

## OPKO

### 4Q Recap - Focus on Rayaldee Launch Continues

OPKO reported 4Q/16 results after the close, with revenues of \$275mn that was slightly below our estimate on BRL seasonality, while EPS of (\$0.04) was roughly in line. Beyond the quarter, focus remains on the ongoing Rayaldee launch with now 3 months of scripts data and OPK's efforts to continue to drive TRx growth. With Rayaldee early in its launch cycle, we will continue to watch scripts closely, and will also look for additional catalysts in 2017, such as the Novitas' decision on the 4Kscore and the data analysis on hGH-CTP in adults. Remain OW.

- High level of focus on Rayaldee launch.** OPK launched Rayaldee in SHPT in late 2015, and has hired its sales force and continues to make progress with managed care (now ~60% of lives covered, targeting 75% by YE). OPK continues to view a ~\$550 net price point as accurate, and expects a 55%-65% net price of the WAC over the life of the product. While OPK has stated that physician feedback for the launch so far has been positive, there remains a big education effort underway which should accelerate scripts throughout the year. However, the launch to date has been below our expectations, and we will continue to watch script growth closely over the coming months. As a reminder, OPK is currently not recognizing revenue for the product until later this year (due to SEC requirements).
- No update of 4Kscore Novitas decision or Lagova statistical analysis.** OPK has not received an update from Novitas on its decision for local coverage, although the MAC continues to pay for the test. With timing uncertain and lackluster recent trends, we have lowered our long-term 4Kscore forecasts. On Lagova, OPK is preparing to submit its BLA to the agency for its adult study, although the updated statistical analysis is ongoing. For the pediatric study (~80% of the market), OPK has initiated its 220-patients Phase 3 study, which will likely be completed in the 1H/19 timeframe.
- Despite BRL revenues slightly below expectations this qtr, OPK continues to see double-digit underlying growth and the opportunity to improve margins is intriguing.** OPK continues to anticipate double-

#### OPKO Health, Inc. (OPK;OPK US)

FYE Dec	2014A	2015A	2016A	2017E (Prev)	2017E (Curr)	2018E (Prev)	2018E (Curr)
EPS Reported (\$)							
Q1 (Mar)	(0.11)	(0.26)	(0.02)	(0.04)	(0.03)	-	-
Q2 (Jun)	(0.06)	(0.09)	0.03	(0.03)	(0.02)	-	-
Q3 (Sep)	(0.11)	0.25	(0.03)	0.01	0.01	-	-
Q4 (Dec)	(0.12)	0.00	(0.02)	(0.01)	(0.02)	-	-
FY	(0.41)	(0.06)	(0.05)	(0.08)	(0.06)	0.18	0.09
Bloomberg EPS FY (\$)	-0.32	-0.07	-0.06	-	-0.01	-	0.20

Source: Company data, Bloomberg, J.P. Morgan estimates.

#### See page 5 for analyst certification and important disclosures.

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## Overweight

**OPK, OPK US**

Price: \$8.37

▼ **Price Target: \$12.00**  
 Previous: \$14.00

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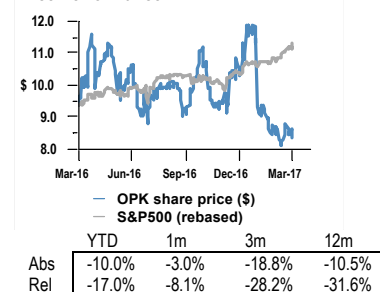
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#### Price Performance



#### Company Data

Price (\$)	8.37
Date Of Price	01 Mar 17
52-week Range (\$)	12.15-7.99
Market Cap (\$ mn)	4,622.16
Fiscal Year End	Dec
Shares O/S (mn)	552
Price Target (\$)	12.00
Price Target End Date	31-Dec-17

digit sales growth for BRL, and the company has put in place a new billing system that it believes can improve cash flows for the asset over time. OPKO expects to see meaningful improvement in cash flows in 2017, with the full effect in 2018. We continue to view this as an interesting opportunity given BRL's previous low cash flow conversion and lower margin profile relative to larger peers.

- **Updating model.** We are updating our model following 4Q results. Our new 2017-2020 EPS estimates are (\$0.06), \$0.09, \$0.28, and \$0.53. Our price target also moves lower to \$12 on our reduced forecasts. Please see below for a summary of our estimate changes.

Figure 1: Changes to OPK EPS and Sales Estimates

OPK Period	EPS			Revenue (\$ in millions)		
	Revised	Prior	Difference	Revised	Prior	Difference
3Q/16A	(\$0.03)	(\$0.03)	\$0.00	\$298	\$298	\$0
4Q/16E	(\$0.02)	(\$0.06)	\$0.04	\$276	\$308	(\$32)
2016E	(\$0.05)	(\$0.08)	\$0.03	\$1,222	\$1,254	(\$32)
2017E	(\$0.06)	(\$0.08)	\$0.02	\$1,339	\$1,388	(\$49)
2018E	\$0.09	\$0.18	(\$0.09)	\$1,527	\$1,660	(\$133)
2019E	\$0.28	\$0.31	(\$0.03)	\$1,745	\$1,844	(\$99)
2020E	\$0.53	\$0.57	(\$0.04)	\$2,013	\$2,126	(\$113)

Source: J.P. Morgan estimates.

## Investment Thesis, Valuation and Risks

### OPKO (Overweight; Price Target: \$12.00)

#### Investment Thesis

**Maintain OW rating.** OPKO is a diversified healthcare company on the cusp of what we expect to be a healthy growth cycle, driven by several potentially promising product launches across its pharma, biologics, and diagnostics businesses. Additionally, we believe OPKO's recent acquisition of Bio-Reference Labs (BRL), the third largest clinical laboratory in the US, will support uptake of the company's diagnostics platform and add a valuable genetics testing franchise (GeneDx). Although we forecast a gradual ramp of OPKO's near-term launch opportunities, we expect the pipeline to drive significant long-term growth over time and think valuation at these levels offers an attractive entry point.

#### Valuation

**Lower Dec 2017 price target to \$12 (vs. previous \$14).** Our DCF analysis assumes a 10% WACC and 0% terminal growth rate and launches of OPKO's key products in the 2016-2019 time frame that reach our peak sales forecasts. In our DCF, we forecast long-term operating margins in the ~30% range as OPKO launches its higher margin pharma and diagnostic products, which is partially offset by its lower margin labs business. We also forecast a fairly efficient tax rate for OPKO over time (~15%), despite its US incorporation and headquarters, as it has established a global supply chain operation and holding company out of Ireland. Additionally, we do not include business development or early stage pipeline in our valuation.

#### Risks to Rating and Price Target

Risks to the downside include (1) clinical risk with multiple programs in development, (2) commercial risk as opportunity may not materialize or be impacted by competition, (3) reimbursement risk, which may limit market potential, and (4) management risk as Dr. Phil Frost is a key driver of our Overweight rating.

## OPKO: Summary of Financials

<b>Income Statement - Annual</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>	<b>Income Statement - Quarterly</b>	<b>1Q17E</b>	<b>2Q17E</b>	<b>3Q17E</b>	<b>4Q17E</b>
Revenues	1,222	1,339	1,527	-	Revenues	319	339	360	322
Cost of products sold	(611)	(658)	(727)	-	Cost of products sold	(161)	(172)	(171)	(154)
Gross profit	610	681	800	-	Gross profit	157	167	189	168
SG&A	(491)	(521)	(537)	-	SG&A	(128)	(129)	(131)	(133)
R&D	(111)	(123)	(126)	-	R&D	(31)	(32)	(29)	(30)
Operating income	(73)	(36)	64	-	Operating income	(20)	(13)	10	(13)
Net interest (income) / expense	-	-	-	-	Net interest (income) / expense	-	-	-	-
Other income / (expense)	(0)	(2)	(2)	-	Other income / (expense)	(1)	(1)	(1)	(1)
Pretax income	(74)	(39)	62	-	Pretax income	(20)	(14)	9	(14)
Income taxes	56	8	(11)	-	Income taxes	4	3	(2)	3
Net income - recurring	(25)	(31)	51	-	Net income - recurring	(16)	(11)	8	(11)
Diluted shares outstanding	552	552	552	-	Diluted shares outstanding	552	552	552	552
EPS - excluding non-recurring	(0.05)	(0.06)	0.09	-	EPS - excluding non-recurring	(0.03)	(0.02)	0.01	(0.02)
EPS - recurring	(0.05)	(0.06)	0.09	-	EPS - recurring	(0.03)	(0.02)	0.01	(0.02)
<b>Balance Sheet and Cash Flow Data</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>	<b>Ratio Analysis</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Cash and cash equivalents	169	244	401	-	Sales growth	148.4%	9.6%	14.0%	-
Short Term Investment	0	0	0	-	EBIT growth	(25.7%)	(50.2%)	(274.8%)	-
Accounts receivable	220	215	255	-	EPS growth - recurring	(26.2%)	23.6%	(263.2%)	-
Inventories	47	51	121	-	Gross margin	50.0%	50.8%	52.4%	-
Other current assets	47	47	47	-	EBIT margin	(6.0%)	(2.7%)	4.2%	-
Current assets	484	558	824	-	Tax rate	(76.3%)	(20.0%)	18.0%	-
PP&E	123	125	128	-	Net margin	(2.1%)	(2.3%)	3.3%	-
Total assets	2,767	2,775	2,976	-	Return on assets (ROA)	(0.9%)	(1.1%)	1.8%	-
Total debt	56	56	56	-	Return on equity (ROE)	(1.2%)	(1.5%)	2.4%	-
Total liabilities	675	684	804	-	Free cash flow yield	0.3%	1.6%	3.4%	-
Shareholders' equity	2,092	2,091	2,171	-					
Net income (including charges)	(25)	(31)	51	-					
D&A	97	96	96	-					
Change in working capital	(43)	11	10	-					
Other	4	30	30	-					
Cash flow from operations	32	106	187	-					
Capex	(17)	(30)	(30)	-					
Free cash flow	15	76	157	-					
Cash flow from investing activities	(21)	(30)	(30)	-					
Cash flow from financing activities	(35)	0	0	-					

Source: Company reports and J.P. Morgan estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Dec

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OPKO (OPK, OPK US) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
16-Oct-15	OW	9.39	14.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Oct 16, 2015.

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**Coverage Universe: Flanders, Dana C:** Akorn (AKRX), Impax Laboratories (IPXL), OPKO (OPK)

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