

Epizyme (EPZM)

Q2:13 EPS, '5676 and '6438 Continue to Progress, Reiterate OUTPERFORM

- EPZM reported Q2:13 loss of (\$0.25), ending the quarter with \$148.7M in cash, and guided to YE:13 cash of \$115M. A \$6M milestone payment from partner Eisai for the start of the Phase I study for EPZ-6438 was received in July. Expenses were in-line with our estimates.
- Importantly, the company has added 4 clinical sites to continue to enroll patients in the '5676 dose escalation study, and is on track for initiating the expansion cohort in MLL-r AML patients in H2:13.
- As mentioned above, EPZM also began the Phase I for EPZ-6438. The expansion phase for this candidate should occur in 2014, in patients with EZH2 mutations.
- As safety data for EPZ-6438 is collected, we expect EPZM to embark on the clinical plan for childhood tumors containing the EZH2 mutations (INI1-deficient). We do not include solid tumors in our current valuation, so progress in this class of tumors represents 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.

August 1, 2013

Price
\$36.10

Rating
OUTPERFORM

12-Month Price Target
\$37

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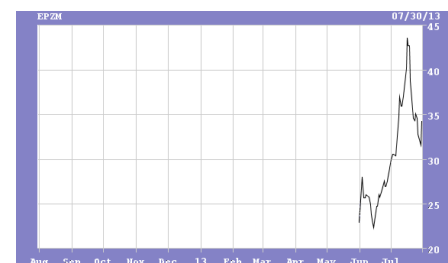
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Company Information

Shares Outst (M)	28.4
Market Cap (M)	\$1025.8
52-Wk Range	\$18.60 - \$45.72
Book Value/sh	\$-31.49
Cash/sh	\$5.23
Enterprise Value (M)	\$877.1
LT Debt/Cap %	0.0
Cash Burn (M)	\$72.1

Company Description

Epizyme, Inc., is based in Cambridge, MA and is focused on the development of histone methyl transferase 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	\$0.0E		\$12.1E
Q2 Jun	--	14.8A	6.0A	13.4A	0.0E		12.1E
Q3 Sep	--	6.0E	0.0E	6.5E	25.0E		12.1E
Q4 Dec	--	10.0E		6.8E	15.0E		23.4E
Year*	\$45.2A	\$39.7E	\$24.9E	\$38.1E	\$40.0E		\$59.8E
Change	--	-12%			1%		
EPS	2012A	2013E			2014E		
	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	--	(\$0.33)A		N/A	(\$0.66)E	(\$0.65)E	(\$0.26)E
Q2 Jun	--	(0.25)A	(0.42)A	(0.36)A	(0.69)E	(0.68)E	(0.25)E
Q3 Sep	--	(0.43)E	(0.62)E	(0.42)E	0.15E	0.17E	(0.20)E
Q4 Dec	--	(0.31)E	(0.30)E	(0.38)E	(0.23)E	(0.21)E	0.09E
Year*	(\$0.03)A	(\$1.32)E	(\$1.67)E	(\$1.79)E	(\$1.43)E	(\$1.37)E	(\$0.77)E
P/E	--	--			--		
Change	--	-3943%			-8%		

Consensus estimates are from Thomson First Call.

* Numbers may not add up due to rounding.

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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

H2:13	Begin second stage of the Phase I/II study of EPZ-5676 in AML/ALL patients with MLL-r
H2:13	Interim data for the Phase I study of EPZ-5676 in the AML/ALL setting
H2:13	Interim data from the Phase I study of EPZ-6438 in the NHL setting
2014	Final data for the Phase I/2 study of EPZ-5676 in the MLL-r setting
H1:14	Final data for the Phase I study of EPZ-6438 in the NHL setting
H2:14	Begin pivotal Phase II trial for EPZ-5676 in adults with MLL-r
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

7/31/2013
 Ticker: (EPZM:Nasdaq)
 Epizyme, Inc

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

	2012A	Q1A	Q2E	Q3E	Q4E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues:													
Net Product Sales	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$78,726	\$324,500	\$519,702	\$644,826
Other Revenues	\$0	0	0	0	0	0	0	0	0	10,453	45,565	72,180	89,834
Royalties	\$45,222	8,882	14,839	6,000	10,000	39,721	40,000	25,000	40,000	60,000	0	0	0
Total Revenues	45,222	8,882	14,839	6,000	0	39,721	40,000	25,000	40,000	149,180	370,065	591,882	734,660
Cost and Expenses:													
Cost of Sales	0	0	0	0	0	0	0	0	0	3,936	16,225	25,985	32,241
R&D	38,482	13,361	13,937	14,494	15,219	57,012	67,213	74,850	81,020	87,699	94,928	102,753	111,223
SG&A	7,508	2,998	3,079	3,131	3,185	12,393	14,064	16,054	19,133	40,810	92,542	133,534	159,810
Total Operating Expenses	45,990	16,359	17,016	17,626	18,404	69,405	81,277	90,904	100,153	132,445	203,695	262,272	303,275
Operating Income (Loss)	(768)	(7,477)	(2,177)	(11,626)	(18,404)	(29,684)	(41,277)	(65,904)	(60,153)	16,735	166,371	329,609	431,386
Net Interest Income (Expense)/Other Income	67	(20)	(142)	(482)	(423)	(1,067)	449	(65)	77	(1,396)	(212)	4,203	6,645
Income Before Income Taxes	(701)	(7,497)	(2,319)	(12,108)	(18,827)	(30,751)	(40,828)	(65,969)	(60,076)	15,339	166,159	333,812	438,031
Provision for Income Taxes	1	0	0	0	0	0	227	122	0	2,273	8,806	130,187	170,832
Net Income (Loss)	(702)	(7,497)	(2,319)	(12,108)	(18,827)	(30,751)	(41,055)	(66,091)	(60,076)	13,065	157,352	203,625	267,199
GAAP EPS	(0.03)	(0.33)	(0.25)	(0.43)	(0.31)	(1.32)	(1.44)	(2.21)	(1.96)	0.42	5.09	6.57	8.60
Total Shares Outstanding	21,448	22,502	9,146	28,415	28,440	22,126	28,503	29,590	30,678	30,778	30,878	30,978	31,078
Cash Burn	44,154	0	0	0	0	(29,665)	(40,082)	(65,266)	(59,385)	13,815	158,442	205,073	268,977
Cash Balance	97,981	85,047	148,689	130,365	114,595	114,595	73,752	101,849	41,939	45,840	152,400	315,696	379,745

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 Drs. David Nierengarten (Analyst) and Chris Marai (Senior Research Associate) 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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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 June 30, 2013)	Investment Banking Relationships (as of June 30, 2013)
Outperform: 54%	Outperform: 15%
Neutral: 41%	Neutral: 1%
Underperform: 5%	Underperform: 0%

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Company	Disclosure
Epizyme	1,3,5,7

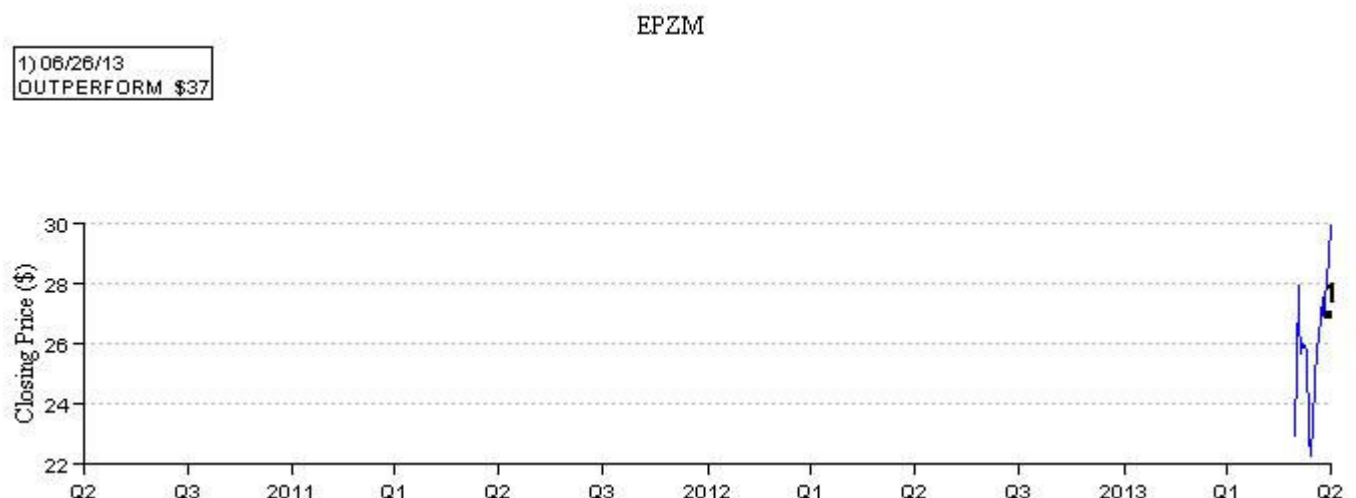
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