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July 22, 2013

Stock Rating
Overweight

Industry View
In-Line

Initiation

NanoString Technologies Inc

Initiate at Overweight: Attractive emerging growth story at discounted valuation

NSTG offers: 1) a growing tools business with differentiated technology & attractive consumable revenue stream; 2) a novel molecular breast cancer test with advantages over leader Oncotype DX entering a ~$500M TAM. At 2.2x AV/'14e revenues, stock is undervalued, we see 48% upside.

The Prosigna molecular breast cancer test – distributed model the key: Prosigna is used to predict risk of distant cancer recurrence, a market dominated by GHDX's Oncotype DX. While we see several differentiating clinical features, the test's compelling economics (~$1,200 gross profit/test) & distributed model which allows labs to administer the test & share in the profits (different from the competition where a centralized model allows diagnostic test OEM to retain all the economics, excluding labs) are keys for adoption.

Differentiated (& overlooked) tools business: While the exciting Dx opportunity has garnered most of the market's attention, NSTG's life science tools business has a differentiated technology, attractive high margin consumable revenue stream ($100K/instrument per yr), a growing installed base & a healthy growth outlook.

Upcoming catalysts: Prosigna's FDA approval (Q4 '13) and US launch (Q1 '14). Release of EU decision impact studies and evidence of Prosigna's EU growth. Life science tools segment quarterly trends.

Key risks to PT: FDA approval. Reimbursement issues. Failure to obtain intended label for Prosigna. Disappointing Prosigna launch. Weaker tools results.

Attractive Valuation, $14 PT: At 2.2x AV/2014 revenues, NSTG trades (~50%) below FLDM, (~33%) below GHDX, valuation that is attractive in light of NSTG's superior growth (47% '12-15 CAGR vs. FLDM 21%, GHDX 13%).

Key Ratios and Statistics

Reuters: NSTG.O Bloomberg: NSTG US
Life Science Tools & Diagnostics / United States of America

Price target	**$14.00**
Shr price, close (Jul 19, 2013)	$9.44
Mkt cap, curr (mm)	$138
52-Week Range	$9.90-7.81

Fiscal Year ending	**12/12**	**12/13e**	**12/14e**	**12/15e**
Revenue, net ($mm)	23	29	52	73
EBITDA ($mm)	(15)	(35)	(34)	(21)
ModelWare EPS ($)	**(71.11)**	**(3.54)**	**(2.56)**	**(1.71)**

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
e = Morgan Stanley Research estimates

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For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

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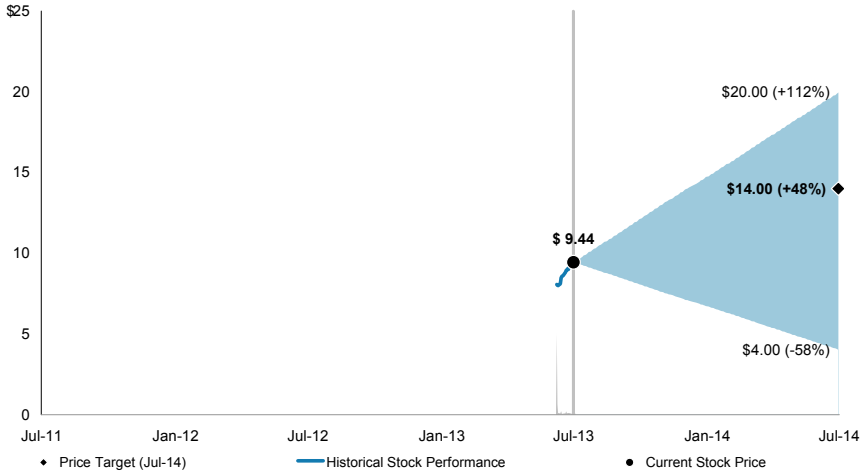
Risk-Reward View: Exciting diagnostic opportunity and underappreciated life science tools business create bias to upside



Source: Thomson Reuters, Morgan Stanley Research estimates

Price Target: $14

We reach our price target of $14 using a 4.2x 2014 AV / Sales multiple on base case sales of ~$52MM assuming a slight discount vs the peer group's median AV / 2013 Sales multiple of 4.4x with support from our sum of the parts analysis.

▲ Bull Case: $20 — **5.0x 2014 AV / Sales**

Our bull case of $20 based on a 2014 AV / Sales multiple of 5x, reflects positive momentum from FDA approval of Prosigna in the US. We assume total revenues of ~$59MM, driven by +58% growth in life science instruments and diagnostics revs reaching $21MMM with US penetration at 11% for 2014.

Base Case: $14 — **4.2x 2014 AV / Sales**

Our base case $14 reflects a 2014 AV / Sales multiple of 4.2x on $52MM of revs driven by uptake in the US of the Prosigna breast cancer assay achieving 6-7% of the addressable market, increasing placements of Gen 2 nCounters and a successful launch of the Gen 3 instrument in smaller budget labs.

▼ Bear Case: $4 — **3.0x 2014 AV / Sales**

Our bear case of $4 reflects a 2014 AV / Sales multiple of 3x on $31.6MM of revs. Under this scenario, we assume that US diagnostic revenues fail to materialize and ramp of Gen 3 instruments is slower than expected while Gen 2 placements slow to 37 boxes instead of 52 boxes in our base case.

Investment Thesis

- Prosigna, NSTG's breast cancer molecular diagnostic assay, has a differentiated clinical profile which should provide for share gains.
- The company's distributed approach to molecular diagnostic testing allows local labs to participate in attractive economics of Prosigna assay and will help drive adoption.
- nCounter's differentiated attributes (superior multiplexing, workflow ease, no amplification, FFPE capability) support a healthy life science tools segment growth rate with attractive high margin consumable pull thru.

Key Value Drivers

- US Prosigna adoption is critical and dependent on FDA approval. Assuming approval in Q4 2013, we see Prosigna ramping to ~7% of the node negative ER+ early stage breast cancer market in 2014.
- Continued strength in nCounter placements: we expect the existing install base of Gen 2 instruments to grow +27% in 2014, augmented by successful launch of a Gen 3 box with lower throughput but also lower ASPs to drive penetration into smaller labs.
- Introduction of more diagnostic tests for nCounter platform: simplicity, throughput and digital nature of nCounter makes it ideal for diagnostic setting. Management plans to evaluate new assays for the system.

Risks to our Price Target

- Delay or failure to obtain FDA approval for Prosigna
- Weaker diagnostic ramp
- Failure to gain adequate reimbursement
- Competitor platforms or technologies outperform nCounter
- Sequestration in US a downside risk for tools business.

Investment Debates Summary

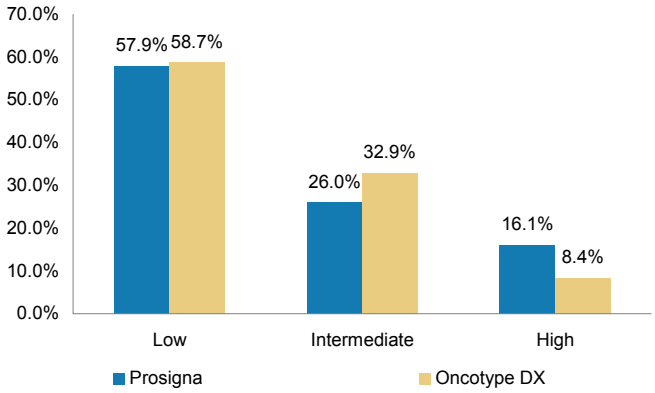
1. Can Prosigna compete with Oncotype DX?

Market's view: Mixed reviews, with many investors skeptical until FDA approval, more data and evaluation of the launch.

Our view: We believe that Prosigna represents a differentiated molecular diagnostic assay vs. leader Oncotype DX on several fronts: its greater sensitivity at identifying high risk patients, its ability to classify subtypes, and its expected FDA approved status.

Where we could be wrong: if Prosigna fails to receive FDA approval (or a material delay in approval), reimbursement worse than expected ($ amount and/or timing), oncologists are less constructive on clinical profile (insufficient data, prognostic label rather than Oncotype's predictive & prognostic).

Prosigna's greater sensitivity identifying high risk patients



Source: Company data, Morgan Stanley Research

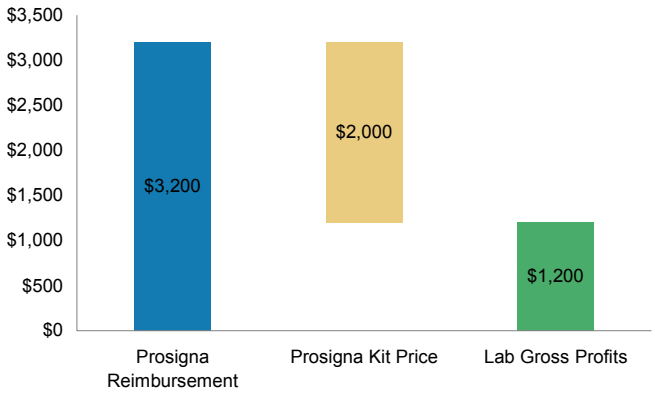
2. Will Prosigna's distributed model drive adoption?

Market's view: Existing breast cancer molecular diagnostic assays are all CLIA-based, with testing conducted in the diagnostic company's own central lab (s). NSTG's distributed approach is thus a departure from the industry norm. Hurdles include lab economics (need volume to adopt locally), reproducibility and need for trained labor.

Our view: The distributed approach is a significant driver of adoption due to attractive economics to adopting labs (~gross profit of $1,200/test). Ease of use of the nCounter platform and reproducibility study results support this approach.

Where we could be wrong: Lack of consistent reproducibility, the cost/investment for hiring trained staff depresses test profitability, volumes not sufficient to warrant adoption, allegiance to leader Oncotype overwhelm economic argument, reimbursement concerns.

Attractive economics for local lab a positive for Prosigna adoption



Source: Company data, Morgan Stanley Research

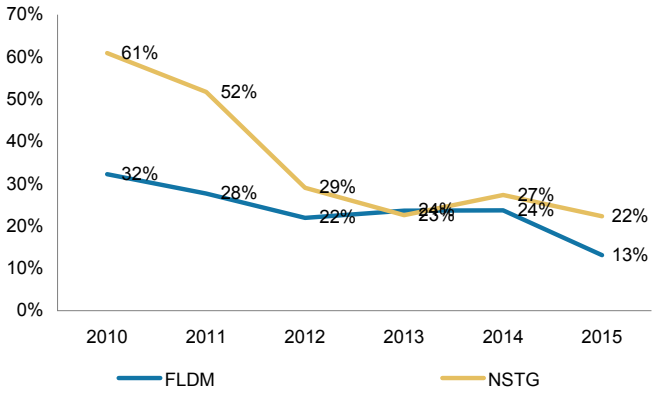
3. NanoString's life science tools business – niche or significant?

Market's view: Very limited investor interest in NSTG's tools business (nCounter) reflects low expectations for this business.

Our view: We expect reasonably attractive growth, given nCounter's differentiated attributes: superior multiplexing, workflow ease, no need for amplification, and FFPE capability.

Where we could be wrong: Market opportunity for nCounter turns out to be smaller than we expected, RNA Sequencing costs/ease of use improve such that becomes more viable competitor.

Underappreciated tools business: we expect growth to outpace closest peer FLDM



Source: Company data, Morgan Stanley Research

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Investment Positives

We see three key investment positives for NanoString:

- **Attractive diagnostic opportunity**: Prosigna will be entering a $500M+ WW breast cancer addressable market, where market share leader Genomic Health's Oncotype DX generated $200M+ in WW revenues in 2012. NanoString's Prosigna test already received approval (CE mark) in EU and Israel, with a launch earlier this year, and we expect FDA approval in Q4 of 2013 with launch in Q1 2014. With a differentiated clinical profile, FDA approval and attractive commercial model, we expect Prosigna to capture 7% share of the US market in 2014 and 12% in 2015. Our extensive diligence with 20+ oncologists, pathologists & researchers revealed a high level of awareness of the Prosigna assay, though with a wide degree of opinion ranging from those very bullish and eager to adopt vs. those very comfortable with Oncotype DX and reluctant to adopt given insufficient data and patient experience.

- **Compelling diagnostic business model:** the simplicity and high reproducibility of the company's life science tools instrument, the nCounter, combined with an FDA approved test, will allow NanoString to pursue a distributed approach to commercializing Prosigna. Namely, we expect many of the larger, more skilled labs in the US (teaching hospitals, some of larger comprehensive hospital labs, central labs) will be enthusiastic to adopt Prosigna based upon its clinical profile and very attractive lab economics. An analysis of US breast cancer treatment suggests 30% of US diagnosis occurs at teaching hospitals that likely have the requisite volume and expertise to adopt the test locally, in addition to 50% of diagnosis at comprehensive centers where many could have the requisite volume, hence signaling a large target market for local adoption (not to mention the potential for the large reference labs, where we expect interest to be significant). The oncologists and pathologists we consulted with revealed a healthy amount of interest towards adopting the test with economics an important factor.

- **Tools business with differentiated technology, growing revenue base and large addressable market:** As of Q2 '13, we estimate the company to have placed over 140 nCounters. We view the system to have several attractive attributes, including its superior multiplexing capability of up to 800 targets at once, ability to work with FFPE, high reproducibility given no amplification is required, and ease of use/limited hands on time to operate. At $23M in revenues, after growing nearly 50% the prior 3 years (29% in 2012), we view NanoString's tools business to have a significant growth opportunity ahead. Customer feedback was skewed heavily toward those with positive feedback on the nCounter (though we spoke largely with existing owners). Drivers of future

growth include an expanded sales channel (larger number of dedicated sales force plus numerous new OUS distributor relationships), increasing awareness, benefitting from the growth of the overall addressable market, and new product introductions (new chemistry during 2013, new desktop version of the instrument in 2014 and new single cell capability).

Investment Risks

We see several risks associated with the NSTG story:

FDA approval: we view this as the biggest risk. The company filed for FDA approval (510K) of its Prosigna diagnostic test in December in 2012 and received a request for additional information in March 2013, which the company responded to in May of 2013. The company submitted results from the TransATAC study, which included more than 1,000 patients, its multi-site analytical validation studies, and ABCSG8 study which included more than 1,400 patients, as its regulatory package. While we believe the trial outcomes, statistical significance, patient numbers and trial protocols are sufficient for approval, there is no guarantee the FDA will agree. In addition, Prosigna is a complex molecular test intended to be operated by local labs, creating risk around the ability to produce reliable consistent results (though the two key reproducibility studies the company ran plus dozens of others point to a robust reproducibility profile). While Prosigna received CE mark (approval) in EU and Israel in 2012, there is no guarantee such approval will translate into a favorable FDA decision. Given the significant growth expectations for Prosigna in the US market, any delay or worse yet outright rejection could have meaningful negative implications for the company and the stock.

Prosigna label not as comprehensive as planned: The company is expecting the Prosigna label to categorize patients into one of three different risk categories (high, intermediate, low) in addition to containing a Risk of Recurrence score (0-100, positively correlated to the risk of distant cancer recurrence), similar to leader Oncotype DX. However, Agendia's MammaPrint is the predicate device, and MammaPrint does not have a continuous risk score, rather only categorizes patients into risk groups (low and high risk only). As a result, NanoString could be awarded a label that is not in line with its intention (for instance, no Risk of Recurrence score), which could limit its profile vs. market leader Genomic Health.

Reimbursement: The company is planning to launch Prosigna during Q1 2014 in the US, and our model currently incorporates steady commercial traction beginning in Q1 2014. The company expects to successfully secure reimbursement coverage soon after approval, based upon its feedback thus far with payors, its favorable head-to-head data vs. GHDX's Oncotype DX (which is reimbursed widely), and its FDA approved status. Failure to secure adequate reimbursement would have a negative impact upon the launch and our forecasts.

Sequestration in the US creates downside risk to NanoString's US academic customer demand: A significant portion of NanoString's customer base is derived from US academic customers. Sequestration in the US (5% cut to F13 NIH funding) puts pressure on US academic customers' ability to purchase equipment and consumables. NanoString's instrument-related sales likely more at risk given preference for researchers to more significantly restrain equipment-related purchases in tighter funding regimes.

Life science tools competitive landscape: The competitive landscape of genetic tools companies offering solutions for downstream validation analysis is quite intense. Risks remain that competitor's technological improvements and price performance exceed that of the nCounter, leading to slower growth than expected. As price and ease of use of next gen sequencing continues to improve, this technology also needs to be closely watched as an increasing competitive threat.

NanoString is unprofitable; reaching profitability may take longer/be harder to attain then expected: As a small cap emerging growth company with expansion plans in 2 different end markets – life science tools and diagnostics – we anticipate NanoString will generate operating losses until Q4 2017, given the requirements to invest in SG&A and R&D to fund future growth. To the extent revenue growth fails to realize projections and the company is unable to reduce its cost structure, the company could continue to sustain operating losses longer than anticipated.

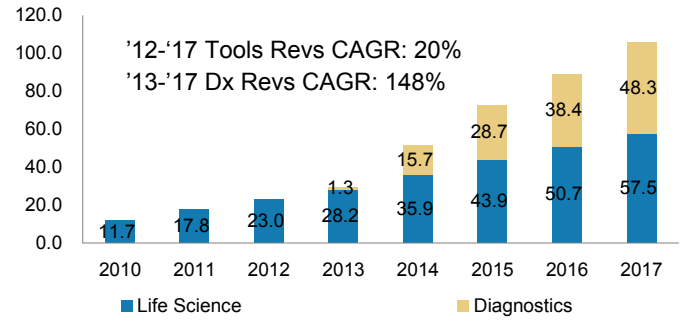
Future financing risk: Given our estimates which contemplate NanoString generates negative FCF until Q4 2017, we assume the company will conduct a financing in 2015 in order to continue to fund operations. Investors face the risk of more challenging financing conditions than we anticipate, which can translate into more costly financing than assumed.

NanoString Company Overview

NanoString Technologies, Inc. develops, manufactures and sells products for both life science research and diagnostic testing markets. Its nCounter Analysis System uses a novel barcoding technology to unlock scientifically valuable and clinically actionable genomic information from minute amounts of tissue. Advantages of the nCounter system include the ability to multiplex 800 targets in a single test tube, generation of digital data without amplification, and ease of use with limited hands on time. The nCounter is most often used for discovering and validating networks of genes and competes against other mid-plex molecular instruments including microarrays, Fluidigm's BioMark, qPCR instruments, and increasingly next gen sequencing.

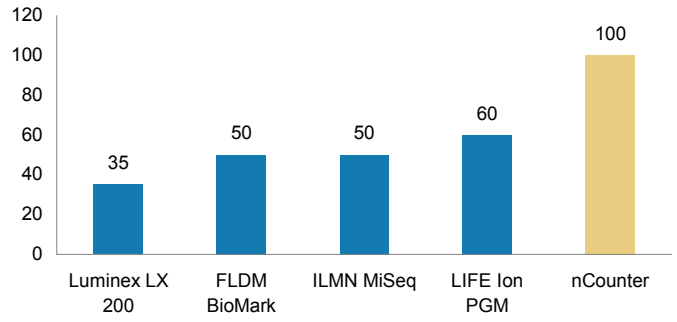
The company's diagnostic business is focused on the Prosigna Breast Cancer Assay, which incorporates 50 genes to test for a patient's risk of recurrence for breast cancer and classify the tumor's intrinsic subtype. Prosigna is CE marked and commercially available in Europe and Israel. The company is currently pursuing FDA clearance in the United States. NSTG is pursuing a distributed model where local labs purchase/rent nCounters and run the test themselves.

NanoString Revenues



Source: Company Data, Morgan Stanley Research estimates

nCounter has significant pull thru



Source: Company Data, Morgan Stanley Research

Life Science Tools Business

Sample Prep Station

Analyzer

Function	Discovery	Validation & Translation
Instruments	Next Gen Sequencing Microarrays	qPCR Microarrays **nCounter**
Analysis	Samples: 10-100s 1,000s of targets (genes)	Samples: 1,000 - 10,000s 10-100s of targets (genes)

Diagnostics Business

Traditional Approach

Factors used to make adjuvant breast cancer treatment decisions:

- Stage
- Tumor Grade
- Tumor Proliferation
- Hormone Receptor Study
- HER2 Status

oncotype DX® Breast Cancer Assay

Genomic Health test, launched in 2004
21 total genes (5 control genes)
2012 US breast cancer revenues: $199MM

prosigna™ Breast cancer gene signature assay

Genomic Approach

NanoString test, launched in 2013 EU, FDA pending
50 total genes (5 control genes)
Intrinsic Subtyping

Debate 1: Can Prosigna Compete with Oncotype DX?

NanoString's molecular breast cancer diagnostic test, Prosigna (*see boxed description below)*, is intended for use following surgery in early stage, node negative, hormone positive breast cancer patients, to predict the risk of distant cancer recurrence. We expect prescribing physicians to use the test to determine whether or not to treat patients post surgery with chemotherapy. The company's FDA filing occurred in Dec. '12, with the test already approved (CE mark) in Europe & Israel as of Sept. '12, & subsequently launched overseas in Feb. '13.

Genomic Health's Oncotype DX is the leading adjuvant breast cancer genetic test on the market, includes 21 genes (5 control), having launched and established this market beginning in 2004 with over 330K patients treated to date. Oncotype's DX leadership - as evidenced by its significant patient treatment history, reputation, inclusion in major cancer guidelines (ASCO, NCCN, St Galen), brand name, prognostic & predictive label, publications, experience & reputation – in addition to Genomic Health's experienced management, sales force, regulatory and reimbursement expertise, and superior balance sheet - present a significant challenge for any new tests attempting to make inroads.

What is Prosigna?

Molecular adjuvant breast cancer test, measures the expression of up to 50 genes (5 control genes).

Prosigna test results: based upon the gene expression of these 50 genes. 1) classifies patients into one of three categories, i) low risk for 10 year distant cancer recurrence, ii) intermediate risk, iii) high risk; 2) provides a Risk of Recurrence (ROR) score, a numerical score (1-100), shown to be significantly related to risk of distant cancer recurrence; 3) provides intrinsic sub-type info.

Intrinsic subtypes: Prosigna assigns a patient into 1 of 4 different subtypes (Luminal A, Luminal B, HER2-enriched, and Basal-like), which are based upon the fundamental biology of an individual's tumor. Subtypes have been shown to convey valuable info about a patient's prognosis & likelihood of response to specific therapies. EU guidelines/Prosigna's EU label include subtyping.

Target patient population: Node negative (early stage), hormone receptor positive, breast cancer patients.

Expected label: prognostic (predicts the 10-year risk of distant breast cancer recurrence).

Despite these Oncotype strengths, we are confident in Prosigna's ability to effectively compete in the adjuvant breast cancer testing market and capture significant market share beginning in 2014, based upon a number of factors, which we address below.

Greater sensitivity to classify high risk patients

The Oncotype DX molecular test, given post surgery to determine the risk of distance cancer recurrence, is reported as a recurrence score (RS), ranging from 0-100, divided into low risk (<18), intermediate risk (18-30) and high risk (>18) categories. Patients with a low RS (<18) are typically spared adjuvant chemotherapy treatment whereas patients with a high RS (>18) are typically prescribed adjuvant chemotherapy.

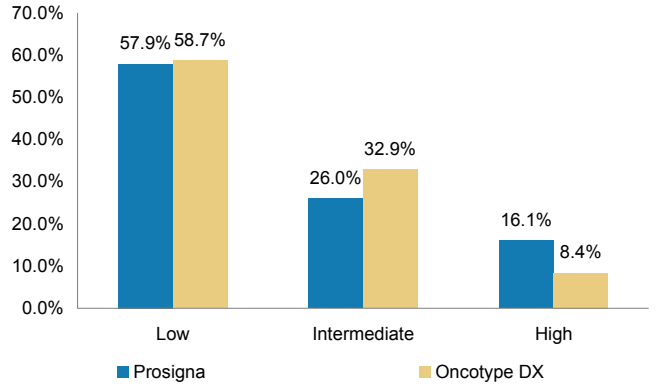
The post surgical decision whether to prescribe chemotherapy is more difficult for patients deemed to have an intermediate risk of recurrence. A meta analysis covering eight studies totaling 1,437 patients of Oncotype patients depicted 37% of intermediates receive chemo (*The impact of the Oncotype DX breast cancer assay in clinical practice: Systematic review and meta-analysis. J Clin Oncol 30, 2012).*

NanoString's head-to-head data vs. Oncotype DX in the TransATAC study depicted Prosigna's ability to more accurately classify high & intermediate risk patients, which we believe will be a very important differentiating feature of Prosigna's clinical profile. In this study of more than 1000 patients, Prosigna defined a high-risk patient category which was 57 patients greater in size (119 vs. 62, 92% greater) than that of Oncotype DX, and an intermediate patient population which was 51 patients (21%) smaller than that of Oncotype DX. By appropriately shifting a significant portion of 'intermediate risk' patients as deemed by OncoType into the 'high risk' category, the Prosigna test would lower the chances that these patients will be undertreated (as only ~1/3 of 'intermediates' are given chemotherapy).

Our diligence with oncologists indicated the majority of intermediate risk patients are prescribed chemotherapy (as a precautionary stance, i.e., better safe than sorry), thus different than the meta analysis cited above (note: the meta analysis covered 1437 patients, far in excess of our oncologist checks). Even for those who tend to prescribe chemo to intermediate patients, we believe doctors and patients will recognize the improved precision the Prosigna test offers, something which

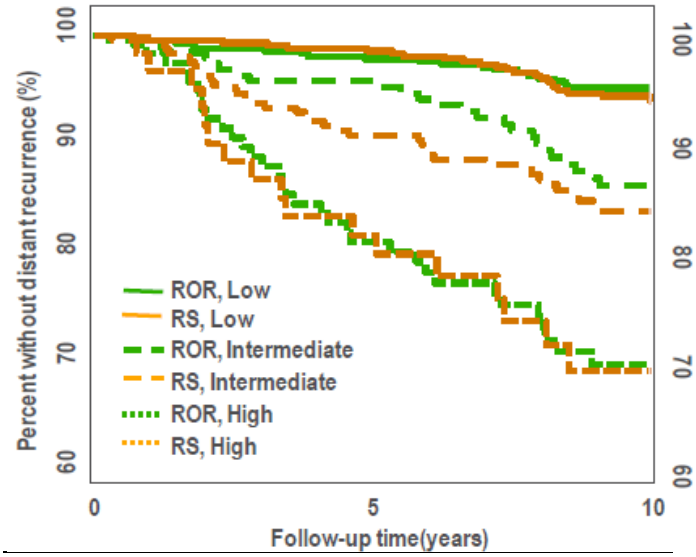
will be an important differentiating feature of Prosigna's clinical and commercial profile.

Exhibit 1
Prosigna vs. Oncotype DX in pivotal TransATAC study



Source: Dowsett et al. SABCS 2011, Morgan Stanley Research

Exhibit 2
Prosigna's superior classification of 'intermediate & high risk' patients vs. Oncotype DX as evidenced by Kaplan Meir curves in the TransATAC study

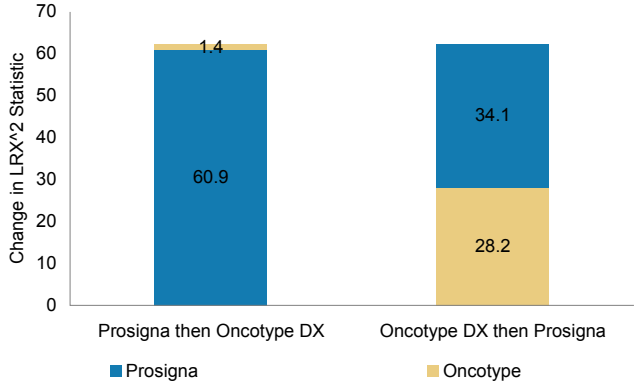


Source: Dowsett et al. SABCS 2011, no clinical treatment score. Morgan Stanley Research

Superior prognostic power

In addition, a secondary endpoint in the TransATAC study evaluated to what degree Prosigna adds prognostic value when administered subsequent to an initial diagnosis via the Oncotype DX test. Results showed Prosigna added statistically significant information to the diagnosis when administered post Oncotype, whereas when Prosigna was administered first, Oncotype did not generate a significant impact, thus demonstrating Prosigna's superior diagnostic power for predicting cancer recurrence.

Exhibit 3
Prosigna adds significant value when administered after Oncotype DX, whereas Oncotype did not when administered after Prosigna



Source: Dowsett et al. SABCS 2011, does not include clinical treatment score, does include tumor size. Morgan Stanley Research.

Intrinsic Subtyping

Breast cancer is a heterogeneously and phenotypically diverse disease. While molecular profiling has significantly improved upon diagnosis relying upon traditional histological and/or cytological criteria, the concept of intrinsic subtyping further advances the paradigm of breast cancer diagnosis. The underlying basis of the Prosigna assay is based upon the concept that there are four distinct breast cancer subtypes (Luminal A, Luminal B, HER2-enriched, and Basal-like), each of which require a different treatment protocol. The concept of intrinsic subtypes was first described in year 2000 and since then over 3,000 peer reviewed publications have addressed this topic.

As a result, by providing a more detailed view of tumor biology via these subtype classifications, Prosigna has the potential to inform not only the decision of whether to administer adjuvant chemotherapy, but also potentially inform other important treatment decisions (including specific chemotherapy selection, treatment duration, radiation decision).

In Europe, the Prosigna test result, in addition to providing a Risk of Recurrence score & classifying patients as low, intermediate or high risk for cancer recurrence, also includes a

classification into one of the four intrinsic subtypes. In June of 2011, St. Galen International Breast Cancer Treatment Guidelines adopted intrinsic subtypes as a standard approach for classifying early stage breast cancer and as the basis for making therapy recommendations.

Exhibit 4

St. Galen Guidelines are focused on intrinsic subtypes

Luminal A	Endocrine therapy alone
Luminal B	If HER2-, endocrine +/- cytotoxic therapy If HER2+, cytotoxics and anti-HER2 and endocrine therapy Could include anthracyclines and taxanes
HER2 Enriched	Cytotoxics and anti-HER2 Could include anthracyclines and taxanes
Basal Like	Cytotoxic therapy alone Could include anthracyclines, taxanes, and an aklylating agent (typically cyclophosphamide) Cisplatin or carboplatin should not be routinely used

Source: Company Data, Morgan Stanley Research

While enthusiasm is reasonably high from our diligence amongst the US medical community towards subtyping, the company is not seeking this indication for Prosigna as part of its initial FDA approval (given the predicate test, MammaPrint, does not provide subtype information). However, NanoString management does plan to conduct future studies that would provide for this label in the US.

While Oncotype does not offer subtyping capability, Agendia's competing molecular breast cancer test does. The latter's BluePrint diagnostic assay measures 80 genes and classifies breast cancer into Basal-type, luminal-type (includes both luminal A and B) and ERBB2-type cancers.

FDA approval

Oncotype DX, the leader in genomic breast cancer diagnostic testing, is a CLIA based test. Other competitors in molecular breast cancer testing also all operate under a CLIA model (tests conducted by the company at its own CLIA lab (s) rather than in kit form and distributed for local labs to run). While Agendia's MammaPrint is FDA approved (though only in the fresh frozen format, not in the FFPE, which is the format where usage has been increasing), the company still administers the test thru its own labs.

NanoString is seeking FDA approval under a 510K approach (with MammaPrint as the predicate), based upon two pivotal studies, TransATAC and ABCSG8, which in total covered 2,485 patients. ABCSG8 is the primary study in the FDA package as this study followed the protocol which will be commercialized in the US, namely local labs running Prosigna in ABCSG8 started with tissue blocks from which pathologists extracted RNA using the kit provided by NanoString (in contrast, in TransATAC, local labs started with RNA that had already been extracted by Genomic Health at its own labs). While it is difficult to discern to what if any degree to date the lack of FDA approval has been a determinant towards adoption of the market leader Oncotype, we expect FDA approval to serve as a helpful differentiating feature with doctors, payors and consumers. We anticipate FDA approval will also be a factor influencing guideline committees towards considering Prosigna for inclusion.

While the CLIA model for lab developed tests (LDTs) is well established, the FDA has made commentary in the past (including most recently at ASCO 2013) and hosted forums focused on its desire to regulate the LDT market. With an FDA approval, Prosigna will not be subject to future risks of the outcome of the FDA's stance towards the LDT market.

Exhibit 5
Competitive landscape for molecular breast cancer tests

Company	Test	Genes	Tech	FDA Approval	Clinical Trial Patients	Predictive/Prog-nostic
Genomic Health	Oncotype DX	21	rt PCR	No	5700	Predictive & Prognostic
Agendia	Mammaprint	70	rt PCR	Yes	2375	Prognostic
NanoString	Prosigna	50	Digital Barcoding	Application Filed	2485	Prognostic
Clarient	Mammastrat	5	IHC	No	4500	Prognostic
bioMerieux	Breast Cancer Index		rt PCR	No	NA	Prognostic

Source: Company Data, Morgan Stanley Research

Clinical & Commercial Hurdles to Adoption

Despite Prosigna's differentiated clinical profile, we encountered a number of pushbacks towards adopting Prosigna during our diligence with oncologists and pathologists. These include:

- Volume of patients treated: Prosigna's FDA package includes data from two studies, TransATAC and ABCSG8, which combined included treatment of ~2,500 patients. Several potential customers spoke of their comfort with the much larger and longer treatment experience with Oncotype (over 9 years on the market, >330K patients treated, 13 clinical studies, over 25 decision impact/economic impact studies) and indicated a preference to wait until Prosigna's treatment experience (and likely commiserate publication volumes) grow, before they seriously evaluate it for adoption.

- Prognostic label: Assuming FDA approval, Prosigna will receive a 'prognostic' label (predict the risk of distant cancer recurrence), which is the norm for the majority of competitors. However, Oncotype DX is unique in having a prognostic & 'predictive' label (test predicts likelihood of chemotherapy benefit). Our diligence with oncologists and pathologists on this point was mixed, regarding whether Prosigna's 'prognostic' label would be sufficient to make a chemotherapy treatment decision (some agree it will, while others strongly disagreed).

- Retrospective prospective clinical studies: NanoString's current FDA clinical package for Prosigna is based upon two retrospective prospective studies (as opposed to prospective studies), a cause of concern amongst some investors regarding whether the FDA will approve the test. However, the company is confident in its clinical trial data set and approach, noting the FDA's own guidelines accept this retrospective prospective approach for the intended indication. Namely, FDA Draft Guidance for Gene Expression Profiling Test Systems for Breast Cancer stated: "Retrospective analysis of prospectively collected banked samples may be acceptable if appropriate measures are taken to identify and either remove or mitigate any biases in the study set. We recommend that you discuss with FDA your specific proposed study to determine whether it is adequate." In addition, a paper published in 2009 in JNCI by Simon, Paik & Hayes titled "Use of Archived Specimens in Evaluation of Prognostic and Predictive Biomarkers" established the criteria necessary to validate prognostic and predictive biomarkers based on retrospective studies using archival tissue.

Debate 2: Will Prosigna's distributed model drive adoption?

In addition to its differentiated clinical profile, NanoString intends to achieve success via its distributed commercial strategy, allowing lab customers to run the test and share in the economics. To date, the competitors in the molecular breast cancer testing market, led by Oncotype, have followed the CLIA approach where each company runs their tests at their own CLIA lab (s). Hence, the potential commercial impact of Prosigna's distributed approach hinges on several factors:

- Lab economics
- Lab technical's prowess (to run a complex molecular test) & test's reproducibility
- Lab interest in economics vs. clinical impact

While economically attractive, investor feedback was mixed on the impact upon adoption due to this approach, as Prosigna will be the first breast cancer molecular genetic test to follow this approach. We believe this model is a key factor towards the penetration ramp and size of Prosigna's opportunity.

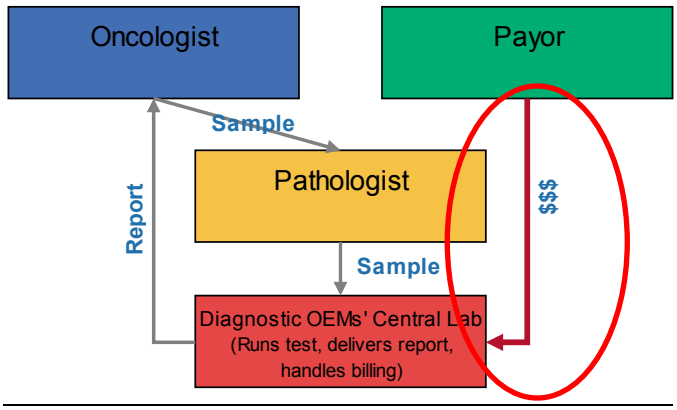
Prosigna's distributed approach

Exhibit 6 portrays a simplified workflow for a CLIA-based genetic breast cancer test. Importantly, the pathologist (and hospital/lab with which the pathologist is affiliated) do not share in the economics of the genetic test.

After breast cancer tissue is removed (during surgery or a biopsy), the pathologist examines the tissue sample under a microscope to make a diagnostic assessment of the breast cancer. If the cancer fits the profile to be eligible for an Oncotype DX (or a competitor's) test – early stage (stage 1 or 2, in Oncotype's case now indicated for stage 0), hormone receptor positive, node negative (though node positive sometimes also eligible), the pathology lab sends the tissue sample off to the molecular testing company's CLIA lab.

The diagnostic assay company controls the economics of the test, billing insurance and receiving reimbursement.

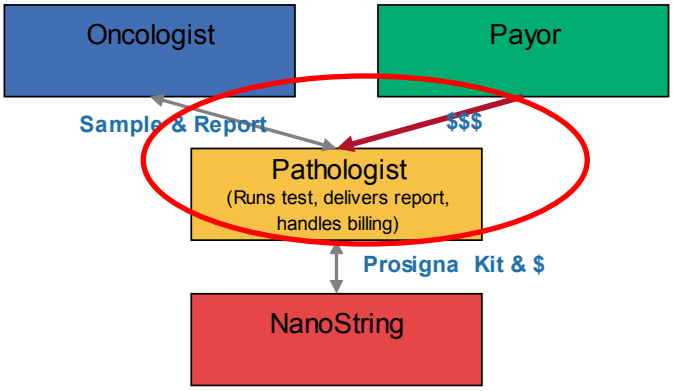
Exhibit 6
CLIA molecular breast cancer testing workflow: Local pathologist does not share in economics



Source: Company Data, Morgan Stanley Research

With an FDA approved test, NanoString's strategy entails placing its nCounter instrument locally at labs, with such labs running the test, interpreting the outcome, billing and receiving payment.

Exhibit 7
Prosigna FDA approved distributed testing workflow: Allowing lab running the test to share in the economics with attractive margin profile



Source: Company Data, Morgan Stanley Research

Lab Profitability – Compelling

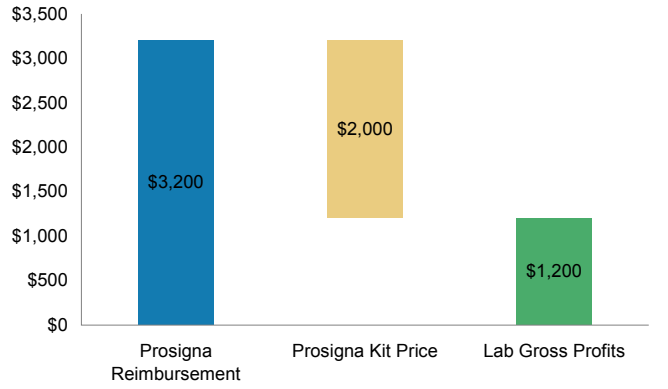
We believe a distributed approach will be quite appealing to many labs given the anticipated lab economics of such a strategy. We expect Prosigna's pricing strategy to realize

reimbursement level comparable to that of Oncotype, which itself carries a retail ASP of $4,290 (Agendia's MammaPrint has a retail price of ~$4,200), though the reimbursement level for Oncotype we understand between $3K-$4K. As a result, we believe it's reasonable to assume labs running Prosigna in the US to receive reimbursement around $3,200.

The COGS of the Prosigna test to the labs deploying the test is expected to be in $2,000 range. We expect the majority of adopting labs to engage in a reagent rental model, whereby the NanoString's nCounter instrument is placed at the lab without any capital investment (list price: ~$230,000) and instead there is a modest mark up (~10%) to the test price likely along with some form of minimum purchase commitments.

Exhibit 8

Lab economics for Prosigna – attractive profitability



Source: Company Data, Morgan Stanley Research

At $1,200 in gross profits per test (vs. $0 profits from labs utilizing competitor CLIA based tests, who send samples to the company's CLIA lab), we believe the Prosigna test will be quite appealing to many labs whose expertise and volumes warrant adoption.

Clinical impact vs. Economics

While such profitability makes the Prosigna test a very attractive economic option for labs, our diligence with nearly every oncologist, pathologist and lab director indicated very clearly that Prosigna's clinical data profile & the benefits to the patient come first. Hence, in order to even arrive at the discussion of Prosigna's differentiated lab economic profile, the test first needs to be considered at least on par with the lab's current molecular testing approach (with the vast majority today using Oncotype DX).

Our diligence with oncologists and pathologists revealed a fairly balanced skew of feedback across those who see Prosigna as having clinical advantages, those who were intrigued but were not convinced, and those who were stalwart fans of their current test (vast majority used Oncotype but Agendia also received recognition).

Granted our diligence touched a microcosm of the addressable market for oncologists and pathologists, but we were impressed by broad awareness of Prosigna and we expect such awareness and appreciation to grow with FDA approval and marketing. In addition, it is encouraging to see a competitor, namely Agendia, gaining traction in the past year with its molecular test portfolio (a significant driver of which was the new capability for the test to work with FFPE, the typical format in which patient tissue samples are stored).

Target markets

Evaluating the potential for Prosigna to achieve commercial success via its distributed approach requires evaluating the test's profile from two different customer vantage points: 1) the larger lab or hospital that has the volume/expertise to adopt the test itself, 2) the smaller hospital/lab which lack such volume and/or expertise and hence direct patients to a central lab (i.e., LH, DGX) to administer the testing.

To the extent a lab purchases the nCounter platform (list price $230,000) in order to adopt the Prosigna test, such a lab running 100 tests per year will 'break even' on a gross profit dollar basis around the 2 year time frame (with 2 years as a reasonable proxy for the time frame under which a lab targets to reach break even on adoption of a new test). As a result, we consider labs capable of administering ~100+ Prosigna tests per year as an approximation of the lower limit of those who will be capable of adopting locally (vs. labs running <100 tests who will rely on a central lab).

Exhibit 9
Prosigna lab economics based upon testing volume

Tests per Month	Tests per Year	Revenue ($K)	Gross Profit ($K)	Years to Breakeven
1	12	$38	($223)	19.6
5	60	$192	($175)	3.9
10	120	$384	($115)	2.0
15	180	$576	($55)	1.3
20	240	$768	$5	1.0
25	300	$960	$65	0.8
30	360	$1,152	$125	0.7

Tests per Year	Total Gross Profit ($K)				
	1	2	3	4	5
12	($223)	($211)	($199)	($187)	($175)
60	($175)	($115)	($55)	$5	$65
120	($115)	$5	$125	$245	$365
180	($55)	$125	$305	$485	$665
240	$5	$245	$485	$725	$965
300	$65	$365	$665	$965	$1,265
360	$125	$485	$845	$1,205	$1,565

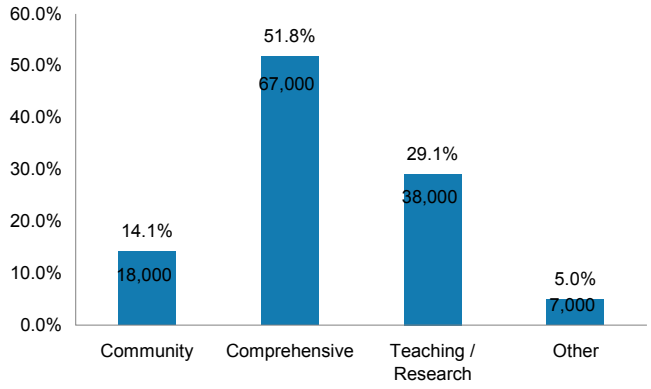
Source: Company Data, Morgan Stanley Research. Profit calculation assumes a lab purchases the nCounter or $230K.

We expect uptake in both target markets, though believe the bigger near term opportunity will be in penetrating the larger labs that can run the test & directly benefit from the economics.

Data from the American College of Surgeons covering accredited cancer programs in the US and Puerto Rico indicates 30% of all early stage (stage 1 & 2, the target for Prosigna) breast cancer diagnosis occurs at larger academic teaching hospitals. On average, each of these centers conduct >150 diagnosis per year, hence clearing the 100/test per year threshold for being a primary target for local adoption. These centers, 234 in the ASC database, only account for 18% of all facilities.

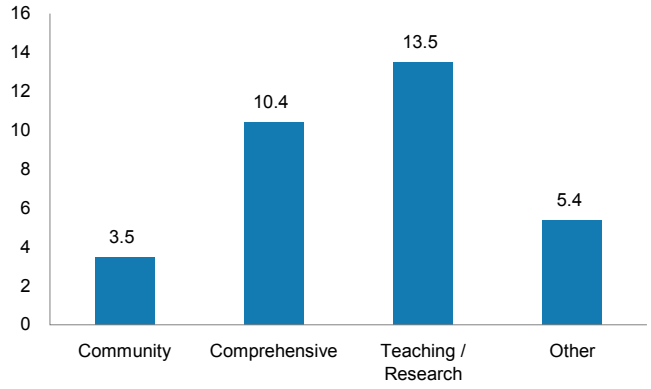
In addition, comprehensive centers, defined as those conducting >500 total cancer diagnosis/year, represent the largest percentage of cancer treatment centers for breast cancer, at 52% of new diagnosis. These centers on average conduct ~120 new early stage breast cancer diagnosis per year, hence also an potential target for local adoption.

Exhibit 10
Percentage of diagnosis of early stage breast cancer by hospital type



Source: American College of Surgeons, National Cancer Database, Morgan Stanley Research

Exhibit 11
Avg monthly number of early stage breast cancer diagnostic test volume by hospital type



Source: American College of Surgeons, National Cancer Database, Morgan Stanley Research

The ACS database accounts for 70% of all newly diagnosed cancers/year, thus if one assumes the remaining 30% of diagnosis occurs at smaller centers, then the % of teaching hospitals' breast cancer diagnosis declines to 21% and the % of comprehensive hospitals' diagnosis declines to 36%.

Combined, these two still represent >50% of all early stage breast cancer diagnosis, hence reflecting the significant target market for local test adoption. To target this market opportunity, NanoString plans to build its own sales force (initially ~30 reps). NanoString management believes the academic teaching hospitals represent the primary target for local adoption of Prosigna, whereas despite the average volume of a comprehensive center, management presumes

the majority of these still send out their molecular testing to the larger central labs. Further clarity on the true addressable market for local adoption will be helpful to assess Prosigna's ramp.

For the remaining breast cancer diagnostic opportunity, which resides at smaller community centers, NanoString's strategy is to successfully place instruments at the larger reference labs (LH, DGX, Arup, etc.). **These larger reference labs to date have been unable to capitalize on the growth in the adjuvant breast cancer testing market given the CLIA model circumvents them. Our diligence with central labs indicates significant interest** in and focus on adopting Prosigna and selling the key constituents at their local hospital customers on the merits of the test. With the pressures in recent years on national lab volumes and pricing, we expect Prosigna will be viewed as a very attractive new test to market.

Prosigna test complexity: hurdle to adoption? Not likely

Running a molecular clinical test in a regulated environment comes with its set of challenges, including having sufficient skilled lab operators to manage these more complex tests (and to do so in a profitable fashion), the tests (and operators) ability to produce highly reproducible results which satisfy stringent regulations.

Despite such issues facing molecular testing adoption, we are optimistic Prosigna can be commercialized successfully by individual labs due to the simplicity of the instrument/workflow and high reproducibility of the nCounter system. Customers have commonly indicated a key benefit of the nCounter is its ease of use and limited hands on time, which makes it ideal for being a distributed diagnostic platform (granted most customers we spoke with were using the instrument in a research setting, but we believe the attributes should also apply to a diagnostic setting).

Some features of the nCounter which enable its ease of use: no need for libraries, no amplification, and limited hands on time (limited to injecting reagent kits into strip tubes, loading into the nCounter Prep Station, placing a prepared cartridge in the nCounter Analyzer).

The company has conducted dozens of reproducibility studies, with the two prominent ones (by the BC Cancer Agency, Washington University and NanoString), which evaluated reproducibility via local labs and operators under two approaches: 1) starting with RNA, 2) starting with tissue and each local site having to first extract RNA prior to running Prosigna (which is how the test will be commercialized in the US). Results of both studies reflect the high reproducibility of the Prosigna assay on the nCounter, given: 1) RNA study – achieved a mean ROR difference of less than 1 ROR unit between reagent lots on a scale of 0-100 scale, and a 100% site-to-site concordance between the subtype result and risk groups; 2) tissue study – achieved a total standard deviation of 2.9 ROR units (scale 0-100) and a site-to-site concordance of 97% in predicting genomic subtypes with 90% concordance for risk classifications. These results reflect the precision and reproducibility of Prosigna run across multiple sites and multiple operators is similar to that of Oncotype DX when performed in Genomic Health's central lab.

OUS Prosigna Opportunity

In Europe, we expect a more limited nearer term opportunity for Prosigna, with greater potential in the medium to long term. After receiving its CE mark in December 2012, NanoString commercially launched its Prosigna assay in France, Germany, Italy, Spain and the United Kingdom. Using GLOBOSCAN data, we estimate approximately 240K new incidences for all breast cancer in the aforementioned countries (vs an estimated 290K+ incidences in the US).

Despite the substantial incidence rate, our diligence suggests that European adoption of the Prosigna assay will remain limited with government reimbursement as the key gating issue. Market leader Genomic Health in 2012 reported international Oncotype DX sales totaled $28MM in 2012 (~10K tests), vs $199MM from US Oncotype DX breast cancer revenues alone (~60K tests). To address government reimbursement, NanoString has embarked upon two decision impact studies in Spain and Germany, which will close enrollment of patients by YE 2013.

In sizing the market opportunity for NanoString, we estimated that out of ~110K new incidences of early stage invasive breast cancer in target European countries, feedback suggests ~ half of cases would be candidates for molecular diagnostic testing (due to EU medical community's inertia towards molecular testing adoption) and only 10% of those patients would have the capability to pay out of pocket.

However, we remain confident in a gradual pick up in testing longer term given Prosigna's differentiated profile. Prosigna's EU test provides information on genetic subtype of the cancer in addition to a ROR score and risk segment, an important feature in light of the inclusion of genomic subtyping within the St. Galen guidelines as the standard approach to patient classification.

NanoString's distributed model of placing nCounters at local labs will present a turnaround advantage vs. sending samples to a US-based CLIA lab.

Israel is another important OUS market for NanoString, a country where genomic testing is already widely covered by private insurance providers but not by the government health care system. NanoString announced that the Israeli Ministry of Health invited the company to submit a dossier for government reimbursement for Prosigna. While Genomic Health has significant market share in the Israel through a distribution partnership with Teva, NanoString's distributed model could help drive uptake. We estimate the total addressable market in Israel for early stage invasive breast cancer to be ~1,400 incidences in 2013.

Debate 3: NanoString's life science tools business – niche or significant?

NanoString began selling its first nCounter Analysis System in the fall of 2008, and in 2012 recorded $23m in life science tools related revenues, having placed nearly 130 instruments. Despite a differentiated technology, an attractive revenue growth profile (nearly 50% 3 year CAGR, with 29% Y/Y growth in 2012), a growing installed base, and increasing awareness in the broader research community (nCounter publications more than doubled to 100 in 2012), investor interest in this part of the NanoString investment story appears to be extremely low. We see attractive growth potential for the nCounter and hence have a more constructive view towards this business compared with investors.

Exhibit 12

NCounter life sciences revenue build

	2010	2011	2012	2013	2014
Total Revenues	12	18	23	29	52
% Growth	61%	52%	29%	28%	75%
New Placements	32	36	39	48	52
Total Install Base			127	163	208
instrument Revs $MM	6.5	7.1	8.8	10.8	15.3
Consumable Revs $MM	5.0	10.0	13.0	17.1	34.3
Pull Thru per Instrument $K			113	110	98

Source: Company Data, Morgan Stanley Research estimates

What is the nCounter?

Digital gene expression technology: A novel barcoding technology which allows for the digital quantification of up to 800 genes (molecules) simultaneously, with only minutes of hands on time.

nCounter Analysis System: Typically consists of one nCounter Digital Analyzer and one nCounter Prep Station; list price for full system $230,000.

Key applications: digital gene expression and micro RNA expression, with cancer the biggest end vertical.

We believe the diagnostic business is likely to be the key focus for investors for two reasons:

First, diagnostic opportunities often receive more attention than traditional tools businesses given large market potential (millions of covered lives to penetrate!), superior margins due to the razor/razor blade approach, and scarcity value of publicly traded securities. In NanoString's case, GHDX already having established a significant market created even more interest in the potential for Prosigna to enter this market

Next, the landscape for new life science tools technologies has been quite limited. Existing players in key technology areas have crowded out smaller players and, beyond next gen sequencing, rapid technological advancements creating new market opportunities has been quite limited. Finally, accurately ascertaining the competitive profiles of different genomic tools technologies is quite challenging given different performance and cost characteristics.

Our detailed with current and potential customers revealed **several important and differentiated attributes of the nCounter,** which we believe creates an attractive growth opportunity. These include:

- **Ability to analyze large number of targets at once:** nCounter allows for interrogation of up to 800 targets (i.e., genes of interest) at once, greater than 'competing' midplex platforms (qPCR and FLDM's Biomark). This attribute was consistently highlighted by customers as a key feature of the nCounter platform.

- **Ease of use/limited hands on time**: There is no pipetting, no library prep with the nCounter. The total hands on time is ~15 minutes, with one experiment taking a day plus to complete given hybridization occurs overnight (thus the total time is not necessarily the differentiating feature, but limited hands on time is).

- **Lack of amplification/reproducibility**: with nCounter, the targets of interest do not need amplification prior to conducting the experiment, different from competing platforms. No amplification ideally leads to less variability run to run.

- **Ability to work with FFPE:** the majority of patient samples at hospitals are stored in formalin fixed, paraffin-embedded (FFPE), which are gel blocks that are typically more difficult to directly analyze using other molecular analytical instruments (microarrays, qPCR, Biomark). The nCounter system in contrast works quite well with FFPE.

Exhibit 13
Competitive profile of mid-plex molecular instruments

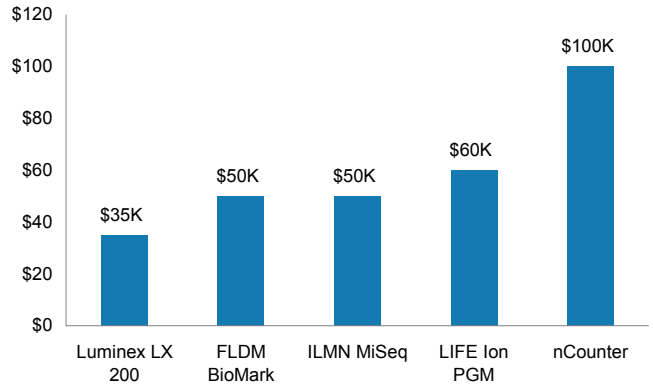
Instrument	Number of Targets	Amplification	Hands On Time
nCounter	800	No	15 mins
FLDM BioMark	96	Yes	20 mins
LIFE qPCR	384	Yes	Hours

Source: Company Data, Morgan Stanley Research

Significant pull thru potential

Another important positive feature of NanoString's life science tools business (from an investment standpoint) is the attractive consumable pull thru opportunity it offers. We estimate the average consumable pull thru per nCounter system in 2012 was $113K, with the company estimating $100K pull thru going forward for its current 'Gen 2' instrument. Such a high level of pull thru is differentiated for a mid-plex instrument, and creates an attractive high margin, recurring revenue stream

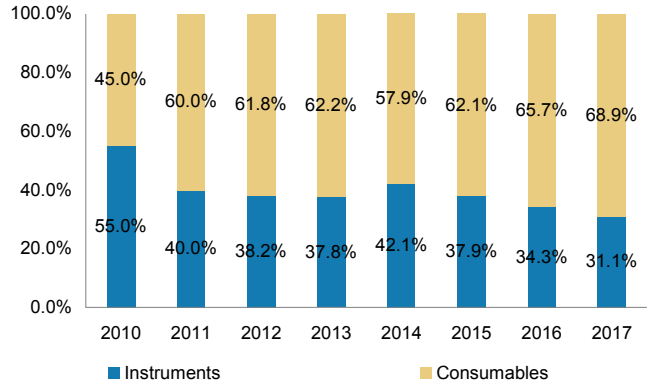
Exhibit 14
nCounter consumable pull thru in excess of peers



Source: Company Data, Morgan Stanley Research

Given this pull thru, we estimate consumables as percentage of life science tools revenues will increase from an already attractive ~60% up towards 70% over the next five years.

Exhibit 15
Recurring revenues to increase as percentage of Life Science Tools Segment



Source: Company Data, Morgan Stanley Research estimates

Large addressable market

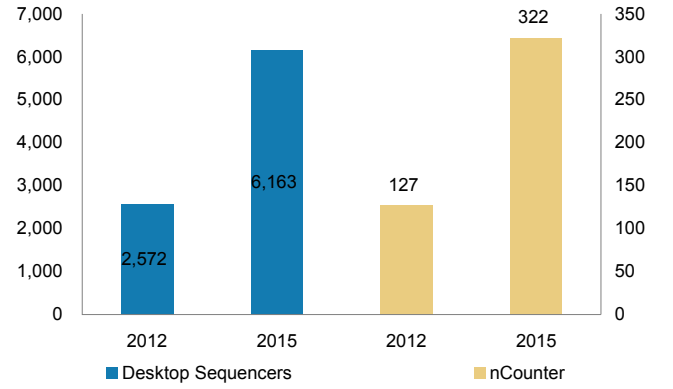
The current and future installed base of comparable molecular genetic analysis life science instruments presents potential addressable market opportunities for the nCounter. We estimate the company currently has over 140 Gen 2 nCounters installed as of Q2 2013 and forecast the installed base growing to over 300 by 2015 (and an additional ~200 smaller, more affordable Gen 3 boxes). Predicate molecular tools instruments installed bases reflect a significant potential market opportunity for the nCounter.

Microarrays: we estimate an installed base of ~2-3K instruments (with the traditional research market has been contracting vs. diagnostic and applied (agriculture, etc.) markets have been growing).

qPCR: market size estimates vary, with LIFE stating more than 20,000 qPCR instruments installed worldwide.

Desktop sequencers: NanoString plans to introduce a desktop version ('Gen 3') of its nCounter during 2014, which we estimate will carry a $110K ASP, thus opening up a larger unit market opportunity for labs who cannot afford the current $230K price tag. As much of the nCounter research today occurs 'downstream' of discovery research conducted on next gen sequencing (NGS) platforms, we think its instructive to note the current and expected size of the desktop NGS market (though we expect NGS has significantly more growth potential than the nCounter).

Exhibit 16
Desktop NGS market: 20x larger currently than nCounter installed base



Source: Company Data, Morgan Stanley Research estimates

Future Tools Growth drivers

Salesforce/distribution expansion: We understand the company recently expanded its company-owned salesfoce by ~20% in addition to expanding its distributor relationships (ex US focus), where eight new relationships were added (out of a total of eleven currently) during the last twelve months.

New chemistry: Currently, all custom codesets customers seek to deploy on the nCounter need to be manufactured by NanoString. A new chemistry (nFlexion) is expected to be released in Q3 2013 which will allow customers to create their own custom codesets.

Single cell capability: While NanoString announced Single Cell capability on the nCounter, the company has not focused upon this application as a major driver of growth. However, given excitement we glean in the market place over single cell, NanoString's single cell offering could be a positive influence towards future growth.

Desktop version of nCounter: The company plans to launch a smaller, less expensive version of the nCounter (Gen 3 version) during 2014 in order to expand its TAM to include smaller labs.

Valuation

As an early stage growth company not forecasted to turn profitable until 2017, we expect the market to utilize an enterprise value / revenue multiple approach as the primary methodology to value NanoString.

As NanoString operates in two different business segments, life science tools (non-reimbursed products sold to pharma and academic customers) and diagnostics (sales to insured patients under a reimbursement system), we expect investors to consider two sets of comparable companies - life science tools and diagnostics - when assessing the proper valuation for NanoString

When evaluating the proper AV/revenue multiple for NanoString vs. the set of comparable companies, we expect the market to consider a number of factors to determine the appropriate level of premium or discounted multiple at which NanoString deserves to trade, including:

- Competitive position within its segments
- Historical and projected company revenue growth rates
- Attractiveness and expected growth and profitability of served end market dynamics
- Target margin profile and presumed time period to achieve this profile
- Unique risk factors

We view the appropriate comparable universe of life science tools stocks to include: FLDM, AFFX, ILMN, LMNX, and PACB, with FLDM the closest peer given the similar instrument profile and end market overlaps

We view the appropriate comparable universe of diagnostics stocks to include: GHDX, CPHD, EXAS, GNMK, MYGN, QDEL, SQNM, VIVO, with GHDX the closest peer given Prosigna and Oncotype DX are head-to-head competitors.

At current levels, we view NanoString's stock as undervalued. With the current 2.2x AV/2014 revenue multiple a ~50% discount to FLDM and 41% discount to the median tools peer. Compared with diagnostic peers, at 2.2x 2014 AV/revenues, NSTG is trading at a 33% discount to GHDX and 51% discount to the median diagnostic peer. Despite our expectation for NanoString to generate a 47% revenue CAGR between 2012-2015, far in excess of consensus growth CAGRs for FLDM of 21% and GHDX of 13%, the valuation is implying a significant amount of risk towards NanoString realizing this growth.

We arrived at a 12-month price target of $14, based upon a sum of the parts valuation analysis, valuing NanoString's tools business vs. peers and NanoString's diagnostics business vs. peers. On a total company basis, our valuation assumes NanoString's stock to trade at a 4.2x AV/revenue multiple based upon our 2014 revenue forecast. We compare our 12 month expected EV/14 multiple for NanoString vs. where peers are trading currently off of 2013 revenues.

Life science tools peers: We value NanoString's tools business at 4.5x EV/2014 tools only revenues

- FLDM: currently trades at 5.5x EV/'13 revenues, thus our 4.5x is an (18%) discount. We assume a discount despite the outlook for NanoString's superior top line growth, to reflect FLDM's more established tools business with multiple products and more diverse capabilities and market opportunities, including its leading single cell offering, as well as its well regarded seasoned management team.
- Tools comparables: currently trades at 4.1x (median) AV/'13 revenues, thus our 4.5x for NanoString represents a ~10% premium, which reflects our more constructive view on NanoString's tools business than some of the small cap tools peers (i.e, PACB and AFFX) which weigh on the tools peers' median multiple.

Diagnostic peers: We value NanoString's diagnostic business at 3.5x EV/'14 diagnostic revenues

- GHDX: currently trades at 3.7x, EV/'13 revenues, thus our NanoString valuation is at a modest discount. There are many counterbalancing forces: GHDX's significant leadership position in molecular breast cancer testing, financial profile, regulatory and sales capabilities, proven track record, expanding test menu and management team all point to a premium valuation. That said, we expect NanoString to take share & grow its diagnostic business significantly faster. Given risks facing the company (FDA, reimbursement, execution), we believe valuing this segment more ~in-line with GHDX is appropriate at this time.

- Diagnostic peers: currently trading at median EV/'13 revenues of 5x, thus our 3.5x implied PT multiple for NanoString diagnostics equates to 30% discount. The 'peer group' is an eclectic group of diagnostic companies, with a wide valuation band (EXAS >200x 2013 AV/revenues vs. SQNM closer to 3x). On a blended basis, we forecast diagnostic peer revenue CAGR ('12-15) of +17% vs. NanoString at +47%. Despite NanoString's faster projected growth, given the above cited risks and projected outlook for sustained and significant operating losses plus the stock's illiquidity, we assume a discount to this peer group. Provided Prosigna receives on time approval and launches in Q1 with adequate and expanding reimbursement, we believe our assumed price target multiple for diagnostics could prove conservative.
- Overall peer group: while we outlined key segments of the peer group above, in aggregate we found that NSTG's comps traded at a median 4.4x AV / Sales multiple. For our price target of $14, the implied 2014 AV / Sales multiple given our sum of the parts approach arrives at 4.2x, thus a slight discount.

Exhibit 17
Sum of the Parts Price Target Analysis

	Multiple	Implied AV	Stk Px
Life Science Tools	4.5x	161.4	$10.53
Diagnostics	3.5x	54.8	$3.58
Total	4.2x	216.3	$14.11

Source: Company Data, Thomson Reuters, Morgan Stanley Research estimates

Exhibit 18
Sum of Parts 12 month price target valuation multiple analysis

Life Sci Tools	Diagnostics Multiple											
Multiple	0.0x	0.5x	1.0x	1.5x	2.0x	2.5x	3.0x	3.5x	4.0x	4.5x	5.0x	5.5x
3.5x	7.90	8.43	8.97	9.51	10.04	10.58	11.12	11.65	12.19	12.73	13.26	13.80
3.7x	8.39	8.92	9.46	10.00	10.53	11.07	11.61	12.14	12.68	13.22	13.75	14.29
3.9x	8.88	9.42	9.95	10.49	11.03	11.56	12.10	12.64	13.17	13.71	14.24	14.78
4.1x	9.37	9.91	10.44	10.98	11.52	12.05	12.59	13.13	13.66	14.20	14.74	15.27
4.3x	9.86	10.40	10.94	11.47	12.01	12.55	13.08	13.62	14.16	14.69	15.23	15.76
4.5x	10.35	10.89	11.43	11.96	12.50	13.04	13.57	14.11	14.65	15.18	15.72	16.26
4.7x	10.85	11.38	11.92	12.46	12.99	13.53	14.07	14.60	15.14	15.68	16.21	16.75
4.9x	11.34	11.87	12.41	12.95	13.48	14.02	14.56	15.09	15.63	16.17	16.70	17.24
5.1x	11.83	12.37	12.90	13.44	13.98	14.51	15.05	15.59	16.12	16.66	17.19	17.73
5.3x	12.32	12.86	13.39	13.93	14.47	15.00	15.54	16.08	16.61	17.15	17.69	18.22
5.5x	12.81	13.35	13.89	14.42	14.96	15.50	16.03	16.57	17.11	17.64	18.18	18.71
5.7x	13.30	13.84	14.38	14.91	15.45	15.99	16.52	17.06	17.60	18.13	18.67	19.21

Source: Company Data, Morgan Stanley Research estimates

Exhibit 19
Implied Price Target Sensitivity to AV/Sales Multiples

Sensitivity Table - Assuming 2014 AV/Sales		
2014 AV/Sales	2014 AV	Imp. Stk Px
2.2x	$113.4	$7.06
2.6x	$134.0	$8.47
3.0x	$154.6	$9.89
3.4x	$175.2	$11.30
3.8x	$195.8	$12.71
4.2x	$216.5	$14.12
4.6x	$237.1	$15.54
5.0x	$257.7	$16.95
5.4x	$278.3	$18.36
5.8x	$298.9	$19.77

Source: Company Data, Morgan Stanley Research estimates

We do not model NanoString to be profitable until late 2017, making a DCF valuation challenging and highly sensitive to growth rate assumptions in the out year projections. We still felt it instructive to evaluate a DCF based approach, in particular to asses the sensitivity of the DCF output based upon adjusting 2 variables: US Prosigna market share (absolute level and years to ramp) and NanoString operating margin (similarly, absolute level and pace of expansion).

We arrive at a DCF fair value of $13.78 for 2014 based on 3% growth in US diagnostic penetration per year leveling off when NSTG reaches 30% market share, coupled with 3% EBIT margin expansion per year, also leveling off at 30%. Please see our sensitivity analysis in our DCF valuation for more details (Exhibit 21).

Exhibit 20

Trading Comparables

Ticker	Name	Price	Mkt Cap	Agg Value	Current AV / Sales 2013e	Current AV / Sales 2014e	Current AV / Sales 2015e	Price / Sales 2013	Price / Sales 2014	Price / Sales 2015	Sales CAGR '13 - '14	Sales CAGR '14 - '15	Sales CAGR '12-14	Sales CAGR '12-15
Tools Comps														
AFFX	Affymetrix	$4.09	$291	$428	1.3x	1.3x	1.3x	0.9x	0.9x	0.9x	2.2%	1.0%	5.0%	3.7%
FLDM	Fluidigm	$17.19	$437	$357	5.5x	4.5x	3.9x	6.8x	5.5x	4.8x	23.7%	13.2%	24.8%	20.8%
ILMN	Illumina	$74.31	$9,243	$9,026	6.7x	6.0x	5.2x	6.8x	6.1x	5.4x	11.7%	13.8%	15.0%	14.6%
LMNX	Luminex	$23.34	$981	$922	4.1x	3.7x	3.3x	4.4x	3.9x	3.5x	10.6%	12.7%	11.3%	11.8%
PACB	PacBio	$2.75	$182	$86	3.1x	2.5x	2.7x	6.7x	5.2x	5.8x	27.9%	-9.2%	19.1%	8.8%
Diagnostics Comps														
CPHD	Cephei	$35.22	$2,363	$2,280	6.0x	5.1x	4.2x	6.2x	5.3x	4.4x	16.9%	20.2%	16.2%	17.5%
MYGN	Myriad Genetics	$31.00	$2,469	$2,133	3.6x	3.2x	2.9x	4.1x	3.7x	3.4x	11.1%	8.9%	16.0%	13.6%
EXAS	EXACT Sci	$14.47	$1,019	$925	225.4x	23.4x	9.6x	248.2x	25.8x	10.5x	861.6%	145.4%	209.2%	186.3%
GHDX	Genomic Health	$35.29	$1,066	$970	3.7x	3.3x	2.9x	4.1x	3.6x	3.2x	13.2%	13.0%	12.7%	12.8%
GNMK	GenMark	$10.01	$328	$285	9.6x	6.9x	4.6x	11.0x	7.9x	5.3x	39.6%	48.7%	51.6%	50.6%
QDEL	Quidel	$29.42	$992	$954	5.2x	4.7x	4.0x	5.4x	4.9x	4.2x	11.4%	16.5%	14.8%	15.4%
SQNM	Sequenom	$4.59	$529	$530	2.7x	1.9x	1.4x	2.7x	1.9x	1.4x	39.8%	35.4%	77.7%	62.3%
VIVO	Meridian Biosci	$22.49	$931	$894	4.7x	4.4x	3.8x	4.9x	4.5x	4.0x	8.5%	13.8%	8.9%	10.5%
Tools Comps														
Mean					4.2x	3.6x	3.3x	5.1x	4.3x	4.1x	15.2%	6.3%	15.0%	11.9%
Median					4.1x	3.7x	3.3x	6.7x	5.2x	4.8x	11.7%	12.7%	15.0%	11.8%
Diagnostics Comps														
Mean					32.6x	6.6x	4.2x	35.8x	7.2x	4.5x	125.3%	37.7%	50.9%	46.1%
Median					5.0x	4.5x	3.9x	5.2x	4.7x	4.1x	15.1%	18.3%	16.1%	16.4%
Overall														
Mean					20.4x	5.3x	3.8x	22.6x	5.9x	4.3x	77.4%	24.2%	34.8%	31.0%
Median					4.4x	4.1x	3.7x	5.2x	4.7x	4.1x	12.4%	13.5%	15.5%	14.1%
NSTG	**NanoString**	**$9.44**	**$137.8**	**$112.9**	**3.8x**	**2.2x**	**1.6x**	**4.7x**	**2.7x**	**1.9x**	**74.9%**	**40.8%**	**49.8%**	**46.7%**

Source: Company Data, Thomson Reuters, Morgan Stanley Research

Exhibit 21

DCF Valuation

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Life Science Tools Revenues	23.0	28.2	35.9	43.9	50.7	57.5	63.2	68.9	74.5	79.7	84.4	88.7	92.2	95.0	97.8	100.8
Diagnostics Revenues		1.3	15.7	28.7	38.4	48.3	57.0	66.7	77.6	88.9	98.1	109.9	111.6	113.3	115.0	116.7
Revenue	23.0	29.5	51.5	72.6	89.1	105.8	120.2	135.6	152.1	168.6	182.6	198.6	203.8	208.2	212.8	217.4
EBIT	(16.5)	(36.9)	(36.0)	(24.4)	(13.7)	(1.6)	9.0	14.2	20.5	27.8	35.6	44.7	52.0	59.3	63.8	65.2
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBIAT	(16.5)	(36.9)	(36.0)	(24.4)	(13.7)	(1.6)	6.3	10.0	14.4	19.5	24.9	31.3	36.4	41.5	44.7	45.7
+ Depreciation		2.0	2.3	3.0	3.7	4.7	4.8	4.9	5.0	5.1	5.2	5.3	5.4	5.5	5.6	5.7
- Capital Expenditures		(1.3)	(2.6)	(3.6)	(4.9)	(5.9)	(6.0)	(6.1)	(6.3)	(6.4)	(6.5)	(6.7)	(6.8)	(6.9)	(7.1)	(7.2)
- Change in Net Working Capital		1.1	0.7	3.8	(0.0)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Free Cash Flows	(16.5)	(35.2)	(35.6)	(21.2)	(14.9)	(3.3)	4.6	5.7	10.6	17.7	23.1	29.4	34.5	39.6	42.7	43.7
PV of Free Cash Flows		(19.5)	(31.7)	(17.3)	(11.1)	(2.2)	2.9	3.2	5.5	8.3	9.9	11.5	12.3	12.9	12.7	11.8

Analysis															
Revenue Y/Y Growth	74.9%	40.8%	22.7%	18.8%	13.6%	12.8%	12.2%	10.8%	8.3%	8.8%	2.6%	2.2%	2.2%	2.2%
EBIT (Margin)	-69.8%	-33.6%	-15.3%	-1.5%	7.5%	10.5%	13.5%	16.5%	19.5%	22.5%	25.5%	28.5%	30.0%	30.0%
Depreciation Y/Y Growth	16.9%	29.1%	24.8%	26.6%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
CAPEX Y/Y Growth	94.4%	40.8%	36.4%	18.8%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
Working Capital Y/Y Growth	-40.1%	460.2%	-100.2%	5174.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
FCF Y/Y Growth	1.1%	-40.4%	-29.6%	-78.1%	-242.1%	22.4%	87.1%	66.5%	30.6%	27.3%	17.2%	14.9%	7.8%	2.2%

Assumptions	
LST Revenue Growth	3.0%
Diagnostic Test ASP	$2,000
US Diagnostic Penetration Growth Rate	3.0%
EU Addressable Mkt Growth Rate	30.0%
Diagnostic Steady State Growth Rate	1.5%
EBIT % expansion/yr	3.0%
Depreciation growth	2.0%
CAPEX growth	2.1%
Growth in working capital	0.5%
Perpetual Growth Rate in FCF	2.0%

WACC	
10 year Risk-free rate	3.50%
Equity Risk Premium	5.00%
Beta	1.5
Cost of Equity	11.0%
Debt Spread	5.50%
Tax rate	30.0%
After Tax Cost of Debt	6.3%
Debt Ratio	30%
Equity Ratio	70%
WACC	**9.6%**

EBIT Margin	US Diagnostic Penetration Growth								
Expansion	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%
1.0%	$5.29	$5.45	$5.50	$5.52	$5.54	$5.55	$5.56	$5.57	$5.57
1.5%	$7.79	$7.99	$8.04	$8.07	$8.09	$8.10	$8.11	$8.12	$8.13
2.0%	$10.29	$10.53	$10.59	$10.62	$10.64	$10.65	$10.66	$10.67	$10.68
2.5%	$12.79	$13.07	$13.13	$13.17	$13.19	$13.20	$13.22	$13.22	$13.23
3.0%	$13.35	$13.64	$13.71	$13.75	$13.78	$13.79	$13.80	$13.81	$13.82
3.5%	$13.77	$14.07	$14.15	$14.19	$14.22	$14.24	$14.25	$14.26	$14.26
4.0%	$14.09	$14.40	$14.49	$14.53	$14.56	$14.58	$14.59	$14.60	$14.61
4.5%	$14.36	$14.68	$14.77	$14.82	$14.85	$14.87	$14.88	$14.89	$14.89
5.0%	$14.54	$14.86	$14.96	$15.01	$15.04	$15.06	$15.07	$15.08	$15.09

Calculations	
Discount Rate	9.6%
Total Discounted Value of FCF	9.3
Terminal Value	586.8
Discounted Terminal Value	162.8
Terminal Year	2027
Current	2013

DCF Per Share	
Aggregate Value	172.1
Less: Debt YE 13	21.1
Add: Cash YE 13	46.0
Equity Value	197.0
Fully Diluted Shares	15.9
DCF Value per Share YE 13	**$12.41**
Assumed Target Price YE 14	**$13.78**
Current Share Price	$9.44

Equity Value Sensitivity

Terminal	WACC								
Growth	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%	12.0%
2.5%	$20.48	$17.73	$15.44	$13.50	$11.86	$10.44	$9.21	$8.14	$7.20
3.0%	$22.32	$19.17	$16.59	$14.43	$12.62	$11.07	$9.73	$8.58	$7.57
3.5%	$24.56	$20.90	$17.95	$15.52	$13.49	$11.78	$10.32	$9.07	$7.98
4.0%	$27.37	$23.02	$19.58	$16.80	$14.51	$12.61	$11.00	$9.63	$8.45
4.5%	$30.99	$25.67	$21.57	$18.34	$15.72	$13.57	$11.78	$10.26	$8.97
5.0%	$35.80	$29.07	$24.07	$20.22	$17.17	$14.71	$12.68	$11.00	$9.57

Source: Company Data, Morgan Stanley Research estimates
Our DCF sensitivity assumes a 15 yr DCF valuation and key assumptions include a 30% cap on US market penetration rates as well as a 30% cap on overall EBIT margins.

Financial Models

Exhibit 22

Income Statement

	2010A	2011A	2012E	2013E				2013E	2014E				2014E	2015E	2016E	2017E
				Mar-13	Jun-13	Sep-13	Dec-13		Mar-14	Jun-14	Sep-14	Dec-14				
Revenues																
Instrument Sales	6.5	7.1	8.8	1.6	2.7	2.9	3.6	10.8	1.9	4.0	4.2	5.1	15.3	16.8	17.5	18.0
CodeSets & Reagents	5.0	10.0	13.0	3.7	3.4	4.7	5.4	17.1	6.1	7.7	9.4	11.1	34.3	53.6	69.3	85.5
Services	0.2	0.7	1.2	0.3	0.4	0.4	0.4	1.5	0.5	0.5	0.5	0.5	2.0	2.1	2.2	2.3
Total Revenues	**11.7**	**17.8**	**23.0**	**5.7**	**6.5**	**8.0**	**9.3**	**29.5**	**8.5**	**12.2**	**14.1**	**16.8**	**51.5**	**72.6**	**89.1**	**105.8**
Total COGS	9.1	9.8	12.4	2.9	3.4	4.2	4.7	15.2	3.7	5.2	5.9	6.8	21.7	25.9	27.4	27.2
Gross Profit	**2.6**	**8.0**	**10.6**	**2.8**	**3.0**	**3.8**	**4.6**	**14.3**	**4.8**	**6.9**	**8.2**	**10.0**	**29.9**	**46.6**	**61.7**	**78.6**
R&D	7.5	9.0	11.6	3.1	4.0	4.8	5.1	17.0	5.1	5.0	4.9	5.2	20.2	21.4	22.4	23.5
SG&A	8.0	9.5	15.5	6.1	7.8	9.4	10.9	34.2	11.1	11.5	11.1	11.9	45.7	49.6	53.0	56.7
Total One-Time Items	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
Total Operating Expenses	15.6	18.5	27.1	9.2	11.8	14.2	16.1	51.2	16.2	16.5	16.0	17.1	65.8	71.0	75.4	80.2
EBIT	**(13.0)**	**(10.5)**	**(16.5)**	**(6.4)**	**(8.7)**	**(10.4)**	**(11.4)**	**(36.9)**	**(11.4)**	**(9.6)**	**(7.8)**	**(7.1)**	**(36.0)**	**(24.4)**	**(13.7)**	**(1.6)**
Interest Income / (Expense) / Other	0.2	(0.4)	(1.1990)	(0.9)	(0.5)	(0.5)	(0.4)	(2.3)	(0.4)	(0.4)	(0.3)	(0.3)	(1.4)	(0.5)	(0.1)	(0.1)
Pre-tax Income / (Loss)	**(12.8)**	**(10.9)**	**(17.7)**	**(7.3)**	**(9.2)**	**(10.9)**	**(11.9)**	**(39.2)**	**(11.8)**	**(10.0)**	**(8.2)**	**(7.4)**	**(37.4)**	**(24.9)**	**(13.8)**	**(1.7)**
Income Tax Expense / (Benefit)	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
Net Income / (Loss)	(12.8)	(10.9)	(17.7)	(7.3)	(9.2)	(10.9)	(11.9)	(39.2)	(11.8)	(10.0)	(8.2)	(7.4)	(37.4)	(24.9)	(13.8)	(1.7)
Accretion of Mandatory Preferreds	(4.4)	(5.3)	(7.5)	(2.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income / (Loss) to Common	**(17.1)**	**(16.2)**	**(25.241)**	**(9.6)**	**(9.2)**	**(10.9)**	**(11.9)**	**(39.2)**	**(11.8)**	**(10.0)**	**(8.2)**	**(7.4)**	**(37.4)**	**(24.9)**	**(13.8)**	**(1.7)**
Diluted EPS	**($54.11)**	**($50.03)**	**($71.11)**	**($17.88)**	**($0.63)**	**($0.75)**	**($0.81)**	**($3.54)**	**($0.81)**	**($0.68)**	**($0.56)**	**($0.51)**	**($2.56)**	**($1.71)**	**($0.94)**	**($0.12)**
Diluted EPS (GAAP)	($54.11)	($50.03)	($71.11)	($17.88)	($0.63)	($0.75)	($0.81)	($3.54)	($0.81)	($0.68)	($0.56)	($0.51)	($2.56)	($1.71)	($0.94)	($0.12)
Basic Shares Outstanding	0.3	0.3	0.4	0.5	14.6	14.6	14.6	11.1	14.6	14.6	14.6	14.6	14.6	14.6	14.6	14.6
Non-GAAP Shares	0.3	0.3	0.4	0.5	14.6	14.6	14.6	11.1	14.6	14.6	14.6	14.6	14.6	14.6	14.6	14.6
Diluted Shares Outstanding	0.3	0.3	0.4	0.5	14.6	14.6	14.6	11.1	14.6	14.6	14.6	14.6	14.6	14.6	14.6	15.0
Margins Analysis (% of Revenues)																
COGS	77.8%	54.9%	53.8%	50.8%	53.0%	52.5%	50.5%	51.6%	43.8%	43.0%	42.0%	40.5%	42.0%	35.7%	30.7%	25.7%
Gross Profit	22.2%	45.1%	46.2%	49.2%	47.0%	47.5%	49.5%	48.4%	56.2%	57.0%	58.0%	59.5%	58.0%	64.3%	69.3%	74.3%
R&D	64.3%	50.5%	50.6%	53.9%	62.0%	60.0%	55.0%	57.7%	60.0%	41.0%	34.5%	31.0%	39.1%	29.5%	25.1%	22.2%
SG&A	68.4%	53.5%	67.4%	107.9%	120.0%	117.5%	117.0%	116.0%	130.0%	95.0%	79.0%	71.0%	88.6%	68.3%	59.5%	53.6%
Total OPEX	132.8%	104.0%	118.1%	161.8%	182.0%	177.5%	172.0%	173.7%	190.0%	136.0%	113.5%	102.0%	127.7%	97.9%	84.6%	75.8%
EBIT	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
EBITDA	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	2.9%
Effective Income 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%	0.0%	0.0%
Net Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Growth Analysis																
Total Revenues	60.9%	51.7%	29.1%	26.1%	8.7%	32.5%	43.8%	28.3%	50.4%	88.1%	76.1%	79.6%	74.9%	40.8%	22.7%	18.8%
COGS	55.4%	7.1%	26.4%	8.5%	2.7%	36.0%	43.5%	23.1%	29.6%	52.6%	40.9%	44.0%	42.4%	19.7%	5.5%	-0.5%
Gross Profit	84.0%	208.3%	32.3%	51.4%	16.4%	28.8%	44.0%	34.3%	71.8%	128.1%	115.1%	115.9%	109.6%	56.1%	32.3%	27.4%
R&D	65.9%	19.1%	29.4%	39.2%	34.8%	55.5%	51.8%	46.1%	67.4%	24.4%	1.3%	1.2%	18.6%	6.2%	4.5%	5.0%
SG&A	46.9%	18.7%	62.5%	93.4%	138.5%	125.3%	123.0%	120.8%	81.1%	48.9%	18.4%	9.0%	33.5%	8.6%	6.8%	7.0%
Total Operating Expenses	55.5%	18.9%	46.4%	71.2%	89.0%	95.7%	93.9%	88.8%	76.6%	40.5%	12.6%	6.5%	28.6%	7.9%	6.1%	6.4%
EBIT	50.8%	-19.1%	57.3%	81.7%	141.4%	141.4%	125.5%	123.8%	78.7%	10.1%	-24.8%	-37.7%	-2.7%	-32.2%	-43.9%	-88.1%
Net Income	44.5%	-14.4%	62.0%	101.1%	158.5%	133.1%	102.7%	121.6%	62.9%	8.0%	-25.1%	-37.5%	-4.8%	-33.3%	-44.7%	-87.4%

Source: Company Data, Morgan Stanley Research estimates

Exhibit 23

Revenue Build

	2010A	2011A	2012E	2013E				2013E	2014E				2014E	2015E	2016E	2017E
				Mar-13	Jun-13	Sep-13	Dec-13		Mar-14	Jun-14	Sep-14	Dec-14				
Instrument Sales	6.5	7.1	8.8	1.6	2.7	2.9	3.6	10.8	1.9	4.0	4.2	5.1	15.3	16.8	17.5	18.0
CodeSets and Reagents	5.0	10.0	13.0	3.7	3.4	4.7	5.4	17.1	6.1	7.7	9.4	11.1	34.3	53.6	69.3	85.5
Services	0.2	0.7	1.2	0.3	0.4	0.4	0.4	1.5	0.5	0.5	0.5	0.5	2.0	2.1	2.2	2.3
Total	**11.7**	**17.8**	**23.0**	**5.7**	**6.5**	**8.0**	**9.3**	**29.5**	**8.5**	**12.2**	**14.1**	**16.8**	**51.5**	**72.6**	**89.1**	**105.8**
Life Sciences																
Instrument Revenues ($MM)	**6.5**	**7.1**	**8.8**	**1.6**	**2.7**	**2.9**	**3.4**	**10.6**	**1.9**	**3.9**	**4.2**	**5.1**	**15.1**	**16.7**	**17.4**	**17.9**
Consumables Revenues ($MM)	**4.6**	**10.0**	**13.0**	**3.7**	**3.3**	**4.2**	**4.7**	**16.0**	**4.0**	**4.4**	**4.9**	**5.5**	**18.8**	**25.1**	**31.1**	**37.3**
Service ($MM)	**0.7**	**0.7**	**1.2**	**0.3**	**0.4**	**0.4**	**0.4**	**1.5**	**0.5**	**0.5**	**0.5**	**0.5**	**2.0**	**2.1**	**2.2**	**2.3**
Total ($MM)	**11.7**	**17.8**	**23.0**	**5.7**	**6.4**	**7.6**	**8.5**	**28.2**	**6.4**	**8.8**	**9.6**	**11.1**	**35.9**	**43.9**	**50.7**	**57.5**
Diagnostics																
United States																
Total US NanoString Tests (#)				0	0	0	0	0	536	914	1,365	1,671	4,486	8,844	11,448	15,855
ASP ($)				2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Revenues ($MM)				**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**1.1**	**1.8**	**2.7**	**3.3**	**9.0**	**17.7**	**22.9**	**31.7**
Europe																
Total EU NanoString Tests (#)				0	24	204	319	546	352	382	411	441	1,586	2,578	4,545	4,796
ASP ($)				1,000	1,000	1,500	1,500	1,500	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Revenues ($MM)				**0.0**	**0.0**	**0.3**	**0.5**	**0.8**	**0.7**	**0.8**	**0.8**	**0.9**	**3.2**	**5.2**	**9.1**	**9.6**
Diagnostics Instrument Sales				0	0	1	9	10	2	2	2	2	8	8	8	8
ASP ($)				20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Diag Instrument Revenues ($MM)				**0.0**	**0.0**	**0.0**	**0.2**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.2**	**0.2**	**0.2**	**0.2**
Total Europe Revenues ($MM)				**0.0**	**0.0**	**0.3**	**0.7**	**1.0**	**0.7**	**0.8**	**0.9**	**0.9**	**3.3**	**5.3**	**9.2**	**9.8**
RoW																
NanoString Tests				0	7	53	88	149	174	347	463	695	1,679	2,833	3,130	3,439
ASP				2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Revenues ($MM)				**0.0**	**0.0**	**0.1**	**0.2**	**0.3**	**0.3**	**0.7**	**0.9**	**1.4**	**3.4**	**5.7**	**6.3**	**6.9**
Total Diagnostics Revenues				**0.0**	**0.0**	**0.4**	**0.8**	**1.3**	**2.2**	**3.3**	**4.5**	**5.7**	**15.7**	**28.7**	**38.4**	**48.3**
Revenue Mix (% of Total Revenues)																
Life Sciences	100.0%	100.0%	100.0%	100.0%	99.4%	94.6%	91.1%	95.6%	74.6%	72.6%	67.9%	66.3%	69.6%	60.5%	56.9%	54.3%
Diagnostics	0.0%	0.0%	0.0%	0.0%	0.6%	5.4%	8.9%	4.4%	25.4%	27.4%	32.1%	33.7%	30.4%	39.5%	43.1%	45.7%
Instruments	55.2%	40.0%	38.2%	28.9%	41.8%	36.8%	38.1%	36.8%	22.6%	32.7%	29.9%	30.6%	29.6%	23.2%	19.7%	17.0%
Consumables	42.9%	56.2%	56.7%	65.2%	52.0%	58.2%	57.6%	58.0%	71.5%	63.2%	66.5%	66.4%	66.5%	73.9%	77.8%	80.8%
Service & License & Other	1.9%	3.9%	5.0%	6.0%	6.2%	5.0%	4.3%	5.2%	5.9%	4.1%	3.5%	3.0%	3.9%	2.9%	2.5%	2.2%
Growth Analysis (YoY)																
Instrument Sales	24.7%	9.9%	23.5%	9.3%	4.7%	34.9%	40.8%	23.4%	17.9%	47.3%	43.1%	44.2%	40.7%	10.2%	4.3%	2.7%
CodeSets and Reagents	207.3%	98.6%	30.4%	36.8%	10.1%	30.4%	45.0%	31.1%	65.0%	128.3%	101.4%	107.1%	100.6%	56.5%	29.2%	23.4%
Services	-51.4%	208.5%	66.7%	13.0%	29.0%	40.8%	54.4%	33.5%	47.9%	25.0%	25.0%	25.0%	30.0%	5.0%	5.0%	5.0%
Total	**60.9%**	**51.7%**	**29.1%**	**26.1%**	**8.7%**	**32.5%**	**43.8%**	**28.3%**	**50.4%**	**88.1%**	**76.1%**	**79.6%**	**74.9%**	**40.8%**	**22.7%**	**18.8%**
Life Sciences	60.9%	51.7%	29.1%	26.1%	8.1%	25.4%	30.9%	22.6%	12.2%	37.4%	26.4%	30.7%	27.4%	22.3%	15.4%	13.5%
Diagnostics										8726.0%	947.2%	577.0%	1100.8%	83.0%	34.0%	25.9%

Source: Company Data, Morgan Stanley Research estimates

Exhibit 24

Balance Sheet

	2010A	2011A	2012E	2013E				2013E	2014E				2014E	2015E	2016E	2017E
				Mar-13	Jun-13	Sep-13	Dec-13		Mar-14	Jun-14	Sep-14	Dec-14				
Assets																
Current assets:																
Cash and cash equivalents	4.4	10.9	21.7	11.8	67.2	57.5	46.0	46.0	36.6	24.1	14.5	6.2	6.2	19.9	6.9	5.7
Accounts receivable, net	2.1	3.1	3.3	4.4	4.6	5.3	5.6	5.6	4.3	6.0	6.8	7.9	7.9	6.5	8.0	9.4
Inventory	2.2	3.5	5.4	5.3	6.0	6.9	7.2	7.2	5.3	6.9	7.1	7.4	7.4	6.7	6.2	6.0
Prepaid expenses and other	0.4	1.5	1.3	2.2	2.3	2.8	3.3	3.3	2.6	3.3	3.5	4.2	4.2	4.0	4.9	5.7
Total current assets	9.1	19.0	31.7	23.6	80.1	72.4	62.1	62.1	48.8	40.3	31.9	25.7	25.7	37.0	26.1	26.8
Restricted cash	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Deferred offering costs	0.0	0.0	1.8	2.3	0.0	0.0	0.0	0.0								
Property and equipment, net	4.0	5.2	3.7	3.3	3.2	3.1	3.0	3.0	2.9	3.0	3.1	3.3	3.3	4.0	5.2	6.4
Other assets	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total assets	**13.3**	**24.6**	**37.4**	**29.6**	**83.5**	**75.8**	**65.4**	**65.4**	**51.9**	**43.5**	**35.2**	**29.3**	**29.3**	**41.2**	**31.5**	**33.5**
Liabilities																
Current liabilities:																
Accounts payable	2.9	1.7	2.9	1.8	2.6	4.1	4.1	4.1	3.3	4.6	5.2	6.0	6.0	5.9	6.2	6.0
Accrued liabilities	1.8	2.6	4.5	3.8	5.3	6.4	7.2	7.2	7.3	7.4	7.2	7.7	7.7	8.2	8.7	9.2
Deferred revenue, current portion	0.3	1.0	0.9	1.0	1.1	1.1	1.2	1.2	1.1	1.6	1.9	2.2	2.2	2.6	3.3	3.8
Deferred rent, current portion	0.6	0.7	0.8	0.8	1.1	1.3	1.5	1.5	1.5	1.6	1.5	1.6	1.6	1.7	1.8	1.9
Long-term debt, current portion	0.6	0.9	2.8	4.0	4.1	4.6	5.2	5.2	5.1	5.1	5.1	11.9	11.9	0.0	0.0	0.0
Total current liabilities	6.2	6.8	11.8	11.4	14.2	17.5	19.3	19.3	18.4	20.3	20.9	29.4	29.4	18.5	20.0	21.0
Deferred revenue, net of current portion	0.2	0.1	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.8	0.9	1.1	1.1	1.3	1.6	1.9
Deferred rent, net of current portion	1.4	2.7	1.9	1.7	2.4	2.9	3.3	3.3	3.3	3.4	3.3	3.5	3.5	3.8	4.0	4.2
Long-term debt, net of current portion	1.2	1.0	10.0	8.8	18.2	17.0	15.9	15.9	14.8	13.7	12.5	4.6	4.6	5.0	5.0	5.0
Preferred stock warrant liability	0.0	2.5	3.5	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	**8.9**	**13.1**	**27.5**	**26.4**	**35.3**	**38.1**	**39.1**	**39.1**	**37.1**	**38.2**	**37.7**	**38.6**	**38.6**	**28.6**	**30.6**	**32.1**
Equity																
Common stock	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
APIC	0.0	0.0	0.0	0.0	160.0	160.0	160.0	160.0	160.0	160.0	160.0	160.0	160.0	205.0	205.0	205.0
Accumulated deficit	(53.5)	(69.5)	(93.8)	(102.8)	(111.7)	(122.2)	(133.7)	(133.7)	(145.1)	(154.7)	(162.4)	(169.3)	(169.3)	(192.3)	(204.0)	(203.6)
Total stockholders' deficit	**(53.5)**	**(69.5)**	**(93.8)**	**(102.8)**	**48.2**	**37.7**	**26.3**	**26.3**	**14.8**	**5.3**	**(2.4)**	**(9.4)**	**(9.4)**	**12.7**	**0.9**	**1.4**
Total Liabilities and Equity	**13.3**	**24.6**	**37.4**	**29.6**	**83.5**	**75.8**	**65.4**	**65.4**	**51.9**	**43.5**	**35.2**	**29.3**	**29.3**	**41.2**	**31.5**	**33.5**

Source: Company Data, Morgan Stanley Research estimates

Exhibit 25

Cash Flow Statement

	2010A	2011A	2012E	2013E				2013E	2014E				2014E	2015E	2016E	2017E
				Mar-13	Jun-13	Sep-13	Dec-13		Mar-14	Jun-14	Sep-14	Dec-14				
Net Income / (Loss)	(12.8)	(10.9)	(17.7)	(7.3)	(9.2)	(10.9)	(11.9)	(39.2)	(11.8)	(10.0)	(8.2)	(7.4)	(37.4)	(24.9)	(13.8)	(1.7)
Depreciation & Amortization	1.0	1.5	1.9	0.5	0.5	0.5	0.5	2.0	0.5	0.6	0.6	0.6	2.3	3.0	3.7	4.7
Amortization of debt discount	0.0	0.3	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.3	0.2	0.0	0.0
Stock based compensation	0.1	0.2	0.7	0.2	0.3	0.4	0.4	1.3	0.4	0.4	0.4	0.5	1.8	1.9	2.1	2.1
Revaluation of preferred stock warrant liab	(0.0)	(0.1)	0.4	0.5	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest accrued on LT note loan	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.1	0.3	0.2	0.0	0.0
Loss on disposal of PPE	0.1	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
Δ in Operating Working Capital	0.6	(1.8)	(0.4)	(3.1)	2.5	1.2	0.5	1.1	3.0	(1.8)	(0.7)	0.0	0.7	3.8	(0.0)	(0.5)
Accounts Receivable	0.1	(1.0)	(0.2)	(1.0)	(0.2)	(0.7)	(0.4)	(2.3)	1.3	(1.7)	(0.8)	(1.1)	(2.3)	1.4	(1.5)	(1.4)
Inventory	(0.2)	(1.3)	(1.9)	0.0	(0.7)	(0.9)	(0.3)	(1.9)	1.9	(1.5)	(0.3)	(0.3)	(0.2)	0.8	0.4	0.2
Prepaid Expenses & Other	(0.1)	(1.1)	0.2	(0.8)	(0.1)	(0.5)	(0.5)	(1.9)	0.7	(0.8)	(0.2)	(0.7)	(0.9)	0.2	(0.9)	(0.8)
Other Assets	(0.1)	(0.1)	0.1	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
Accounts Payable	1.0	(1.2)	0.1	(0.1)	0.8	1.5	(0.0)	2.2	(0.9)	1.3	0.6	0.8	1.8	(0.0)	0.3	(0.2)
Accrued Liabilities	0.5	0.8	1.8	(1.2)	1.5	1.1	0.8	2.2	0.1	0.1	(0.2)	0.5	0.5	0.5	0.5	0.5
Deferred Revenues	0.0	0.6	0.1	0.2	0.2	(0.0)	0.3	0.6	(0.2)	0.7	0.4	0.5	1.5	0.6	0.9	0.8
Deferred Rent	(0.5)	1.5	(0.7)	(0.2)	1.0	0.7	0.6	2.1	0.0	0.1	(0.2)	0.3	0.3	0.3	0.3	0.4
Net Cash from Operating Activities	**(11.0)**	**(10.7)**	**(14.8)**	**(9.0)**	**(5.8)**	**(8.6)**	**(10.3)**	**(33.7)**	**(7.7)**	**(10.6)**	**(7.6)**	**(6.1)**	**(32.1)**	**(15.8)**	**(8.0)**	**4.7**
Capital expenditures	(1.9)	(2.7)	(0.4)	(0.1)	(0.3)	(0.4)	(0.5)	(1.3)	(0.4)	(0.6)	(0.7)	(0.8)	(2.6)	(3.6)	(4.9)	(5.9)
Restricted cash	0.0	(0.1)	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
Net Cash from Investing Activities	**(1.9)**	**(2.8)**	**(0.4)**	**(0.1)**	**(0.3)**	**(0.4)**	**(0.5)**	**(1.3)**	**(0.4)**	**(0.6)**	**(0.7)**	**(0.8)**	**(2.6)**	**(3.6)**	**(4.9)**	**(5.9)**
Proceeds from common stock issuance	0.0	0.0	0.0	0.0	160.0	0.0	0.0	160.0	0.0	0.0	0.0	0.0	0.0	45.0	0.0	0.0
Preferred stock & warrants issuance / repa	15.0	14.9	15.1	0.0	(110.0)	0.0	0.0	(110.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt issuance / repayment	0.5	5.1	11.3	(0.1)	9.3	(0.7)	(0.7)	7.7	(1.3)	(1.3)	(1.3)	(1.3)	(5.2)	(11.9)	0.0	0.0
Deferred offering costs	0.0	0.0	(0.6)	(1.0)	2.3	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exercise of options & common stock warra	0.0	0.0	0.2	0.3	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Common stock repurchase	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
Net Cash from Financing Activities	**15.5**	**20.0**	**26.1**	**(0.8)**	**61.6**	**(0.7)**	**(0.7)**	**59.3**	**(1.3)**	**(1.3)**	**(1.3)**	**(1.3)**	**(5.2)**	**33.1**	**0.0**	**0.0**
Change in Cash	2.6	6.5	10.8	(9.9)	55.4	(9.8)	(11.5)	24.3	(9.4)	(12.5)	(9.6)	(8.3)	(39.8)	13.7	(13.0)	(1.2)
Beginning Cash		4.4	10.9	21.7	11.8	67.2	57.5	21.7	46.0	36.6	24.1	14.5	46.0	6.2	19.9	6.9
Ending Cash	4.4	10.9	21.7	11.8	67.2	57.5	46.0	46.0	36.6	24.1	14.5	6.2	6.2	19.9	6.9	5.7

Source: Company Data, Morgan Stanley Research estimates

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

Disclosure Section

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(as of June 30, 2013)

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1020**	**36%**	**410**	**39%**	**40%**
Equal-weight/Hold	**1263**	**44%**	**485**	**47%**	**38%**
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Underweight/Sell	**469**	**16%**	**123**	**12%**	**26%**
Total	**2,861**		**1042**		

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Industry Coverage:Life Science Tools & Diagnostics

Company (Ticker)	Rating (as of)	Price* (07/19/2013)
Daniel Brennan, CFA		
NanoString Technologies Inc (NSTG.O)	O (07/22/2013)	$9.44
Affymetrix (AFFX.O)	E (05/09/2012)	$4.09
Agilent Technologies, Inc. (A.N)	O (03/05/2012)	$46.2
Illumina Inc. (ILMN.O)	E (03/05/2012)	$74.31
Life Technologies Corp. (LIFE.O)	E (03/05/2012)	$74.5
Pacific Biosciences of California, Inc. (PACB.O)	U (07/30/2012)	$2.75
PerkinElmer Inc. (PKI.N)	O (01/03/2013)	$34.08
Thermo Fisher Scientific Inc. (TMO.N)	O (03/05/2012)	$89.58
Waters Corp. (WAT.N)	E (01/03/2013)	$104.74

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