

## Veracyte, Inc.

### International Expansion Underway Highlights Importance of Genzyme Partnership OUS

- On Friday May 2, Veracyte announced a partnership agreement with Fleury Medicine that makes Veracyte's Afirma Gene Expression Classifier (GEC) available to patients in Brazil. This deal highlights the opportunity for international expansion and the importance of the Genzyme partnership internationally. We estimate the Brazilian market opportunity to be between \$36 million and \$71 million (\$50 million if consistent with the 21% indeterminate rate seen historically).
- Fleury will bill the payers directly and compensate Veracyte for the number of GEC procedures performed (which will be analyzed at Veracyte's South San Francisco lab). We expect revenue contribution to ramp up over time, as physicians and patients need to be educated by Genzyme reps before seeing a meaningful volume impact.
- Fleury Medicine and Health offers over 3,000 diagnostic tests in Brazil, with 23 patient service centers in São Paulo alone. Through Veracyte's partnership with Genzyme, the Afirma GEC will be promoted by Genzyme reps to physicians throughout Brazil. Basically, Fleury will collect the fine needle aspiration (FNA) and perform the cytopathology, like Thyroid Cytopathology Partners (TCP) does in the United States, then refer indeterminate results to Veracyte's lab.
- According to the press release, 100,000 FNAs are performed each year on patients in Brazil, with a 15% to 30% indeterminate rate. We estimate there to be 1.17 FNAs performed per patient (there are repeat FNAs for a variety of reasons), so that equates to roughly 85,000 patients. Also, assuming an ASP of \$2,800 yields a total market opportunity in Brazil of roughly \$36 million to \$71 million (\$50 million assuming a 21% indeterminate rate). As the company grows internationally, we expect the number of GEC procedures as a percentage of FNAs to move from 20% to 22% and possibly higher than that depending on international growth trajectory.
- The stock is off 30% from its recent high as a result of weather-related volume fears (which we disagree with as this continues to be an adoption story) and volatility into the expiration of the lockup post-IPO on April 28. Veracyte currently has limited competition and given meaningful clinical data supporting the test, it is obtaining coverage quickly for the Afirma GEC, which brings a clear cost savings to the system by reducing unnecessary surgeries. The stock is trading at 3 times enterprise value to sales on 2015 estimates, which we believe is attractive given our expectations for 75%-plus revenue growth over the next few years and upside bias to estimates (minimally through conversion from cash to accrual accounting as the company builds billing experience with payers).

*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.*

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Stock Rating: **Outperform**  
Company Profile: **Aggressive Growth**

Symbol: VCYT (NASDAQ)  
Price: \$13.48 (52-Wk: \$11-\$19)  
Market Value (mil.): \$280  
Fiscal Year End: December  
Long-Term EPS Growth Rate:  
Dividend/Yield: None

	2013A	2014E	2015E
<b>Estimates</b>			
EPS FY	\$-1.22	\$-1.31	\$-0.94
CY		\$-1.31	\$-0.94
Sales (mil.)	22	40	71
<b>Valuation</b>			
FY P/E	NM	NM	NM
CY P/E		NM	NM

<b>Trading Data (FactSet)</b>	
Shares Outstanding (mil.)	14
Float (mil.)	10
Average Daily Volume	53,053

<b>Financial Data (FactSet)</b>	
Long-Term Debt/Total Capital (MRQ)	0.0
Book Value Per Share (MRQ)	2.7
Return on Equity (TTM)	-83.4

#### Two-Year Price Performance Chart



Sources: FactSet, William Blair & Company estimates

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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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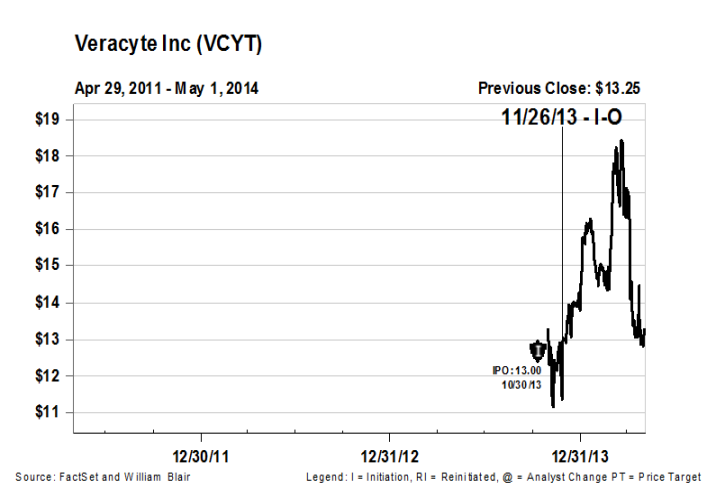
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DOW JONES: 16,558.87

S&P 500: 1,883.68

NASDAQ: 4,127.45



### **Current Rating Distribution (as of 04/30/14)**

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	66	Outperform (Buy)	14
Market Perform (Hold)	31	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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