

Life Sciences Technology

Price:	\$21.53
Fair Value Estimate:	\$25.00
52-Week Range:	\$11.00 - \$24.50
Market Cap (MM):	\$432
Shr.O/S-Diluted (mm):	20.0
Average Daily Volume:	56,177
Book Value:	\$4.96
Yield:	0.0%
Cash/Share:	\$(7.61)
FCF Yield:	(36.4)%
Debt/Cap:	18%

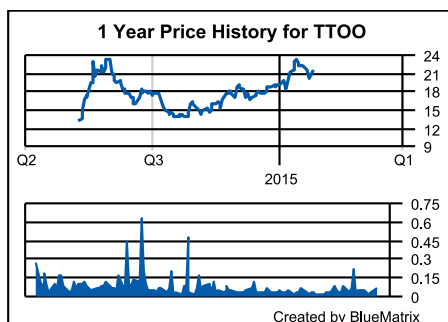
FYE: Dec	2014E	2015E	2016E
EPS:	\$(3.60)E	\$(2.10)E	\$(1.50)E
Prior EPS:	NC	NC	NC
Consensus	NM	-3.39	-1.93
P/E Ratio:	NA	NA	NA

Quarterly EPS:

Q1	\$(4.90)A	\$(0.49)E	NA
Q2	\$(5.03)A	\$(0.51)E	NA
Q3	\$(0.65)A	\$(0.54)E	NA
Q4	\$(0.46)E	\$(0.55)E	NA

Quarterly Revenue (M):

Q1	\$0A	\$0E	NA
Q2	\$0A	\$0E	NA
Q3	\$0A	\$1E	NA
Q4	\$0E	\$1E	NA
Year:	\$0E	\$2E	\$33E



January 27, 2015

T2 Biosystems, Inc.

(TTOO) - NEUTRAL

HHS Reforms Increasing Diagnostics Growth

PORTFOLIO MANAGER BRIEF

The Department of Health and Human Services (HHS) announced plans to implement structural reforms to improve the quality and delivery of healthcare to patients, with the goal of curbing growth in per enrollee spending. In our view, a shift toward a value-based payment structure is a net positive for technologies like T2. The T2Dx platform has shown in independent studies that it can reduce patient length of stays, readmittance rates, and the overall hospital cost burden, [saving](#) a top-450 hospital in excess of \$3 million per annum.

ANALYST NOTES

- **Fewer Hurdles for T2:** The evolving landscape in US reimbursement will be favorable for T2. Not only was Sepsis the most expensive hospital-treated condition in the US during 2013, costing hospitals in excess of \$20 billion, but it traditionally has readmission rates 2x the average 30-day rate of 9-12%. T2's novel, rapid NMR diagnostic platform may gain momentum from hospital value analysis committees that are becoming increasingly incentivized to mitigate risk, link the quality and value of treatment to payments, and increase patient churn.
- **"New Plan":** The HHS's "new plan" targets Medicare patients which account for 54 million (~20%) of the more than 272 million covered lives in the US. The plan aims to curb the burgeoning costs of domestic healthcare by implementing alternative payment methods (bundled, value-based, etc). Last year, the Congressional Budget Office estimated that Medicare costs would rise from \$512 billion in 2014 to \$858 billion (5.3% CAGR) by 2024 unless reforms were implemented. To slow this growth, the HHS's "new plan" aims to expand these alternative methods from 20% of Medicare payments today to 30% by the end of 2016 and 50% by the end of 2018.
- While the "new plan" remains very vague and implementation is likely going to be easier said-than-done, the continued shift toward managed care or bundled payments is a net positive for T2. In an environment where one-third of hospitals lose money on operations, overall margins hover in the low-single digits, and expense liability has shifted from the patient to the hospital for unnecessary treatment protocols, T2's platform has demonstrated significant clinical and economic utility, [saving](#) a top-450 hospital in excess of \$3 million per annum or \$629 net per high risk patient.

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Paul Knight, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

Janney Montgomery Scott LLC ("Janney") Equity Research Disclosure Legend

T2 Biosystems, Inc. currently is, or during the past 12 months was, a Janney Montgomery Scott LLC client. Janney Montgomery Scott LLC, provided investment banking related services.

Janney Montgomery Scott LLC managed or co-managed a public offering of securities for T2 Biosystems, Inc. in the past 12 months.

Janney Montgomery Scott LLC received compensation for investment banking services from T2 Biosystems, Inc. in the past 12 months.

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from T2 Biosystems, Inc. in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

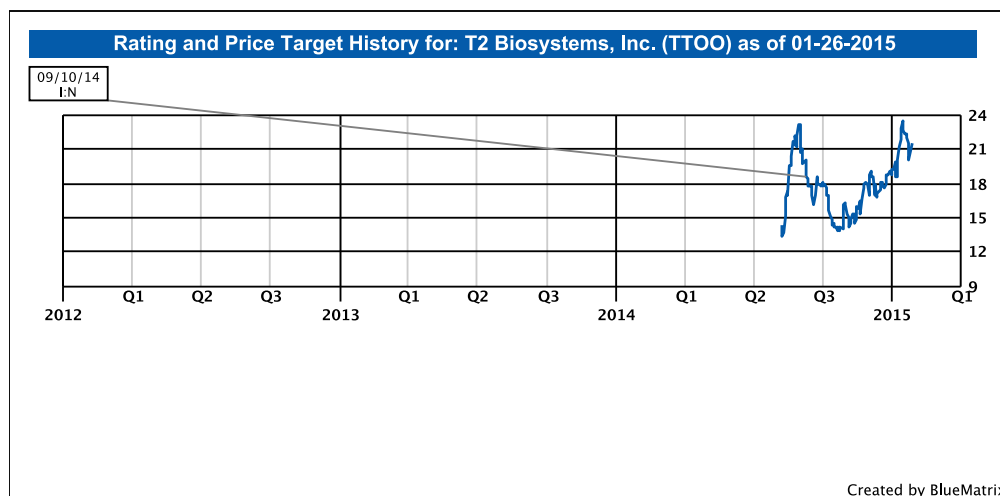
Definition of Ratings

BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 12/31/14

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [B]	138	51.30	15	10.87
NEUTRAL [N]	131	48.70	5	3.82
SELL [S]	0	0.00	0	0.00

*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

Other Disclosures

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