Epizyme Calls Buy into Pullback Ahead of Commercial Launch

Ticker/Price: EPZM $20.85

Analysis:

Epizyme (EPZM) with 2,500 August $25 calls bought to open $3.50 to $3.60 and follows 1,800 May $22.50 calls bought back on 12-6 that remain in OI. EPZM shares are back at the rising 50-day MA as well as 38.2% Fibonacci of the recent rally from the October lows around $10, a hot name in the biotech space. A move out of this downtrend back above $23 has room back to recent highs at $27 and then $35 extension. The $1.99B company trades 6.8X cash with limited debt and focuses on epigenetic medicines for patients with cancer. Their primary product is tazemetostat, an EZH2 inhibitor, that is being explored in non-Hodgkin's Lymphoma, follicular lymphoma, and others. EPZM believes their treatment is more selective and focused than the prior inhibitors like DZNep and has use cases across a number of blood disorders and solid tumors. They received approval on 1-23 for the treatment in epitheloid sarcoma with peak sales potential between $500M and $600M. Analysts have an average target for shares of $27. Cowen with a $36 PT recently noting that a clean label was a positive for the company and puts to bed prior secondary malignancy concerns. They also note that EPZM is well capitalized for a quick commercial launch. Citi has a $35 PT and thinks the approval was the first of several good news catalysts for the company including potential acceptance and potential priority review for follicular lymphoma filing by February 18 and potential approval with a broad label by year end 2020. The firm thinks EPZM is a prime takeover candidate and a deal could value them between $54-$64. Short interest is 9.8% and rising since June. Hedge fund ownership fell 3.85% in Q3.

Hawk Vision:

Hawk's Perspective: EPZM is an interesting name that is giving a nice risk/reward entry with the 50-day MA. I'd like to see it set up better but a couple clear near-term catalysts and like the M&A potential.

Confidence Ranking: $$