

Veracyte, Inc.

More Blues With Positive Coverage Decisions for the Afirma GEC

- On Thursday, July 3, Veracyte announced positive coverage decision for two additional Blue Cross Blue Shield-affiliated organizations, Highmark Inc. and Horizon Blue Cross Blue Shield of New Jersey (BCBS NJ). These positive coverage decisions bring the total number of lives covered by Blue Cross Blue Shield plans to 10 million and more than 135 million in total covered lives nationwide for the Afirma GEC. We are encouraged by the continued positive coverage decisions, which point to the strong value added from the Afirma GEC to patients, physicians, and payers.
- The positive coverage decisions by Highmark comes on the back of preliminary American Thyroid Association guidelines suggesting the use of molecular testing to guide decision making following indeterminate fine-needle aspiration biopsy results.
- The stock is trading at 4 times 2015 sales and 2.4 times 2016 sales. Discounting our 2016 revenue estimate of \$115 million by 20% and applying a multiple of about 3.5 times enterprise value to sales implies a stock of roughly \$20 (22% upside from current levels). We continue to like the stock at these levels given the rapid payer coverage decision (exhibit 1 and 2, on the following page), guidelines inclusion, and clear value-add that the Afirma GEC brings to the overall system; it reduces unnecessary surgeries for patients, allows physicians to make best treatment decisions, and saves payers cost by reducing overtreatment. Thus, we maintain our Outperform rating.

July 03, 2014

Stock Rating: **Outperform**
Company Profile: **Aggressive Growth**

Symbol: VCYT (NASDAQ)
Price: \$16.19 (52-Wk.: \$11-\$19)
Market Value (mil.): \$348
Fiscal Year End: December
Long-Term EPS Growth Rate:
Dividend/Yield: None

	2013A	2014E	2015E
Estimates			
EPS FY	\$-1.22	\$-1.36	\$-1.15
CY		\$-1.36	\$-1.15
Sales (mil.)	22	40	71
Valuation			
FY P/E	NM	NM	NM
CY P/E		NM	NM

Trading Data (FactSet)	
Shares Outstanding (mil.)	21
Float (mil.)	10
Average Daily Volume	57,812

Financial Data (FactSet)	
Long-Term Debt/Total Capital (MRQ)	0.0
Book Value Per Share (MRQ)	2.4
Return on Equity (TTM)	-83.4

Two-Year Price Performance Chart



Sources: FactSet, William Blair & Company estimates

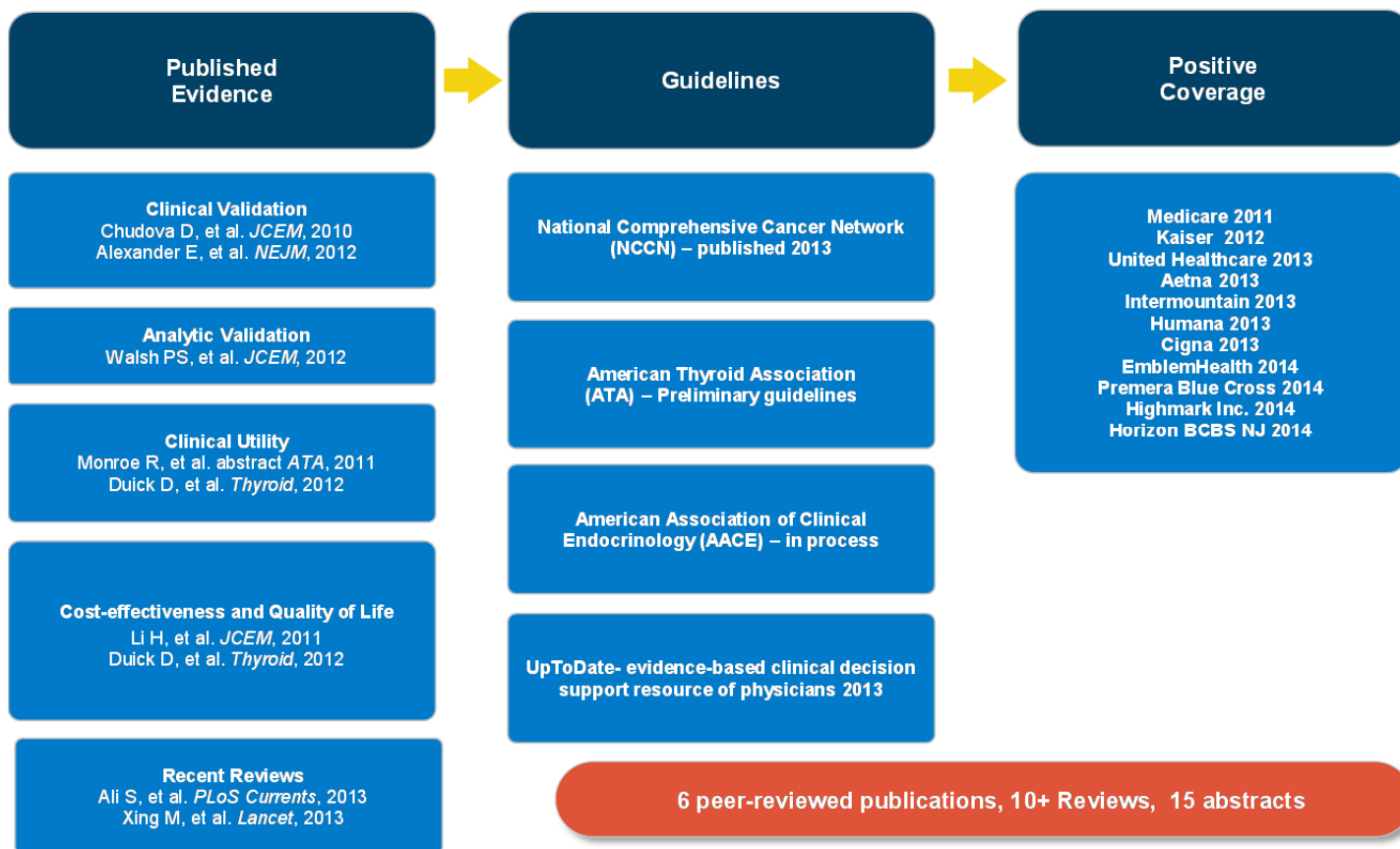
Veracyte is a diagnostics company that specializes in the field of molecular cytology transforming patient care and aims to save the healthcare system unnecessary costs from overtreatment of diseases.

Amanda Murphy, CFA
+1 312 364 8951
amurphy@williamblair.com

JP McKim
+1 312 364 8991
jpmckim@williamblair.com

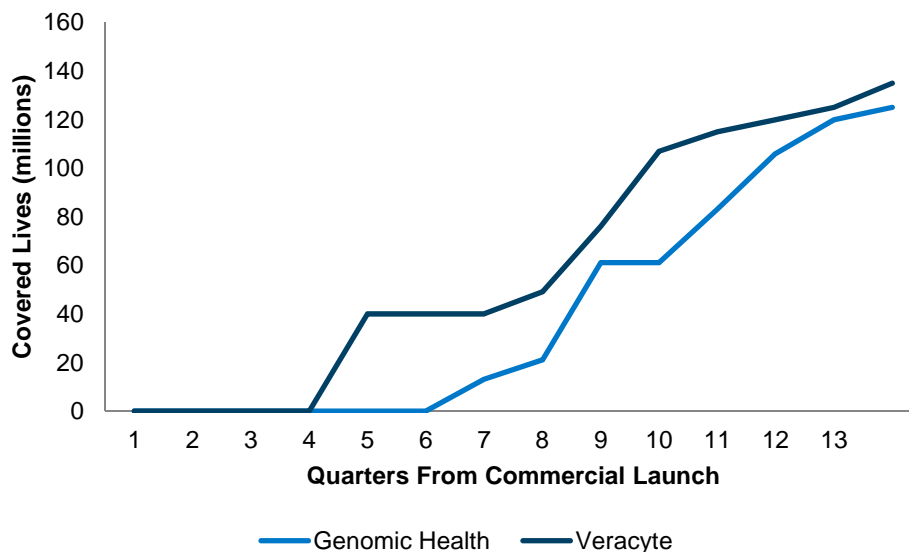
Please consult pages 3-4 of this report for all disclosures. Analyst certification is on page 3. William Blair & Company, L.L.C. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as a single factor in making an investment decision.

Exhibit 1
Published Evidence Drives Guidelines and Positive Coverage



Sources: Company reports and William Blair & Company, L.L.C. estimates

Exhibit 2
Rapid Payer Coverage



Sources: William Blair & Company, L.L.C. estimates

IMPORTANT DISCLOSURES

William Blair was a manager or co-manager of a public offering of equity securities for Veracyte, Inc. within the prior 12 months.

William Blair is a market maker in the security of Veracyte, Inc. and may have a long or short position.

William Blair intends to seek investment banking compensation in the next three months from Veracyte, Inc.

Within the past 12 months William Blair has provided or is providing investment banking services to or has an investment services relationship with Veracyte, Inc.

Additional information is available upon request.

This report is available in electronic form to registered users via R*Docs™ at www.rdocs.com or www.williamblair.com.

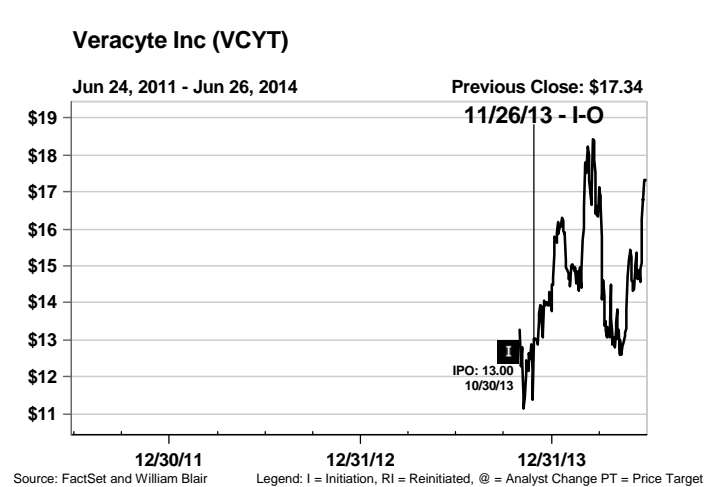
Please contact us at +1 800 621 0687 or consult williamblair.com/Research-and-Insights/Equity-Research/Coverage.aspx for all disclosures.

Amanda Murphy attests that 1) all of the views expressed in this research report accurately reflect his/her personal views about any and all of the securities and companies covered by this report, and 2) no part of his/her compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed by him/her in this report. We seek to update our research as appropriate, but various regulations may prohibit us from doing so. Other than certain periodical industry reports, the majority of reports are published at irregular intervals as deemed appropriate by the analyst.

DOW JONES: 16,976.24

S&P 500: 1,974.62

NASDAQ: 4,457.73



Current Rating Distribution (as of 06/30/14)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	67	Outperform (Buy)	16
Market Perform (Hold)	30	Market Perform (Hold)	2
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

The compensation of the research analyst is based on a variety of factors, including performance of his or her stock recommendations; contributions to all of the firm's departments, including asset management, corporate finance, institutional sales, and retail brokerage; firm profitability; and competitive factors.

OTHER IMPORTANT DISCLOSURES

Stock ratings, price targets, and valuation methodologies: William Blair & Company, L.L.C. uses a three-point system to rate stocks. Individual ratings and price targets (where used) reflect the expected performance of the stock relative to the broader market (generally the S&P 500, unless otherwise indicated) over the next 12 months. The assessment of expected performance is a function of near-, intermediate-, and long-term

company fundamentals, industry outlook, confidence in earnings estimates, valuation (and our valuation methodology), and other factors. Outperform (O) – stock expected to outperform the broader market over the next 12 months; Market Perform (M) – stock expected to perform approximately in line with the broader market over the next 12 months; Underperform (U) – stock expected to underperform the broader market over the next 12 months; not rated (NR) – the stock is not currently rated. The valuation methodologies used to determine price targets (where used) include (but are not limited to) price-to-earnings multiple (P/E), relative P/E (compared with the relevant market), P/E-to-growth-rate (PEG) ratio, market capitalization/revenue multiple, enterprise value/EBITDA ratio, discounted cash flow, and others.

Company Profile: The William Blair research philosophy is focused on quality growth companies. Growth companies by their nature tend to be more volatile than the overall stock market. Company profile is a fundamental assessment, over a longer-term horizon, of the business risk of the company relative to the broader William Blair universe. Factors assessed include: 1) durability and strength of franchise (management strength and track record, market leadership, distinctive capabilities); 2) financial profile (earnings growth rate/consistency, cash flow generation, return on investment, balance sheet, accounting); 3) other factors such as sector or industry conditions, economic environment, confidence in long-term growth prospects, etc. Established Growth (E) – Fundamental risk is lower relative to the broader William Blair universe; Core Growth (C) – Fundamental risk is approximately in line with the broader William Blair universe; Aggressive Growth (A) – Fundamental risk is higher relative to the broader William Blair universe.

The ratings, price targets (where used), valuation methodologies, and company profile assessments reflect the opinion of the individual analyst and are subject to change at any time.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies—to our clients and our trading desks—that are contrary to opinions expressed in this research. Certain outstanding reports may contain discussions or investment opinions relating to securities, financial instruments and/or issuers that are no longer current. Always refer to the most recent report on a company or issuer before making an investment decision. Our asset management and trading desks may make investment decisions that are inconsistent with recommendations or views expressed in this report. We will from time to time have long or short positions in, act as principal in, and buy or sell the securities referred to in this report. Our research is disseminated primarily electronically, and in some instances in printed form. Electronic research is simultaneously available to all clients. This research is for our clients only. No part of this material may be copied or duplicated in any form by any means or redistributed without the prior written consent of William Blair & Company, L.L.C.

THIS IS NOT IN ANY SENSE A SOLICITATION OR OFFER OF THE PURCHASE OR SALE OF SECURITIES. THE FACTUAL STATEMENTS HEREIN HAVE BEEN TAKEN FROM SOURCES WE BELIEVE TO BE RELIABLE, BUT SUCH STATEMENTS ARE MADE WITHOUT ANY REPRESENTATION AS TO ACCURACY OR COMPLETENESS OR OTHERWISE. OPINIONS EXPRESSED ARE OUR OWN UNLESS OTHERWISE STATED. PRICES SHOWN ARE APPROXIMATE.

THIS MATERIAL HAS BEEN APPROVED FOR DISTRIBUTION IN THE UNITED KINGDOM BY WILLIAM BLAIR INTERNATIONAL, LIMITED, REGULATED BY THE FINANCIAL CONDUCT AUTHORITY (FCA), AND IS DIRECTED ONLY AT, AND IS ONLY MADE AVAILABLE TO, PERSONS FALLING WITHIN COB 3.5 AND 3.6 OF THE FCA HANDBOOK (BEING “ELIGIBLE COUNTERPARTIES” AND “PROFESSIONAL CLIENTS”). THIS DOCUMENT IS NOT TO BE DISTRIBUTED OR PASSED ON TO ANY “RETAIL CLIENTS.” NO PERSONS OTHER THAN PERSONS TO WHOM THIS DOCUMENT IS DIRECTED SHOULD RELY ON IT OR ITS CONTENTS OR USE IT AS THE BASIS TO MAKE AN INVESTMENT DECISION.

“William Blair” and “R*Docs” are registered trademarks of William Blair & Company, L.L.C. Copyright 2014, William Blair & Company, L.L.C. All rights reserved.