

Epizyme, Inc. (EPZM)

Reports 2Q13 EPS

MARKET DATA

Price	\$36.10
52-Week Range:	\$18.60 - \$45.72
Shares Out. (M):	28.4
Market Cap (\$M):	\$1,025.2
Average Daily Vol. (000):	231.0
Cash (M):	\$149
Cash/Share:	\$5.80
Enterprise Value (M):	\$966
Float (M):	28.0
LT Debt (M):	\$0

Cash (M): Reflects cash, equivalents, and short-term investments
Source: Thomson Reuters and JMP Securities LLC

FY DEC		2012A	2013E	2014E
Revenue (\$M)	1Q	\$5.7	\$8.9A	\$29.9
	2Q	--	\$14.8A	\$4.9
	3Q	--	\$19.8	\$24.9
	4Q	--	\$7.5	\$38.7
	FY	\$45.2	\$51.1	\$98.5
EPS	1Q	(\$3.38)	(\$4.24)A	\$0.30
	2Q	--	(\$0.25)A	(\$0.41)
	3Q	--	(\$0.02)	\$0.26
	4Q	--	(\$0.50)	\$0.58
	FY	(\$0.72)	(\$1.45)	\$0.94
Previous FY		NC	(\$2.03)	\$0.25

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE



MARKET OUTPERFORM | Price: \$36.10 | Target Price: \$40.00

INVESTMENT HIGHLIGHTS

A recap of Phase I progress and incremental update to Phase II expansion plans were provided as Epizyme reported 2Q13 earnings; reiterate Market Outperform and 12-month \$40 price target based on our NPV, sum-of-the parts, and standardized CAGR methodologies. We remind investors that EPZM is driven less by earnings than by the company's execution against clinical development milestones with its targeted epigenetic therapy candidates EPZ-5676 and EPZ-6438. Epizyme reported a net loss of \$2.2MM, or (\$0.25) per share, for the quarter, above our estimate of (\$0.08) EPS and less than the consensus estimate of (\$0.36) EPS. Revenues for the quarter were \$14.8MM, below our estimate of \$19.8MM, and slightly above the consensus estimate of \$13.4MM. Second quarter revenues excluded a \$6MM milestone payment under the collaboration with Eisai, triggered in June but not received until July. Operating expenses for the quarter were \$17.0MM, comprising \$13.9MM in R&D expense (slightly below our \$15.8MM estimate), and \$3.1MM in SG&A (also below our \$5.0MM estimate). The company reported \$149MM in cash, cash equivalents, and marketable securities as of June 30. A summary of today's results versus JMP and consensus estimates is detailed in Figure 2. Highlights from the conference call with management included a recap of Phase I clinical developments with EPZ-5676, targeting DOT1L for mixed lineage leukemia (MLL), and EPZ-6438, targeting EZH2 for non-Hodgkin's lymphoma, and forward looking plans to enroll Phase II expansion cohorts beginning late 2013 and early 2014, respectively. Changes to our model, detailed in Figure 3, primarily reflect the impact of reported Q2 financials on FY 2013 estimates and a shift in recognition of the Eisai milestone payment to Q3.

Year-end 2013 and 1H14 hold the next meaningful updates for current clinical programs. Dose escalation continues in the Phase I trial of EPZ-5676, now comprising five sites in the U.S. The company had previously reported on the first four patients enrolled onto study, including one patient with MLL rearranged ALL who exhibited 90% reduction in leukemic blast count at day five on therapy. We expect EPZM to provide the next clinical update with '5676 after establishing the Phase II dose and opening the Phase II expansion cohorts. Recall that this will be limited to patients with MLL rearrangement (MLL-r) and will encompass up to 12 sites in the U.S. and Europe. Data from the first phase of the study will potentially be presented at ASH in December. Regarding the EZH2 program, dose escalation in the Phase I trial of EPZ-6438 was initiated by partner Eisai in June in patients with B-cell lymphoma. The company anticipates completion of the Phase I trial and the initiation of a Phase II expansion cohort, limited to NHL patients with confirmed EZH2 point mutation, during 1H14. Around that time, we anticipate EPZ-6438 development will broaden to include solid tumor indications (specifically tumors deficient for the transcription factor INI-1

Michael G. King, Jr.
mking@jmpsecurities.com
(212) 906-3520

Carter L. Gould
cgould@jmpsecurities.com
(212) 906-3522

FOR DISCLOSURE AND FOOTNOTE INFORMATION, REFER TO JMP FACTS AND DISCLOSURES SECTION.

(SNF-5) such as childhood malignant rhabdoid tumors), based on the current supportive preclinical evidence and in full view of the dose and safety data established in the current Phase I.

Epizyme represents the rare opportunity to invest in a best-of-breed, pure-play, epigenetics-focused biotech company with clinical-stage assets and a robust drug discovery platform.

We believe the company's clinical assets, EPZ-5676 and EPZ-6438, represent particularly compelling biology given that they are directed against clonally initiating mutations. This biologic focus, in combination with the selection of a genetically defined patient population, as providing capability for each asset to rapidly accelerate through the clinic and into registration-directed trials within 18 months. Combining these assets with a robust drug discovery product platform capable of consistently delivering multiple new therapeutic candidates targeting HMTs, and partnerships with GSK (Not Covered), Eisai, and Celgene (CELG, MO, \$160 PT), we believe shares of EPZM will accrete significant additional value over the next six to twelve months as the potential for the company's pipeline comes into greater focus.

FIGURE 1. Upcoming Milestones

Timing	Drug	Milestones
2H13	EPZ-5676	Initiate expansion cohort of Phase I study with DOT1L
Dec 2013	EPZ-5676	Read-out of interim results from the Phase I at ASH
1Q14	EPZ-5676	Initiate enrollment of MLL-r patients at ex-U.S. sites for Phase I study
1H14	EPZ-6438	Initiation of Phase II expansion cohort enrollment in EZH2+ NHL
2H14	EPZ-5676	Initiate Phase II global pivotal trials
2014	EPZ-6438	Read-out of interim results from Phase I study
2014	-	Identify next IND candidate

Source: Epizyme press releases and presentations and SEC filings

FIGURE 2. EPZM 2Q13 Results vs. JMP and Consensus Estimates

2Q13 JMP Estimates vs. Consensus (\$MM, except where noted)	2Q13A	2Q13 JMP Estimates	2Q13 Street Consensus	Actual vs. JMP Estimates
Collaboration Revenue & Milestones				
Celgene		3.6		
Eisai		13.2		
GSK		3.0		
Total Collaboration Revenue	14.8	19.8	13.4	(5.0)
Operating Expenses				
R&D	13.9	15.8		(1.8)
SG&A	3.1	5.0		(1.9)
Total Operating Expenses (R&D, SG&A)	17.0	20.8		(3.7)
Operating Income (Loss)	(2.2)	(0.9)		(1.3)
Non-operating income (expense)	0.0	0.0		(0.0)
Earnings before Taxes	(2.2)	(0.9)	(6.2)	(1.3)
Provision for income taxes (benefit)	0.0	0.0		
Net Income (Loss)	(2.2)	(0.9)	(6.4)	(1.3)
Basic shares outstanding	9.146	10.718		(1.6)
Diluted shares	9.146	10.718		(1.6)
GAAP EPS Figures				
Basic EPS	\$ (0.25)	\$ (0.08)	\$ (0.36)	(0.2)
Diluted EPS	\$ (0.25)	\$ (0.08)	\$ (0.36)	(0.2)

Source: JMP Securities LLC, Company filings

FIGURE 3. Changes to Our Model

Changes to Income Statement (\$MM, except where noted)	3Q13E		4Q13E		2013E		2014E		2015E	
	OLD	NEW	OLD	NEW	OLD	NEW	OLD	NEW	OLD	NEW
Collaboration Revenue & Milestones										
Celgene	3.6	3.6	3.3	3.3	14.2	14.2	66.1	66.1	38.0	38.0
Eisai	1.2	13.2	1.2	1.2	17.9	17.9	11.6	21.6	0.0	0.0
GSK	3.0	3.0	3.0	3.0	12.0	12.0	10.8	10.8	0.0	0.0
Total Collaboration Revenue	7.8	19.8	7.5	7.5	44.1	51.1	88.5	98.5	38.0	38.0
Operating Expenses										
R&D	17.0	17.0	18.0	18.0	64.1	62.3	52.0	52.0	55.0	55.0
SG&A	3.4	3.4	3.8	3.8	15.2	13.3	19.2	19.2	24.0	24.0
Total Operating Expenses (R&D, SG&A)	20.4	20.4	21.8	21.8	79.3	75.6	71.2	71.2		
Operating Income (Loss)	(12.6)	(0.6)	(14.3)	(14.3)	(35.2)	(24.5)	17.3	27.3	(41.0)	(41.0)
Non-operating income (expense)										
Earnings before Taxes	(12.6)	(0.6)	(14.3)	(14.3)	(35.2)	(24.5)	17.3	27.3	(41.0)	(41.0)
Provision for income taxes (benefit)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income (Loss)	(12.6)	(0.6)	(14.3)	(14.3)	(35.2)	(24.5)	17.3	27.3	(41.0)	(41.0)
Basic shares outstanding	28.415	28.415	28.420	28.420	17.336	16.943	29.093	29.093	33.590	33.590
Diluted shares	28.415	28.415	28.420	28.420	17.336	16.943	29.093	29.093	33.590	33.590
GAAP EPS Figures										
	3Q13E		4Q13E		2013E		2014E		2015E	
	OLD	NEW	OLD	NEW	OLD	NEW	OLD	NEW	OLD	NEW
Basic EPS	\$ (0.44)	\$ (0.02)	\$ (0.50)	\$ (0.50)	\$ (2.03)	\$ (1.45)	\$ 0.59	\$ 0.94	\$ (1.22)	\$ (1.22)
Diluted EPS	\$ (0.44)	\$ (0.02)	\$ (0.50)	\$ (0.50)	\$ (2.03)	\$ (1.45)	\$ 0.59	\$ 0.94	\$ (1.22)	\$ (1.22)

Source: JMP Securities LLC, Company filings

FIGURE 4.Updated Income Statement

Epizyme Income Statement (\$MM)	2012A	1Q13A	2Q13A	3Q13E	4Q13E	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
REVENUES																	
Product Sales and Royalties																	
EPZ-5676 (DOT1L) US Sales												0.0	0.0	15.9	87.8	180.8	266.3
EPZ-6438 (EZH2) US Profit Share												0.0	0.0	7.9	53.9	134.7	232.7
EPZ-5676 (DOT1L) Ex-US Royalties												0.0	0.0	0.2	3.1	8.8	15.4
EPZ-6438 (EZH2) Ex-US Royalties												0.0	0.0	2.3	11.4	25.0	37.5
Total Product Sales and Royalties												0.0	0.0	26.3	156.1	349.2	552.0
Total Collaboration Revenue	45.2	8.9	14.8	19.8	7.5	51.1	29.9	4.9	24.9	38.7	98.5	38.0	45.8	102.5	40.0	42.5	15.0
TOTAL REVENUE	45.2	8.9	14.8	19.8	7.5	51.1	29.9	4.9	24.9	38.7	98.5	38.0	45.8	128.8	196.1	391.7	567.0
COGS						0.0					0.0	0.0	0.0	1.4	13.8	29.2	44.9
Gross Profit	45.2	8.9	14.8	19.8	7.5	51.1	29.9	4.9	24.9	38.7	98.5	38.0	45.8	127.4	182.3	362.5	522.1
Operating Expenses																	
R&D	38.5	13.4	13.9	17.0	18.0	62.3	16.0	12.0	11.5	12.5	52.0	55.0	65.0	73.1	80.4	86.5	92.5
SG&A	7.5	3.0	3.1	3.4	3.8	13.3	4.2	4.5	5.0	5.5	19.2	24.0	32.0	50.0	57.5	63.3	68.0
Total Operating Expenses (R&D, SG&A)	46.0	16.4	17.0	20.4	21.8	75.6	20.2	16.5	16.5	18.0	71.2	79.0	97.0	123.1	137.9	149.7	160.5
Operating Income (Loss)	(0.8)	(7.4)	(2.2)	(0.6)	(14.3)	(24.5)	9.7	(11.6)	8.4	20.7	27.3	(41.0)	(51.2)	5.7	44.4	212.8	361.5
Non-operating income (expense)	0.1	(0.0)	(0.0)										0.6	0.5	0.6	0.7	1.2
Earnings before Taxes	(0.7)	(7.4)	(2.2)	(0.6)	(14.3)	(24.5)	9.7	(11.6)	8.4	20.7	27.3	(41.0)	(50.6)	6.2	44.9	213.5	362.8
Provision for income taxes (benefit)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	21.4	72.6
Tax Rate(%)			0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	10%	20%
Net Income (Loss)	(0.7)	(7.4)	(2.2)	(0.6)	(14.3)	(24.5)	9.7	(11.6)	8.4	20.7	27.3	(41.0)	(50.6)	6.2	44.9	192.2	290.2
Accretion of redeemable convertible pref'd stock	0.5	0.2	0.1														
Net Income (Loss) attributable to common shareholders	(1.2)	(7.6)	(2.3)			0.0					0.0	0.0	0.0	0.0	0.0	0.1	0.2
Basic shares outstanding	1.65	1.791	9.146	28.415	28.420	16.9	28.434	28.455	28.480	31.004	29.1	33.6	33.8	34.0	34.2	34.5	34.7
Diluted shares	1.65	1.791	9.146	28.415	28.420	16.9	32.775	28.455	32.957	35.549	29.1	33.6	33.8	37.3	37.6	37.9	38.1
GAAP EPS Figures																	
Basic EPS	\$ (0.72)	\$ (4.24)	\$ (0.25)	\$ (0.02)	\$ (0.50)	\$ (1.45)	\$ 0.34	\$ (0.41)	\$ 0.30	\$ 0.67	\$ 0.94	\$ (1.22)	\$ (1.50)	\$ 0.18	\$ 1.31	\$ 5.58	\$ 8.36
Diluted EPS	\$ (0.72)	\$ (4.24)	\$ (0.25)	\$ (0.02)	\$ (0.50)	\$ (1.45)	\$ 0.30	\$ (0.41)	\$ 0.26	\$ 0.58	\$ 0.94	\$ (1.22)	\$ (1.50)	\$ 0.17	\$ 1.20	\$ 5.08	\$ 7.61

Source: JMP Securities LLC, Company filings

Company Description

Epizyme (EPZM) is a biopharmaceutical company, based in Cambridge, Massachusetts, focused on the discovery, development, and commercialization of personalized therapeutics for epigenetically-defined cancers. The company's technology is focused on the development of small molecule drugs specifically targeted against the individual members of the 96-member histone methyltransferase (HMT) class of enzymes. To date, the company has entered into strategic collaborations with Celgene, Eisai, and GSK regarding specific products, as well as the underlying technology platform.

Investment Risks

Clinical. Drug development is an inherently risky business. As clinical trials always carry a risk of failure, Epizyme's assets (EPZ-5676, EPZ-6438, or future products), may fail to demonstrate clinically meaningful levels of efficacy in ongoing or future trials. Further, it is unclear whether resistance pathways may develop to the epigenetic mechanisms being targeted.

Regulatory. The ability of Epizyme or its partners to market its drugs is dependent upon those drugs obtaining approval from the U.S. FDA and foreign regulatory authorities. Failure to achieve approval or delays in the timeline to approval could lead to substantial decrease in the company's share price.

Competitive. Epigenetics is an increasingly competitive field and Epizyme will face competition both from companies focused in the space, as well as players targeting related mechanisms. As such, there is no assurance that Epizyme's product will be competitive or differentiated from other drugs.

Commercialization. Epizyme has stated its plans to retain U.S. commercial rights to its products and develop a commercial infrastructure to market those products. The company has limited commercial experience and infrastructure in place. As such, the company will face significant expenses developing or acquiring these resources.

Reimbursement. There is no guarantee that Epizyme, or its partners, will garner adequate reimbursement for its products. Failure to obtain adequate levels of reimbursement could negatively impact the company's share price.

Partners. Epizyme has formed development and commercial partnerships with Celgene, Eisai, and GSK. Epizyme is highly dependent upon these partnerships to provide non-dilutive sources of capital. Celgene and Eisai are critical to the development and commercialization of Epizyme's clinical stage assets. Changes to or terminations of these partnerships could affect Epizyme's shares negatively.

Financial. Post-IPO, we estimate that the company will end 2Q13 with approximately \$160MM in cash and cash equivalents. While the company has guided that even excluding any milestones payments from Celgene, Eisai, or GSK (which we expect) it has adequate resources to fund the company into 2015, we wholly expect the company to revisit the capital markets to further fund clinical development of its assets, develop a commercial infrastructure in the U.S., and to identify other assets using its platform technology and expertise. We currently forecast that the company will conduct secondary offerings in 2014 and 2015 before reaching profitability in 2017. While we view this as common for similar stage biotechnology companies, the risk of dilution may create an overhang at times.

JMP FACTS AND DISCLOSURES

Analyst Certification:

The research analyst(s) who prepared this report does/do hereby certify that the views presented in this report are in accordance with my/our personal views on the securities and issuers discussed in this report. As mandated by SEC Regulation AC no part of my/our compensation was, is or will be directly or indirectly related to the specific views or recommendations expressed herein. This certification is made under the obligations set forth in SEC Regulation AC. Any other person or entity may not use it for any other purpose. This certification is made based on my/our analysis on the date of this report's publication. I/We assume no obligation to update this certification to reflect any facts, circumstances or events that may subsequently come to my/our attention. Signed Michael G. King and Carter L. Gould

JMP Securities Disclosure Definitions:

JMP Securities currently makes a market in the securities of Epizyme, Inc. and Celgene Corporation

JMP Securities was manager or co-manager of a public offering for Epizyme, Inc. in the past 12 months.

JMP Securities Investment Opinion Definitions:

Market Outperform (MO): JMP Securities expects the stock price to outperform relevant market indices over the next 12 months.

Market Perform (MP): JMP Securities expects the stock price to perform in line with relevant market indices over the next 12 months.

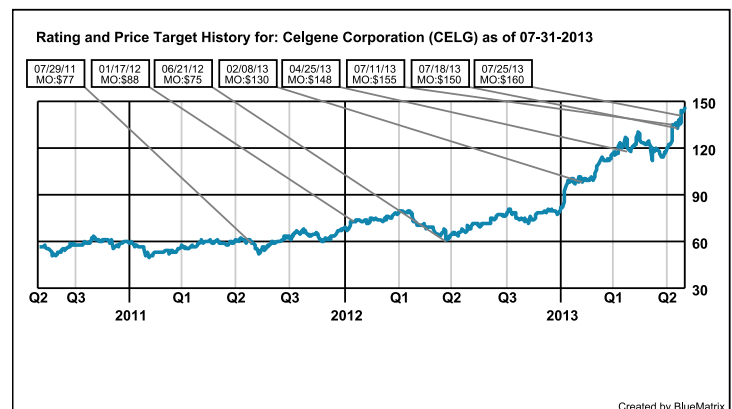
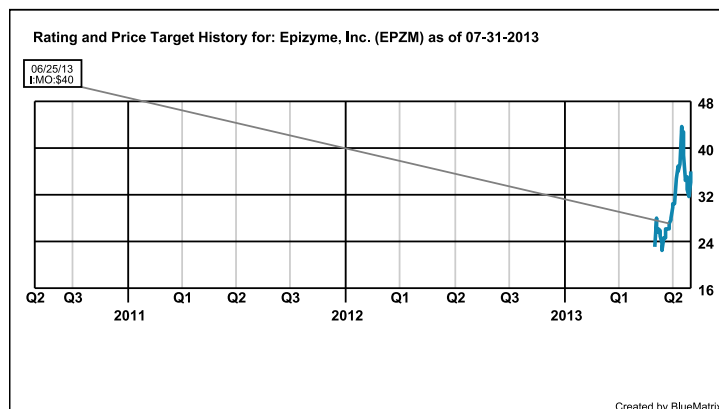
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

JMP Securities Research Ratings and Investment Banking Services: (as of July 31, 2013)

JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	Regulatory Equivalent	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months	% of Co's With This Rating
MARKET OUTPERFORM	Buy	238	61.50%	Buy	238	61.50%	74	31.09%
MARKET PERFORM	Hold	142	36.69%	Hold	142	36.69%	20	14.08%
MARKET UNDERPERFORM	Sell	7	1.81%	Sell	7	1.81%	0	0%
TOTAL:		387	100%		387	100%	94	24.29%

Stock Price Chart of Rating and Target Price Changes:

Note: First annotation denotes initiation of coverage or 3 years, whichever is shorter. If no target price is listed, then the target price is N/A. In accordance with NASD Rule 2711, the chart(s) below reflect(s) price range and any changes to the rating or price target as of the end of the most recent calendar quarter. The action reflected in this note is not annotated in the stock price chart. Source: JMP Securities.



JMP Disclaimer:

JMP Securities LLC (the "Firm") compensates research analysts, like other Firm employees, based on the Firm's profitability, which includes revenues from the Firm's institutional sales, trading, and investment banking departments as well as on the quality of the services and activities performed that are intended to benefit the Firm's institutional clients. These data have been prepared by JMP Securities LLC for informational purposes only and are based on information available to the public from sources that we believe to be reliable, but we do not guarantee their accuracy or completeness. Any opinions and projections expressed herein reflect our judgment at this date and are subject to change without notice. These data are neither intended nor should be considered as an offer to sell or a solicitation or a basis for any contract for the purchase of any security or other financial product. JMP Securities LLC, its affiliates, JMP Group LLC, Harvest Capital Strategies LLC, and their respective partners, directors, officers, and associates may have a long or short position in, may act as a market maker for, or may purchase or sell a position in the securities mentioned herein. JMP Securities LLC or its affiliates may be performing, have performed, or seek to perform investment banking, advisory, or other services and may have acted as manager or co-manager for a public offering of securities for any company mentioned herein. The reader should assume that JMP Securities LLC will solicit business from the company covered in this report. Members of our Sales and Trading Department provide oral and/or written market opinions and trading strategies to our clients that reflect their personal opinions about stocks that are the subject of the firm's research reports. Our research analysts discuss trading strategies with clients and complete surveys from clients that sometimes reflect short-term expectations for the price of the securities that are the subject of research reports. Those trading strategies and survey responses are distinct from the analysts' fundamental rating for the stock, which is based upon the analysts' view compared to other stocks under coverage for the relevant time period. © Copyright 2013. All rights reserved by JMP Securities LLC. JMP Securities LLC is a member of BATS, FINRA, NASDAQ, and SIPC.

Jeffrey H. Spurr
Director of Research
 (415) 835-3903

RESEARCH PROFESSIONALS

FINANCIAL SERVICES

Asset Managers

David Trone	(212) 906-3525
Chris Ross, CFA	(212) 906-3532

Commercial & Specialty Finance

Christopher York	(415) 835-8965
Kevin Chen	(404) 848-7774

Consumer Finance

David M. Scharf	(415) 835-8942
Jeremy Frazer	(312) 768-1796

Financial Processing & Outsourcing

David M. Scharf	(415) 835-8942
Jeremy Frazer	(312) 768-1796

Insurance

Matthew J. Carletti	(312) 768-1784
Christine Worley	(312) 768-1786

Investment Banks & Brokers

Devin Ryan	(212) 906-3578
Chris Ross, CFA	(212) 906-3532

Mortgage Finance

Steven C. DeLaney	(404) 848-7773
Trevor Cranston, CFA	(415) 869-4431
Charter Robinson	(757) 613-8955
Benjamin Zucker	(212) 906-3529

HEALTHCARE

Biotechnology

Liisa A. Bayko	(312) 768-1785
Heather Behanna, Ph.D.	(312) 768-1795
Andrew Prigodich	(312) 768-1788
Jason N. Butler, PhD	(212) 906-3505
Christopher T. Radom, PhD	(212) 906-3519
Michael G. King, Jr.	(212) 906-3520
Carter L. Gould	(212) 906-3522
Eric Joseph	(212) 906-3514
John L. Newman, PhD	(212) 906-3510
Caroline Palomeque	(212) 906-3509

Healthcare Services & Facilities

Peter L. Martin, CFA	(415) 835-8904
Aaron Hecht	(415) 835-3963
Arthur Kwok	(415) 835-8908

Medical Devices

David Turkaly	(212) 906-3563
John Gillings	(212) 906-3564

Medical Devices & Molecular Diagnostics

J. T. Haresco, III, PhD	(415) 869-4477
Ralph Fong	(415) 835-8916

REAL ESTATE

Housing & Land Development

Peter L. Martin, CFA	(415) 835-8904
Aaron Hecht	(415) 835-3963
Bharathwajan Iyengar	(415) 835-3902

Lodging & Property Services

William C. Marks	(415) 835-8944
Whitney Stevenson	(415) 835-8948

REITs: Healthcare

Peter L. Martin, CFA	(415) 835-8904
Aaron Hecht	(415) 835-3963
Arthur Kwok	(415) 835-8908

REITs: Office, Industrial, & Diversified

Mitch Germain	(212) 906-3546
Peter Lunenburg	(212) 906-3537

TECHNOLOGY

Communications Equipment & Internet Security

Erik Suppiger	(415) 835-3918
John Lucia	(415) 835-3920

Internet & Digital Media

Ronald V. Josey III	(212) 906-3528
John Dessouki	(212) 906-3545

Software

Patrick Walravens	(415) 835-8943
Peter Lowry	(415) 869-4418
Greg McDowell	(415) 835-3934

Wireless & Cloud Computing Technologies

Alex Gauna	(415) 835-8998
Michael Wu	(415) 835-8996

ADDITIONAL CONTACTS

Thomas R. Wright
Director of Equities
 (212) 906-3599

Dan Wychulis
Director of Institutional Sales
 (617) 235-8530

600 Montgomery Street, Suite 1100
 San Francisco, CA 94111
www.jmpsecurities.com