

Message

From: Sunny Balwani [/O=THERANOS ORGANIZATION/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=SBALWANI]
Sent: 5/11/2010 11:23:54 PM
To: Brad Wolfsen [brad.wolfsen@safeway.com]
CC: Ken Shachmut [ken.shachmut@safewayhealth.com]; Elizabeth Holmes [eholmes@theranos.com]
Subject: Updated Projections for Blackhawk network

Brad.

Hope all is well.

We spoke with Robert earlier this morning and promised to send this document out to you today.

We took your financial model based on Safeway's projections and added 3 more rows to the "Retail Rx" tab. We multiplied your projections (unmodified) by the number of grocery outlets in the Blackhawk network you gave us. We also assumed that it may take up to 2012 (Year 2) before we are fully deployed in the Blackhawk network pharmacies.

Please do let us know if you have any comments or questions on this.

Look forward to our next meeting.

Regards,
Sunny Balwani

Pharmacy Counts
US Grocery Retailers

Chain	Count
Kroger	1,967
Safeway	1,300
SuperValu	898
Publix	792
Ahold	700
Delhaize	259
A&P	253
Albertsons	237
Giant Eagle	210
Hy-Vee	199
Harris Teeter	123
Weis Markets	118
Save Mart	115
Schnucks	103
Wegmans	73
Price Chopper	63
TOTAL	7,410

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Retail Assumptions-SWY

	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Number of SWY RX's		1,130	1,130	1,130	1,130	1,130
Labor \$'s per screening		\$ 3.00	\$ 3.50	\$ 4.00	\$ 4.50	\$ 4.50
Ave screenings per visit		1.0	1.0	1.0	1.0	1.0
Increased Hours In RX/week		-	-	-	-	-
Liability Insurance		0.03%	0.03%	0.03%	0.03%	0.03%
Capital per store	\$ 1,666.67					
Training Hours per employee		1	1	1	1	1
Number of RPH's Trained		3,000	150	150	150	150
Number of Tech's Trained		4,000	400	400	400	400
\$ for Hepatitis Series Shots		\$ 210	\$ 210	\$ 210	\$ 210	\$ 210
Ave TEC/RPH		\$ 80.00	\$ 82.40	\$ 84.87	\$ 87.42	\$ 90.04
Ave TEC/Tech		\$ 20.00	\$ 20.60	\$ 21.22	\$ 21.85	\$ 22.51
Marketing for Screenings	\$ 2,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Bad Debt %		8.0%	8.0%	8.0%	8.0%	8.0%
# Physician Sales Force		-	-	-	-	-
Annual salary for sales force		\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000
CLIA Licenses		\$ 606,311	\$ 606,311	\$ 606,311	\$ 606,311	\$ 606,311
Admin for CLIA & OSHA compliance		9.0	9.0	9.0	9.0	9.0

- * Assumes we ramp up to a 10% share on Gen Chem and new tests
- * Assumes we ramp up to a 15% on Predictive tests
- * Assumes each customer has 1 tests each visit
- * Assumes we train all RX employees and not just RPH's
- * Assumes all techs have to get 3 dose Hepatitis series in order to draw blood
- * Assumes we employ 0 Physician Sales force
- * Assumes we get \$22 for each Gen Chem test
- * Assumes we get \$100 for each Predictive Test
- * Assumes that each test takes as much time as it does to fill 1 prescription.
- However Theranos estimates a screening is only 5 minutes and IE estimates a script take 9 minutes to fill**
- * Average screening per visit metric is used to calculate the incremental labor for each screening
- * Capital per store comes from estimate for Norcal test
- * Bad Debt expense is an approximation based on our estimate of the expense incurred by the labs
- * Liability Insurance is an estimate from risk management based on what we incur in our RX business
- * RX team believes 1 admin for CLIA & OSHA is necessary per division
- * CLIA estimate fee per year comes from RX team analysis
- * Labor \$'s per screening is modeled out using existing RX script counts and the RX labor model
- * Marketing for Screenings is based on a high-level estimate from the RX team based on similar advertising than our flu program

	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
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Income from Blood Screenings-Gen Chem

Number of screenings		1,437,695	4,792,316	6,709,243	7,667,706	9,584,633
ASP	\$	22.00	\$ 22.00	\$ 22.00	\$ 22.00	\$ 22.00
Cost/screen	\$	14.00	\$ 13.30	\$ 12.64	\$ 12.00	\$ 12.00
Sales	\$	31,629,289	\$ 105,430,963	\$ 147,603,348	\$ 168,689,540	\$ 210,861,925
Cost of Screening	\$	20,127,729	\$ 63,737,809	\$ 84,771,286	\$ 92,037,396	\$ 115,046,746
Bad Debt	\$	(2,530,343)	\$ (8,434,477)	\$ (11,808,268)	\$ (13,495,163)	\$ (16,868,954)
GM	\$	8,971,216	\$ 33,258,676	\$ 51,023,794	\$ 63,156,980	\$ 78,946,226
TEC	\$	(4,313,085)	\$ (16,773,108)	\$ (26,836,972)	\$ (34,504,679)	\$ (43,130,848)
Screening Contribution Margin	\$	4,658,132	\$ 16,485,569	\$ 24,186,821	\$ 28,652,302	\$ 35,815,377

Income from Blood Screenings-New Tests

Number of screenings		498,523	2,846,538	3,985,153	4,554,460	5,693,075
ASP	\$	66.18	\$ 53.31	\$ 53.31	\$ 53.31	\$ 53.31
Cost/screen	\$	46.47	\$ 36.28	\$ 34.47	\$ 32.74	\$ 32.74
Sales	\$	32,994,182	\$ 151,738,394	\$ 212,433,752	\$ 242,781,431	\$ 303,476,788
Cost of Screening	\$	23,167,058	\$ 103,272,211	\$ 137,352,040	\$ 149,125,072	\$ 186,406,340
Bad Debt	\$	(2,639,535)	\$ (12,139,072)	\$ (16,994,700)	\$ (19,422,514)	\$ (24,278,143)
GM	\$	7,187,589	\$ 36,327,112	\$ 58,087,012	\$ 74,233,844	\$ 92,792,305
TEC	\$	(1,495,570)	\$ (9,962,882)	\$ (15,940,611)	\$ (20,495,072)	\$ (25,618,840)
Screening Contribution Margin	\$	5,692,019	\$ 26,364,230	\$ 42,146,400	\$ 53,738,773	\$ 67,173,466

Income from Blood Screenings-Cancer Tests

Number of screenings		-	1,634,149	3,268,298	3,921,958	4,902,447
ASP	#DIV/0!	\$	100.00	\$ 100.00	\$ 100.00	\$ 100.00
Cost/screen	#DIV/0!	\$	70.00	\$ 66.50	\$ 63.18	\$ 63.18
Sales	\$	-	\$ 163,414,906	\$ 326,829,812	\$ 392,195,775	\$ 490,244,718
Cost of Screening	\$	0	\$ 114,390,434	\$ 217,341,825	\$ 247,769,681	\$ 309,712,101
Bad Debt	\$	-	\$ (13,073,192)	\$ (26,146,385)	\$ (31,375,662)	\$ (39,219,577)
GM	\$	-	\$ 35,951,279	\$ 83,341,602	\$ 113,050,432	\$ 141,313,040
TEC	\$	-	\$ (5,719,522)	\$ (13,073,192)	\$ (17,648,810)	\$ (22,061,012)
Screening Contribution Margin	\$	-	\$ 30,231,758	\$ 70,268,410	\$ 95,401,622	\$ 119,252,028

Income from Blood Screenings-Total

Number of screenings		1,936,218	9,273,003	13,962,694	16,144,124	20,180,156
ASP	\$	33	\$ 45	\$ 49	\$ 50	\$ 50
Cost/screen	\$	22	\$ 30	\$ 31	\$ 30	\$ 30
Sales	\$	64,623,471	\$ 420,584,263	\$ 686,866,912	\$ 803,666,746	\$ 1,004,583,432
Cost of Screening	\$	43,294,787	\$ 281,400,454	\$ 439,465,151	\$ 488,932,149	\$ 611,165,187
Bad Debt	\$	(5,169,878)	\$ (33,646,741)	\$ (54,949,353)	\$ (64,293,340)	\$ (80,366,675)
GM	\$	16,158,806	\$ 105,537,068	\$ 192,452,407	\$ 250,441,257	\$ 313,051,571
TEC	\$	(5,808,655)	\$ (32,455,511)	\$ (55,850,776)	\$ (72,648,560)	\$ (90,810,700)
Screening Contribution Margin	\$	10,350,151	\$ 73,081,556	\$ 136,601,631	\$ 177,792,697	\$ 222,240,871

Costs

Training	\$	(320,000)	\$ (20,600)	\$ (21,218)	\$ (21,855)	\$ (22,510)
Hepatitis shots for Tech's	\$	(840,000)	\$ (84,000)	\$ (84,000)	\$ (84,000)	\$ (84,000)
Screening Marketing	\$ (2,000,000)	\$ (1,000,000)	\$ (1,000,000)	\$ (1,000,000)	\$ (1,000,000)	\$ (1,000,000)
Liability Insurance	\$	(20,680)	\$ (134,587)	\$ (219,797)	\$ (257,173)	\$ (321,467)
Capital Costs	\$ (1,883,333)					
Sales Force	\$	-	\$ -	\$ -	\$ -	\$ -
CLIA & OSHA admin	\$	(374,400)	\$ (385,632)	\$ (397,201)	\$ (409,117)	\$ (421,390)
CLIA Certification	\$	(606,311)	\$ (606,311)	\$ (606,311)	\$ (606,311)	\$ (606,311)

Total Costs	\$	(3,883,333)	\$ (3,161,391)	\$ (2,231,130)	\$ (2,328,527)	\$ (2,378,456)
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Net Contribution Margin	\$	(3,883,333)	\$ 7,188,760	\$ 70,850,426	\$ 134,273,104	\$ 175,414,241	\$ 219,785,192
As a % of safeway's net contribution margin			100%	37%	41%	45%	45%

Blackhawk Network Analysis

	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
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Approximate # of Blackhawk Network locations offering Therasos Tests	-	6,100	6,100	6,100	6,100	6,100
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Total Tests-SWY

	Total Market per Theranos	Total Market per SWY	Est. SWY Market	yr 1	yr 2	yr 3	yr 4	yr 5	Year 1 Share	Year 5 Share
			24.0%							
General Chem*	500,000,000	400,000,000	95,846,330	3.49	11.62	16.27	18.59	23.24	1.5%	10.0%
Diabetes/Obesity**	200,000,000	74,625,454	17,881,440	0.65	2.17	3.03	3.47	4.34	1.5%	10.0%
Cardiovascular risk**	100,000,000	51,866,402	12,428,011	-	1.51	2.11	2.41	3.01	0.0%	10.0%
Flu**	60,000,000	32,471,942	7,780,791	0.28	0.94	1.32	1.51	1.89	1.5%	10.0%
inFertility test**	3,000,000	8,400,000	2,012,773	0.07	0.24	0.34	0.39	0.49	1.5%	10.0%
Prenatal and during pregnancy**	16,800,000	10,853,376	2,600,641	0.09	0.32	0.44	0.50	0.63	1.5%	10.0%
Pregnancy**	70,000,000	12,350,000	2,959,255	0.11	0.36	0.50	0.57	0.72	1.5%	10.0%
STDs**	80,000,000	47,024,625	11,267,844	-	1.37	1.91	2.19	2.73	0.0%	10.0%
Br Cancer***	140,000,000	30,396,141	7,283,396	-	0.88	1.77	2.12	2.65	0.0%	15.0%
Ovarian Cancer***	140,000,000	43,808,356	10,497,175	-	1.27	2.55	3.05	3.82	0.0%	15.0%
Prostate Cancer***	130,000,000	24,691,787	5,916,543	-	0.72	1.43	1.72	2.15	0.0%	15.0%
Colorectal Cancer***	50,000,000	37,501,141	8,985,867	-	1.09	2.18	2.61	3.27	0.0%	15.0%
TOTAL	1,489,800,000	773,989,223	185,460,065	5	22	34	39	49	1.0%	10.9%
Gen Chem*	500,000,000	400,000,000	95,846,330	3	12	16	19	23	1.5%	10.0%
New tests**	529,800,000	237,591,799	56,930,755	1	7	10	11	14	0.9%	10.0%
Cancer Tests***	460,000,000	136,397,424	32,682,981	-	4	8	10	12	0.0%	15.0%

Cost/test

	Total Market per Theranos	Total Market per SWY	Est. SWY Market	yr 1	yr 2	yr 3	yr 4	yr 5
General Chem*	500,000,000	400,000,000	95,846,330	\$ 14	\$ 13	\$ 13	\$ 12	\$ 12
Diabetes/Obesity**	200,000,000	74,625,454	17,881,440	\$ 30	\$ 29	\$ 27	\$ 26	\$ 26
Cardiovascular risk**	100,000,000	51,866,402	12,428,011	\$ 30	\$ 30	\$ 29	\$ 27	\$ 27
Flu**	60,000,000	32,471,942	7,780,791	\$ 14	\$ 13	\$ 13	\$ 12	\$ 12
inFertility test**	3,000,000	8,400,000	2,012,773	\$ 200	\$ 190	\$ 181	\$ 171	\$ 171
Prenatal and during pregnancy**	16,800,000	10,853,376	2,600,641	\$ 175	\$ 166	\$ 158	\$ 150	\$ 150
Pregnancy**	70,000,000	12,350,000	2,959,255	\$ 14	\$ 13	\$ 13	\$ 12	\$ 12
STDs**	80,000,000	47,024,625	11,267,844	\$ 20	\$ 20	\$ 19	\$ 18	\$ 18
Br Cancer***	140,000,000	30,396,141	7,283,396	\$ 70	\$ 70	\$ 67	\$ 63	\$ 63
Ovarian Cancer***	140,000,000	43,808,356	10,497,175	\$ 70	\$ 70	\$ 67	\$ 63	\$ 63
Prostate Cancer***	130,000,000	24,691,787	5,916,543	\$ 70	\$ 70	\$ 67	\$ 63	\$ 63
Colorectal Cancer***	50,000,000	37,501,141	8,985,867	\$ 70	\$ 70	\$ 67	\$ 63	\$ 63
TOTAL	1,489,800,000	773,989,223	185,460,065	\$ 22	\$ 30	\$ 31	\$ 30	\$ 30
Gen Chem*	500,000,000	400,000,000	95,846,330	14	13	13	12	12
New tests**	529,800,000	237,591,799	56,930,755	46	36	34	33	33
Cancer Tests***	460,000,000	136,397,424	32,682,981	-	70	67	63	63

Price/test

	Total Market per Theranos	Total Market per SWY	Est. SWY Market	yr 1	yr 2	yr 3	yr 4	yr 5
General Chem*	500,000,000	400,000,000	95,846,330	\$ 22	\$ 22	\$ 22	\$ 22	\$ 22
Diabetes/Obesity**	200,000,000	74,625,454	17,881,440	\$ 40	\$ 40	\$ 40	\$ 40	\$ 40
Cardiovascular risk**	100,000,000	51,866,402	12,428,011	\$ 40	\$ 40	\$ 40	\$ 40	\$ 40
Flu**	60,000,000	32,471,942	7,780,791	\$ 22	\$ 22	\$ 22	\$ 22	\$ 22
inFertility test**	3,000,000	8,400,000	2,012,773	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300
Prenatal and during pregnancy**	16,800,000	10,853,376	2,600,641	\$ 250	\$ 250	\$ 250	\$ 250	\$ 250
Pregnancy**	70,000,000	12,350,000	2,959,255	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20
STDs**	80,000,000	47,024,625	11,267,844	\$ 30	\$ 30	\$ 30	\$ 30	\$ 30
Br Cancer***	140,000,000	30,396,141	7,283,396	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100
Ovarian Cancer***	140,000,000	43,808,356	10,497,175	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100
Prostate Cancer***	130,000,000	24,691,787	5,916,543	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100
Colorectal Cancer***	50,000,000	37,501,141	8,985,867	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100
TOTAL	1,489,800,000	773,989,223	185,460,065	\$ 33	\$ 45	\$ 49	\$ 50	\$ 50
Gen Chem*	500,000,000	400,000,000	95,846,330	22	22	22	22	22
New tests**	529,800,000	237,591,799	56,930,755	66	53	53	53	53
Cancer Tests***	460,000,000	136,397,424	32,682,981	-	100	100	100	100

Market Share Assumptions

	Total Market per Theranos	Total Market per SWY	Est. SWY Market	yr 1	yr 2	yr 3	yr 4	yr 5
General Chem*	500,000,000	400,000,000	95,846,330	1.50%	5.00%	7.00%	8.00%	10.00%
Diabetes/Obesity**	200,000,000	74,625,454	17,881,440	1.50%	5.00%	7.00%	8.00%	10.00%
Cardiovascular risk**	100,000,000	51,866,402	12,428,011	0.00%	5.00%	7.00%	8.00%	10.00%
Flu**	60,000,000	32,471,942	7,780,791	1.50%	5.00%	7.00%	8.00%	10.00%
inFertility test**	3,000,000	8,400,000	2,012,773	1.50%	5.00%	7.00%	8.00%	10.00%
Prenatal and during pregnancy**	16,800,000	10,853,376	2,600,641	1.50%	5.00%	7.00%	8.00%	10.00%
Pregnancy**	70,000,000	12,350,000	2,959,255	1.50%	5.00%	7.00%	8.00%	10.00%
STDs**	80,000,000	47,024,625	11,267,844	0.00%	5.00%	7.00%	8.00%	10.00%
Br Cancer***	140,000,000	30,396,141	7,283,396	0.00%	5.00%	10.00%	12.00%	15.00%
Ovarian Cancer***	140,000,000	43,808,356	10,497,175	0.00%	5.00%	10.00%	12.00%	15.00%
Prostate Cancer***	130,000,000	24,691,787	5,916,543	0.00%	5.00%	10.00%	12.00%	15.00%
Colorectal Cancer***	50,000,000	37,501,141	8,985,867	0.00%	5.00%	10.00%	12.00%	15.00%
TOTAL	1,489,800,000	773,989,223	185,460,065	1.04%	5.00%	7.53%	8.70%	10.88%