

Equity Research

March 19, 2014

Price: \$17.02 (03/18/2014)

Price Target: \$22.00 (Prior \$17.00)

OUTPERFORM (1)

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Key Data

Symbol	NASDAQ: VCYT
52-Week Range:	\$18.50 - 10.88
Market Cap (MM):	\$358.0
Net Debt (MM):	\$(14.0)
Cash/Share:	\$20.97
Enterprise Value (MM):	\$322.6
ROIC:	NA
ROE (LTM):	NA
BV/Share:	\$(77.15)
Dividend:	NA

FY (Dec)	2013A	2014E	2015E
Revenue (MM)			
Q1	\$4.4	\$7.2	\$17.1
Prior Q1	-	\$7.5	
Q2	\$5.1	\$9.1	\$19.8
Prior Q2	-	\$8.5	
Q3	\$5.6	\$10.1	\$21.3
Prior Q3	-	\$9.9	
Q4	\$6.8	\$14.5	\$22.3
Prior Q4	\$6.9	\$14.2	
Year	\$21.9	\$41.0	\$80.5
Prior Year	\$22.0	\$40.0	
EV/S	14.7x	7.9x	4.0x
Consensus EPS	NA	\$(1.24)	\$(0.64)

Consensus source: Thomson Reuters

Earnings Update

Strong Close To 2013; Guidance Robust & Probably Has Upside

The Cowen Insight

Veracyte closed out 2013 with a strong revenue and volume quarter. While 2014 revenue guidance is in line with consensus average, we believe it likely has an upward bias. We are raising our price target to \$22 to reflect a more in line '15-16E EV/sales multiple with the peer group. Veracyte remains a top smaller cap pick for 2014. Reiterate Outperform.

Q4 Revenue Better Than Expected On Strong Volumes

Q4 revenue of \$6.8MM (+53% Y/Y) was ~\$400K ahead of consensus expectations, and about in line with our Street-high estimate. Volume of 14,059 FNAs was about 100 better than we had forecasted. Following positive medical coverage policy decisions in December and January, the number of covered lives expanded by 5MM from ~115MM to ~120MM.

"Conservative" 85% Y/Y Sales Growth Guidance

2014 revenue was guided to \$38-43MM (+85% Y/Y at the midpoint), bracketing current consensus average expectations. FNA volumes were guided to 76,000 to 83,000, well above our previous expectations. We note that guidance does not seem to incorporate much in the way of benefits associated with the likelihood that covered/contracted lives will increase, pricing improvements associated with the increased list price, contributions from the roll out of the Malignancy Classifier product, or benefits associated with quicker than anticipated sales hires. Guidance also does not reflect upside potential associated with potential accrual boluses.

Veracyte Remains A Top Smaller Cap Pick For 2014

Veracyte currently trades at a ~25% discount to a peer group including ICEL, FLDM, FMI, OXFD, GHDX, and MYGN on a '15-16E EV/sales basis; we believe Veracyte deserves an at least inline multiple with the peer group, and arguably, a premium, given the company's growth profile and growing addressable market. Accordingly, we are raising our price target to \$22 (prev. \$17) to reflect a more inline '15-16E EV/sales multiple of 4.5x. Veracyte remains a top smaller cap pick for 2014. Reiterate Outperform.

At A Glance

Our Investment Thesis

Through a series of clinical validity, utility and health economics studies, Veracyte has obtained National Comprehensive Cancer Network guideline recommendations as well as several positive payer coverage decisions, including Medicare, United, Aetna, and Humana, covering >120MM lives in the US. We believe Veracyte is well-positioned to gain additional payer coverage and physician adoption over the next several years. Veracyte shares trade at a significant discount of ~25% on a '15-16E EV/sales basis, relative to a peer group that includes ICEL, FLDM, FMI, GHDX, OXFD and MYGN. Given the company's strong management team, the clear unmet need addressed by Afirma, a developing pipeline, a relatively cheap valuation, robust growth over the next several years, and the potential for upside relative to expectations, Veracyte is one of our top 2014 smaller cap picks.

Forthcoming Catalysts

- Insurance coverage decisions
- Conversion to contracted lives from covered lives
- Guideline inclusion
- Pipeline
- Strategic developments
- Quarterly earnings reports

Base Case Assumptions

- FNA and GEC volume growth ahead of expectations
- Total lives under coverage continues to expand
- New product introductions on track
- Some conversions to contracted lives from covered lives in F14

Upside Scenario

- FNA and GEC volume growth well ahead of expectations
- OUS launch starts to gain momentum
- Better than expected ASPs
- Additional guidelines inclusions drive further adoption
- More conversions to contracted lives from covered lives than expected in F14

Downside Scenario

- FNA and GEC volume growth below expectations
- Total covered lives continue to expand, but at a slower pace
- New product launches delayed
- Competition emerges

Price Performance



Source: Bloomberg

Company Description

Veracyte is a molecular cytology-focused diagnostic company that currently markets the Afirma GEC test used to reduce the number of unnecessary thyroid surgeries in patients suspected of having thyroid cancer. Since the initial commercial launch of Afirma GEC test in Jan 2011, Veracyte has processed >50,000 Fine Needle Aspiration (FNA) based cytopathology samples, and >10,000 GECs. Veracyte currently has 3 additional products under development, including Afirma Malignant GEC (launch expected in Q2:14), Idiopathic Pulmonary Fibrosis, and Lung Cancer Diagnostic test.

Analyst Top Picks

	Ticker	Price (03/18/2014)	Price Target	Rating
Illumina	ILMN	\$161.96	\$195.00	Outperform
Thermo Fisher Scientific	TMO	\$123.73	\$125.00	Outperform

Figure 1 Veracyte (VCYT) Earnings Snapshot

Cowen vs. Consensus (\$MM, except EPS)					
	Q4:13E				
	Q4:12A	Cowen	Consensus	Q4:13A	Full Year Guidance
Revenue	\$4.5	\$6.9	\$6.4	\$6.8	MAR 18: FY14: \$38-43MM; FNA volumes of 76-83K
Gross Margin	41.7%	45.0%	NM	49.2%	
Operating Margin	(114.8%)	(97.0%)	NM	(84.3%)	
EPS	(\$0.40)	(\$0.35)	NM	(\$0.42)	
Selected Revenue Metrics (\$MM, except EPS)					
	Q4:12A	Q3:13A	Q4:13E	Q4:13A	Comments
FNA	\$1.1	\$1.6	\$1.8	\$1.9	FNA revenue was about in line with our forecast. FNA volume growth was robust.
Reported Growth (Y/Y)	178.6%	94.3%	58.5%	71.8%	
GEC	\$3.3	\$4.0	\$5.2	\$4.9	GEC revenue was slightly below our forecast but revenues can be lumpy due to timing of recognition.
Reported Growth (Y/Y)	178.6%	66.6%	54.5%	47.3%	Importantly, GEC volume growth was robust.
Income Statement (\$MM, except EPS)					
	Q4:12A	Q3:13A	Q4:13E	Q4:13A	Comments
Revenue	\$4.5	\$5.6	\$6.9	\$6.8	Overall revenue was about in line with our forecast; importantly, FNA and GEC volumes continued robust double digit growth.
Reported Growth (Y/Y)	178.6%	73.5%	55.5%	53.4%	
Gross Profit	\$1.9	\$2.5	\$3.1	\$3.4	Gross margin was 420bp above our forecast; however, this was impacted by the timing of revenue recognition.
Margin	41.7%	44.0%	45.0%	49.2%	
R&D	\$1.7	\$2.0	\$2.1	\$1.9	R&D expense was \$200K below our forecast.
% of sales	38.6%	36.3%	30.0%	27.3%	
Growth Y/Y	(4.4%)	17.3%	20.8%	8.6%	
SG&A	\$5.3	\$6.5	\$7.8	\$7.3	SG&A expense was about \$500K below our forecast.
% of sales	117.8%	116.8%	112.0%	106.2%	
Growth Y/Y	NM	46.9%	47.8%	38.2%	
Operating Profit	(\$5.1)	(\$6.1)	(\$6.7)	(\$5.8)	
Margin	(114.8%)	(109.1%)	(97.0%)	(84.3%)	
Non-Operating Items	(\$0.3)	\$0.2	\$0.0	\$0.1	
Pre-Tax Income	(\$4.8)	(\$6.3)	(\$6.7)	(\$5.9)	
Taxes	\$0.0	\$0.0	\$0.0	\$0.0	
Rate	0.0%	0.0%	0.0%	0.0%	
Net Income	(\$4.8)	(\$6.3)	(\$6.7)	(\$5.9)	
Margin	(108.5%)	(112.7%)	(97.0%)	(86.2%)	
Earnings Per Share	(\$0.40)	(\$6.59)	(\$0.35)	(\$0.42)	
Growth (Y/Y)	NM	NM	NM	NM	

Source: Company Reports, Thomson One, and Cowen and Company.

Figure 2 Veracyte (VCYT) Revenue Model

(MM, except EPS)	Q1:13	Q2:13	Q3:13	Q4:13	Q1:14E	Q2:14E	Q3:14E	Q4:14E	Q1:15E	Q2:15E	Q3:15E	Q4:15E	2013	2014E	2015E	2016E	2017E	2018E	5-yr CAGR	Comments
TOTAL REVENUE	\$4.4	\$5.1	\$5.6	\$6.8	\$7.2	\$9.1	\$10.1	\$14.5	\$17.1	\$19.8	\$21.3	\$22.3	\$21.9	\$41.0	\$80.5	\$118.0	\$145.0	\$165.0	49.9%	MAR 18: FY14: \$38-43MM; FNA volumes of 76-83K
% Growth - Y/Y	199%	104%	74%	53%	65%	80%	81%	113%	136%	118%	110%	53%	88.2%	87.5%	96.2%	46.6%	22.8%	13.8%		
% of sales from FNA	30%	30%	28%	28%	24%	25%	26%	20%	22%	19%	18%	19%	29%	23%	19%	17%	19%	16%		
% of sales from GEC	70%	70%	72%	72%	76%	75%	74%	80%	78%	81%	82%	81%	71%	77%	81%	83%	81%	84%		
Medicare Revenue	\$1.6	\$2.0	\$1.9	\$2.1	\$2.2	\$2.7	\$2.8	\$3.5	\$3.5	\$3.6	\$3.7	\$4.7	\$7.6	\$11.3	\$15.4	\$19.9	\$23.6	\$28.1		
% from Medicare	37%	39%	34%	31%	31%	30%	28%	24%	20%	18%	17%	21%	34.8%	27.4%	19.2%	16.8%	16.3%	17.1%		
US CYTOPATHOLOGY REVENUE (FNA)	\$1.3	\$1.5	\$1.6	\$1.9	\$1.8	\$2.3	\$2.6	\$2.9	\$3.7	\$3.8	\$3.9	\$4.2	\$6.3	\$9.6	\$15.6	\$20.3	\$26.9	\$27.0	83.7%	
% Growth	258.5%	145.2%	94.3%	71.8%	34.0%	50.3%	67.3%	52.7%	108.9%	66.0%	49.1%	45.1%	117.3%	51.9%	62.9%	30.0%	32.4%	0.4%		
% of Total Revenue	30.0%	30.0%	28.0%	28.0%	24.3%	25.1%	25.9%	20.1%	21.6%	19.1%	18.4%	19.0%	28.9%	23.4%	19.4%	17.2%	18.6%	16.4%		
GEC REVENUE (AFIRMA)	\$3.1	\$3.5	\$4.0	\$4.9	\$5.5	\$6.8	\$7.5	\$11.6	\$13.4	\$16.0	\$17.4	\$18.1	\$15.6	\$31.4	\$64.9	\$97.7	\$118.1	\$138.0	54.7%	
% Growth	178.9%	90.7%	66.6%	47.3%	78.8%	92.4%	86.3%	136.0%	144.2%	134.9%	131.2%	55.6%	78.5%	101.9%	106.3%	50.6%	20.9%	16.8%		
% of Total Revenue	70.0%	70.0%	72.0%	72.0%	75.7%	74.9%	74.1%	79.9%	78.4%	80.9%	81.6%	81.0%	71.1%	76.6%	80.6%	82.8%	81.4%	83.6%		

Source: Company Reports and Cowen and Company.

Figure 3 Veracyte (VCYT) Income Statement

(MM, except EPS)	Q1:13	Q2:13	Q3:13	Q4:13	Q1:14E	Q2:14E	Q3:14E	Q4:14E	Q1:15E	Q2:15E	Q3:15E	Q4:15E	2013	2014E	2015E	2016E	2017E	2018E	5-yr CAGR	Comments	
Net sales	\$4.4	\$5.1	\$5.8	\$6.8	\$7.2	\$8.1	\$10.1	\$14.5	\$17.1	\$19.8	\$21.3	\$22.3	\$21.9	\$41.0	\$60.5	\$118.0	\$145.0	\$165.0	48.8%	MAR 18: FY14: \$38-43MM; FNA volumes of 76-83K	
Growth	198.8%	104.4%	73.5%	53.4%	65.3%	79.8%	81.0%	112.7%	135.6%	117.6%	110.0%	53.5%	88.2%	87.5%	96.2%	46.6%	22.8%	13.8%			
Cost of sales	\$2.8	\$3.2	\$3.1	\$3.5	\$3.7	\$4.5	\$5.0	\$7.0	\$7.7	\$7.9	\$8.1	\$7.8	\$12.6	\$20.1	\$31.5	\$40.1	\$44.9	\$49.5			
% of sales	63.3%	63.8%	56.0%	50.8%	51.0%	49.0%	49.0%	48.0%	45.0%	40.0%	38.0%	35.0%	57.6%	49.0%	39.1%	34.0%	31.0%	30.0%			
Gross Profit	\$1.6	\$1.8	\$2.5	\$3.4	\$3.6	\$4.6	\$5.2	\$7.6	\$9.4	\$11.9	\$13.2	\$14.5	\$9.3	\$20.9	\$48.0	\$77.9	\$100.0	\$115.5	65.6%		
% of sales	36.7%	36.2%	44.0%	49.2%	49.0%	51.0%	51.0%	52.0%	55.0%	60.0%	62.0%	65.0%	42.4%	51.0%	60.9%	66.0%	69.0%	70.0%			
Growth	NM	NM	98.6%	81.3%	NM	NM	NM	NM	NM	NM	NM	91.8%	NM	NM	NM	NM	28.4%	15.4%			
Incremental Margin	47.9%	42.6%	51.6%	63.4%	67.7%	69.5%	59.6%	54.4%	59.4%	67.7%	72.0%	89.3%	51.0%	60.8%	71.1%	77.0%	82.1%	77.2%			
Research & Development	\$2.0	\$1.9	\$2.0	\$1.9	\$2.0	\$2.3	\$2.0	\$2.2	\$2.7	\$3.0	\$3.0	\$3.2	\$7.8	\$8.5	\$11.9	\$17.1	\$20.3	\$22.3	23.3%		
% of sales	45.8%	37.5%	36.3%	27.3%	27.5%	25.0%	20.0%	15.0%	16.0%	15.0%	14.0%	14.5%	35.7%	20.7%	14.8%	14.5%	14.0%	13.5%			
Growth	35.7%	13.4%	17.3%	8.6%	(0.8%)	19.7%	(0.1%)	16.7%	37.1%	30.6%	47.0%	48.4%	18.2%	8.6%	40.6%	43.5%	18.6%	9.7%			
Sales, General & Admin.	\$5.5	\$5.4	\$6.5	\$7.3	\$7.8	\$8.7	\$8.8	\$11.4	\$11.5	\$12.5	\$12.7	\$12.8	\$24.8	\$36.8	\$48.3	\$57.9	\$61.8	\$68.2	21.9%		
% of sales	125.3%	105.6%	116.8%	106.2%	107.9%	95.1%	86.8%	78.1%	67.5%	63.2%	59.9%	56.2%	112.6%	89.3%	61.3%	49.0%	42.6%	40.1%			
Growth	84.3%	45.3%	46.9%	38.2%	42.4%	61.9%	34.4%	56.5%	47.3%	44.7%	44.9%	10.5%	50.6%	48.7%	34.7%	17.3%	6.8%	7.1%			
Total Operating Expenses	\$7.5	\$7.3	\$8.6	\$9.1	\$9.8	\$10.9	\$10.8	\$13.5	\$14.3	\$15.5	\$15.7	\$15.8	\$32.4	\$45.1	\$61.3	\$75.0	\$82.1	\$86.5	22.2%		
% of sales	171.1%	143.1%	153.1%	133.5%	135.4%	120.1%	106.8%	93.1%	83.5%	78.2%	73.9%	70.7%	148.3%	109.9%	76.1%	63.5%	56.6%	53.6%			
Growth	68.2%	35.3%	38.6%	30.9%	30.8%	50.8%	26.3%	48.3%	45.3%	41.8%	45.3%	16.6%	41.3%	39.0%	35.8%	22.4%	9.5%	7.8%			
EBITDA	(\$6.7)	(\$5.2)	(\$5.8)	(\$5.6)	(\$6.7)	(\$6.7)	(\$5.0)	(\$5.4)	(\$3.8)	(\$2.8)	(\$1.5)	(\$0.2)	(\$22.2)	(\$21.8)	(\$8.0)	\$10.1	\$28.7	\$27.0			
% of sales	(129.9%)	(102.4%)	(103.9%)	(79.9%)	(78.1%)	(62.5%)	(49.8%)	(37.0%)	(22.3%)	(12.9%)	(6.9%)	(1.0%)	(101.2%)	(53.1%)	(10.0%)	8.5%	18.4%	16.4%			
Growth	39.7%	16.6%	22.0%	10.7%	(0.6%)	9.8%	(13.2%)	(1.6%)	(32.9%)	(55.2%)	(71.0%)	(95.9%)	NM	NM	NM	NM	NM	1.0%			
Depreciation and Amortization	\$0.2	\$0.2	\$0.3	\$0.3	\$0.6	\$0.6	\$0.6	\$0.6	\$1.1	\$1.1	\$1.1	\$1.1	\$1.0	\$2.4	\$4.3	\$7.2	\$8.8	\$0.0			
Operating Profit	(\$5.0)	(\$5.4)	(\$5.1)	(\$5.6)	(\$6.3)	(\$6.3)	(\$5.6)	(\$6.0)	(\$4.9)	(\$3.8)	(\$2.5)	(\$1.3)	(\$23.2)	(\$24.2)	(\$12.3)	\$2.9	\$17.9	\$27.0			
% of sales	(134.4%)	(106.9%)	(109.1%)	(84.3%)	(86.4%)	(69.1%)	(55.8%)	(41.1%)	(28.5%)	(18.2%)	(11.9%)	(5.7%)	(105.9%)	(58.9%)	(15.3%)	2.5%	12.4%	16.4%			
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	50.6%			
Incremental Margin	(56.4%)	(30.6%)	(49.1%)	(27.1%)	(13.0%)	(21.7%)	10.0%	(2.8%)	14.2%	25.0%	28.0%	60.4%	(41.4%)	(5.3%)	30.1%	40.5%	55.7%	45.3%			
Other non-Operating Expense	\$1.0	\$1.1	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$2.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
Net Interest Expense	(\$0.0)	\$0.0	\$0.1	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
Earnings Before Taxes	(\$5.0)	(\$5.5)	(\$5.3)	(\$5.9)	(\$6.3)	(\$6.3)	(\$5.6)	(\$6.0)	(\$4.9)	(\$3.8)	(\$2.5)	(\$1.3)	(\$25.6)	(\$24.2)	(\$12.3)	\$2.9	\$17.9	\$27.0			
Margin	(157.2%)	(128.1%)	(112.7%)	(86.2%)	(86.4%)	(69.1%)	(55.8%)	(41.1%)	(28.5%)	(18.2%)	(11.9%)	(5.7%)	(116.9%)	(58.9%)	(15.3%)	2.5%	12.4%	16.4%			
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	50.6%			
Income Taxes	\$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	\$7.0	\$10.5			
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%	39.0%	39.0%			
Net Income	(\$5.0)	(\$5.5)	(\$5.3)	(\$5.9)	(\$6.3)	(\$6.3)	(\$5.6)	(\$6.0)	(\$4.9)	(\$3.8)	(\$2.5)	(\$1.3)	(\$25.6)	(\$24.2)	(\$12.3)	\$2.9	\$10.9	\$16.5			
Margin	(157.2%)	(128.1%)	(112.7%)	(86.2%)	(86.4%)	(69.1%)	(55.8%)	(41.1%)	(28.5%)	(18.2%)	(11.9%)	(5.7%)	(116.9%)	(58.9%)	(15.3%)	2.5%	7.5%	10.0%			
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	50.6%			
Earnings Per Share	(\$0.23)	(\$0.21)	(\$0.50)	(\$0.42)	(\$0.27)	(\$0.28)	(\$0.25)	(\$0.28)	(\$0.21)	(\$0.16)	(\$0.11)	(\$0.06)	(\$0.15)	(\$1.06)	(\$0.54)	\$0.13	\$0.48	\$0.72			
Shares Outstanding	1	1	1	14	23	23	23	23	23	23	23	23	4	23	23	23	23	23			
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	50.6%			
VERACYTE - CONSENSUS ESTIMATES																					
\$MM, ex. per share data	Q1:13	Q2:13	Q3:13	Q4:13	Q1:14E	Q2:14E	Q3:14E	Q4:14E	Q1:15E	Q2:15E	Q3:15E	Q4:15E	2013	2014E	2015E	2016E	2017E	2018E			
Revenue				\$6	\$7	\$9	\$10	\$13	N/A	N/A	N/A	N/A	\$21	\$40	\$71	\$108	\$120				
Growth								106.0%						85.0%	79.7%	48.0%	13.4%				
Actual/Cowen				\$7	\$7	\$9	\$10	\$15	\$17	\$20	\$21	\$22	\$22	\$41	\$80	\$118	\$145				
Gross Margin				N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
Actual/Cowen				49.2%	49.0%	51.0%	51.0%	52.0%	55.0%	60.0%	62.0%	65.0%	42.4%	51.0%	60.9%	66.0%	69.0%				
Operating Margin				N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
Actual/Cowen				(84.3%)	(86.4%)	(69.1%)	(55.8%)	(41.1%)	(28.5%)	(18.2%)	(11.9%)	(5.7%)	(105.9%)	(58.9%)	(15.3%)	2.5%	12.4%				
EPS				(\$0.38)	(\$0.32)	(\$0.31)	(\$0.29)	(\$0.31)	N/A	N/A	N/A	N/A	(\$1.83)	(\$1.24)	(\$0.64)	\$0.01	\$0.68				
Actual/Cowen				(\$0.42)	(\$0.27)	(\$0.28)	(\$0.25)	(\$0.28)	(\$0.21)	(\$0.16)	(\$0.11)	(\$0.06)	(\$0.15)	(\$1.06)	(\$0.54)	\$0.13	\$0.48				

Source: Company Reports, Thomson One, and Cowen and Company.

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.

Addendum

Stocks Mentioned In Important Disclosures

Ticker	Company Name
ILMN	Illumina
TMO	Thermo Fisher Scientific
VCYT	Veracyte

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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

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Cowen And Company Rating Definitions

Distribution of Ratings/Investment Banking Services (IB) as of 12/31/13

Rating	Count	Ratings Distribution	Count	IB Services/Past 12 Months
Buy (a)	415	59.20%	68	16.39%
Hold (b)	270	38.52%	4	1.48%
Sell (c)	16	2.28%	1	6.25%

(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.

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Veracyte Rating History as of 03/18/2014

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Illumina Rating History as of 03/18/2014

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Thermo Fisher Scientific Rating History as of 03/18/2014

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Legend for Price Chart:

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

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