

EARNINGS UPDATE

Biotechnology

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Recommendation

Rating:	Outperform
Price Target (in \$):	NA
Dividend:	NA
Enterprise Value (MM):	\$1,004.0

Earnings Per Share

	2012A	2013E	2014E
Q1	\$(3.38)	\$(0.34)A	\$(0.43)
Q2	--	\$(0.25)A	\$0.35
Prev:	--	\$(0.10)	--
Q3	--	\$(0.33)	\$(0.37)
Q4	--	\$(0.35)	\$(0.09)
FY	\$(0.72)	\$(1.33)	\$(0.51)
Prev:	--	\$(1.11)	--
P/E	NM	NM	NM

Stock Statistics as of 07/31/2013 (in \$)

Price:	\$36.10
52W Range:	\$45.72-\$15.00
Shares Out (MM):	33.3
Market Cap (MM):	\$1,025.8
Net Debt (MM):	\$0.0
Net Cash Per Share:	\$4.65

Fundamentals

Revenue (MM) ('12A)	45.2
Revenue (MM) ('13E)	42.4
Revenue (MM) ('14E)	60.8



EPIZYME INC (NASDAQ:EPZM)

Two drugs in the clinic, cash for at least two years, more data 2H13

EPZM reported 2Q13 results last night and held its first earnings call as a public company, after its 5/30 IPO. EPZM now has two drugs in the clinic, expects its cash to last for at least two years, without counting on significant new milestones, and expects EPZ-5676 data in 2H13 and EPZ-6438 data in 2014.

Blocking and tackling execution continues, more sites up and running, will just have to wait for the data.

Not surprisingly, given that Epizyme just went public a few weeks ago, there wasn't a whole lot of new information out of last night's conference call. The company is making progress on the clinical trial front, with 5 sites enrolling patients in the dose-escalation portion of the EPZ-5676 Phase I trial in MLL-r and up to 12 expected in 2H13, when the expansion portion will be initiated. The EPZ-6438 Phase I/II trial in NHL was initiated in June, with initiation of the Phase II portion and reporting of preliminary data from the trial expected in 2014.

Cash for at least two more years.

Epizyme raised \$88.7M in gross proceeds from its IPO by issuing 5.9M shares at \$15/share. The company expects cash used in operations in 2013 to be ~\$65M, and guided that it will end the year with ~\$115M in cash. We believe Epizyme currently has approximately at least two years' worth of cash, without counting on any significant new milestones from its partners (mgmt guided that current cash is enough to fund operations at least through mid-2015). Epizyme spent \$17M (\$13.9M in R&D, \$3.1M in SG&A) in 2Q13, vs. \$10.5M (\$8.9M in R&D, \$1.6M in SG&A) spent in 2Q12, and ended 2Q13 with \$154.7M in cash, including the \$6M milestone received from Eisai in July.

What's coming up next?

The next most important milestone for EPZM will be data from the dose escalation portion of the Phase I trial of EPZ-5676, in 2H13. This will be followed by: **1)** Initiation of the expansion portion (MLL-r patients only) of the Phase I trial of EPZ-5676 in 2H13, **2)** Initiation of the Phase II portion (EZH2-mutated patients only) of the Phase I/II trial of EPZ-6438 in 2014, **3)** Early data from the Phase I/II trial of EPZ-6438 in 2014.

[Please see addendum of this report for important disclosures.](#)



Investment Thesis

Epizyme is a biotech company focusing in the epigenetics space and the first company to enter the clinic with highly selective inhibitors of histone methyltransferases, a novel class of epigenetic targets, which play a key role in fine-tuning the transcriptional regulation of gene expression.

Employing the Xalkori/Zelboraf model in hematology, harnessing the power of epigenetics: Both of Epizyme's clinical programs are targeting high unmet medical need hematology/oncology indications (leukemia for EPZ-5676 and lymphoma for EPZ-6438), with genetically defined patient populations, and are being developed together with companion diagnostics. Epizyme is taking a page out of Pfizer's and Roche's playbooks, aiming to emulate the quick-to-market success of next-generation, truly-targeted cancer therapies plus companion diagnostics, Xalkori and Zelboraf, that at least partly due to appropriate patient screening of ALK and BRAF mutational status in lung cancer and melanoma, respectively, were able to make it from first patient treated to approval in about five years.

This development strategy aims for the most appropriate patient selection that, in addition to requiring smaller trials, could result in maximizing the drug's efficacy while minimizing safety and tolerability issues. Taking this approach a step further, when dealing with an orphan disease with a significant unmet medical need, a drug with these characteristics could command premium pricing and could be commercialized by a small specialty salesforce in the U.S.

First clinical data provide MOA validation and investor excitement: more to come in next 12-18 months: Epizyme initiated its first clinical trial with EPZ-5676, its first ever clinical program, in September 2012. EPZ-5676 targets DOT1L, a histone methyltransferase (HMT) that is recruited to the "wrong" transcriptional complexes in patients with MLL-rearranged leukemia, leading to inappropriate gene expression. This program is developed in collaboration with Celgene, with Epizyme owning US rights. Data from the first handful of patients treated with EPZ-5676 were consistent with the drug's mechanism of action, as seen in tissue culture and animals, and generated significant interest among investors. The hematologists we consulted with confirmed both the "significant unmet need" and "very poor prognosis" of MLL-r patients and were encouraged by the preclinical data, and especially the response seen by the first MLL-r patient treated in the Phase I trial of EPZ-5676. The company has guided that the dose-escalation portion of the Phase I trial will be completed in 2H13. Additionally, the expansion cohort, which will be limited to MLL-r patients, is expected to be initiated in 2H13, with data expected in 2014.

Second program in the clinic just initiated; first data expected in 2014: Epizyme initiated the Phase I/II study of EPZ-6438, its second clinical program, an EZH2 inhibitor, in June 2013, in patients with advanced solid tumors and hematologic malignancies, including Diffuse Large B-Cell Lymphoma (DLBCL) and Follicular Lymphoma (FL). We consulted with a number of hematologists that treat both diseases and familiar with the epigenetic space and the EZH2 mutation population in particular. Similar to the situation in MLL-r, our consultants believe that



there's a real need for targeted agents in the space and were encouraged by the preclinical data Epizyme has produced thus far. This program is developed in collaboration with Eisai, with Epizyme having the option to co-promote in the US. Management has guided that the Phase II portion of the study, which will only include patients with EZH2 mutations, will be initiated in 2014.

Multiple partnerships provide cash and validation, but without having given away the store: Epizyme has formed three partnerships since 2011 (GSK, Eisai, Celgene), which have provided 1) big pharma validation for its R&D efforts and 2) \$150M in cash as of today, with another \$1B in possible milestones. Epizyme has managed to get this, while retaining US rights in one case (Celgene), and the option to co-promote in the US (Eisai) in another.

It's still very early, and there's obviously significant clinical and downside risk... It is obvious to investors that given Epizyme's early stage of development, there are both significant clinical risk (both of the company's clinical programs are in Phase I trials, with data reported from only one MLL-r patient reported at the time of our report), and a lot of potential downside to an investment in EPZM, given the company's \$1.2B valuation.

...but we believe that if one of the first two indications works, Epizyme, with its leading IP and know-how position in HMT biology, becomes an acquisition target. With that in mind, we also believe that even though Epizyme is built and operated to function as a stand-alone, fully-integrated biotech, with R&D, sales, and marketing in the US, *should* one of its first two clinical programs result in a clinical, regulatory, or commercial success, given its leading position in the HMT space, the company would become a very attractive acquisition target by a larger biopharma interested in owning all its clinical and preclinical assets, IP, and know-how.

We expect investors to continue to assign a premium to Epizyme's valuation. We believe Epizyme's market cap and EV are certainly outliers when looked at by standard valuation metrics for biotechs, given its early stage of development. However, we believe that this is a company that will continue to trade at a premium to what would have been considered its conventional peers, given among others, 1) the novelty of its targets and 2) the fact that investors will assign significant value to company's "platform" of additional HMT targets, IP, and know-how, at least during bull markets for biotech.



Company Description

Epizyme is a biotechnology company focused on discovering, developing, and commercializing personalized therapeutics for patients with genetically defined cancers. Specifically, the company is focused on the field of epigenetics and on developing small molecule inhibitors against a class of enzyme targets called histone methyltransferases (HMTs) that play a key role in the regulation of gene expression. Epizyme's pipeline programs include: 1) EPZ-5676, an intravenously-administered small molecule inhibitor of DOT1L, a well-characterized HMT, which is partnered with Celgene ex-U.S., and is currently in a Phase I dose-escalation trial in MLL-rearranged leukemia, an aggressive subtype of acute leukemia (AML and ALL), with data expected in 2H13, and 2) EPZ-6438, an orally available, small molecule inhibitor of EZH2, another well-characterized HMT, which is partnered with Eisai WW and recently entered a Phase I/II trial for the treatment of genetically defined subtypes of non-Hodgkin lymphoma. In addition to the Celgene and Eisai partnerships, Epizyme also has a collaboration agreement with GlaxoSmithKline to develop and commercialize small molecule HMT inhibitors, directed against up to three undisclosed targets. These three collaborations have generated \$150M in realized funding for the company. Epizyme was founded in November 2007, and went public in May 2013. The company is headquartered in Cambridge, MA and has 49 employees.

Epizyme: R&D pipeline

Candidate name	Indication	P-C	I	II	III	FILING	MKT	Comments
EPZ-5676 (DOT1L inhibitor)	MLL-r subtype of AML and ALL		•					Partnered with Celgene ex-US; Dose-escalation data expected 2H13
EPZ-6438 (EZH2 inhibitor)	DLBCL/FL with EZH2 mutation		•					Partnered with Eisai; Phase I/II trial initiated June 2013
Total Drugs in Development		0	2	0	0	0	0	
Cambridge, MA		Investor Relations Contact: Stephanie Ascher - 212.362.1200						

Source: Cowen and Company, Epizyme

Epizyme: Upcoming Milestones

Milestones	Timing
EPZ-5676 (DOT1L)	
Initiate expansion cohort of Phase I trial of EPZ-5676 in MLL-r subtype of AML and ALL	2H13
Data from the dose-escalation portion of the Phase I trial of EPZ-5676 in hematologic malignancies	2H13
Initiate pivotal trial of EPZ-5676 in MLL-r subtype of AML and ALL	2015
EPZ-6438 (EZH2)	
Initiate Phase II portion of the Phase I/II trial of EPZ-6438 in NHL subtypes (DLBCL/FL with EZH2 mutation)	2014
Data from a Phase I/II trial of EPZ-6438 for the treatment of genetically defined NHL (DLBCL/FL) subtypes	2014
Other	
Submit IND application for GSK's 1st undisclosed HMT target	2014
Submit IND application for GSK's 2nd undisclosed HMT target	2015
Submit IND application for GSK's 3rd undisclosed HMT target	2015

Source: Cowen and Company, Epizyme

EPZ-5676 Revenue Model (\$MM)

US EPZ-5676 MLL-r Revenue Model	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
US population	319,455,250	322,266,457	325,102,401	327,963,303	330,849,380	333,760,854	336,697,950	339,660,892	342,649,907	345,665,227	348,707,081	351,775,703	354,871,329	357,994,197	361,144,546	364,322,618	367,528,657	370,762,909	374,025,623	377,317,048
Population growth	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%
# of new leukemia cases	48,610	49,038	49,469	49,905	50,344	50,787	51,234	51,685	52,139	52,598	53,061	53,528	53,999	54,474	54,954	55,437	55,925	56,417	56,914	57,415
# of leukemia patients with ALL	6,070	6,123	6,177	6,232	6,287	6,342	6,398	6,454	6,511	6,568	6,626	6,684	6,743	6,802	6,862	6,923	6,983	7,045	7,107	7,169
% of leukemia patients with ALL	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
% of ALL patients with MLL-r	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
# of ALL patients with MLL-r	607	612	618	623	629	634	640	645	651	657	663	668	674	680	686	692	698	704	711	717
% of patients treated in the 1st-line setting	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%
# of patients treated in the 1st-line setting	577	582	587	592	597	602	608	613	619	624	629	635	641	646	652	658	663	669	675	681
% relapse rate	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%
# of ALL patients with MLL-r eligible for treatment	404	407	411	414	418	422	425	429	433	437	441	444	448	452	456	460	464	468	473	477
# of leukemia patients with AML	14,590	14,718	14,848	14,979	15,110	15,243	15,377	15,513	15,649	15,787	15,926	16,066	16,208	16,350	16,494	16,639	16,786	16,933	17,082	17,233
% of leukemia patients with AML	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
% of AML patients with MLL-r	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
# of AML patients with MLL-r	1,459	1,472	1,485	1,498	1,511	1,524	1,538	1,551	1,565	1,579	1,593	1,607	1,621	1,635	1,649	1,664	1,679	1,693	1,708	1,723
% of patients treated in the 1st-line setting	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%
# of patients treated in the 1st-line setting	1,386	1,398	1,411	1,423	1,435	1,448	1,461	1,474	1,487	1,500	1,513	1,526	1,540	1,553	1,567	1,581	1,595	1,609	1,623	1,637
% relapse rate	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%
# of AML patients with MLL-r eligible for treatment	1,021	1,030	1,039	1,049	1,058	1,067	1,076	1,086	1,095	1,105	1,115	1,125	1,135	1,145	1,155	1,165	1,175	1,185	1,196	1,206
Total # of ALL+AML MLL-r patients eligible for treatment	1,425	1,437	1,450	1,463	1,476	1,489	1,502	1,515	1,528	1,542	1,555	1,569	1,583	1,597	1,611	1,625	1,639	1,654	1,668	1,683
% EPZ-5676 penetration	-	-	-	-	15%	45%	65%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
# of patients treated with EPZ-5676	-	-	-	-	221	670	976	1,136	1,146	1,156	1,167	1,177	1,187	1,198	1,208	1,219	1,230	1,240	1,251	1,262
Annual treatment cost	\$125,000	\$127,500	\$130,050	\$132,651	\$135,304	\$138,010	\$140,770	\$143,586	\$146,457	\$149,387	\$152,374	\$155,422	\$158,530	\$161,701	\$164,935	\$168,234	\$171,598	\$175,030	\$178,531	\$182,101
% price increase	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Total US Sales (\$MM)	\$0	\$0	\$0	\$0	\$30	\$92	\$137	\$163	\$168	\$173	\$178	\$183	\$188	\$194	\$199	\$205	\$211	\$217	\$223	\$230
EU EPZ-5676 MLL-r Revenue Model	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EU population	504,393,906	504,898,300	505,403,198	505,908,601	506,414,510	506,920,925	507,427,845	507,935,273	508,443,209	508,951,652	509,460,603	509,970,064	510,480,034	510,990,514	511,501,505	512,013,006	512,525,019	513,037,544	513,550,582	514,064,132
Population growth	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
# of new leukemia cases	62,284	62,347	62,409	62,471	62,534	62,596	62,659	62,722	62,784	62,847	62,910	62,973	63,036	63,099	63,162	63,225	63,288	63,352	63,415	63,478
# of leukemia patients with ALL	7,778	7,785	7,793	7,801	7,809	7,816	7,824	7,832	7,840	7,848	7,856	7,864	7,871	7,879	7,887	7,895	7,903	7,911	7,919	7,927
% of ALL patients with MLL-r	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
# of ALL patients with MLL-r	778	779	779	780	781	782	782	783	784	785	786	787	788	789	790	790	791	791	792	793
% of patients treated in the 1st-line setting	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%
# of patients treated in the 1st-line setting	739	740	740	741	742	743	743	744	745	746	746	747	748	749	749	750	751	752	752	753
% relapse rate	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%
# of ALL patients with MLL-r eligible for treatment	517	518	518	519	519	520	520	521	521	522	522	523	523	524	524	525	526	526	527	527
% of leukemia patients with AML	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
# of leukemia patients with AML	18,694	18,713	18,732	18,750	18,769	18,788	18,807	18,825	18,844	18,863	18,882	18,901	18,920	18,939	18,958	18,977	18,996	19,015	19,034	19,053
% of AML patients with MLL-r	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
# of AML patients with MLL-r	1,869	1,871	1,873	1,875	1,877	1,879	1,881	1,883	1,884	1,886	1,888	1,890	1,892	1,894	1,896	1,898	1,900	1,901	1,903	1,905
% of patients treated in the 1st-line setting	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%
# of patients treated in the 1st-line setting	1,776	1,778	1,780	1,781	1,783	1,785	1,787	1,788	1,790	1,792	1,794	1,796	1,797	1,799	1,801	1,803	1,805	1,806	1,808	1,810
% relapse rate	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%
# of AML patients with MLL-r eligible for treatment	1,309	1,310	1,311	1,313	1,314	1,315	1,316	1,318	1,319	1,320	1,322	1,323	1,324	1,326	1,327	1,328	1,330	1,331	1,332	1,334
Total # of ALL+AML MLL-r patients eligible for treatment	1,826	1,828	1,829	1,831	1,833	1,835	1,837	1,839	1,840	1,842	1,844	1,846	1,848	1,850	1,852	1,853	1,855	1,857	1,859	1,861
% EPZ-5676 penetration	-	-	-	0%	0%	15%	45%	65%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
# of patients treated with EPZ-5676	-	-	-	-	275	827	1,195	1,380	1,362	1,362	1,363	1,364	1,366	1,367	1,369	1,371	1,373	1,375	1,377	1,379
Annual treatment cost	\$93,750	\$95,625	\$97,538	\$99,488	\$101,478	\$103,508	\$105,578	\$107,689	\$109,843	\$112,040	\$114,281	\$116,566	\$118,898	\$121,276	\$123,701	\$126,175	\$128,699	\$131,273	\$133,898	\$136,576
% price increase	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Total EU Sales (\$MM)	\$0	\$0	\$0	\$0	\$0	\$28	\$87	\$129	\$152	\$155	\$158	\$161	\$165	\$168	\$172	\$175	\$179	\$183	\$187	\$191
Total US/EU sales (\$MM)	\$0	\$0	\$0	\$0	\$30	\$121	\$225	\$292	\$320	\$328	\$336	\$344	\$353	\$362	\$371	\$380	\$390	\$400	\$410	\$420

Source: Cowen and Company



EPZ-6438 Revenue Model (\$MM)

US EPZ-6438 Revenue Model	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
US population	319,455,250	322,266,457	325,102,401	327,963,303	330,849,380	333,760,854	336,697,950	339,660,892	342,649,907	345,665,227	348,707,081	351,775,703	354,871,329	357,994,197	361,144,546	364,322,618	367,528,657	370,762,909	374,025,623	377,317,048
Population growth	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%
# of new non-Hodgkin lymphoma (NHL) cases	69,740	70,354	70,973	71,597	72,227	72,863	73,504	74,151	74,804	75,462	76,126	76,796	77,472	78,153	78,841	79,535	80,235	80,941	81,653	82,372
% of NHL patients with Diffuse large B-cell lymphoma (DLBCL)	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
# of NHL patients with DLBCL	20,922	21,106	21,292	21,479	21,668	21,859	22,051	22,245	22,441	22,639	22,838	23,039	23,241	23,446	23,652	23,860	24,070	24,282	24,496	24,712
% of patients with DLBCL that is of the GCB-DLBCL subtype	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
# of patients with DLBCL that is of the GCB-DLBCL subtype	10,461	10,553	10,646	10,740	10,834	10,929	11,026	11,123	11,221	11,319	11,419	11,519	11,621	11,723	11,826	11,930	12,035	12,141	12,248	12,356
% of GCB-DLBCL patients with EZH2 mutation	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
# of GCB-DLBCL patients with EZH2 mutation	2,092	2,111	2,129	2,148	2,167	2,186	2,205	2,225	2,244	2,264	2,284	2,304	2,324	2,345	2,365	2,386	2,407	2,428	2,450	2,471
% relapse rate	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%
# of patients with DLBCL eligible for treatment	690	697	703	709	715	721	728	734	741	747	754	760	767	774	781	787	794	801	808	815
% of NHL patients with Follicular lymphoma (FL)	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%
# of NHL patients with Follicular lymphoma (FL)	15,343	15,478	15,614	15,751	15,890	16,030	16,171	16,313	16,457	16,602	16,748	16,895	17,044	17,194	17,345	17,498	17,652	17,807	17,964	18,122
% of patients with FL with EZH2 mutation	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
# of patients with FL with EZH2 mutation	3,069	3,096	3,123	3,150	3,178	3,206	3,234	3,263	3,291	3,320	3,350	3,379	3,409	3,439	3,469	3,500	3,530	3,561	3,593	3,624
% relapse rate	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%
# of patients with FL eligible for treatment	2,915	2,941	2,967	2,993	3,019	3,046	3,072	3,100	3,127	3,154	3,182	3,210	3,238	3,267	3,296	3,325	3,354	3,383	3,413	3,443
Total # of eligible patients	3,606	3,637	3,669	3,702	3,734	3,767	3,800	3,834	3,867	3,901	3,936	3,970	4,005	4,041	4,076	4,112	4,148	4,185	4,221	4,259
% EPZ-6438 penetration	-	-	-	-	-	15%	45%	65%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%
# of patients treated with EPZ-6438	-	-	-	-	-	565	1,710	2,492	2,707	2,731	2,755	2,779	2,804	2,828	2,853	2,878	2,904	2,929	2,955	2,981
Annual treatment cost	\$125,000	\$127,500	\$130,050	\$132,651	\$135,304	\$138,010	\$140,770	\$143,586	\$146,457	\$149,387	\$152,374	\$155,422	\$158,530	\$161,701	\$164,935	\$168,234	\$171,598	\$175,030	\$178,531	\$182,101
% price increase	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Total US Sales (\$MM)	\$0	\$0	\$0	\$0	\$0	\$78	\$241	\$358	\$396	\$408	\$420	\$432	\$444	\$457	\$471	\$484	\$498	\$513	\$528	\$543
EU EPZ-6438 Revenue Model	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EU population	504,393,906	504,898,300	505,403,198	505,908,601	506,414,510	506,920,925	507,427,845	507,935,273	508,443,209	508,951,652	509,460,603	509,970,064	510,480,034	510,990,514	511,501,505	512,013,006	512,525,019	513,037,544	513,550,582	514,064,132
Population growth	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
# of new non-Hodgkin lymphoma (NHL) cases	78,847	78,926	79,005	79,084	79,163	79,242	79,321	79,400	79,480	79,559	79,639	79,718	79,798	79,878	79,958	80,038	80,118	80,198	80,278	80,358
% of NHL patients with Diffuse large B-cell lymphoma (DLBCL)	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
# of NHL patients with DLBCL	23,654	23,678	23,701	23,725	23,749	23,773	23,796	23,820	23,844	23,868	23,892	23,916	23,939	23,963	23,987	24,011	24,035	24,059	24,083	24,108
% of patients with DLBCL that is of the GCB-DLBCL subtype	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
# of patients with DLBCL that is of the GCB-DLBCL subtype	11,827	11,839	11,851	11,863	11,874	11,886	11,898	11,910	11,922	11,934	11,946	11,958	11,970	11,982	11,994	12,006	12,018	12,030	12,042	12,054
% of GCB-DLBCL patients with EZH2 mutation	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
# of GCB-DLBCL patients with EZH2 mutation	2,365	2,368	2,370	2,373	2,375	2,377	2,380	2,382	2,384	2,387	2,389	2,392	2,394	2,396	2,399	2,401	2,404	2,406	2,408	2,411
% relapse rate	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%
# of patients with DLBCL eligible for treatment	781	781	782	783	784	784	785	786	787	788	788	789	790	791	792	792	793	794	795	796
% of NHL patients with Follicular lymphoma (FL)	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%
# of NHL patients with Follicular lymphoma (FL)	17,346	17,364	17,381	17,398	17,416	17,433	17,451	17,468	17,486	17,503	17,521	17,538	17,556	17,573	17,591	17,608	17,626	17,644	17,661	17,679
% of patients with FL with EZH2 mutation	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
# of patients with FL with EZH2 mutation	3,469	3,473	3,476	3,480	3,483	3,487	3,490	3,494	3,497	3,501	3,504	3,508	3,511	3,515	3,518	3,522	3,525	3,529	3,532	3,536
% relapse rate	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%
# of patients with FL eligible for treatment	3,296	3,299	3,302	3,306	3,309	3,312	3,316	3,319	3,322	3,326	3,329	3,332	3,336	3,339	3,342	3,346	3,349	3,352	3,356	3,359
Total # of eligible patients	4,076	4,080	4,085	4,089	4,093	4,097	4,101	4,105	4,109	4,113	4,117	4,121	4,126	4,130	4,134	4,138	4,142	4,146	4,150	4,155
% EPZ-6438 penetration	-	-	-	-	-	0%	0%	15%	45%	65%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%
# of patients treated with EPZ-6438	-	-	-	-	-	615	1,847	2,671	2,879	2,882	2,885	2,888	2,891	2,894	2,897	2,899	2,902	2,905	2,908	2,911
Cost per month	\$93,750	\$95,625	\$97,538	\$99,488	\$101,478	\$103,508	\$105,578	\$107,689	\$109,843	\$112,040	\$114,281	\$116,566	\$118,898	\$121,276	\$123,701	\$126,175	\$128,699	\$131,273	\$133,898	\$136,576
% price increase	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Total EU Sales (\$MM)	\$0	\$0	\$0	\$0	\$0	\$0	\$65	\$199	\$293	\$323	\$329	\$336	\$343	\$351	\$358	\$365	\$373	\$381	\$389	\$397
Total US/EU sales (\$MM)	\$0	\$0	\$0	\$0	\$0	\$78	\$306	\$557	\$690	\$731	\$749	\$768	\$788	\$808	\$829	\$850	\$871	\$894	\$917	\$940

Source: Cowen and Company.



EPZM: Quarterly P&L (\$MM)

(\$MM)	2011A	2012A	Q1:13A	Q2:13A	Q3:13E	Q4:13E	2013E	Q1:14E	Q2:14E	Q3:14E	Q4:14E	2014E	2015E
Revenues to EPZM													
EPZ-5676 US sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EPZ-5676 EU royalties	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EPZ-6438 US sales (50% of total)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EPZ-6438 EU royalties	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Collaboration revenue	6.9	45.2	8.9	14.8	9.2	9.5	42.4	6.5	31.5	6.5	16.5	60.8	26.1
Total revenue	6.9	45.2	8.9	14.8	9.2	9.5	42.4	6.5	31.5	6.5	16.5	60.8	26.1
COGS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
R&D	22.9	38.5	13.4	13.9	15.1	16.3	58.7	15.7	15.9	15.9	16.1	63.6	63.5
SG&A	5.0	7.5	3.0	3.1	3.6	3.4	13.1	3.5	3.4	3.6	3.5	14.0	14.3
Total Operating expenses	27.9	46.0	16.4	17.0	18.7	19.7	71.8	19.2	19.3	19.5	19.6	77.6	77.8
Operating Income/Loss	(21.0)	(0.8)	(7.5)	(2.2)	(9.5)	(10.2)	(29.4)	(12.8)	12.2	(13.1)	(3.2)	(16.8)	(51.7)
Interest income	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other income (expense)	(0.0)	(0.1)	(0.0)	(0.1)	0.0	0.0	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0
Pretax income	(21.0)	(0.7)	(7.5)	(2.3)	(9.5)	(10.2)	(29.5)	(12.8)	12.2	(13.1)	(3.2)	(16.8)	(51.7)
Income tax expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Net loss attributable to common stock	(21.0)	(1.2)	(7.7)	(2.3)	(9.5)	(10.2)	(29.7)	(12.8)	12.2	(13.1)	(3.2)	(16.8)	(51.7)
EPS (basic)	(\$14.65)	(\$0.72)	(\$0.34)	(\$0.25)	(\$0.33)	(\$0.35)	(\$1.33)	(\$0.43)	\$0.41	(\$0.37)	(\$0.09)	(\$0.51)	(\$1.38)
EPS (diluted)	(\$14.65)	(\$0.72)	(\$0.34)	(\$0.25)	(\$0.33)	(\$0.35)	(\$1.33)	(\$0.43)	\$0.35	(\$0.37)	(\$0.09)	(\$0.51)	(\$1.38)
Basic shares	1.4	1.6	22.4	9.1	28.8	29.1	22.4	29.4	29.7	35.6	35.9	32.7	37.4
Diluted shares	1.4	1.6	22.4	9.1	33.3	33.6	24.6	34.0	34.3	40.2	40.6	37.3	42.2

Source: Cowen and Company

EPZM: Annual P&L (\$MM)

(\$MM)	2011A	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenues to EPZM																						
EPZ-5676 US sales	0.0	0.0	0.0	0.0	0.0	0.0	30.0	92.5	137.4	163.2	167.9	172.8	177.8	182.9	188.2	193.7	199.3	205.0	211.0	217.1	223.4	229.9
EPZ-5676 EU royalties	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.4	6.1	11.6	16.7	20.1	23.7	24.2	24.7	25.2	25.8	26.3	26.9	27.4	28.0	28.6
EPZ-6438 US sales (50% of total)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	39.0	120.4	178.9	198.2	204.0	209.9	216.0	222.2	228.7	235.3	242.1	249.1	256.4	263.8	271.4
EPZ-6438 EU royalties	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.2	9.9	14.7	16.1	16.5	16.8	17.2	17.5	17.9	18.3	18.7	19.1	19.5	19.9
Collaboration revenue	6.9	45.2	42.4	60.8	26.1	35.0	70.0	25.0	25.0	0.0	25.0	0.0	25.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total revenue	6.9	45.2	42.4	60.8	26.1	35.0	100.0	157.9	292.1	363.6	422.5	413.0	452.8	439.9	452.3	465.1	478.2	491.7	505.6	519.9	534.6	549.7
COGS	0.0	0.0	0.0	0.0	0.0	0.0	3.0	13.1	23.2	27.4	29.3	30.1	31.0	31.9	32.8	33.8	34.8	35.8	36.8	37.9	39.0	40.1
R&D	22.9	38.5	58.7	63.6	63.5	64.0	64.5	72.5	76.1	79.9	83.9	88.1	92.5	97.2	102.0	107.1	112.5	118.1	124.0	130.2	136.7	143.5
SG&A	5.0	7.5	13.1	14.0	14.3	14.6	31.6	39.5	39.8	40.5	41.2	41.9	43.0	44.2	44.9	45.7	46.6	47.4	48.2	49.1	50.0	50.9
Total Operating expenses	27.9	46.0	71.8	77.6	77.8	78.6	99.1	125.1	139.1	147.8	154.4	160.2	166.6	173.2	179.8	186.6	193.8	201.3	209.0	217.2	225.7	234.5
Operating Income/Loss	(21.0)	(0.8)	(29.4)	(16.8)	(51.7)	(43.6)	0.8	32.7	153.0	215.8	268.0	252.8	286.3	266.7	272.5	278.5	284.4	290.5	296.6	302.8	309.0	315.2
Interest income	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	3.0	4.0	5.0
Interest expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	3.0	4.0	5.0
Other income (expense)	(0.0)	(0.1)	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	3.0	4.0	5.0
Pretax income	(21.0)	(0.7)	(29.5)	(16.8)	(51.7)	(43.6)	0.8	32.7	153.0	215.8	268.0	252.8	286.3	266.7	272.5	278.5	284.4	292.5	300.6	308.8	317.0	325.2
Income tax expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.6	15.3	62.6	93.8	88.5	100.2	93.3	95.4	97.5	99.6	102.4	105.2	108.1	110.9	113.8
Tax rate	0%	0%	0%	0%	0%	0%	0%	8%	10%	29%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Net loss attributable to common stock	(21.0)	(1.2)	(29.7)	(16.8)	(51.7)	(43.6)	0.8	30.1	137.7	153.2	174.2	164.3	186.1	173.3	177.1	181.0	184.9	190.1	195.4	200.7	206.0	211.4
EPS (basic)	(\$14.65)	(\$0.72)	(\$1.33)	(\$0.51)	(\$1.38)	(\$1.12)	\$0.02	\$0.72	\$3.15	\$3.37	\$3.68	\$3.34	\$3.64	\$3.26	\$3.20	\$3.15	\$3.09	\$3.06	\$3.02	\$2.98	\$2.94	\$2.90
EPS (diluted)	(\$14.65)	(\$0.72)	(\$1.33)	(\$0.51)	(\$1.38)	(\$1.12)	\$0.02	\$0.63	\$2.79	\$2.98	\$3.26	\$2.96	\$3.22	\$2.88	\$2.83	\$2.78	\$2.73	\$2.70	\$2.67	\$2.64	\$2.60	\$2.57
Basic shares	1.4	1.6	22.4	32.7	37.4	38.9	40.4	42.0	43.7	45.5	47.3	49.2	51.1	53.2	55.3	57.5	59.8	62.2	64.7	67.3	70.0	72.8
Diluted shares	1.4	1.6	24.6	37.3	42.2	43.9	45.7	47.5	49.4	51.4	53.4	55.6	57.8	60.1	62.5	65.0	67.6	70.3	73.1	76.1	79.1	82.3

Source: Cowen and Company



Valuation Methodology & Investment Risks

Valuation Methodology

Biotechnology:

In calculating our 12-month target price, we employ one or more valuation methodologies, which include a discounted earnings analysis, discounted cash flow analysis, net present value analysis and/or a comparable company analysis. These analyses may or may not require the use of objective measures such as price-to-earnings or price-to-sales multiples as well as subjective measures such as discount rates.

We make investment recommendations on early stage (pre-commercial) biotechnology companies based upon an assessment of their technology, the probability of pipeline success, and the potential market opportunity in the event of success. However, because these companies lack traditional financial metrics, we do not believe there are any good methodologies for assigning a specific target price to such stocks.

Investment Risks

Biotechnology:

There are multiple risks that are inherent with an investment in the biotechnology sector. Beyond systemic risk, there is also clinical, regulatory, and commercial risk. Additionally, biotechnology companies require significant amounts of capital in order to develop their clinical programs. The capital-raising environment is always changing and there is risk that necessary capital to complete development may not be readily available.

Company Specific Risks

Risks to our Outperform rating on EPZM shares include: 1) clinical setbacks in the ongoing trials of EPZ-5676 and EPZ-6438, 2) the possibility of additional financings, and 3) a change in appetite for early-company risk among biotech investors.



Addendum

STOCKS MENTIONED IN IMPORTANT DISCLOSURES

Ticker	Company Name
EPZM	Epizyme Inc

Analyst Certification

Each author of this research report hereby certifies that (i) the views expressed in the research report accurately reflect his or her personal views about any and all of the subject securities or issuers, and (ii) no part of his or her compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed in this report.

Important Disclosures

Cowen and Company, LLC and or its affiliates make a market in the stock of Epizyme Inc securities.

Epizyme Inc has been client(s) of Cowen and Company, LLC in the past 12 months.

Cowen and Company, LLC and/or its affiliates expect to receive, or intend to seek, compensation for investment banking services in the next 3 months from Epizyme Inc.

Epizyme Inc is or was in the past 12 months a client of Cowen and Company, LLC; during the past 12 months, Cowen and Company, LLC provided IB services.

Cowen and Company, LLC and/or its affiliates received in the past 12 months compensation for investment banking services from Epizyme Inc.

Cowen and Company, LLC and/or its affiliates managed or co-managed a public offering of Epizyme Inc within the past twelve months.

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COWEN AND COMPANY RATING DEFINITIONS

Cowen and Company Rating System effective May 25, 2013

Outperform (1): The stock is expected to achieve a total positive return of at least 15% over the next 12 months

Market Perform (2): The stock is expected to have a total return that falls between the parameters of an Outperform and Underperform over the next 12 months

Underperform (3): Stock is expected to achieve a total negative return of at least 10% over the next 12 months

Assumption: The expected total return calculation includes anticipated dividend yield

Cowen and Company Rating System until May 25, 2013

Outperform (1): Stock expected to outperform the S&P 500

Neutral (2): Stock expected to perform in line with the S&P 500

Underperform (3): Stock expected to underperform the S&P 500

Assumptions: Time horizon is 12 months; S&P 500 is flat over forecast period

Cowen Securities, formerly known as Dahlman Rose & Company, Rating System until May 25, 2013

Buy – The fundamentals/valuations of the subject company are improving and the investment return is expected to be 5 to 15 percentage points higher than the general market return

Sell – The fundamentals/valuations of the subject company are deteriorating and the investment return is expected to be 5 to 15 percentage points lower than the general market return

Hold – The fundamentals/valuations of the subject company are neither improving nor deteriorating and the investment return is expected to be in line with the general market return

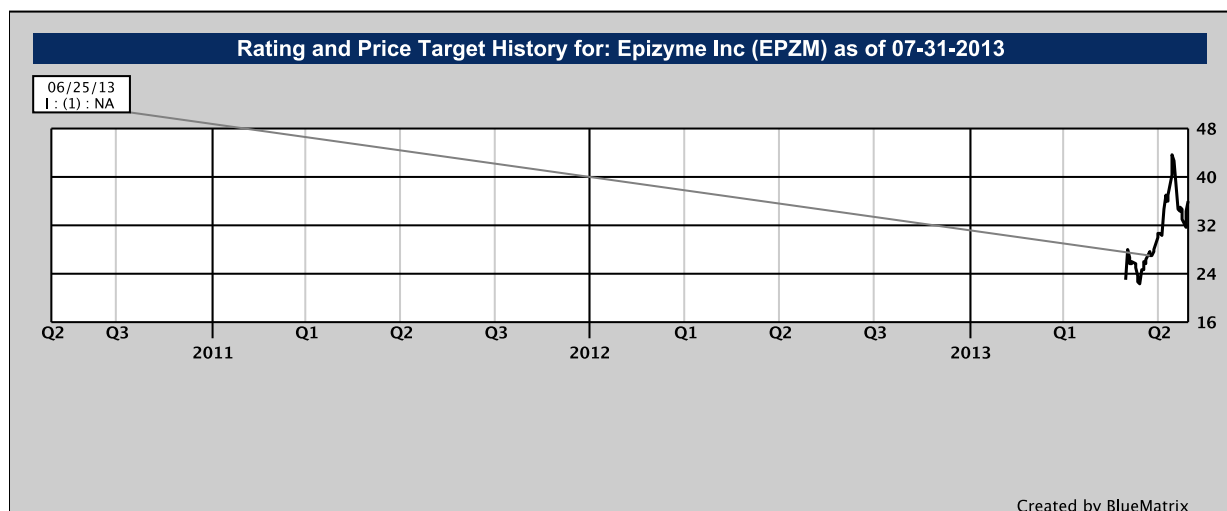
COWEN AND COMPANY RATING ALLOCATION

Distribution of Ratings/Investment Banking Services (IB) as of 06/30/13

Rating	Count	Ratings Distribution	Count	IB Services/Past 12 Months
Buy (a)	380	58.37%	48	12.63%
Hold (b)	247	37.94%	2	0.81%
Sell (c)	24	3.68%	1	4.17%

(a) Corresponds to "Outperform" rated stocks as defined in Cowen and Company, LLC's rating definitions. (b) Corresponds to "Market Perform" as defined in Cowen and Company, LLC's ratings definitions. (c) Corresponds to "Underperform" as defined in Cowen and Company, LLC's ratings definitions.

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Legend for Price Chart:

I = Initiation | 1 = Outperform | 2 = Market Perform | 3 = Underperform | T = Terminated Coverage | \$xx = Price Target | NA = Not Available