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T2 Biosystems, Inc. (NasdaqGM: TTOO)

Reiterating our Strong Buy Rating and
Continuing our 12-Month Price Target of \$12.00

Morning Note

March 7, 2018

T2 Biosystems Positions Itself to be A Disruptor in Healthcare

T2 Biosystems, Inc. (TTOO) reported 4Q and EOY 2017 results yesterday, March 6, 2018. The call was characterized by positive information regarding organic revenue growth as a consequence of securing new contracts and a rising rate of adoption of the T2Dx[®] Instrument with the T2Candida Panel. 2017 product revenue increased by 100% to \$3.4 million and total revenue increased 15% to \$4.7 million. Upon FDA clearance of the T2Bacteria Panel, anticipated in 2Q-2018, the rate of growth is expected to continue to increase further as TTOO's diagnostic systems will then offer hospital administrators and clinicians a method to treat 90% of sepsis patients with a technology that provides faster and more targeted diagnostic information and treatment options. An example of the disruptive technology potential of the TTOO systems compared to current blood culture technology, routinely used in hospital laboratories was cited during the May 6 conference call. Blood samples from 800 patients in the clinical trial who were already taking antibiotics for an infection were tested with the T2Bacteria panel. Of the 800, only 102 had an active infection. Of those, less than 30% were receiving an effective antibiotic. As a consequence of compelling trial results, we are reiterating our Strong Buy rating and continuing our \$12.00 price target.

Recent TTOO Announcements

- March 6, 2018: TTOO was awarded a grant of up to \$2 million from CARB-X to accelerate the development of new tests to identify 20 additional bacterial species targets (including resistant targets), with a focus on blood-borne pathogens on the CDC antibiotic resistance threat list. Included are Carbapenem-resistant Enterobacteriaceae and Methicillin-resistant *Staphylococcus aureus*. TTOO will receive an initial award of up to \$1.1 million, and up to an additional \$0.9 million with achievement of specific milestones. CARB-X is jointly led by BARDA and the Wellcome Trust, a global charitable foundation based in the U.K.
- February 9, 2018: Compelling results of two TTOO large clinical studies, STAMP and DIRECT2, were published in the Journal of Clinical Microbiology and Clinical Infectious Diseases, respectively. The studies both validated, with statistical significance, the T2Dx using the T2Candida Panel as faster and more accurate than conventional blood culture based technologies for identifying the five most common species of Candida. In patients not yet treated, T2Dx and the T2Candida Panel delivered results in hours rather than days, allowing targeted therapy for the type of Candida discovered. Among patients already treated, T2 diagnostic, also detected ongoing infections that standard routine blood cultures techniques missed, insuring patients were cured before treatment was discontinued and reducing the likelihood of hospital readmissions.

Notable TTOO Results for Full Year 2017

- The total worldwide installed base increased to 67 T2Dx instruments covering 157 hospitals in the U.S. and Europe, providing access to an estimated 495,000 high-risk patients for testing with the T2Candida and subsequently T2Bacteria Panels when U.S. market clearance is granted.
- The European CE Mark, which enables marketing the T2Bacteria Panel outside of the U.S. was granted and a 510(k) application was filed with the FDA for market clearance of the T2Bacteria Panel in the U.S. The company now anticipates a 6 to 9 month approval process, which would lead to anticipated market clearance in 2Q-2018. The company expects to provide full-year 2018 financial guidance upon FDA clearance of the T2Bacteria Panel.
- A number of new partnerships were entered into, including one with the CDC to use the T2Dx Instrument for detecting the superbug *Candida auris* and another with Cidara Therapeutics, Inc. (CDTX), using the T2Dx Instrument with the T2Candida Panel to facilitate patient enrollment in CDTX's Phase 3 clinical trial.
- An equity financing raised \$20.1 million in gross proceeds that will fund commercial expansion and continued research and development of the TTOO pipeline was completed.

Notable TTOO Financial Results for 4Q-2017

- Revenues were \$1.7 million, a 55% increase over 3Q revenues of \$1.1 million and an 87% increase over 4Q-2017 revenue of \$910,000.
- Product revenues, primarily T2Candida Panel and T2Dx Instrument sales, were \$1.3 million, a 76% increase over 3Q product revenue of \$739,000 and a 125% increase over 4Q-2017 product revenue of \$579,000.
- Research revenue of \$325,000 compared to \$369,000 in 3Q and \$331,000 in 4Q-2017.
- Costs and expenses, excluding cost of product revenue, were \$9.8 million, a decrease of 14% over 3Q costs and expenses of \$11.4 million and a 16% decrease over 4Q-2017 of \$11.7 million. The company is seeking to reduce research and development spending as it increases preparations for commercial sales activities.

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	Percentage of Covered Securities	Percentage of Banking Clients
Buy	62%	25%
Hold	23%	0%
Sell	15%	0%

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