WHITE PAPER #2: OPKO’S FUNDAMENTAL VALUE ADDENDUM TO PRESENTATION

Now that any misconceptions about the path to shareholder value have been answered, we will answer some of the most common questions we received as investors increasingly became interested in the investment. Before doing so, we remind investors of two items:

The number one shareholder question was regarding management’s intentional deflections when answering our clearly laid out questions before the call. The Company’s IR team has also allegedly been dodging inquiries. We repeat these questions publicly and urge shareholders to ask them to the Company. Their non-answers should imply why insiders have been purchasing at a rate not seen before. From our initial Press Release:

1) Do you believe Somatrogon can produce a 9-figure royalty stream? Given OPKO is not getting anywhere near the true value for the asset today, would you consider selling some of the royalty, which would bring in near-term cash to be used to buy back undervalued shares, a dividend or other accretive uses? If so, do you believe there is interest for these assets, or have you had conversations about this with potential royalty stream acquirers?

2) BioReference’s margins are less than half those of Quest and LabCorp. Is there an opportunity to close that margin gap at least partway, or is 10% the maximum BioReference can produce?

3) Dr. Jon R. Cohen, CEO of BioReference, has described the COVID-19 “halo effect” which has helped grow the BRL base customer business, in turn increasing the base business growth rate. Is this still the case?

4) Rayaldee is already a royalty stream, licensed to Vifor Pharma in Europe and JT in Japan, however OPKO has an 89-person sales force to sell Rayaldee in the U.S., which is subscale. We believe management should also consider licensing the current use of Rayaldee in the U.S., thereby incurring $75 million in cost savings while still receiving a rapidly growing royalty stream. Is management open to considering additional usage licenses of Rayaldee in the U.S.?

5) Is management confident in the prospect of success for Rayaldee’s trial as a treatment of COVID-19 for mild to moderate symptoms with two primary endpoints?

   a. Rayaldee has been fast tracked for approval for treatment of COVID-19 for mild to moderate symptoms with two primary endpoints. One endpoint was already reached in its Phase IV trial. OPKO has done a poor job of marketing this fact, allowing unproven, reckless drugs like anti-malaria tablets to be touted by President Donald Trump and others as a treatment, while it's little known that OPKO is sitting on a >$1 billion opportunity that could save countless lives.2

   b. We believe that should investors ask about management’s belief in the prospect of success for the trial, they will be encouraged by the answer and magnitude of the opportunity.

2) After a careful reading of our presentation and this document, we expect investors will have a much clearer understanding of the value of OPKO. This should beg the question: why
can we tell the story better than management can? We urge investors to recall from our original materials that one reason for urgency is management’s realization of the valuation disconnect and their execution of a “creeping buyout.” With 43% of the Company, they can own over half the company with just another 7%. Indeed, if we examine the facts, management (as we display below), blatantly under guided, lowering the stock by 18% the following day. Frost responded with his largest purchase of the year – despite the fact that the stock was half the price just 6 months ago. In fact, Frost has purchased 850k shares in the seven trading days since we made public management’s plan. At this current rate, Frost will have taken over 50% of the company in less than three months. Typically, when companies buy out other companies, they pay a premium of 40%-50%. Frost’s actions, including delaying the Rayaldee trial, poorly guiding the Company, applying for regulatory approval to buy out the Company for no apparent reason in August, are telltale signs of a pre-organized plan. This leaves it in Frost’s interests to not pursue shareholder enhancing transactions or market the business’s true value until he has purchased the majority of the Company. We note one other fact: on October 28th, LabCorp announced they won the contract to conduct the exclusive testing for the University of Miami Education System, the largest in South Florida. Dr. Frost donated $100 million to University of Miami 3 years ago, has the dermatology department named after him and sits on the Board of Trustees. Frost obtained a contract to conduct COVID-19 testing for the city of Miami when the pandemic started. Is it at all possible Frost could not get this contract or are lower numbers in his interest in the near term?

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Diving deeper into the Company’s Fundamentals, we explained in a detailed timeline in our original materials that management appeared to be conducting what is known as a “creeping buyout” – by undervaluing numbers, delaying items like the Rayaldee COVID-19 trial by 3 months, waiting to enter into multibillion dollar royalty contracts for Somatrogron -- which their commercial partner, Pfizer, has already stated met all endpoints and highlighted as a key part of their guidance -- while consistently guiding conservatively to lower the stock price, allowing management, as they did the day after earnings, to continue to increase their relative share ownership. We note one other fact: On October 28th, LabCorp announced they won the contract to conduct the exclusive testing for the University of Miami Education System, the largest in South Florida. Dr. Frost donated $100mm to University of Miami 3 years ago, has the Dermatology school named after him and sits on the Board of Trustees. Frost obtained the contract for the city of Miami when the pandemic started. Is it at all possible Frost could not get this contract or are lower numbers in his interest in the near term?

With 43% of voting power, if management continues to purchase shares at their current rate, they would cross the 50% threshold in less than three months, and as we noted, both Frost and large shareholder Jane Hsiao separately filed with U.S. regulatory agencies to receive permission to go over 50% in August. As we predicted prior to OPKO’s Q3 earnings, management has continued this trend of blatantly guiding to much lower numbers than they will achieve, causing the stock to fall ~20% and allowing Frost to make his largest insider purchase of the year the following day,
continuing this rapid pace of purchasing 850k shares in the last seven trading days – a pace that would give him control of the company inside of three months. With this backdrop, we begin with the inaccuracy of the Company’s guide and what true numbers are more likely to be:

**4Q COVID testing guidance:**

- In Q3 BioReference conducted 3.8 million COVID-19 tests (3.5 million PCR tests and 300k serology tests).
- On the earnings call, OPKO stated that:
  - The supply chain issues that had plagued laboratories earlier in the pandemic [resulting in lower COVID-19 tests in Q3 than BioReference had the capacity to perform] had "absolutely stabilized," and OPKO also emphasized that the next phase for returning to work and school would require even more testing.
  - Current capacity was at 70k tests per day and they would be imminently increasing their capacity over 40% to 100k tests per day.
  - Multiple states in the Midwest had already proactively reached out to BioReference as the recent increase in COVID-19 cases left their testing supply exhausted.
- This commentary, combined with an increase in reported case numbers, indicated that testing would dramatically increase.
  - (i) new COVID-19 cases continuously breaking daily records, recently breaking >100k new cases a day,
  - (ii) US Hospitalization rates being at their highest level since the pandemic began
  - (iii) commentary from all other laboratory testing companies (e.g. DGX, LH, QDEL) that covid-19 testing was increasing, with LH reiterating this on Nov 9th CS conference
  - (iv) COVID-testing makers (e.g. HOLX, BDM, FLDM),
  - (v) government sources (e.g. HHS),
  - (vi) independent public health sources (e.g. Johns Hopkins, Rockefeller Foundation),
  - (vii) Public Education sources (e.g. CDC infectious disease expert Anthony Fauci, world-renowned Brown university’s dean of public health Ashish Jha) and
  - (viii) independent market research sources all of which unequivocally believe testing will increase in 4Q.
  - Yet, despite being more than 1/3 of the way through the quarter with BioReference’s run-rate testing increasing, as well as the imminent renewal of large COVID-testing contracts such as the NBA, who has publicly stated the 2020-21 season would begin in mid-December, OPKO bizarrely guided for a decrease in testing, with a midpoint of 3.5 million tests, 8% lower than the number of tests conducted in Q3. Recall that the Company also stated that it would increase daily capacity from 70k tests per day to 100k per day, a 40% increase.
- To hammer the point home, here is the average number of tests per day performed by American Clinical Laboratory Association (ACLA) labs:
BRL’s market share of testing of ACLA labs is 24%, as displayed below (note sell-side also estimates BRL’s estimate similarly). We have ACLA’s data for October and November in Q4, which continues to reach all-time highs. At BRL’s current market share, this implies they would conduct 6.5 million tests vs. their 3.5 million testing guidance. But given capacity constraints currently at 70k (this explains why they are increasing to daily capacity to 100k despite decreasing their testing guidance), we conservatively cut their market share by more than 1/3 – dropping their market share to just ~16% from its current 24%. This implies the true number of COVID-19 testing expected by BRL is 4.8 million tests a day, 1.3 million tests or 40% higher than BioReference guided so that management could purchase more stock cheaply for themselves. Conducting 4.8 million tests implies conducting just 51k PCR test per day against their blended 85k per day capacity. Further note that on their Q2 conference call, they guided to “between 45k-55k” COVID-19 tests per day. This was in July when new cases were half of what they were today. Does this make sense? See below:
BRL Normalized EBITDA Breakdown

We also received questions on our $300 million-$400 million EBITDA estimate for BioReference. We show below the upper range and the assumptions behind them – we are confident investors will find this to be conservative.

We start with BioReference’s 2018 EBIT of -$45m as our baseline because it includes a full year of 4Kscore which, in 2019, was artificially reduced due to temporary regulatory issues and includes no COVID-related revenue. We then add back $10 million of 1x legal costs to get to $35 million and then add $64 million of D&A to get to $29 million of EBITDA as OPKO’s starting base.
Cost Saves

We conservatively believe there are at least $80 million of cost savings from low hanging fruit that are significantly more achievable. We arrive at this number through extensive industry research, multiple surveys and conversations with former BioReference and other industry employees. Further, we verified this as the appropriate number by triangulating cost granularity. We examined the year OPKO purchased BioReference, when they operated at a 15% premium to Quest’s costs per employee. By 2018, that number had nearly doubled to 27% higher per employee. As we described in Document 1, part of this was Frost being named COMD and trying to bury costs in BioReference and the new CEOs have attacked this with rigor. In Q3, despite extra COVID expenses, BioReference was able to reduce costs/patient by 12%. As we show in the table below, by merely returning to BioReference’s baseline and adding 15% of operating costs/employee to Quest, we achieve $81 million of savings – and that is before cutting a bloated number of employees and implementing other cost savings measures, such as automation. See Table 1 below:

Table 1

<table>
<thead>
<tr>
<th>2018 EBIT</th>
<th>-45.0</th>
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</thead>
<tbody>
<tr>
<td>1x Legal costs</td>
<td>9.6</td>
</tr>
<tr>
<td>D&amp;A</td>
<td>64.0</td>
</tr>
<tr>
<td>estimated cost saves</td>
<td>80.0</td>
</tr>
<tr>
<td>COVID</td>
<td>170.0</td>
</tr>
<tr>
<td>Market Share</td>
<td>123.0</td>
</tr>
<tr>
<td>Earnings Power</td>
<td>401.6</td>
</tr>
</tbody>
</table>
“COVID EBITDA”

“COVID” EBITDA is a bit of a misnomer as it includes not just COVID EBITDA, but its related source of permanent EBITDA as we explain here.

The Company’s average COVID-19 price per test was ~$64.50 in Q3. Using that same number for Q4 implies ~$310 million of COVID-19 revenue, a run rate of 1.25 billion per year. In reality, COVID-19 testing will increase at least through the flu season and school year (1H’21) when case numbers likely begin to stabilize and eventually decline. Given 2021 will have at least $1.25 billion per year in COVID-19 revenue and it will take years to fall off, it would be wrong to use the current run rate but also wrong to erase it completely. Note that current testing barely includes antibody tests, which, when a vaccine arrives, will drive multiples of demand as there will need to be frequent checking to see how long vaccines last: current studies show that antibodies begin to dramatically fall within 3 months of contracting the virus. This is growth not currently included. Further, growth from additional products we believe BioReference is rolling out shortly are high margin arenot currently included.

Examples of just two new products (with internal examples of many more)

We believe BioReference will be releasing, as soon as this quarter, a direct-to-consumer home testing kit, possibly called Scarlet Health, as it may use the FDA-authorized 5-minute saliva test developed at Rutgers University. LabCorp and Quest have already released such tests, though neither test is nearly as advanced as this test and involve more complicated swabbing. Despite this,
both have stated that they have higher margins than the testing business. BioReference filed the following trademark the day after the Q3 earnings call:

**SCARLET HEALTH**

<table>
<thead>
<tr>
<th>Word Mark</th>
<th>SCARLET HEALTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>IC 044. US 100 101. G &amp; S: Mobile healthcare services in the field of phlebotom</td>
</tr>
<tr>
<td>Serial Number</td>
<td>90290532</td>
</tr>
<tr>
<td>Filing Date</td>
<td>October 30, 2020</td>
</tr>
<tr>
<td>Owner (APPLICANT)</td>
<td>Bio-Reference Laboratories, Inc. CORP. NEW JERSEY 481 Edward H. Ross Drive Elmwood Park NEW JERSEY 07407</td>
</tr>
</tbody>
</table>

“Scarlet Health” was recently trademarked by BioReference on October 30th. This not only increases high margin revenue, but any positive tests drive further testing to BioReference as they must be confirmed. It also has opportunistic government tailwinds as the Biden administration aims to subsidize and support these tests. We further note that the test is currently being sold for $150 – almost triple what BioReference receives for its gold-standard PCR test -- was developed in partnership with the chief scientist at Ancestry Health, one of the top home DNA testing kit developers, and Rutgers’ own laboratory has maxed out its capacity to process the samples. BioReference will not only be starting out with an installed base of ~100k high-margin tests per day, but will amplify that by a magnitude. Additionally, the process of saliva-in-a-vial is very similar to home-DNA testing kits such as 23andMe and AncestryHealth, making the process familiar to users, and opening up a potentially enormous secondary revenue stream using GeneDx, OPKO’s genetic lab, which is among the most advanced in the world in DNA analysis.

By way of example, in addition to the new high margin, large volume rapid home testing kit released this month; GeneDx’s ability to provide much more detailed information than 23andMe or AncestryHealth allows them entrance into that market, as well as participation in the types of deals 23andMe has made, receiving eight and nine-figure contracts for extraordinarily basic DNA samples from companies like GlaxsoSmithKline (GSK), Amgen, Proctor & Gamble, Pfizer, Roche and others. Imagine how much easier it would be to find a cure for COVID-19, Huntingtons or Alzheimer’s if we could trace the DNA of a symptomatic and asymptomatic set of DNA’s progression of the disease and identify biomarkers that made some more susceptible than others.
Importantly, this is not just theoretical: our deep knowledge around the home saliva test and its opportunity set comes from multiple conversations with industry scientists and pharmaceutical executives. We have also had extensive conversations with the top home DNA testing kit companies, all of whom discussed various forms of partnership opportunities driving incremental revenue and name recognition. The customers for these DNA samples realize the impact genetic labs would have above beyond DNA depositories. Indeed, despite their existing partnerships, they say so publicly. In a recent The Wall Street Journal article on the subject, GSK stated that it “hopes that genomes could help solve [a major] problem that plagues the pharmaceutical industry: a high failure rate [in getting high potential drugs to work].” Further, pharmaceutical companies from AbbVie to Takeda have partnered with genetic databases on similar theories. Indeed, Amgen was so desperate for its own sample set it purchased deCODE genetics, which began as only an initiative to gather DNA from Iceland (population ~350,000). In fact, we can quantify this secondary source of income. Here are just three representative transactions completed by companies like 23andMe; we show that just a 10% probability makes it a nearly $45mm EBITDA (as this revenue would be nearly 100% margin opportunity since all costs are already complete). We note that this is for a much smaller set of samples, extraordinary basic Single Nucleotide Polymorphisms (SNPs) biomarkers versus the vastly more advanced WGS biomarker testing, so the actual potential EBITDA multiplies by a factor. **Again: this is not the even the main source of the saliva home testing kit we believe BioReference will unveil this quarter.**

<table>
<thead>
<tr>
<th></th>
<th>Revenue</th>
<th>Samples</th>
<th>$/Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roche/Genetech</td>
<td>$60,000,000</td>
<td>800,000</td>
<td>$75</td>
</tr>
<tr>
<td>Amgen</td>
<td>$415,000,000</td>
<td>1,500,000</td>
<td>$277</td>
</tr>
<tr>
<td>GSK</td>
<td>$300,000,000</td>
<td>8,000,000</td>
<td>$38</td>
</tr>
<tr>
<td><strong>Bioref Opportunity</strong></td>
<td><strong>$438,000,000</strong></td>
<td><strong>11,680,000</strong></td>
<td><strong>$38</strong></td>
</tr>
<tr>
<td>Probability</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Risk- Weighted Opportunity</strong></td>
<td><strong>$43,800,000</strong></td>
<td></td>
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</table>

Separately, given the COVID-19 hotspots beginning to spread across the country, including rural areas, we have suggested to management that rather than investing large amounts of capital in a permanent Patient Service Center that is inflexible, they begin a mobile, sterilized on-demand trailer that they can move to places of need. Further, it’s a little-known fact that BioReference is already indirectly partnered with Google, whose Verily Life Sciences health arm assists Rite Aid in finding where the next location should be for COVID-19 testing based on google searches for symptoms. BioReference is the exclusive testing provider for Rite Aid testing and over 600 drive-through locations. Google recently attempted this rollout themselves to disastrous results, a PR disaster and a forced shutdown. Indicating BioReference may be taking our advice, as they also trademarked “On Demand Dx”
On Demand Dx

The “On Demand Dx” filing documents show they were filed on August 27, 2020 and described “On Demand DX” as a “mobile services for collecting blood, urine and saliva specimens for diagnostic and treatment purposes.” An independent mock-up of what one might look like:

Further, note that BioReference has launched the Multiplex influenzaA/B/Covid-19 test which Medicare has priced at a 42% premium to a COVID-19 test ($142), another source of revenue especially important in the flu season when symptoms of the two appear alike.
In addition to these sources of revenue, investors often dismiss COVID-19 as transitory. More than six months into the pandemic, the disease has proved to be anything but transitory. This view naively overlooks the durability of the disease, the importance of testing that permeates throughout the business and the nuances of how the industry actually works in practice.

- BioReference CEO Jon Cohen directly addressed this point, describing the well-known industry “halo” effect of COVID-19 as they have gained customers that use the lab for other tests which they further solidify with strategic offerings such as the recently announced combined flu and COVID-19 test driving multiple tests (and therefore more revenue) from a single specimen (https://www.nasdaq.com/articles/opko-healths-opk-bioreference-laboratories-unveils-new-test-2020-10-23)
- Industry research consistently shows that once testing for items like the flu, physicians frequently attach other similar items, such as routine blood work as well (https://pubmed.ncbi.nlm.nih.gov/22734074/). Further, in the case of COVID-19 testing, which is required before any procedure, hospital visit and other specialist visits, the attached test is more likely to be a higher margin complex test than a routine lower priced test. This is precisely BioReference’s competitive advantage: BioReference has higher revenue/test than both DGX and LH due to a more favorable Revenue Mix as 70% of BioReference’s revenue comes from higher ASP & Margin Esoteric Tests versus LH & DGX’s with a mix of ~40%. This enhances the operating leverage from a single patient with multiple tests with those incremental tests being higher margin while further solidifying BioReference’s relationship with new customers.

When we refer to “COVID-19” EBITDA in our build-up, we are not only referring to COVID-10 testing, but are referring to the “halo” effect, new related revenue streams and stronger durability than investors believe drive our COVID-19 estimates.

**Market Share**

Increased market share comes from a number of places:

1) As seen in Table 1 above, BioReference has grown revenue organically 7% yearly, outpacing its rivals.

2) BioReference recently won the crucial Westchester 10-hospital medical system contract, becoming the exclusive provider for over seven million annual tests. At BioReference’s average non-COVID (lower) testing rate, this implies between $125-$150 million of new annualized revenue.

3) BioReference is one of just three national scale labs in the country (with Quest (DGX) and LabCorp (LH)), a strategic positioning that was always important, but has become critical during the pandemic and beyond. Further, BioReference recently expanded in Texas and California, thus broadening its reach. There is a >$10 billion TAM that can generally only go to these three labs: (i) National organizations that need national coverage, such as sports...
leagues, where BioReference was selected as the exclusive provider for the NFL, NBA and MLS among others; (ii) National government programs, such as the Centers for Disease Control and Prevention (CDC) surge protection emergency contract (which BioReference has); and (iii) Large national employers want coverage from national laboratories for obvious reasons (quality control, scale, lower costs, less bureaucracy than negotiating separate regional lab contracts).

4) Additionally, the large insurers recently consolidated, introducing Preferred Lab Networks for the first time, driving their insured customers to these laboratories. In 2019-2020 BioReference was selected to be two of seven labs selected to be in UnitedHealth’s Preferred Lab Network. UnitedHealth is the largest insurer in the country with 48 million insured, and imposes significant out-of-pocket cost for going outside this network. BioReference was also selected as an in-network lab at Humana, a large national insurer, and Blue Cross Blue Shield of Texas. BioReference also won a number of smaller regional insurer contracts.

5) Quest has named a similar opportunity as $4 billion total available market of which they assume 25% share, anticipating $1 billion growth in annualized revenue. If BioReference achieved just half of that, it would unlock an additional $500 million in revenue (more than 50% of BioReference’s entire revenue base in 2018).

Testing Mix

Excluding-COVID, BioReference receives 70% of its revenues from esoteric testing vs. 40% for DGX/LH, driving a 25% higher revenue/req for BioReference than its larger competitors. In addition to the higher margin mix, BioReference is in the highest growth mix, driving organic
tailwinds on top of market share gains and margin opportunity. Esoteric testing is more specialized testing, such as genetic testing (20% of BioReference’s revenue), which is the highest margin and highest growth testing segment (>20% growth), and women’s health and oncology (>10% growth). Quest drives the plurality of its revenue from more routine testing (routine bloodwork, flu-testing, pre-COVID, annual physical examinations, etc.) which is relatively low priced, low margin, commoditized and low growth.

Management

BioReference’s CEO and GeneDx’s CEO were named top healthcare CEOs in 2020 after being named CEOs in the last three years driving operational turnaround.

For the above reasons, we have extreme confidence in BioReference’s ability to drive improved market share. We have named guaranteed sources of income, such as the incremental Westchester Hospital System contract, as well as BioReference’s in-network status at the major insurers, gaining access to an additional 20% of lives in the country (over 65 million insured lives) they did not previously have as well as BioReference’s superior reputation during the COVID-19 pandemic, gaining new customers.

With 7% organic growth, the new Westchester Contract (note they won a number of smaller contracts as well), $500 million of annualized revenue from insurers, and even just taking 10% of current COVID-19 revenues as continuing and 10% for the “halo effect,” this drives in excess of $1 billion of revenue.

But how much EBITDA does this add? Quest says its incremental revenue from acquisitions is at 80% incremental margins and BioReference says it is at 67%. But for organic growth, we show here that BioReference, despite running sub optimally for years, has already driven an impressive 35% operating leverage:

Operating Leverage

Since 2018, BioReference’s Operating Expenses have actually decreased, even with a 26% increase in Revenue, displaying BioReference’s impressive operating leverage of around 35%:

<table>
<thead>
<tr>
<th></th>
<th>9M 2018</th>
<th>YTD 2020</th>
<th>Delta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>630</td>
<td>793</td>
<td>163</td>
</tr>
<tr>
<td>COGS</td>
<td>411</td>
<td>523</td>
<td></td>
</tr>
<tr>
<td>Gross Profit</td>
<td>219</td>
<td>270</td>
<td>51</td>
</tr>
<tr>
<td>GM (%)</td>
<td>35%</td>
<td>34%</td>
<td>31%</td>
</tr>
<tr>
<td>Opex</td>
<td>237</td>
<td>228</td>
<td>-9</td>
</tr>
<tr>
<td>Opex % of Rev</td>
<td>38%</td>
<td>29%</td>
<td>-9%</td>
</tr>
<tr>
<td>Op Profit</td>
<td>-18</td>
<td>42</td>
<td>60</td>
</tr>
<tr>
<td>Op Margin</td>
<td>-3%</td>
<td>5%</td>
<td>37%</td>
</tr>
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</table>

This implies market share EBITDA from over $1 billion of revenue will drive a minimum of $350 million of incremental Operating Profit. Because there is some execution risk, and some
discounting of time, we trim this and we do so overly drastically, taking a 70% haircut. Note this 70% haircut accurately defined numbers are already assuming extraordinarily assumptions such as how the halo attachment of COVID-19 revenues is likely to be significantly higher than 10% and how market share gains are likely to come much more rapidly than we assume. Regardless, as you can see, even with extraordinarily conservative assumptions, BioReference still drives over $400 million of EBITDA even assuming nearly all COVID testing evaporates.

**Margin Opportunity**

We briefly discussed BioReference’s margins at ~10% with Quest/LH reporting 27% in Q3. COVID-19 testing is driving slightly higher margins for all players, but the magnitude of difference is the core of our argument. We have worked closely with healthcare consultants, laboratory visits and executives, and believe picking up just 5% is easily achievable from a bloated head count, digital inefficiencies, lack of automation and other items that we described in detail to the Company. In fact, the Company hired a new Chief Digital Officer who came from Pfizer and Quest in July, and our surveys show a partnership with Skedulo has already helped one aspect of their scheduling inefficiency. One other small example: Google (Verily), who is already indirectly partnered with BioReference, has developed an automatic reagent/swab/etc. auto-ordering mechanism that calculates anticipated shipping times and automatically keeps track of how many are left and when to order, eliminating supply chain efficiencies and the need for extra personnel. Driving five points of EBITDA can add an additional $100 million of EBITDA.

**4Kscore**

4Kscore is a novel genetic biomarker blood test, that helps determine if men need a prostate biopsy. It has proved to significantly reduce the need for unnecessary, time consuming, painful and expensive biopsies and has been endorsed by nearly every leading cancer and biopsy organization. Because it was the first of its kind, there was trouble getting traction. However, it has now become widely accepted, with the FDA offering advanced regulatory guidance, LabCorp recently releasing a biomarker test for lung cancer and market research firms anticipating the market to grow >40%. Indeed, on the last earnings call, OPKO stated that 4Kscore testing would be back to “pre-COVID” levels in Q4. In the last normalized quarter, the Company did approximately 20k tests per quarter. Given a Medicare coverage mistake last year, the Company only conducted 14k tests, so running at 20k tests already implies the Company is at least at that growth rate. The Company is reimbursed ~$800 per test with margins >50%, implying an incremental ~$50 million EBITDA next year and growing thereafter.

**Long-Term Fundamentals**

Note that this “normalized EBITDA” is a baseline, of which double digit growth is likely as PAMA’s pricing headwind that has harmed the industry is likely permanently holidayed (i.e. BRL’s 7% previous organic growth rate would have been closer to 10% already), national scale and pandemic infrastructure that had been gutted is being redeveloped and the strategic importance of the top three national labs have only been magnified. This not only contributes to EBITDA growth, but will increase industry multiples as they currently trade at a wider discount to the S&P 500 than even during the “healthcare drought” before Obamacare.
Quest has explained this dynamic well for scale players, a level that BioReference is beginning to reap benefits of:

**Pharma**

Note this has all only been on the diagnostic side of the business. The pharma business is set for dramatic inflection as well. Rayaldee, pre-COVID, was growing 80%-100% per year. The company already has royalty agreements in Europe with Vifor and in Japan, where product launches begin next year. Further, strong results in tangential COVID-19 related trials and strong phase 2 results for stage 5 indications set the Company up for >80% growth rates for years to come.
And of course, as Pfizer highlighted on its October 8th press release, its earnings day and a second October 28th press release, it expects to launch blockbuster Somatrogan next year.

With orphan designation providing seven to 12 years of marketing exclusivity in the U.S. and Europe, as well as first mover advantage in a number of countries, $275 million in milestone payments as well as royalty payments on Pfizer’s current $500 million hGh drug, OPKO is poised to be the largest player in the growing $3.5 billion market receiving ~20% royalties, with a close reading proving this to be conservative as the Pfizer Royalty Agreement contains a royalty net-profit to gross-profit switching mechanism that provides additional upside that we cannot quantify because of redactions, but can confirm there is upside from the contract as well as from management (this is why management has said they would prefer to keep upside beyond a certain level of royalties going to a royalty acquirer because there is possible significant benefit beyond our ~$200million estimate).

We note the combined normalized EBITDA exceeding $600 million is a close match for Free Cash Flow, as the Company’s NOLs shield it from taxes. Using that cash for share repurchases and other shareholder friendly actions drastically increases their growth rate. At current prices, the company is trading at less than 4x annual free cash flow.

**Rayaldee**

In our presentation, we were as conservative as possible, not including upside from the COVID-19 trial, or from selling Rayaldee as a royalty in the U.S. as well, allowing OPKO to rid themselves of a double-digit expense structure.

One analyst mentioned that they thought our estimates for Rayaldee were “aggressive.” This note was broadly disseminated and was pointed out to us as we received questions if we were overly bullish on this asset. Ironically, this Guggenheim analyst stated, “As for Rayaldee, Sian projects the brand to deliver average annual EBITDA of $120M over the next ten years, which seems high to us.” We find this extraordinarily ironic, as this same Guggenheim analyst’s own Rayaldee estimate is exactly the same as our Rayaldee estimate! See below:
In fact, he thought this was conservative, stating on the very next page:

**GUGGENHEIM SECURITIES, LLC**

Opportunity for CKD stage 5 expansion could drive modest upside

We do not blame the analyst, but poor company messaging likely caused the analyst to forget the value of upcoming royalty streams. We also note to investors that it is also inaccurate headlines like this that cause inefficiency in the stock price.

**Strategic Actions**

We clearly have a firm belief that the Company is not being valued properly in the marketplace. There are a number of reasons for this: its volatility and stock price under $5 defines it as a penny stock at some mutual funds; it is the only company with a combination of a lab and a pharma company, two assets with two different analyst and investor bases, making it difficult for set to focus on it, extraordinarily poor messaging and management credibility issues. Shareholder friendly behavior and improved financials can solve management credibility issues. But our conversations with industry executives all indicate they understand the value, and we believe OPKO has received inbound interest in a variety of different ways: partnerships, royalty streams, acquisitions of assets, divisions or the Company. There are operational efficiencies to be executed as well. We don’t presume to know the answer before working on the question. But refusing to explore all possibilities, especially when certain macro aspects make OPKO a scare asset (i.e.
hGH, partnered with Pfizer, worldwide nine-figure royalty with orphan drug protections in this low interest rate environment is a gold mine combination for a royalty company).

We provide here more detail on Somatrogon:

**Strategic Value of Somatrogon**

We believe our estimate of OPK’s Somatrogon Royalty Stream value at $1.9 billion (including $275 million of milestone payments) is extremely conservative given its unique properties and believe conducting a proper exploration of its strategic value could potentially lead to a valuation that is **double** our estimate.

**The GHD Market**

As the GHD market transitions from daily to weekly indications, the market will also transition from a relatively competitive market to an extremely attractive set of regional duopolies:

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We believe OPKO’s Royalty Agreement with Pfizer is Unique and Underappreciated:

1) The royalty is a partnership with Pfizer who is highly incentivized to utilize its massive commercial presence to ensure Somatrogon’s success vs other potential competitors.

2) The royalty also includes payments from Genotropin, Pfizer’s Daily hGH drug which helps lower the risk of potential adoption issues.

3) In addition to the royalty payments, Pfizer also pays for ALL costs from a regulatory and commercialization perspective, meaning there will be no more additional costs associated with the royalty stream going forward.
4) The drug has orphan designation meaning there is no likelihood of generic competition for 10+ years.

**Valuation**

Our valuation is based on a discounted cash flow valuation of our estimate of the Somatrogon royalty stream which is in line with consensus estimates and is on average $190 million over the next 10 years assuming a 20% IRR. The implied valuation (ex-milestone payments), is roughly 8.6x the $190 million, which is identical to what Blackstone recently paid for inclisiran in April 2020 and far below other recent comparable transactions (see page 28 of our deck).

On its most recent earnings call, Royalty Pharma (Nasdaq: RPRX), a leading private equity fund that solely specializes in acquiring biopharmaceutical royalties like somatrogon, stated:

“We expect returns for [FDA] approved products in the high single-digit, low double-digit returns. And when you look at some of the recent transactions, they are actually north of 10%... For unapproved investment, they are well in excess of that actually in the mid to high teens.”

Given somatrogon is just a weekly version of an already approved drug, and is very close to FDA approval, we believe it could actually fetch a valuation far higher than our assumption. For instance, assuming a 10% IRR would increase our valuation for the royalty stream by **50%** to $4.25/share.

Further, we expect that Pfizer will jointly announce with OPKO, before the end of the month, that they will split trial costs to add another pediatric indication (they already passed endpoints for pediatric generally so this would be a smaller trial for a smaller indication) which would add further to this number, as well as further demonstrate Pfizer’s belief in the product.

**Other Strategic Actions**

Aside from these items, we are aware of DNA companies, SecureID companies (note Quest’s recent partnership with CLEAR) and a number of partnerships BioReference has unique assets for, especially given their industry leading genetic capabilities. We’ve given a lot to digest here, but we look forward to sharing with investors more detail about the value that can be created by optimizing the capital structure, royalty stream bids for assets OPKO does not receive proper credit for, describe how GeneDx is worth over $1 billion itself and is less than 20% of OPKO’s revenues, among other easily achievable strategic actions that should be examined.

And when a shareholder can better articulate a company’s positioning than the Company itself, the company is either intentionally misleading shareholders, or when combined with the facts laid out in Document 1, only supports a claim that judges will further force the Company to increase its independence.

We hope this was helpful and look forward to continuing to enhance the value of OPKO Health.

Sian Capital LLC