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NanoString Technologies, Inc. (NSTG)

Q1 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the NanoString 2015 First Quarter Financial Results Call. At this time, all participants are in a listen-only mode. Later we will conduct the question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference is being recorded.

I would like to introduce your host for today's conference, Ms. Lynn Pieper of Westwicke Partners. Ma'am you may begin.

Lynn C. Pieper
Managing Director, Westwicke Partners LLC

Thank you. On the call today with me is Brad Gray, NanoString President and Chief Executive Officer and Jim Johnson, Chief Financial Officer. Earlier today, NanoString released financial results for the first quarter ended December 31, 2015 and a copy of the press release can be found on our website at nanostring.com.

During this call, we'll make a number of statements that are forward-looking, including statements about financial projections, existing and future collaborations, future business growth, trends and related factors, interactions with third-party payers and the timing and outcome of any related reimbursement decisions, our strategic focus and objectives and the development status and anticipated success of additional product offerings.

Forward-looking statements are subject to numerous risks and uncertainties, many of which are beyond our control, including the risks and uncertainties described from time-to-time in our SEC filings. Our results may differ materially from those projected on today's call. We undertake no obligation to publicly update any forward-looking statement.

With that I'll turn the call over to Brad. Brad?

Robert Bradley Gray

President, Chief Executive Officer & Director

Thanks, Lynn. Good afternoon and thank you for joining us today. We are off to a promising start in 2015. Our nCounter technology continues to gain momentum as the leading platform for tumor profiling, with broad and growing acceptance in both research and clinical markets. Our customers have now generated over 720 peer-reviewed publications validating our platform and impact.

On the call today I'll provide our Q1 highlights and then review progress on our key strategic objectives. Jim will comment on our financial performance and outlook, and I will then make some closing remarks and open up the call for your questions.

Total revenue in Q1 was $11.6 million, growth of 32% driven predominantly by strong instrument sales. We continue to substantially expand our installed base of nCounter Analysis Systems adding both research and clinical lab customers. Instrument sales were $4.4 million in the first quarter representing growth of 27% and bringing our world-wide installed base to over 280 systems.

Consumable revenue excluding Prosigna was $5.5 million for the quarter, reflecting 15% growth year-over-year. Fundamental consumable demand was strong. Orders from academic customers were robust, driving consumable revenue from these customers up 50% year-on-year.

Our PanCancer panel products continued to grow in popularity, driving panel revenue to more than double versus last year, setting a new record and accounting for more than 40% of all consumable sales.

Despite the fundamental strength in demand, three factors constrained the consumable revenues realized during the first quarter resulting in annualized consumables pull-through below our historical and expected range.

First, biopharma customers, who had made extraordinarily large consumable purchases in Q4, worked through those projects in Q1 before reordering. As a result, biopharma contributed less than 30% of consumable revenue compared to over 40% in the first quarter of 2014 and over 50% in Q4 2014.

Second, severe weather in the Northeast slowed ordering and the region with the largest nCounter installed base delaying some consumable revenue to Q2. Finally, changes in foreign exchange rates reduced the amounts we realized for sales outside the U.S. We expect that the pace of ordering from biopharma and customers located in the Northeast will increase in Q2, returning to annualized consumable pull-through of roughly $100,000 per system.

Collaboration revenue was approximately $680,000 in Q1. The ROBUST study, a pivotal Phase III clinical trial using Celgene's REVLIMID to treat diffuse large B-cell lymphoma or DLBCL, opened during the quarter with numerous sites now screening patients based on their DLBCL sub-type as assessed by our investigational assay. We anticipate that the results of this study, if successful, will be used to support a PMA filing in the U.S. and other international registrations several years in the future.

Turning to our Prosigna Breast Cancer Assay, sales were $381,000, again modest, but trending upward. While the strong sequential growth is promising, we continue to expect that uptake will remain limited until additional reimbursements are secured.

Now, I'd like to spend some time covering the progress on the four strategic objectives for 2015, which we highlighted in our last conference call. First, we remain laser focused on oncology, where we believe our

technology plays a unique role and provides us with a strategic advantage. Cancer was once again the primary driver of new instrument placements in Q1.

At the recent AACR annual meeting in Philadelphia, our customers presented over 40 posters based on the use of our technology. As a result of this ever-increasing profile on oncology, we enjoyed record booth traffic that represented an approximate 30% increase over the prior year.

During the meeting, we showcased several important new products including our third PanCancer panel, this one focused on cancer progression. With this third addition to our line of PanCancer panels, researchers now have the power to explore nearly any question in cancer biology.

Today, the most exciting area of oncology is immuno-oncology, or IO for short, which looks to harness the power of the body's immune system to fight cancer. Because the immune response to tumor growth involves large changes in both RNA and protein expression levels, we believe our nCounter technology is ideally suited for biomarker profiling in this area.

Our first IO product, the PanCancer Immune Profiling Panel introduced in September 2014 quickly gained a following and has now been used by approximately 50 different customers, including researchers at about 20 different biopharma companies.

To-date, our customers have used nCounter technology to publish over 20 peer reviewed papers in the IO field. We have made IO a major theme of our new products, collaborations, and strategy, and as a result, we are substantially increasing our impact in this area. At AACR, we introduced two significant additions to our IO focused product portfolio. First, in response to demand from biopharma customers, we introduced a mouse version of our PanCancer Immune Profiling Panel, which is designed for use with the animal model most commonly used in preclinical drug development.

Second, we made IO the target of our first RNA protein profiling panel, a powerful new category of assays that enables simultaneous detection of gene and protein expression. This new immuno-oncology RNA Protein Profiling Panel can simultaneously measure the expression of 770 genes and 30 proteins, especially important for understanding cancer immunology, including PD-1, PDL-1 and CTLA4.

We are focused on demonstrating the power of our IO panels to identify biomarker signatures that predict or monitor response to Cancer immunotherapies and help identify which combinations of therapies may be best for individual patients. As part of this effort and in response to interest we have received, we are deepening our relationships with leading academic groups in the field.

On April 1, we announced a multi-year collaboration with the MD Anderson Cancer Center to accelerate the development and adoption of our new RNA Protein assays in the field of immuno-oncology and targeted therapies. The collaboration will involve the development of RNA protein assays and their incorporation into select clinical studies being run at MD Anderson.

Just yesterday, we announced a collaboration with the Cancer Immunotherapy Trials Network or CITN to identify biomarker assays for novel cancer immunotherapies. Under this collaboration, we will work with CITN to utilize our immuno-oncology panels and clinical studies of single-agents and combination therapies.

Together our recent technology development and collaborations with MD Anderson and CITN have thrust NanoString into the center of a dynamic field of immuno-oncology. Importantly, both of these collaborations are

structured to generate data, validating the use of our panels and to grant NanoString rights to resulting research and diagnostic contents, potentially generating even more powerful IO products in the future.

With immuno-oncology becoming a major focus for the company, we have recently added Dr. Robert Hershberg to our Board of Directors to help guide our strategy. Dr. Hershberg is an oncologist and Ph.D. by training and brings extensive experience in IO and translational medicine. He currently leads Celgene's research and early development efforts across his IO portfolio and oversees the newly formed Celgene Immuno-Oncology Center of Excellence here in Seattle. He'll be a true asset to NanoString and we welcome him to the team.

Our second strategic objective this year is to deepen our relationships with biopharmaceutical companies including building a pipeline of Companion Diagnostics. During Q1, we continued to rapidly expand our biopharma installed base, as instrument sales to biopharma set a new record and sales to biopharmas and the CROs who serve them accounted for about 25% of new instrument placements. In addition, biopharma response to our new RNA protein profiling capabilities has been enthusiastic.

Since unveiling our vision for RNA protein assays at the AGBT meeting in 2014, we have discussed the potential for this technology with more than 20 biopharma companies. We have received tremendous interest and are therefore targeting our product access for these new assays primarily at biopharma customers.

In parallel, we're continuing to make strides in advancing additional potential Companion Diagnostic collaborations in breast cancer, DLBCL and other tumor types and we look forward to providing updates in the coming months.

Our third strategic objective is to further penetrate the clinical laboratory market with the FLEX configuration of our nCounter system, our Prosigna Assay and Elements Reagents. We've made steady progress on this objective. The popularity of the dual-use FLEX configuration as our nCounter system drove approximately 70% of new instrument placements in Q1. Many of these systems are going to clinical laboratories, validating our strategy of combining cancer research and diagnostics on a single platform.

The number of Prosigna sites has increased to 42 clinical labs across 13 countries. In the U.S., 10 labs are now offering Prosigna services and another 9 labs are preparing for launch. Outside the U.S., 15 labs are offering Prosigna services, while another 8 labs are preparing to come online in the months ahead.

Prosigna's profile continues to increase in Europe. In March, Prosigna was included in the updated German treatment guidelines and a government committee recommended that qualifying breast cancer patients be eligible for government insurance coverage of gene expression tests such as Prosigna. Then, later in March, Prosigna received strong endorsement by panelists at the St. Gallen International Breast Cancer Conference. Specifically, Prosigna received the highest number of votes of any tests including Oncotype Dx for the prognostic power in years one to five after diagnosis and for years five to 10.

Additionally, over 80% of the panelists indicated that they would spare women chemotherapy if categorized as low risk by Prosigna. We look forward to seeing how these votes are reflected in the St. Gallen guidelines when they are updated later in the year.

Meanwhile, in the U.S., we remain focused on gaining additional reimbursements despite the fact that the NCCN guidelines have not been fully updated. We have continued to engage with payers including the leadership of the MolDX program sharing our expanding body of clinical data.

We've been encouraged by these discussions and are optimistic that we may be able to gain coverage independent on NCCN guidelines. However, the pace of our payer discussions remain deliberate and the timing of coverage decision is uncertain. Therefore, we are maintaining our guidance assumption that any positive MolDX coverage for Prosigna will not impact 2015 revenues.

Our fourth strategic objective is to expand our addressable market by launching products with broad affordability and appeal. Of the launches so far this year, we would highlight the new RNA protein assay capability as the most potentially transformative. We believe that this new application will broaden the appeal of our technology to researchers who are traditionally focusing on

proteomics and provide another distinctive capability, not generally available from other technology platforms. The IO RNA Protein Assay will be available under limited product access program during the next several months with the broader release expected late this year. Meanwhile, we are working to add other RNA protein assays to the menu, building on our popular PanCancer gene expression panels.

Our single most important new product of the year, our lower cost nCounter instrument remains on track for a mid-year launch. The new instrument is designed to meet the needs of individual researchers and a smaller footprint and at more affordable prices. This new instrument will be compatible with our entire menu of research-based assays including our new RNA:Protein capability. We estimate that the availability of this system will increase our addressable market by two times to three times what it is today, accelerating the growth of our installed base.

Together, we expect the launch of our lower cost nCounter and RNA:Protein applications to broaden our addressable market, further differentiate our technology, and build our strategic advantage in the field of tumor profiling.

Now, I will turn the call over to Jim to review our financial results and provide financial guidance.

James Algot Johnson

Chief Financial Officer

Thanks, Brad. The company had a solid quarter with total revenue of $11.6 million, up 32% versus the first quarter of 2014. Instrument revenues for the quarter was $4.4 million, up 27% over first quarter of 2014. And system sales were particularly strong in U.S. and Europe among both academic and biopharma customers. Consumable revenue was $5.5 million, 15% higher than the year ago.

As we described in our last quarterly call, Q4 of 2014 reflected more than the typical volume of large orders from biopharma customers and represented more than 50% of our consumable business in that quarter. This resulted in reduced order flow from these customers in Q1 as they digested these Q4 purchases. Aside from this one dynamic, all other customer segments showed strength. The purchases from academic customers is up 50% year-over-year and significant momentum in sales of panels and Elements Reagents, both of which more than doubled year-over-year.

As Brad mentioned, our consumable revenues for the quarter were also negatively impacted by adverse weather in the Boston area which represents our largest regional installed base and strengthening of the U.S. dollar versus foreign currencies.

Prosigna test kit revenue grew to $381,000, a significant step up from the previous quarter. We are seeing increasing momentum in the demand for Prosigna kits, but there may be some variability from quarter-to-quarter.

As you know, we calculate pull-through per system each quarter based on total research and Prosigna consumable revenues in relation to our total installed base of systems as of the beginning of the quarter. In the first quarter, we fell below our $100,000 per system annualized benchmark for the first time.

However, we believe that other than the foreign exchange impact, the factors responsible are temporary. We recorded $761,000 of collaboration revenue for the quarter and most of this relates to our Celgene collaboration with a modest contribution from the small exploratory research collaboration as initiated in fourth quarter.

Gross margin on product and service revenues for the quarter was comparable to the first quarter of 2014 at 51%. And gross margin during the first quarter was impacted by the same factors that caused reduced consumable pull-through per system.

R&D expense was $5.9 million compared to $4.7 million in the first quarter of last year, the increase reflects costs related to diagnostic development, including the Celgene collaboration and the investment in the development of new nCounter products and technology.

SG&A expense was $14.1 million for the first quarter, up from $10.7 million a year ago. The increase reflects the impact of personnel hired in 2014 to support Prosigna commercialization, as well as incremental G&A cost to address the company's growth. Stock-based compensation expense was $1.3 million for the first quarter of this year, compared to $1 million a year earlier.

Our GAAP net loss for the quarter was $14.9 million or $0.81 per share compared to $11.4 million or $0.68 per share in the fourth quarter of last year – sorry, the first quarter of last year. In prior quarters, we provided a schedule of non-GAAP financial information to adjust for the impact of preferred stock that was outstanding prior to our IPO and certain other items, because our historical comparisons are no longer impacted by this preferred stock, we've discontinued the non-GAAP presentation.

We ended the quarter with approximately $56 million of cash investments. And I'd also like to highlight that we've extended the period for borrowing the remaining $15 million available under our term loan agreement by six months. We now have until November 30, 2015 to access this funding solely at the company's option.

Now, I'll turn to financial guidance. We're not making any revisions to our full year 2015 guidance at this point in time. We continue to expect total revenue of $58 million to $61 million for the year, which includes $2 million of Prosigna revenue, and $2.5 million of collaboration revenue.

Based on our visibility year-to-date, we would like to provide some thoughts on quarterly revenue trends. Regarding instrument revenue, we just reported a relatively strong first quarter. And as a result, we expect Q2 instrument revenue to be roughly flat versus Q1. In Q3, consistent with our previous comments, we expect our initial revenues from the new Gen 3 system, and we expect instrument revenue growth versus the prior year to moderate while the funnel for the new system builds.

With respect to consumable pull-through, which includes both research consumables and Prosigna IVD kits, we expect to be at roughly $100,000 per system annualized in the second quarter. This implies a step-up of $1 million to $1.5 million in Q2 as compared to Q1. For the full year, we expect to be at or above the $100,000 per system we've generated historically.

Collaboration revenue in Q1 was higher than the $625,000 per quarter run rate suggested by our annual guidance. And we currently expect an offsetting reduction in Q2 that will put us at approximately half of our annual guidance as of mid-year. And as a reminder, any potential new companion diagnostic collaborations represent upside to this guidance.

For the full year, gross margin on product and service revenue is still expected to be in the range of 53% to 55%. And ignoring the impact of revenue mix, we expect gross margin to trend upward over the course of the year, consistent with the expected growth in scale of our consumables manufacturing operation. And as a reminder, collaboration revenue is excluded from our calculation of gross margin.

For operating expenses, we continue to expect a total of $77 million to $81 million for the year, including approximately $5 million to $6 million of stock-based compensation expense. Our operating loss for the year is still expected to be in the range of $42 million to $49 million. We continue to expect interest expense of approximately $4 million for the year and capital expenditures of $4 million to $5 million, approximately half of which will be funded by our landlord as leasehold improvements.

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

Robert Bradley Gray

President, Chief Executive Officer & Director

Thanks, Jim. So for 2015, we are successfully executing our strategy to place our company and technology at the center of cancer research and diagnosis. We made solid progress on our four strategic initiatives and then particularly are poised to play an important role in the dynamic field of immuno-oncology. We believe that successful execution of our strategy will drive growth and value creation not just in 2015, but over the long-term. We look forward to updating you on our progress during future calls. I would now like to open up the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Tycho Peterson of JPMorgan. Your line is now open.

Tejas R. Savant
JPMorgan Securities LLC

Q

Hey, guys. This is Tejas on for Tycho. Can you help us quantify the impact of timing versus FX versus weather in terms of you consumable pull-through number? And what exactly was that number in the quarter?

Robert Bradley Gray
President, Chief Executive Officer & Director

A

Sure. This is Brad. The actual pull-through number in the quarter, including Prosigna was $85,000 and $90,000 per system per year. So, slightly below the $100,000 per year benchmark that we've talked about often in the past. Parsing the three factors that I described is difficult, probably the easiest part to understand is the biopharma revenue. So in the first quarter of 2014, biopharma revenue accounted for over 40% of our consumable revenue, and in the first quarter of 2015, it was less than 30%.

So that 10% swing implies that consumable sales would have been over $0.5 million higher, if biopharma had consistently showed up for 40% of our consumable sales. It's worth remembering that in the fourth quarter of last year, we had an extraordinary biopharma quarter where they accounted for over 50% of our consumable sales. The impact of weather on FX, I'd say we're left overall than the impact of biopharma, but about equal in magnitude.

Tejas R. Savant
JPMorgan Securities LLC

Q

Got it. And then just a quick follow-up on NCCN guidelines. I thought I heard you say Brad that, you are now optimistic about coverage independent of that decision. Can you just share some of your thoughts on what's driven this shifts, because earlier you had spoken about coverage being contingent on those guidelines?

Robert Bradley Gray
President, Chief Executive Officer & Director

A

Yes. So, we had the opportunity over the last year since we first put our dossier in front of the NCCN to generate substantial additional clinical evidence. And so, in many ways the NCCN guidelines when they are fully updated will be lagging by about a year on NanoString's clinical data.

We've had an opportunity to remain engaged with payers, especially the MolDX team regarding our new clinical data that includes things like decision impact study results that demonstrates clinical utility and five other abstracts that will be presented at ASCO. So some of that has been shared confidentially with payers and that the reaction has been positive. And that's been encouraging to us that some of these groups will be able to move forward with decisions that maybe independent of the NCCN guidelines.

Tejas R. Savant
JPMorgan Securities LLC

Q

Got it. Thank you.

Operator: Thank you. And our next question comes from Jeff Elliott of Robert W. Baird. Your line is now open.

Jeff T. Elliott
Robert W. Baird & Co., Inc. (Broker)

Q

Good afternoon, guys. Thanks for the question. First one is really just a follow-up to the last question on the pharma consumables spending or purchasing. What did we see in the second quarter so far in terms of pacing there?

James Algot Johnson
Chief Financial Officer

A

Jeff, we're not going to provide specific Q2 results at this time, but I mean I will say that we're seeing a recovery in ordering patterns from some of those customers that had seen a slowdown in the first quarter. So we're encouraged overall that we'll see the recovery of biopharma ordering in this quarter that will drive our consumable pull-through back in aggregate to roughly a $100,000 per system.

Jeff T. Elliott
Robert W. Baird & Co., Inc. (Broker)

Q

Got it. And then can you give us an update on where you are at in terms of Prosigna coverage either in terms of covered lives or percent of market covered?

Robert Bradley Gray
President, Chief Executive Officer & Director

A

Sure. So in the U.S. today, we believe we have about 50 million covered lives, which represents just over 20% of the relative intended use – the relevant intended use population. Encouragingly through our Prosigna patient support program, which does benefits investigations for patients who enroll in that program. We've had an opportunity to understand the benefit that are being provided by private payers, who don't have formal written policies yet about Prosigna and a majority of those cases where we've done benefits investigations, private payers are providing coverage for Prosigna. So our effective coverage maybe slightly higher than the 20% or so that have verified positive coverage decisions.

Jeff T. Elliott
Robert W. Baird & Co., Inc. (Broker)

Q

That's great. And then, one last one here. Any idea when NCCN will update the guidelines?

Robert Bradley Gray
President, Chief Executive Officer & Director

A

We really don't have a lot of visibility in the NCCN process. We were – as you know from the last call, expecting that the April issue of the journal of the NCCN would include an article describing the full guideline including the discussion sections. When that article did appear, it focused only on local regional testing, things like surgery and radiations, and didn't speak to the question of genomic testing at all. So we haven't yet seen the full update to the guideline including a discussion section. We're sure that eventually it will appear, but we are not in a position to provide you any guidance about when to expect to see that and it's really for that reason that we've been moving forward with dialogs, with payers, independent of the NCCN timeline.

Operator: Thank you. Our next question comes from the line of Liza Garcia of Morgan Stanley. Your line is now open.

Liza C. Garcia
Morgan Stanley & Co. LLC

Q

Good afternoon, Brad and Jim. I'm on for Steve today. I was just wondering if you could maybe discuss the protein expression testing functionality and give us a little clarity about how we should think about financial impact on the consumables and product side, and timing for that?

James Algot Johnson
Chief Financial Officer

A

We'd be happy to. So we believe that the RNA:Protein application is potentially transformative. What it allows the researcher to do is out of a single – effectively a single slice from a tumor biopsy get up to 770 gene expression data and 30 protein expression markers. So it allows researchers in the field of cancer to get just unparalleled value from their very precious tumor biopsy samples.

We know that cancer researchers want that. 80% of the cancer researchers, who we have spoken to look both at nucleic acid like RNA and protein. But they typically do so in two different experiments on two different piece of that equipment. And what we offer them is the chance to do is take just one sample of that tumor and get all the information it wants, yeah, increasing their productivity and importantly the information out of the tissue.

The way we're bringing RNA:Protein assays to market is by first building protein capable versions of our very popular PanCancer gene expression panels and we'll be releasing those product access programs over the course of 2015. Yeah, starting with the immuno-oncology version that we released at ACR and then with the pathway version to follow later this year. We'll expect this new capability to be under our product access program for most of 2015 with commercial versions beginning to appear late this year.

We will be charging mostly biopharmaceutical companies and to a lesser extent researchers for access to that program. So there is some modest contribution to revenue in 2015 that's baked into our guidance. But we really expect that the substantial growth driven by this product to come in 2016 and beyond.

Liza C. Garcia
Morgan Stanley & Co. LLC

Q

Okay. And so you're seeing probably more of what I understand a consumables – increasing share of consumables rather than product sales. Would you – for example, would you see additional product sales traction maybe on the Gen 3 instrument with the protein testing functionality?

Robert Bradley Gray
President, Chief Executive Officer & Director

A

We absolutely think that the protein functionality that we're offering increases the appeal of our instrument and will help drive instrument uptake. Of course, the participants in our product access program that will be working with the new assays first are current owners of the nCounter System by and large. But over time, we do expect this to increase the appeal of our technology and further differentiate it from alternative offerings, and therefore drive more instrument sales.

Liza C. Garcia
Morgan Stanley & Co. LLC

Q

Great. And if just shifting focus probably to the companion diagnostics platform. If we assume no incremental collaborations, how should we be thinking about cash burn in the balance sheet in the next two years?

James Algot Johnson
Chief Financial Officer
A

Well, you make a good point, Liza, that companion diagnostic activities are important to our financing strategy. Consistent with our net loss guidance for the year, we believe we've got sufficient cash investments to take us well into next year and we also have $15 million of additional borrowing capacity that's available to us. So it would add to that. But clearly, our strategy is to augment these funds with cash flow from additional companion diagnostic collaborations. And by successfully executing on that, we think that that will reduce the need for us to raise funding through other means like equity.

Liza C. Garcia
Morgan Stanley & Co. LLC
Q

Great. Thank you so much.

Robert Bradley Gray
President, Chief Executive Officer & Director
A

Thank you.

Operator: Thank you. And our next question comes from Dane Leone of BTIG. Your line is now open.

Dane Leone
BTIG LLC
Q

Hi. Thanks for taking the questions. So as this kind of quarter played out and you're thinking about the rest of the year, in regards to the next-gen system, within the scope of guidance, what's kind of contemplated in revenue contribution once you hit the market with the next-gen system, I guess around midyear?

Robert Bradley Gray
President, Chief Executive Officer & Director
A

Thanks for the question, Dane. We haven't broken out our instrument revenue guidance for the year into Gen 3 system versus our current Gen 2 and FLEX systems. Yeah, we have said that the first revenue from Gen 3 will come in the third quarter and that of course we would expect it to grow into the fourth quarter as that was the largest quarter of the year for capital purchases and we'll have had – our sales team will have more time to build a Gen 3 focused funnel. So we do expect it to be an important contributor to instrument revenue growth in the second half of the year, but we haven't quantified that specifically.

Dane Leone
BTIG LLC
Q

So when you think about the launch of the next-gen system, I think you guys have kind of skipped the beta testing period, does that mean Q3 is kind of quasi-beta testing for some initial adopters before you're really able to go out to the broader target customer? And then when you think about 4Q, expanding the commercial effort, the target accounts that you plan to hit, are these accounts that you currently have a relationship that don't really think the current gen systems are appropriate for them and are looking for this next-gen system to kind of be optimized to their needs or is this – or a lot of these accounts going to be new relationships that your reps are going to have to establish?

Robert Bradley Gray
President, Chief Executive Officer & Director

A

Yeah. So first, the clarification on the launch in Q3. We are going with a full commercial launch right out of the gate. And, Dane, that's the way we've actually launched the last two instrument systems launched. Both the Gen 2 RUO system and then the FLEX system were extensively validated, and put through extensive reliability testing internally so that an early access or a beta launch period was not required.

Our sales force will be trained to sell the technology and will be selling it at a full commercial launch at around the mid-year timeframe. The customers we'll be targeting – will be people, who are very similar and similar or even the same institutions as many of our current nCounter users. The difference will be that these will be individual researchers rather than just the core labs. And we collected over time a long list of potential customers, who were intrigued by the capabilities that our nCounter chemistry provides, but who could not afford the $235,000 to $285,000 that the systems that we sell today list for.

And so, we'll be going back first to customers who had previously expressed interest in nCounter but haven't been able to afford their own system. In addition, we've begun a substantial lead generation program focused on individual cancer researchers, who do the type of biomarker discovery and development that our technology is most popular for. And we've begun to engage them once again about the capabilities that our chemistry provides and we look forward to unveiling to them a more affordable option that's suited to their needs.

So I think to summarize, we'll be coming with the full commercial launch, mid-year and we do expect to get a running start based on customers we've been engaged within the past and institutions that are already familiar to us.

Dane Leone
BTIG LLC

Q

Okay, great. And one last one for me. When you think about the launch of the Multi-Omic assay, this of course seems like a bit of a abnormality in terms of pull-through per instrument, but with the launch of the Multi-Omic assay, what's kind of the thinking you go through when you say, okay, this is something new, interesting and different versus what anyone has been able to do before? Where can this kind of pull utilization rates of the current nCounter system is on the market? I guess we're trying to think of, is this cannibalistic to experiments that are currently going on with the nCounter machines and just getting a better utility function of them or do you think this raises – is more additive and raises the actual utilization levels of the machines?

Robert Bradley Gray
President, Chief Executive Officer & Director

A

I think it's a little early for us to know for sure, since we're just entering a product access program what the RNA:Protein capability will do for our pull-through, but we expect that it will for existing customers, drive them to get more information per sample. And therefore potentially spend more on a Multi-Omic assay, so that samples then they would have gene expression measurement alone and that could provide increased pull-through of the margin.

We'll be watching that carefully as we move towards the full commercial launch of the RNA:Protein assay. I think just as importantly it makes our technology appeal to more cancer researchers and it effectively can increase our installed base by driving people to adopt our technology in where the myth adopted a less capable technology otherwise.

I think it's great that the RNA:Protein capability is coming along at the same time approximately as our lower cost system, because it can increase the appeal and at the same time that we're increasing the affordability of that system. And so I look forward to seeing what it can do for installed base growth.

Dane Leone
BTIG LLC

Q

Thank you very much.

Operator: Thank you. And at this time, I'm showing no further questions in the queue. I would like to turn the call over to Brad Gray, CEO for any closing remarks.

Robert Bradley Gray
President, Chief Executive Officer & Director

Thank you all for joining us on the call today and your interest in NanoString. We look forward to seeing you at upcoming investor conferences and in non-deal road shows.

Operator: Ladies and gentlemen, thank you for your participation on today's conference. This concludes the program. You may now disconnect. Everyone have a great day.