

Equity Research

July 3, 2014

Price: \$16.46 (07/2/2014)

Price Target: \$22.00

OUTPERFORM (1)

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Key Data

Symbol [NASDAQ: VCYT](#)

Market Cap (MM) [\\$348.5](#)

Company Quick Take

Two Additional Positive Coverage Policies For Afirma GEC Announced

The Cowen Insight

This morning, Veracyte announced additional positive coverage policies for Afirma GEC from two Blue Cross Blue Shield affiliated organizations, representing 7.6MM lives in total. Subsequent to today's announcement, Afirma GEC is now covered for >135MM lives. Reiterate Outperform rating and top small cap pick status.

Veracyte announced that two Blue Cross Blue Shield (BCBS) affiliated organizations, Highmark Inc. and Horizon Blue Cross Blue Shield of New Jersey, have issued positive coverage policies for the company's Afirma GEC test. Further, both BCBS affiliated organizations have classified Afirma GEC as medically necessary for use in assessing thyroid nodule fine needle aspiration biopsies that are indeterminate following traditional cytopathology review.

We believe that Veracyte continues to make good progress in obtaining positive coverage policies for Afirma GEC as the first BCBS affiliated organization issued positive coverage policies for the test just earlier in 2014. Subsequent to today's announcement, there are now >135MM lives covered for Afirma GEC, an increase from >125MM at the time of the Q1 earnings report. Reiterate Outperform and top small cap pick status.

Valuation Methodology And Risks

Valuation Methodology

Life Science & Diagnostic Tools:

Price targets are based on several methodologies which may include: analysis of market risk, growth rate, revenue stream, discounted cash flows (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount) / average group EV/EBITDA, premium (discount) / average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

Investment Risks

Life Science & Diagnostic Tools:

Risks to the Medical and Life Science Tools sector may include: reduction or delay in research and development budgets and government funding, reduced or delayed purchasing from health care / hospital customers, increased or extended regulatory hurdles or processes for regulated products, increased dependence on volatile emerging markets for revenues and profitability, and general macroeconomic challenges.

Risks To The Price Target

Risks include but are not limited to: difficulty in expanding payer coverage and entering into payer contracts; reimbursement prices lower than expected; delays or weaker than expected clinical data in support of new products; competition from other potential molecular diagnostic players; weaker than expected uptake in international markets; Genzyme partnership could become "relatively" expensive; and delivering on margin / profitability targets.

Addendum

Stocks Mentioned In Important Disclosures

| Ticker | Company Name |
|--------|--------------|
| VCYT | Veracyte |

Analyst Certification

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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 Dahlgren 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 Definitions

Distribution of Ratings/Investment Banking Services (IB) as of 06/30/14

| Rating | Count | Ratings Distribution | Count | IB Services/Past 12 Months |
|----------|-------|----------------------|-------|----------------------------|
| Buy (a) | 417 | 58.57% | 94 | 22.54% |
| Hold (b) | 279 | 39.19% | 7 | 2.51% |
| Sell (c) | 16 | 2.25% | 0 | 0.00% |

(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.

Note: "Buy", "Hold" and "Sell" are not terms that Cowen and Company, LLC uses in its ratings system and should not be construed as investment options. Rather, these ratings terms are used illustratively to comply with FINRA and NYSE regulations.

Veracyte Rating History as of 07/02/2014

powered by: BlueMatrix



Legend for Price Chart:

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

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