

**To:** Brian Grossman[Brian@pfmlp.com]  
**Cc:** Chris James[cj@pfmlp.com]; Elizabeth Holmes[eholmes@theranos.com]  
**From:** Sunny Balwani  
**Sent:** Tue 1/7/2014 8:45:05 PM  
**Importance:** Normal  
**Subject:** RE: Due Diligence Questions  
**Received:** Tue 1/7/2014 8:45:06 PM

Brian. We are confirmed for Friday at 9am. see you then.

Regards,  
Sunny.

---

**From:** Brian Grossman [mailto:Brian@pfmlp.com]  
**Sent:** Tuesday, January 07, 2014 7:13 AM  
**To:** Sunny Balwani  
**Cc:** Chris James; Elizabeth Holmes  
**Subject:** RE: Due Diligence Questions

Sunny

Thanks for the quick reply. We will take you up on the Friday slot.

Regards

Brian

---

**From:** Sunny Balwani [mailto:sbalwani@theranos.com]  
**Sent:** Monday, January 06, 2014 5:51 PM  
**To:** Brian Grossman  
**Cc:** Chris James; Elizabeth Holmes  
**Subject:** RE: Due Diligence Questions

Brian:

Thanks for the note.

We are available this Wednesday from 1-5pm or on Friday from 9am to 1pm at our office. We can cover all of your questions in detail.

Please let us know if either of these times work for you.

We look forward to our meeting.

Best regards,  
Sunny.

---

**From:** Brian Grossman [mailto:Brian@pfmlp.com]  
**Sent:** Monday, January 06, 2014 1:45 PM  
**To:** Elizabeth Holmes; Sunny Balwani  
**Cc:** Chris James  
**Subject:** Due Diligence Questions

Elizabeth and Sunny

I hope you both had an enjoyable finish to what was obviously tremendously successful year for the company. Chris and I and the rest of the team at PFM are looking forward to engaging more deeply with the Theranos story. It's exciting to come across such a transformative and disruptive healthcare business. Below is our list of due diligence questions. We were hoping to start the process as soon as possible. We have availability this week if that works for you.

Regards

Brian

Deal Team

Brian Grossman – Portfolio Manager/Head of Healthcare Team  
Alex Rabodzey – Biotech/Diagnostics  
Vivek Khanna – Healthcare Services  
Sri Balasuryan – Analyst

Outline

1. Technology
2. Intellectual Property and Barriers to Entry
3. Walgreen's Partnership and Commercial Strategy
4. Hospital Market
5. Reimbursement
6. Regulatory
7. Financial Model/Projections

#### 1. Technology

- How does your accuracy and speed stack up against traditional tests
- What are the key tests from a commercial standpoint and how does accuracy and speed compare specifically on those.
- Can you analyze samples at POC (Walgreens) or will it need to go to a CLIA facility?
- What are the limitations to the technology? What tests are not feasible? Are there traditional analytic approaches that are not well suited to Theranos platform?
- What is the process for adding a new test to the menu? How long does this take?
- What does the pipeline of new tests look like, how do they see their total validated testing menu expanding, and over what timeframe?
- How many tests can you run in parallel?

#### 2. Intellectual Property and Barriers to Entry

- Basic understanding of key patents?
- Can you block others from doing the same thing?
- Is there prior art that allows others freedom to operate?
- Do they expect competition to emerge in the near term and if so how do they plan on responding from a legal standpoint?
- How does the database aspect of the business model create competitive barriers. Does it facilitate commercial uptake?

#### 3. Walgreen's Relationship and Commercial Strategy

- Is the Walgreen's relationship exclusive? Can you sell analyzers to physicians? Does it make economic sense to do this in the long run?
- What are the technical limitations for the existing analyzer that will be rolled out as part of the Walgreen's strategy.

- What does the Walgreens system cost to produce, how will that change over time, and what is the transfer pricing you have agreed to?
- How does validation process work as you roll this out. Do analyzers need to be validated in the field. How do variance rates compare to Quest/Labcorp
- Pricing comparison Quest/Labcorp vs Theranos.
- Test menu Quest/Labcorp vs Theranos. are their important missing tests?
- What is the rollout schedule for Walgreens?
- What have you learned from the early experience in Palo Alto, Phoenix?
- What are the major barriers to adoption in the physician market?
- Based on early experience what is their sense of test/center/day? how do they see this changing over time?
- Explain the workflow dynamics from the perspective of the physician? How easily can they incorporate Walgreens into their typical workflow. How do u see this changing over time? Is the experience so far driven by a few early adopters or is this being broadly used by physician groups in the areas? How is this different from the current diagnostic process in the participating physician groups prior to WAG.
- What is the cap X from the Walgreen's rollout. What is the investment on the Theranos side? What is the Walgreens investment?
- How many tests do you need to run through one Walgreens system to make it profitable for Walgreens to keep this system, when accounting for the cost of personnel?
- How many tests do you need to run for you to turn profit on the system when accounting for the cost of the system itself?
- Do you expect profitability to vary depending on the proximity of hospitals, Quest or LabCorp facilities, etc?
- What are the main drivers of system profitability? I.e. which tests have the largest volume and margin? What % of profit will these tests account for?
- What is the economic incentive for physicians to use your services?
- what is the strategy for converting physician groups?
- Do physicians that are currently using Labcorp or Quest suffer economic loss if they switch part of their volume to you
- how do they plan to target hospital owned physicians? Are the incentives to use Theranos/Walgreens in this growing segment of the market different from standalone physician groups?
- Will Theranos add a salesforce for calling on physician market?
- Will you leverage the alliance boots relationship for a European roll out?

#### 4. Hospital Market

- This is actually the bigger market (according to data we have at \$44B in US out of total \$72B market)
- How and when do you plan to approach providers?
- Strategy for penetrating the hospital market?

#### 5. Reimbursement

- What is your Medicare reimbursement status for the current menu of tests offered?
- What is the timing and process for adding additional tests for Medicare reimbursement?
- What is current status of commercial contracting and how do you get payor to direct volumes to Theranos?
- How long does it take to get commercial payers to adopt the Theranos as an alternative to Quest/Labcorp? What is the typical sales cycle for this?
- What is the longer term reimbursement strategy with commercial payors?
- What is the software interface that physicians use in order to submit claims and check for insurance eligibility? How does this tie into the existing clinical and billing systems used? Can they hook into EMR's from epic, cerner, allscripts and quality systems?

#### 6. Regulatory

- What are the limitations on the system from the regulatory standpoint?

- Do you need FDA clearance on any tests in order to offer them?
- What are the regulatory barriers that potentially impinge on POC testing?

#### 7. Financial Model/Projections

- What is the cost of the Walgreen's rollout. how are costs shared?
- What is the current cost of a Walgreen's analyzer, how will that change over time?
- What are the other significant operating costs and how will they change over time?
- Does Walgreen's have minimum purchase commitments?
- What is the sales and marketing spend for Theranos overall look like going forward.
- What are GM on the analyzers, the tests?
- What is the Long term target business model look like?
- What is current cash balance, burn, and thoughts around future financing? When and at what valuation were previous financings completed?