

MK7110. The reason for an investment idea

We are very excited, even euphoric about the arrival of the vaccine, but it is not enough, an effective medical treatment is needed for the advanced stages of the disease, because the vaccine is not 100% effective and the virus mutations will make it even less effective. Only through this vaccine-treatment combination will we be able to get out of the economic crisis in which we find ourselves plunged. MK7110 is the name that Merck has given the solution so far.



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I maintain since this disease that devastates the planet has been known, that its remedy and therefore that of the gigantic economic problem that it has generated will not come solely and exclusively via the vaccine but will be by the combination of a vaccine and sufficiently effective treatment.

In my last article I made reference to the possibility that the treatment was closer than it seemed and put a name on the table, Merck. And let's see why Merck is a great investment idea.

For the most neophytes in the world of investment do not stop reading, I am not going to give a talk on fundamental or technical analysis. The markets and this are where we are going to see the example, they value other things in addition to simple numbers or graphs and more in situations like this.

During the last three decades there has been a very large sectoral concentration in the pharmaceutical world, as large or even greater than which has taken place in the banking world. While this is important, the other, the pharmaceutical is more. To create a bank, taking permits out of the equation, all you need is a product that is, after all, a commodity, money. To create a pharmaceutical company, in addition to money, a gray mass is needed, which is scarce and a huge investment in time.

This pharmaceutical concentration has been due more than to economic reasons, such as bank mergers, to strategic reasons derived from the need to have a new product in your portfolio.

"Pharma are not like banks. These merge due to economic problems, they do it to keep their portfolio updated".

Unlike other sectors, pharma has the problem that since it needs its products to be approved after a long period of trials, the real useful life of its

patents is relatively short, and the effective life, economically speaking, of their products is therefore also generally short.

Their patents have a short life span and if the product is profitable, it is manufactured by generic pharma, which forces them, in order not to lose the competitive advantage provided by the scoop, to develop new products at a speed that generally their incorporated gray mass is not capable, given the size that the company has already acquired. Thus, once they have acquired a certain size, they have no other solution than inorganic growth. Which is to merge with your competitors.

"Once their size is very large, they only have one way to survive, to grow through mergers or acquisitions."

This has led to large concentrations generating mega-laboratories and therefore to these controlling the manufacturing and distribution chains.

Conclusion: if the little ones are successful in a product, they only have one chance to grow or even survive and that is that they buy from them, making the big ones bigger and bigger.

At the same time, it happens that the dependence of the countries on the large laboratories is so great that their negotiation capacity increases instead of decreasing.

I was amused when I heard the EU politicians threaten AstraZeneca because they were not going to fulfill the contract. I thought: *"They are ignorant. But if AstraZeneca is the tenth largest pharmaceutical company in the world by revenue, a world leader in many oncology products and with 111 oncology projects in its R&D portfolio. Are we going to stop buying them? Are we going to fine them?"*

If so, we will pay the bill of political arrogance derived from not knowing how to negotiate in another way. "

And what happened? Well, we gave up because there was no other choice, and we accepted a 50% reduction in the agreed deliveries. When you go to a pharmacy and are told that a drug is missing, let them know that it is almost always the consequence of a tough price negotiation between the government of the day and the pharmaceutical company.

"The bargaining power has passed from the mega-client to the mega-provider. And there is no turning back".

Simple, with a scarce good they sell it to the highest bidder. And whoever does not like the capitalist system of free market and private initiative should go to Cuba and consume their medicines. Which, by the way, they don't have.

Well, focusing on Merck, the company was not interested in the vaccine, a race where it had not started on time and that was more like a popular marathon than the 100m sprint at the Olympiad. They began to work late on it and when they saw the first failures, they rightly withdrew, because they had concentrated on the other leg of the problem, the medical treatment. On the other hand, this is a race with few participants and with a prize as juicy or more than the vaccine.

They started with a project that they already had MK4482, which is an antiviral against viruses whose genetic material is RNA, such as the Ebola virus, the flu virus (Influenza) or the family of coronaviruses such as the one that causes COVID 19. An antiviral for oral intake, that is, it is easily dispensed and "*broad spectrum*", which attacks many potential mutations. This project is very advanced and already has a commercial name, *Molnupiravir*.

"MK7110 will not be a commercial name, but a name for the memory"

But for the reasons I have outlined before, they found an American pharmaceutical company small enough to need to be bought if they wanted their product to be successful and that it was in an advanced stage of development. This company called *Oncolmmune* was acquired by Merck on November 23 last year. Their product under study, CD24Fc, was incorporated into Merck under the name MK7110. Unlike the previous antiviral, this is an immunomodulator, that does not attack the

virus but tries to modulate our immune response against it, which in extreme cases translates into mega-inflammation of our lung sacs due to infection. It is the famous bilateral pneumonia, the cause of death for the majority of deaths from COVID 19.

Apart from the human tragedy that causes the loss of family and friends, the health tragedy comes before the collapse of the system. And to avoid this we block the economy, increasing the human tragedy described above. A COVID 19 patient in the ICU uses one of these beds, according to the study carried out by *Dr. Lapidus of the Sorbonne and published in Intensive Care Medicine*, an average of 21 days, while the standard average is 14 days of according to what was published by *Dr. Arabi in the International Journal for Quality Health Care*. In addition, 30% of the patients hospitalized for COVID 19 end up in the ICU, while the average of the rest of diseases is well below this figure.

"The goal is that no one gets sick, but it is impossible to achieve, so the next level is that no one dies and also that the health system does not collapse."

The remedy must arrive preventing people from getting massively ill, but if it does so because we consider the vaccine as valid if it is 50% effective, the objective is that it be hospitalized for the shortest possible time and above all that it does not occupy many, nor long time ICU beds. Mostly a hospitalized patient and almost always an ICU patient suffers from bilateral pneumonia. It is necessary to avoid that if this occurs it evolves badly.

Well, the Merck drug MK7110 has so far shown that with just three doses it reduces the rate of pneumonia from 83% to 33%.

We could say that Merck is a good investment because at the end of the day it is a safe value since it is 7th pharmaceutical by market capitalization, 3rd by income, 5th by EPS (earnings per share) and ROE (return on capital employed) or that only has 4 points more debt over capital than the average of the 10 great pharmas of the world. But it is now not a good investment only for all of the above.

"Merck is always a good investment because of its market position, but now it is because of the success of its bet."

Now it is a good investment because if the product goes on the market with these results, it solves 50% on its own to the world problem, and no one

at the moment has anything like it, and when a competitor, Amgen, does it will only be two, not like the others. Vaccines, that within one or two years, choosing which one to inoculate me will be like the Spanish kids play of "*Eeny, meeny, miny, moe*".

And for a government to come and say that the price of the drug is expensive, let's see how long it takes to give up. All this is not only quantitative intrinsic value, but qualitative, and it pays very well on the exchanges.

And when is it going to come out? Well, at the moment it has already signed an agreement with the American Government to receive funds from the "*Warp speed*" program for the development of medical solutions to the pandemic, in order to support the development, manufacture and distribution of the drug once it receives FDA emergency use authorization. And for this, there is little left, it is finishing its phase II / III clinical study.



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