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Reason for report:

EARNINGS

NANOSTRING TECHNOLOGIES

Off to a Solid Start, Outlook Unchanged

• **Bottom Line:** NSTG's first quarter report as a public company delivered an upside surprise to the top line. Our forecasts are largely unchanged and we continue to rate the stock Outperform with a \$15 price target.

• **Cancer research and biopharma drive strength.** NanoString reported revenue of \$7.2M, above our \$6.7M forecast. Strength was driven by cancer researchers and biopharma. Cancer research customers comprised 75% of new instrument sales while biopharma customers accounted for the remaining 25% of instrument sales and 35% of consumable sales. One customer purchased their 5th and 6th instruments during 2Q:13 and is now one of NSTG's largest customers. Another biopharma customer ordered >\$500K in consumables during the quarter. Consumable pull-through was solid as well, averaging >\$100K on an annualized basis and at the high-end of company expectations.

• **Commercial team expanded during 1H.** NTSG increased its Life Science sales team by ~30% during 1H. The company also added 7 new distributors including in Brazil, India and Russia and bringing the company total to 13. We expect that the company's broadened footprint will drive meaningful results in 2H 2013.

• **New nCounter Elements chemistry unveiled.** NSTG introduced its new nCounter Elements chemistry at the American Association for Clinical Chemistry (AACC) last week. The technology allows researchers to independently develop multiplexed genomic assays that can be translated into clinical diagnostics tests. The company will begin offering the product though an early access program this month. The addressable market for highly complex labs is ~9,000 labs.

• **Diagnostics business off the ground ex U.S.** NTSG placed three nCounters to diagnostics customers, including two to medical centers in Spain for decision impact studies; and, one to a Europe-based commercial lab that plans to market the Prosigna test in the Middle East. The company still expects to enter the U.S. market in early 2014 following FDA clearance.



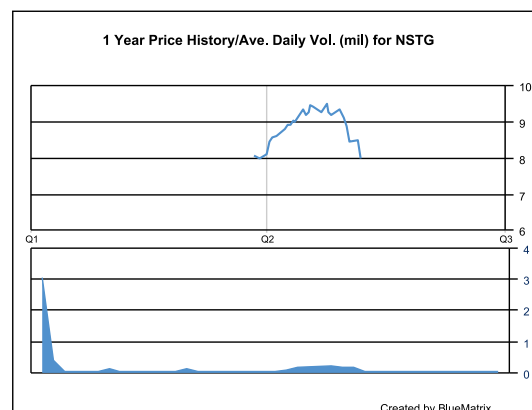
LEERINK SWANN

HEALTHCARE EQUITY RESEARCH

Key Stats:

(NASDAQ:NSTG)

S&P 600 Health Care Index:	1,112.48
Price:	\$8.00
Price Target:	\$15.00
Methodology:	~3.5x revs for TTM ended Jun 2015e
52 Week High:	\$10.00
52 Week Low:	\$7.81
Shares Outstanding (mil):	14.6
Market Capitalization (mil):	\$116.8
Book Value/Share:	\$(0.14)
Cash Per Share:	\$4.18
Net Debt to Total Capital:	(27)%
Dividend (ann):	\$0.00
Dividend Yield:	0.0%

*Book Value/Share: estimated**Net Debt to Total Capital: estimated*

Dec Yr	1Q	2Q	3Q	4Q	FY Rev	1Q	2Q	3Q	4Q	FY EPS	PEG
2012A	\$4.5	\$5.9	\$6.0	\$6.5	\$23.0	(\$0.46)	(\$0.49)	(\$0.53)	(\$0.72)	(\$2.21)	NM
2013E - New	\$5.7A	\$7.2A	\$7.9	\$9.6	\$30.4	(\$0.79)A	(\$0.78)A	(\$0.66)	(\$0.90)	(\$3.13)	NM
2013E - Old	\$5.7A	\$6.7	\$7.9	\$9.8	\$30.1	(\$0.79)A	(\$0.85)	(\$0.65)	(\$0.90)	(\$3.18)	NM
2014E - New	--	--	--	--	\$52.1	--	--	--	--	(\$2.23)	NM
2014E - Old	--	--	--	--	\$51.7	--	--	--	--	(\$2.18)	NM
2015E - New	--	--	--	--	\$82.8	--	--	--	--	(\$1.22)	NM
2015E - Old	--	--	--	--	\$82.2	--	--	--	--	(\$1.18)	NM

Source: Company Information and Leerink Swann LLC Research
Revenues in \$millions

EPS ex-extraordinary 1x items, FAS 123 option expense included



INVESTMENT THESIS

We rate Seattle, Washington-based NanoString Technologies (NanoString) with an Outperform rating and apply a \$15 price target to it. The company's proprietary technology fills an important role in the research market by enabling mid-density gene analysis in formalin-fixed, paraffin embedded (FFPE) samples. This capability translates readily to oncology diagnostics, in which NanoString's nCounter Analysis System promises to enable complex molecular testing in a decentralized setting. Our Outperform rating reflects a view that NanoString's revenue growth opportunities, in both life science research and clinical diagnostics, are underappreciated at current levels.

VALUATION

Our 12-month price target for NSTG reflects an enterprise value (using projected levels of debt and cash) that is ~3.5x our revenue forecast for the twelve months ended June 2015. We prefer revenue multiples for companies not yet meaningfully profitable. This multiple is consistent with the life science tools and diagnostics peer group median EV/FTM revenue, which we believe appropriately balances NSTG's greater revenue growth prospects with commercialization risks in diagnostics.

RISKS TO VALUATION

Risks to our valuation for NSTG include, but are not limited to: Prosigna commercialization uncertainty in both the U.S. and Europe, FDA clearance in the U.S., competition, and tightening research budgets. While we model the company raising equity in 2014 to help fund operations, its ability to tap the equity markets or obtain additional funding may be a potential uncertainty.

NanoString (NSTG)
Income Statement

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	2010	2011	Mar-12	Jun-12	Sep-12	Dec-12	2012	Mar-13	Jun-13	Sep-13e	Dec-13e	2013e	2014e	2015e
Revenue														
Product	\$11,506	\$17,109	\$3,833	\$5,335	\$5,456	\$6,235	\$20,859	\$5,338	\$6,828	\$7,493	\$9,217	\$28,876	\$50,519	\$81,061
Service	224	691	669	608	579	258	2,114	338	390	405	400	1,533	1,610	1,771
Total revenue	11,730	17,800	4,502	5,943	6,035	6,493	22,973	5,676	7,218	7,898	9,617	30,409	52,129	82,832
COGS	9,128	9,777	2,655	3,334	3,086	3,286	12,361	2,882	3,522	4,107	5,001	15,512	21,476	30,132
Gross profit	2,602	8,023	1,847	2,609	2,949	3,207	10,612	2,794	3,696	3,791	4,616	14,897	30,652	52,699
SG&A	8,027	9,529	3,165	3,249	4,382	4,690	15,486	6,126	6,708	8,372	12,118	33,324	44,309	50,527
R&D	7,547	8,990	1,998	3,126	2,650	3,860	11,635	3,059	3,626	4,502	5,193	16,380	21,894	23,066
Operating income (loss)	(12,972)	(10,496)	(3,317)	(3,766)	(4,083)	(5,343)	(16,509)	(6,391)	(6,638)	(9,083)	(12,695)	(34,806)	(35,551)	(20,894)
Interest expense (income)	65	589	307	202	107	167	783	382	486	602	592	2,062	2,352	2,318
Other expense, net	(269)	(153)	61	(9)	75	289	416	486	9	0	0	495	0	0
Pretax income	(12,768)	(10,932)	(3,685)	(3,959)	(4,265)	(5,799)	(17,708)	(7,259)	(7,133)	(9,684)	(13,287)	(37,363)	(37,903)	(23,212)
Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net income	(\$12,768)	(\$10,932)	(\$3,685)	(\$3,959)	(\$4,265)	(\$5,799)	(\$17,708)	(\$7,259)	(\$7,133)	(\$9,684)	(\$13,287)	(\$37,363)	(\$37,903)	(\$23,212)
Basic shares outstanding			8,018	8,018	8,018	8,018	8,018	9,195	9,201	14,651	14,701	11,937	16,826	19,026
Diluted shares outstanding			8,018	8,018	8,018	8,018	8,018	9,195	9,201	14,651	14,701	11,937	16,826	19,026
EPS diluted			(\$0.46)	(\$0.49)	(\$0.53)	(\$0.72)	(\$2.21)	(\$0.79)	(\$0.78) (1)	(\$0.66)	(\$0.90)	(\$3.13)	(\$2.23)	(\$1.22)
<i>EPS growth</i>														
Sales growth		51.7%					29.1%	26.1%	21.5%	30.9%	48.1%	32.4%	71.4%	58.9%
Gross margin	22.2%	45.1%	41.0%	43.9%	48.9%	49.4%	46.2%	49.2%	51.2%	48.0%	48.0%	49.0%	58.8%	63.6%
SG&A % of revenue	68.4%	53.5%	70.3%	54.7%	72.6%	72.2%	67.4%	107.9%	92.9%	106.0%	126.0%	109.6%	85.0%	61.0%
R&D % of revenue	64.3%	50.5%	44.4%	52.6%	43.9%	59.5%	50.6%	53.9%	50.2%	57.0%	54.0%	53.9%	42.0%	27.8%
Operating margin	(110.6%)	(59.0%)	(73.7%)	(63.4%)	(67.7%)	(82.3%)	(71.9%)	(112.6%)	(92.0%)	(115.0%)	(132.0%)	(114.5%)	(68.2%)	(25.2%)
Tax 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%
D&A	\$972	\$1,454	\$815	\$573	\$579	(\$20)	\$1,947	\$464	\$437	\$371	\$456	\$1,728	\$1,659	\$2,211
EBITDA	(\$12,000)	(\$9,042)	(\$2,502)	(\$3,193)	(\$3,504)	(\$5,363)	(\$14,562)	(\$5,927)	(\$6,201)	(\$8,712)	(\$12,238)	(\$33,078)	(\$33,892)	(\$18,683)
Free cash flow														
Operarating cash flow	(\$10,965)	(\$10,692)	(\$2,630)	(\$4,113)	(\$3,859)	(\$4,206)	(\$14,808)	(\$9,009)				(\$38,638)	(\$37,584)	(\$20,773)
CapX	(1,932)	(2,688)	(133)	(91)	(87)	(117)	(428)	(136)				(1,736)	(5,105)	(5,833)
Free cash flow	(\$12,897)	(\$13,380)	(\$2,763)	(\$4,204)	(\$3,946)	(\$4,323)	(\$15,236)	(\$9,145)				(\$40,374)	(\$42,689)	(\$26,606)
Guidance														
Total revenue												\$29.5M - \$31.5M		
Segment revenue														
Life Science Tools	\$11,730	\$17,800					\$22,973	\$5,676	\$7,018	\$7,498	\$8,817	\$29,009	\$37,329	\$52,492
Diagnostics	0	0					0	0	200	400	800	1,400	14,800	30,340
Total revenue	\$11,730	\$17,800					\$22,973	\$5,676	\$7,218	\$7,898	\$9,617	\$30,409	\$52,129	\$82,832

Notes:
Source: Company reports and Leerink Swann estimates
(1) Excludes accretion of mandatorily redeemable convertible preferred stock and change in fair value of preferred stock warrant liability

NanoString (NSTG)

Balance Sheet (\$ thousands)	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13e	Sep-13e	Dec-13e
Assets								
Cash, equivalents, and short-term investments	\$13,783	\$9,412	\$5,361	\$21,692	\$11,794	\$10,755	\$49,928	\$36,552
Accounts receivable	2,613	3,702	4,111	3,322	4,356	4,779	4,927	6,061
Inventory	3,742	4,098	3,905	5,380	5,337	5,627	5,851	6,577
Other	<u>2,201</u>	<u>1,531</u>	<u>2,984</u>	<u>1,320</u>	<u>2,162</u>	<u>2,533</u>	<u>2,997</u>	<u>3,318</u>
Total current assets	22,339	18,743	16,361	31,714	23,649	23,694	63,703	52,507
Property and equipment, net	4,843	4,445	4,040	3,674	3,346	3,028	2,967	3,650
Goodwill	0	0	0	0	0	0	0	0
Other intangibles	0	0	0	0	0	0	0	0
Other	<u>331</u>	<u>383</u>	<u>378</u>	<u>2,018</u>	<u>2,580</u>	<u>3,768</u>	<u>3,768</u>	<u>3,768</u>
Total assets	\$27,513	\$23,571	\$20,779	\$37,406	\$29,575	\$30,490	\$70,438	\$59,926
Liabilities and shareholders' equity								
Notes payable and current maturities of long-term debt	\$0	\$0	\$0	\$2,789	\$4,021	\$2,675	\$2,642	\$2,627
Accounts payable	2,174	1,571	2,259	2,865	1,839	2,727	2,611	3,452
Accruals and other	<u>3,709</u>	<u>4,066</u>	<u>5,306</u>	<u>6,123</u>	<u>5,539</u>	<u>7,385</u>	<u>6,594</u>	<u>8,111</u>
Total current liabilities	5,883	5,637	7,565	11,777	11,399	12,787	11,846	14,189
Long-term debt	7,478	7,447	7,413	9,970	8,814	15,047	14,971	14,884
Other	<u>3,230</u>	<u>3,052</u>	<u>2,866</u>	<u>2,265</u>	<u>6,206</u>	<u>4,686</u>	<u>4,686</u>	<u>4,686</u>
Total liabilities	\$16,591	\$16,136	\$17,844	\$24,012	\$26,419	\$32,520	\$31,503	\$33,759
Shareholders' equity	\$10,922	\$7,435	\$2,935	\$13,394	\$3,156	(\$2,030)	\$38,935	\$26,167
Total liabilities, shareholders' equity, and minority interest	\$27,513	\$23,571	\$20,779	\$37,406	\$29,575	\$30,490	\$70,438	\$59,926



Disclosures Appendix

Analyst Certification

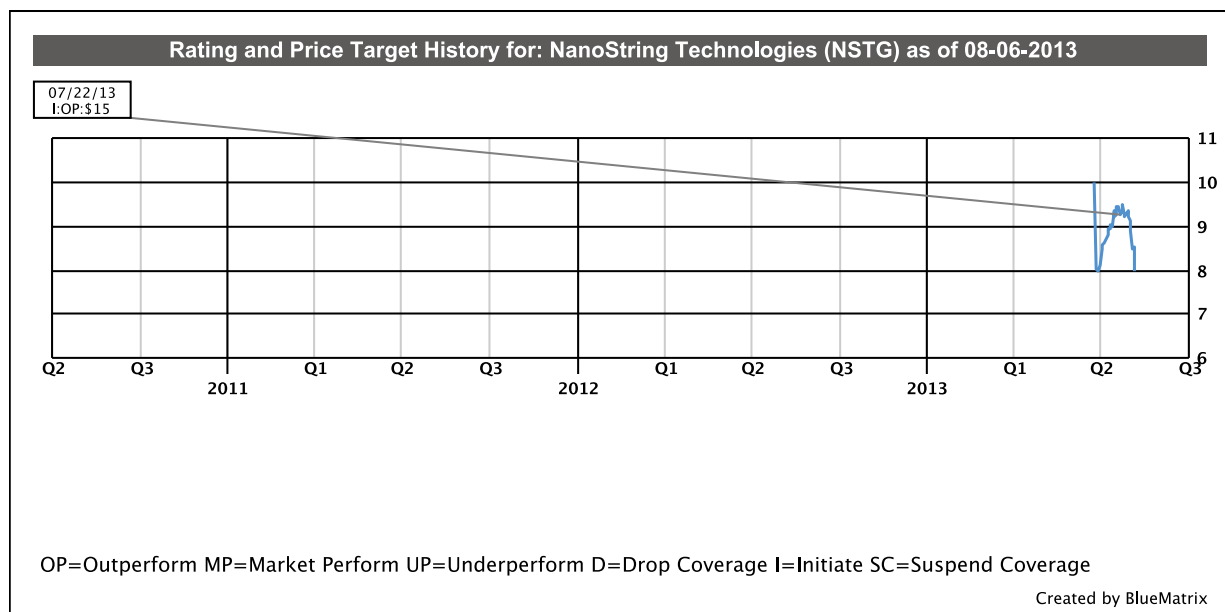
I, Dan Leonard, certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

Valuation

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Distribution of Ratings/Investment Banking Services (IB) as of 06/30/13				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OP]	103	62.80	30	29.00
HOLD [MP]	61	37.20	2	3.00
SELL [UP]	0	0.00	0	0.00

Explanation of Ratings

Outperform (Buy): We expect this stock to outperform its benchmark over the next 12 months.

Market Perform (Hold/Neutral): We expect this stock to perform in line with its benchmark over the next 12 months.

Underperform (Sell): We expect this stock to underperform its benchmark over the next 12 months. The degree of outperformance or underperformance required to warrant an Outperform or an Underperform rating should be commensurate with the risk profile of the company.

For the purposes of these definitions the relevant benchmark will be the S&P 600® Health Care Index for issuers with a market capitalization of less than \$2 billion and the S&P 500® Health Care Index for issuers with a market capitalization over \$2 billion.

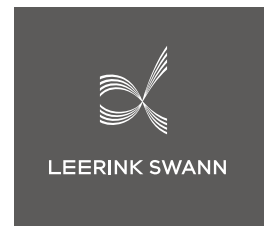
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Leerink Swann Consulting LLC, an affiliate of Leerink Swann LLC, is a provider of evidence-based strategy and consulting to the healthcare industry.

In the past 12 months, the Firm has received compensation for providing investment banking services to NanoString Technologies.



Leerink Swann LLC makes a market in NanoString Technologies.

Leerink Swann LLC has acted as a co-manager for a public offering of NanoString Technologies in the past 12 months.

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