
From: Aleksandr Rabodzey
To: Kimberly Summe
CC: Vivek Khanna; Brian Grossman
Sent: 1/30/2014 11:27:10 AM
Subject: Final version of the Theranos presentation attached
Attachments: Theranos_v7.pdf

PFM

theranos

January 2014

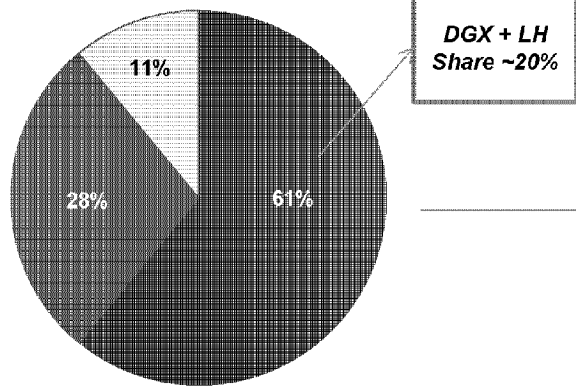
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MARKET & COMPANY OVERVIEW

Section I

Market Overview

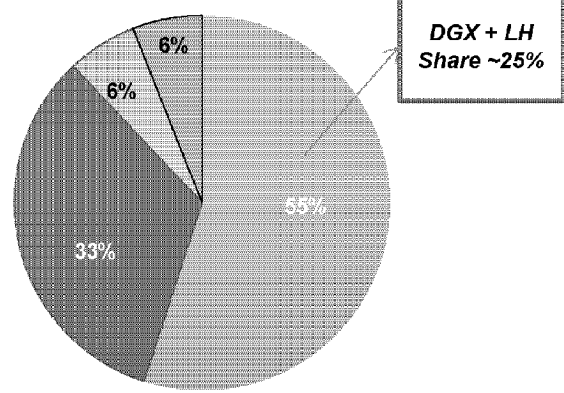
Total U.S. Lab Market - \$72 bn



■ Outside the Hospital ■ Hospital Inpatient ■ Hospital Outpatient

Theranos hospital target market

Total Outside the Hospital Lab Segment- \$44 bn

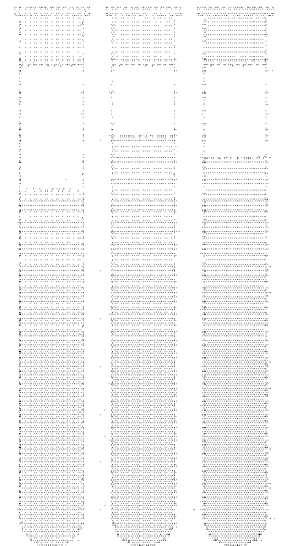
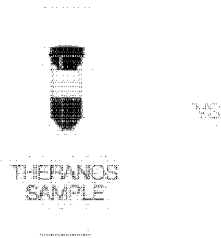
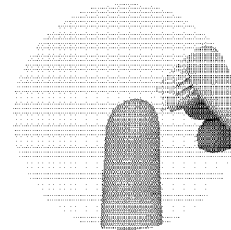


■ Independent Labs ■ Hospital Outreach ■ POL ■ Other

Theranos retail and physician target market

Business Overview

- Performs lab tests on micro samples, 1/1000th the size of a typical blood draw – utilizes few drops of blood from a simple finger stick vs. venous blood draw
- Theranos to offer tests at 50% Medicare fee schedule due to technology and growing cost advantage given lack of phlebotomist
- Broad testing menu provides comparable coverage to current industry leaders. Modest number of current tests require venous blood draw, which will be transitioned to finger stick in the next few months
- Announced rollout of platform in 8k plus Walgreens stores nationwide. Pursuing similar agreements with other retailers
- Hospital and physician office markets offer opportunity for sizable growth as the company secures contracts with large hospital systems – Theranos offers a more profitable alternative to current in-house hospital labs
- Faster and more convenient lab testing experience for consumer – Walgreens open 24/7 and finger stick format ideal for kids, ER & ICU patients, and senior citizens



Business Outlook

Upside Scenario

- Substantially lower pricing allows for significant market penetration and share gains against current market leaders Quest and LH
- Regulatory approval required to place Therasys units within retail stores versus hub and spoke model
- Additional agreements with at least 2-3 national retailers
- Sample collecting times decline over time allowing for increased patient throughput per store. Target less than 10 to 15 mins per patient
- Significant penetration into hospitals systems and physicians offices, which together represent roughly 40% of market
- Menu expansion beyond current offering into higher margin market for in-patient, point of care, and esoteric testing
- Monetization of test data - may be able to recommend tests and focus areas based on patient profile
- Unique combination of expansion opportunities in ER, pharma services, and ex-US
- Additional undisclosed revenue streams currently in development

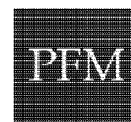
Downside Scenario

- Hub and spoke retail model limits Therasys to selected major cities
- Lobbying efforts from Quest and LabCorp delay cuts in Medicare reimbursement
- Unable to adequately penetrate hospital and physician markets
- Retail stores require staffing of phlebotomists reducing profitability in retail segment
- Competitive response from Quest and LabCorp and development of similar point-of-care platform
- FDA may regulate testing more aggressively, thus delaying the rollout
- Execution of the rollout takes longer because of test validation, geographic constraints, payer contracting, or other unforeseen circumstances
- Customer experience is not as good as expected and distribution partners scale back their rollout

FINANCIALS AND VALUATION

Section II

Key Financials – PFM Base Case



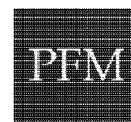
| | PFM Base Case | | | | |
|-----------------------------|---------------|--------------|--------------|--------------|--------------|
| | 2014E | 2015E | 2016E | 2017E | 2018E |
| Theranos Net Revenue | 249 | 1,558 | 3,540 | 4,727 | 5,106 |
| <i>%growth</i> | | 525.4% | 127.2% | 33.5% | 8.0% |
| <i>Number of MSAs</i> | 3 | 18 | 18 | 18 | 18 |
| <i>Average Penetration</i> | 3.0% | 4.3% | 12.3% | 19.0% | 19.0% |
| COGS | 90 | 545 | 1,269 | 1,702 | 1,789 |
| <i>%margin</i> | 36.1% | 35.0% | 35.8% | 36.0% | 35.0% |
| R&D | 95 | 270 | 324 | 356 | 385 |
| <i>%margin</i> | 38.1% | 17.3% | 9.2% | 7.5% | 7.5% |
| <i>%growth</i> | | 184.2% | 20.0% | 10.0% | 8.0% |
| SG&A | 106 | 400 | 500 | 550 | 578 |
| <i>%margin</i> | 42.6% | 25.7% | 14.1% | 11.6% | 11.3% |
| <i>%growth</i> | | 277.4% | 25.0% | 10.0% | 5.0% |
| EBITDA | -42 | 343 | 1,447 | 2,119 | 2,355 |
| <i>%margin</i> | | | | | |
| D&A | 4 | 21 | 106 | 236 | 255 |
| <i>%margin</i> | 1.6% | 1.3% | 3.0% | 5.0% | 5.0% |
| EBIT | -46 | 322 | 1,341 | 1,882 | 2,100 |
| <i>%margin</i> | -18.4% | 20.6% | 37.9% | 39.8% | 41.1% |

Key Financials – PFM Bear Case



| | PFM Bear Case | | | | |
|-----------------------------|---------------|--------------|--------------|--------------|--------------|
| | 2014E | 2015E | 2016E | 2017E | 2018E |
| Theranos Net Revenue | 249 | 1,427 | 2,908 | 3,712 | 4,077 |
| <i>%growth</i> | | 472.8% | 103.8% | 27.7% | 9.8% |
| <i>Number of MSAs</i> | 3 | 18 | 18 | 18 | 18 |
| <i>Average Penetration</i> | 3.0% | 3.7% | 7.7% | 11.0% | 11.0% |
| COGS | 90 | 486 | 990 | 1,265 | 1,355 |
| <i>%margin</i> | 36.1% | 34.1% | 34.0% | 34.1% | 33.2% |
| R&D | 95 | 270 | 324 | 356 | 385 |
| <i>%margin</i> | 38.1% | 18.9% | 11.1% | 9.6% | 9.4% |
| <i>%growth</i> | | 184.2% | 20.0% | 10.0% | 8.0% |
| SG&A | 106 | 400 | 500 | 550 | 578 |
| <i>%margin</i> | 42.6% | 28.0% | 17.2% | 14.8% | 14.2% |
| <i>%growth</i> | | 277.4% | 25.0% | 10.0% | 5.0% |
| EBITDA | -42 | 271 | 1,094 | 1,541 | 1,759 |
| <i>%margin</i> | | | | | |
| D&A | 4 | 21 | 87 | 186 | 204 |
| <i>%margin</i> | 1.6% | 1.5% | 3.0% | 5.0% | 5.0% |
| EBIT | -46 | 250 | 1,006 | 1,356 | 1,555 |
| <i>%margin</i> | -18.4% | 17.5% | 34.6% | 36.5% | 38.1% |

Key Financials – PFM Bull Case



| | PFM Bull Case | | | | |
|-----------------------------|---------------|--------------|--------------|--------------|--------------|
| | 2014E | 2015E | 2016E | 2017E | 2018E |
| Theranos Net Revenue | 249 | 1,689 | 4,173 | 5,741 | 6,136 |
| <i>%growth</i> | | 578.0% | 147.1% | 37.6% | 6.9% |
| <i>Number of MSAs</i> | 3 | 18 | 18 | 18 | 18 |
| <i>Average Penetration</i> | 3.0% | 5.0% | 17.0% | 27.0% | 27.0% |
| COGS | 90 | 604 | 1,548 | 2,139 | 2,222 |
| <i>%margin</i> | 36.1% | 35.8% | 37.1% | 37.3% | 36.2% |
| R&D | 95 | 270 | 324 | 356 | 385 |
| <i>%margin</i> | 38.1% | 16.0% | 7.8% | 6.2% | 6.3% |
| <i>%growth</i> | | 184.2% | 20.0% | 10.0% | 8.0% |
| SG&A | 106 | 400 | 500 | 550 | 578 |
| <i>%margin</i> | 42.6% | 23.7% | 12.0% | 9.6% | 9.4% |
| <i>%growth</i> | | 277.4% | 25.0% | 10.0% | 5.0% |
| EBITDA | -42 | 415 | 1,801 | 2,696 | 2,952 |
| <i>%margin</i> | | | | | |
| D&A | 4 | 21 | 125 | 287 | 307 |
| <i>%margin</i> | 1.6% | 1.2% | 3.0% | 5.0% | 5.0% |
| EBIT | -46 | 394 | 1,676 | 2,409 | 2,645 |
| <i>%margin</i> | -18.4% | 23.3% | 40.2% | 42.0% | 43.1% |



Valuation vs. High Growth Companies

| Market Cap | | | | | | | | |
|--------------------|-------|--------|--------|--------|--------|---------|---------|-----------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Current | IPO Date |
| Illumina | 3,223 | 3,838 | 7,920 | 3,790 | 6,859 | 13,978 | 18,234 | 7/1/2000 |
| Intuitive Surgical | 4,967 | 11,589 | 10,128 | 18,055 | 19,499 | 14,620 | 15,589 | 6/13/2000 |
| Salesforce.com | 3,905 | 9,214 | 17,345 | 13,799 | 23,870 | 33,280 | 35,800 | 6/23/2004 |
| Tesla | | | 2,484 | 2,979 | 3,854 | 18,442 | 21,868 | 7/6/2010 |
| Facebook | | | | | 57,670 | 138,820 | 139,272 | 5/18/2012 |
| Splunk | | | | | 2,862 | 7,366 | 8,447 | 4/19/2012 |
| Twitter | | | | | | 27,859 | 34,318 | 11/6/2013 |

IPO Year

| Sales | | | | | | | | |
|--------------------|------|-------|-------|-------|-------|-------|----------------|--------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013E | Current Street | |
| | | | | | | | 2014E | 2015E |
| Illumina | 573 | 666 | 903 | 1,060 | 1,150 | 1,420 | 1,660 | 1,950 |
| Intuitive Surgical | 875 | 1,050 | 1,410 | 1,760 | 2,180 | 2,270 | 2,270 | 2,480 |
| Salesforce.com | 749 | 1,080 | 1,310 | 1,660 | 2,270 | 3,050 | 4,060 | 5,210 |
| Tesla | 15 | 112 | 117 | 204 | 413 | 2,380 | 3,300 | 4,920 |
| Facebook | 272 | 777 | 1,974 | 3,711 | 5,090 | 7,640 | 10,440 | 13,520 |
| Splunk | | | 35 | 66 | 121 | 199 | 293 | 396 |
| Twitter | | | 28 | 106 | 317 | 640 | 1,130 | 1,780 |

Theranos 25 249 1,558

| Implied Multiple | | | | | | | | |
|--------------------|------|------|------|------|------|------|----------------|-------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Current Street | |
| | | | | | | | 2014E | 2015E |
| Illumina | 4.8 | 4.3 | 7.5 | 3.3 | 4.8 | 8.4 | 11.0 | 9.4 |
| Intuitive Surgical | 4.7 | 8.2 | 5.8 | 8.3 | 8.6 | 6.4 | 6.9 | 6.3 |
| Salesforce.com | 3.6 | 7.0 | 10.4 | 6.1 | 7.8 | 8.2 | 8.8 | 6.9 |
| Tesla | | | 12.2 | 7.2 | 1.6 | 5.6 | 6.6 | 4.4 |
| Facebook | | | | | 7.5 | 13.3 | 13.3 | 10.3 |
| Splunk | | | | | 14.4 | 25.1 | 28.8 | 21.4 |
| Twitter | | | | | | 24.7 | 30.4 | 19.3 |

Theranos (Assumed \$8bn Valuation) 32.1 5.1

Market caps as of 1/28/2014



Valuation - Base Case

DCF Valuation

| | |
|--------------------|-----------------|
| NPV | \$20,210 |
| Net Cash | \$105 |
| Total Value | \$20,315 |

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---------------------------------|-------|-------|------|------|------|------|
| Implied Revenue Multiple | 13.x | 5.7x | 4.3x | 4.x | 3.7x | 3.5x |
| Implied EBITDA Multiple | 55.9x | 13.1x | 8.6x | 7.8x | 7.1x | 6.5x |

Multiple Valuation

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--------------------------------|----------|----------|----------|----------|----------|----------|
| EBITDA | \$343 | \$1,447 | \$2,119 | \$2,355 | \$2,591 | \$2,828 |
| Market Multiple (1 Yr Forward) | 15.0x | 14.0x | 14.0x | 13.5x | 13.0x | 12.5x |
| EV | \$21,712 | \$29,662 | \$32,974 | \$34,979 | \$36,762 | \$37,958 |
| Equity Value | \$21,817 | \$29,767 | \$33,079 | \$35,084 | \$36,867 | \$38,063 |