WEDBUSH QUICK NOTE

LOS ANGELES | SAN FRANCISCO | NEW YORK | BOSTON | SEATTLE | MINNEAPOLIS | MILWAUKEE

November 14, 2013

Gregory R. Wade, Ph.D. (415) 274-6863 David M. Nierengarten, Ph.D. (415) 274-6862 Christopher N. Marai, Ph.D. (415) 274-6861

Epizyme (EPZM - OUTPERFORM): EPZM Reports Initial Results for the Ongoing Phase 1/2 of EPZ-5676 DOT1L Inhibitor in the Acute Leukemia with MLL-r Setting

Price: $19.94 **12-Month Price Target: $37**

- **Initial results from the Phase I/II study of EPZ-5676 in the acute leukemia MLL-r setting were announced this morning.** The goal of therapy in the acute leukemia setting is to drive patients to a deep and durable remission and historically, this level of efficacy is not achieved with half-measures. In the data presented, there's clear evidence of activity with EPZ-5676 in some patients but to us, the more informative result is actually the complete absence of activity in half the patients with the MLL-r rearrangement. This outcome is in stark contrast to pre-clinical findings and suggests to us that EPZ-5676 dose, duration and schedule was, to this point in the study, inadequate. We will await the results of a more properly constructed experiment with appropriate dose and schedule prior to changing our outlook on the potential for EPZ-5676 in these patients with acute leukemia and MLL-r. Additionally, we believe that the move to the downside in the stock is exaggerated by the next event, which is the IPO unlock (November 26).
- **EPZ-5676 was well tolerated.** No DLT's were observed up to 54 mg/m^2 on 21 days on – 7 days off schedule. The 80 mg/m^2 cohort is currently enrolling. Continuous infusion is planned for Phase Ib study to be initiated in December.
- **4 of 8 patients with the MLL rearrangement responded to therapy.** 16 patients were enrolled in the Phase I, including 8 acute leukemia patients with MLL-r. Blast maturation occurred in 3 of the responders, and leukocytosis occurred in 2. A 90% circulating blast reduction occurred in 1 patient, no tissue for a bone marrow maturation test was available.
- **The dose expansion study will enroll 20 patients with MLL rearrangement.** The starting dose will be 80 mg/m^2 continuous infusion with the possibility of dose escalation. A pediatric study is expected to initiate in Q2:14 and a Phase II study in MLL-PTD is planned for 2014.
- **The time and dose-dependent methyl mark inhibition validates EPZ-5676 mechanism of action.** Methyl mark inhibition decreased in a dose and time-dependent fashion, and rebounded during the 7-day off-drug period. We expect the continuous infusion schedule will increase methyl mark inhibition beyond what can be achieved with the 21-day cycle.
- **EZP-6438 dose escalation studies continue, with no DLT observed to date, and Phase II studies are set to begin in EZH2 mutated DLBCL and Grade 3 FL in 2014.** Epizyme is also expected to expand development of '6438 beyond EZH2 mutated NHL into other INI1-defficent tumors based upon pre-clinical work published in April (here) and at AACR (here). A companion clinical test is also being developed with partner Roche. EZH2 has an oncogenic roll in MRT and synovial sarcomas, which have an incidence of 1,700 patients which represent upside to our estimates.
- **Reiterate OUTPERFORM rating and $37 price target.** Our price target of $37/share is derived from applying 8x and 15x multiples to our 2019 estimated sales and royalty revenues, respectively, discounted by 35% annually (fully-diluted share count, assumes an increase of 2 million additional shares for future financings). We note that with positive data, a decline in our discount rate from 35% per year to 20% per year yields a potential value in 12 months of $66/share.
- Risks to the achievement of our price target include clinical, regulatory or market failure for EPZ-5676 and/or EPZ-6438.

Investment Thesis

Epizyme is focused on developing drugs that are highly specific for individual HMTs and the company seeks to prove that the treatment of a genetically definable patient with a potent and highly selective HMT inhibitor can lead to deep and durable levels of disease control. EPZM's most advanced product candidate, EPZ-5676, is in Phase I in AML/ALL patients, including mixed lineage rearranged leukemia (MLL-r). The company's second most advanced product candidate, EPZ-6438, is in an ongoing Phase I/II trial in a genetically defined subtype of non-Hodgkin's lymphoma (NHL). The company has entered into therapeutic collaborations with Celgene, Eisai, and GlaxoSmithKline (GSK), but maintains 100% of the US rights to EPZ-5676 and rights to opt into 50% of the US economics for EPZ-6438. As a result of the cause and effect link between the oncogenic HMT driver and malignancy, we would expect early evidence of deep and durable efficacy, potentially in even just a few genetically pre-defined patients, to lead to significant appreciation of EPZM's shares as investors price in clinical, regulatory and market success.

Milestones

Dec. 2013	Begin second stage of the Phase I/II study of EPZ-5676 in AML/ALL patients with MLL-r
H1:14	Partner Eisai to initiate Phase II study of EPZ-6438 in the NHL (DLBCL and grade 3 FL) setting
H2:14	Begin pivotal Phase II trial for EPZ-5676 in adults with MLL-r
2014	Final data for the Phase I study of EPZ-6438 in the NHL setting
2014	Initiation of Phase II trials for EPZ-6438 in patients with INI1-defficient tumors (synovial sarcoma)
2014	Final data for the Phase I/II study of EPZ-5676 in the MLL-r setting
2014	Initiation of Phase I study of EPZ-5676 in the pediatric MLL-r setting
2014	Initiation of Phase I/II study of EPZ-5676 in the MLL-PTD setting
Q1:15	Begin pivotal Phase II/III trial for EPZ-6438 in EZH2-driven NHL
Q2:15	Begin pivotal Phase II trial for EPZ-5676 in children with MLL-r
H2:15	Data from pivotal Phase II trial for EPZ-5676 in adults with MLL-r
H2:15	Data from pivotal Phase II/III trial for EPZ-6438 in EZH2-driven NHL
H2:16	File NDA for EPZ-5676
H1:17	File NDA for EPZ-6438

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.

Disclosure information regarding historical ratings and price targets is available at http://www.wedbush.com/ResearchDisclosure/DisclosureQ313.pdf

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 September 30, 2013)	**Investment Banking Relationships (as of September 30, 2013)**
Outperform:55% Neutral: 41% Underperform: 4%	Outperform:14% Neutral: 2% Underperform: 0%

The Distribution of Ratings is required by FINRA rules; however, WS' stock ratings of Outperform, Neutral, and Underperform most closely conform to Buy, Hold, and Sell, respectively. Please note, however, the definitions are not the same as WS' stock ratings are on a relative basis.

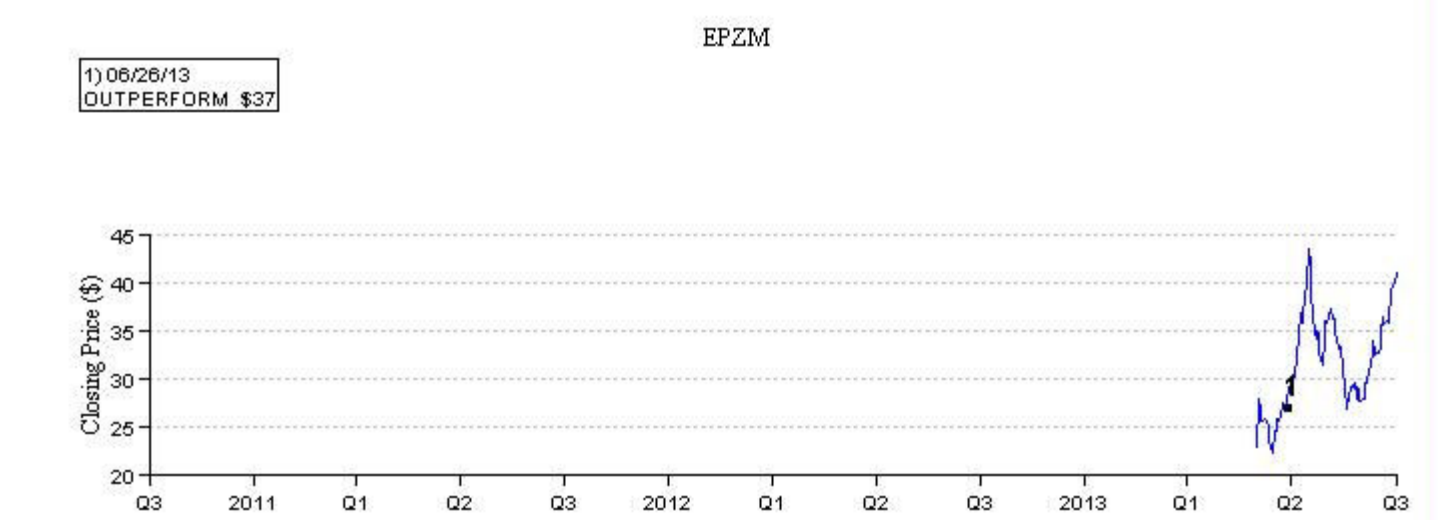
The analysts responsible for preparing research reports do not receive compensation based on specific investment banking activity. The analysts receive compensation that is based upon various factors including WS' total revenues, a portion of which are generated by WS' investment banking activities.

Wedbush Equity Research Disclosures as of November 14, 2013

Company	Disclosure
Epizyme	1,3,5,7

Research Disclosure Legend
1. WS makes a market in the securities of the subject company.
2. WS managed a public offering of securities within the last 12 months.
3. WS co-managed a public offering of securities within the last 12 months.
4. WS has received compensation for investment banking services within the last 12 months.
5. WS provided investment banking services within the last 12 months.
6. WS is acting as financial advisor.
7. WS expects to receive compensation for investment banking services within the next 3 months.
8. WS provided non-investment banking securities-related services within the past 12 months.
9. WS has received compensation for products and services other than investment banking services within the past 12 months.
10. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report has a long position in the common stocks.
11. WS or one of its affiliates beneficially own 1% or more of the common equity securities.
12. The analyst maintains Contingent Value Rights that enables him/her to receive payments of cash upon the company's meeting certain clinical and regulatory milestones.

Price Charts
Wedbush disclosure price charts are updated within the first fifteen days of each new calendar quarter per FINRA regulations. Price charts for companies initiated upon in the current quarter, and rating and target price changes occurring in the current quarter, will not be displayed until the following quarter. Additional information on recommended securities is available on request.



* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009.
Please access the attached hyperlink for WS' Coverage Universe: http://www.wedbush.com/services/cmg/equities-division/research/equity-research Applicable disclosure information is also available upon request by contacting Ellen Kang in the Research Department at (213) 688-4529, by email to ellen.kang@wedbush.com, or the Business Conduct Department at (213) 688-8090. You may also submit a written request to the following: Business Conduct Department, 1000 Wilshire Blvd., Los Angeles, CA 90017.

OTHER DISCLOSURES

RESEARCH DEPT. * (213) 688-4505 * www.wedbush.com
EQUITY TRADING Los Angeles (213) 688-4470 / (800) 421-0178 * EQUITY SALES Los Angeles (800) 444-8076
CORPORATE HEADQUARTERS (213) 688-8000

The information herein is based on sources that we consider reliable, but its accuracy is not guaranteed. The information contained herein is not a representation by this corporation, nor is any recommendation made herein based on any privileged information. This information is not intended to be nor should it be relied upon as a complete record or analysis; neither is it an offer nor a solicitation of an offer to sell or buy any security mentioned herein. This firm, Wedbush Securities, its officers, employees, and members of their families, or any one or more of them, and its discretionary and advisory accounts, may have a position in any security discussed herein or in related securities and may make, from time to time, purchases or sales thereof in the open market or otherwise. The information and expressions of opinion contained herein are subject to change without further notice. The herein mentioned securities may be sold to or bought from customers on a principal basis by this firm. Additional information with respect to the information contained herein may be obtained upon request.

WEDBUSH

EQUITY RESEARCH DEPARTMENT

(213) 688-4529

DIRECTOR OF RESEARCH
Mark D. Benson (213) 688-4435

MANAGER, RESEARCH OPERATIONS
Ellen Kang (213) 688-4529

RETAIL AND CONSUMER

Consumer Products
Rommel T. Dionisio (212) 938-9934
Kurt M. Frederick, CFA CPA (415) 274-6822

Footwear, Apparel and Accessories
Corinna Freedman (212) 668-9876
Alicia Reese (212) 938-9927

Healthy Lifestyles
Kurt M. Frederick, CFA CPA (415) 274-6822

Restaurants
Nick Setyan (213) 688-4519
Colin Radke (213) 688-6624

Specialty Retail: Hardlines
Joan L. Storms, CFA (213) 688-4537
John Garrett, CFA (213) 688-4523

Seth Basham, CFA (212) 938-9954

RETAIL/CONSUMER MARKET RESEARCH

Gabriella Santaniello (213) 688-4557

INDUSTRIAL GROWTH TECHNOLOGY

Clean Technology
Craig Irwin (212) 938-9926
Min Xu (212) 938-9925

Environmental Services / Building Products
Al Kaschalk (213) 688-4539
Taryn Kuida (213) 688-4505

Industrial Biotechnology
Liana Moussatos, Ph.D. (415) 263-6626
Christopher N. Marai, Ph.D. (415) 274-6861

Water and Renewable Energy Solutions
David Rose, CFA (213) 688-4319

TECHNOLOGY, INTERNET, MEDIA & SOCIAL MEDIA

Communications and Application Software / Internet
Shyam Patil, CFA (213) 688-8062

Communications Equipment
Rohit Chopra (212) 668-9871
Sanjit Singh (212) 938-9922
Ryan Flanagan (212) 938-9942

Computer Services: Financial Technology
Gil B. Luria (213) 688-4501
Aaron Turner (213) 688-4429

Enterprise Software
Steve Koenig (415) 274-6801
Kevin Ikeda (213) 688-4423

Entertainment: Retail
Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

Entertainment: Software
Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

Social Internet and E-Commerce
Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

Media
James Dix, CFA (213) 688-4315

Movies and Entertainment
Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

Semiconductors
Betsy Van Hees (415) 274-6869
Ryan Jue, CFA (415) 263-6669

LIFE SCIENCES

Biotechnology/Biopharmaceuticals/BioDefense
Gregory R. Wade, Ph.D. (415) 274-6863
David M. Nierengarten, Ph.D. (415) 274-6862
Christopher N. Marai, Ph.D. (415) 274-6861

Emerging Pharmaceuticals
Liana Moussatos, Ph.D. (415) 263-6626
Richard Lau, CFA (415) 274-6851
Christopher N. Marai, Ph.D. (415) 274-6861

Healthcare Services - Managed Care
Sarah James (213) 688-4503

Medical Devices
Tao Levy (212) 938-9948

Medical Diagnostics and Life Sciences Tools
Zarak Khurshid (415) 274-6823

EQUITY SALES		EQUITY TRADING	
Los Angeles	(213) 688-4470 / (800) 444-8076	Los Angeles	(213) 688-4470 / (800) 421-0178
San Francisco	(415) 274-6800	San Francisco	(415) 274-6811
New York	(212) 938-9931	New York	(212) 344-2382
Boston	(617) 832-3700	Boston	(617) 832-3700

CORPORATE HEADQUARTERS
1000 Wilshire Blvd., Los Angeles, CA 90017-2465
Tel: (213) 688-8000 www.wedbush.com