

To: Elizabeth Holmes[eholmes@theranos.com]; Sunny Balwani[sbalwani@theranos.com]
From: Danise Yam
Sent: Tue 4/7/2015 2:22:00 AM
Subject: FW: Theranos: 409A valuation analysis - March 25, 2015 valuation date
 Theranos 409A March2015 Final revised.xlsm
 Theranos 409A Report March25 2015 Confidential Certified.pdf

Hi Elizabeth/Sunny,

Attached please find the latest 409A report. The value goes up to \$1.56 (from \$1.44 in December) due to the latest funding in Feb and March 2015. The projection is the same as the December model.

I am asking Aranca to make some minor changes to the final report but it should be substantially similar to the one attached.

Please let me know if you have any questions or comments.

Thanks,
 Danise

From: Arun Mantena [mailto:arun.mantena@aranca.com]
Sent: Monday, April 06, 2015 10:22 AM
To: Danise Yam
Cc: manish.goyal@aranca.com; "Bharat Ramnani"
Subject: RE: Theranos: 409A valuation analysis - March 25, 2015 valuation date
Importance: High

Based on 4 years the DLOM was coming out to be 28.2% and based on 5 years it was coming out to be around 30% but same as last time since the business plan is the same and there is no material change we have kept the DLOM unchanged at 28.5% which lowered the value by a cent.

Further, we were auditing the model and found that couple of companies were considered in the comps analysis but somehow got missed in calculation of beta and volatility. We have synchronized the same and there is slight change in beta and volatility (both got lowered slightly) which decreased the equity value Backsolve and DCF slightly. Updating the same takes the common stock value to \$1.56 per share. The summary of valuation is as follows:

Particulars	Value	Weight
Date of Valuation	25-Mar-15	
Enterprise Value		
Income Approach-DCF	1,993,415,984	25%
Market Approach		
EV - Market Approach - GPC	1,934,061,000	25%
EV - Market Approach - Backsolve	1,923,760,357	50%
Concluded Enterprise Value	\$1,943,749,424	
Common Stock Value (Before DLOM)		
Option Pricing Method	\$2.18	\$0.56
Discount for Lack of Marketability (DLOM)	28.5%	\$0.12
Fair Market Value of Common Stock	\$1.56	\$0.28

Also find attached the 409A appraisal report for your review. Let us know your comments/feedback if any.

Thanks & Regards,
Arun Mantena, CFA, CPVA
 Assistant Manager - Valuation & Advisory Services

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From: Danise Yam [<mailto:dyam@theranos.com>]
Sent: Monday, April 06, 2015 10:18 PM
To: Arun Mantena
Cc: manish.goyal@aranca.com; 'Bharat Ramnani'
Subject: Re: Theranos: 409A valuation analysis - March 25, 2015 valuation date

Hi Arun,

Why is this lower?

Thanks,
 Danise

On Apr 6, 2015, at 1:08 AM, Arun Mantena <arun.mantena@aranca.com> wrote:

Der Danise,

I had an internal discussion and I have made the change to 5 years. The value of the common stock now stands at \$1.57 per share from \$1.58. I will use this as the final version to draft the report. The summary of the valuation is shown below:

Particulars	Value	Weight
Date of Valuation	25-Mar-15	
Enterprise Value		
Income Approach-DCF	1,986,945,482	25%
Market Approach		
EV - Market Approach - GPC	1,934,061,000	25%
EV - Market Approach - Backsolve	1,943,760,357	50%
Concluded Enterprise Value	\$1,952,131,799	
Common Stock Value (Before DLOM)		
Option Pricing Method	\$2.20	(\$0.35)
Discount for Lack of Marketability (DLOM)	28.5%	(\$0.12)
Fair Market Value of Common Stock	\$1.57	(\$0.28)

Classification: Confidential

Thanks & Regards,
Arun Mantena, CFA, CPVA
 Assistant Manager - Valuation & Advisory Services

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-----Original Message-----

From: Danise Yam [<mailto:dyam@theranos.com>]

Sent: Monday, April 06, 2015 11:14 AM

To: arun.mantena@aranca.com

Cc: manish.goyal@aranca.com; 'Bharat Ramnani' (bharat.ramnani@aranca.com)

Subject: Re: Theranos: 409A additional information request

Hi Arun,

I am still unclear about the time to exit. As of this time, we still don't have plan to "IPO" or "sale" etc. changing it from 5 to 4 May not be appropriate. I would recommend to keep it at 5 years. Or at least do a sensitivity analysis to determine the impact.

Thanks,
Danise

> On Apr 5, 2015, at 7:28 PM, "arun.mantena@aranca.com" <arun.mantena@aranca.com> wrote:

>

> Dear Danise,

>

> Time to exit for DLOM has been changed from 5 to 4 years since a good
> time has passed since we were taking that assumption and based on the
> quantitative DLOM value, now 4 years makes more sense.

>

> Thanks for your go ahead on the model. I will start finalizing the
> 409A appraisal report and send that across to you as planned.

>

> Regards,

> Arun

>

>

>> Hi Arun,

>>

>> Thank you so much for this.

>>

>> I am ok with this model, except one thing - the time to exit is
>> changed from 5 to 4. What will be the valuation if we continue to use 5?

>>

>> Thanks,

>> Danise

>>

>> -----Original Message-----

>> From: arun.mantena@aranca.com [<mailto:arun.mantena@aranca.com>]

>> Sent: Saturday, April 04, 2015 11:33 AM

>> To: Danise Yam

>> Cc: manish.goyal@aranca.com; 'Bharat Ramnani'

>> (bharat.ramnani@aranca.com)

>> Subject: RE: Theranos: 409A additional information request

>>
>> Dear Danise,
>>
>> Please find attached the 409A valuation analysis of Theranos, Inc.
>> for March 25, 2015 valuation date. The equity value of the Company as
>> of the valuation date stands at \$1.96 billion and the value of the
>> common stock on minority non-marketable basis is \$1.58/share.
>>
>> A brief about our valuation approach is as follows:
>>
>> Determining value of the company: In order to arrive at the value of
>> the Company, we followed Income Approach (or DCF) and Market Approach
>> (Guideline Public Companies' Multiples).
>>
>> Under Income Approach, we arrived at an Equity Value of \$1.99 billion
>> using the DCF approach.
>> We also applied commonly used Market Approach, Guideline Public
>> Companies Trading Multiple Method. Under this approach, we used
>> forward EV/Revenue multiple for 2015 to arrive at equity value of \$1.93 billion.
>>
>> Additionally, we also considered other valuation approaches such as
>> Backsolve method and Post Money Valuation.
>>
>> The Equity Value derived through the Backsolve method is about \$1.94
>> billion which is equal to the funding raised by Theranos through
>> Series C2.
>>
>> The company has a Post Money Valuation of \$9.5 billion based on the
>> recent Series C2 funding. We have not assigned any weight to this
>> approach since this method assumes all classes of equity (preferred
>> and common stock) are equally valuable. Also, the preferred
>> shareholders generally have significantly superior economic as well
>> as non-economic rights, such as representation, preference,
>> conversion, and other benefits that are difficult to quantify. Hence,
>> the value associated with them cannot be isolated. Considering these
>> factors, we have not assigned any weight to this approach.
>>
>> Taking note of the current stage of development, latest round of
>> funding and conceptual strength of fundamental approaches, we have
>> assigned 25% weights to DCF, 25% weight to Market Approach and 50%
>> weight to BackSolve in final calculation of equity value of \$1.95 billion.
>>
>> Allocating value amongst various classes: In order to allocate value
>> amongst existing shareholders, American Institute of Certified Public
>> Accountants (AICPA) has laid down three approaches - Current Value
>> Method (CVM), Option Pricing Method (OPM), and Probability Weighted
>> Expected Return Method (PWERM).
>>
>> Based on guidelines given by AICPA, CVM is suitable under following
>> limited circumstances,
>>
>> - When there is imminent liquidation, or,
>> - The company is yet to make material progress in its business plan,
>> - Significant value beyond liquidation preference is yet to be
>> created, and
>> - There is no reasonable basis when significant value would be created.
>> PWERM is suitable when there is reasonability regarding exit events,
>> valuations, and timing of event.

>>
>> OPM is a forward looking approach and is suitable when the range of
>> possible future outcomes is difficult to predict and forecasts would
>> be highly speculative. This method is appropriate when the enterprise
>> has many choices and options available, and the enterprise's value
>> depends on how well it uses opportunities and addresses challenges
>> while following an uncharted path.

>>
>> The Company has made significant progress on its business plan and
>> has been generating revenue in the past few years; however, an exit
>> event is neither imminent nor can be reasonably predicted.
>> Considering this, we have used the OPM for value allocation. We
>> obtained a pre-Discount for Lack of Marketability (DLOM) value of \$2.20 per share.

>>
>> Discount for Lack of Marketability: Since the company is a private
>> concern and the stocks of private companies are generally not as
>> liquid or marketable as that of a public company, we have applied a
>> Discount for Lack of Marketability of 28.2% to the above arrived common stock value.
>> Consequently, we obtain a FMV of \$1.58 per share.

>>
>>
>> Please go through the draft analysis and let me know your comments if any.
>> Once you give us your go ahead, I will start finalizing the draft
>> 409A appraisal report.

>>
>> Regards,
>> Arun

>>
>>
>>
>>
>>
>>
>>> Dear Danise,

>>>
>>> My apologies for the delay. We are trying to assess the impact of
>>> the Series B buyback @\$15 on the valuation which is taking us some time.
>>> However, I should be able to give our value indication today
>>> (Saturday morning your time). As planned, we will give you the final
>>> report on 4/6.

>>>
>>> Regards,
>>> Arun

>>>
>>>> Hi Arun,

>>>>
>>>> I am wondering when I will receive the preliminary draft. Per email
>>>> from Bharat on 3/25, I thought I would be receiving the draft by
>>>> now and the final report on 4/6.

>>>>
>>>> Please advise.

>>>>
>>>> Thanks,
>>>> Danise

>>>>
>>>> From: Arun Mantena [mailto:arun.mantena@aranca.com]

>>>> Sent: Wednesday, April 01, 2015 4:11 AM

>>>> To: Danise Yam

>>>> Cc: manish.goyal@aranca.com
>>>> Subject: RE: Theranos: 409A additional information request
>>>> Importance: High

>>>>
>>>> Thanks for the information, Denise. I have a couple of follow ups:

>>>>
>>>> * Can you share the latest Feb income statement or Year-to-date
>>>> Feb income statement?

>>>>
>>>> * In the cap-table I observed that there are 28,000 Series B
>>>> shares under treasury stock. At what price were these Series B
>>>> shares bought back by the Company?

>>>>
>>>> * Were there any other transactions in the Company's stock? If
>>>> yes, please let us know.

>>>>
>>>>
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>>>>
>>>> Thanks & Regards,
>>>> Arun Mantena, CFA, CPVA
>>>> Assistant Manager - Valuation & Advisory Services

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>>>>
>>>> From: Danise Yam [mailto:dyam@theranos.com]
>>>> Sent: Wednesday, April 01, 2015 9:07 AM
>>>> To: 'Arun Mantena'
>>>> Cc: manish.goyal@aranca.com<mailto:manish.goyal@aranca.com>
>>>> Subject: RE: Theranos: 409A additional information request

>>>>
>>>> Hi Arun,
>>>>
>>>> Attached please find the balance sheet as of the valuation date.

>>>>
>>>> In terms of revenue, the activities are on par with last year.
>>>> However, management still agreed that the \$113M projection is
>>>> reasonable.

>>>> Trial Exh. 5206 Page 0006

>>>> Thanks,
>>>> Danise
>>>>
>>>> From: Arun Mantena [mailto:arun.mantena@aranca.com]
>>>> Sent: Tuesday, March 31, 2015 7:06 AM
>>>> To: Danise Yam
>>>> Cc: manish.goyal@aranca.com<mailto:manish.goyal@aranca.com>
>>>> Subject: RE: Theranos: 409A additional information request
>>>> Importance: High

>>>> Dear Danise,

>>>> I am Arun Mantena, Assistant Manager with Aranca's valuation
>>>> services and advisory division. I am assisting Manish on this
>>>> assignment. We are almost through with our analysis and are
>>>> currently conducting some due diligence on the numbers. If readily
>>>> available, can you please provide us with the following to help us in the same:

>>>> 1. YTD financial statements: Since the company is expected to
>>>> book
>>>> revenues of around \$113 mn in FY15 as compared to the total revenue
>>>> of
>>>> \$150,000 in FY14, YTD financial statements (till Feb'15 are also
>>>> fine) will help us gain some insights into the progress made by the
>>>> company during this period.

>>>> 2. Cash and Debt balance: as on March 25, 2015 (the valuation
>>>> date).

>>>> Classification: Confidential

>>>> Thanks & Regards,
>>>> Arun Mantena, CFA, CPVA
>>>> Assistant Manager - Valuation & Advisory Services

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>>>>
>>>> From: Danise Yam [mailto:dyam@theranos.com]
>>>> Sent: Wednesday, March 25, 2015 8:42 AM
>>>> To: Viral Doshi; 'Bharat Ramnani'
>>>> (bharat.ramnani@aranca.com<mailto:bharat.ramnani@aranca.com>);
>>>> manish.goyal@aranca.com<mailto:manish.goyal@aranca.com>
>>>> Subject: 409A revision

>>>>
>>>> Hi all,
>>>>
>>>> Hope you are doing well. It's been a couple months.

>>>>
>>>> We would like to get a revision done. The projections and
>>>> everything stay the same as the December model, except I added the
>>>> funding that we received in February 2015 (as you will see the
>>>> additional amount in preferred stock and cash).

>>>>
>>>> We have a board meeting coming up on the 4/9 so we will be looking
>>>> for a really quick turnaround time.

>>>>
>>>> Please let me know once you have a chance to review and ready to
>>>> discuss.

>>>> If you can send the final report by 4/3, that will be ideal.

>>>>
>>>> Thanks,
>>>> Danise

>>>>
>>>>
>>>>
>>>> Danise Yam
>>>> Corporate Controller
>>>> Theranos, Inc

>>>>
>>>> T: 650 470 6204
>>>> F: 510 739 9802

>>>> =====
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