

Life Sciences Technology

| | |
|-----------------------|------------------|
| Price: | \$8.66 |
| Fair Value Estimate: | \$25.00 |
| 52-Week Range: | \$8.56 - \$19.00 |
| Market Cap (MM): | \$186 |
| Shr.O/S-Diluted (mm): | 21.5 |
| Average Daily Volume: | 120,219 |
| Book Value: | \$2.12 |
| Yield: | 0.0% |
| Cash/Share: | \$(4.61) |
| FCF Yield: | (75.1)% |
| Debt/Cap: | 8% |

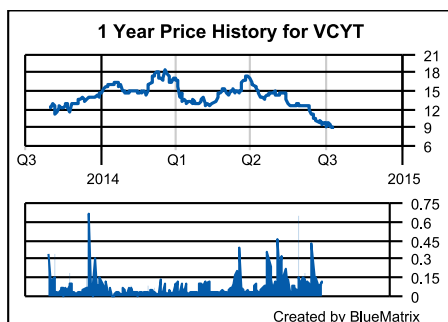
| | | | |
|------------|-----------|-----------|-----------|
| FYE: Dec | 2014E | 2015E | 2016E |
| EPS: | \$(1.23)E | \$(0.80)E | \$(0.20)E |
| Prior EPS: | NC | NC | NC |
| Consensus | -0.34 | -1.02 | -0.39 |
| P/E Ratio: | NA | NA | NA |

Quarterly EPS:

| | | | |
|----|-----------|----|----|
| Q1 | \$(0.32)A | NA | NA |
| Q2 | \$(0.31)A | NA | NA |
| Q3 | \$(0.32)E | NA | NA |
| Q4 | \$(0.28)E | NA | NA |

Quarterly Revenue (M):

| | | | |
|-------|-------|-------|--------|
| Q1 | \$8A | NA | NA |
| Q2 | \$9A | NA | NA |
| Q3 | \$10E | NA | NA |
| Q4 | \$14E | NA | NA |
| Year: | \$40E | \$72E | \$115E |



October 10, 2014

Veracyte, Inc.

(VCYT) - BUY

Widening moat; Visibility improving

PORTFOLIO MANAGER BRIEF

We are incrementally positive on the long term potential of Veracyte after the company's investor day in New York yesterday afternoon. The Allegro acquisition in addition to the 2H15 commercial release of its lung cancer diagnostic presents an intriguing opportunity for investors. The tests enable clinicians to stratify patients, which is vital in the evolving pulmonary market. Furthermore, the announced execution of two commercial contracts will increase visibility and improve cash collection. We would acquire shares on further weakness.

ANALYST NOTES

- **Two commercial payer contracts.** Veracyte announced the execution of commercial payor contracts with UnitedHealthcare and Cigna effective the end of 2014, enabling accrual accounting and standard reimbursement. This positive announcement improves visibility, enhances adoption, and reduces the cost burden on patients. We estimate 80 million of the company's 135 million covered lives are now in-network.
- **Allegro Diagnostics acquisition enhances VCYT's moat.** Evolving guidelines could result in a step function in the number of annual bronchoscopies. Currently, 250-300k are performed per year. All indications support current and prior, habitual smokers, 8 million individuals, being added to CT screening guidelines. Many would benefit from Allegro's genetic technology because smoking alters epithelial cell gene expression.
- **Evolving Idiopathic Pulmonary Fibrosis (IPF) market.** With 5-year survival rates <30% and prior therapies resulting in higher mortality rates, the 175-200k IPF patients diagnosed per year in the US and Europe have few options. However, dynamics are changing with potential approval of two promising phase III therapeutics. Expecting to launch a molecular diagnostic in 2016, VCYT is primed to benefit from this evolving landscape.
- We walked away from the investor day impressed by management and the company's portfolio. Veracyte's GEC continues to gain endocrinologist mind-share and will only see accelerated adoption with the commercial contracts announcement. In addition, the Allegro acquisition and launch of a lung cancer diagnostic in 2H15 will further support the company's differentiated approach to answering time-sensitive clinical questions.

- We reiterate our BUY rating and fair value estimate of \$25. Leveraging its expertise in molecular cytology, Veracyte is developing a novel portfolio of molecular diagnostics that will remove diagnostic ambiguity and lead to more efficient and effective patient care.

ISSUES TO CONSIDER

| Key Issue | Our Position | Timing | Impact |
|-----------|--------------|--------|--------|
| | | | |
| | | | |
| | | | |

FIVE-YEAR VALUATION

| Historical Multiples - Premium to Comps | | | | | |
|--|---------|-------------------------------|-------|--------------------|----------------------|
| Current vs 5 yr Average Historical Premium | | 5 Yr Historical Premium Range | | Implied @ Hist Avg | |
| Metric | Current | Low | High | Average | Multiple Price (USD) |
| Current Price | | | | | \$8.66 |
| NTM/PE | N/A | N/A | N/A | N/A | N/A |
| NTM EV/EBITDA | -5.3x | N/A | N/A | N/A | N/A |
| NTM EV/FCF | N/A | -0.3x | -0.3x | -0.3x | N/A |
| NTM EV/REV | 11.0x | 11.0x | 11.0x | 11.0x | \$4.95 |
| Price/Book | 4.1x | 4.1x | 8.2x | 6.0x | \$12.67 |

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Paul Knight, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

Janney Montgomery Scott LLC ("Janney") Equity Research Disclosure Legend

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from Veracyte, Inc. in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

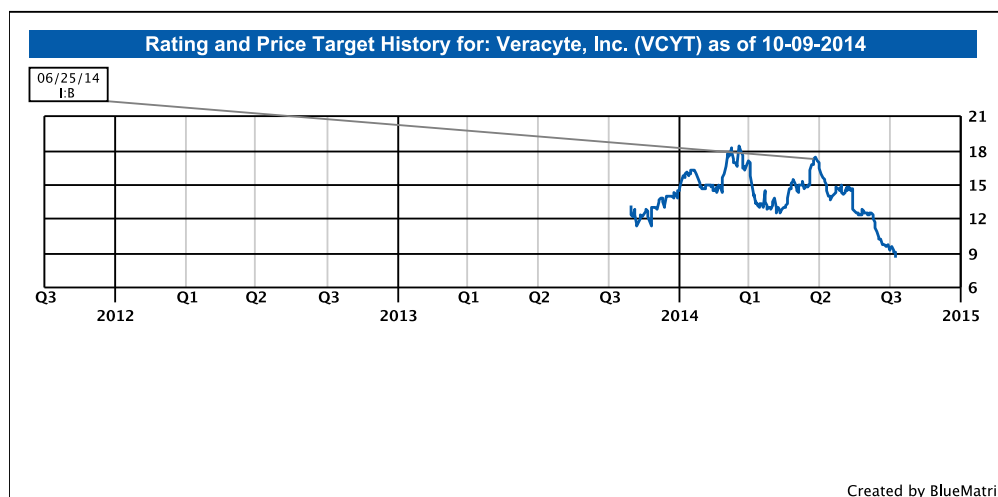
Definition of Ratings

BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 6/30/14

| Rating | Count | Percent | IB Serv./Past 12 Mos. | |
|-------------|-------|---------|-----------------------|---------|
| | | | Count | Percent |
| BUY [B] | 207 | 53.80 | 53 | 25.60 |
| NEUTRAL [N] | 176 | 45.70 | 28 | 15.90 |
| SELL [S] | 2 | 0.50 | 0 | 0.00 |

*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

Other Disclosures

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