

To: Elizabeth Holmes[eholmes@theranos.com]
From: Sunny Balwani
Sent: Fri 6/28/2013 11:21:51 PM
Subject: FW: Safeway/Theranos - Meeting 6-26-13
Theranos - Meeting 6-26-13.doc

This is mostly fine. however, the scary thing is this document highlights our entire launch strategy and this getting in the hands of anyone else who is not working in our best interest is a scary fucking idea. After we make changes, we need to ask them how are the planning on 'distributing' this to their team and how can they assure us that this document and its contents are not just protected but there is strict audit trail around this as to who viewed it, printed it, shared it, print screened it. this is our entire launch strategy in one convenient place.

From: Bob Gordon
Sent: Friday, June 28, 2013 3:49 PM
To: Elizabeth Holmes; Sunny Balwani
Subject: Safeway/Theranos - Meeting 6-26-13

Elizabeth and Sunny,

As we discussed, I am attaching my notes from the meeting on Wednesday. Please make any suggested revisions that are necessary to make this an accurate summary of our discussions. Our hope is to get a final product that has us both on the same page. We can then circulate it to our team so they are up to speed, won't ask you the same questions, and you won't have to repeat yourselves, etc. I look forward to hearing from you.

Bob
"Email Firewall" made the following annotations.

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Meeting at Theranos

June 26, 2013

By Bob Gordon

Robert Edwards and I met with Elizabeth Holmes and Sunny Balwani at Theranos' office in Palo Alto on June 26, 2013 from 1 pm to 3 pm. I had sent over a list of questions prior to the meeting, and we addressed those.

Central Lab Model

Contrary to impressions that some Safeway people had, there is no technological problem with the devices and no plan to go without the devices in the stores. Theranos has determined that the use of the central lab model provides the quickest and easiest way to expand geographically. The central lab contains the device; in fact, the device is the only way of obtaining results from the nanotainers. The long-term plan is that the devices will be migrated into the stores as demand, demographics and marketing fulfillment require.

The reasons for starting with the central lab model are as follows. The device is currently capable of performing the routine blood tests (90% or more of the demand). In order for Theranos to offer a full array of lab tests, it needs to offer the esoteric tests (the other 10% or so) that would require courier pickup to a central lab even if there were a device in the store. So the courier service does not create an additional cost or a change in the model. Instead, Theranos views the courier/central lab situation as the necessary start for getting stores up and running. Results from the central lab will be sent to physicians within 24 hours after testing or less, so even with this model Theranos should have a differential advantage over Quest and LabCorp.

Second, Theranos' marketing plan anticipates sequential focus on its various capabilities. The plan calls for initially emphasizing the fact that tests can be obtained from a single or a few drops of blood. This is called Phase 1. Only later will Theranos announce that results will be available in 30 or 60 minutes (Phase 2). This is part of Theranos' strategy to periodically announce enhancements to its service so that it always remains several steps ahead of any competition.

Theranos wants to gain acceptance of Phase 1 (professional, accurate results from a CLIA-certified lab that can test from drops of blood) before getting to Phase 2. Phase 1 could be subject to an attack by outsiders (competitors, physicians) that the blood sample in the finger stick is too small to create reliable results, so Theranos will have to be prepared for a response. The arrival of Phase 2 will depend in part on how fast Theranos can gain acceptance of Phase 1. Theranos is concerned that if it rolls out Phase 2 too quickly, the company will be marginalized by some, who will view Theranos like the maker of the latest glucose meter. Devices will start being placed in stores based on dollar volume demand at the store. Market share will be a factor, as will demand by doctors and the pace of Theranos' marketing program. We understand that the same phasing will be undertaken at Walgreens as well.

Theranos is excited about the care it can offer to flu patients. Emergency rooms are heavily burdened by flu patients. Theranos plans to conduct flu tests that will be able to tell patients whether their flu is viral or bacterial, and if the latter, which antibiotic will work best. The ultimate plan is to have results available to patients at the store (this appears to be a vision that can be realized only in Phase 2), who could immediately step over to the pharmacy and obtain the proper medication. Theranos ultimately sees this kind of flu diagnosis and treatment as being a game-changer.

As for the range of the courier service, Theranos used its entry into the Los Angeles market as an example. If starting in only a few stores, it makes no sense for Theranos to incur the expense of putting a central lab in the area just to service a few stores. Turnaround time for results may be a challenge when samples are couriered from distant markets. But as Theranos gains traction in the market, it would at some point put a central lab in that market.

As noted, Theranos does not expect that the courier model will affect the expected profitability of either Theranos or Safeway, because the courier service was always expected to be used at least for the esoteric tests. (Query whether profitability will be affected by holding back on the attraction of having results ready in 30 minutes.) Theranos has a courier signed up, and it is currently using that courier for the Healthpointe work.

As for vein draw versus finger-stick, Theranos has not changed its plans regarding which tests will require vein draw. Vein draw will be necessary for only the esoteric tests; the routine tests will be done by finger-stick.

Operational Trials and Timing

The intent of operational trial 1 (OT1) is to stress-test the system. The idea here is that initially only the Menlo Park store would be involved, not Healthpointe or any other store. Theranos' drug patients would be coming into the store asking for tests, submitting their insurance cards. Theranos might tell multiple patients to come in at once or otherwise arrange the testing so that the system faces new stresses. This trial might move to one or two more stores.

Once things go well in OT1, Theranos will then move to customer rollout. There is no OT2. Customer rollout will not mean that all 81 Bay Area stores deploy at once. Instead, Theranos will start with customer sales at the Menlo Park store and move to other stores in the area. The Bay Area stores will be staggered geographically, but move quickly (quickly wasn't defined, but we understood that groups of 3-5 stores would be opening on at least a weekly basis). To handle the necessary training and logistics, Theranos prefers to roll out only a few stores at a time.

For training, Theranos anticipates training-the-trainer – training about 5-10 Safeway people and then having those do the training for the rest of Safeway. Theranos also plans to have “mentors” moving through the stores periodically, so they can observe and re-train

on the spot as necessary. Theranos said that there is no need to hire phlebotomists or other employees for the wellness centers until OT1 is well underway.

The intake software is close to ready, and the other application software is also nearly ready.

As for hardware, Theranos will give us a list of the hardware we need to buy. We provided a list of what we had purchased already, and Theranos said it expects that all or a high percentage of what we have purchased already will be used. There was some concern that iPads could be easily stolen from the wellness centers; these might have to be secured in some fashion. Theranos does not want to be in the business of buying hardware for the wellness centers, and expects Safeway will handle this procurement ultimately. Theranos will want to make sure it has access to the hardware so that it can install application updates promptly as needed.

Safeway will purchase for Theranos various first-aid supplies (bandages, gauze pads, etc.) that Theranos will assemble into the "patient packs." We will also procure for Theranos a bottle of water that will be provided to each patient.

We discussed cellular connectivity, but Theranos said its preference is to have a wired connection to the Internet and not have a cell connection. Ideally, Theranos would like a dedicated T-1 line for the wellness center. If the connection has to be through a Safeway line, Theranos wants to make sure that it doesn't get bogged down with Safeway audit requirements or protocols, or that it is denied the ability to make application updates immediately.

With respect to payment handling and reconciliation, Theranos expects that Safeway will handle all cash through our POS system. Theranos' current priority is to make sure all of its customer- and physician-facing software is running well, and it is placing a lower priority on applications running between the companies, which it believes it can develop and improve as the parties begin to roll out to customers.

As for connectivity with Safeway, Safeway needs to identify what information it will need to service customers and provide that to Theranos. Safeway will need to obtain from Theranos the IT requirements for communication with patient records. The parties will also need a payment reconciliation process. At the beginning, Theranos anticipates that there will be a back end batch reconciliation process running at the end of the day or half day to reconcile the payments. Theranos believes that for the first 10 or so stores, this is all that will be necessary. Subsequently, Theranos will build a real time system for the parties. To date, Theranos has not worked on the connectivity necessary to implement the batch reconciliation, so we will need to get the teams to work on this. It will need to be ready for OT1.

Theranos expressed a desire to work with us to create an operational calendar that would identify and schedule the tasks that need to be done so that the parties are ready for the operational aspects of OT1 and customer rollout.

We asked about the technical call center that Theranos will establish to support the in-store technicians and physicians. Theranos already has a physician-facing call center, and it said it would have its call center support for the technicians in place by the time of customer rollout.

Demand Creation

As for brand launch and a marketing plan, Theranos said that work was started on this earlier this year when Monica Karo of PHD met by videoconference with the Safeway team and Chiat Day. There were descriptions of the types of materials that could be used, but no documents were shown at the meeting. Theranos understands that a media plan will need to be refined, budgeted for, and scheduled. Theranos said it already has a budget for the marketing plan. Theranos said its brand launch will not involve a splashy spend like a CPG company. Instead, Theranos will rely heavily on viral marketing, online presence and “earned” publicity (news reports and articles). Both Safeway and Theranos are eager to meet to continue to advance this part of the project. Theranos is looking for our help in defining a media plan.

The sales force will be key to creating demand among physicians. Theranos rejected the idea of a contract sales force and instead will hire employees to handle this job. Theranos has already hired a couple of salespeople, and it believes that a sales force of 6-8 people should be sufficient in the near term. They have contacted several candidates, who are ready to come to work for Theranos on a week or two of notice. The plan is to have this force concentrate on different geographic parts of the Bay Area as these parts are rolled out. Theranos’ plan is that the salespeople would do a “total office sell” – meet with the entire physician office, perhaps providing lunch during the presentation. Their message would be that the office should consider Theranos as an option over Quest and LabCorp. Forms will be supplied to the office, and perhaps some promotional considerations like free tests for low-income patients.

The general timetable is to run OT1 and achieve a confidence level. Then Theranos would put up its website explaining the proposition for consumers and physicians. Upon putting up its website, Theranos would be globally exposed and the other elements of the demand creation plan will need to happen quickly. A public announcement of this service will be made. Then right before customer rollout, the sales force would go out to the physician offices. This step can’t be done earlier because the physicians will need to know that there is a service out there and they can start using it right away. As part of the physician education process, Theranos plans to have an article come out in JAMA (as well as other media discussion). Elizabeth said she would be willing to go to stores in the evening to discuss the service and emphasize its benefits. The initial sales focus will probably be on the Menlo Park store, and then focus on other stores and markets that are selected for rollout. Theranos’ objective is to drive considerable volume into that store, and build momentum for opening adjacent stores. We all acknowledged that there could be a lag between the initial announcement and usage in the stores, but with a “grass roots” effort to drive traffic to Menlo Park, the hope is momentum will build to fuel the expansion.

As for insurance companies, Theranos noted that various Blue Cross/Blue Shield entities are investors in the company and that Theranos has a contract with the Association, which means that Theranos is contracted as an in-network provider with all the Blues. Theranos also has contracts as an in-network provider with United Health, Medicare, a lot of Medicaid, and is working on a possible deal with Kaiser that would have Kaiser patients getting blood tests in Safeway stores. Theranos' objective is not simply to attain in-network status, but to become a preferred provider, which probably requires a certain minimum geographic footprint. Theranos pointed out that by law insurers are required to pay out-of-network providers, and to the extent these out-of-network providers charge more than the insurer's in-network reimbursement rate, the patient is typically billed for the difference. Because Theranos' prices will be lower than the in-network reimbursement rates, insurers will be fine with paying Theranos' charges even if Theranos is out-of-network, and will not be imposing additional charges or co-pays on the patients for using Theranos as an out-of-network provider. Theranos said that customers will be completely indifferent as to whether Theranos is in- or out-of-network. Because Theranos has room to get paid up to the in-network reimbursement rate, it believes that it can actually make more money as an out-of-network provider than an in-network provider (although that would require differential pricing).

Theranos confirmed that its pricing will be 50% of 2010 Medicare rates on a blended basis. Theranos said it was contemplating putting up a sign that says "All insurance plans accepted," but HMOs would have to be excluded.

We discussed electronic medical records (EMR). Theranos described the EMR integration process as difficult and unwieldy. Each physician office will have to be connected one at a time, but because Theranos has developed the middleware to interface with the various EMR servers, all that is needed is a flip of a switch. The expectation is that the EMR vendor will take about a week to turn on the switch after a request to do so. Theranos noted that even physicians who have EMR are requesting that blood test results be sent by the old fax method, so the fax method of delivery of results may still be necessary.

Theranos mentioned that it is considering a feature that would allow physicians to log into the Theranos portal to see historical blood test results for each patient, so they can understand trends, the rate of change, etc. Theranos might even offer diagnostic suggestions or other assistance with the results.

We asked whether Healthpointe would be used for any part of OT1, and Theranos said no. Theranos still has two employees working there, and they are conducting blood tests by courier. We suggested that it would be helpful for us and perhaps Theranos too to have a device installed there so we could see it in operation. Theranos said it would consider the request.