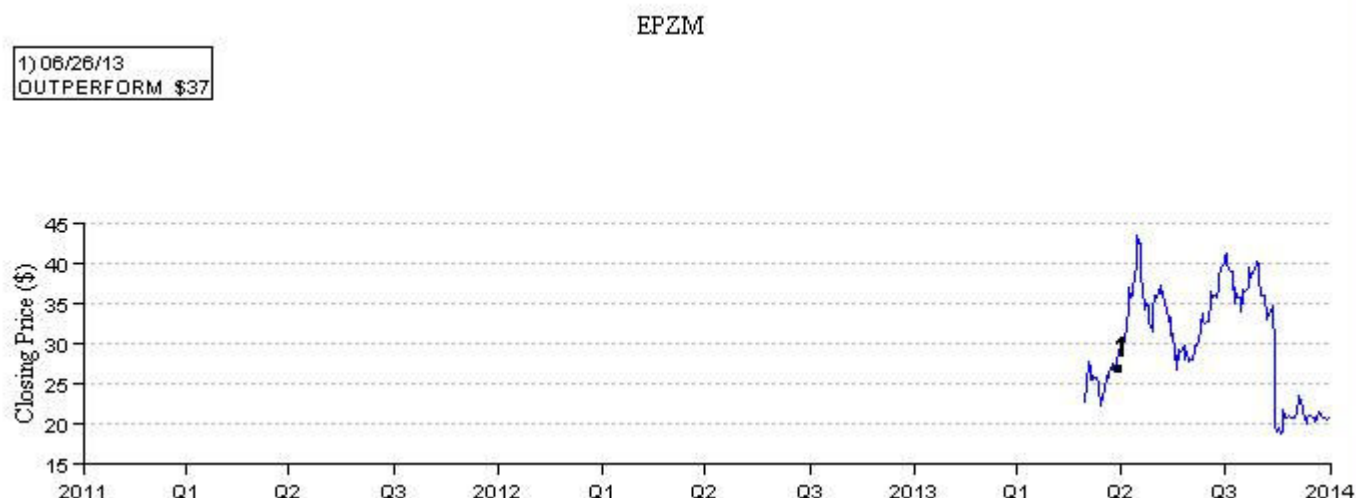
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* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009.

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