

Stock Rating
Overweight

Industry View
In-Line

August 7, 2013

NanoString Technologies Inc

Solid Q2 results: Revenues beat, consumables the driver

In its first quarter as a public company, revenues grew 22% YY (ahead of MSe 9%) with life sciences the engine, growing 18%. While diagnostics & the Prosigna breast cancer assay remain key focal points, NSTG's life science business remains an important (and overlooked) part of the story.

Revenues of \$7.2M vs. MSe \$6.5M: Life science consumables the biggest upside, at \$4.3M (+41% YY) vs. MSe \$3.4M, an annualized pull thru/instrument of ~\$124K (vs. MSe \$96K and ahead of management's \$100K bogey). Life science instrument revenues more in line at \$2.3M vs. MSe \$2.5M. Overall, total life science revenues of \$7.0M vs. MSe \$6.4M and diagnostic revenue of \$0.2M vs MSe \$0.0M. Gross margins of 51% also impressive, ahead of MSe 47%.

North America & Pharma strong: Within Life Sciences, N. America was a standout, growing +35%, with Pharma singled out, as one large customer ordered a 5th and 6th nCounter system (plus a significant consumable order of \$500K was noted). Pharma remains a large under-penetrated opportunity, with ~35-40 nCounters installed at top pharma customers today vs. a potential market of ~200 systems.

Growth drivers: Continued penetration of Gen 2 nCounter supported by recently expanded sales force and distributor network. Ongoing Prosigna launch in EU (CE marked) and US approval and launch (early 14). Impact from recently introduced new chemistry (Elements) which can drive uptake with both life science tools customers and diagnostics customers (who run LDTs). New Gen 3 nCounter (2014).

NSTG bottom line: we see NSTG as an exciting small cap story with a strong growth outlook trading at an attractive valuation. OW.

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 (Aug 6, 2013) | \$8.00 |
| Mkt cap, curr (mm) | \$117 |
| 52-Week Range | \$9.90-7.81 |

| Fiscal Year ending | 12/12 | 12/13e | 12/14e | 12/15e |
|---------------------------|----------------|---------------|---------------|---------------|
| Revenue, net (\$mm) | 23.0 | 30.3 | 51.5 | 72.5 |
| Sales, consensus (\$mm) | - | 29.7 | 54.3 | 81.1 |
| EBIT (\$mm) | (16.5) | (34.9) | (35.5) | (23.6) |
| EBIT, consensus (\$mm) | - | (36.6) | (40.5) | (24.7) |
| ModelWare EPS (\$) | (71.11) | (4.71) | (2.53) | (1.66) |

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

e = Morgan Stanley Research estimates

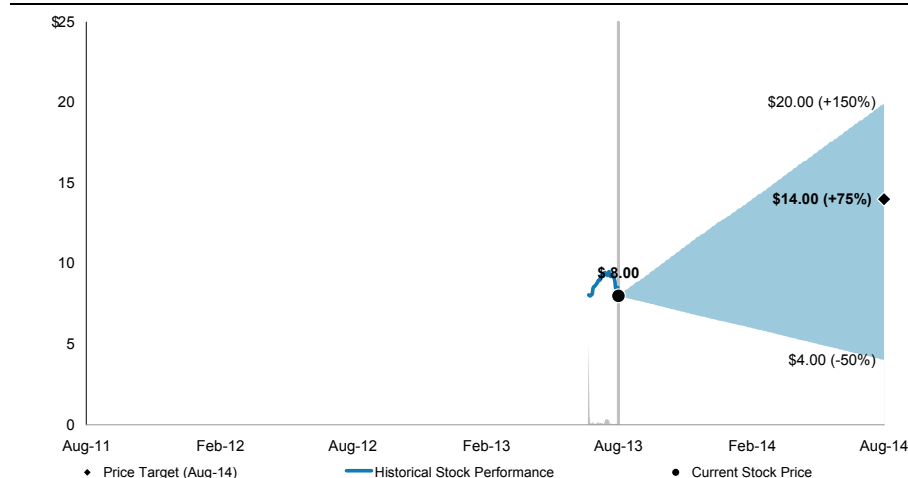
Quarterly Revenue, net (\$mm)

| Quarter | 2012 | 2013e | | 2014e | |
|---------|------|-------|---------|-------|---------|
| | | Prior | Current | Prior | Current |
| Q1 | 4.5 | - | 5.7a | 8.5 | 8.6 |
| Q2 | 5.9 | - | 7.2a | 12.2 | 12.1 |
| Q3 | 6.0 | 8.0 | 8.0 | 14.1 | 14.1 |
| Q4 | 6.5 | 9.3 | 9.4 | 16.8 | 16.8 |

e = Morgan Stanley Research estimates, a = Actual company reported data

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Risk-Reward Snapshot: NanoString Tech (NSTG, \$8.00, Overweight, PT \$14)**Risk-Reward View: Exciting diagnostic opportunity and underappreciated life science tools business create bias to upside****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 4.9x 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 w/ 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.

Potential Risks

- 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.

Exhibit 1

Quarter Variance Table

| (\$ in MM, except EPS) | 2Q 13E | 2Q 13A | Current Quarter | | | | | Y/Y | | Comments |
|--------------------------------|--------------|--------------|-----------------|---------------|-----------------|--------------|---------------|--------------|--------------|---|
| | | | A vs E (\$) | A vs E (%) | Impact | Cons Est | Variance | 2Q 12A | % Change | |
| Life Science | 6.4 | 7.0 | | | | | | 5.9 | 18.1% | Consumable strength from Pharma |
| Diagnostics | 0.0 | 0.2 | | | | | | 0.0 | | Sold 1 box to EU customer |
| Total Revenues | 6.5 | 7.2 | 0.8 | 11.7% | (\$0.07) | 6.8 | 6.2% | 5.9 | 21.5% | |
| COGS | 3.4 | 3.5 | 0.1 | 2.8% | | 3.6 | | 3.3 | 5.6% | |
| Gross Profit | 3.0 | 3.7 | 0.7 | 21.7% | | 3.2 | 15.5% | 2.6 | 41.7% | |
| SG&A | 7.8 | 6.7 | (1.0) | -13.5% | | | | 3.3 | 106.3% | |
| R&D | 4.0 | 3.6 | (0.4) | -9.5% | | | | 3.0 | 22.0% | |
| Total Operating Expenses | 11.8 | 10.3 | (1.4) | -12.1% | | 11.6 | | 6.2 | 66.1% | |
| Operating Income (Loss) | (8.7) | (6.6) | 2.1 | -23.9% | | (8.4) | -20.7% | (3.6) | 83.7% | |
| Interest Income (Expense) | (0.5) | 1.1 | 1.7 | -325.3% | \$0.11 | | | 0.0 | 2621.4% | |
| Income Taxes | 0.0 | 0.0 | 0.0 | | | | | 0.0 | | |
| Net Income (Loss) | (9.2) | (5.5) | 3.7 | -40.5% | | (9.4) | -41.3% | (3.6) | 53.9% | |
| Diluted Shares Outstanding | 14.6 | 0.6 | (14.0) | -96.1% | | 12.0 | | 0.3 | 68.5% | Q2 still Pre IPO, IPO proceeds received 7/1 |
| EPS, Diluted | (\$0.63) | (\$0.85) | (\$0.22) | 34.1% | (\$0.22) | (\$0.78) | 8.4% | (\$16.01) | -94.7% | |

Margin Analysis

| | | | | | | | | | | |
|------------------|---------|--------|--|-------------|----------|---------|--|--------|-------------|------------------------------------|
| Gross Margin | 47.0% | 51.2% | | 420 bps | \$0.02 | 47.1% | | 43.9% | 730 bps | Mix shift due to strong consumable |
| SG&A | 120.0% | 92.9% | | (2,710 bps) | (\$0.12) | | | 54.7% | 3,820 bps | |
| R&D | 62.0% | 50.2% | | (1,180 bps) | (\$0.05) | | | 50.0% | 20 bps | |
| Operating Income | -135.0% | -92.0% | | 4,300 bps | | -123.2% | | -60.8% | (3,120 bps) | |
| Net Income | -142.9% | -76.1% | | 6,670 bps | | -137.9% | | -60.1% | (1,600 bps) | |

Source: Company Data, Morgan Stanley Research estimates

Exhibit 2

Revenue Breakdown & Business Updates

| Analysis | Commentary |
|----------------|---|
| Business Lines | |
| Life Science | <p>Grew 18% with consumables +41% Y/Y as pull thru reached the high end of expectations. North America drove majority of growth with 75% of new instruments placed in cancer research. Biopharma had a strong quarter as top twenty pharma firm ordered its 5th and 6th nCounters. Separately, pharma company ordered a large \$0.5MM consumable order in the quarter, driving up pull thru. 25% of new instruments and 35% of consumables shipped to biopharma in the Q. nCounter Elements new chemistry expected to have a positive effect on shipment, opening up new end markets for LDTs</p> <p>FDA feedback largely positive, with no new requests for trials or studies. Questions mostly focused on existing data. Dx revenues driven largely by instrument placement with provider in EU. Unclear whether reagent rental or instrument placements will be more prevalent in EU. Decision impact studies in EU continue with 2 in Spain and 1 in Germany. Continue to expect 2014 US launch with current focus on recruitment of sales team and preparation of dossiers for payers.</p> |
| Diagnostics | |

Source: Company Data, Morgan Stanley Research estimates

Exhibit 3

2013 Guidance

| (\$ in MM, except EPS) | 2012 Actual | Guidance Prior | Current | 2013 MSe | Commentary |
|------------------------|-------------|----------------|------------------------|-------------|--|
| Life Science | 23.0 | | \$28.5 - \$30.0 | 28.8 | Expect strong H2 given expansion of sales channel |
| Diagnostics | 0.0 | | \$1.0 - \$1.5 | 1.5 | Prosigna to ramp in EU, instrument placements a positive |
| Total Revenues | 23.0 | | \$29.5 - \$31.5 | 30.3 | |
| Gross Margins | 46.2% | | 48% - 51% | 49.3% | GMs will vary depending on mix |
| OpEx | 27.1 | | | 49.9 | |
| Net Income | (25.2) | | -\$30 - \$35 | (35.7) | |
| Diluted Shares | 0.4 | | | 7.6 | |

Source: Company Data, Morgan Stanley Research estimates

Exhibit 4

Model Changes

| | 2012 | 2013 | 2014 | 2015 |
|-----------------------|---------|--------|--------|--------|
| Total Revenues | | | | |
| Current | 23.0 | 30.3 | 51.5 | 72.5 |
| % Y/Y | 29.1% | 31.8% | 70.2% | 40.7% |
| Prior | 23.0 | 29.5 | 51.5 | 72.6 |
| % Y/Y | 29.1% | 28.3% | 74.9% | 40.8% |
| COGS | | | | |
| Current | 12.4 | 15.3 | 21.2 | 25.2 |
| % of Revenues | 53.8% | 50.7% | 41.1% | 34.7% |
| Prior | 12.4 | 15.2 | 21.7 | 25.9 |
| % of Revenues | 53.8% | 51.6% | 42.0% | 35.7% |
| SG&A | | | | |
| Current | 15.5 | 33.2 | 45.7 | 49.6 |
| % of Revenues | 67.4% | 109.7% | 88.6% | 68.3% |
| Prior | 15.5 | 34.2 | 45.7 | 49.6 |
| % of Revenues | 67.4% | 116.0% | 88.6% | 68.3% |
| R&D | | | | |
| Current | 11.6 | 16.7 | 20.2 | 21.4 |
| % of Revenues | 50.6% | 55.0% | 39.1% | 29.5% |
| Prior | 11.6 | 17.0 | 20.2 | 21.4 |
| % of Revenues | 50.6% | 57.7% | 39.1% | 29.5% |
| Other Exp | | | | |
| Current | (1.2) | (0.7) | (1.5) | (0.6) |
| Prior | (1.2) | (2.3) | (1.4) | (0.5) |
| Net Income | | | | |
| Current | (25.2) | (35.7) | (36.9) | (24.2) |
| % of Revenues | NM | NM | NM | NM |
| Prior | (25.2) | (39.2) | (37.4) | (24.9) |
| % of Revenues | NM | NM | NM | NM |
| EPS | | | | |
| Current | (71.11) | (4.71) | (2.53) | (1.66) |
| Prior | (71.11) | (3.54) | (2.56) | (1.71) |

Source: Company Data, Morgan Stanley Research estimates

Exhibit 5

Income Statement

| | 2010A | 2011A | 2012E | 2013E | | | | 2013E | 2014E | 2015E | 2016E | 2017E |
|--------------------------------------|------------------|------------------|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | | | | Mar-13 | Jun-13 | Sep-13 | Dec-13 | | | | | |
| Revenues | | | | | | | | | | | | |
| Instrument Sales | 6.5 | 7.1 | 8.8 | 1.6 | 2.5 | 2.9 | 3.6 | 10.7 | 15.2 | 16.7 | 17.5 | 17.9 |
| CodeSets & Reagents | 5.0 | 10.0 | 13.0 | 3.7 | 4.3 | 4.7 | 5.4 | 18.1 | 34.4 | 53.7 | 69.3 | 85.5 |
| Services | 0.2 | 0.7 | 1.2 | 0.3 | 0.4 | 0.4 | 0.4 | 1.5 | 2.0 | 2.1 | 2.2 | 2.3 |
| Total Revenues | 11.7 | 17.8 | 23.0 | 5.7 | 7.2 | 8.0 | 9.4 | 30.3 | 51.5 | 72.5 | 89.0 | 105.7 |
| Total COGS | 9.1 | 9.8 | 12.4 | 2.9 | 3.5 | 4.2 | 4.7 | 15.3 | 21.2 | 25.2 | 26.4 | 26.1 |
| Gross Profit | 2.6 | 8.0 | 10.6 | 2.8 | 3.7 | 3.8 | 4.6 | 14.9 | 30.4 | 47.4 | 62.6 | 79.6 |
| R&D | 7.5 | 9.0 | 11.6 | 3.1 | 3.6 | 4.8 | 5.2 | 16.7 | 20.2 | 21.4 | 22.4 | 23.5 |
| SG&A | 8.0 | 9.5 | 15.5 | 6.1 | 6.7 | 9.4 | 11.0 | 33.2 | 45.7 | 49.6 | 52.9 | 56.6 |
| 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 |
| Total Operating Expenses | 15.6 | 18.5 | 27.1 | 9.2 | 10.3 | 14.2 | 16.1 | 49.9 | 65.8 | 71.0 | 75.3 | 80.1 |
| EBIT | (13.0) | (10.5) | (16.5) | (6.4) | (6.6) | (10.4) | (11.5) | (34.9) | (35.5) | (23.6) | (12.7) | (0.5) |
| Interest Income / (Expense) / Other | 0.2 | (0.4) | (1.1990) | (0.9) | 1.1 | (0.5) | (0.5) | (0.7) | (1.5) | (0.6) | (0.1) | (0.1) |
| Pre-tax Income / (Loss) | (12.8) | (10.9) | (17.7) | (7.3) | (5.5) | (11.0) | (11.9) | (35.7) | (36.9) | (24.2) | (12.9) | (0.7) |
| 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 |
| Net Income / (Loss) | (12.8) | (10.9) | (17.7) | (7.3) | (5.5) | (11.0) | (11.9) | (35.7) | (36.9) | (24.2) | (12.9) | (0.7) |
| Accretion of Mandatory Preferreds | (4.4) | (5.3) | (7.5) | (2.3) | (2.3) | 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) | (7.8) | (11.0) | (11.9) | (35.7) | (36.9) | (24.2) | (12.9) | (0.7) |
| Diluted EPS | (\$54.11) | (\$50.03) | (\$71.11) | (\$1.05) | (\$0.85) | (\$0.75) | (\$0.82) | (\$4.71) | (\$2.53) | (\$1.66) | (\$0.88) | (\$0.05) |
| Diluted EPS (GAAP) | (\$54.11) | (\$50.03) | (\$71.11) | (\$17.88) | (\$13.69) | (\$0.75) | (\$0.82) | (\$4.71) | (\$2.53) | (\$1.66) | (\$0.88) | (\$0.05) |
| Basic Shares Outstanding | 0.3 | 0.3 | 0.4 | 0.5 | 0.6 | 14.6 | 14.6 | 7.6 | 14.6 | 14.6 | 14.6 | 14.6 |
| Non-GAAP Shares | 0.3 | 0.3 | 0.4 | 9.2 | 9.2 | 14.6 | 14.6 | 7.6 | 14.6 | 14.6 | 14.6 | 14.6 |
| Diluted Shares Outstanding | 0.3 | 0.3 | 0.4 | 0.5 | 0.6 | 14.6 | 14.6 | 7.6 | 14.6 | 14.6 | 14.6 | 15.0 |

| Margins Analysis (% of Revenues) | | | | | | | | | | | | |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------|-------|
| COGS | 77.8% | 54.9% | 53.8% | 50.8% | 48.8% | 52.5% | 50.5% | 50.7% | 41.1% | 34.7% | 29.7% | 24.7% |
| Gross Profit | 22.2% | 45.1% | 46.2% | 49.2% | 51.2% | 47.5% | 49.5% | 49.3% | 58.9% | 65.3% | 70.3% | 75.3% |
| R&D | 64.3% | 50.5% | 50.6% | 53.9% | 50.2% | 60.0% | 55.0% | 55.0% | 39.1% | 29.5% | 25.1% | 22.2% |
| SG&A | 68.4% | 53.5% | 67.4% | 107.9% | 92.9% | 117.5% | 117.0% | 109.7% | 88.6% | 68.3% | 59.5% | 53.6% |
| Total OPEX | 132.8% | 104.0% | 118.1% | 161.8% | 143.2% | 177.5% | 172.0% | 164.7% | 127.7% | 97.9% | 84.6% | 75.8% |
| EBIT | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM |
| EBITDA | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | 3.9% |
| 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% |
| Net Income | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM |

Source: Company Data, Morgan Stanley Research estimates

Exhibit 6

Revenue Build

| | 2010A | 2011A | 2012E | 2013E | | | | 2013E | 2014E | 2015E | 2016E | 2017E |
|-----------------------|-------------|-------------|-------------|------------|------------|------------|------------|-------------|-------------|-------------|-------------|--------------|
| | | | | Mar-13 | Jun-13 | Sep-13 | Dec-13 | | | | | |
| Instrument Sales | 6.5 | 7.1 | 8.8 | 1.6 | 2.5 | 2.9 | 3.6 | 10.7 | 15.2 | 16.7 | 17.5 | 17.9 |
| CodeSets and Reagents | 5.0 | 10.0 | 13.0 | 3.7 | 4.3 | 4.7 | 5.4 | 18.1 | 34.4 | 53.7 | 69.3 | 85.5 |
| Services | 0.2 | 0.7 | 1.2 | 0.3 | 0.4 | 0.4 | 0.4 | 1.5 | 2.0 | 2.1 | 2.2 | 2.3 |
| Total | 11.7 | 17.8 | 23.0 | 5.7 | 7.2 | 8.0 | 9.4 | 30.3 | 51.5 | 72.5 | 89.0 | 105.7 |

| | | | | | | | | | | | | |
|-----------------------------|-------------|-------------|-------------|------------|------------|------------|------------|-------------|-------------|-------------|-------------|-------------|
| Life Sciences | | | | | | | | | | | | |
| Instrument Revenues (\$MM) | 6.5 | 7.1 | 8.8 | 1.6 | 2.3 | 2.9 | 3.4 | 10.3 | 15.0 | 16.6 | 17.3 | 17.8 |
| Consumables Revenues (\$MM) | 4.6 | 10.0 | 13.0 | 3.7 | 4.3 | 4.3 | 4.8 | 17.0 | 18.9 | 25.2 | 31.1 | 37.3 |
| Service (\$MM) | 0.7 | 0.7 | 1.2 | 0.3 | 0.4 | 0.4 | 0.4 | 1.5 | 2.0 | 2.1 | 2.2 | 2.3 |
| Total (\$MM) | 11.7 | 17.8 | 23.0 | 5.7 | 7.0 | 7.6 | 8.5 | 28.8 | 35.9 | 43.9 | 50.6 | 57.4 |

| | | | | | | | | | | | | |
|--|--|--|--|------------|------------|------------|------------|------------|-------------|-------------|-------------|-------------|
| Diagnostics | | | | | | | | | | | | |
| United States | | | | | | | | | | | | |
| Total US NanoString Tests (#) | | | | 0 | 0 | 0 | 0 | 0 | 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 |
| Revenues (\$MM) | | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 9.0 | 17.7 | 22.9 | 31.7 |
| Europe | | | | | | | | | | | | |
| Total EU NanoString Tests (#) | | | | 0 | 24 | 204 | 319 | 546 | 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 |
| Revenues (\$MM) | | | | 0.0 | 0.0 | 0.3 | 0.5 | 0.8 | 3.2 | 5.2 | 9.1 | 9.6 |
| Diagnostics Instrument Sales | | | | 0 | 1 | 1 | 9 | 11 | 8 | 8 | 8 | 8 |
| ASP (\$) | | | | 200,000 | 200,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| Diag Instrument Revenues (\$MM) | | | | 0.0 | 0.2 | 0.0 | 0.2 | 0.4 | 0.2 | 0.2 | 0.2 | 0.2 |
| Total Europe Revenues (\$MM) | | | | 0.0 | 0.2 | 0.3 | 0.7 | 1.2 | 3.3 | 5.3 | 9.2 | 9.8 |
| RoW | | | | | | | | | | | | |
| NanoString Tests | | | | 0 | 7 | 53 | 88 | 149 | 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 |
| Revenues (\$MM) | | | | 0.0 | 0.0 | 0.1 | 0.2 | 0.3 | 3.4 | 5.7 | 6.3 | 6.9 |
| Total Diagnostics Revenues | | | | 0.0 | 0.2 | 0.4 | 0.8 | 1.5 | 15.7 | 28.7 | 38.4 | 48.3 |

| | | | | | | | | | | | | |
|--|--------|--------|--------|--------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue Mix (% of Total Revenues) | | | | | | | | | | | | |
| Life Sciences | 100.0% | 100.0% | 100.0% | 100.0% | 97.2% | 94.6% | 91.1% | 95.2% | 69.6% | 60.5% | 56.8% | 54.3% |
| Diagnostics | 0.0% | 0.0% | 0.0% | 0.0% | 3.3% | 5.4% | 8.9% | 5.0% | 30.4% | 39.5% | 43.2% | 45.7% |
| Instruments | 55.2% | 40.0% | 38.2% | 28.9% | 35.0% | 36.7% | 38.0% | 35.2% | 29.4% | 23.1% | 19.6% | 17.0% |
| Consumables | 42.9% | 56.2% | 56.7% | 65.2% | 59.6% | 58.3% | 57.8% | 59.7% | 66.7% | 74.0% | 77.9% | 80.8% |
| Service & License & Other | 1.9% | 3.9% | 5.0% | 6.0% | 5.4% | 5.0% | 4.3% | 5.0% | 3.9% | 2.9% | 2.5% | 2.2% |

Source: Company Data, Morgan Stanley Research estimates

Exhibit 7

Balance Sheet

| | 2010A | 2011A | 2012E | 2013E | | | | 2013E | 2014E | 2015E | 2016E | 2017E |
|--|---------------|---------------|---------------|----------------|----------------|-------------|-------------|-------------|---------------|-------------|-------------|-------------|
| | | | | Mar-13 | Jun-13 | Sep-13 | Dec-13 | | | | | |
| Assets | | | | | | | | | | | | |
| Current assets: | | | | | | | | | | | | |
| Cash and cash equivalents | 4.4 | 10.9 | 21.7 | 11.8 | 10.8 | 44.4 | 32.9 | 32.9 | 0.6 | 10.0 | 7.9 | 7.7 |
| Accounts receivable, net | 2.1 | 3.1 | 3.3 | 4.4 | 4.8 | 5.3 | 5.6 | 5.6 | 7.9 | 6.5 | 8.0 | 9.4 |
| Inventory | 2.2 | 3.5 | 5.4 | 5.3 | 5.6 | 6.9 | 7.3 | 7.3 | 7.4 | 6.7 | 6.2 | 6.0 |
| Prepaid expenses and other | 0.4 | 1.5 | 1.3 | 2.2 | 2.5 | 2.8 | 3.3 | 3.3 | 4.2 | 4.0 | 4.9 | 5.7 |
| Total current assets | 9.1 | 19.0 | 31.7 | 23.6 | 23.7 | 59.4 | 49.1 | 49.1 | 20.1 | 27.1 | 27.0 | 28.9 |
| Restricted cash | 0.1 | 0.2 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deferred offering costs | 0.0 | 0.0 | 1.8 | 2.3 | 3.4 | 0.0 | 0.0 | 0.0 | | | | |
| Property and equipment, net | 4.0 | 5.2 | 3.7 | 3.3 | 3.0 | 2.9 | 2.9 | 2.9 | 3.2 | 3.9 | 5.2 | 6.4 |
| Other assets | 0.1 | 0.2 | 0.1 | 0.1 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Total assets | 13.3 | 24.6 | 37.4 | 29.6 | 30.5 | 62.8 | 52.4 | 52.4 | 23.7 | 31.4 | 32.6 | 35.7 |
| Liabilities | | | | | | | | | | | | |
| Current liabilities: | | | | | | | | | | | | |
| Accounts payable | 2.9 | 1.7 | 2.9 | 1.8 | 2.7 | 4.2 | 4.1 | 4.1 | 6.0 | 5.9 | 6.2 | 6.0 |
| Accrued liabilities | 1.8 | 2.6 | 4.5 | 3.8 | 5.7 | 7.8 | 8.9 | 8.9 | 9.4 | 10.1 | 10.6 | 11.3 |
| Deferred revenue, current portion | 0.3 | 1.0 | 0.9 | 1.0 | 0.9 | 1.1 | 1.2 | 1.2 | 2.2 | 2.6 | 3.2 | 3.8 |
| Deferred rent, current portion | 0.6 | 0.7 | 0.8 | 0.8 | 0.8 | 1.1 | 1.2 | 1.2 | 1.3 | 1.4 | 1.5 | 1.5 |
| Long-term debt, current portion | 0.6 | 0.9 | 2.8 | 4.0 | 2.7 | 4.6 | 5.2 | 5.2 | 11.9 | 0.0 | 0.0 | 0.0 |
| Total current liabilities | 6.2 | 6.8 | 11.8 | 11.4 | 12.8 | 18.8 | 20.6 | 20.6 | 30.8 | 20.0 | 21.5 | 22.6 |
| Deferred revenue, net of current portion | 0.2 | 0.1 | 0.4 | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 | 1.1 | 1.3 | 1.7 | 1.9 |
| Deferred rent, net of current portion | 1.4 | 2.7 | 1.9 | 1.7 | 1.7 | 2.4 | 2.7 | 2.7 | 2.8 | 3.0 | 3.2 | 3.4 |
| Long-term debt, net of current portion | 1.2 | 1.0 | 10.0 | 8.8 | 15.0 | 17.0 | 15.9 | 15.9 | 4.6 | 5.0 | 5.0 | 5.0 |
| Preferred stock warrant liability | 0.0 | 2.5 | 3.5 | 4.0 | 2.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total liabilities | 8.9 | 13.1 | 27.5 | 26.4 | 32.5 | 38.7 | 39.8 | 39.8 | 39.4 | 29.3 | 31.4 | 33.0 |
| 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 |
| APIC | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 156.3 | 156.3 | 156.3 | 163.3 | 203.3 | 213.3 | 213.3 |
| Accumulated deficit | (53.5) | (69.5) | (93.8) | (102.8) | (110.3) | (132.2) | (143.7) | (143.7) | (178.9) | (201.2) | (212.0) | (210.6) |
| Total stockholders' deficit | (53.5) | (69.5) | (93.8) | (102.8) | (110.3) | 24.1 | 12.6 | 12.6 | (15.6) | 2.1 | 1.2 | 2.7 |
| Total Liabilities and Equity | 13.3 | 24.6 | 37.4 | 29.6 | 30.5 | 62.8 | 52.4 | 52.4 | 23.7 | 31.4 | 32.6 | 35.7 |

Source: Company Data, Morgan Stanley Research estimates

Exhibit 8

Cash Flow Statement

| | 2010A | 2011A | 2012E | 2013E | | | | 2013E | 2014E | 2015E | 2016E | 2017E |
|--|---------------|---------------|---------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|--------------|--------------|
| | | | | Mar-13 | Jun-13 | Sep-13 | Dec-13 | | | | | |
| Net Income / (Loss) | (12.8) | (10.9) | (17.7) | (7.3) | (7.8) | (11.0) | (11.9) | (38.0) | (36.9) | (24.2) | (12.9) | (0.7) |
| Depreciation & Amortization | 1.0 | 1.5 | 1.9 | 0.5 | 0.4 | 0.5 | 0.5 | 1.9 | 2.3 | 2.9 | 3.7 | 4.7 |
| Amortization of debt discount | 0.0 | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.3 | 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 | 1.7 | 1.9 | 2.0 | 2.1 |
| Revaluation of preferred stock warrant liability | (0.0) | (0.1) | 0.4 | 0.5 | 0.0 | 0.0 | 0.0 | 0.5 | 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 | 0.3 | 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 |
| Δ in Operating Working Capital | 0.6 | (1.8) | (0.4) | (3.1) | 1.3 | 2.7 | 0.6 | 1.5 | 0.7 | 3.9 | 0.0 | (0.4) |
| Net Cash from Operating Activities | (11.0) | (10.7) | (14.8) | (9.0) | (5.6) | (7.3) | (10.3) | (32.2) | (31.6) | (15.1) | (7.2) | 5.7 |
| Capital expenditures | (1.9) | (2.7) | (0.4) | (0.1) | (0.1) | (0.4) | (0.5) | (1.1) | (2.6) | (3.6) | (4.9) | (5.9) |
| Restricted cash | 0.0 | (0.1) | 0.0 | 0.0 | 0.2 | 0.0 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Cash from Investing Activities | (1.9) | (2.8) | (0.4) | (0.1) | 0.1 | (0.4) | (0.5) | (0.9) | (2.6) | (3.6) | (4.9) | (5.9) |
| Proceeds from common stock issuance | 0.0 | 0.0 | 0.0 | 0.0 | (0.0) | 156.3 | 0.0 | 156.3 | 7.0 | 40.0 | 10.0 | 0.0 |
| Preferred stock & warrants issuance / repurchase | 15.0 | 14.9 | 15.1 | 0.0 | 0.8 | (110.8) | 0.0 | (110.0) | 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 | (5.2) | (11.9) | 0.0 | 0.0 |
| Deferred offering costs | 0.0 | 0.0 | (0.6) | (1.0) | (1.0) | (3.4) | 0.0 | (5.5) | 0.0 | 0.0 | 0.0 | 0.0 |
| Exercise of options & common stock warrants | 0.0 | 0.0 | 0.2 | 0.3 | (4.5) | 0.0 | 0.0 | (4.2) | 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 |
| Net Cash from Financing Activities | 15.5 | 20.0 | 26.1 | (0.8) | 4.5 | 41.4 | (0.7) | 44.4 | 1.8 | 28.1 | 10.0 | 0.0 |

Source: Company Data, Morgan Stanley Research estimates



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August 7, 2013
NanoString Technologies Inc

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|--------------------------|-------------------|------------|----------------------------------|----------------|----------------------|
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| Not-Rated/Hold | 112 | 4% | 27 | 3% | 24% |
| Underweight/Sell | 467 | 16% | 123 | 12% | 26% |
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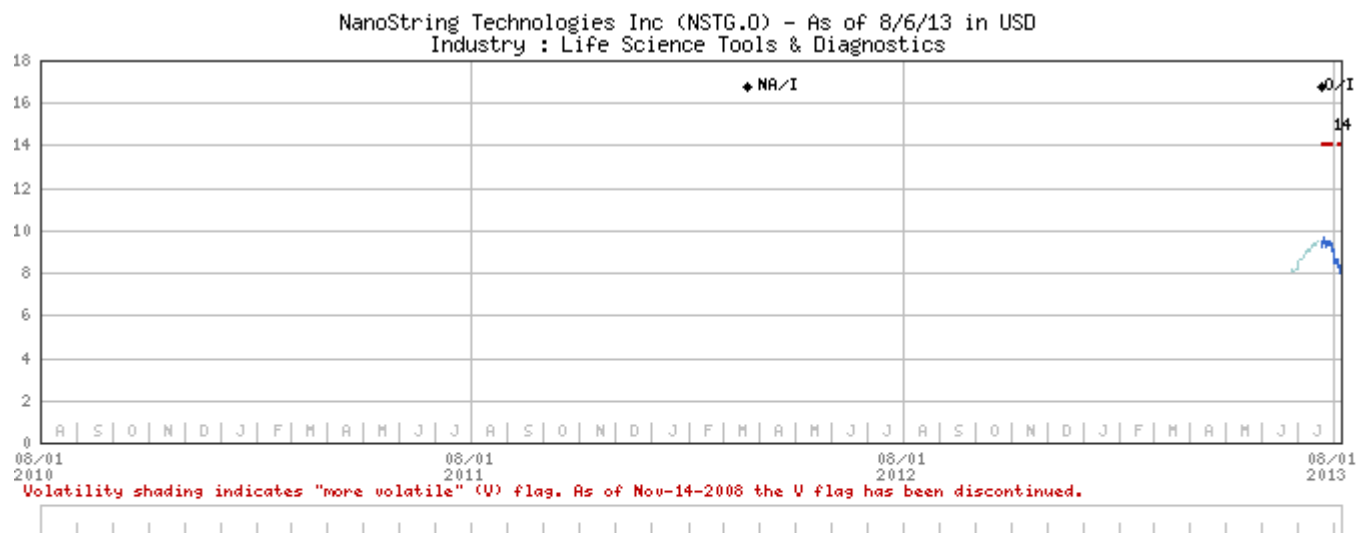
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Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 3/22/12 : NA/I; 7/22/13 : O/I

Price Target History: 7/22/13 : 14

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
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Industry Coverage: Life Science Tools & Diagnostics

| Company (Ticker) | Rating (as of) | Price* (08/06/2013) |
|--|----------------|---------------------|
| Daniel Brennan, CFA | | |
| Affymetrix (AFFX.O) | E (05/09/2012) | \$5 |
| Agilent Technologies, Inc. (A.N) | O (03/05/2012) | \$46.08 |
| Illumina Inc. (ILMN.O) | E (03/05/2012) | \$79.02 |
| Life Technologies Corp. (LIFE.O) | E (03/05/2012) | \$74.8 |
| NanoString Technologies Inc (NSTG.O) | O (07/22/2013) | \$8 |
| Pacific Biosciences of California, Inc. (PACB.O) | U (07/30/2012) | \$3.46 |
| PerkinElmer Inc. (PKI.N) | O (01/03/2013) | \$36.3 |
| Thermo Fisher Scientific Inc. (TMO.N) | O (03/05/2012) | \$92.08 |
| Waters Corp. (WAT.N) | E (01/03/2013) | \$102.22 |

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.