

Veracyte, Inc. (VCYT)

Overweight

Model Update

CONCLUSION

Adjusting model for the Allegro Diagnostics acquisition.

RISKS TO ACHIEVEMENT OF PRICE TARGET

Veracyte risks include GEC adoption, private payer coverage and competition.

COMPANY DESCRIPTION

Veracyte develops molecular cytology tests; initially focusing on the thyroid FNA market.

PRICE: US\$10.45

TARGET: US\$22.00

4.6x F2016 EV/Rev (net cash/share: \$2.25, s/o: 25.9M)

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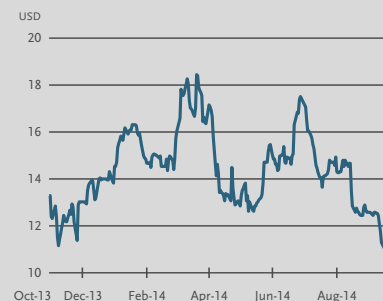
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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$22.00
FY15E Rev (mil)	US\$75.0	US\$66.7
FY16E Rev (mil)	US\$114.5	US\$108.7
FY15E EPS	US\$(0.79)	US\$(0.98)
FY16E EPS	US\$(0.24)	US\$(0.22)

52-Week High / Low	US\$19.00 / US\$10.35
Shares Out (mil)	21.2
Market Cap. (mil)	US\$221.5
Avg Daily Vol (ooo)	116
Book Value/Share	US\$2.12
Net Cash Per Share	US\$2.50
Debt to Total Capital	10%
Div (ann)	US\$0.00
Fiscal Year End	Dec

Price Performance - 1 Year



Source: Bloomberg

YEAR	REVENUE (US\$ m)						EARNINGS PER SHARE (US\$)					
	Mar	Jun	Sep	Dec	FY	FY RM	Mar	Jun	Sep	Dec	FY	FY P/E
2014E	7.5A	8.7A	8.7	11.5	36.4	6.1x	(0.32)A	(0.31)A	(0.38)	(0.40)	(1.42)	NM
2015E	13.6	15.8	17.1	20.2	66.7	3.3x	(0.30)	(0.27)	(0.23)	(0.19)	(0.98)	NM
2016E	—	—	—	—	108.7	2.0x	—	—	—	—	(0.22)	NM

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Veracyte
Income Statement

Fiscal Year End: December 31
(\$ in Thousands)

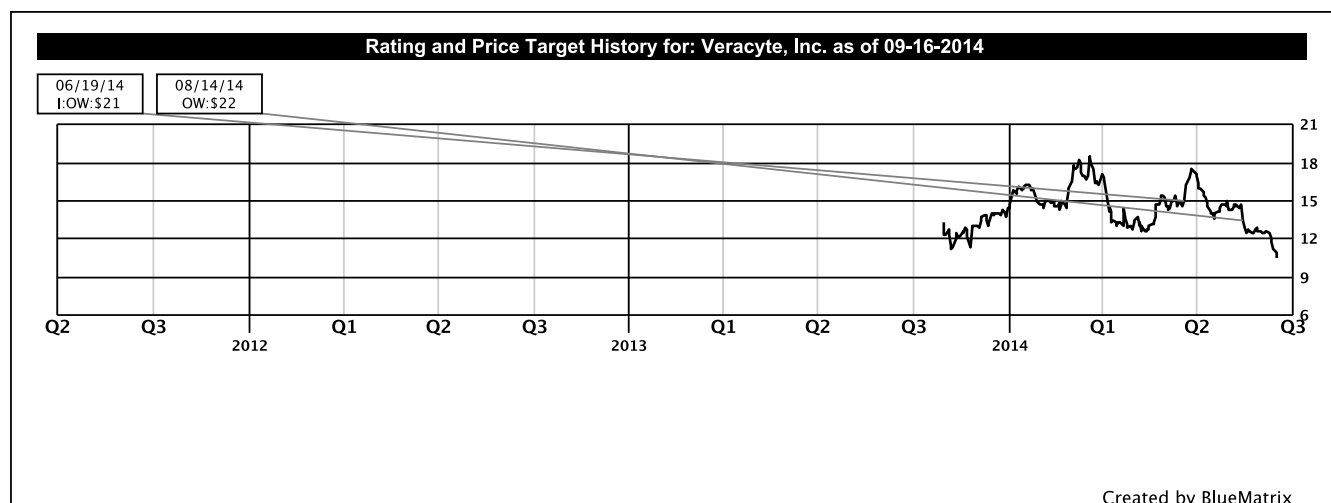
Updated as of 9/17/2014

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	2013A				2014E				2015E				Annual				
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	2012A	2013A	2014E	2015E	2016E
	Qtr 1 A	Qtr 2 A	Qtr 3 A	Qtr 4 A	Qtr 1 A	Qtr 2 A	Qtr 3 E	Qtr 4 E	Qtr 1 E	Qtr 2 E	Qtr 3 E	Qtr 4 E					
Product Revenue	4,384	5,068	5,594	6,838	7,476	8,677	8,731	11,502	13,562	15,832	17,057	20,218	11,628	21,884	36,386	66,669	108,714
Total Revenue	4,384	5,068	5,594	6,838	7,476	8,677	8,731	11,502	13,562	15,832	17,057	20,218	11,628	21,884	36,386	66,669	108,714
Cost of Goods Sold	2,773	3,231	3,132	3,471	3,607	3,966	4,529	5,797	7,001	7,967	8,480	9,789	7,584	12,607	17,898	33,238	47,312
Gross Profit	1,611	1,837	2,462	3,367	3,869	4,711	4,202	5,705	6,561	7,865	8,576	10,429	4,044	9,277	18,488	33,431	61,402
Operating Expenses:																	
Research & Development	2,010	1,902	2,028	1,870	2,126	2,243	2,619	2,876	2,848	3,008	3,070	3,235	6,608	7,810	9,864	12,161	13,167
Sales & Marketing	2,703	2,615	3,291	3,931	4,336	5,101	6,112	7,821	6,374	6,808	6,986	7,668	8,447	12,540	23,370	27,835	35,333
General & Administrative	2,791	2,737	3,244	3,328	3,982	3,928	4,104	4,141	4,204	4,275	4,264	4,448	7,918	12,100	16,154	17,191	18,564
Total Operating Expense	7,504	7,254	8,563	9,129	10,444	11,272	12,835	14,838	13,426	14,091	14,320	15,351	22,973	32,450	49,389	57,188	67,064
Operating Income (Loss)	(5,893)	(5,417)	(6,101)	(5,762)	(6,575)	(6,561)	(8,632)	(9,132)	(6,866)	(6,226)	(5,743)	(4,922)	(18,929)	(23,173)	(30,901)	(23,757)	(5,662)
Interest Income (Expense)	0	(5)	(126)	(97)	(111)	(113)	32	(7)	(31)	(48)	(62)	17	2	(228)	(199)	(124)	(28)
Other Income (Expense)	(1,002)	(1,068)	(76)	(33)	12	19	0	0	0	0	0	0	278	(2,179)	31	0	0
Pretax Income (Loss)	(6,895)	(6,490)	(6,303)	(5,892)	(6,674)	(6,655)	(8,600)	(9,140)	(6,897)	(6,273)	(5,806)	(4,905)	(18,649)	(25,580)	(31,069)	(23,881)	(5,690)
Provision for Income Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income (Loss) - Reported	(6,895)	(6,490)	(6,303)	(5,892)	(6,674)	(6,655)	(8,600)	(9,140)	(6,897)	(6,273)	(5,806)	(4,905)	(18,649)	(25,580)	(31,069)	(23,881)	(5,690)
Non-Recurring Items	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income (Loss) - Ongoing	(6,895)	(6,490)	(6,303)	(5,892)	(6,674)	(6,655)	(8,600)	(9,140)	(6,897)	(6,273)	(5,806)	(4,905)	(18,649)	(25,580)	(31,069)	(23,881)	(5,690)
Diluted EPS (Reported)	(\$9.04)	(\$7.53)	(\$6.59)	(\$0.42)	(\$0.32)	(\$0.31)	(\$0.38)	(\$0.40)	(\$0.30)	(\$0.27)	(\$0.23)	(\$0.19)	(\$28.66)	(\$6.19)	(\$1.42)	(\$0.98)	(\$0.22)
Diluted EPS (Ongoing, Inc. SBC)	(\$9.04)	(\$7.53)	(\$6.59)	(\$0.42)	(\$0.32)	(\$0.31)	(\$0.38)	(\$0.40)	(\$0.30)	(\$0.27)	(\$0.23)	(\$0.19)	(\$28.66)	(\$6.19)	(\$1.42)	(\$0.98)	(\$0.22)
Avg. Share Outstanding, Diluted	763	862	956	13,944	21,148	21,237	22,502	22,802	23,002	23,202	25,390	25,490	650	4,131	21,922	24,271	25,740
Expense Variables:																	
Cost of Goods Sold (Product)	63.3%	63.8%	56.0%	50.8%	48.2%	45.7%	51.9%	50.4%	51.6%	50.3%	49.7%	48.4%	65.2%	57.6%	49.2%	49.9%	43.5%
Cost of Goods Sold (Royalties/License)	NM	NM	NM	NM	NM	NM	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	NM	NM	NM	NM	NM
Research & Development	45.8%	37.5%	36.3%	27.3%	28.4%	25.8%	30.0%	25.0%	21.0%	19.0%	18.0%	16.0%	56.8%	35.7%	27.1%	18.2%	12.1%
Sales & Marketing	61.7%	51.6%	58.8%	57.5%	58.0%	58.8%	70.0%	68.0%	47.0%	43.0%	41.0%	37.9%	NM	35.7%	27.1%	18.2%	12.1%
General & Administrative	63.7%	54.0%	58.0%	48.7%	53.3%	45.3%	47.0%	36.0%	31.0%	27.0%	25.0%	22.0%	68.1%	55.3%	44.4%	25.8%	17.1%
Total Operating Expenses	171.2%	143.1%	153.1%	133.5%	139.7%	129.9%	147.0%	129.0%	99.0%	89.0%	84.0%	75.9%	197.6%	148.3%	135.7%	85.8%	61.7%
Effective Interest Rate, Debt	0.0%	0.0%	0.0%	0.0%	2.2%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	0.0%	0.3%	0.4%	0.2%	0.0%
Ongoing Tax 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%	0.0%
Margin Analysis:																	
Gross Margin (Product Sales)	36.7%	36.2%	44.0%	49.2%	51.8%	54.3%	48.1%	49.6%	48.4%	49.7%	50.3%	51.6%	34.8%	42.4%	50.8%	50.1%	56.5%
Operating Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Pretax Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Net Income Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
YoY Growth Rates:																	
Product Revenue	298.6%	204.4%	173.5%	153.4%	170.5%	171.2%	156.1%	168.2%	181.4%	182.5%	195.4%	175.8%	NM	88.2%	66.3%	83.2%	63.1%
Net Income (Ongoing)	62.3%	40.3%	27.6%	21.8%	-3.2%	2.5%	36.4%	55.1%	3.3%	-5.7%	-32.5%	-46.3%	NM	37.2%	21.5%	-23.1%	-76.2%
EPS (Ongoing)	32.6%	6.3%	-12.0%	-94.2%	-96.5%	-95.8%	-94.2%	-5.1%	-5.0%	-13.7%	-40.2%	-52.0%	NM	-78.4%	-77.1%	-30.6%	-77.5%
Other Data:																	
Days Sales Outstanding	NM	71.4	46.6	61.0	58.1	60.2	53.7	46.8	49.3	43.5	42.4	38.0	NM	19.1	18.2	11.8	10.3
EBITDA Per Share	(\$7.34)	(\$5.99)	(\$6.01)	(\$0.40)	(\$0.30)	(\$0.30)	(\$0.37)	(\$0.39)	(\$0.29)	(\$0.26)	(\$0.22)	(\$0.18)	(\$27.68)	(\$5.34)	(\$1.36)	(\$0.93)	(\$0.18)
Free Cash Flow Per Share	(\$8.09)	(\$3.85)	(\$5.39)	(\$0.25)	(\$0.32)	(\$0.31)	(\$0.34)	(\$0.43)	(\$0.29)	(\$0.26)	(\$0.22)	(\$0.19)	(\$29.05)	(\$4.92)	(\$1.42)	(\$0.95)	(\$0.37)
Net Debt (Cash) Per Share	(\$9.42)	(\$18.54)	(\$11.17)	(\$4.76)	(\$2.81)	(\$2.50)	(\$1.66)	(\$1.22)	(\$0.93)	(\$0.67)	(\$1.85)	(\$1.66)	(\$21.72)	(\$16.12)	(\$2.22)	(\$2.61)	(\$2.25)
S&M Expenses																	
% of Revenue Shared With Genzyme	40%	40%	40%	40%	37%	32%	32%	32%	15%	15%	15%	15%	50%	40%	33%	15%	15%
Genzyme Promotion Expense	1,754	2,027	2,238	2,735	2,791	2,733	2,794	3,681	2,034	2,375	2,551	3,017	5,814	8,754	11,999	9,977	16,030
Genzyme Fee Amortized	(625)	(625)	(625)	(625)	(625)	(625)	(625)	(625)	(625)	(625)	(625)	(625)	(2,500)	(2,500)	(2,500)	(2,500)	-
Core S&M Expense	1,574	1,213	1,678	1,821	2,170	2,368	3,318	4,141	4,340	4,433	4,435	4,650	5,133	6,286	11,996	17,858	19,303
Total S&M Expense	2,703	2,615	3,291	3,931	4,336	5,101	6,112	7,821	6,374	6,808	6,986	7,668	8,447	12,540	23,370	27,835	35,333
Core S&M Expense % of Revenue	36%	24%	30%	27%	29%	27%	38%	36%	32%	28%	26%	23%	44%	29%	33%	27%	18%

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I: Initiating Coverage
R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

Distribution of Ratings/IB Services Piper Jaffray				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	362	61.46	99	27.35
HOLD [N]	216	36.67	23	10.65
SELL [UW]	11	1.87	0	0.00

Note: Distribution of Ratings/IB Services shows the number of companies currently in each rating category from which Piper Jaffray and its affiliates received compensation for investment banking services within the past 12 months. FINRA rules require disclosure of which ratings most closely correspond with "buy," "hold," and "sell" recommendations. Piper Jaffray ratings are not the equivalent of buy, hold or sell, but instead represent recommended relative weightings. Nevertheless, Overweight corresponds most closely with buy, Neutral with hold and Underweight with sell. See Stock Rating definitions below.

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