

Epizyme (EPZM)

Raising Price Target to \$52 from \$37 on Positive EPZ-5676

Clinical Data

- Following the positive EPZ-5676 clinical data released yesterday, we are decreasing our valuation discount rate to 25% from 35% and increasing our price target to \$52 per share. Although limited, the new clinical data validate EPZ-5676's therapeutic potential, and also support the utility of the company's HMT drug platform. We have also updated our model to incorporate the new U.S. and EU opportunities for EPZ-6438 (EZH2) in the synovial sarcoma setting.
- EPZM announced yesterday that two cohort-4 MLL gene translocation (MLL-r) patients realized objective responses to EPZ-5676 following modification of their treatment to the uninterrupted 54 mg/m² continuous IV infusion schedule. Based upon our belief that there is a dose/duration threshold for response to EPZ-5676 that has been reached with the two patients in cohort 4 (with the modified schedule), we expect additional positive results from the MLL-r dose-escalation expansion cohort in which the first patients are receiving 80 mg/m²/day (uninterrupted).
- We note that the results from cohort 5 (enrollment completed), which is receiving 80 mg/m² on the 21-day on, 7-day off cycle, may be mixed. Patients in this cohort may be switched to uninterrupted administration on a patient-by-patient basis with IRB approval.
- EPZM may have up to three EPZ-5676 and two EPZ-6438 proof of concept clinical trials ongoing in 2014. The company is anticipating EPZ-5676 studies in the adult MLL-r expansion stage, MLL-r pediatric patients, and partial tandem duplication MLL adult patients. For EPZ-6438, pending the completion of the ongoing EPZ-6438 Phase 1 study, EPZM is anticipating studies in the non-Hodgkin lymphoma adult patients and pediatric and young adult patients with synovial sarcomas.
- Reiterate OUTPERFORM rating and raising our price target to \$52 from \$37 per share. 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 35.7 million.
- Risks to achievement of our price target include clinical, regulatory, or market failure of EPZ-5676 and/or EPZ-6438.

January 7, 2014

Price
\$35.99

Rating
OUTPERFORM

12-Month Price Target
\$52 (from \$37)

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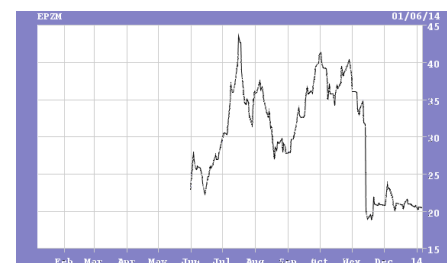
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Company Information

Shares Outst (M)	28.4
Market Cap (M)	\$1022.8
52-Wk Range	\$18.10 - \$45.72
Book Value/sh	\$3.07
Cash/sh	\$4.33
Enterprise Value (M)	\$899.7
LT Debt/Cap %	0.0
Cash Burn (M)	\$44.5

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/A	\$0.0E		\$3.8E
Q2 Jun	--	14.8A		14.8A	0.0E		12.1E
Q3 Sep	--	8.4E		8.4E	25.0E		18.8E
Q4 Dec	--	10.0E		13.1E	15.0E		22.1E
Year*	\$45.2A	\$42.2E		\$47.8E	\$40.0E		\$57.6E
Change	--	-7%			-5%		
EPS	2012A	2013E			2014E		
	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	--	(\$4.19)A		N/A	(\$0.70)E		(\$0.56)E
Q2 Jun	--	(0.25)A		(0.25)A	(0.72)E		(0.26)E
Q3 Sep	--	(0.34)E		(0.34)E	0.12E		0.00E
Q4 Dec	--	(0.33)E		(0.22)E	(0.26)E		0.04E
Year*	(\$0.03)A	(\$5.11)E		(\$2.18)E	(\$1.56)E		(\$1.09)E
P/E	--	--		--	--		--
Change	--	-15515%			69%		

Consensus estimates are from Thomson First Call.

* Numbers may not add up due to rounding.

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1/7/2014
Ticker: (EPZM:Nasdaq)
Epizyme, Inc

WEDBUSH
PAC GROW LIFE SCIENCES
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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	\$340,782	\$551,426	\$687,705
Other Revenues	\$0	0	0	0	0	0	0	0	0	10,453	50,936	79,644	98,918
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	391,717	631,070	786,623
Cost and Expenses:													
Cost of Sales	0	0	0	0	0	0	0	0	0	3,936	17,039	27,571	34,385
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	99,511	143,746	172,365
Total Operating Expenses	45,990	16,359	17,016	18,171	18,961	70,507	83,739	93,702	103,438	136,519	212,064	274,705	318,660
Operating Income (Loss)	(768)	(7,477)	(2,177)	(9,727)	(18,961)	(28,342)	(43,739)	(68,702)	(63,438)	12,661	179,653	356,365	467,963
Net Interest Income (Expense)/Other Income	67	(20)	(142)	23	(412)	(551)	(687)	(1,078)	(1,067)	(2,740)	(1,641)	3,101	5,789
Income Before Income Taxes	(701)	(7,497)	(2,319)	(9,704)	(19,373)	(28,893)	(44,425)	(69,780)	(64,505)	9,920	178,012	359,466	473,752
Provision for Income Taxes	1	0	0	0	0	0	182	73	0	2,056	9,435	140,192	184,763
Net Income (Loss)	(702)	(7,497)	(2,319)	(9,704)	(19,373)	(28,893)	(44,607)	(69,853)	(64,505)	7,865	168,578	219,274	288,989
GAAP EPS	(0.03)	(4.19)	(0.25)	(0.34)	(0.33)	(5.11)	(1.57)	(2.33)	(2.10)	0.25	5.46	7.08	9.30
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	169,718	220,803	290,883
Cash Balance	97,981	85,047	148,689	139,575	113,936	113,936	98,540	122,875	58,536	54,736	169,148	344,894	416,630

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 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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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).*

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Neutral: 41%	Neutral: 2%
Underperform: 4%	Underperform: 0%

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Company	Disclosure
Epizyme	1,3,5,7

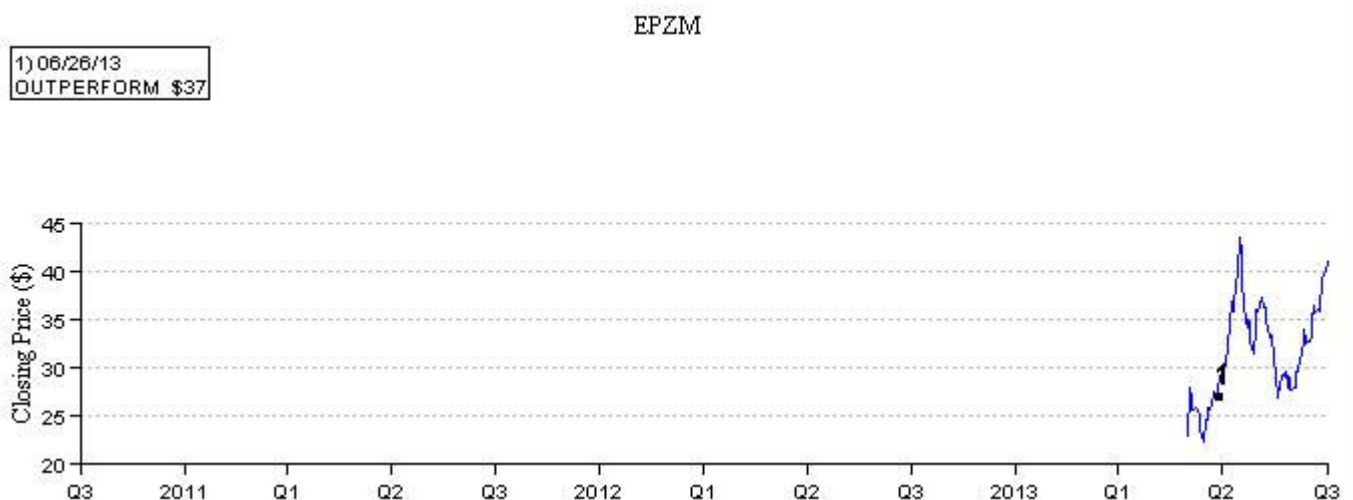
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* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009.

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