

September 22, 2014

## T2 Biosystems Inc

## Updating our model for 2Q; No changes to revenue outlook

T2's 2Q 10Q filing included no material updates on the company and reported spending trends in line with our expectations ahead of commercialization anticipated in 1H15. We update our model to reflect the finalized post-IPO cap structure; our revenue forecasts are unchanged.

**No updates on regulatory or commercialization timelines.** T2 reiterated plans to commercialize the T2Dx instrument and T2Candida assay in 1H2015 following its FDA approval, although no updates on the process were disclosed. The launch of the critical bacterial panel is still set for 2017 clinical validation studies for T2Bacteria, planned for 2H15. T2's valuation remains tied to the potential for the medium-term ramp in sepsis; we expect substantial uptake in large centers upon commercialization given the scale of the unmet need for rapid sepsis diagnosis. Sepsis is the most costly hospital-treated condition in the US, driving \$20BN of hospital costs per year and a 30% mortality rate among the 1.35MM patients diagnosed annually out of 6.0-8.0MM patients deemed high-risk.

**Clear uptake drivers for uptake of T2's differentiated offering.** T2Dx is a potential game-changer with rapid diagnosis for sepsis. It offers: (1) speed, providing results from a blood sample in 3 hours — beating competing technologies by 24+ hours and curbing drug spend on uninfected patients; (2) ease of use, eliminating manual prep that introduces risk of cross-contamination; and (3) clinical validation, with data demonstrating +80% sensitivity and +90% specificity. Our revenue forecast remains ~\$115MM in 2017, reflecting penetration into only ~75 US hospitals out of 450 treating >3,000 high-risk patients per year. We believe T2 has at least 2-3 years of runway in the US before a competing technology could emerge yielding diagnoses in <24 hours with sensitivity and specificity that would be similar to T2.

**Capitalization yields a solid balance sheet.** The company successfully concluded its IPO in mid-August, issuing ~6mn shares and yielding net proceeds of \$58.7mn. Considering IPO proceeds and T2's access to a \$30mn revolver, we believe the company is adequately funded into 2017. Results for 2Q were in line with our forecasts for operating expense (see Exhibits inside); we expect SG&A to ramp ahead of commercialization in 2H15. We raise our price target for T2OO to \$19 from \$18 to reflect our revised forecasts for net debt; our target multiple and revenue forecasts are unchanged.

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## T2 Biosystems Inc ( T2OO.O , T2OO US )

Life Science Tools &amp; Diagnostics / United States of America

<b>Stock Rating</b>	<b>Equal-weight</b>
<b>Industry View</b>	<b>In-Line</b>
<b>Price target</b>	<b>\$19.00</b>
Shr price, close (Sep 19, 2014)	\$16.17
Mkt cap, curr (mm)	\$324
52-Week Range	\$24.50-13.40

Fiscal Year Ending	12/13	12/14e	12/15e	12/16e
Co.-rpt'd rev (\$mm)*	-	-	-	-
<b>ModelWare EPS (\$)</b>	<b>(2.10)</b>	<b>(2.33)</b>	<b>(2.08)</b>	<b>(1.76)</b>
<b>P/E</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>
Div yld (%)	-	0.0	0.0	0.0

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

\* = GAAP or approximated based on GAAP

e = Morgan Stanley Research estimates

## QUARTERLY MODELWARE EPS (\$)

Quarter	2013	2014e Prior	2014e Current	2015e Prior	2015e Current
Q1	-	-	(0.63)a	(1.43)	(0.40)
Q2	-	(4.90)	(0.66)	(1.58)	(0.46)
Q3	-	(2.55)	(0.59)	(1.79)	(0.53)
Q4	-	(1.71)	(0.49)	(2.27)	(0.69)

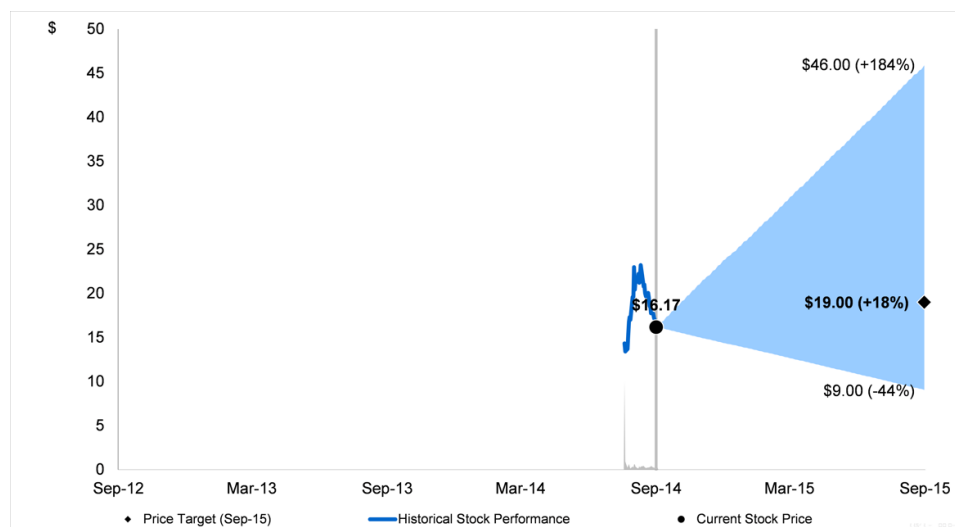
e = Morgan Stanley Research estimates, a = Actual Company reported data

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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

### Early Phases of a Revolution in Rapid Sepsis Diagnostics



Source: Morgan Stanley Research estimates.

#### Price Target \$19.00

Value base case 2017 revenues of \$115 MM using a 3.9x EV/Sales multiple, below fast-growing diagnostic peers with demonstrated commercial traction. Assuming a fully loaded share base and 10% discount rate, we arrive at a 12-month target price.

#### Bull \$46

5.0x Bull Case 2020E Rev

Forecasted 2020E revenues capturing significant upside from the launches of T2Bacteria panel and hemostasis panels in 2017 leading to site expansion although gradual test price declines to ~\$135 by 2020 to capture smaller-scale hospitals.

#### Base \$19

3.9x Base Case 2017E Rev

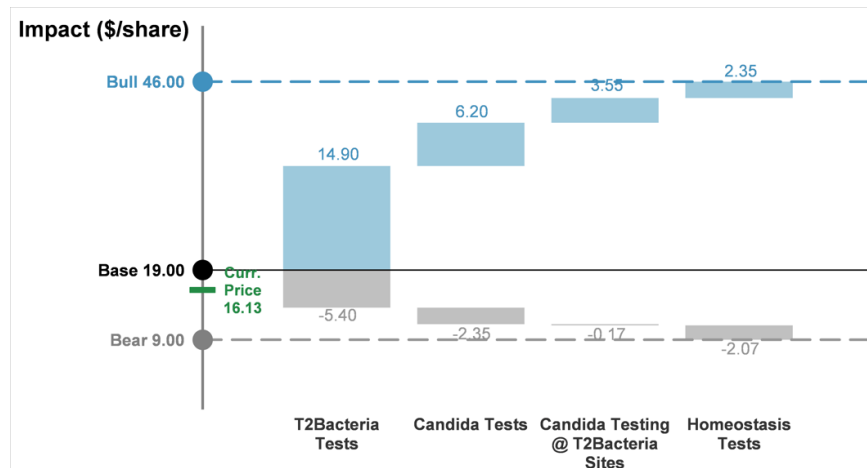
Forecast penetration into 134 sites of top 200 hospitals by end of 2016 expanding to 253 sites (out of top 450 hospitals) by end of 2018 driven by availability of both T2Candida and T2Bacteria test panels, with pricing of ~\$170 per test.

#### Bear \$9

2.5x Bear Case 2017E Rev

Forecast only 90% of penetration from base case, or 121 sites with T2Candida panel and assumes T2Bacteria and hemostasis panels do not launch commercially before 2017.

#### Exhibit 1: Key Value Drivers: Our Inputs and the Impact on Scenario Values



Source: Morgan Stanley Research.

#### Investment Thesis

- T2 Biosystem's T2Dx system is serving a critical unmet need through its rapid diagnosis of sepsis in as little as three hours, faster by 24 hours or more than the current standard of care to curb unnecessary drug treatments for the uninfected and accelerate appropriate therapies for infected patients
- We believe T2 has at least two years of runway in the US before competition could emerge with a technology that yields a diagnosis in less than 24 hours

#### Key Value Drivers

- Speed, providing results from a whole blood sample in three hours — beating competing sepsis diagnosis technologies by at least 24 hours and curbing unnecessary drug treatment for uninfected patients
- Ease of use, eliminating manual prep steps that can introduce risks of cross-contamination
- Clinical validation, with clinical data that demonstrates +80% sensitivity and +90% specificity
- International expansion in 2017

#### Catalysts

- FDA approval for the T2Dx and T2Candida systems by YE2014
- Successful commercial launch of T2Dx and T2Candida in the first half of 2015
- Initiation of clinical trials for T2Bacteria in the second half of 2015 with a commercial launch targeted for later 2016, adding an additional 2.0MM patients to its addressable market
- Clinical trial initiation for T2Stat and T2HemoStat in the first half of 2016

#### Risks to Achieving Price Target

- Delay in FDA approval of the T2Dx system and T2Candida panel
- Slower-than-expected commercial uptake for the new diagnostic modality for sepsis testing since it requires lab directors to add a new system to their lineup
- The launch of a competing product with a similarly distinguishable clinical profile and process timeline within the next two years
- International penetration fails to materialize

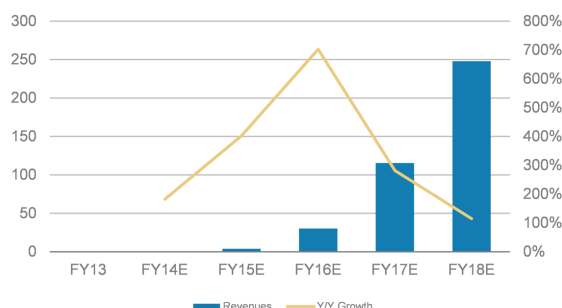
## Financial Overview & Valuation

**1) Promotion, penetration, and pricing:** With no indication of potential delays for Candida commercialization beyond 1H15, our updated T2 forecasts do not include material changes to product line build-up or timeline.

**2) Share count:** Our projections include the conversion of all preferred stock and preferred stock warrants into common shares in addition to the IPO issuance. The historical share count figures have also been adjusted providing a pro forma number that allows for comparison between historical and projected EPS figures. The forecasts anticipates T2 reaching positive net income in 2H17 and an additional 2mm shares of dilution due to outstanding options.

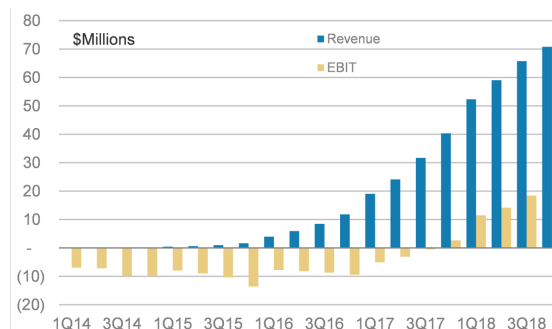
**3) Financing:** Our projections assume the successful commercialization of T2Candida by 1H15, allowing T2 to draw the full \$30mm from its revolving credit line by 1H15. Additionally, we forecast the company will successfully achieve delay of repayment until July 2016, although these repayment terms for the loan agreement suggest the company will require additional financing sources in 2017.

**Exhibit 2: Forecasted revenue progression**



Source: Company data, Morgan Stanley Research.

**Exhibit 3: Forecasted EBIT and revenue**



Source: Company data, Morgan Stanley Research.

Our valuation continues to focus on 2017 revenues for the base case to provide a more appropriate reflection of the company's revenue generation capacity while balancing the preference to utilize forecasts closer to the present.

**Exhibit 4: Comparable companies summary**

Ticker	Price	Market Cap  (LC mm)	EV / Sales			Debt / EBITDA	Stock Price Performance		Short Interest
	09/19/14		2014	2015	2016	2015	YTD	3 Mths	Ratio (days)
Life Science Tools									
CPHD	\$43.89	3,123.5	6.6x	5.7x	4.8x	6.8x	-9.4%	-11.1%	12.37
FLDM	\$26.33	792.7	7.3x	5.7x	4.6x	NM	-24.9%	-0.3%	5.81
GHDX	\$29.16	913.0	2.9x	2.6x	2.3x	NM	3.2%	8.4%	17.04
LMNX	\$19.21	852.3	3.2x	2.9x	2.6x	0.0x	-2.7%	7.6%	15.22
NSTG	\$12.56	229.8	3.5x	2.3x	1.6x	NM	-34.5%	-24.9%	9.00
PACB	\$5.01	363.7	5.1x	4.2x	3.2x	NM	-0.6%	-15.9%	11.42
VCYT	\$10.27	220.5	4.3x	2.3x	1.5x	NM	-13.4%	-16.7%	4.18
Mean			4.7x	3.7x	2.9x	3.4x	-11.8%	-7.5%	10.72
Median			4.3x	2.9x	2.6x	3.4x	-9.4%	-11.1%	11.42

Source: Thomson Reuters, Morgan Stanley Research estimates.

## Exhibit 5: Key valuation overview

	Bull	Base	Bear
<i>Revenue year</i>	<i>2020</i>	<i>2017</i>	<i>2017</i>
Revenue	305,270	115,299	85,683
Revenue multiple	5.0x	3.9x	2.5x
Forward value	1,526,351	449,665	214,207
Discount rate	10%	10%	10%
Years	5.0	2.0	2.0
AV	901,295	364,229	173,508
2015 net debt	(16,550)	(16,550)	(16,550)
Equity	917,845	380,779	190,057
Divide by: # of shares		20.04	
Implied price	\$ 45.80	\$ 19.00	\$ 9.48

Source: Morgan Stanley Research estimates.

## Financials

## Exhibit 6:

Dollars in 000s, except per share data

Fiscal year ends Dec 31

	2012A	2013A	2014E					2015E					2016E	2017E	2018E
	2012A	2013A	Mar-14	Jun-14	Sep-14	Dec-14	2014E	Mar-15	Jun-15	Sep-15	Dec-15	2015E	2016E	2017E	2018E
Revenue, net	\$19	\$266	\$0	\$0	\$250	\$250	\$500	\$483	\$667	\$973	\$1,645	\$3,768	\$30,234	\$115,299	\$247,877
Cost of Goods Sold	\$0	\$0	\$0	\$0	\$175	\$175	\$350	\$386	\$534	\$778	\$1,316	\$3,014	\$12,849	\$36,896	\$69,405
Gross Profit	\$19	\$266	\$0	\$0	\$75	\$75	\$150	\$97	\$133	\$195	\$329	\$754	\$17,385	\$78,403	\$178,471
R&D	\$11,727	\$14,936	\$5,065	\$4,703	\$4,525	\$4,500	\$18,793	\$2,415	\$3,335	\$4,864	\$8,225	\$18,839	\$24,187	\$34,590	\$34,703
SG&A	\$2,945	\$5,022	\$1,842	\$2,446	\$5,500	\$5,500	\$15,288	\$5,650	\$5,754	\$5,732	\$5,695	\$22,830	\$27,166	\$49,725	\$78,448
Total Operating Expenses	\$14,672	\$19,958	\$6,907	\$7,149	\$10,025	\$10,000	\$34,081	\$8,065	\$9,088	\$10,596	\$13,920	\$41,669	\$51,354	\$84,315	\$113,150
EBITDA	(\$14,082)	(\$19,108)	(\$6,763)	(\$6,994)	(\$9,790)	(\$9,755)	(\$33,302)	(\$7,789)	(\$8,765)	(\$10,201)	(\$13,379)	(\$40,134)	(\$33,026)	(\$5,911)	\$65,321
Operating Income	(\$14,653)	(\$19,692)	(\$6,907)	(\$7,149)	(\$9,950)	(\$9,925)	(\$33,931)	(\$7,968)	(\$8,955)	(\$10,401)	(\$13,591)	(\$40,915)	(\$33,969)	(\$5,911)	\$65,321
Interest Income (Exp)	(\$154)	(\$403)	(\$86)	(\$80)	(\$14)	\$184	\$3	(\$128)	(\$250)	(\$329)	(\$360)	(\$1,067)	(\$1,678)	(\$1,722)	(\$167)
Other Income (Expense)	\$352	(\$515)	\$73	(\$74)	(\$74)	(\$74)	(\$149)	\$73	\$73	\$73	\$73	\$292	\$292	\$292	\$292
Total Non-op. Expense	\$198	(\$918)	(\$13)	(\$154)	(\$88)	\$110	(\$146)	(\$55)	(\$177)	(\$256)	(\$287)	(\$775)	(\$1,386)	(\$1,430)	\$125
Pre-Tax Income	(\$14,455)	(\$20,610)	(\$6,920)	(\$7,303)	(\$10,038)	(\$9,815)	(\$34,077)	(\$8,023)	(\$9,132)	(\$10,658)	(\$13,878)	(\$41,691)	(\$35,355)	(\$7,341)	\$65,446
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%
Income Taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
NOL (Add) / Use	(\$14,455)	(\$20,610)					(\$34,077)					(\$41,691)	(\$35,355)	(\$7,341)	\$22,906
NOL Balance	(\$14,455)	(\$35,065)					(\$69,142)					(\$110,832)	(\$146,188)	(\$153,529)	(\$130,623)
Accretion of Conv Pref.	\$4,412	\$6,908	\$1,906	\$1,906	\$0	\$0	\$3,812	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Income	(\$18,867)	(\$27,518)	(\$8,826)	(\$9,209)	(\$10,038)	(\$9,815)	(\$37,889)	(\$8,023)	(\$9,132)	(\$10,658)	(\$13,878)	(\$41,691)	(\$35,355)	(\$7,341)	\$65,446
Fully Diluted Shares	8,348	13,112	14,022	14,036	17,041	20,041	16,285	20,041	20,041	20,041	20,041	20,041	20,041	20,167	21,052
Period End Basic Shares	9,870	14,015	14,031	14,042	20,041	20,041	20,041	20,041	20,041	20,041	20,041	20,041	20,041	21,052	21,052
Diluted EPS	(\$2.26)	(\$2.10)	(\$0.63)	(\$0.66)	(\$0.59)	(\$0.49)	(\$2.33)	(\$0.40)	(\$0.46)	(\$0.53)	(\$0.69)	(\$2.08)	(\$1.76)	(\$0.36)	\$3.11
Gross Margin	100%	100%	NM	NM	30%	30%	30%	20%	20%	20%	20%	20%	57.5%	68.0%	72.0%
SG&A	15500%	1888%	NM	NM	2200%	2200%	3058%	1170%	863%	589%	346%	606%	89.9%	43.1%	31.6%
R&D	61721%	5615%	NM	NM	1810%	1800%	3759%	500%	500%	500%	500%	500%	80.0%	30.0%	14.0%
Operating Income	-77121%	-7403%	NM	NM	-3980%	-3970%	-6786%	-1650%	-1343%	-1069%	-826%	-1086%	-112.4%	-5.1%	26.4%
Pre-Tax Income	-76079%	-7748%	NM	NM	-4015%	-3926%	-6815%	-1661%	-1369%	-1095%	-844%	-1107%	-116.9%	-6.4%	26.4%
Net Income	-99300%	-10345%	NM	NM	-4015%	-3926%	-7578%	-1661%	-1369%	-1095%	-844%	-1107%	-116.9%	-6.4%	26.4%
<b>Growth Rates</b>															
Sales		1300%	NM	-100%	NM	NM	88%	NM	NM	289%	558%	654%	702%	281%	115%
Gross Profit		1300%	NM	-100%	NM	NM	-44%	NM	NM	159%	339%	402%	2207%	351%	128%
SG&A		71%	77%	88%	NM	NM	204%	207%	135%	4%	4%	49%	19%	83%	58%
R&D		27%	42%	26%	NM	NM	26%	-52%	-29%	7%	83%	0%	28%	43%	0%
Operating Income		34%	50%	46%	NM	NM	72%	15%	25%	5%	37%	21%	-17%	-83%	-1205%
EPS		-7%	NM	NM	NM	NM	11%	-36%	-31%	-10%	41%	-11%	-15%	-79%	-954%

Source: Company data, Morgan Stanley Research

## Exhibit 7: T2 product revenues

Dollars in 000s, except per share data

	2014E	2015E					2016E	2017E	2018E
	2014E	Mar-15	Jun-15	Sep-15	Dec-15	2015E	2016E	2017E	2018E
T2 Candida Revenue									
Test Revenue									
Direct Customer Test Price		\$ 160	\$ 161	\$ 162	\$ 162	\$ 162	\$ 165	\$ 168	\$ 171
Reagent Rental Test Price		\$ 160	\$ 161	\$ 162	\$ 162	\$ 162	\$ 165	\$ 168	\$ 171
T2 Candida Tests		-	920	2,660	6,120	9,700	139,520	476,254	622,223
T2 Candida Revenue		-	147,936	429,867	993,962	1,571,764	23,007,039	79,994,027	106,486,619
Instrument Revenue									
Total Candida Sites EOP						38	134	144	193
New Sites		6	8	9	15	38	96	-	-
Instruments per site		1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Sites Adopting Candida & Bacteria		-	-	-	-	-	-	11	49
Instruments per site		-	-	-	-	-	-	-	-
T2 Instruments - new		9	12	14	23	58	144	-	-
Instrument Price		\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 58,500	\$ -	\$ -
T2Dx Instrument Revenue		108,000	144,000	168,000	276,000	696,000	1,684,800	-	-
Support Revenue									
HW maintenance		12%	12%	12%	12%	12%	12%	12%	12%
Instrument Vintage - Direct Sales (EOP)		2	2	3	5	11	40	40	40
Under Support (EOP)		-	-	-	-	-	11	40	40
New Support Revenue		-	-	-	-	-	19,875	49,152	-
Total Support Revenue		-	-	-	-	-	42,120	192,692	276,110
Total T2 Candida Revenue		\$108,000	\$291,936	\$597,867	\$1,269,962	\$2,267,764	\$24,733,959	\$80,186,719	\$106,762,728
T2 Bacteria									
Test Revenue									
Direct Customer Test Price								\$ 169	\$ 171
Reagent Rental Test Price								\$ 169	\$ 171
T2 Bacteria Tests								85,888	583,162
T2 Bacteria Revenue								14,486,919	99,957,134
Instrument Revenue									
Total Sites EOP						-	-	109	253
Sites Converted from Candida								87	46
Additional Instruments per site							1.0	1.0	1.0
New Sites								22	98
Instruments per site							2.0	2.0	2.0
T2 Instruments- new								131	197
Instrument Price		\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 58,500	\$ 57,038	\$ 55,612
T2Dx Instrument Revenue								1,494,384	2,191,096
Support Revenue									
HW maintenance							12%	12%	12%
Instrument Vintage - Direct Sales (EOP)								26	65
Under Support (EOP)								-	26
New Support Revenue								-	43,644
Total Support Revenue								-	96,497
Total T2 Bacteria Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$15,981,303	\$102,244,727
Hemostasis revenue									
Test Revenue									
Level I/II Test Price						\$ 35	\$ 33	\$ 32	\$ 32
Level III/IV Test Price						\$ 35	\$ 33	\$ 32	\$ 32
Level I/II Tests/year	-					-	30,303	169,571	169,571
Level III/IV Tests/year	-					-	7,938	81,648	81,648
Level I/II Revenue	-					-	1,007,579	5,356,333	5,356,333
Level III/IV Revenue	-					-	263,939	2,579,056	2,579,056
Hemostasis Test Rev.	-					-	1,271,518	7,935,389	7,935,389
Instrument Revenue									
Level I/II Sites	-					-	24	14	14
Level I/II Instruments per site	-					4	4	4	4
Level I/II Instruments - new	-					-	96	57	57
Level III/IV Sites	-					-	123	228	228
Level III/IV Instruments per site	-					2	2	2	2
Level III/IV Instruments - new	-					-	245	455	455
Level I/II Instrument Price						\$ 15,000	\$ 14,250	\$ 13,538	\$ 13,538
Level III/IV Instrument Price						\$ 15,000	\$ 14,250	\$ 13,538	\$ 13,538
Level I/II Instrument Rev.	-					-	1,368,000	774,345	774,345
Level III/IV Instrument Rev.	-					-	3,491,250	6,159,563	6,159,563
Hemostasis Instrument Rev.	-					-	4,859,250	6,933,908	6,933,908
Hemostasis total revenue	\$0					\$0	\$0	\$6,130,768	\$14,869,296
Other Revenue									
Partner & Grant	750,000	250,000	250,000	250,000	250,000	1,000,000	2,000,000	3,000,000	4,000,000
International Rev	-	125,000	125,000	125,000	125,000	500,000	3,500,000	10,000,000	20,000,000
Total other revenue	\$750,000	\$375,000	\$375,000	\$375,000	\$375,000	\$1,500,000	\$5,500,000	\$13,000,000	\$24,000,000

Source: Company data, Morgan Stanley Research.



## Exhibit 8: T2 balance sheet

Dollars in 000s, except per share data  
Fiscal year ends Dec 31

	2012A	2013A	2014E					2015E					2016E	2017E	2018E
			Mar-14	Jun-14	Sep-14	Dec-14		Mar-15	Jun-15	Sep-15	Dec-15				
ASSETS															
Cash & Cash Equivalents	\$9,709	\$30,198	\$23,698	\$15,876	\$67,023	\$78,353	\$78,353	\$68,282	\$69,608	\$59,803	\$48,084	\$48,084	\$9,309	\$18,783	\$77,389
Restricted Cash	\$80	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Cash and CE	\$9,789	\$30,198	\$23,698	\$15,876	\$67,023	\$78,353	\$78,353	\$68,282	\$69,608	\$59,803	\$48,084	\$48,084	\$9,309	\$18,783	\$77,389
Prepaid Expenses & Other	\$60	\$195	\$247	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202
Total Current Assets	\$9,849	\$30,393	\$23,945	\$16,078	\$67,225	\$78,555	\$78,555	\$68,484	\$69,810	\$60,005	\$48,286	\$48,286	\$9,511	\$18,985	\$77,591
PP&E, Net	\$1,195	\$1,118	\$1,237	\$1,327	\$1,417	\$1,497	\$1,497	\$1,607	\$1,704	\$1,786	\$1,870	\$1,870	\$3,950	\$8,435	\$16,537
Restricted Cash	\$340	\$340	\$340	\$340	\$340	\$340	\$340	\$340	\$340	\$340	\$340	\$340	\$340	\$340	\$340
Other	\$47	\$34	\$310	\$2,307	\$201	\$195	\$195	\$188	\$182	\$176	\$170	\$170	\$145	\$138	\$138
Total Assets	\$11,431	\$31,885	\$25,832	\$20,052	\$69,183	\$80,586	\$80,586	\$70,620	\$72,037	\$62,307	\$50,666	\$50,666	\$13,945	\$27,898	\$94,606
LIABILITIES															
Accounts Payable	\$571	\$943	\$1,035	\$720	\$761	\$761	\$761	\$107	\$147	\$211	\$358	\$358	\$1,367	\$3,509	\$5,385
Accrued Expenses	\$733	\$1,319	\$2,372	\$4,222	\$4,715	\$6,000	\$6,000	\$4,839	\$5,453	\$6,358	\$8,352	\$8,352	\$9,725	\$14,869	\$17,835
Current Portion of Borrowings	\$820	\$1,759	\$1,764	\$1,769	\$1,789	\$1,808	\$1,808	\$1,640	\$1,453	\$3,766	\$6,079	\$6,079	\$10,351	\$10,135	\$2,500
Current Portion of Deferred Rent	\$5	\$25	\$30	\$35	\$35	\$35	\$35	\$35	\$35	\$35	\$35	\$35	\$35	\$35	\$35
Total Current Liabilities	\$2,129	\$4,046	\$5,201	\$6,746	\$7,300	\$8,604	\$8,604	\$6,621	\$7,088	\$10,370	\$14,823	\$14,823	\$21,479	\$28,548	\$25,755
Notes Payable	\$5,058	\$3,299	\$2,855	\$2,411	\$1,960	\$21,509	\$21,509	\$21,246	\$30,982	\$28,219	\$25,455	\$25,455	\$15,129	\$5,000	\$2,500
Deferred Rent	\$70	\$45	\$35	\$23	\$23	\$23	\$23	\$23	\$23	\$23	\$23	\$23	\$23	\$23	\$23
Warrants to Purchase Redeemable Securi	\$695	\$1,225	\$1,152	\$1,226	\$1,226	\$1,226	\$1,226	\$1,226	\$1,226	\$1,226	\$1,226	\$1,226	\$1,226	\$1,226	\$1,226
Total Liabilities	\$7,952	\$8,615	\$9,243	\$10,406	\$10,508	\$31,362	\$31,362	\$29,116	\$39,319	\$39,838	\$41,528	\$41,528	\$37,857	\$34,797	\$29,504
Redeemable Convertible Preferred Stock	\$66,137	\$112,813	\$114,719	\$116,625	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
EQUITY															
Common Stock	\$2	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1
Additional Paid in Capital	\$0	\$0	\$0	\$0	\$175,691	\$176,057	\$176,057	\$176,360	\$176,706	\$177,114	\$177,661	\$177,661	\$179,967	\$204,320	\$210,877
Retained Earnings	(\$62,660)	(\$89,544)	(\$98,131)	(\$106,980)	(\$117,018)	(\$126,834)	(\$126,834)	(\$134,857)	(\$143,989)	(\$154,646)	(\$168,524)	(\$168,524)	(\$203,880)	(\$211,221)	(\$145,775)
AOCI	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Stockholders' Equity	(\$62,658)	(\$89,543)	(\$98,130)	(\$106,979)	\$58,674	\$49,224	\$49,224	\$41,504	\$32,718	\$22,469	\$9,138	\$9,138	(\$23,911)	(\$6,900)	\$65,103
Total Liabilities & Equity	\$11,431	\$31,885	\$25,832	\$20,052	\$69,183	\$80,586	\$80,586	\$70,620	\$72,037	\$62,307	\$50,666	\$50,666	\$13,945	\$27,898	\$94,606

Source: Company data, Morgan Stanley Research.

## Exhibit 9: T2 cash flow statement

Dollars in 000s, except per share data

Fiscal year ends Dec 31

	2012A	2013A	2014E				2015E				2016E	2017E	2018E		
			Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15					
OPERATING															
Net Income	(14,455)	(20,610)	(6,920)	(7,303)	(10,038)	(9,815)	(34,077)	(8,023)	(9,132)	(10,658)	(13,878)	(41,691)	(35,355)	(7,341)	65,446
Depreciation & Amortization	571	584	144	155	160	170	629	179	190	201	211	781	943	1,281	1,813
Depreciation	571	584	144	155	160	170	629	179	190	201	211	781	943	1,281	1,813
Amortization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Stock Based Compensation	403	578	239	266	366	365	1,237	304	346	409	547	1,605	2,306	4,353	6,556
Noncash Interest Expense	46	44	11	10	6	6	34	6	6	6	6	25	25	6	-
Noncash Warrant Expense	81	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in Fair Value of Warrants	(132)	530	(73)	74	-	-	1	-	-	-	-	-	-	-	-
Loss on Disposal of Asset	-	6	-	(1)	-	-	(1)	-	-	-	-	-	-	-	-
Deferred IPO Costs	-	-	-	-	2,100	-	2,100	-	-	-	-	-	-	-	-
Deferred Rent	15	(5)	(6)	(7)	-	-	(13)	-	-	-	-	-	-	-	-
Changes in Operating Assets & Liabilities	168	820	814	406	534	1,285	3,039	(1,815)	653	970	2,140	1,949	2,383	7,285	4,842
Prepaid Expenses and Other Current Assets	(2)	(138)	(52)	44	-	-	(8)	-	-	-	-	-	-	-	-
Accounts Payable	(88)	372	93	(374)	41	-	(240)	(654)	39	65	146	(403)	1,010	2,142	1,876
Accrued Expenses	258	586	773	736	493	1,285	3,287	(1,161)	614	905	1,994	2,352	1,374	5,143	2,966
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Provided by Operating Activities	(13,303)	(18,053)	(5,791)	(6,400)	(6,871)	(7,989)	(27,051)	(9,349)	(7,937)	(9,072)	(10,973)	(37,331)	(29,698)	5,584	78,657
INVESTING															
Purchase of PP&E	(283)	(513)	(263)	(245)	(250)	(250)	(1,008)	(290)	(287)	(282)	(296)	(1,155)	(3,023)	(5,765)	(9,915)
Decrease (increase) in Restricted Cash	-	80	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Used in Investing Activities	(283)	(433)	(263)	(245)	(250)	(250)	(1,008)	(290)	(287)	(282)	(296)	(1,155)	(3,023)	(5,765)	(9,915)
FINANCING															
Proceeds from Issuance of Redeemable Convertible f	-	39,768	-	-	(116,625)	-	(116,625)	-	-	-	-	-	-	-	-
Proceeds from Issuance of Common Stock and Stock	1	55	-	(681)	175,325	-	174,644	-	-	-	-	-	-	20,000	-
Proceeds from Issuance of Restricted Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends Paid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from Issuance / (Drawdown) Revolver	4,924	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Repayments of Note Payable	(374)	(848)	(446)	(496)	(431)	19,569	18,195	(431)	9,549	(451)	(451)	8,217	(6,054)	(10,345)	(10,135)
Net Cash From Financing Activities	4,551	38,975	(446)	(1,177)	58,269	19,569	76,214	(431)	9,549	(451)	(451)	8,217	(6,054)	9,655	(10,135)
Net Change in Cash	(\$9,035)	\$20,489	(\$6,500)	(\$7,822)	\$51,147	\$11,330	\$48,155	(\$10,070)	\$1,326	(\$9,805)	(\$11,719)	(\$30,269)	(\$38,775)	\$9,474	\$58,606
Cash and Cash Equivalents (BOP)	18,744	9,709	30,198	23,698	15,876	67,023	30,198	78,353	68,282	69,608	59,803	78,353	48,084	9,309	18,783
Cash and Cash Equivalents (EOP)	\$9,709	\$30,198	\$23,698	\$15,876	\$67,023	\$78,353	\$78,353	\$68,282	\$69,608	\$59,803	\$48,084	\$48,084	\$9,309	\$18,783	\$77,389

Source: Company data, Morgan Stanley Research



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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)		
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY
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<b>Not-Rated/Hold</b>	<b>108</b>	<b>3%</b>	<b>21</b>	<b>2%</b>	<b>19%</b>
<b>Underweight/Sell</b>	<b>566</b>	<b>18%</b>	<b>93</b>	<b>11%</b>	<b>16%</b>
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**INDUSTRY COVERAGE: Life Science Tools & Diagnostics**

COMPANY (TICKER)	RATING (AS OF)	PRICE* (09/19/2014)
<b>David R. Lewis</b>		
T2 Biosystems Inc (TTOO.O)	E (09/22/2014)	\$16.17
T2 Biosystems Inc (TTOO.O)		\$16.17
<b>Steve Beuchaw</b>		
Agilent Technologies, Inc. (AN)	E (09/08/2014)	\$58.25
Illumina Inc. (ILMN.O)	E (09/08/2014)	\$172.26
PerkinElmer Inc. (PKI.N)	O (09/08/2014)	\$44.04
Thermo Fisher Scientific Inc. (TMO.N)	O (09/08/2014)	\$123.24
Waters Corp. (WAT.N)	U (09/08/2014)	\$101.58

Stock Ratings are subject to change. Please see latest research for each company.

\* Historical prices are not split adjusted.

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