PARTICIPANTS

Corporate Participants

Robert Bradley Gray – President, Chief Executive Officer & Director, NanoString Technologies, Inc.
James Algot Johnson – Chief Financial Officer, NanoString Technologies, Inc.

Other Participants

Jordan Mckinnie – Analyst, JPMorgan Securities LLC
Justin D. Bowers – Analyst, Leerink Partners LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the NanoString 2014 First-Quarter Financial Results Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to turn the call over to Ms. Lynn Pieper. Ms. Pieper, you may begin.

Lynn C. Pieper, Managing Director, Westwicke Partners LLC

Thank you. Earlier today, NanoString released financial results for the quarter-ended March 31, 2014. If you have not received this news release or if you'd like to be added to the company's distribution list, please call Westwicke Partners at 415-202-5678.

Before we begin, let me remind you that the company's remarks include various forward-looking statements within the meaning of the Private Securities Litigation Reform Act, including projections of future business growth and the factors underlying such growth, expectations regarding Prosigna's competitive profile and market acceptance, expected timing of availability of Prosigna testing services, the timing and nature of Prosigna reimbursement-related decisions, plans for and timing of applications and decisions regarding inclusion of Prosigna in treatment guidelines and projected financial results for 2014.

Forward-looking statements are subject to numerous risks and uncertainties, many of which are beyond NanoString's control, including risks and uncertainties described from time-to-time in NanoString's SEC filings.

NanoString's results may differ materially from those projected on today's call. NanoString undertakes no obligation to publicly update any forward-looking statement. Additionally, non-GAAP financial measures will be referred to during today's call. A reconciliation of these non-GAAP measures is included in today's press release, which is available on the NanoString website.

With that, I'd like to turn the call over to Brad Gray, President and CEO of NanoString. Brad?

Robert Bradley Gray, President, Chief Executive Officer & Director

Thank you, Lynn. Good afternoon and thank you for joining us on our Q1 call. We are pleased to report strong first quarter results and we are off to a promising start in 2014, executing our strategy to become an integral part of cancer research and diagnostics. I'll start today's call with an overview of our results and recent achievements, and we'll then turn the call over to our CFO, Jim Johnson, who'll provide an overview of our financial results and outlook for 2014. After that, I'll come back and make concluding remarks and we will open up the call for your questions.

We begun 2014 with significant momentum. Through strong commercial execution, we delivered a substantial installed base growth and have now passed the dual milestones with over 200 nCounter Analysis System installed worldwide and over 400 peer-reviewed publications generated by our customers.

In addition, we achieved key milestones with the launch of Prosigna Breast Cancer Assay testing services in the United States and the hiring of our U.S. Prosigna commercial team. We are pleased with our recent progress and optimistic about our prospects for future growth. For the quarter, we delivered a total of $8.8 million in revenues, 54% growth over the same quarter a year ago.

This growth was driven predominantly by new instrument placements, which increased instrument revenue to $3.4 million, up 110% compared to the prior year. We believe that this is the highest quality growth we can deliver because expanding our installed base is a leading indicator of higher consumables of Prosigna kit revenue in the future.

I would like to highlight some important trends in our instrument sales. First, with the acceleration in instrument placement that we've experienced over the last two quarters, our installed base is now approximately 50% larger than it was a year ago. Second, about half of our new instrument sales during the first quarter were in international markets, reflecting investments that we've made over the past year in both direct and distributor channels outside North America. Third, we're seeing strong demand for the recently launched FLEX configuration of our nCounter Systems, a dual-mode version, which upon installation can run all of our research assays and which in properly qualified clinical labs can be enabled to run the Prosigna Breast Cancer Assay. On a global basis, approximately 40% of our Q1 instrument placements were FLEX systems, which underscores the synergy between our research and diagnostic efforts.

We have found that the FLEX system appeals both the clinical laboratories and traditional research customers to take comfort in knowing that the system has been part of an FDA clearance and value the option to begin Prosigna testing at some point in the future.

Finally, during the first quarter, the use of nCounter technology in cancer research and treatment drove a substantial majority of our new instrument placements. We believe the importance of our technology in cancer is growing every quarter and we expect this trend to continue in the future supported by our expanding product offerings and the success of our oncology research customers in generating peer-reviewed publications.

For example, we recently launched a new PanCancer Pathways Panel, which offers researchers a simple and robust assay to investigate cancer biology across 770 different genes in all major cancer pathways. Also during the first quarter, our research customers used nCounter technology and published twice as many peer-reviewed papers in the field of oncology as during the same period of 2013.

In April, at the AACR Annual Meeting in San Diego, our customers presented at least 23 studies incorporating nCounter data hoping to drive record volumes of NanoString booth traffic and new sales lead at that important meeting. The importance of cancer as a market was also evident in our consumable revenue which during Q1 grew 29% to reach $4.8 million, maintaining our annualized

consumable pull-through at approximately $100,000 per system. The strongest driver of consumable growth was demand from biopharma customers to use nCounter technology primarily for cancer biomarker discovery and validation.

During the first quarter, our biopharma customers drove over 40% of our consumable revenue. We believe that this trend is a testament to the robustness of our technology and that our successful penetration of the biopharma market may lead over time to opportunities to collaborate and developing companion diagnostics.

Meanwhile, we further strengthened our offerings to clinical labs with a full commercial launch of our nCounter Elements chemistry, which includes our Elements concepts and Elements Master Kits. nCounter Elements are general purpose reagents developed specifically to meet the needs of translational researchers and clinical labs allowing them to independently develop custom multiplex assays by combining nCounter Elements with oligonucleotides that they have selected and sourced from another manufacturer.

Response from launch of Elements [indiscernible] (07:04) assay, with substantial customer interest in developing assay to detect gene expression, copy number variations and gene fusions. Longstanding customers who have previously published papers describing nCounter-based gene expression signatures have recently demonstrated excellent correlation between their original work based on our standard code set chemistry and the same signatures implemented using our new Elements chemistry.

One clinical lab has used Elements to develop an assay to detect copy number variations in cancer and has submitted the assay for approval by the New York State Department of Health. Meanwhile, in response to customer interest in developing assays to detect gene fusions, we've initiated an R&D program to further improve the performance development for this application.

Continuing on our impact in clinical diagnostics let me now turn to Prosigna. For the first quarter, we reported Prosigna kit revenue of $61,000, in line with our previous commentary that we expect U.S. Prosigna testing volume to be relatively slow in the first two to three quarters of the year, gradually as more clinical lab providers come online, our sales team begins to educate ordering physicians when we begin to gain reimbursements.

During the first quarter, we continue to grow our installed base of Prosigna enabled nCounter systems. As of today, on a worldwide basis, a total of 19 clinical labs have ordered nCounter diagnostic analysis systems with the expressed consent to offer Prosigna testing services. So far, six of these labs have launched Prosigna, with another 13 labs worldwide currently preparing to do so.

Outside the U.S., we continue to lay the foundation for broad long-term adoption of Prosigna. We currently have four active ex U.S. Prosigna testing service providers with six more ex U.S. clinical labs currently preparing for launch. During the first quarter, two systems were ordered by clinical labs outside the U.S., one each in Canada and Spain. As we announced yesterday, Prosigna was recently cleared for sale by Canadian Health Authority and we expect Prosigna testing service to be available in Canada later this year.

Focusing on the U.S., during the first quarter, two clinical labs launched Prosigna testing services. LabCorp in January and ARUP in March. Both of these labs have made Prosigna a key part of their breast cancer testing menu and a focus for their sales training and print advertising.

Currently, a total of seven more U.S. clinical labs are preparing to launch Prosigna. These include Quest Diagnostics, the three cancer centers we previously announced, and three additional U.S. clinical labs that ordered Prosigna enabled nCounter systems during Q1.

One of these new systems is going to Genoptix medical labs, a part of Novartis that has become the fourth U.S. commercial lab with nationwide reach to enter into an agreement to begin marketing Prosigna testing services.

The other two Prosigna enabled encounters ordered during the first quarter are going to large U.S. hospital systems, planning to begin offering Prosigna testing services later this year. The most important commercial development during the first quarter was the establishment and training of our new U.S. Prosigna sales and market access teams. As of now, we have fully hired and deployed our initial team of 15 field base Prosigna sales reps and five market access professionals. We are extremely pleased with the talented individuals we've been able to attract. Every member of the team brings extensive experience in oncology at an average of about 15 years of relevant experience.

The sales team became active in the first week of April, following several weeks of training and has already engaged with oncologists at many leading cancer centers and physician networks. We expect to begin to see their impact in the quarters ahead. The members of the market access team, who are dedicated to winning reimbursement from U.S. payers, bring a particularly impressive track record of successfully gaining coverage and reimbursement for oncology therapeutics. We have collectively launched more than a dozen oncology products including Kyprolis, Rituxan and Neulasta, and have already delivered some important progress with Prosigna.

In February, we were notified that Prosigna had been assigned both a unique McKesson Z-Code and a unique MAAA CPT code. In March, we've submitted a technology assessment application to the MolDx Program and are currently awaiting feedback from the Palmetto team. We continue to be optimistic that we could receive a positive coverage decision by as early as Q3 2014.

In addition, since arriving a few ago, our market access team has had multiple communications and face-to-face meetings with the decision makers from top 10 private payers and we believe that most of these payers are beginning to review their coverage policies with respect to Prosigna. We are pleased with our level of engagement, but also realistic about the fact that these payers typically require many months to make coverage decisions.

Meanwhile the body of literature that will support reimbursement and guideline inclusion has expanded to a total of six peer-reviewed publications. Two new papers describing a performance of Prosigna were published during the first quarter. The first was published in a journal, Clinical Cancer Research in February and describes the late recurrence results from the ABCSG-8 study.

The second new paper was published online in a journal BMC cancer in March, and described a multisite analytical validation of Prosigna. Taken together, these papers form a substantial body of evidence and we feel good about the strength of our applications from inclusion in the NCCN guideline and for reimbursement. We continue to study the potential for Prosigna to improve clinical decision in the treatment of breast cancer.

Our collaborators are currently taking two additional manuscripts through peer-review and at the upcoming ASCO meeting in June will present at least one oral presentation and three posters.

In summary, we've achieved a great deal in a full period of time. The nCounter platform is being rapidly adopted in both research and clinical lab settings, and we are aggressively growing our installed base. The development and launch of the Prosigna assay demonstrates the power of our business model to potentially translate the discoveries of our research customers into high-value in vitro diagnostics. With these pieces now in place, we're executing our strategy while looking for even more opportunities to leverage and validate our platform.

I'd now like to hand it over to Jim Johnson.

James Algot Johnson, Chief Financial Officer

Thanks, Brad. Let's start with our results for the first quarter and I'll provide some detail on our recent $45 million term loan transaction. Finally, I'll review our financial guidance for 2014.

Total revenue for the first quarter of 2014 was $8.8 million, up 54% over the $5.7 million reported a year ago in first quarter of 2013. Instrument revenue was the largest driver of year-over-year growth, increasing by 110% to $3.4 million. Consumable revenue was $4.8 million for the first quarter up 29% from $3.7 million for the first quarter of 2013.

Prosigna test kit revenue was modest as expected at $61,000 for the quarter. Gross margin for the quarter was 51% compared to 49% a year earlier. Product mix had a significant impact on this comparison, as instrument revenue increased from 29% to 39% in total revenues between the two periods.

The shift in mix partially offset the consumables margin improvement we continue to generate through increased scale and related cost efficiencies. R&D expense was $4.7 million, up 55% over the first quarter of 2013. This increase reflects increased investment in the advancement of our nCounter technology, especially related to the design and engineering of our benchtop system.

SG&A current was $10.7 million for the quarter, up substantially from $6.1 million a year ago. The increase reflects Prosigna launch cost including the establishment of our oncology sales force, investments to expand and drive revenue growth from our existing lab base sales channel, and increased cost of becoming a public company.

Operating expense for the quarter included $1 million of stock compensation expense compared to $231,000 a year earlier. For your reference, we've included a schedule of non-GAAP financial information with our press release, which among other things, shows our operating results as if our pre-IPO preferred stock had been converted to common stock.

On a non-GAAP basis, our net loss for the quarter was $9.5 million or $0.56 per share compared to $5.7 million or $0.62 per share in the first quarter of 2013. Please refer to that schedule for a detailed reconciliation of GAAP and non-GAAP results.

During the first quarter, we completed a follow-on offering, which brought in $57 million of net proceeds, and we ended the quarter with $85.8 million of cash and investments.

In early April, we entered into a term loan agreement will Capital Royalty which provides the company with up to $45 million of available borrowing capacity. In April, we drew the first $20 million on this facility which we used to pay off our previously outstanding term loans. We'll require to draw another $10 million within six months, and then subject to meeting a 12-month revenue target, we have the option to draw up to $15 million more, no later than the second quarter of 2015. We believe this facility provides us with added strategic flexibility in coming year.

In the second quarter upon payoff of our existing term loans, we incurred a prepayment premium of about 2%, prepaid the $990,000 end of term payment and rolled off some other related deferred costs. The related charge to interest expense in Q2 would be approximately $1.4 million in total.

Now, I'll review our financial guidance for 2014. We continue to expect total revenue of $45 million to $50 million for the year, which represents approximately 43% to 59% growth over 2013. We've not changed our overall gross margin guidance of 55% to 58%. However, based on our actual results for Q1 and our current expectations for revenue mix over the remainder of the year, we would expect our gross margin to fall near the low end of the previously provided range.

For operating expenses, we continue to expect a total of $70 million to $75 million for the year, split approximately 1/3 to R&D and 2/3 to SG&A including approximately $4 million to $5 million of stock-based compensation expense for the year, which has been increased by $1 million versus our previous guidance due to a higher underlying stock price.

Our operating loss for the year is still expected to be in the range of $40 million to $50 million. As a result of the Q2 charge related to our term loan refinancing, interest expense is now expected to be approximately $4 million for the full year and our expectation for capital expenditures remains at $3 million to $4 million for the year.

With that, I'll turn it back over to Brad to wrap up.

Robert Bradley Gray, President, Chief Executive Officer & Director

Thanks, Jim. We're off to a strong start in 2014. We're aggressively growing our installed base of nCounter Systems in both research and clinical labs worldwide. The strong interest in our dual use FLEX systems is validating our strategy of combining cancer research and diagnostics on a single platform provided by a single company. Our customers are making important discoveries in the field of oncology, and those discoveries are being rapidly translated into clinical diagnostics.

Finally, with our Prosigna commercial team now in place and a growing list of clinical lab partners, we believe we are well positioned to execute and succeed in the launch of our Prosigna Breast Cancer Assay.

We look forward to updating you on our progress in future calls. We now like to open up the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question is from Tycho Peterson with J. P. Morgan. Your line is now open.

<Q – Jordan Mckinnie – JPMorgan Securities LLC>: Hi, this is Jordan McKinnie on for Tycho. I was wondering can you give us a sense of what you're expecting for cadence in operating expense for the rest of the year. I mean it looks like you came in a lot better than our estimates in terms of SG&A and R&D for the quarter. So I'm just wondering as how you expect that to ramp?

<A – James Johnson – NanoString Technologies, Inc.>: Sure. It's – it is expected to ramp up over the course of the year. I think if you look at the first quarter, a lot of the hiring for our commercial organization occurred in say the second half of Q1. We mentioned we had them all hired and trained by the end of the quarter. So I think that alone will cause some ramp in subsequent quarters this year. I think also really R&D expense while we would expect as we continue the work on the Gen 3 system and also increase the clinical activity related to Prosigna, I think we expect that to increase over the course of the year as well.

<Q – Jordan Mckinnie – JPMorgan Securities LLC>: Okay. And then do you have any updates on the reimbursement front in Europe?

<A – Bradley Gray – NanoString Technologies, Inc.>: This is Brad. Reimbursement in Europe is expected to be the [indiscernible] (22:01) item for growth over the next couple of years. Our strategy has been to partner with local testing providers, leading oncologists in major cancer centers to conduct decision impact studies that demonstrate the health economic value of our test in local markets and then together to use that information to advocate the reimbursement. We have decision impact studies that have run and completed in Spain, one that is active in Germany and we intend to start one more in other European country later this year. Those are naturally leading to reimbursement dialogues, but we don't have any substantial updates on reimbursement at this time. Most of the [indiscernible] (22:45) that's performed in Europe is based on private pay.

<Q – Jordan Mckinnie – JPMorgan Securities LLC>: Got it, okay. And then just real quick could you talk about competitive dynamics and the expectations for pricing pressure going forward?

<A – James Johnson – NanoString Technologies, Inc.>: Sure. So I will need just to clarify which of our product lines are you thinking of. Are you thinking of the instruments and consumables or Prosigna?

<Q – Jordan Mckinnie – JPMorgan Securities LLC>: I was thinking more on instruments.

<A – James Johnson – NanoString Technologies, Inc.>: Sure. Well I'd say that competitive dynamics have not changed substantially. We are usually competing with other technology providers who are looking to win the multiplex gene expressions market for customers who are looking to upgrade from single Flex quantitative PCR to a pathway-based approach to biology. Most often, we're competing with a provider of microfluidic quantitative PCR systems, and I think the product offerings in that space have not changed materially to-date. Obviously, RNA sequencing represents an alternative to multiplex gene expression that we're watching closely. We have not seen a substantial encroachment of RNA – I'm sorry RNA sequencing into our marketplace yet, but that's something we'll keep our eye on.

<Q – Jordan Mckinnie – JPMorgan Securities LLC>: Okay. Thanks.

Operator: Thank you. And our next question is from Dan Leonard with Leerink. Your line is open.

<Q – Justin Bowers – Leerink Partners LLC>: Hi, guys. This is Justin, and thank you. So just in terms of the replacements, I think you said 40% of the instrument placements were the FLEX systems this quarter. Question is do you have a sense of how many of those are using or do you plan to use the Prosigna assay?

<A – Bradley Gray – NanoString Technologies, Inc.>: Yeah. Thanks, Justin. So, yeah, of the FLEX systems that we placed this quarter, we think about half are going to immediately get the comp Prosigna enabled systems, and again offering Prosigna testing services in the relatively near term. And the other half of the FLEX systems, I think that the investigators were either looking to have what they believe to be the most robust instrument offering we have or to preserve the option to potentially offer Prosigna in the future.

<Q – Justin Bowers – Leerink Partners LLC>: Okay. And that was a mix between the U.S. and Europe right, in terms of those replacements?

<A – Bradley Gray – NanoString Technologies, Inc.>: Yes. It was.

<Q – Justin Bowers – Leerink Partners LLC>: Okay. And just to make sure I'm tracking this, it sounds like you had some new customers in the U.S., some new clinical lab customers including Genoptix, three other labs, two large hospital systems, are they included in that count or is that different?

<A – Bradley Gray – NanoString Technologies, Inc.>: So first as a point of clarification, prior to this call, we had announced a total of six diagnostic system placements in the United States, the three large clinical labs, ARUP, Quest and LabCorp and then three cancer centers. During the first quarter, in addition to those, we placed three additional systems. We took an order I should say for three additional systems, one from Genoptix and two from large hospitals. If you're trying to track the numbers there might be a slight challenge. When I talked about those three systems, they were orders for systems, not all of which were actually placed and recognized as revenue during the quarter. In fact, one of them was a reagent rental system.

<Q – Justin Bowers – Leerink Partners LLC>: Understand. Thank you for the clarification. And then how are things going over in Europe in terms of the studies you have underway? I think one in Spain is going to wrap up soon and Germany it sounds like enrollment went pretty well there and do you have any others underway as well or...?

<A – Bradley Gray – NanoString Technologies, Inc.>: No, we completed the Spanish decision impact study. We completed enrollment for it. We will be analyzing the results and presenting them at a major meeting later this year. The German study continued to enroll at a pace that we expect enrollment to complete around the end of this year. And now that the Spanish study has wrapped up, we will be initiating another study elsewhere in Europe, but that has not yet begun. But we're happy overall with how these studies are going. We like those that they are generating data we believe would be useful in reimbursement and they're also giving the physicians in those regions exposure for the first time to Prosigna, and what it's like both to order the testing and then interpret the results.

<Q – Justin Bowers – Leerink Partners LLC>: Okay, great. And then just last one, in terms of the peer-review studies, I think your target for the first half was six. You don't – you've hit that already. Is there anything else on the way we should be on the look for?

<A – Bradley Gray – NanoString Technologies, Inc.>: The two manuscripts that are working on way to peer review are unlikely to publish in the very near term. So I think with the six peer review papers now, we think we have a very robust body of evidence. It's a reminder. It's really four papers on the clinical utility or the clinical validation studies, TransATAC and ABC, SGA, one on the analytical validations of the Prosigna Assay and one actually on the use of Prosigna in metastatic

disease and the ability to predict response to gemcitabine. That's a very robust body of evidence and we think it's all we need for now. We do have two other manuscripts that we'll be looking away through peer review, but those are probably going to come out in the second half given the natural pacing of publication.

<Q – Justin Bowers – Leerink Partners LLC>: All right. It sounds good. Thanks a lot.

Operator: Thank you. [Operator Instructions] Our next question is from Elena Popova with Robert W. Baird. Your line is open.

<Q>: Hi, this is [indiscernible] (29:17) covering for Jeff Elliott. I was just wondering now that you have approval in Canada. Can you talk a little bit about the market opportunity there?

<A – Bradley Gray – NanoString Technologies, Inc.>: Sure. Well, Canada – the market opportunity in Canada is like many ex U.S. countries [indiscernible] (29:40) reimbursement. Reimbursement has already begun to be offered for this category of testing at the provincial level. So there's reason to be hopeful that that reimbursement will come online in Canada back to where it has been, and is expected to in other European countries.

In addition, Canadian investigators and oncologists have a long history with PAM50. One of the inventors of the PAM50 gene signature was at the British Columbia Cancer Agency. Several other leading oncologists within Canada have been investigators on PAM50 studies in the past. So I'd say relatively speaking the PAM50 gene signature known – that are underlies Prosigna is reasonably well known in Canada. So I'd like to give some optimism about our ability to come in and [indiscernible] (30:31).

<Q>: Okay. Great, thanks. And then, just one more from me, are you still thinking about late 2014 [indiscernible] (30:40) or how is that progressing?

<A – Bradley Gray – NanoString Technologies, Inc.>: The bench top instrument system program is continuing to progress on pace for late 2014 March.

<Q>: Okay, great. Thank you.

Operator: Thank you. And I'm not showing any further questions at this time. Please proceed with any further remarks.

Robert Bradley Gray, President, Chief Executive Officer & Director

Well, thank you all for joining us today and your interest in NanoString. We look forward to speaking with you on future calls and at upcoming analyst events.

Operator: Thank you, ladies and gentlemen. Thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone have a great day.