

January 13, 2021

## 2021 Drivers

Just as we noted a strong Point-of-Care/Saliva solution would help them win large employer and Airline contracts, we believe there are two near-term large value drivers opportunities they are uniquely suited for which are material and near-term and can drive material changes to revenue and EBITDA.

### 1. School Testing

**Tomorrow, Thursday the 14<sup>th</sup>, Biden will announce some of his COVID-19 plans.** With a democratic sweep in Congress, they can use the Budget Reconciliation Process to almost immediately pick up ~\$500 billion that will go to stimulus checks, unemployment aid, but significantly to localities (states and cities) and schools.

First, and most importantly, with a Biden presidency and a democratic sweep of congress, the Country will finally get much needed federal aid to schools as well as national opening guidelines, **which will include mandatory testing.** In fact, President-Elect Biden hopes to make this one of his first announcements as our studies, as well as other independent studies, show that our children have lost 3-6 months of education (i.e. if they were at a 6<sup>th</sup> grade level, they've regressed to a halfway thru a 5<sup>th</sup> grade level), large disparities in performance in minorities and socioeconomic status, increased nutritional deficiencies and abuse cases as well as higher truancy and flunk rates (for example, in Brevan County Florida, the 6<sup>th</sup> largest school district in the nation and where BioReference resides, the number of students with failing grades nearly tripled y/y from 4% to 11% of students).

The federal Coronavirus Task force (FCTF) recently consulted for our expertise on optimal reopening school protocols given it is one of the first and largest programs Biden wants to announce. The FCTF, as were many of the most prominent thinkers in the space, including the Rockefeller foundation, NYC's head of Health, the head of the 3 national labs (Quest, LabCorp, BioReference) and other experts.

Recall a strange, hurried press release put out by BioReference last week, put out not in the morning or after the close but in the middle of the day, titled "**OPKO Health's BioReference Laboratories Reports Results of the Largest COVID-19 Public School Testing Program Nationwide**" stating that over the previous quarter their testing program helped hold NYC's school positivity rate (including teachers and staff) at 0.47%: in stark contrast to NYC's general ~8% positivity rate. Given this is the only contract the Company has mentioned for months, and there isn't anything in here that isn't publicly available nor any revenue numbers, and there are much more important press releases investors are waiting for (for example, on 12/1 the Company stated they were adding an indication to the HGH Pfizer contract increasing its value: yet they chose to never disclose this despite us and multiple shareholders asking), what was the purpose of this? Well its clear: BioReference is positioning itself as being the only lab to have run a successful school testing program, in the country's largest and most complex education system, and did so keeping the positive rate under 0.5%. At approximately 3 large education educational systems per state (for example, New York would have NYC, buffalo, Rochester and possibly others), that is a TAM of 150 large educational systems that would need a lab with the capacity, staffing and expertise of one of the three largest labs (other schools would of course need testing as well, and BioReference can win that business, we merely state that their competition would grow with regional labs as the smaller and less complicated systems can be done by larger regional labs so we are not making any assumptions, but they should receive some of these as well).

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We urge investors to merely count the number of substantive press releases since the Company's earnings call, and the number of press releases in the first week of this year and query the difference and recall this is what we told you would happen. In any case, for a company who wasn't disclosing any information in 4Q, they seem awfully transparent in the first week of 2021. This press release is good though, as its true: they are the only lab with the experience of successfully executing in the largest and most complex educational system in the country.

Value: Of this 150 city Total Addressable Market, if BioReference got just, say, 20% of these educational systems, that would be 30 clients. If they were half the size of NYC, which was 100k tests a month, it would be 1.6mm tests a month (including NYC) or 4.8mm PCR tests a quarter as recurring revenue (we remind you they guided for 3.2mm TOTAL PCR tests for 4Q) for at least the rest of the year with a possible drop off in summer though we may have extra schooling to catch our students up over the summer, time will tell. We remind you testing is a mandatory and essential part of this program.

## **2. Opening Stadiums & Arenas**

The company also press released on 12/31: something companies almost never do. The reason of course, is the Buffalo bills made the playoffs and Cuomo gave approval allowing a limited number of fans into the stadium after BioReference presented their plan of providing 30 testing lanes for 2 days at Bills stadium with results before the game, seamlessly integrated onto their phones, which they could scan with their ticket for entry into the game.

The Bills won that game, and the entire process was a huge success, and NY has already announced they will be using BioReference again in the same way this week. Cuomo also emphasized that "this is beta testing a model we can use for other sports, festivals, concerts, conferences, etc".

Further, BRL has also been beta fan testing for an NBA team on the West Coast using a different rapid test, demonstrating their flexibility and ability to customize.

Value: These are typically higher margin contracts: for example, the NFL testing cost \$125/person, double their normal price with costs only 1.5-1.75x more expensive, increasing margins. We expect them to improve the process as they continue to execute.

## **3. Genetic Sequencing & Mutations**

We have all heard of the new mutating strains. The FDA has put out guidance on January 8<sup>th</sup>, that some previously approved tests only test for a single gene. If that Gene has mutated, it may not pick it up, thereby making many tests less reliable, especially the rapid tests. This works to the larger labs advantages.

Just as important, if not more important, is the FDA guidance is that labs should be randomly and for those that are questionable, sequencing the entire genome to look for the mutation to ensure there are no false negatives. Again, only certain labs have this capability, and genetic sequencing is one of BioReference's strongest areas. This adds high margin revenue, but also drives demand to BioReference.

Secondly, the CDC has announced that the US must generally randomly test strains more often to ensure other strains aren't becoming more prevalent or starting. Under the Trump administration, the process was haphazard without a strong central repository, leaving us behind England who found the strain first. CDC

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has made it a goal to catch up as this is important for both testing for the aforementioned reason and the vaccines and their effectiveness. Once again: This is an area of strength for BioReference.

These opportunities are in addition to our previous papers, and have the potential to add temporary year or two very large EBITDA opportunities, but just as there was a “halo” effect from COVID-19 as BioReference’s Brand gained, insurance gained and they gained customers; the same happens here. This cash flow can be used for large buybacks dividends or other high ROIC uses while permanently improving the labs base of business. It also furthers our general theory of the growing importance of the lab industry and an expanding industry multiple.

But these opportunities are only opportunities if management takes our advice: they proved themselves Irrational in missing out on POC and saliva testing. If they don’t see these opportunities, and take advantage of these opportunities: For example, in testing, we have some idea of the thinking of the task force and also of many others of those consulted. We are also aware of how BioReference can differentiate itself and make the solution both customizable, but also value enhancing to gain profits in adjacent areas. Similarly, in sports, they won NBA, MLS, NFL and failed to listen to us that they could not stagnate: in sports where they play daily even prioritizing wasn’t good enough, but they thought they could float on 1 year of success and keep those contracts and now learned the hard way they can’t.