

Epizyme, Inc. (EPZM)

Milestone Payments Highlight Productive Quarter for Epizyme

MARKET DATA

Price	\$31.82
52-Week Range:	\$18.10 - \$45.72
Shares Out. (M):	31.6
Market Cap (\$M):	\$1,005.5
Average Daily Vol. (000):	327.0
Cash (M):	\$140
Cash/Share:	\$6.94
Enterprise Value (M):	\$879
Float (M):	27.6
LT Debt (M):	\$0

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

MARKET OUTPERFORM | Price: \$31.82 | Target Price: \$40.00

INVESTMENT HIGHLIGHTS

Review of clinical progress to date underscores transformative 2013 as Epizyme reported 4Q and FY13 results; reiterate Market Outperform and 12-month \$40 price target based on our NPV, sum-of-the parts, and standardized CAGR methodologies. Epizyme reported a profitable 4Q13 driven by a \$25MM milestone payment from Celgene (CELG, MO, \$205PT) for EPZ-5676 and a \$6MM milestone payment from Eisai for EPZ-6438. As a result, Epizyme reported a net gain of \$16.3MM, or \$0.56 per share, for the quarter, slightly above our estimate of 0.52 EPS and well above the consensus estimate of (\$0.39) EPS. Collaboration revenues for the quarter totaled \$36.3MM, slightly below our estimate of \$36.5MM, but much higher than the consensus estimate of \$8.7MM. Operating expenses for the quarter were \$20.1MM, comprising \$15.7MM in R&D expense (below our \$18MM estimate), and \$4.4MM in SG&A (slightly above our \$3.8MM estimate). The company reported \$157.2MM in cash, cash equivalents, and marketable securities as of December 31, 2013. A summary of today's results versus JMP and consensus estimates is detailed in Figure 2. In addition, the company announced it will receive another \$6MM milestone payment from GlaxoSmithKline (GSK, NC) in 1Q14. Highlights from the conference call with management included a recap of Phase I clinical developments with EPZ-5676, targeting DOT1L for MLL-r and MLL-PTD adult patients, ongoing Phase I dose escalation trial with EPZ-6438, targeting EZH2 for non-Hodgkin's lymphoma. In addition the company said it plans to initiate a Phase Ib of '5676 in MLL-r pediatric patients in 1H14, a Phase II study of '6438 in NHL with EZH2 mutations, and Phase II study of '6438 in synovial sarcoma patients. Changes to our model, detailed in Figure 3, primarily reflect the impact of new milestone payments on 1Q14 estimates.

STOCK PRICE PERFORMANCE



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, provides the 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, Eisai, and Celgene, we believe shares of EPZM should accrete significant additional value over the next six to 12 months as the potential for the company's pipeline comes into greater focus.

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

FIGURE 1. Upcoming Milestones

Timing	Drug	Milestones
1Q14	EPZ-5676	MLL-r Phase 1 expansion cohort initiation
1H14	EPZ-6438	Initiation of Phase 2 expansion cohort enrollment in EZH2+ NHL
2014	EPZ-5676	MLL-r pediatric Phase 1 expected in 2014
2014	EPZ-5676	MLL-PTD Phase 2 expansion cohort expected
2014	EPZ-6438	NHL Phase 1 dose escalation data
2014	EPZ-6438	NHL Phase 2 expansion cohort expected initiation
2014	EPZ-6438	Synovial sarcoma Phase 2 expected initiation

Source: Epizyme press releases and presentations and SEC filings

FIGURE 2. EPZM 4Q13 Results vs. JMP and Consensus Estimates

4Q13 JMP Estimates vs. Consensus (\$MM, except where noted)	4Q13A	4Q13 JMP Estimates	4Q13 Street Consensus	Actual vs. JMP Estimates
Total Collaboration Revenue	36.3	36.5	8.7	(0.2)
Operating Expenses				
R&D	15.7	18.0		(2.3)
SG&A	4.4	3.8		0.6
Total Operating Expenses (R&D, SG&A)	20.1	21.8		(1.7)
Operating Income (Loss)	16.3	14.7		1.6
Non-operating income (expense)	0.0	0.0		0.0
Earnings before Taxes	16.3	14.7	(13.9)	1.6
Provision for income taxes (benefit)	0.3	0.0		
Net Income (Loss)	15.9	14.7	(13.9)	1.2
Basic shares outstanding	28.434	28.420		0.0
Diluted shares	30.901	32.684		(1.8)
GAAP EPS Figures				
Basic EPS	\$ 0.56	\$ 0.52	\$ (0.39)	0.0
Diluted EPS	\$ 0.52	\$ 0.45	\$ (0.36)	0.1
Non-GAAP EPS				
Basic	\$ 0.58	\$ 0.53		0.0
Diluted	\$ 0.53	\$ 0.46		0.1

Source: JMP Securities LLC, Company filings

FIGURE 3. Changes to Our Model

Changes to Income Statement (\$MM, except where noted)	1Q14E		2Q14E		3Q14E		4Q14E		2014E		2015E	
	OLD	NEW	OLD	NEW	OLD	NEW	OLD	NEW	OLD	NEW	OLD	NEW
Total Collaboration Revenue	4.9	10.9	4.9	4.9	24.9	24.9	38.7	38.7	104.5	79.5	38.0	38.0
Operating Expenses												
R&D	16.0	16.0	12.0	12.0	11.5	11.5	12.5	12.5	52.0	52.0	55.0	55.0
SG&A	4.2	4.2	4.5	4.5	5.0	5.0	5.5	5.5	19.2	19.2	24.0	24.0
Total Operating Expenses (R&D, SG&A)	20.2	20.2	16.5	16.5	16.5	16.5	18.0	18.0	71.2	71.2		
Operating Income (Loss)	(15.3)	(9.3)	(11.6)	(11.6)	8.4	8.4	20.7	20.7	33.3	8.3	(41.0)	(41.0)
Non-operating income (expense)												
Earnings before Taxes	(15.3)	(9.3)	(11.6)	(11.6)	8.4	8.4	20.7	20.7	33.3	8.3	(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	0.0	0.0
Net Income (Loss)	(15.3)	(9.3)	(11.6)	(11.6)	8.4	8.4	20.7	20.7	33.3	8.3	(41.0)	(41.0)
Basic shares outstanding	28.434	30.680	32.948	32.948	32.972	32.972	32.997	32.997	32.399	32.399	33.083	33.083
Diluted shares	28.434	30.680	32.948	32.948	37.449	37.449	37.542	37.542	32.399	32.399	33.083	33.083
GAAP EPS Figures	1Q14E		2Q14E		3Q14E		4Q14E		2014E		2015E	
	NEW	NEW	NEW	NEW	NEW	NEW	NEW	NEW	NEW	NEW	NEW	NEW
Basic EPS	\$ (0.54)	\$ (0.30)	\$ (0.35)	\$ (0.35)	\$ 0.26	\$ 0.26	\$ 0.63	\$ 0.63	\$ 1.03	\$ 0.25	\$ (1.24)	\$ (1.24)
Diluted EPS	\$ (0.54)	\$ (0.30)	\$ (0.35)	\$ (0.35)	\$ 0.22	\$ 0.22	\$ 0.55	\$ 0.55	\$ 1.03	\$ 0.25	\$ (1.24)	\$ (1.24)
Non-GAAP EPS	NEW	NEW	NEW	NEW	NEW	NEW	NEW	NEW	NEW	NEW	NEW	NEW
Basic	\$ (0.52)	\$ (0.29)	\$ (0.33)	\$ (0.33)	\$ 0.27	\$ 0.27	\$ 0.65	\$ 0.65	\$ 1.10	\$ 0.33	\$ (1.12)	\$ (1.12)
Diluted	\$ (0.52)	\$ (0.29)	\$ (0.33)	\$ (0.33)	\$ 0.24	\$ 0.24	\$ 0.57	\$ 0.57	\$ 1.10	\$ 0.33	\$ (1.12)	\$ (1.12)

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 a substantial decrease in the company's share price.

Competitive. Epigenetics is an increasingly competitive field and Epizyme faces 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 faces significant expenses to develop or acquire 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 negatively affect Epizyme's shares.

Financial. The company has guided that, even excluding any milestone payments from Celgene, Eisai, or GSK (which we expect), it has adequate resources to fund the company into 2015. We 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 it 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.

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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, and received compensation for doing so, 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.

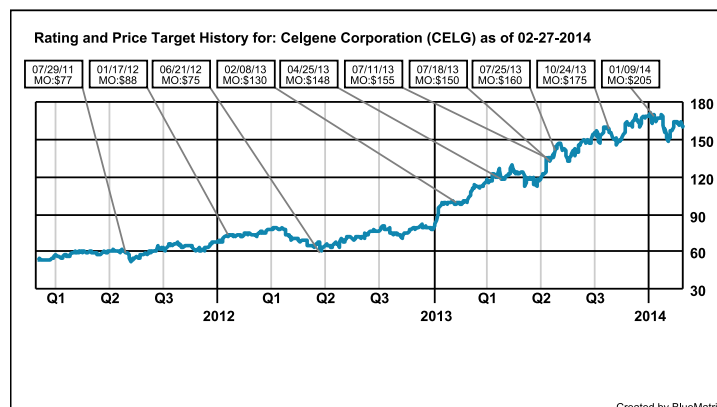
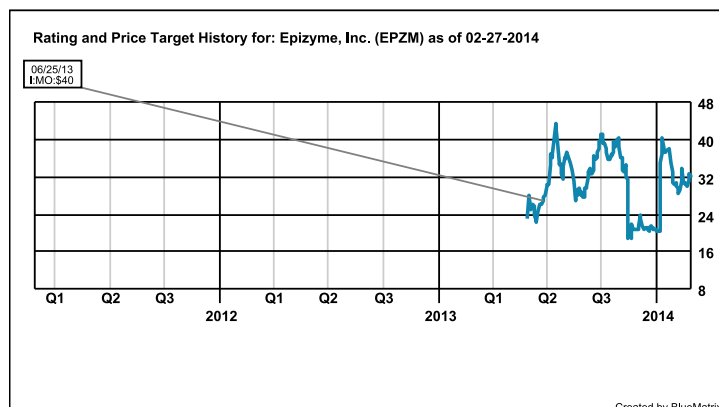
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

JMP Securities Research Ratings and Investment Banking Services: (as of February 27, 2014)

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	244	56.48%	Buy	244	56.48%	92	37.70%
MARKET PERFORM	Hold	137	31.71%	Hold	137	31.71%	21	15.33%
MARKET UNDERPERFORM	Sell	8	1.85%	Sell	8	1.85%	0	0%
COVERAGE IN TRANSITION		43	9.95%		43	9.95%	0	0%
TOTAL:		432	100%		432	100%	113	26.16%

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.



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