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Merck & Co., Inc.

Thoughts on Oncolmmune Deal and Recent BD Activity

Stock Rating/Industry View: Overweight/Positive

Price Target: USD 90.00

Price (23-Nov-2020): USD 80.28

Potential Upside/Downside: 12%

Tickers: MRK

Merck acquired Oncolmmune (Private) for \$425mn this morning, with the focus on latter's CD24Fc program (biological immunomodulator) for the treatment of COVID-19. In the context of Oncolmmune's top-lined phase 3 data reported in September, the notable detail is the price (\$425mn) – notable in how quickly implied valuations for COVID-19 therapies have fallen since the spring, when Gilead's remdesivir held implied valuations of \$15bn+ at times. At this price and given increased questions surrounding remdesivir's continued use, we suspect that Merck will ultimately be able to justify the deal by longer-term stockpiling and/or utilization of the program across other pandemic preparedness efforts likely to materialize post-COVID-19. While full details from the phase 3 have yet to be released and publication is likely in the near-term, today's announcement likely implies that the top-line data accurately characterize the drug's efficacy. Overall, we don't see this deal meaningfully moving the needle for Merck, but also see minimal downside with potential upside optionality if a broader stockpiling opportunity or applicability to other ID indications materialize. The deal is all cash and expected to close by YE'20 subject to HSR and other customary conditions as per the press release.

Oncolmmune Deal and CD24Fc. Oncolmmune top-lined phase 3 data for CD24Fc in severe/critical COVID-19 patients in September, and, while full details are pending submission to a peer-reviewed journal, initial results are encouraging with CD24Fc-treated patients achieving 60% better chance of recovery ($p=0.005$), with median time to recovery of 6 days vs. 10 days for placebo, and the risk of death or respiratory failure was reduced by more than 50% – notable as remdesivir never showed a significant impact on mortality. While the commercial potential for new COVID-19 therapeutics has been volatile given new questions surrounding remdesivir, albeit against the backdrop of de-risking vaccine data and EUAs issue for the Lilly and Regeneron antibody approaches, we still see a need for effective therapeutics – either for a much lower steady rate of COVID-19 infections and/or stockpiling purposes.

Merck Deal-Making Activity - Oncology and COVID-19. Merck has executed on 8 transactions over the past 12 months, focused exclusively on oncology and COVID-19. Merck executed three ID transaction over that period (two acquisitions and one R&D collaboration), and while the programs are focused on COVID-19, we think the programs could have broader applicability or read-through to broader ID development / pandemic preparedness.

Figure 1. Merck Deal-Making Activity Since December 2019

Source: Company Reports

Give us a call with any questions...Carter, Andrew, and Justin

Restricted - External

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Mentioned Stocks (Ticker, Date, Price)

Merck & Co., Inc. (MRK, 23-Nov-2020, USD 80.28), Overweight/Positive, CD/CE/J/K/M/N

Valuation Methodology: Our \$90 PT is based on a DCF analysis on the current Merck business, inclusive of the women's health, legacy brands, and biosimilars, with projected sales forecasts to 2030, taking into account relevant LOEs and market developments. We apply a 7.25% WACC and -1% terminal growth with a long-term tax rate of 18%.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks to our thesis and price target include: (1) slowing growth for Keytruda in key indications, including NSCLC and RCC, (2) disappointing data and/or undifferentiated data with Keytruda in adjuvant indications, (3) positively differentiated competitor data relative to Keytruda, (4) delays in the execution of the spin-out of the women's health and biosimilars business, and (5) political risk in relation to drug pricing reform.

Ratings and Price Target History:

Merck & Co., Inc.

Currency=USD



Source: IDC, Barclays Research

Publication Date	Closing Price	Rating	Adjusted Price Target
28-Apr-2020	81.18		90.00
26-Feb-2020	79.94	Overweight	93.00
24-Jun-2019	85.51	Coverage Dropped	
12-Apr-2019	79.43		85.00
01-Feb-2019	76.45		82.00
18-Jan-2019	75.87		80.00
12-Oct-2018	69.81		78.00
07-Sep-2018	69.67		75.00
16-Jul-2018	62.59		70.00
05-Apr-2018	54.53	Overweight	64.00

On 23-Nov-2017, prior to any intra-day change that may have been published, the rating for this security was Equal Weight, and the adjusted price target was 62.00.

Source: Bloomberg, Barclays Research

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