

## Veracyte, Inc. (VCYT)

Overweight

### Preliminary ATA Guidelines Include Molecular Testing; Remain Overweight

#### CONCLUSION

The American Thyroid Association (ATA) announced preliminary guidelines, calling for the inclusion of molecular testing to reduce unnecessary thyroid surgery, in line with our expectations. We believe Afirma (GEC) fits nicely within the preliminary guidelines, with molecular testing on indeterminate cytopathology results providing a suspicious or benign answer, thus reducing the amount of unnecessary surgeries performed. As discussed in our initiation report (see our report [here](#)), we view the potential inclusion of the GEC test within the ATA guidelines as a win for VCYT and anticipate eventual inclusion will incrementally increase physician adoption and payer coverage decisions. We believe the next catalyst for Veracyte is additional private payer coverage decisions (especially from Blue Cross/Blue Shield payers) and inclusion in AACE guidelines, potentially occurring in 2H 2014. We are not changing our estimates and remain Overweight on VCYT shares, with our \$21 price target based on 4.6x F2016 EV/rev.

- **Preliminary ATA guidelines add molecular testing:** On Friday, the ATA announced preliminary guidelines calling for the inclusion of molecular testing in reducing the quantity of unnecessary surgeries performed. Specifically, preliminary guidelines include the use of a molecular test with high sensitivity and high negative predictive value (NPV) to reduce the amount of unnecessary thyroid surgeries (Afirma sensitivity: 90%, NPV: >94%). As a reminder, Afirma includes a molecular test (GEC) for determining malignancy of indeterminate thyroid nodules from cytopathology, thereby reducing the amount of surgeries performed with indeterminate results, which are mostly unnecessary. We believe GEC fits well within these preliminary guidelines and anticipate ATA guideline inclusion to drive increased incremental physician usage and payer coverage adoption.
- **Our thoughts:** As discussed in our initiation report, we view the inclusion in ATA guidelines as positive for increasing private payer coverage decisions and physician acceptance. We are holding estimates, although inclusion in ATA guidelines represents a source of potential upside to both our and the Street's estimates (Q3 and Q4 2014). We look forward to additional potential guideline inclusion (American Association of Clinical Endocrinologists) and additional private payer coverage decisions (especially Blue Cross/Blue Shield) possibly by 2H 2014.

#### COMPANY DESCRIPTION

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

PRICE: US\$16.27

TARGET: US\$21.00

4.6x F2016 EV/Rev (net cash/share: \$1.82, s/o: 27.5M)

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**Related Companies:**

VCYT

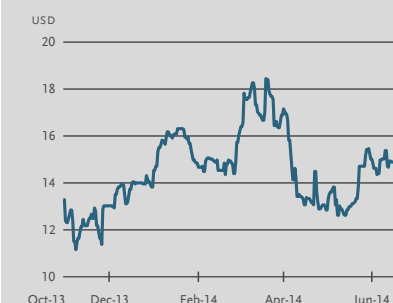
**Share Price:**

16.27

#### RISKS TO ACHIEVEMENT OF PRICE TARGET

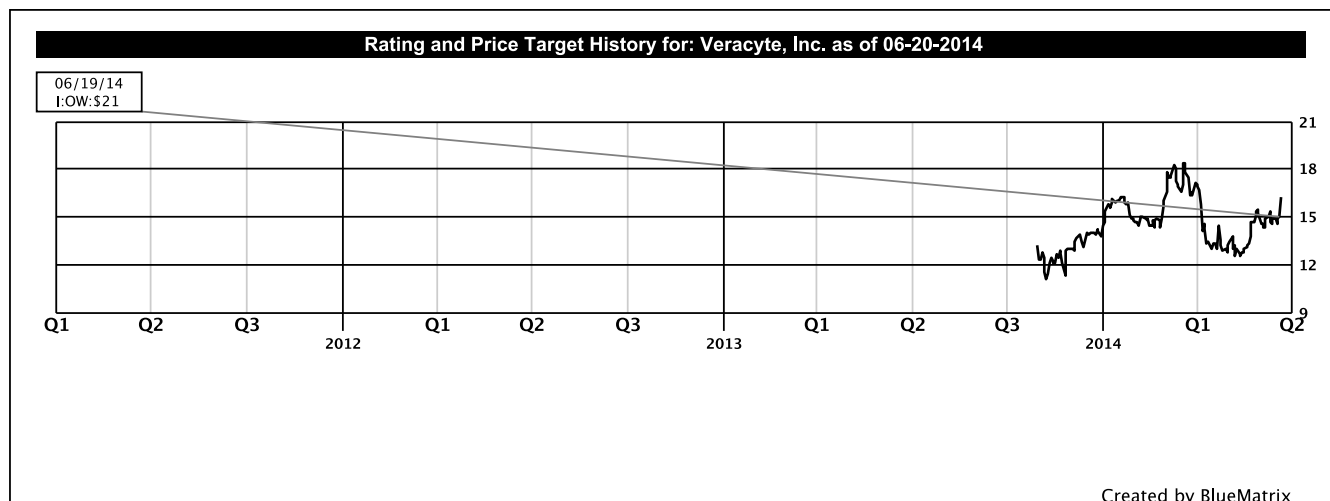
Veracyte risks include GEC adoption, private payer coverage and competition.

#### Price Performance - 1 Year



Source: Bloomberg

## IMPORTANT RESEARCH DISCLOSURES



Notes: The boxes on the Rating and Price Target History chart above indicate the date of the Research Note, the rating, and the price target. Each box represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first Note written during the past three years.

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D: Discontinuing Coverage  
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N: Neutral  
UW: Underweight  
NA: Not Available  
UR: Under Review

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### Analyst Certification — William R. Quirk, CFA, Sr Research Analyst — David C. Clair, CFA, Research Analyst

The views expressed in this report accurately reflect my personal views about the subject company and the subject security. In addition, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

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