

Equity Research

May 9, 2014

Price: \$12.58 (05/8/2014)

Price Target: \$22.00

OUTPERFORM (1)

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Key Data

Symbol	NASDAQ: VCYT
52-Week Range:	\$19.00 - 10.88
Market Cap (MM):	\$266.3
Net Debt (MM):	\$(14.0)
Cash/Share:	\$20.97
Enterprise Value (MM):	\$334.7
ROIC:	NA
ROE (LTM):	NA
BV/Share:	\$(77.15)
Dividend:	NA

FY (Dec)	2013E	2014E	2015E
Revenue (MM)			
Q1	\$4.4A	\$7.5A	\$17.5
Prior Q1	-	\$7.2	\$17.1
Q2	\$5.1A	\$9.2	\$20.4
Prior Q2	-	\$9.1	\$19.8
Q3	\$5.6A	\$10.3	\$21.9
Prior Q3	-	\$10.1	\$21.3
Q4	\$6.8A	\$15.0	\$23.1
Prior Q4	-	\$14.5	\$22.3
Year	\$21.9A	\$42.0	\$82.9
Prior Year	-	\$41.0	\$80.5
EV/S	15.3x	8.0x	4.0x

Earnings Per Share

Year	\$(6.15)A	\$(1.18)	\$(0.61)
Prior Year	-	\$(1.06)	\$(0.54)
P/E	NM	NM	NM
Consensus EPS	\$(1.23)	\$(1.23)	\$(0.80)
Prior Year	-	-	\$(0.81)

Consensus source: Thomson Reuters

Earnings Update

Another Good Quarter; Growth Outlook Even Better Now

The Cowen Insight

Veracyte reported a strong revenue and volume growth quarter. Importantly, updates on reimbursement/coverage decisions, new products, sales force productivity, and international expansion provide us increased conviction that Veracyte will meet, if not exceed, full year expectations. Veracyte remains a top smaller cap pick for 2014. Reiterate Outperform.

Strong Revenue Quarter; FNA Volumes In Line

Q1 revenue of \$7.5MM (+71% Y/Y) was \$0.3MM ahead of consensus and our forecast. FNA volume of 14,373 (+34% Y/Y) was about in line with our forecast. Upside was generated in spite of some weather challenges. Strong revenue growth was noted to be driven by continued adoption, and increased coverage and reimbursement for Afirma GEC. New coverage decisions since last quarterly update increased the number of covered lives from >120MM to >125MM. Further, Veracyte received its first positive coverage policy decision from a Blue Cross plan.

Well-Positioned For Growth Acceleration Given Encouraging Updates...

Veracyte provided several updates which we believe positions the company well for revenue and volume acceleration over the course of 2014 and beyond; these include the announcement of the company's first international market entry in Brazil earlier this week, acceleration of sales force additions, increasing amount of covered lives, and solid progress with penetrating institutional accounts.

...Revenue and Volume Guidance Reaffirmed But Bias Clearly To Upside

F14 revenue and volume guidance of \$38-43MM and 76-83K, respectively, were reaffirmed. The percentage of Afirma tests to FNAs received was increased from 18-20% to 20-22% due to the increase of samples submitted directly for GEC testing from academic institutions and institutional customers. While we believe it is prudent for a small and newly public company to maintain revenue and volume guidance at this stage, the bias is clearly to the upside relative to guidance, especially in context of the updates mentioned above.

Veracyte Remains A Top Smaller Cap Pick For 2014

Veracyte currently trades at a ~40% discount to a peer group including ICEL, FLD, FMI, OXFD, GHDX, and MYGN on a '15-16E EV/sales basis; the discount actually increased (was ~25%) since the last quarterly update. Veracyte reported another strong update which increased our conviction in the company's ability to accelerate growth and potentially exceed current guidance. Therefore, we believe Veracyte deserves an at least inline multiple, and arguably, a premium relative to the peer group. Veracyte remains a top smaller cap pick for 2014. Reiterate Outperform.

At A Glance

Our Investment Thesis

Through a series of clinical validity, utility, and health economics studies, Veracyte obtained National Comprehensive Cancer Network guideline recommendations as well as several positive payor coverage decisions, including Medicare, United, Aetna, and Humana, covering >125MM lives in the US. We believe Veracyte is well-positioned to gain additional payor coverage and physician adoption over the next several years. Veracyte shares trade at a significant discount of ~40% on a '15-16E EV/sales basis, relative to a peer group that includes ICEL, FLDM, FMI, GHDX, OXFD and MYGN. Given the company's strong management team, the clear unmet need addressed by Afirma, a developing pipeline, a relatively cheap valuation, robust growth over the next several years, and the potential for upside relative to expectations, Veracyte is one of our top 2014 smaller cap picks.

Forthcoming Catalysts

- Insurance coverage decisions
- Conversion to contracted lives from covered lives
- Guideline inclusion
- Pipeline
- Strategic developments
- Quarterly earnings reports

Base Case Assumptions

- FNA and GEC volume growth ahead of expectations
- Total lives under coverage continues to expand
- New product introductions on track
- Some conversions to contracted lives from covered lives in F14

Upside Scenario

- FNA and GEC volume growth well ahead of expectations
- OUS launch starts to gain momentum
- Better than expected ASPs
- Additional guidelines inclusions drive further adoption
- More conversions to contracted lives from covered lives than expected in F14

Downside Scenario

- FNA and GEC volume growth below expectations
- Total covered lives continue to expand, but at a slower pace
- New product launches delayed
- Competition emerges

Price Performance



Source: Bloomberg

Company Description

Veracyte is a molecular cytology-focused diagnostic company that currently markets the Afirma GEC test used to reduce the number of unnecessary thyroid surgeries in patients suspected of having thyroid cancer. Since the initial commercial launch of Afirma GEC test in Jan 2011, Veracyte has processed >50,000 Fine Needle Aspiration (FNA) based cytopathology samples, and >10,000 GECs. Veracyte currently has 3 additional products under development, including Afirma Malignant GEC (launch expected in Q2:14), Idiopathic Pulmonary Fibrosis, and Lung Cancer Diagnostic test.

Analyst Top Picks

	Ticker	Price (05/8/2014)	Price Target	Rating
Illumina	ILMN	\$139.92	\$195.00	Outperform
Thermo Fisher Scientific	TMO	\$115.63	\$125.00	Outperform

Figure 1 Veracyte (VCYT) Earnings Snapshot

Cowen vs. Consensus (\$MM, except EPS)					
	Q1:14E				
	Q1:13A	Cowen	Consensus	Q1:14A	Prior Guidance
Revenue	\$4.4	\$7.2	\$7.2	\$7.5	MAR 18: FY14: \$38-43MM; FNA volumes of 76-83K
Gross Margin	36.7%	49.0%	NM	51.8%	
Operating Margin	(134.4%)	(86.4%)	NM	(87.9%)	
EPS	(\$8.23)	(\$0.27)	NM	(\$0.32)	
Income Statement (\$MM, except EPS)					
	Q1:13A	Q4:13A	Q1:14E	Q1:14A	Comments
Revenue	\$4.4	\$6.8	\$7.2	\$7.5	Revenue was \$0.3MM above consensus and our forecast. Despite weather having an impact on revenue, FNA volume and revenue grew robustly Y/Y driven by continued adoption, better than expected sales force productivity, and increased coverage and reimbursement for Afirma GEC.
Reported Growth (Y/Y)	198.8%	53.4%	65.3%	70.5%	
Gross Profit	\$1.6	\$3.4	\$3.6	\$3.9	The timing of revenue recognition complicates the interpretation of gross margin, but we believe underlying gross margin is improving due to volume leverage and improved efficiencies.
Margin	36.7%	49.2%	49.0%	51.8%	
R&D	\$2.0	\$1.9	\$2.0	\$2.1	R&D was \$0.1MM above our forecast.
% of sales	45.8%	27.3%	27.5%	28.4%	
Growth Y/Y	35.7%	8.6%	(0.8%)	5.8%	
SG&A	\$5.5	\$7.3	\$7.8	\$8.3	SG&A was \$0.5MM ahead of our forecast - it appears Veracyte accelerated some sales force hires. We are encouraged by this in context of revenue growth.
% of sales	125.3%	106.2%	107.9%	111.3%	
Growth Y/Y	84.3%	38.2%	42.4%	51.4%	
Operating Profit	(\$5.9)	(\$5.8)	(\$6.3)	(\$6.6)	
Margin	(134.4%)	(84.3%)	(86.4%)	(87.9%)	
Non-Operating Items	\$1.0	\$0.1	\$0.0	\$0.1	
Pre-Tax Income	(\$6.9)	(\$5.9)	(\$6.3)	(\$6.7)	
Taxes	\$0.0	\$0.0	\$0.0	\$0.0	
Rate	0.0%	0.0%	0.0%	0.0%	
Net Income	(\$6.9)	(\$5.9)	(\$6.3)	(\$6.7)	
Margin	(157.2%)	(86.2%)	(86.4%)	(89.3%)	
Earnings Per Share	(\$8.23)	(\$0.42)	(\$0.27)	(\$0.32)	
Growth (Y/Y)	NM	NM	NM	NM	
Share Count (MM)	1	14	23	21	

Source: Company Reports, Thomson One, and Cowen and Company.

Figure 2 Veracyte (VCYT) Revenue Model

(MM, except EPS)	Q1:13	Q2:13	Q3:13	Q4:13	Q1:14	Q2:14E	Q3:14E	Q4:14E	Q1:15E	Q2:15E	Q3:15E	Q4:15E	2013	2014E	2015E	2016E	2017E	2018E	5-yr CAGR	Comments
TOTAL REVENUE	\$4.4	\$5.1	\$5.6	\$6.8	\$7.5	\$8.2	\$10.3	\$15.0	\$17.5	\$20.4	\$21.9	\$23.1	\$21.9	\$42.0	\$62.9	\$122.3	\$148.4	\$171.5	50.9%	MAR 18: FY14: \$38-43MM; FNA volumes of 76-83K
% Growth - Y/Y	199%	104%	74%	53%	71%	81%	85%	119%	134%	122%	112%	54%	88.2%	91.7%	97.6%	47.5%	22.1%	14.8%		
% of sales from FNA	30%	30%	28%	28%	28%	23%	25%	19%	21%	18%	18%	18%	29%	23%	19%	17%	18%	16%		
% of sales from GEC	70%	70%	72%	72%	72%	77%	75%	81%	79%	82%	82%	82%	71%	77%	81%	83%	82%	84%		
Medicare Revenue	\$1.6	\$2.0	\$1.9	\$2.2	\$2.4	\$2.8	\$2.9	\$3.6	\$3.5	\$3.7	\$3.8	\$4.9	\$7.7	\$11.7	\$15.9	\$20.5	\$24.4	\$29.1		
% from Medicare	37%	39%	34%	32%	31%	31%	28%	24%	20%	18%	17%	21%	35.0%	27.9%	19.2%	16.8%	16.3%	17.0%		
US CYTOPATHOLOGY REVENUE (FNA)	\$1.3	\$1.5	\$1.6	\$1.9	\$2.1	\$2.1	\$2.5	\$2.9	\$3.6	\$3.7	\$3.9	\$4.2	\$6.3	\$9.6	\$15.5	\$20.3	\$26.5	\$27.1	33.9%	
% Growth	258.5%	145.2%	94.3%	71.8%	59.1%	39.0%	62.0%	50.7%	73.9%	76.5%	52.9%	46.6%	117.3%	52.4%	60.7%	31.0%	30.9%	2.0%		
% of Total Revenue	30.0%	30.0%	28.0%	28.0%	28.0%	23.0%	24.6%	19.3%	20.8%	18.3%	17.7%	18.3%	28.9%	23.0%	18.7%	16.6%	17.8%	15.8%		
GEC REVENUE (AFIRMA)	\$3.1	\$3.5	\$4.0	\$4.9	\$5.4	\$7.1	\$7.8	\$12.1	\$13.9	\$16.6	\$18.1	\$18.9	\$15.6	\$32.3	\$67.4	\$102.0	\$122.9	\$144.4	56.1%	
% Growth	178.9%	90.7%	66.6%	47.3%	75.4%	99.0%	93.4%	145.5%	157.8%	135.5%	131.8%	56.1%	78.5%	107.6%	108.6%	51.3%	20.4%	17.5%		
% of Total Revenue	70.0%	70.0%	72.0%	72.0%	72.0%	77.0%	75.4%	80.7%	79.2%	81.7%	82.3%	81.7%	71.1%	77.0%	81.3%	83.4%	82.2%	84.2%		

Source: Company Reports and Cowen and Company.

Figure 3 Veracyte (VCYT) Income Statement

(MM, except EPS)	Q1:13	Q2:13	Q3:13	Q4:13	Q1:14	Q2:14E	Q3:14E	Q4:14E	Q1:15E	Q2:15E	Q3:15E	Q4:15E	2013	2014E	2015E	2016E	2017E	2018E	5-yr CAGR	Comments	
Net sales	\$4.4	\$5.1	\$5.6	\$6.8	\$7.5	\$9.2	\$10.3	\$15.0	\$17.5	\$20.4	\$21.9	\$23.1	\$21.9	\$42.0	\$82.9	\$122.3	\$149.4	\$171.5	50.9%	MAY 8: FY14: \$38-43MM; FNA volumes of 76-83K (reaffirmed)	
Growth	198.8%	104.4%	73.5%	53.4%	70.5%	81.0%	84.6%	119.0%	134.3%	121.9%	112.4%	54.3%	88.2%	91.7%	97.6%	47.5%	22.1%	14.8%			
Cost of sales	\$2.8	\$3.2	\$3.1	\$3.5	\$3.6	\$4.4	\$5.0	\$7.2	\$7.9	\$8.1	\$8.3	\$8.1	\$12.6	\$20.2	\$32.4	\$41.6	\$46.3	\$51.4			
Gross Profit	\$1.6	\$1.8	\$2.5	\$3.4	\$3.9	\$4.7	\$5.3	\$7.8	\$9.6	\$12.2	\$13.6	\$15.0	\$9.3	\$21.7	\$50.5	\$80.7	\$103.1	\$120.0	86.9%		
% of sales	36.7%	36.2%	44.0%	49.2%	51.8%	51.5%	51.8%	52.0%	55.0%	60.0%	62.0%	65.0%	42.4%	51.8%	60.9%	66.0%	69.0%	70.0%			
Growth	NM	NM	98.6%	81.3%	NM	NM	NM	NM	NM	NM	NM	92.8%	NM	NM	NM	60.0%	27.7%	16.4%			
Incremental Margin	47.9%	42.6%	51.6%	63.4%	73.0%	70.3%	61.0%	54.3%	57.4%	67.0%	71.1%	89.0%	51.0%	62.1%	70.2%	76.8%	82.5%	76.8%			
Research & Development	\$2.0	\$1.9	\$2.0	\$1.9	\$2.1	\$2.3	\$2.1	\$2.2	\$2.8	\$3.1	\$3.1	\$3.3	\$7.8	\$8.7	\$12.3	\$17.7	\$20.9	\$23.1	24.3%		
% of sales	45.8%	37.5%	36.3%	27.3%	28.4%	25.0%	20.0%	15.0%	16.0%	15.0%	14.0%	14.5%	35.7%	20.8%	14.8%	14.5%	14.0%	13.5%			
Growth	35.7%	13.4%	17.3%	8.6%	5.8%	20.6%	1.9%	20.1%	31.8%	33.2%	48.7%	49.1%	18.2%	11.8%	40.6%	44.5%	17.9%	10.7%			
Sales, General & Admin.	\$5.5	\$5.4	\$8.5	\$7.3	\$8.3	\$8.7	\$9.0	\$11.7	\$11.8	\$12.9	\$13.1	\$13.0	\$24.6	\$37.7	\$50.8	\$80.0	\$83.7	\$88.8	22.8%		
% of sales	125.3%	105.6%	116.8%	106.2%	111.3%	95.0%	86.7%	78.1%	67.5%	63.2%	59.9%	56.2%	112.6%	89.8%	61.3%	49.0%	42.6%	40.2%			
Growth	84.3%	45.3%	46.9%	38.2%	51.4%	62.9%	37.1%	61.1%	42.2%	47.6%	46.6%	11.1%	50.6%	52.9%	34.9%	18.0%	6.2%	8.1%			
Total Operating Expenses	\$7.5	\$7.3	\$8.6	\$9.1	\$10.4	\$11.0	\$11.0	\$13.9	\$14.6	\$15.9	\$16.2	\$16.3	\$32.4	\$46.4	\$68.1	\$77.7	\$84.6	\$92.0	23.2%		
% of sales	171.1%	143.1%	153.1%	133.5%	139.7%	120.0%	106.7%	93.1%	83.5%	78.2%	73.9%	70.7%	148.3%	110.6%	76.1%	63.5%	56.6%	53.7%			
Growth	68.2%	35.3%	38.6%	30.9%	39.2%	51.8%	28.7%	52.7%	40.1%	44.6%	47.0%	17.2%	41.3%	43.0%	35.9%	23.2%	8.9%	8.7%			
EBITDA	(\$5.7)	(\$5.2)	(\$5.8)	(\$5.5)	(\$6.3)	(\$5.7)	(\$5.1)	(\$5.6)	(\$3.9)	(\$2.6)	(\$1.5)	(\$0.3)	(\$22.2)	(\$22.8)	(\$8.4)	\$8.6	\$25.3	\$28.0			
% of sales	(129.9%)	(102.4%)	(103.9%)	(80.1%)	(83.9%)	(62.0%)	(49.1%)	(37.1%)	(22.4%)	(13.0%)	(7.0%)	(1.1%)	(101.3%)	(53.8%)	(10.1%)	7.0%	16.9%	16.3%			
Growth	39.7%	16.6%	22.0%	11.0%	10.2%	9.6%	(12.7%)	1.3%	(37.4%)	(53.5%)	(69.6%)	(95.3%)	NM	NM	NM	NM	NM	10.9%			
Depreciation and Amortization	\$0.2	\$0.2	\$0.3	\$0.3	\$0.3	\$0.6	\$0.6	\$0.6	\$1.1	\$1.1	\$1.1	\$1.1	\$1.0	\$2.1	\$4.3	\$5.6	\$8.8	\$0.0			
Operating Profit	(\$5.9)	(\$5.4)	(\$6.1)	(\$5.8)	(\$6.6)	(\$6.3)	(\$5.7)	(\$6.2)	(\$5.0)	(\$3.7)	(\$2.6)	(\$1.3)	(\$23.2)	(\$24.7)	(\$12.6)	\$3.0	\$18.5	\$28.0			
% of sales	(134.4%)	(106.9%)	(109.1%)	(84.3%)	(87.9%)	(68.5%)	(54.9%)	(41.1%)	(28.5%)	(18.2%)	(11.9%)	(5.7%)	(105.9%)	(58.8%)	(15.2%)	2.5%	12.4%	16.3%			
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	51.8%			
Incremental Margin	(56.4%)	(30.6%)	(49.1%)	(27.1%)	(22.1%)	(21.1%)	9.0%	(4.8%)	15.8%	23.1%	26.4%	59.4%	(41.4%)	(7.5%)	29.4%	39.7%	57.0%	43.4%			
Other non-Operating Expense	\$1.0	\$1.1	\$0.1	\$0.0	(\$0.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$2.2	(\$0.0)	\$0.0	\$0.0	\$0.0	\$0.0			
Net Interest Expense	(\$0.0)	\$0.0	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.2	\$0.3	\$0.3	\$0.0	\$0.0	\$0.0			
Earnings Before Taxes	(\$6.9)	(\$6.5)	(\$6.3)	(\$5.9)	(\$6.7)	(\$6.4)	(\$5.7)	(\$6.2)	(\$5.1)	(\$3.8)	(\$2.7)	(\$1.4)	(\$25.6)	(\$25.0)	(\$12.9)	\$3.0	\$18.5	\$28.0			
Margin	(157.2%)	(128.1%)	(112.7%)	(86.2%)	(89.3%)	(69.3%)	(55.6%)	(41.5%)	(28.9%)	(18.6%)	(12.2%)	(6.0%)	(116.9%)	(59.6%)	(15.6%)	2.5%	12.4%	16.3%			
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	51.8%			
Income Taxes	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$7.2	\$10.9			
Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	39.0%	39.0%			
Net Income	(\$6.9)	(\$6.5)	(\$6.3)	(\$5.9)	(\$6.7)	(\$6.4)	(\$5.7)	(\$6.2)	(\$5.1)	(\$3.8)	(\$2.7)	(\$1.4)	(\$25.6)	(\$25.0)	(\$12.9)	\$3.0	\$11.3	\$17.1			
Margin	(157.2%)	(128.1%)	(112.7%)	(86.2%)	(89.3%)	(69.3%)	(55.6%)	(41.5%)	(28.9%)	(18.6%)	(12.2%)	(6.0%)	(116.9%)	(59.6%)	(15.6%)	2.5%	7.5%	10.0%			
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	51.8%			
Earnings Per Share	(\$8.28)	(\$7.21)	(\$6.98)	(\$0.42)	(\$0.32)	(\$0.30)	(\$0.27)	(\$0.28)	(\$0.24)	(\$0.18)	(\$0.13)	(\$0.07)	(\$8.15)	(\$1.18)	(\$0.81)	\$0.14	\$0.83	\$0.81			
Shares Outstanding	1	1	1	14	21	21	21	21	21	21	21	21	4	21	21	21	21	21			
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	51.8%			
VERACYTE - CONSENSUS ESTIMATES																					
\$MM, ex. per share data	Q1:13	Q2:13	Q3:13	Q4:13	Q1:14	Q2:14E	Q3:14E	Q4:14E	Q1:15E	Q2:15E	Q3:15E	Q4:15E	2013	2014E	2015E	2016E	2017E	2018E			
Revenue				\$6	\$7	\$10	\$10	\$13	N/A	N/A	N/A	N/A	\$21	\$40	\$78	\$115	\$145				
Growth								106.7%						87.0%	88.0%	51.7%	26.5%				
Actual/Cowen				\$7	\$7	\$9	\$10	\$15	\$18	\$20	\$22	\$23	\$22	\$42	\$83	\$122	\$149				
Gross Margin				N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
Actual/Cowen				49.2%	51.8%	51.5%	51.8%	52.0%	55.0%	60.0%	62.0%	65.0%	42.4%	51.8%	60.9%	66.0%	69.0%				
Operating Margin				N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
Actual/Cowen				(84.3%)	(87.9%)	(68.5%)	(54.9%)	(41.1%)	(28.5%)	(18.2%)	(11.9%)	(5.7%)	(105.9%)	(58.8%)	(15.2%)	2.5%	12.4%				
EPS				(\$0.38)	(\$0.31)	(\$0.31)	(\$0.31)	(\$0.30)	N/A	N/A	N/A	N/A	(\$1.83)	(\$1.28)	(\$0.81)	(\$0.08)	\$0.48				
Actual/Cowen				(50.42)	(50.32)	(50.30)	(50.27)	(50.29)	(50.24)	(50.18)	(50.13)	(50.07)	(56.15)	(51.18)	(50.61)	50.14	50.53				

Source: Company Reports, Thomson One, and Cowen and Company.

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
ILMN	Illumina
TMO	Thermo Fisher Scientific
VCYT	Veracyte

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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 Dahlman 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

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Cowen And Company Rating Definitions

Distribution of Ratings/Investment Banking Services (IB) as of 03/31/14

Rating	Count	Ratings Distribution	Count	IB Services/Past 12 Months
Buy (a)	407	57.08%	85	20.88%
Hold (b)	288	40.39%	8	2.78%
Sell (c)	18	2.52%	1	5.56%

(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.

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Veracyte Rating History as of 05/08/2014

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Illumina Rating History as of 05/08/2014

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Thermo Fisher Scientific Rating History as of 05/08/2014

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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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