

January 6, 2014

Stock Rating
Equal-weight

Industry View
In-Line

NanoString Tech Inc

Downgrade to Equal-weight after strong performance

What's Changed

Rating	Overweight to Equal-weight
Price Target	\$14.00 to NA

Since IPO, NSTG's stock is up ~70% vs the S&P 500 +16%. While we raise our base case to \$18, we see a more balanced risk-reward at current levels.

A lot to like – significant diagnostic opportunity and differentiated underpenetrated tools business:

NSTG's Prosigna diagnostic breast cancer assay is differentiated from market leader GHDX's Oncotype DX, and post the recent FDA approval and lab distribution announcements (most notably DGX & LH), we expect a significant ramp penetrating the ~\$1Bn global TAM. The company's nCounter instrument also has many attractive features, which support continued strong growth in academic and research markets, along with an exciting new clinical lab developed test opportunity.

...but risk-reward less attractive after strong

performance: NSTG rose ~70% since its June 25 IPO, and more than doubled from its lows, driven by FDA approval, lab announcements & quarterly results. At current prices, we see 5%+ upside to our new \$18 base case (assumes a 4x AV/'15 revenues). While growth opportunities are significant, as a small cap player entering new markets, execution risks are also high.

Our forecasts below the Street: We forecast rapid Prosigna penetration (~9% of the US market by Q4 '14 and ~14% by Q4 '15), supporting attractive +57% and +41% YY revenue growth rates in '14 & '15; however, our forecasts are (7%) and (11%) below consensus, which we feel over-estimate the Prosigna ramp.

Where we could be wrong: Rev growth exceeds our forecasts, driven by greater diagnostic uptake or faster tools growth; valuation expands based upon strong execution and better than expected Prosigna uptake.

Key Ratios and Statistics

Reuters: NSTG.O Bloomberg: NSTG US

Life Science Tools & Diagnostics / United States of America

Price target	NA
Shr price, close (Jan 3, 2014)	\$17.08
Mkt cap, curr (mm)	\$250
52-Week Range	\$18.09-7.01

Fiscal Year ending	12/12	12/13e	12/14e	12/15e
Op rev (\$mm)	23	31	49	68
ModelWare EPS (\$)#	(71.11)	(4.33)	(2.33)	(1.17)
P/E	NM	NM	NM	NM
Consensus EPS (\$)\$	-	(2.23)	(2.24)	(1.16)

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

= Our pension accounting has changed in ModelWare, which will affect ModelWare EPS figures for some stocks under coverage. Visit www.ms.com/mw.pdf for details

\$ = Consensus data is provided by Thomson Reuters Estimates.

e = Morgan Stanley Research estimates

Quarterly Op rev (\$mm)

Quarter	2012	2013e Prior	2013e Current	2014e Prior	2014e Current
Q1	4.5	-	5.7a	8.3	8.7
Q2	5.9	-	7.2a	10.6	10.6
Q3	6.0	-	8.4a	14.2	13.8
Q4	6.5	9.0	9.7	17.0	15.7

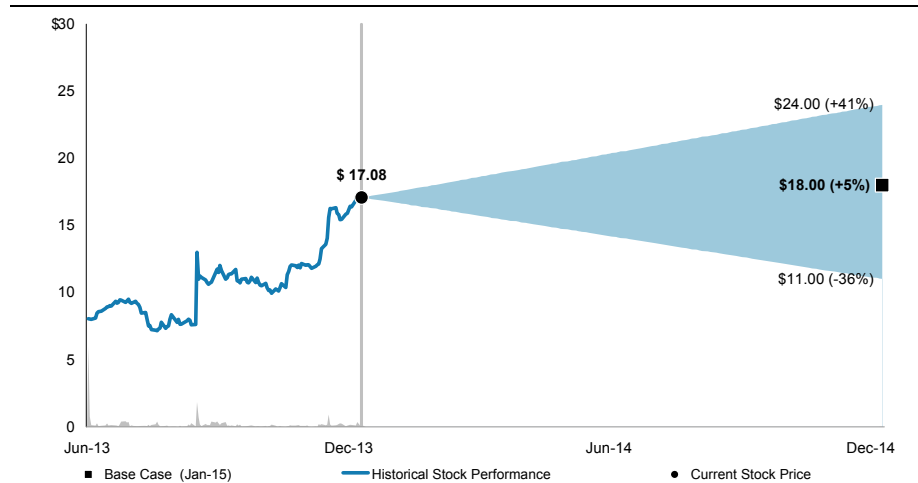
e = Morgan Stanley Research estimates, a = Actual company reported data

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

Risk-Reward Snapshot: NanoString (NSTG, \$17.08, Equal-weight)

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



Source: Thomson Reuters, Morgan Stanley Research

▲ Bull Case: \$24

5.0x 2015 AV / Sales

Our bull case of \$24 based on a 2015 AV / Sales multiple of 5.0x, reflects validation of Prosigna in US market and better than expected ex US penetration coupled with strong LS execution. We assume total revs of \$73MM and multiple expansion as superior growth allows NSTG to trade in line with peer group median.

Base Case: \$18

4.0x 2015 AV / Sales

Our base case \$18 reflects a 2015 AV / Sales multiple of 4.0x on \$68MM of revs driven by uptake in the US of the Prosigna breast cancer assay achieving ~14% of the addressable market by YE '15, strong placements of Gen 2 nCounters and a successful launch of the Gen 3 instrument in smaller budget labs.

▼ Bear Case: \$11

3.5x 2015 AV / Sales

Our bear case of \$11 reflects a 2015 AV / Sales multiple of 3.5x on \$52MM of revs. Under this scenario, we assume that US diagnostic revenues fail to materialize as reimbursement and guidelines prove to be bigger hurdles than expected. Assume ramp of Gen 3 instruments is slower than expected and multiple contracts.

Investment Thesis

- Prosigna, NSTG's breast cancer molecular diagnostic assay, has a differentiated clinical profile which should provide for share gains.
- In addition, 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 we see Prosigna ramping to capture ~14% of the node negative ER+ early stage breast cancer market by Q4 2015.
- Continued strength in nCounter placements: we expect the existing install base of Gen 2 instruments to grow +9% in 2015. The Gen 3 box (lower ASPs to drive penetration into smaller labs) launches in 2014, with Gen 3 revenues comprising 23% of total tools revenues in '14 growing to 36% by 2015.
- Introduction of more diagnostic tests for nCounter platform: simplicity, throughput and digital nature of nCounter makes it ideal for diagnostic setting.

Potential Risks

- Prosigna fails to make serious inroads vs. Oncotype DX
- Ex US Prosigna market remains nascent, given lack of adequate insurance coverage
- nCounter tools business growth slows more than expected
- Failure to develop viable 2nd diagnostic test after Prosigna
- Sale of stock post Dec '13 expiration of lock-up agreements from IPO

January 6, 2014
NanoString Tech Inc

Exhibit 1

Trading Comps Table as of 01/01/2014

Ticker	Name	Price	Mkt Cap	Agg Value	Current AV / Sales			Price / Sales			Sales CAGR				Total Return		
					2013e	2014e	2015e	2013	2014	2015	'13 - '14	'14 - '15	'12-14	'12-15	YTD	3 Months	1 Week
Tools Comps																	
AFFX	Affymetrix	\$8.44	\$607	\$726	2.3x	2.2x	2.2x	1.9x	1.8x	1.8x	2.7%	1.7%	5.6%	4.3%	-1.5%	30.7%	-2.5%
FLDM	Fluidigm	\$36.80	\$943	\$879	12.6x	10.4x	8.5x	13.5x	11.2x	9.1x	21.1%	22.2%	28.3%	26.2%	-3.9%	67.0%	-5.3%
ILMN	Illumina	\$110.34	\$13,947	\$13,778	9.8x	8.7x	7.7x	9.9x	8.8x	7.8x	12.8%	12.6%	17.6%	15.9%	-0.2%	36.7%	1.5%
LMNX	Luminex	\$18.75	\$785	\$724	3.4x	3.1x	2.8x	3.7x	3.3x	3.0x	9.5%	11.1%	8.1%	9.1%	-3.4%	-6.8%	-3.0%
PACB	PacBio	\$5.07	\$335	\$224	8.0x	5.1x	4.0x	11.9x	7.6x	6.0x	56.6%	25.7%	34.1%	31.3%	-3.1%	-9.6%	-0.2%
Hybrid Comps																	
QGEN	Qiagen	\$23.53	\$5,640	\$6,175	4.7x	4.5x	4.2x	4.3x	4.1x	3.8x	5.5%	6.2%	5.7%	5.9%	-1.2%	8.6%	1.1%
Diagnostics Comps																	
CPHD	Cephei	\$45.86	\$3,111	\$3,038	7.8x	6.8x	5.8x	8.0x	7.0x	6.0x	14.6%	16.4%	16.1%	16.2%	-1.7%	18.0%	-1.4%
MYGN	Myriad Genetics	\$21.72	\$1,658	\$1,301	2.2x	1.8x	1.9x	2.8x	2.3x	2.4x	18.4%	-4.4%	19.8%	11.1%	3.5%	-12.3%	-10.2%
EXAS	EXACT Sci	\$11.82	\$838	\$693	168.1x	24.5x	7.8x	203.3x	29.6x	9.5x	586.7%	212.6%	161.8%	177.8%	0.6%	-1.6%	-3.3%
GHDX	Genomic Health	\$28.71	\$882	\$768	2.9x	2.6x	2.3x	3.4x	3.0x	2.7x	12.6%	12.7%	12.4%	12.5%	-1.9%	-6.1%	-3.8%
GNMK	GenMark	\$13.22	\$548	\$437	16.2x	16.0x	10.2x	20.3x	20.1x	12.8x	0.9%	57.2%	22.8%	33.4%	-0.5%	8.2%	1.0%
QDEL	Quidel	\$29.50	\$1,002	\$997	5.7x	5.0x	4.3x	5.8x	5.0x	4.3x	14.9%	15.5%	13.5%	14.1%	-4.5%	8.0%	9.9%
SQNM	Sequenom	\$2.33	\$270	\$334	2.0x	1.4x	1.1x	1.6x	1.1x	0.9x	43.5%	22.7%	64.0%	48.9%	-0.4%	-12.7%	1.7%
VIVO	Meridian Biosci	\$26.11	\$1,084	\$1,040	5.5x	5.1x	4.7x	5.7x	5.3x	4.9x	8.2%	8.0%	8.7%	8.5%	-1.6%	11.0%	-0.2%
Tools Comps																	
Mean					7.2x	5.9x	5.0x	8.2x	6.5x	5.6x	20.5%	14.7%	18.7%	17.3%	-2.4%	23.6%	-1.9%
Median					8.0x	5.1x	4.0x	9.9x	7.6x	6.0x	12.8%	12.6%	17.6%	15.9%	-3.1%	30.7%	-2.5%
Diagnostics Comps																	
Mean					26.3x	7.9x	4.8x	31.4x	9.2x	5.4x	87.5%	42.6%	39.9%	40.3%	-0.8%	1.6%	-0.8%
Median					5.6x	5.0x	4.5x	5.8x	5.2x	4.6x	14.8%	15.9%	17.9%	15.2%	-1.1%	3.2%	-0.8%
Overall																	
Mean					17.9x	6.9x	4.8x	21.1x	7.9x	5.4x	57.7%	30.0%	29.9%	29.6%	-1.4%	9.9%	-1.1%
Median					5.6x	5.0x	4.3x	5.8x	5.2x	4.6x	13.7%	14.1%	16.9%	15.0%	-1.6%	8.1%	-0.8%
NSTG	NanoString	\$16.87	\$246.6	\$220.6	7.1x	4.5x	3.2x	7.9x	5.1x	3.6x	57.1%	40.5%	45.7%	43.9%	68.7%	48.6%	2.7%

Source: Thomson Reuters, Morgan Stanley Research

We have viewed FLDM as the most applicable life science tool peer and GDHX the most applicable diagnostic peer, though believe it's appropriate to consider a broad group of life science tools and diagnostic stocks for valuation purposes. For life science tools, the median AV/2014 revenue multiple is 5.1x whereas for diagnostics, the median is 5x, although the range of multiples is quite wide (from 1.4x up to 24x). We maintain the same 4x multiple for NSTG but roll forward our base revenue to CY 2015 from previously a June 2014-June 2015 revenue period (given we set it at time of the June IPO) to arrive at our new base case value of \$18. Our 4x is a modest discount to the broad set of peers, while a premium to GHDX and a wide discount to FLDM. Though we model NSTG to deliver superior top line growth, a modest discount is warranted given the company's limited operating history, significant net losses, and execution challenges.

January 6, 2014
NanoString Tech Inc

Compared with GHDX, we can argue for a premium for NSTG as the company is the new entrant set to take share from GHDX and grow more rapidly. Compared with FLDM, our valuation is at a wide discount despite NSTG's expected more rapid growth. We feel a discount is warranted given FLDM's longer operating history, more diversified tools offering, its leadership position in single cell and its well regarded and seasoned management team. Given FLDM's recent price performance and resultant expanded valuation, the current discount (4x vs. 11x) has expanded and is quite wide. However, it's difficult for us to opine on FLDM's specific valuation level given our lack of coverage, but suffice to say to the extent NSTG executes and delivers nearly 50% growth CAGR, our valuation methodology could be conservative.

Exhibit 2

DCF Analysis

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Life Science Tools Revenues	29.3	38.6	43.0	49.0	55.0	60.5	66.0	71.3	76.3	80.8	85.3	90.0	94.9	99.7	104.6	109.9
Diagnostics Revenues	1.7	10.1	25.4	35.9	47.4	53.1	61.3	70.1	79.6	90.0	101.4	113.9	124.3	126.1	128.0	130.0
Revenue	31.0	48.7	68.5	85.0	102.5	113.6	127.3	141.3	155.9	170.8	186.7	203.9	219.2	225.8	232.7	239.8
EBIT	(32.1)	(32.8)	(21.1)	(10.6)	1.4	8.5	13.7	19.9	27.1	35.4	44.8	55.7	65.8	67.7	69.8	71.9
Tax rate	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%	30.0%
EBIAT	(32.1)	(32.8)	(21.1)	(10.6)	1.4	6.0	9.6	14.0	19.0	24.8	31.4	39.0	46.0	47.4	48.9	50.4
+ Depreciation	1.9	2.2	2.9	3.6	4.5	4.6	4.7	4.8	4.9	5.0	5.1	5.2	5.3	5.4	5.5	5.6
- Capital Expenditures	(1.0)	(2.4)	(3.4)	(4.7)	(5.7)	(5.8)	(5.9)	(6.0)	(6.2)	(6.3)	(6.4)	(6.6)	(6.7)	(6.8)	(7.0)	(7.1)
- Change in Net Working Capital	1.5	0.4	3.6	0.1	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)
Free Cash Flows	(29.7)	(32.7)	(18.1)	(11.7)	(0.1)	4.4	5.6	10.4	17.4	23.1	29.7	37.2	44.3	45.6	47.0	48.5
PV of Free Cash Flows		(31.2)	(15.7)	(9.3)	(0.1)	2.9	3.4	5.8	8.7	10.6	12.4	14.2	15.4	14.5	13.7	12.9

Assumptions

LST Revenue Growth	3.0%
Diagnostic Test ASP	\$2,000
US Diagnostic Penetration Growth Rate	3.0%
EU Addressable Mkt Growth Rate	20.0%
Diagnostic Steady State Growth Rate	1.5%
EBIT % expansion/yr	3.3%
Depreciation growth	2.0%
CAPEX growth	2.1%
Growth in working capital	0.5%
Perpetual Growth Rate in FCF	2.0%

Calculations

Discount Rate	9.6%
Total Discounted Value of FCF	58.2
Terminal Value	631.9
Discounted Terminal Value	175.3
Terminal Year	2028
Current	2014

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%

DCF Per Share

Aggregate Value	233.6
Less: Debt YE 13	17.6
Add: Cash YE 13	43.6
Equity Value	259.5
Fully Diluted Shares	16.4
DCF Value per Share YE 13	\$15.85
Assumed Base Case Valuation	\$17.59
Current Share Price	\$16.87

Terminal Value Sensitivity

Terminal	WACC							
Growth	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%
2.5%	876.3	803.3	741.5	688.5	642.6	602.5	567.0	535.5
3.0%	968.7	880.6	807.2	745.1	691.9	645.8	605.4	569.8
3.5%	1,081.5	973.4	884.9	811.1	748.7	695.3	648.9	608.4
4.0%	1,222.6	1,086.7	978.1	889.2	815.1	752.4	698.6	652.0
4.5%	1,404.0	1,228.5	1,092.0	982.8	893.4	819.0	756.0	702.0
5.0%	1,645.8	1,410.7	1,234.3	1,097.2	987.5	897.7	822.9	759.6

Firm Value Sensitivity

Terminal	WACC							
Growth	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%
2.5%	375.1	326.9	286.6	252.4	223.2	198.0	176.0	156.8
3.0%	406.5	351.6	306.2	268.3	236.2	208.7	184.9	164.2
3.5%	444.9	381.2	329.5	286.8	251.2	220.9	195.0	172.6
4.0%	493.0	417.4	357.4	308.7	268.6	235.0	206.5	182.2
4.5%	554.7	462.6	391.5	335.0	289.3	251.5	219.9	193.0
5.0%	637.1	520.7	434.1	367.1	314.0	270.9	235.4	205.6

Equity Value Sensitivity

Terminal	WACC							
Growth	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%
2.5%	\$24.50	\$21.55	\$19.09	\$17.00	\$15.22	\$13.68	\$12.34	\$11.16
3.0%	\$26.42	\$23.06	\$20.29	\$17.97	\$16.01	\$14.33	\$12.88	\$11.62
3.5%	\$28.76	\$24.87	\$21.71	\$19.11	\$16.93	\$15.08	\$13.50	\$12.13
4.0%	\$31.70	\$27.08	\$23.41	\$20.44	\$17.99	\$15.94	\$14.20	\$12.71
4.5%	\$35.47	\$29.84	\$25.49	\$22.05	\$19.25	\$16.95	\$15.01	\$13.38
5.0%	\$40.50	\$33.39	\$28.10	\$24.01	\$20.77	\$18.13	\$15.96	\$14.14

Source: Company Data, Morgan Stanley Research estimates

We do not model NanoString to be profitable until late 2017, making a DCF valuation 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 assess 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 \$18 for YE 2014 based on 3% growth in US diagnostic penetration per year leveling off when NSTG reaches 40% market share, coupled with 3% EBIT margin expansion per year, also leveling off at 30%. By our estimates, NSTG's current stock price reflects an more optimistic growth/penetration outcome, namely a 3.5% annual US market penetration growth with peak penetration in the mid 50% range.

January 6, 2014
NanoString Tech Inc

Exhibit 3

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	2.5	3.6	3.5	11.2	3.0	4.1	5.4	5.6	18.0	16.7	17.3	17.8
CodeSets & Reagents	5.0	10.0	13.0	3.7	4.3	4.4	5.9	18.3	5.3	6.1	8.0	9.7	29.0	50.0	65.8	82.7
Services	0.2	0.7	1.2	0.3	0.4	0.4	0.4	1.5	0.4	0.4	0.4	0.4	1.7	1.8	1.9	1.9
Total Revenues	11.7	17.8	23.0	5.7	7.2	8.4	9.7	31.0	8.7	10.6	13.8	15.7	48.7	68.5	85.0	102.5
Total COGS	9.1	9.8	12.4	2.9	3.5	3.8	4.9	15.1	3.8	4.1	4.8	6.3	19.0	22.5	23.6	23.4
Gross Profit	2.6	8.0	10.6	2.8	3.7	4.6	4.8	15.9	4.9	6.5	9.0	9.3	29.7	46.0	61.3	79.1
R&D	7.5	9.0	11.6	3.1	3.6	3.8	5.4	15.8	5.2	4.4	4.7	4.9	19.2	20.2	21.4	22.8
SG&A	8.0	9.5	15.5	6.1	6.7	8.0	11.4	32.2	11.3	10.1	10.9	11.1	43.4	46.8	50.6	54.9
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	10.3	11.8	16.8	48.1	16.5	14.4	15.6	16.0	62.6	67.1	72.0	77.7
EBIT	(13.0)	(10.5)	(16.5)	(6.4)	(6.6)	(7.2)	(11.9)	(32.1)	(11.6)	(7.9)	(6.6)	(6.7)	(32.8)	(21.1)	(10.6)	1.4
Interest Income / (Expense) / Other	0.2	(0.4)	(1.1990)	(0.9)	1.1	(0.5)	(0.5)	(0.7)	(0.4)	(0.4)	(0.4)	(0.3)	(1.5)	(0.6)	(0.1)	(0.1)
Pre-tax Income / (Loss)	(12.8)	(10.9)	(17.7)	(7.3)	(5.5)	(7.7)	(12.4)	(32.9)	(12.1)	(8.3)	(7.0)	(7.0)	(34.4)	(21.6)	(10.7)	1.3
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)	(5.5)	(7.7)	(12.4)	(32.9)	(12.1)	(8.3)	(7.0)	(7.0)	(34.4)	(21.6)	(10.7)	1.3
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	0.0	0.0	0.0	0.0
Net Income / (Loss) to Common	(17.1)	(16.2)	(25.241)	(9.6)	(7.8)	(7.7)	(12.4)	(32.9)	(12.1)	(8.3)	(7.0)	(7.0)	(34.4)	(21.6)	(10.7)	1.3
Diluted EPS	(\$54.11)	(\$50.03)	(\$71.11)	(\$1.05)	(\$0.85)	(\$0.53)	(\$0.85)	(\$4.33)	(\$0.83)	(\$0.57)	(\$0.48)	(\$0.46)	(\$2.33)	(\$1.17)	(\$0.58)	\$0.07
Diluted EPS (GAAP)	(\$54.11)	(\$50.03)	(\$71.11)	(\$17.88)	(\$13.69)	(\$0.53)	(\$0.85)	(\$4.33)	(\$0.83)	(\$0.57)	(\$0.48)	(\$0.46)	(\$2.33)	(\$1.17)	(\$0.58)	\$0.07
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	15.2	15.2	18.4	19.1	19.1
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	15.2	14.8	18.4	18.6	19.1
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	15.2	14.8	18.4	18.6	19.1
Margins Analysis (% of Revenues)																
COGS	77.8%	54.9%	53.8%	50.8%	48.8%	45.1%	50.5%	48.7%	43.8%	38.8%	34.6%	40.5%	39.0%	32.8%	27.8%	22.8%
Gross Profit	22.2%	45.1%	46.2%	49.2%	51.2%	54.9%	49.5%	51.3%	56.2%	61.2%	65.4%	59.5%	61.0%	67.2%	72.2%	77.2%
R&D	64.3%	50.5%	50.6%	53.9%	50.2%	45.1%	55.0%	51.0%	60.0%	41.0%	34.5%	31.0%	39.3%	29.5%	25.2%	22.2%
SG&A	68.4%	53.5%	67.4%	107.9%	92.9%	95.2%	117.0%	103.9%	130.0%	95.0%	79.0%	71.0%	89.0%	68.4%	59.5%	53.6%
Total OPEX	132.8%	104.0%	118.1%	161.8%	143.2%	140.3%	172.0%	154.9%	190.0%	136.0%	113.5%	102.0%	128.3%	97.9%	84.7%	75.9%
EBIT	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	1.3%
EBITDA	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	5.7%
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	1.2%

Source: Company Data, Morgan Stanley Research estimates

Exhibit 4

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	2.5	3.6	3.5	11.2	3.0	4.1	5.4	5.6	18.0	16.7	17.3	17.8
CodeSets and Reagents	5.0	10.0	13.0	3.7	4.3	4.4	5.9	18.3	5.3	6.1	8.0	9.7	29.0	50.0	65.8	82.7
Services	0.2	0.7	1.2	0.3	0.4	0.4	0.4	1.5	0.4	0.4	0.4	0.4	1.7	1.8	1.9	1.9
Total	11.7	17.8	23.0	5.7	7.2	8.4	9.748	31.0	8.7	10.6	13.8	15.7	48.750	68.470	85.0	102.5
Life Sciences																
Instrument Revenues (\$MM)	6.5	7.1	8.8	1.6	2.3	3.3	3.1	10.3	2.6	3.7	5.0	5.2	16.4	14.7	15.7	16.2
Consumables Revenues (\$MM)	4.6	10.0	13.0	3.7	4.3	4.4	5.1	17.4	4.3	4.8	5.3	6.0	20.5	26.5	31.5	36.9
Service (\$MM)	0.7	0.7	1.2	0.3	0.4	0.4	0.4	1.5	0.4	0.4	0.4	0.4	1.7	1.8	1.9	1.9
Total (\$MM)	11.7	17.8	23.0	5.7	7.0	8.1	8.5	29.3	7.3	8.9	10.7	11.7	38.6	43.0	49.0	55.0
Diagnostics																
United States																
Total US NanoString Tests (#)				0	0	0	0	0	160	320	931	1,382	2,792	8,860	11,448	15,855
ASP (\$)				1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,850	1,900
Test Revenues (\$MM)				0.0	0.0	0.0	0.0	0.0	0.3	0.6	1.6	2.4	4.9	15.5	21.2	30.1
US Cancer Center Adoption				0	0	0	5	5	2	2	2	2	8	10	4	4
US Diagnostics Instrument Placements				0	0	0	3	3	2	2	2	2	8	11	4	4
ASP (\$,000s)				250	250	250	250	250	250	250	250	250	250	250	250	250
US Diagnostics Instrument Revs (\$MM)				0.0	0.0	0.0	0.8	0.8	0.5	0.5	0.5	0.5	2.0	2.8	1.0	1.0
Total US Revenues (\$MM)				0.0	0.0	0.0	0.8	0.8	0.8	1.1	2.1	2.9	6.9	18.3	22.2	31.1
Europe																
Total EU NanoString Tests (#)				0	24	88	88	200	95	119	138	168	519	1,427	4,169	4,796
ASP (\$)				0	0	0	350	350	1,000	1,250	1,500	1,750	1,432	1,750	1,850	1,900
Revenues (\$MM)				0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.3	0.7	2.5	7.7	9.1
EU Diagnostics Instrument Placements				0	1	2	2	5	2	2	2	2	8	10	8	8
ASP (\$,000s)				200	200	143	200	177	200	200	200	200	200	200	200	200
EU DX Instrument Revs (\$MM)				0.0	0.2	0.285	0.4	0.9	0.4	0.4	0.400	0.4	1.6	2.0	1.6	1.6
Total Europe Revenues (\$MM)				0.0	0.2	0.3	0.4	0.9	0.5	0.5	0.6	0.7	2.3	4.5	9.3	10.7
RoW																
NanoString Tests				0	0	24	21	45	46	69	174	232	521	1,534	2,408	2,947
ASP				1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,850	1,900
Revenues (\$MM)				0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.3	0.4	0.9	2.7	4.5	5.6
Total Diagnostics Revenues				0.0	0.2	0.3	1.218	1.7	1.4	1.7	3.0	4.0	10.142	25.438	35.9	47.4
Revenue Mix (% of Total Revenues)																
Life Sciences	100.0%	100.0%	100.0%	100.0%	97.2%	96.1%	87.5%	94.4%	84.4%	83.7%	77.9%	74.4%	79.2%	62.8%	57.7%	53.7%
Diagnostics	0.0%	0.0%	0.0%	0.0%	2.8%	3.9%	12.5%	5.6%	15.6%	16.3%	22.1%	25.6%	20.8%	37.2%	42.3%	46.3%
Instruments	55.2%	40.0%	38.2%	28.9%	35.0%	42.3%	35.6%	36.1%	34.3%	38.4%	39.0%	35.7%	37.0%	24.4%	20.4%	17.4%
Consumables	42.9%	56.2%	56.7%	65.2%	59.6%	52.7%	60.2%	59.0%	60.9%	57.6%	57.9%	61.6%	59.6%	73.0%	77.5%	80.7%
Service & License & Other	1.9%	3.9%	5.0%	6.0%	5.4%	5.0%	4.1%	5.0%	4.8%	4.0%	3.1%	2.7%	3.4%	2.6%	2.2%	1.9%

Source: Company Data, Morgan Stanley Research estimates

Exhibit 5

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	10.8	19.3	15.7	15.7	10.8	4.7	1.7	5.4	5.4	17.0	17.0	18.6
Short term investments	0.0	0.0	0.0	0.0	0.0	32.9	27.9	27.9	22.9	17.9	12.9	7.9	7.9	7.9	7.9	7.9
Accounts receivable, net	2.1	3.1	3.3	4.4	4.8	6.8	5.9	5.9	4.4	5.2	6.6	7.4	7.4	6.1	7.5	8.9
Inventory	2.2	3.5	5.4	5.3	5.6	5.7	7.6	7.6	5.4	5.4	5.7	7.0	7.0	6.2	5.8	5.7
Prepaid expenses and other	0.4	1.5	1.3	2.2	2.5	2.8	3.3	3.3	2.6	2.9	3.4	3.9	3.9	3.7	4.6	5.4
Total current assets	9.1	19.0	31.7	23.6	23.7	67.5	60.3	60.3	46.2	36.2	30.5	31.6	31.6	40.9	42.8	46.5
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
Property and equipment, net	4.0	5.2	3.7	3.3	3.0	3.2	3.2	3.2	3.1	3.1	3.2	3.4	3.4	4.0	5.1	6.3
Other assets	0.1	0.2	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total assets	13.3	24.6	37.4	29.6	30.5	71.3	64.0	64.0	49.8	39.9	34.2	35.6	35.6	45.4	48.4	53.3
Liabilities																
Current liabilities:																
Accounts payable	2.9	1.7	2.9	1.8	2.7	2.9	4.3	4.3	3.3	3.6	4.2	5.6	5.6	5.5	5.8	5.7
Accrued liabilities	1.8	2.6	4.5	3.8	5.7	6.4	9.1	9.1	9.0	7.9	8.5	8.7	8.7	9.3	9.8	10.6
Deferred revenue, current portion	0.3	1.0	0.9	1.0	1.1	1.2	1.4	1.4	1.2	1.5	2.0	2.2	2.2	2.6	3.3	3.9
Deferred rent, current portion	0.6	0.7	0.8	0.8	0.6	0.6	0.9	0.9	0.8	0.7	0.8	0.8	0.8	0.9	0.9	1.0
Long-term debt, current portion	0.6	0.9	2.8	4.0	2.7	4.4	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	12.8	15.5	20.9	20.9	19.6	18.9	20.6	29.2	29.2	18.2	19.8	21.1
Deferred revenue, net of current portion	0.2	0.1	0.4	0.5	0.5	0.6	0.7	0.7	0.6	0.8	1.0	1.1	1.1	1.3	1.6	2.0
Deferred rent, net of current portion	1.4	2.7	1.9	1.7	1.7	1.5	2.1	2.1	2.1	1.8	2.0	2.0	2.0	2.2	2.3	2.5
Long-term debt, net of current portion	1.2	1.0	10.0	8.8	15.0	13.8	12.5	12.5	11.4	10.2	9.1	1.2	1.2	1.5	1.5	1.5
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	0.0	0.0	0.0	0.0
Total liabilities	8.9	13.1	27.5	26.4	32.5	31.4	36.2	36.2	33.6	31.7	32.6	33.5	33.5	23.3	25.3	27.1
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	0.0	157.9	157.9	157.9	157.9	157.9	157.9	164.9	164.9	204.9	214.9	214.9
Accumulated deficit	(53.5)	(69.5)	(93.8)	(102.8)	(110.3)	(118.0)	(130.0)	(130.0)	(141.7)	(149.7)	(156.3)	(162.9)	(162.9)	(182.8)	(191.8)	(188.6)
Total stockholders' deficit	(53.5)	(69.5)	(93.8)	(102.8)	(110.3)	39.9	27.9	27.9	16.2	8.2	1.6	2.0	2.0	22.1	23.1	26.3
Total Liabilities and Equity	13.3	24.6	37.4	29.6	30.5	71.3	64.0	64.0	49.8	39.9	34.2	35.6	35.6	45.4	48.4	53.3

Source: Company Data, Morgan Stanley Research estimates

Exhibit 6

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)	(5.5)	(7.7)	(12.4)	(32.9)	(12.1)	(8.3)	(7.0)	(7.0)	(34.4)	(21.6)	(10.7)	1.3
Depreciation & Amortization	1.0	1.5	1.9	0.5	0.4	0.5	0.5	1.9	0.5	0.5	0.6	0.6	2.2	2.9	3.6	4.5
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	0.3	0.4	1.2	0.4	0.3	0.4	0.4	1.5	1.7	1.8	1.9
Revaluation of preferred stock warrant liab	(0.0)	(0.1)	0.4	0.5	(1.6)	0.0	0.0	(1.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest accrued on convertible promissory	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
Interest accrued on LT note loan	0.0	0.0	0.1	0.1	0.0	0.1	0.1	0.3	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	0.1	0.0	0.1	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)	1.1	(0.5)	4.0	1.5	2.9	(2.0)	(0.2)	(0.4)	0.4	3.6	0.1	(0.3)
Accounts Receivable	0.1	(1.0)	(0.2)	(1.0)	(0.4)	(2.0)	0.9	(2.6)	1.5	(0.9)	(1.4)	(0.7)	(1.5)	1.3	(1.5)	(1.4)
Inventory	(0.2)	(1.3)	(1.9)	0.0	(0.3)	(0.1)	(1.8)	(2.2)	2.1	0.0	(0.3)	(1.2)	0.6	0.8	0.4	0.1
Prepaid Expenses & Other	(0.1)	(1.1)	0.2	(0.8)	(0.4)	(0.3)	(0.5)	(2.0)	0.7	(0.3)	(0.5)	(0.5)	(0.6)	0.2	(0.9)	(0.8)
Other Assets	(0.1)	(0.1)	0.1	0.0	(0.1)	(0.1)	0.0	(0.3)	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)	0.9	0.3	1.4	2.6	(1.0)	0.3	0.6	1.4	1.3	(0.1)	0.3	(0.1)
Accrued Liabilities	0.5	0.8	1.8	(1.2)	1.5	1.7	2.7	4.8	(0.1)	(1.1)	0.6	0.2	(0.4)	0.5	0.6	0.7
Deferred Revenues	0.0	0.6	0.1	0.2	0.1	0.2	0.3	0.8	(0.2)	0.4	0.7	0.4	1.3	0.6	0.9	0.9
Deferred Rent	(0.5)	1.5	(0.7)	(0.2)	(0.2)	(0.2)	0.9	0.3	(0.0)	(0.4)	0.2	0.1	(0.1)	0.2	0.2	0.2
Net Cash from Operating Activities	(11.0)	(10.7)	(14.8)	(9.0)	(5.2)	(7.2)	(7.4)	(28.9)	(8.1)	(9.3)	(6.0)	(6.2)	(29.6)	(13.1)	(5.3)	7.3
Capital expenditures	(1.9)	(2.7)	(0.4)	(0.1)	(0.1)	(0.2)	(0.5)	(1.0)	(0.4)	(0.5)	(0.7)	(0.8)	(2.4)	(3.4)	(4.7)	(5.7)
Purchase of Investments	0.0	0.0	0.0	0.0	0.0	(33.0)	(10.0)	(43.0)	(10.0)	(10.0)	(10.0)	(10.0)	(40.0)	(40.0)	(40.0)	(40.0)
Sales/Maturities of Investments	0.0	0.0	0.0	0.0	0.0	0.0	15.0	15.0	15.0	15.0	15.0	15.0	60.0	40.0	40.0	40.0
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)	(0.1)	(33.3)	4.5	(29.0)	4.6	4.5	4.3	4.2	17.6	(3.4)	(4.7)	(5.7)
Proceeds from common stock issuance	0.0	0.0	0.0	0.0	0.0	47.4	0.0	47.4	0.0	0.0	0.0	7.0	7.0	40.0	10.0	0.0
Preferred stock & warrants issuance / repa	15.0	14.9	15.1	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
Debt issuance / repayment	0.5	5.1	11.3	(0.1)	4.9	(0.1)	(0.7)	4.1	(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)	(0.7)	1.7	0.0	0.0	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	0.1	0.0	0.0	0.4	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)	4.3	49.0	(0.7)	51.8	(1.3)	(1.3)	(1.3)	5.7	1.8	28.1	10.0	0.0
Change in Cash	2.6	6.5	10.8	(9.9)	(1.0)	8.5	(3.6)	(6.0)	(4.8)	(6.1)	(3.0)	3.7	(10.2)	11.5	(0.0)	1.6
Beginning Cash		4.4	10.9	21.7	11.8	10.8	19.3	21.7	15.7	10.8	4.7	1.7	15.7	5.4	17.0	17.0
Ending Cash	4.4	10.9	21.7	11.8	10.8	19.3	15.7	15.7	10.8	4.7	1.7	5.4	5.4	17.0	17.0	18.6

Source: Company Data, Morgan Stanley Research estimates



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.

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(as of December 31, 2013)

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January 6, 2014
NanoString Tech Inc

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1009	34%	315	38%	31%
Equal-weight/Hold	1293	44%	395	47%	31%
Not-Rated/Hold	103	4%	26	3%	25%
Underweight/Sell	536	18%	97	12%	18%
Total	2,941		833		

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Analyst Industry Views

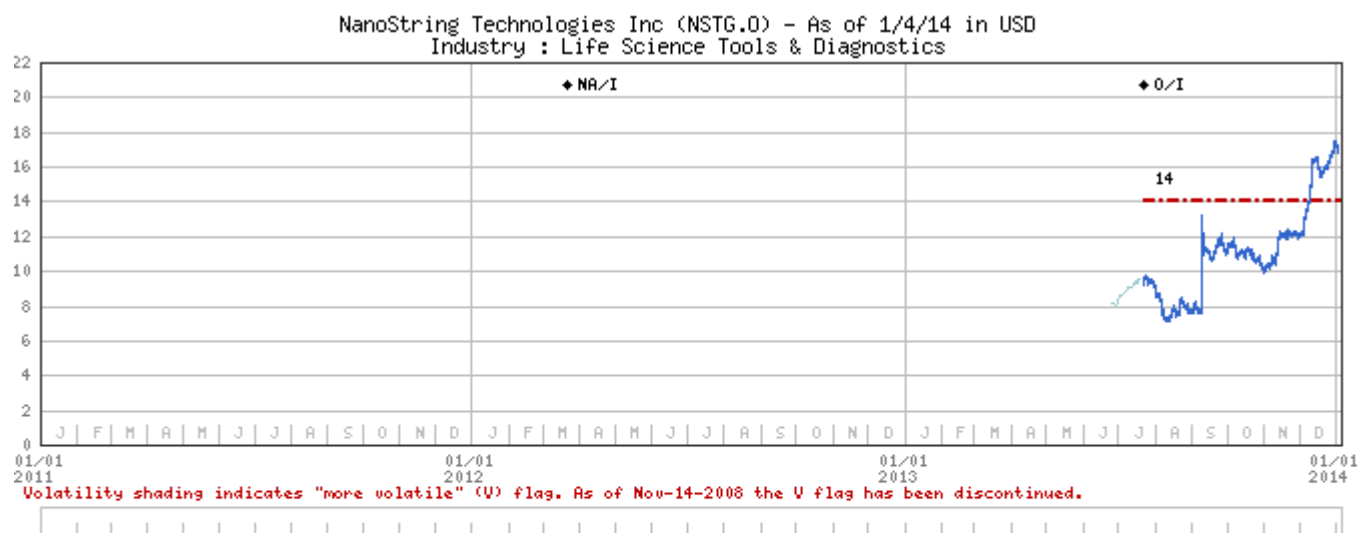
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

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
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Industry Coverage: Life Science Tools & Diagnostics

Company (Ticker)	Rating (as of)	Price* (01/03/2014)
Daniel Brennan, CFA		
Affymetrix (AFFX.O)	E (05/09/2012)	\$8.55
Agilent Technologies, Inc. (A.N)	O (03/05/2012)	\$56.92
Bruker Corp (BRKR.O)	O (11/06/2013)	\$19.4
Illumina Inc. (ILMN.O)	E (03/05/2012)	\$108.61
Life Technologies Corp. (LIFE.O)	E (03/05/2012)	\$75.82
Mettler Toledo International Inc (MTD.N)	O (09/06/2013)	\$242.71
NanoString Technologies Inc (NSTG.O)	E (01/06/2014)	\$17.08
Pacific Biosciences of California, Inc. (PACB.O)	U (07/30/2012)	\$4.87
PerkinElmer Inc. (PKI.N)	O (01/03/2013)	\$41.21
Qiagen NV (QGEN.O)	E (09/06/2013)	\$23.42
Sigma-Aldrich Corp (SIAL.O)	U (10/17/2013)	\$92.57
Thermo Fisher Scientific Inc. (TMO.N)	O (03/05/2012)	\$110.05
Veracyte Inc (VCYT.O)	O (11/26/2013)	\$15.31
Waters Corp. (WAT.N)	E (01/03/2013)	\$98.04

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