

Epizyme (EPZM)

EPZ-5676's Clinical Activity Emerges with Longer Duration of Therapy and CELG Pays \$25M as a Result of POC

- EPZM announced that the DOT1L inhibitor EPZ-5676 met a proof of concept milestone that triggered a \$25M payment from Celgene. This announcement suggests that patients with MLL gene translocations (currently 2 patients) exposed to a higher dose of EPZ-5676 for a longer duration (than the disappointing interim data from November 2013) realized an objective response.
- EPZM retains U.S. rights to EPZ-5676 and Celgene has exclusive license outside of U.S.
- We believe the objective response to EPZ-5676 is an important milestone for the company as it is both validating for the Dot1L target and the family of histone methyltransferases that Epizyme's drugs target.
- Enrollment of the 5th cohort of patients with translocations of the MLL gene (MLL-r) with the modified uninterrupted administration is ongoing and likely to be the source of additional positive data as higher doses of EPZ-5676 are explored. EPZM plans to present data from this EPZ-5676 Phase I study at a medical conference this year.
- The company anticipates up to five POC clinical trials in 2014: EPZ-5676 studies in the adult MLL-r expansion stage, MLL-r pediatric patients, and partial tandem duplication MLL adult patients; first in class EZH2 inhibitor EPZ-6438 studies in the non-Hodgkin lymphoma adult patients and pediatric and young adult patients with synovial sarcomas (pending completion of the ongoing EPZ-6438 Phase I study).
- The company adjusted its YE:13 cash and account receivables guidance to approximately \$145M from \$115M. We adjusted our model to reflect the Q4:13 milestone payments with a YE:13 cash and account receivables of \$147M.
- 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.

January 6, 2014

Price
\$20.50

Rating
OUTPERFORM

12-Month Price Target
\$37

Gregory R. Wade, Ph.D.
(415) 274-6863
greg.wade@wedbush.com

David M. Nierengarten, Ph.D.
(415) 274-6862
david.nierengarten@wedbush.com

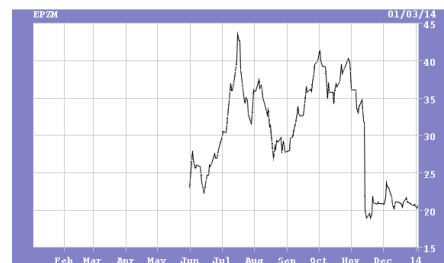
Christopher N. Marai, Ph.D.
(415) 274-6861
christopher.marai@wedbush.com

Company Information

Shares Outst (M)	28.4
Market Cap (M)	\$582.6
52-Wk Range	\$18.10 - \$45.72
Book Value/sh	\$3.07
Cash/sh	\$4.33
Enterprise Value (M)	\$459.5
LT Debt/Cap %	0.0
Cash Burn (M)	\$15.4

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

FYE Dec	2012A	2013E			2014E		
REV	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	--	\$8.9A		N/AA	\$0.0E		\$12.1E
Q2 Jun	--	14.8A		14.8A	0.0E		12.1E
Q3 Sep	--	8.4E		8.4E	25.0E		18.8E
Q4 Dec	--	10.0E		5.9E	15.0E		23.4E
Year*	\$45.2A	\$42.2E		\$40.6E	\$40.0E		\$64.8E
Change	--	-7%			-5%		
EPS	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	--	(\$4.19)A		N/AA	(\$0.70)E	(\$0.68)E	(\$0.28)E
Q2 Jun	--	(0.25)A		(0.25)A	(0.72)E	(0.71)E	(0.26)E
Q3 Sep	--	(0.34)E		(0.34)E	0.12E	0.13E	0.01E
Q4 Dec	--	(0.33)E		(0.41)E	(0.26)E	(0.25)E	0.08E
Year*	(\$0.03)A	(\$5.11)E		(\$1.75)E	(\$1.56)E	(\$1.52)E	(\$1.08)E
P/E	--	--			--		
Change	--	-15515%			69%		

Consensus estimates are from Thomson First Call.

* Numbers may not add up due to rounding.

Wedbush Securities does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Please see page 3 of this report for analyst certification and important disclosure information.

- FDA granted EPZ-5676 orphan drug designation in May 2013 and the European Medicines Agency's Committee for Orphan Medicinal Products recommended orphan drug designation to the European Commission in December 2013.
- Risks to the achievement of our price target include clinical, regulatory or market failure for EPZ-5676 and/or EPZ-6438.

1/6/2014
Ticker: (EPZM:Nasdaq)
Epizyme, Inc

WEDBUSH
PAC GROW LIFESCIENCES
Gregory R. Wade, Ph.D.
415-274-6863

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

	2012A	Q1A	Q2A	Q3A	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	8,444	10,000	42,165	40,000	25,000	40,000	60,000	0	0	0
Total Revenues	45,222	8,882	14,839	8,444	0	42,165	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	14,584	15,313	57,195	67,628	75,312	81,521	88,240	95,514	103,388	111,910
SG&A	7,508	2,998	3,079	3,587	3,648	13,312	16,111	18,390	21,917	44,342	96,092	137,084	163,360
Total Operating Expenses	45,990	16,359	17,016	18,171	18,961	70,507	83,739	93,702	103,438	136,519	207,831	266,457	307,512
Operating Income (Loss)	(768)	(7,477)	(2,177)	(9,727)	(18,961)	(28,342)	(43,739)	(68,702)	(63,438)	12,661	162,234	325,425	427,149
Net Interest Income (Expense)/Other Income	67	(20)	(142)	23	(412)	(551)	(687)	(1,078)	(1,067)	(2,740)	(1,771)	2,488	4,810
Income Before Income Taxes	(701)	(7,497)	(2,319)	(9,704)	(19,373)	(28,893)	(44,425)	(69,780)	(64,505)	9,920	160,463	327,913	431,959
Provision for Income Taxes	1	0	0	0	0	0	182	73	0	2,056	8,505	127,886	168,464
Net Income (Loss)	(702)	(7,497)	(2,319)	(9,704)	(19,373)	(28,893)	(44,607)	(69,853)	(64,505)	7,865	151,959	200,027	263,495
GAAP EPS	(0.03)	(4.19)	(0.25)	(0.34)	(0.33)	(5.11)	(1.57)	(2.33)	(2.10)	0.25	4.92	6.46	8.48
Total Shares Outstanding	21,448	1,791	9,146	28,406	28,431	16,946	28,494	29,581	30,669	30,769	30,869	30,969	31,069
Cash Burn	44,154					(27,784)	(43,600)	(68,999)	(63,788)	8,640	153,068	201,485	265,273
Cash Balance	97,981	85,047	148,689	139,575	113,936	113,936	98,540	122,875	58,536	54,736	155,903	315,600	375,945

Source: Wedbush PacGrow Life Sciences

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 Dr. David Nierengarten (Analyst) and Dr. Christopher Marai (Analyst) and together they cover 40+ 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 more than 70 different companies over 14 years provides him with a measured perspective, and industry, and key opinion leader contacts help to inform his view.

Analyst Certification

We, 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 our personal opinions and that we have not and will not, directly or indirectly, receive compensation or other payments in connection with our 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%	Outperform: 14%
Neutral: 41%	Neutral: 2%
Underperform: 4%	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 January 6, 2014

Company	Disclosure
Epizyme	1,3,5,7

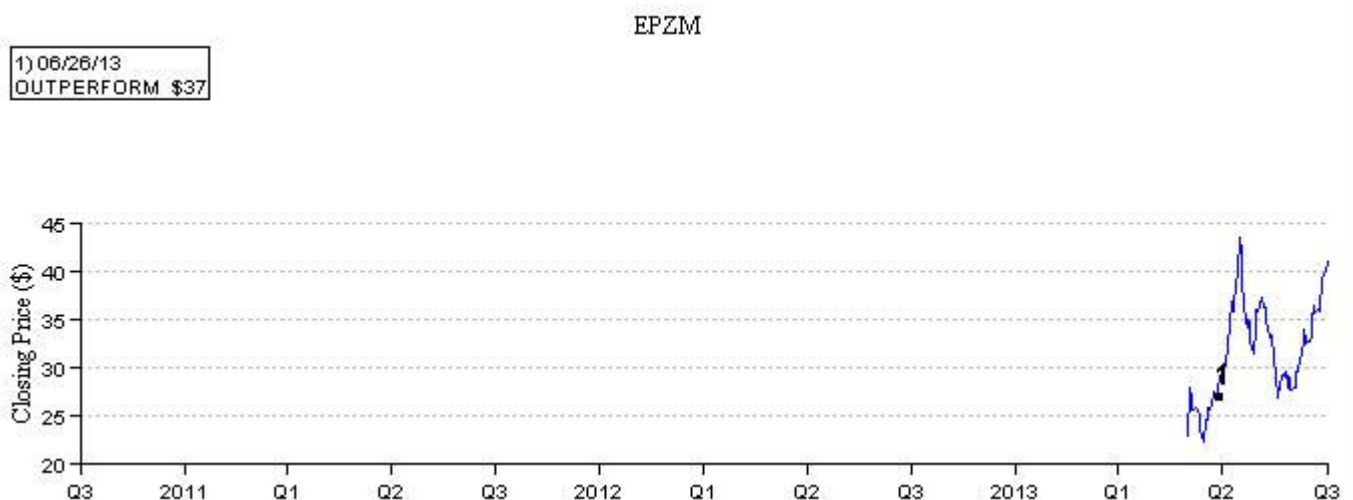
Research Disclosure Legend

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) 688-9876
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

Water and Renewable Energy Solutions

David Rose, CFA (213) 688-4319
James Kim (213) 688-4380

TECHNOLOGY, INTERNET, MEDIA & SOCIAL MEDIA

Communications and Application Software

Shyam Patil, CFA (213) 688-8062

Communications Equipment

Rohit Chopra (212) 688-9871
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

Internet: Media and Gaming

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

Internet: Social Media, Advertising & Technology

Shyam Patil, CFA (213) 688-8062

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 AND HEALTH CARE

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

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

Los Angeles (213) 688-4470 / (800) 444-8076
San Francisco (415) 274-6800
New York (212) 938-9931
Boston (617) 832-3700

EQUITY TRADING

Los Angeles (213) 688-4470 / (800) 421-0178
San Francisco (415) 274-6811
New York (212) 344-2382
Boston (617) 832-3700

CORPORATE HEADQUARTERS

1000 Wilshire Blvd., Los Angeles, CA 90017-2465

Tel: (213) 688-8000 www.wedbush.com