

Epizyme (EPZM)

Transitioning Coverage, Q1:14 Earnings and Update

- **EPZM finished the quarter with cash and cash equivalents of \$237.1M with its follow-on public offering in February of \$101M in net proceeds, slightly above our \$234.3M estimate.** Collaboration revenues came in at \$13.4M, above our \$4.5M estimate largely due to GSK collaboration milestone payments. R&D expenses came in at \$15.3M below our \$17.5M estimate and G&A expenses came in at \$5.0M, slightly above our \$4.6M estimate.
- **The company maintained YE:14 cash and cash equivalents guidance of at least \$170M and cash burn of approximately \$80M (excluding the \$34M in accounts receivable recorded in 2013, but collected in 2014).**
- **Data from the Phase 1 dose escalation and expansion study of the DOT1L inhibitor (EPZ-5676) in the MLL-r (MLL rearranged) and MLL-PTD (MLL partial tandem duplication) adult setting are expected at a major medical conference in H2:14.** Recall that the dose escalation portion has 5 dose cohorts (12, 24, 36, 54, and 80 mg/m²/day), and objective responses were observed in 2 MLL-r patients on uninterrupted administration of 54 mg/m²/day. The expansion study is ongoing and is planned to enroll 15-20 MLL-r and MLL-PTD patients each, starting with a 90 mg/m²/day dose. We would expect increased response rate, depth and durability of responses with higher doses.
- **Top-line data from the Phase 1 study of EZH2 inhibitor EPZ-6438 in the advanced solid tumors or B cell lymphomas are also expected in H2:14.** This study is currently conducted at two sites and no dose limiting toxicities or safety issues have been reported. EPZM expects to complete enrollment in H2:14 and to disclose data shortly after. Pending results from the Phase 1 study, the company plans to initiate Phase 2 studies of EPZ-6438 in the EZH2-mutated non-Hodgkin lymphoma and IN11-deficient tumors (eg. synovial sarcoma) settings later this year.
- **Transitioning coverage and maintaining 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 million.
- **Risks to achievement of our price target include clinical, regulatory, or market failure of EPZ-5676 and/or EPZ-6438.**

FYE Dec	2013A	2014E			2015E		
REV	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	\$8.9A	\$13.4A	\$4.5A	\$13.4A	\$0.0E		N/AE
Q2 Jun	14.8A	6.5E		6.0E	\$35.0E	\$25.0E	N/AE
Q3 Sep	8.4A	2.5E		11.0E	\$0.0E		N/AE
Q4 Dec	36.3A	10.0E	2.5E	16.9E	\$0.0E		N/AE
Year*	\$68.5A	\$32.4E	\$16.0E	\$43.2E	\$35.0E	\$25.0E	\$39.8E
Change	51%	-53%			--		
EPS	2013A	2014E			2015E		
	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	(\$0.33)A	(\$0.22)A	(\$0.55)A	(\$0.22)A	(\$0.85)E	(\$0.75)E	N/AE
Q2 Jun	(0.25)A	(0.46)E		(0.52)E	\$0.21E	\$0.00E	N/AE
Q3 Sep	(0.34)A	(0.65)E	(0.62)E	(0.52)E	(\$0.89)E	(\$0.79)E	N/AE
Q4 Dec	0.57A	(0.52)E	(0.65)E	(0.44)E	(\$0.92)E	(\$0.82)E	N/AE
Year*	(\$0.18)A	(\$1.84)E	(\$2.28)E	(\$1.90)E	(\$2.45)E	(\$2.36)E	(\$2.05)E
P/E	--	--			--		
Change	-462%	-903%			--		

Consensus estimates are from Thomson First Call.

* Numbers may not add up due to rounding.

May 14, 2014

Price
\$21.93

Rating
OUTPERFORM

12-Month Price Target
\$52

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Company Information

Shares Outst (M)	32.2
Market Cap (M)	\$706.3
52-Wk Range	\$18.10 - \$45.72
Book Value/sh	\$N/A
Cash/sh	\$7.81
Enterprise Value (M)	\$454.8
LT Debt/Cap %	0.0
Cash Burn (M)	\$58.0

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

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Upcoming Milestones:

H2:14	Data from the Phase I dose escalation and expansion stage study of the DOT1L inhibitor (EPZ-5676) in the acute leukemia setting at a major medical conference (potentially at ASH Dec. 6-9)
H2:14	Top-line data from the Phase I study of the EZH2 inhibitor (EPZ-6438) in the advanced solid tumors or relapsed/refractory B-cell lymphoma settings at a major medical conference (potentially at ASH Dec. 6-9)
H2:14	Initiation of a Phase II study of EZH2 inhibitor (EPZ-6438) in the non-Hodgkin lymphoma with a point mutation in EZH2 setting (pending results from Phase I)
H2:14	Initiation of a Phase II study of EZH2 inhibitor (EPZ-6438) in the synovial sarcoma setting (pending results from Phase I)

5/14/2014

Ticker: (EPZM:Nasdaq)

Epizyme, Inc

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Epizyme, Inc (EPZM)
in thousands except per share data

	2013A	Q1A	Q2E	Q3E	Q4E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues:												
Net Product Sales	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$78,726	\$340,782	\$551,426	\$687,705
Other Revenues	0	0	0	0	0	0	0	0	10,453	50,936	79,644	98,918
Royalties	68,482	13,391	6,500	2,500	10,000	32,391	35,000	40,000	60,000	0	0	0
Total Revenues	68,482	13,391	6,500	2,500	10,000	32,391	35,000	40,000	149,180	391,717	631,070	786,623
Cost and Expenses:												
Cost of Sales	0	0	0	0	0	0	0	0	3,936	17,039	27,571	34,385
R&D	57,567	15,347	17,342	19,597	22,340	74,626	93,919	101,661	110,041	119,112	128,930	139,558
SG&A	14,042	4,956	5,154	5,360	5,575	21,045	24,023	28,631	52,861	108,071	152,306	180,925
Total Operating Expenses	71,609	20,303	22,496	24,957	27,915	95,671	117,941	130,291	166,838	244,222	308,808	354,868
Operating Income (Loss)	(3,127)	(6,912)	(15,996)	(22,457)	(17,915)	(63,280)	(82,941)	(90,291)	(17,658)	147,495	322,262	431,755
Net Interest Income (Expense)/Other Income	(7)	28	1,337	1,456	1,284	4,105	3,781	914	(1,623)	(1,481)	2,919	5,082
Income Before Income Taxes	(3,134)	(6,884)	(14,659)	(21,001)	(16,631)	(59,175)	(79,161)	(89,377)	(19,281)	146,014	325,182	436,837
Provision for Income Taxes	349	0	0	0	0	0	359	0	1,265	7,739	104,744	170,366
Net Income (Loss)	(3,483)	(6,884)	(14,659)	(21,001)	(16,631)	(59,175)	(79,519)	(89,377)	(20,546)	138,275	220,437	266,471
GAAP EPS	(0.18)	(0.22)	(0.46)	(0.65)	(0.52)	(1.84)	(2.45)	(2.76)	(0.59)	4.47	9.94	13.31
Total Shares Outstanding	17,049	30,959	32,209	32,234	32,259	31,915	32,321	32,421	32,521	32,621	32,721	32,821
Cash Burn	(63,117)					(57,984)	(78,406)	(88,442)	(19,579)	139,571	222,068	268,396
Cash Balance	123,564	237,058	251,488	230,549	213,976	213,976	134,676	45,493	13,474	97,606	274,534	323,769

Source: Wedbush PacGrow Life Sciences

Analyst Biography

David Nierengarten, Ph.D. is an Analyst covering stocks in the Biotechnology/Biopharmaceuticals/BioDefense sector. His prior sell-side research experience at Robert W. Baird & Co. covered biotechnology companies of all market capitalizations, with a focus on oncology and rare diseases.

David received his B.S. (Biochemistry) from the University of Wisconsin-Madison and Ph.D. (Molecular and Cell Biology) from the University of California-Berkeley.

David's Edge: David's early stage venture capital investing experience gives him a balanced perspective on developmental-stage biotechnology companies and their ultimate risk/reward potential. His experience on the other side of that equation in a clinical-stage, venture backed biotechnology company provides him with insights into corporate operations. The combination of experiences creates a focus on value creation in this event-driven space.

Analyst Certification

I, David M. Nierengarten, Ph.D., Christopher N. Marai, Ph.D., Dilip Joseph, 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/DisclosureQ114.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.

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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 March 31, 2014)	Investment Banking Relationships (as of March 31, 2014)
Outperform: 54%	Outperform: 22%
Neutral: 43%	Neutral: 2%
Underperform: 3%	Underperform: 0%

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Company	Disclosure
Epizyme	1,3,4,5

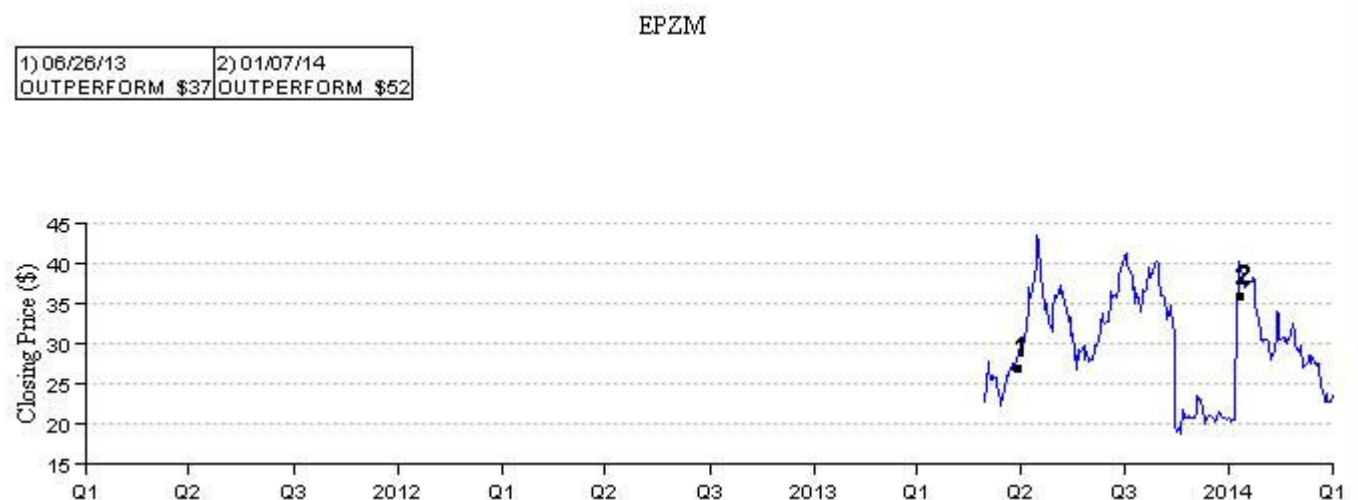
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