

Veracyte

Equity Research

May 13, 2014

Price: \$12.64 (05/12/2014) **Price Target: \$22.00**

OUTPERFORM (1)

Doug Schenkel

617.946.3918 doug.schenkel@cowen.com

Shaun Rodriguez, Ph.D.

617.946.3929 shaun.rodriguez@cowen.com

Chris Lin

617.946.3825 chris.lin@cowen.com

Key Data

Symbol NASDAQ: VCYT Market Cap (MM) \$267.6

Company Quick Take

Veracyte Launches Afirma Malignancy Classifiers

The Cowen Insight

This morning, Veracyte announced the launch of the Afirma Malignancy Classifiers tests. The timing is as expected. These tests complement Veracyte's existing GEC test; therefore, we believe Veracyte should be able to leverage its existing customer base to adopt the new tests. We have not modeled any revenue contributions from the new tests in F14 so any revenue would represent upside to our model.

Complementary Test To Afirma GEC

The Afirma Malignancy Classifiers comprise genomic tests for medullary thyroid cancer (MTC) and the BRAF gene mutation and are intended to provide preoperative information to help guide surgical strategy for those patients who need surgery. According to sources cited by Veracyte, cytopathology alone misses more than half of the cases of MTC, an aggressive cancer, which typically requires a more extensive surgery and as a result, many patients with MTC subsequently undergo a follow-up surgery, once the presence of MTC becomes known. Knowing a patient's MTC status before surgery could enable physicians to perform a more appropriate procedure the first time, potentially reducing the need for additional surgeries.

Afirma Malignancy Classifiers tests are performed after the Afirma GEC test (if the thyroid nodule is found to be malignant); therefore, Veracyte should be able to leverage its existing physician customer base to rapidly adopt Afirma Malignancy Classifiers.

Four studies supporting the use of Veracyte's Afirma Malignancy Classifiers and enhancing its overall Afirma solution will be presented at the American Association of Clinical Endocrinologists (AACE) 23rd Annual Scientific & Clinical Congress taking place May 14-18 in Las Vegas.

Financial Model Implications

Reimbursement is not yet established for the Afirma Malignancy Classifiers, but we expect Veracyte to leverage its reimbursement experience to obtain some level of payment over the next several quarters. Importantly, we have not modeled any revenue contributions from the new tests in F14 so any revenue would represent upside relative to our model.

Earlier this year, at our annual healthcare conference, management indicated this test would expand the company's addressable market by 5% or \$40MM and potential market by 7% or \$90MM.

Veracyte

May 13, 2014

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

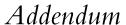
Life Science & Diagnostic Tools:

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.

www.cowen.com



Stocks Mentioned In Important Disclosures

Ticker	Company Name
VCYT	Veracyte

Analyst Certification

Each author of this research report hereby certifies that (i) the views expressed in the research report accurately reflect his or her personal views about any and all of the subject securities or issuers, and (ii) no part of his or her compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed in this report.

Important Disclosures

Cowen and Company, LLC and or its affiliates make a market in the stock of Veracyte securities.

Veracyte has been client(s) of Cowen and Company, LLC in the past 12 months.

Veracyte is or was in the past 12 months a client of Cowen and Company, LLC; during the past 12 months, Cowen and Company, LLC provided IB services.

Cowen and Company, LLC and/or its affiliates received in the past 12 months compensation for investment banking services from Veracyte.

Cowen and Company, LLC and/or its affiliates managed or co-managed a public offering of Veracyte within the past twelve months.

Cowen and Company, LLC compensates research analysts for activities and services intended to benefit the firm's investor clients. Individual compensation determinations for research analysts, including the author(s) of this report, are based on a variety of factors, including the overall profitability of the firm and the total revenue derived from all sources, including revenues from investment banking. Cowen and Company, LLC does not compensate research analysts based on specific investment banking transactions.

Disclaimer

This research is for our clients only. Our research is disseminated primarily electronically and, in some cases, in printed form. Research distributed electronically is available simultaneously to all Cowen and Company, LLC clients. All published research can be obtained on the Firm's client website, https://cowenlibrary.bluematrix.com/client/library.jsp.

Further information on any of the above securities may be obtained from our offices. This report is published solely for information purposes, and is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Other than disclosures relating to Cowen and Company, LLC, the information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete statement or summary of the available data. Any opinions expressed herein are statements of our judgment on this date and are subject to change without notice.

For important disclosures regarding the companies that are the subject of this research report, please contact Compliance Department, Cowen and Company, LLC, 599 Lexington Avenue, 20th Floor, New York, NY 10022. In addition, the same important disclosures, with the exception of the valuation methods and risks, are available on the Firm's disclosure website at https://cowen.bluematrix.com/sellside/Disclosures.action.

Price Targets: Cowen and Company, LLC assigns price targets on all covered companies unless noted otherwise. The price target for an issuer's stock represents the value that the analyst reasonably expects the stock to reach over a performance period of twelve months. The price targets in this report should be considered in the context of all prior published Cowen and Company, LLC research reports (including the disclosures in any such report or on the Firm's disclosure website), which may or may not include price targets, as well as developments relating to the issuer, its industry and the financial markets. For price target valuation methodology and risks associated with the achievement of any given price target, please see the analyst's research report publishing such targets.

Notice to UK Investors: This publication is produced by Cowen and Company, LLC which is regulated in the United States by FINRA. It is to be communicated only to persons of a kind described in Articles 19 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. It must not be further transmitted to any other person without our consent.

Copyright, User Agreement and other general information related to this report

© 2014 Cowen and Company, LLC. Member NYSE, FINRA and SIPC. All rights reserved. This research report is prepared for the exclusive use of Cowen clients and may not be reproduced, displayed, modified, distributed, transmitted or disclosed, in whole or in part, or in any form or manner, to others outside your organization without the express prior written consent of Cowen. Cowen research reports are distributed simultaneously to all clients eligible to receive such research reports. Any unauthorized use or disclosure is prohibited. Receipt and/or review of this research constitutes your agreement not to reproduce, display, modify, distribute, transmit, or disclose to others outside your organization the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets). All Cowen trademarks displayed in this report are owned by Cowen and may not be used without its prior written consent.

Cowen and Company, LLC. New York (646) 562-1000 Boston (617) 946-3700 San Francisco (415) 646-7200 Chicago (312) 577-2240 Cleveland (440) 331-3531 Atlanta (866) 544-7009 London (affiliate) 44-207-071-7500

COWEN AND COMPANY RATING DEFINITIONS

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

www.cowen.com

May 13, 2014

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

Hold – The fundamentals/valuations of the subject company are neither improving nor deteriorating and the investment return is expected to be in line with the general market return

Cowen And Company Rating Definitions

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

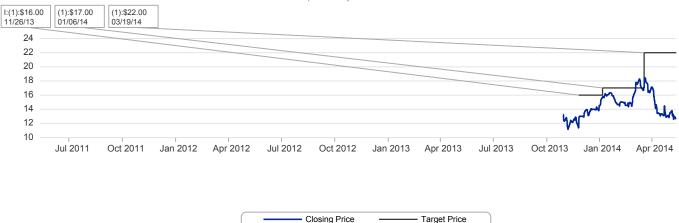
Rating	Count	Ratings Distribution	Count	IB Services/Past 12 Months
Buy (a)	407	57.08%	85	20.88%
Hold (b)	288	40.39%	8	2.78%
Sell (c)	18	2.52%	1	5.56%

(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.

Note: "Buy", "Hold" and "Sell" are not terms that Cowen and Company, LLC uses in its ratings system and should not be construed as investment options. Rather, these ratings terms are used illustratively to comply with FINRA and NYSE regulations.

Veracyte Rating History as of 05/12/2014

powered by: BlueMatrix



Legend for Price Chart:

I = Initation | 1 = Outperform | 2 = Market Perform | 3 = Underperform | UR = Price Target Under Review | T = Terminated Coverage | \$xx = Price Target | NA = Not Available | S=Suspended

Points Of Contact

Reaching Cowen

Main U.S. Locations

New York

599 Lexington Avenue New York, NY 10022 646.562.1000 800.221.5616

Atlanta

3399 Peachtree Road NE Suite 417

Atlanta, GA 30326 866.544.7009

617.946.3700

800.343.7068

Boston

Chicago 181 West Madison Street Suite 1925 Chicago, IL 60602 312.577.2240

Two International Place

Boston, MA 02110

Cleveland

20006 Detroit Road Suite 100 Rocky River, OH 44116 440.331.3531

Houston

600 Travis Street **Suite 1970** Houston, TX 77002 281.657.6800

San Francisco

555 California Street, 5th Floor San Francisco, CA 94104 415.646.7200 800.858.9316

International Locations

Cowen International Limited

London

1 Snowden Street - 11th Floor London EC2A 2DQ **United Kingdom** 44.20.7071.7500

Cowen and Company (Asia)

Limited

Hong Kong

Suite 1401 Henley Building No. 5 Queens Road Central Central, Hong Kong 852 3752 2333

www.cowen.com





