

Message

From: Rosan, Jay [jay.rosan@walgreens.com]
Sent: 1/18/2012 10:14:18 PM
To: Miquelon, Wade D. [wade.miquelon@walgreens.com]; Kunstman, Gregory T. [greg.kunstman@walgreens.com]; Doyle, Daniel F. [dan.doyle@walgreens.com]; Romanski, Kimberly A. [kim.romanski@walgreens.com]; Zimmerman, Heather M. [heather.zimmerman@walgreens.com]
Subject: Here is the slide show that was presented to us by Sunny and Elizabeth

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January 16, 2012

Walgreens

Project Normandy Briefing

This presentation and its contents are
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Walgreens Theranos Partnership Objectives

- Profitability
- New revenue base
- New, leading presence in critical healthcare space
- Further increase the value of WAG pharmacies and lead in establishing the pharmacy of the 21st century:
 - MTM, services, counseling, specialty pharmacy, companion diagnostics
- Gain pull-through traffic for other services and products
- New growth driver for employer business
 - Lowest cost, highest quality testing from a finger-stick
- Scalability
- Low-Manageable Risk



Theranos Updates

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Revenue Opportunity

- Market size: \$60B in 2011 projected to grow to \$100B+ by 2018

2011 Projected Revenue	
Quest Diagnostics	\$7.6B
Lab Corp	\$5.6B
Other regional Independent Labs, Physician Office Labs	\$10B+
Hospital-based Outpatient Lab Services (at 300%+ of Medicare)	\$30B+
TOTAL	\$60B



Revenue Opportunity

- ~90-95% test volume yields 70% revenue
- Bottom 5% is 30% of revenue and bulk of profits for current lab industry

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What Will Drive Adoption the Fastest

- The 'payors' priority is savings
 - Cost
 - Cost
 - Cost
 - Improved quality of care
 - Longer term savings

- National Footprint

- Medicaid

- Medicare

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One breakthrough/disruption at a time

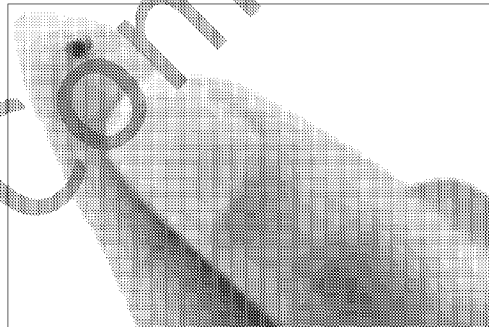


Project Normandy:

The world's first finger-stick based CLIA-certified lab through retail RX

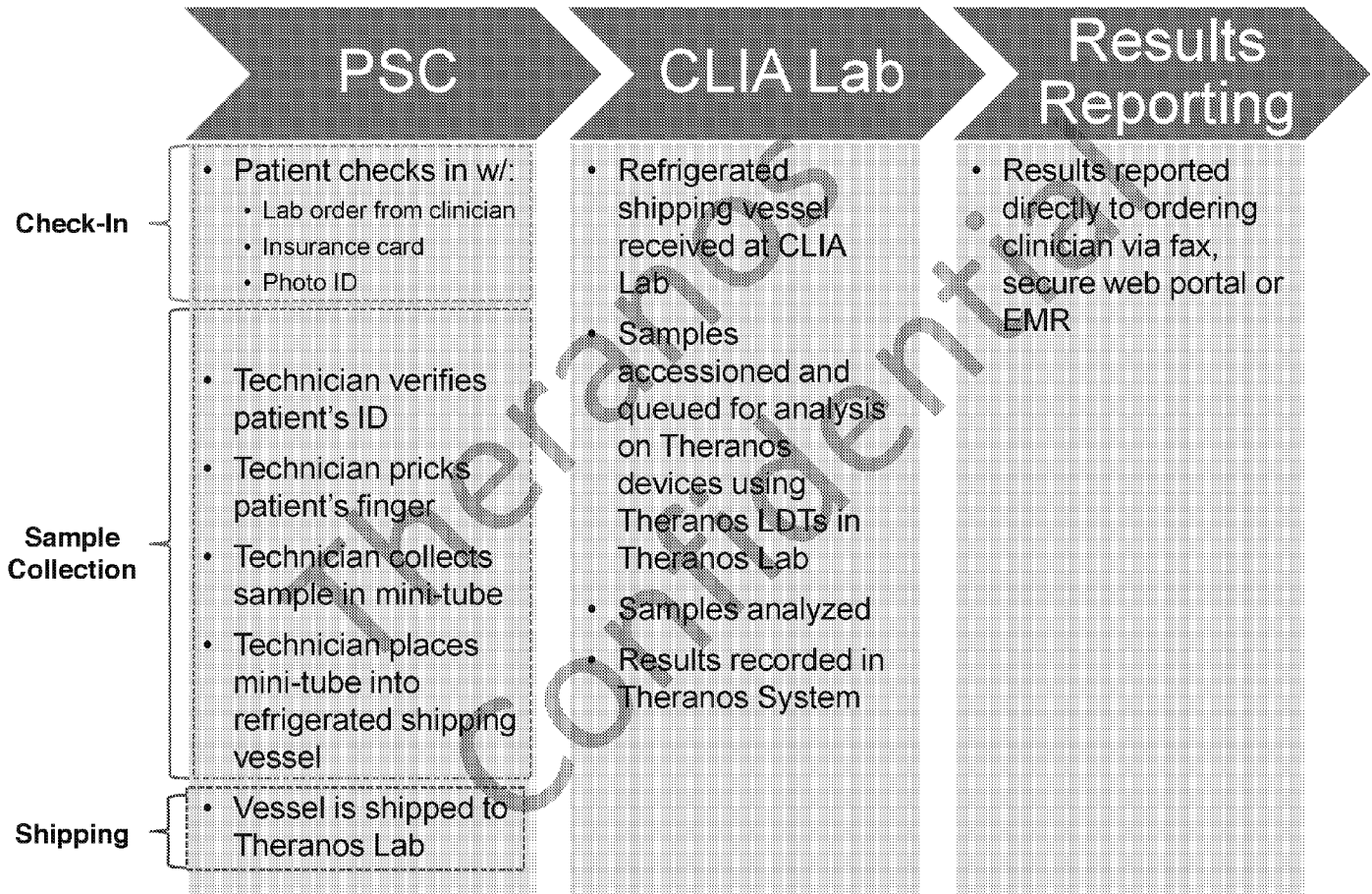
- 99.9% less blood
- State of the art result turnaround: 4-24 hours
- Nation's lowest cost and highest quality laboratory provider

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Project Normandy: Process

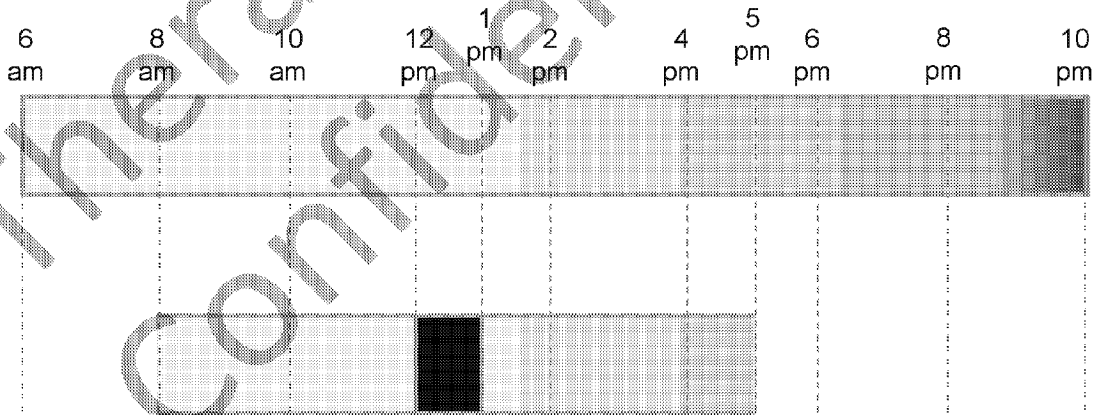




Typical hours of operation for patient service centers

Theranos patient service centers are open 100% longer than traditional lab providers today, providing:

- More convenient access to lab services for patients
- Significant reduction in lost patient work hours





Project Normandy: Faster Scalability at WAG

Scalability

- Smaller space requirements at retail
- Faster deployment
- Lower initial cost of deployment for WAG
- Lower Training requirements for technicians

- Stage 1 : Deploy CA, IL + select states
- Stage 2: Add 5 more states and 20-30 MSAs
- Stage 3: National Rollouts

- Distributed laboratories in all MSAs and States



Theranos-Walgreens Opportunity

- Disrupting the Cost Paradigm
 - At 50% off of current Medicare reimbursement rates, Theranos-WAG will be less than $\frac{1}{2}$ the cost of Quest and Lab Corp for Medicare, Medicaid and the majority of private payors.
 - We will be $\frac{1}{4}$ the cost of hospital-based outpatient labs for private payors.

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Theranos-Walgreens Opportunity

At 50% of Medicare, Theranos-WAG Market Opportunity:

Revenue Opportunity

2012	\$17B
2013	\$18B
2014	\$21B
2015	\$22B
2016	\$23B
2017	\$24B
2018	\$26B



Cost Savings Analysis Summary

Medicare

California Medicaid (Medi-Cal)

Illinois Medicaid

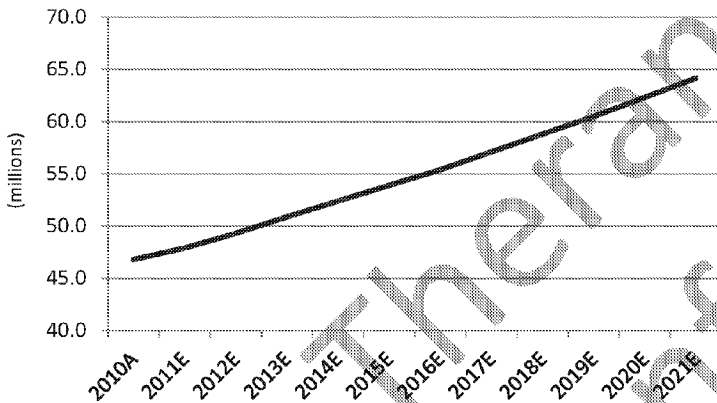
Pennsylvania Medicaid

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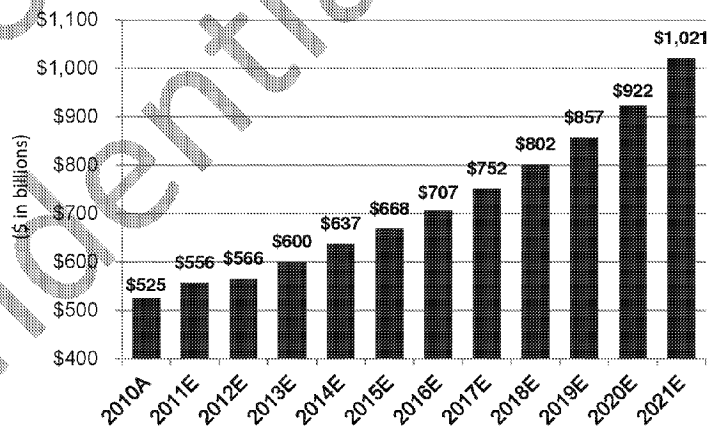


Medicare Cost Savings Analysis

Estimated Medicare Enrollment



Estimated Medicare Total Expenditures

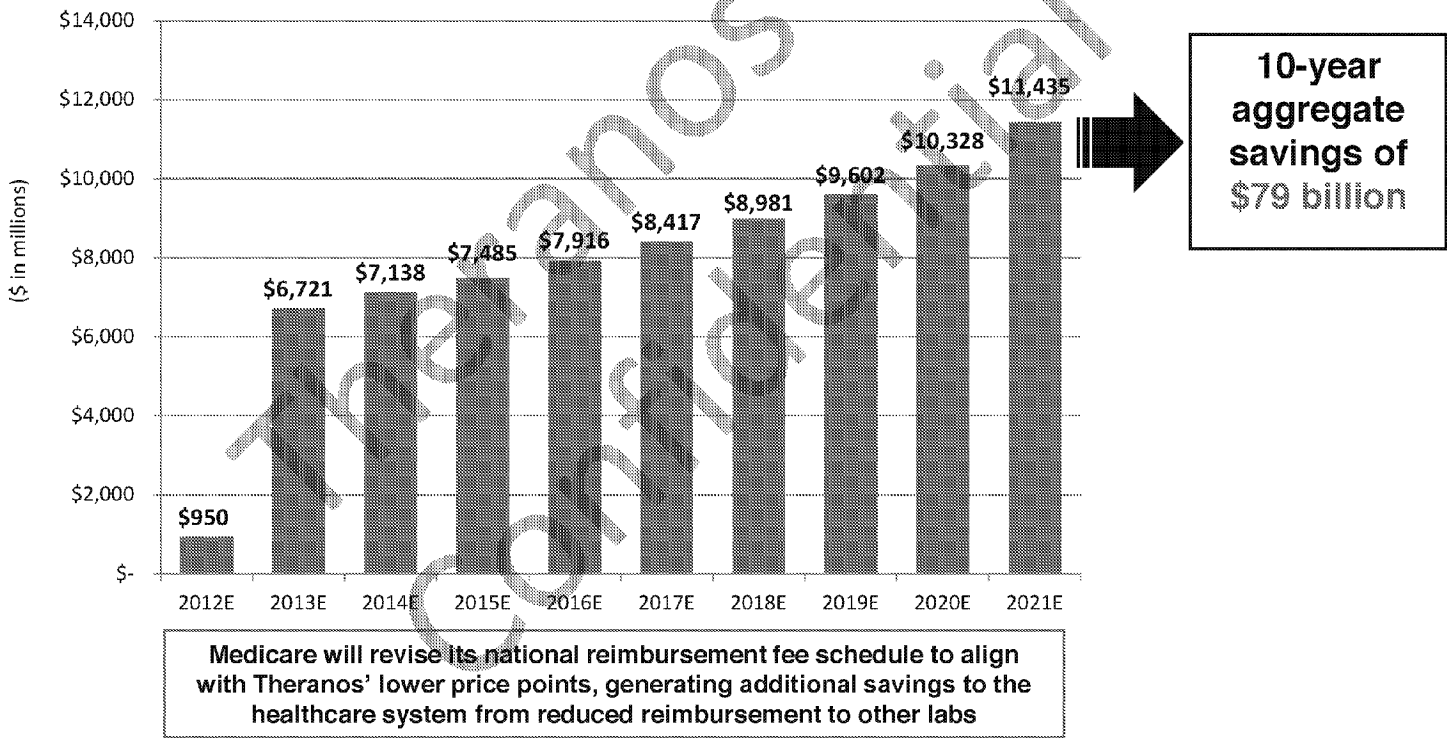


Source: CMS National Health Expenditure Projections 2010-2020



Theranos Impact on Lab-Testing Costs

Estimated Direct Out-of-Pocket Cost Savings for Medicare





Cost Savings Analysis Summary

Medicare

California Medicaid (Medi-Cal)

Illinois Medicaid

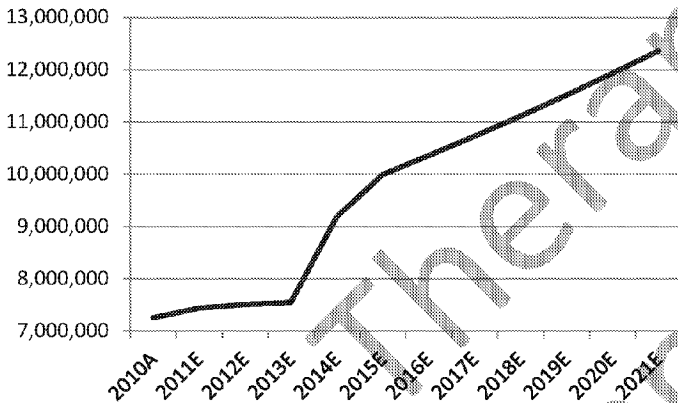
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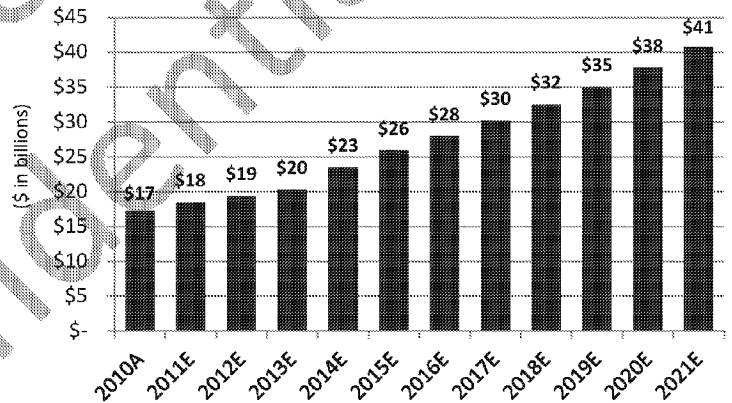


Medi-Cal Cost Savings Analysis

Est. Medi-Cal Enrollment



Est. Medi-Cal Total Expenditures



Source: CMS.gov & Medi-Cal.ca.gov

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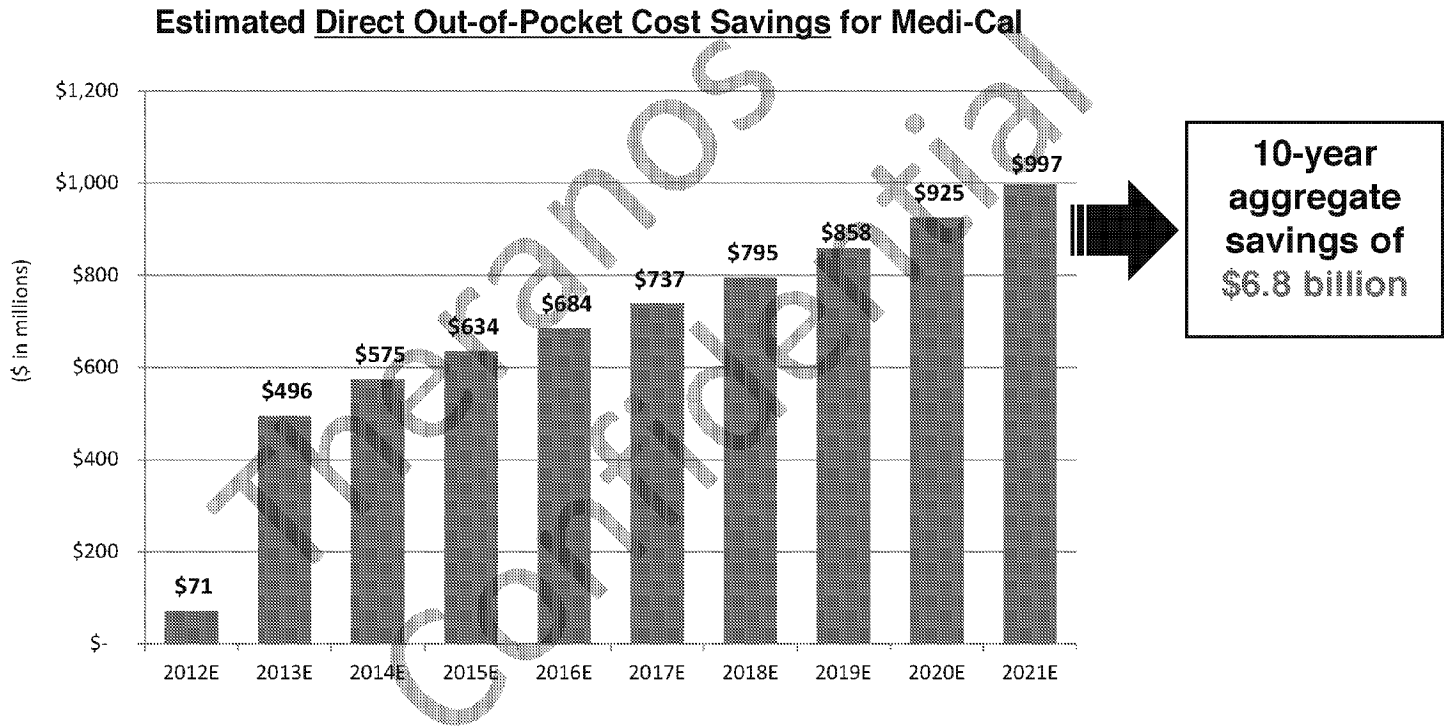
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Theranos Impact on Lab-Testing Costs





Federal Government Direct Savings

In addition to state level savings, the federal government will recognize significant cost savings on their increased share of new Medi-Cal costs after 2014

2014-2019 State and Federal Medi-Cal Spending Increase over Baseline

(\$ in millions)	State	Federal	Total	% Federal
Standard Participation Scenario	\$2,982	\$44,694	\$47,676	94%
Savings from Theranos	\$46	\$684	\$730	
Enhanced Outreach Scenario	\$6,544	\$54,936	\$61,480	89%
Savings from Theranos	\$100	\$841	\$941	

- Baseline Scenario: Assumes expenditures if reform had not been enacted
- Standard Participation Scenario: Assumes 57% participation among the newly eligible uninsured and lower participation across other coverage groups
- Enhanced Outreach Scenario: Assumes 75% participation among the newly eligible that are currently uninsured and higher participation among those currently eligible for coverage than in the standard scenario

Source: Kaiser Commission on Medicaid and the Uninsured



Cost Savings Analysis Summary

Medicare

California Medicaid (Medi-Cal)

Illinois Medicaid

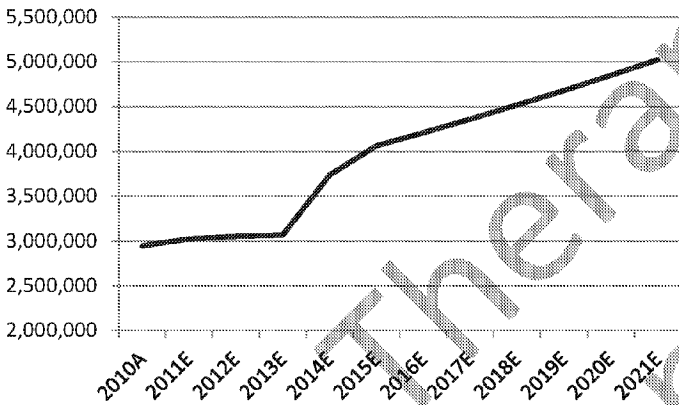
Pennsylvania Medicaid

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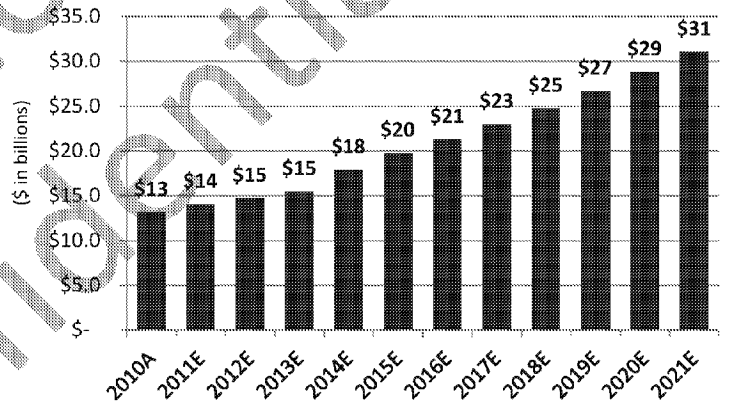


Illinois Medicaid Cost Savings Analysis

Est. Illinois Medicaid Enrollment



Est. Illinois Medicaid Total Expenditures

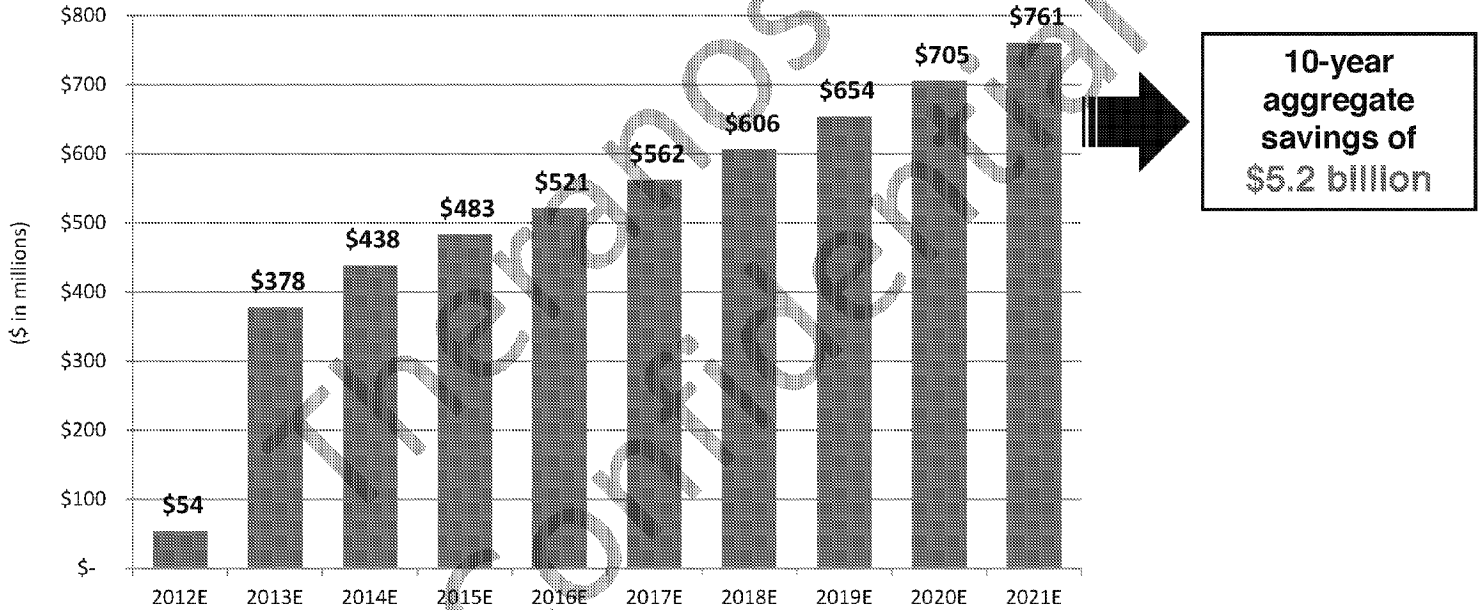


Source: Kaiser, CMS.gov and Theranos estimates



Theranos Impact on Lab-Testing Costs

Estimated Direct out-of-pocket Cost Savings for Illinois Medicaid





Additional Federal Government Direct Savings

In addition to state level savings, the federal government will recognize significant cost savings on their increased share of new Illinois Medicaid costs after 2014

2014-2019 Illinois State and Federal Medicaid Spending Increase over Baseline

(\$ in millions)	IL State	Federal	Total	% Federal
Standard Participation Scenario	\$1,202	\$19,259	\$20,461	94%
Savings from Theranos	\$29	\$472	\$501	
Enhanced Outreach Scenario	\$2,468	\$22,109	\$24,577	90%
Savings from Theranos	\$60	\$542	\$602	

- Baseline Scenario: Assumes expenditures if reform had not been enacted
- Standard Participation Scenario: Assumes 57% participation among the newly eligible uninsured and lower participation across other coverage groups
- Enhanced Outreach Scenario: Assumes 75% participation among the newly eligible that are currently uninsured and higher participation among those currently eligible for coverage than in the standard scenario

Source: Kaiser Commission on Medicaid and the Uninsured



Cost Savings Analysis Summary

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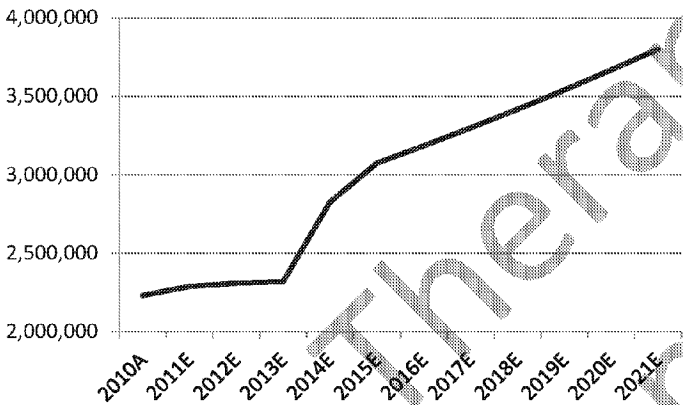
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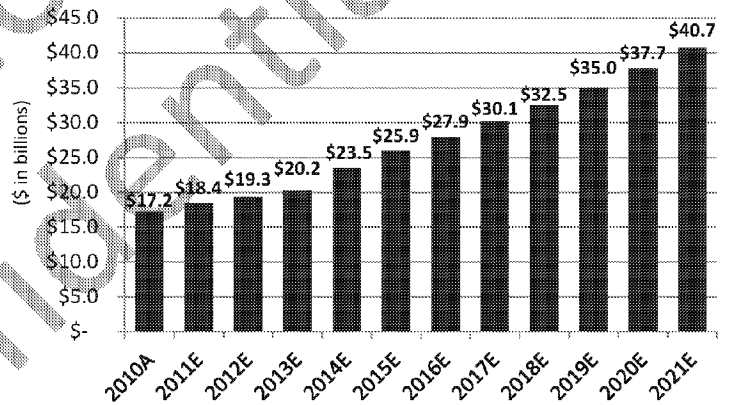


Pennsylvania Medicaid Cost Savings Analysis

Est. PA Medicaid Enrollment



Est. PA Medicaid Total Expenditures



Source: CMS.gov and Theranos estimates

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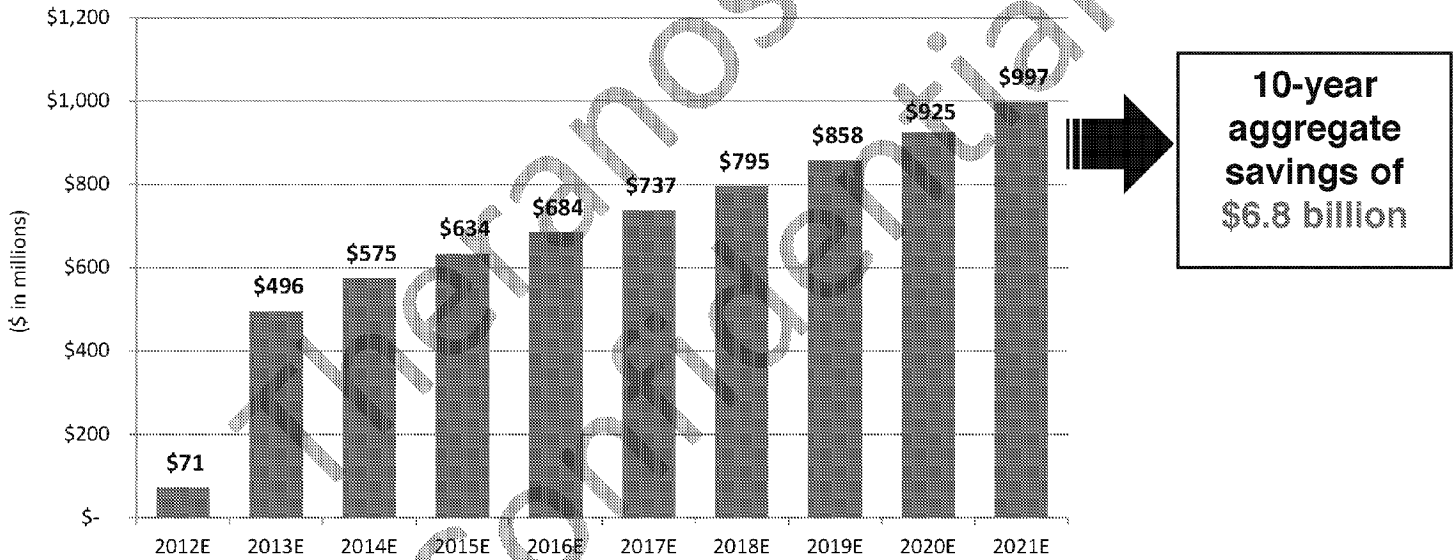
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Theranos Impact on Lab-Testing Costs

Estimated Direct out-of-pocket Cost Savings for PA Medicaid





Project Normandy: Theranos' finger-stick based laboratory

- Profitability
- No regulatory risk
- Massive new revenue base
- New, leading presence in critical healthcare space
- Further increase the value of WAG pharmacies and lead in establishing the pharmacy of the 21st century:
 - MTM, services, counseling, specialty pharmacy, companion diagnostics
 - Gain pull-through traffic for other services and products
- New growth driver for employer business
 - Lowest cost, highest quality testing from a finger-stick



One Disruption at a time

- First Launch – 2012:
 - Project Normandy at WAG
 - First finger-stick based CLIA certified national lab at retail Rx

- Second Launch – Early to Mid 2013
 - Project D-Day
 - Results available in 30 minutes or less!
 - Ship Theranos Minilabs to WAG stores
 - 1600 24 hour locations nationally(?)

- Third Launch – 2014+
 - Theranos Minilabs in all WAG Stores (as appropriate)



Moving Forward

Option A:

- Sign Agreement by end of March
- Initiate IT & systems integration by April 1
- Rapid pilot in ~30 stores in CA by June
- CA & IL deployment complete by end of Q3 2012: >95% of stores
- 30+ MSAs + 5+ select states by end of 2012
- Fully deployed nationally by H1 2013

- Terms similar to existing Agreement:
 - WAG exclusivity for 6 months
 - WAG-only retail RX Normandy launch and announcement
 - Best pricing guarantee
 - Announcement rights on tests
 - Theranos brings payor contracts
 - Upfront pre-purchase payment to Theranos

Other Options to be discussed