

From: Vivek Khanna
To: Brian Grossman; Aleksandr Rabodzey; Sriram Balasuryan
CC: Chris James; Kimberly Summe
Sent: 1/12/2014 10:25:44 AM
Subject: RE: Theranos

I am free till 7.40 am on Monday and then fairly busy. I think we should do a brief call before we all show up at our LH 8.15 pm meeting on Monday.

Thoughts

- I think they have done a lot of work on getting their assays approved and menu seems much broader than my initial views
- Great partners WAG, Safeway, DOD(still to be sized).
- Pricing at 50% of Medicare is interesting but other commercial payors are already reimbursing at 50-70% so not that much of a discount. They cite Moore's law as driving down COGS-we need to get comfortable with this trajectory
- If and when Medicare moves to commercial parity on price, then it will accelerate the demise of the established competition. This will be a fierce fight as hospital lobby has successfully defended this premium price for decades. There are only a handful of services where Medicare pays a premium price relative to commercial insurers.
- US, Western Europe, China, Latam all seem like big available markets for the company and no reason they cannot eventually get to at least 30% global market share of a \$170 bn market
- LH and DGX and BRLI total Enterprise value is \$20bn and they are exclusive US

Risks

- IP as you mentioned, execution when you start collecting samples and running the tests in a regional center -impact on results
- Will docs send samples to them? I think you need to get payor contracts to enforce this behavior. They cite 160 mm covered lives.
Can we make money?
- I think if this technology works and given that they already have contracts with United, VA and a few Blues (they were not specific) no reason they cannot get to \$20 bn++ market cap. Total US market sized at \$70 bn with Medicare accounting for 20% of the market. Western Europe opportunity is another \$70bn.

Conclusion

- I would like them to put us in touch with United for us to determine the reason for the Theranos selection given that LH is their exclusive lab partner.
- We can check with other hospitals at the conference if they view Labs as a profit center or not? Several not for profit will be around this week.
- This is one of the most interesting companies I have met and it all comes down to execution.

From: Brian Grossman
Sent: Sunday, January 12, 2014 9:57 AM
To: Aleksandr Rabodzey; Vivek Khanna; Sriram Balasuryan
Cc: Chris James; Kimberly Summe
Subject: RE: Theranos

Can I get everybody's views on the meeting and what u think next steps are?

Lets try to find a time to debrief as a group. Maybe we can find a time after morn call on Monday, although I suspect that's not realistic given JPM.

On the other hand this conf will give us a chance to probe all of the relevant competitors over next days. So it probably ends up compressing the time we need to complete the competitive due diligence.

So maybe Thursday morning is more realistic for a real debrief and debate about what we do from here.

Alex – do u think we need to hire IP lawyers to review the IP and conduct prior art searches?

And any way you can stop by the WAG in PA to get an update on patient flow dynamics? How many different docs are sending patients?

From: Aleksandr Rabodzey
Sent: Friday, January 10, 2014 4:37 PM
To: Brian Grossman; Vivek Khanna
Cc: Sriram Balasuryan
Subject: Theranos

Hi guys,

My take on this:

- Everything I've heard about technology sounds very good, but it is worth bouncing this off LH and DGX and CPHD and GNMK – obviously without disclosing anything we should not be disclosing
- I am not convinced on IP and competition – people will go after them and I don't think they can own the space, I am also somewhat surprised that they managed to do so much under the wraps, sounds sci-fi to me, but this is less relevant
- I think this has very clear implications for competition - clear negatives
- I think their projections are a bit aggressive for speed of ramp in 2015 and beyond, but with excellent execution are doable and can be exceeded
- What they are not accounting for is the pushback from LH, DGX, stickiness of contracts and slower price erosion than they think, I also question their ability to drive profitability beyond key metro areas, but these are theoretical concerns, they can easily beat numbers as well...
- In the end, my key question for you is how much money are we going to make at this valuation over the next 2 years (I think it may take at least this long to cash out). Can this become a \$14b company in two years to justify holding an investment at \$8b+ valuation?
- I would like to look at technical stuff they should send and get some feedback from competition, but it is a question to you on how much capital you want to tie up here – we will make money, but hard to say when and whether it will be a 30%+ return per year I would seek from a private deal.