

# Epizyme, Inc. (EPZM)

Reports 1Q14 Results; Looking Forward to Late 2014

## MARKET DATA

Price	\$22.29
52-Week Range:	\$18.10 - \$45.72
Shares Out. (M):	33.0
Market Cap (\$M):	\$735.6
Average Daily Vol. (000):	184.0
Cash (M):	\$237
Cash/Share:	\$6.17
Enterprise Value (M):	\$620
Float (M):	28.7
LT Debt (M):	\$0
Cash (M): Reflects cash, equivalents, and short-term investments	
Source: Thomson Reuters and JMP Securities LLC	

**MARKET OUTPERFORM** | Price: \$22.29 | Target Price: \$40.00

## INVESTMENT HIGHLIGHTS

The initiation of a pediatric MLL-r Phase I trial with '5676 and collaboration milestone payments underscore 1Q14 progress; we reiterate our Market Outperform and \$40 price target on Epizyme based on our NPV SOTP and standardized CAGR methodologies. Epizyme continues to be a story driven by the development and clinical success with its targeted epigenetic therapy candidates EPZ-5676 and EPZ-6438 rather than one of earnings. Reported net loss of \$6.9MM, or (\$0.22) per share, for the quarter was better than our estimate of (\$0.30) and consensus of (\$0.44), on higher than anticipated collaboration revenue. EPZM finished the quarter with \$237MM in cash and cash equivalents, guiding to a cash runway into mid-2016 (see below for a review of 1Q14 results versus estimates; Figure 2). Progress to date since the 4Q13 quarterly update was punctuated by the initiation of a 40-patient '5676 Phase I trial in pediatric MLL-r leukemia, an additional \$4MM milestone payment related to the GSK collaboration, and patent issuances covering composition claims for both '5676 and '6438. EPZM reiterated 2H14 timing with respect to key data presentations from the Phase I '5676 expansion cohort in MLL-r and MLL-PTD leukemia and Phase I '6438 data in NHL (likely in conjunction with ASH, in our view).

**Review of 1Q14 results and changes to our model.** Collaboration revenue for the quarter of \$13.4MM, was above our estimate of \$10.9MM and consensus of \$8.5MM. Operating expenses for the quarter were \$20.3MM, comprising \$15.3MM in R&D expense (slightly below our \$16MM estimate), and \$5.0MM in SG&A (slightly above our \$4.2MM estimate). The company reported \$237MM in cash and cash equivalents as of March 31, encompassing net proceeds of \$101MM from a secondary financing in January and \$8MM in collaboration non-equity funding. Taking into account 1Q14 actual results and company guidance of net cash use of ~\$80MM in 2014, our R&D and SG&A estimates have been increased in the remaining quarters of 2014 and in subsequent years. In addition, forecast milestone payments related to collaboration programs with Eisai and CELG have been delayed one quarter to 4Q14 and 1Q15, respectively, in order to better reflect expected timing of POC and pivotal trial initiations with '6438 and '5676. Changes to our model are detailed in Figure 3.

**We believe 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

FY DEC		2013A	2014E	2015E
Revenue (\$M)	1Q	\$8.9	\$13.4A	--
	2Q	\$14.8	\$8.9	--
	3Q	\$8.4	\$4.9	--
	4Q	\$36.3	\$13.7	--
	<b>FY</b>	<b>\$68.5</b>	<b>\$40.9</b>	<b>\$73.0</b>
EPS	1Q	(\$4.24)	(\$0.22)A	--
	2Q	(\$0.25)	(\$0.51)	--
	3Q	(\$0.34)	(\$0.79)	--
	4Q	\$0.52	(\$0.68)	--
	<b>FY</b>	<b>(\$0.20)</b>	<b>(\$2.22)</b>	<b>(\$1.30)</b>
Previous FY		NC	\$0.25	NE
Source: Company reports and JMP Securities LLC				

## STOCK PRICE PERFORMANCE



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 6 to 12 months, as the potential for the company's pipeline comes into greater focus.

**FIGURE 1. Upcoming Catalysts**

Timing	Drug	Catalyst
2H14	EPZ-5676	MLL-PTD Phase 2 expansion cohort expected
2H14	EPZ-6438	NHL Phase 1 dose escalation data
2H14	EPZ-6438	EZH2+ NHL Phase 2 expected initiation
2H14	EPZ-6438	Synovial sarcoma Phase 2 expected initiation
1H15	EPZ-5676	Expected initiation of pivotal study in MLL-r and/or MLL-PTD
2015	EPZ-5676	Complete enrollment of MLL-r pediatric Phase I

Source: Epizyme press releases and presentations and SEC filings

**FIGURE 2. 1Q14 Results vs. JMP and Consensus Estimates**

1Q14 JMP Estimates vs. Consensus (\$MM, except where noted)	1Q14A	1Q14 JMP Estimates	1Q14 Street Consensus	Actual vs. JMP Estimates
<b>Total Collaboration Revenue</b>	13.4	10.9	8.5	2.5
<b>Operating Expenses</b>				
R&D	15.3	16.0		(0.7)
SG&A	5.0	4.2		0.8
<b>Total Operating Expenses (R&amp;D, SG&amp;A)</b>	20.3	20.2		0.1
<b>Operating Income (Loss)</b>	(6.9)	(9.3)	(12.7)	2.4
Non-operating income (expense)	0.0	0.0		0.0
<b>Earnings before Taxes</b>	(6.9)	(9.3)	(12.7)	2.4
Provision for income taxes (benefit)	0.0	0.0		
<b>Net Income (Loss)</b>	(6.9)	(9.3)	(12.1)	2.4
<b>Basic shares outstanding</b>	30.959	30.680		0.3
<b>Diluted shares</b>	30.959	30.680		0.3
<b>GAAP EPS Figures</b>				
<b>Basic EPS</b>	\$ (0.22)	\$ (0.30)	\$ (0.44)	0.1
<b>Diluted EPS</b>	\$ (0.22)	\$ (0.30)	\$ (0.44)	0.1

Source: JMP Securities LLC, Company filings

**FIGURE 3. Changes to Our Model**

Changes to Income Statement (\$MM, except where noted)	2Q14E		3Q14E		4Q14E		2014E		2015E	
	OLD	NEW	OLD	NEW	OLD	NEW	OLD	NEW	OLD	NEW
<b>Total Collaboration Revenue</b>	4.9	8.9	24.9	4.9	38.7	13.7	79.5	40.9	38.0	73.0
<b>Operating Expenses</b>										
R&D	12.0	19.5	11.5	23.5	12.5	28.0	52.0	86.3	55.0	89.0
SG&A	4.5	6.1	5.0	7.5	5.5	8.0	19.2	26.6	24.0	27.0
<b>Total Operating Expenses (R&amp;D, SG&amp;A)</b>	16.5	25.6	16.5	31.0	18.0	36.0	71.2	112.9	79.0	116.0
<b>Operating Income (Loss)</b>	(11.6)	(16.7)	8.4	(26.1)	20.7	(22.3)	8.3	(72.0)	(41.0)	(43.0)
Non-operating income (expense)										
<b>Earnings before Taxes</b>	(11.6)	(16.7)	8.4	(26.1)	20.7	(22.3)	8.3	(71.9)	(41.0)	(43.0)
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
<b>Net Income (Loss)</b>	(11.6)	(16.7)	8.4	(26.1)	20.7	(22.3)	8.3	(71.9)	(41.0)	(43.0)
<b>Basic shares outstanding</b>	32.948	32.948	32.972	32.972	32.997	32.997	32.399	32.399	33.083	33.083
<b>Diluted shares</b>	32.948	32.948	37.449	32.972	37.542	32.997	32.399	32.399	33.083	33.083

Source: JMP Securities LLC, Company filings

FIGURE 4. Updated Income Statement

Epizyme Income Statement (\$MM)	1Q14A	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>REVENUES</b>											
<b>Product Sales and Royalties</b>											
EPZ-5676 (DOT1L) US Sales						-	-	15.9	87.8	180.8	266.3
EPZ-6438 (EZH2) US Profit Share						-	-	7.9	53.9	134.7	232.7
EPZ-5676 (DOT1L) Ex-US Royalties						-	-	0.2	3.1	8.8	15.4
EPZ-6438 (EZH2) Ex-US Royalties						-	-	2.3	11.4	25.0	37.5
<b>Total Product Sales and Royalties</b>						0.0	0.0	26.3	156.1	349.2	552.0
<b>Total Collaboration Revenue</b>	13.4	8.9	4.9	13.7	40.9	73.0	45.8	102.5	40.0	42.5	15.0
<b>TOTAL REVENUE</b>	13.4	8.9	4.9	13.7	40.9	73.0	45.8	128.8	196.1	391.7	567.0
<b>COGS</b>					0.0	0.0	0.0	1.4	13.8	29.2	44.9
<b>Gross Profit</b>	13.4	8.9	4.9	13.7	40.9	73.0	45.8	127.4	182.3	362.5	522.1
<b>Operating Expenses</b>											
R&D	15.3	19.5	23.5	28.0	86.3	89.0	93.0	97.7	102.5	107.7	113.0
SG&A	5.0	6.1	7.5	8.0	26.6	27.0	30.0	45.0	47.3	49.6	52.1
<b>Total Operating Expenses (R&amp;D, SG&amp;A)</b>	20.3	25.6	31.0	36.0	112.9	116.0	123.0	142.7	149.8	157.3	165.1
<b>Operating Income (Loss)</b>	(6.9)	(16.7)	(26.1)	(22.3)	(72.0)	(43.0)	(77.2)	(13.8)	32.5	205.3	356.9
Non-operating income (expense)	0.0						0.0	(0.2)	(0.2)	(0.1)	0.4
<b>Earnings before Taxes</b>	(6.9)	(16.7)	(26.1)	(22.3)	(71.9)	(43.0)	(77.2)	(14.0)	32.3	205.2	357.3
Provision for income taxes (benefit)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.5	71.5
<i>Tax Rate(%)</i>	0%	0%	0%	0%	0%	0%	0%	0%	0%	10%	20%
<b>Net Income (Loss)</b>	(6.9)	(16.7)	(26.1)	(22.3)	(71.9)	(43.0)	(77.2)	(14.0)	32.3	184.7	285.9
<b>Basic shares outstanding</b>	30.959	32.948	32.972	32.997	32.4	33.1	33.3	33.5	33.7	34.0	34.2
<b>Diluted shares</b>	30.959	32.948	32.972	32.997	32.4	33.1	33.3	33.5	37.1	37.4	37.6
<b>GAAP EPS Figures</b>	<b>1Q14A</b>	<b>2Q14E</b>	<b>3Q14E</b>	<b>4Q14E</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
<b>Basic EPS</b>	\$ (0.22)	\$ (0.51)	\$ (0.79)	\$ (0.68)	\$ (2.22)	\$ (1.30)	\$ (2.32)	\$ (0.42)	\$ 0.96	\$ 5.44	\$ 8.36
<b>Diluted EPS</b>	\$ (0.22)	\$ (0.51)	\$ (0.79)	\$ (0.68)	\$ (2.22)	\$ (1.30)	\$ (2.32)	\$ (0.42)	\$ 0.87	\$ 4.94	\$ 7.60

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 share price.

**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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Market Outperform (MO): JMP Securities expects the stock price to outperform relevant market indices over the next 12 months.

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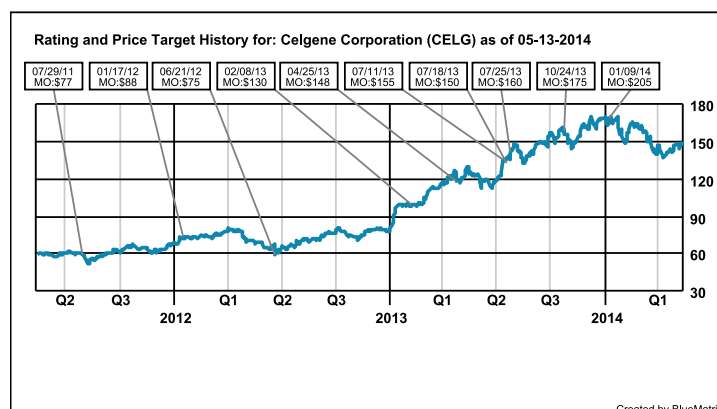
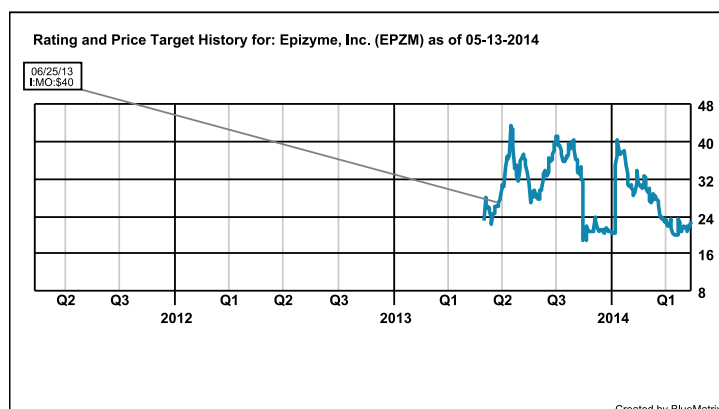
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JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	Regulatory Equivalent	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months	% of Co's With This Rating
MARKET OUTPERFORM	Buy	254	57.99%	Buy	254	57.99%	98	38.58%
MARKET PERFORM	Hold	136	31.05%	Hold	136	31.05%	17	12.50%
MARKET UNDERPERFORM	Sell	5	1.14%	Sell	5	1.14%	0	0%
COVERAGE IN TRANSITION		43	9.82%		43	9.82%	0	0%
<b>TOTAL:</b>		<b>438</b>	<b>100%</b>		<b>438</b>	<b>100%</b>	<b>115</b>	<b>26.26%</b>

### 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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**Jeffrey H. Spurr**  
**Director of Research**  
 (415) 835-3903

## RESEARCH PROFESSIONALS

### FINANCIAL SERVICES

#### Alternative Asset Managers

Devin Ryan	(212) 906-3578
Brian McKenna	(212) 906-3545

#### Commercial & Specialty Finance

Christopher York	(415) 835-8965
Hannah Kim, CFA	(415) 835-8962

#### Consumer Finance

David M. Scharf	(415) 835-8942
Jeremy Frazer	(312) 768-1796

#### Financial Processing & Outsourcing

David M. Scharf	(415) 835-8942
Jeremy Frazer	(312) 768-1796

#### Insurance

Matthew J. Carletti	(312) 768-1784
Christine Worley	(312) 768-1786

#### Investment Banks & Brokers

Devin Ryan	(212) 906-3578
Brian McKenna	(212) 906-3545

#### Mortgage Operating Companies

##### REITs: Agency, Hybrid, & Commercial Mortgage

Steven C. DeLaney	(404) 848-7773
Trevor Cranston, CFA	(415) 869-4431
Charter Robinson	(757) 613-8955
Benjamin Zucker	(212) 906-3529

### HEALTHCARE

#### Biotechnology

Liisa A. Bayko	(312) 768-1785
Heather Behanna, PhD	(312) 768-1795
Andrew Prigodich	(312) 768-1788
Jason N. Butler, PhD	(212) 906-3505
Caroline Palomeque	(212) 906-3509
Michael G. King, Jr.	(212) 906-3520
Eric Joseph, PhD	(212) 906-3514

#### Healthcare Services & Facilities

Peter L. Martin, CFA	(415) 835-8904
Aaron Hecht	(415) 835-3963
Arthur Kwok	(415) 835-8908

#### Life Science Tools & Diagnostics

J. T. Haresco, III, PhD	(415) 869-4477
Marie T. Casey, PhD	(415) 835-3955

#### Medical Devices

J. T. Haresco, III, PhD	(415) 869-4477
Marie T. Casey, PhD	(415) 835-3955

#### Medical Devices & Supplies

David Turkaly	(212) 906-3563
John Gillings	(212) 906-3564

### REAL ESTATE

#### Housing & Land Development

Peter L. Martin, CFA	(415) 835-8904
Aaron Hecht	(415) 835-3963
Bharathwajan Iyengar	(415) 835-3902

#### Lodging & Leisure

Robert A. LaFleur	(212) 906-3510
Whitney Stevenson	(212) 906-3538

#### Property Services

Mitch Germain	(212) 906-3546
Peter Lunenburg	(212) 906-3537

#### REITs: Healthcare, Residential, & Specialty

Peter L. Martin, CFA	(415) 835-8904
Aaron Hecht	(415) 835-3963
Arthur Kwok	(415) 835-8908

#### REITs: Office, Industrial, & Diversified

Mitch Germain	(212) 906-3546
Peter Lunenburg	(212) 906-3537

#### Residential Services

Peter L. Martin, CFA	(415) 835-8904
Aaron Hecht	(415) 835-3963
Bharathwajan Iyengar	(415) 835-3902

### TECHNOLOGY

#### Communications Equipment & Internet Security

Erik Suppiger	(415) 835-3918
John Lucia	(415) 835-3920

#### Internet & Digital Media

Ronald V. Josey III	(212) 906-3528
Andrew Boone	(415) 835-3957
Michael Wu	(415) 835-8996

#### Software

Patrick Walravens	(415) 835-8943
Peter Lowry	(415) 869-4418
Caitlin Schields	(415) 835-8960
Greg McDowell	(415) 835-3934

#### Wireless & Cloud Computing Technologies

Alex Gauna	(415) 835-8998
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## ADDITIONAL CONTACTS

**Thomas R. Wright**  
**Director of Equities**  
 (212) 906-3599

**Dan Wychulis**  
**Director of Institutional Sales**  
 (617) 235-8530

**600 Montgomery Street, Suite 1100**  
 San Francisco, CA 94111  
[www.jmpsecurities.com](http://www.jmpsecurities.com)