William Blair

Veracyte, Inc.

June 23, 2014

Positive Preliminary Guidelines From ATA for the Afirma GEC

- On Monday, June 23, Veracyte's management team commented on the preliminary American Thyroid Association (ATA) guidelines, which were presented Friday, June 20.

- The recommendations now include the use of molecular testing to guide decision-making following indeterminate fine-needle aspiration (FNA) biopsy results (affects roughly 95,000 patients per year in the United States). In our opinion, inclusion in key guidelines like ATA and National Comprehensive Cancer Network (NCCN) is important for continued adoption from both physicians and payers, and so we view this as a meaningful positive for the company, giving us more confidence in our revenue estimates of $40 million for 2014 and $71 million for 2015.

- The preliminary guidelines suggest the use of molecular testing when the primary goal is to avoid unnecessary surgery, and specifically suggest that use of a molecular test with high sensitivity and high negative predictive value (NPV) should be considered. The recommendation applies to two (atypia of undetermined significance/follicular lesion of undetermined significance (AUS/FLUS) and follicular neoplasm/suspicious for follicular neoplasm (FN/SFN)) of the six potential classifications of the initial FNA biopsy, which we believe is relatively in line with the NCCN guidelines. While the guidelines did not call out Afirma specifically (nor did NCCN guidelines), we believe Afirma GEC is the only test available with both a high NPV and high specificity (NPV of greater than 94% with a sensitivity of 90%).

- The stock was up 8% Friday, June 20, following a competitor initiation with an "overweight" rating, and potentially driven by initial reaction to Fridays afternoon's meeting at the ATA (given outperformance toward the end of the day). 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 (currently about $16). Veracyte continues to obtain positive payer coverage decisions (most notably the Premera Blue Cross, Veracyte's first Blue plan) and physician adoption of its Afirma GEC test, which reduces unnecessary surgeries, both saving the healthcare system costs and improving patient quality of life. We believe the preliminary ATA guidelines are positive for the stock and look for the final published recommendations once available. We therefore reiterate our Outperform rating on Veracyte.

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.

Stock Rating:	**Outperform**
Company Profile:	**Aggressive Growth**
Symbol:	VCYT (NASDAQ)
Price:	$16.27 (52-Wk.: $11-$19)
Market Value (mil.):	$344
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	48,236

Financial Data (FactSet)	
Long-Term Debt/Total Capital (MRQ)	0.1
Book Value Per Share (MRQ)	2.4
Return on Equity (TTM)	-83.4

Two-Year Price Performance Chart

Sources: FactSet, William Blair & Company estimates

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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.

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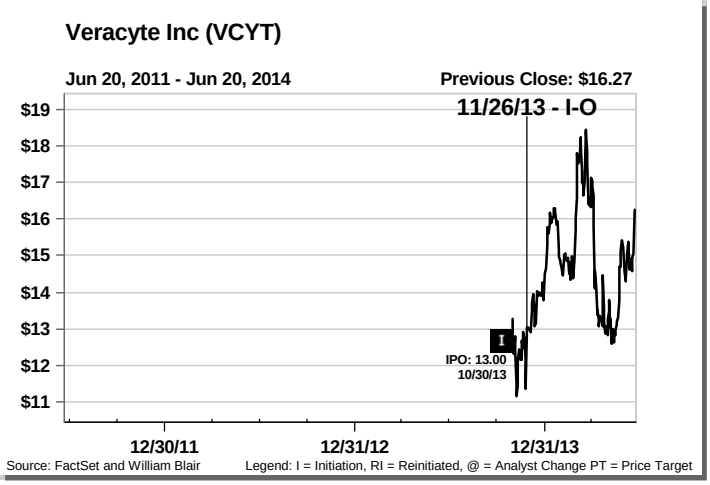
DOW JONES: 16,947.08
S&P 500: 1,962.87
NASDAQ: 4,368.04



Current Rating Distribution (as of 05/31/14)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	67	Outperform (Buy)	15
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.

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