

Life Sciences Technology

Veracyte, Inc. (VCYT) - BUY

Price: **\$16.02**
Fair Value Estimate: \$25.00
52-Week Range: \$10.88-\$19.00
Market Cap (MM): \$339
Shr.O/S-Diluted (mm): 21.2
Average Daily Volume: 66,113
Book Value: \$2.38

FYE: Dec	2014E	2015E	2016E
EPS:	\$(1.22)E	\$(0.85)E	\$(0.10)E
Prior EPS:	NC	NC	NC
P/E:	NA	NA	NA

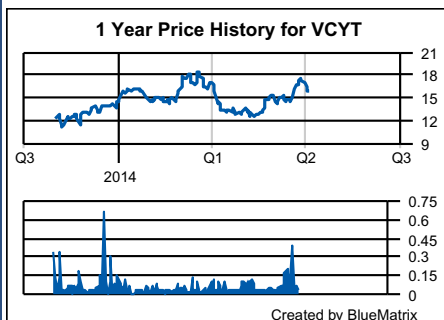
Quarterly EPS:

	2014E	2015E	2016E
Q1	\$(0.32)A	NA	NA
Q2	\$(0.30)E	NA	NA
Q3	\$(0.32)E	NA	NA
Q4	\$(0.28)E	NA	NA

FYE: Dec	2014E	2015E	2016E
Revenue (M):	\$40.8E	\$80.0E	\$120.0E

Quarterly Revenue (M):

	2014E	2015E	2016E
Q1	\$7.5A	NA	NA
Q2	\$9.5E	NA	NA
Q3	\$10.1E	NA	NA
Q4	\$13.7E	NA	NA



**Equity Research
Note**

8 million more covered lives; next steps

INVESTMENT CONCLUSION:

Veracyte announced positive coverage decisions from two new Blue Cross Blue Shield (BCBS) affiliated organizations on July 3rd. While the addition of another 8 million covered lives for the gene signature test (GEC) is incremental to the 125 million previously covered, we not believe that the recent announcements will have a significant impact on our near-term forecasts. Further favorable coverage decisions, especially for the remaining 90 million uncovered lives in the BCBS network, and a recommendation of use by the American Thyroid Association are key the next steps for Veracyte. We reiterate our BUY rating and fair value of \$25.

KEY POINTS:

- Adding to the positive BCBS coverage decision by Premera Blue Cross in May, Highmark, Inc. and Horizon Blue Cross Blue Shield of New Jersey issued positive coverage decisions for Veracyte's Afirma GEC on July 3rd. Now, 4 [including Wellmark] of BCBS's 37 affiliated organizations have issued positive coverage decisions for Veracyte's Afirma GEC. In total, roughly 10% of Blue Cross Blue Shield's network of 100 million Americans are now covered for the GEC. With the addition of Highmark [4 million lives] and Horizon BCBS of NJ [3.6 million], the company's test is now covered for a total of 133 million lives. Horizon BCBS of NJ will start coverage the Afirma GEC test on July 26, while Highmark will begin in September.
- One interesting piece of information that we noticed in the release of Highmark's June 2014 *Policy Review and News* is that the BCBS payer considers the multi-panel gene expression test medically necessary when three criteria are met: 1) patients have an indeterminate FNA sample; 2) nodules are greater than or equal to 1 cm in size; 3) patients with one or more thyroid nodules have a history of characteristics suggestion malignancy (i.e. nodule growth over time, family history of thyroid cancer, hard nodule, exposure to radiation, etc.). The second criteria, nodules greater than or equal to 1 cm in size, was not included in Horizon Blue Cross Blue Shield nor Medicare thought-leader Palmetto GBA's reimbursement announcements.
- According to a 2009 publication of *Clinical Thyroidology for the Public* released by the American Thyroid Association, papillary microcarcinoma, a form of papillary thyroid cancer that is 1 cm or smaller in diameter, accounted for almost half of the thyroid cancers diagnosed over the past three decades. One potential reason for Highmark's additional guideline is that it was estimated in the same 2009 report that the 10-year mortality rate was less than 1% for patients with microcarcinoma. However, we have seen mixed data on mortality rates. In a clinical study published in the *International Journal of Endocrinology* in 2013, researchers found mortality rates of 7% across the board for patients papillary thyroid carcinoma (PTC), microcarcinoma (PTMC), and multifocal papillary thyroid carcinoma (20-30% of all PTC instances). Not covering patients with nodules below 1 cm in diameter could impact Highmark's reimbursement of some GEC test for patients with indeterminate FNA samples; however, Highmark only accounts for 4 million covered lives. Monitoring further guideline and coverage decisions to see if nodule size becomes a key criteria will be important going forward.

**Research Analyst Certifications and Important Disclosures
are on pages 2 - 3 of this report**

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Paul Knight, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

Janney Montgomery Scott LLC ("Janney") Equity Research Disclosure Legend

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from Veracyte, Inc. in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

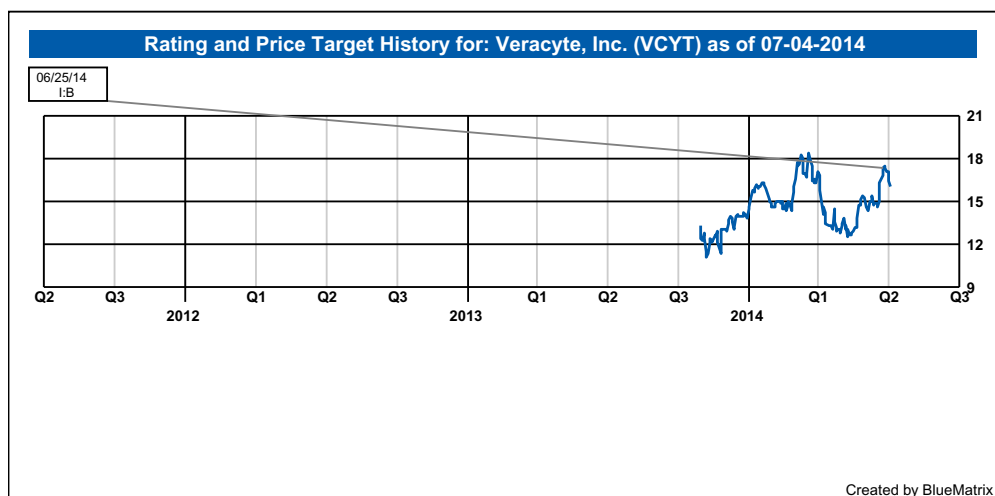
Definition of Ratings

BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 3/31/14

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [B]	221	54.57	53	23.98
NEUTRAL [N]	182	44.94	28	15.38
SELL [S]	2	0.49	0	0.00

***Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.**

Other Disclosures

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