

## Kinetics Medical Fund

### Bristol Myers Squibb – Podcast with Paul Abel

April 24, 2020

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Horizon Kinetics Asset Management LLC (“HKAM”) is pleased to announce that on April 24, 2020, Paul Abel, Senior Portfolio Manager for the Kinetics Medical Fund., recorded a podcast. The transcript set forth below is intended to provide a summary of Mr. Abel’s remarks. This transcript includes excerpts from the Bristol Myers Squibb historical timeline. The intent of the portfolio manager is to expound upon the history of the company in the context of the Kinetics Medical Fund’s investment perspective.

Source:

<sup>1</sup> <https://www.bms.com/about-us/our-company/history-timeline.html>

<sup>2</sup> <https://en.wikipedia.org/wiki/Ipana>

<sup>3</sup> <https://news.bms.com/press-release/biotech/bristol-myers-squibbs-yervoy-ipilimumab-awarded-prix-galien-usa-discovery-deca>

<sup>4</sup> Bloomberg

**Paul Abel:** Hello. My name is Paul Abel. I am the portfolio manager of the Kinetics Medical Fund. I have been the portfolio manager since 1999. The Kinetics Medical Fund is, at the time of this recording, down roughly 0.34% YTD, and maintains about an 8.9% annualized return since inception.<sup>4</sup> The Medical Fund, like many of the Kinetics products, focuses on long-term, deep-value investing. To that end we’re going to highlight Bristol Myers Squibb today. BMY has been one of the top holdings of the fund.

One of the Medical Fund’s top holdings is, and has been, Bristol Myers Squibb (“BMY”). BMY is a top bio-pharmaceutical firm with a long history of research and development across many therapeutic areas. It is instructive to look briefly at the history of the company to understand their evolutionary process and the way their epistemology has changed over the past 100 years.

#### “1845 -EDWARD ROBINSON SQUIBB

Dr. Squibb graduates from Philadelphia’s Jefferson Medical College. He spends a decade as a surgeon in the U.S. Navy, an experience that impresses upon him the urgent need for high-quality, standardized medicines.”<sup>1</sup>

Dr. Squibb sets up a laboratory in Brooklyn. He sells prepackaged field medical kits to the U.S. army replete with morphine bandages and ether during the Civil War.

#### “1879 -DR. SQUIBB’S PROPOSAL FOR SAFE MEDICINE

Dr. Squibb presents a report to the New York State Medical Society: “Proposed Law to Prevent the Adulteration of Food and Medicine and to Create a State Board of Health.” Known as the “Squibb Bill”, it becomes law and serves as the basis for the Federal Pure Food and Drug Act of 1906.”<sup>1</sup>

## **“1887 - CLINTON PHARMACEUTICALS**

William Bristol and John Myers invest \$5,000 to purchase the failing Clinton Pharmaceutical Company. With a pledge to sell no “quack remedies,” the two quickly turn the business around.”<sup>1</sup>

## **“1892 - E.R. SQUIBB & SONS FORMED**

Dr. Squibb forms a partnership with his sons, Edward and Charles, and the firm is renamed E.R. Squibb & Sons. The company has capital assets of \$1.5 million, according to the Articles of Incorporation filed in 1895.”<sup>1</sup>

## **“1898 - FIRST BREAKTHROUGH PRODUCT**

Marketed as a tonic and laxative, Sal Hepatica salts, dubbed the “poor man’s spa,” mimic the taste and effect of the natural mineral waters of a Bohemian spa. Within a decade, annual sales rise to a half-million dollars. The product is a mainstay of Bristol Myers until 1974.”<sup>1</sup>

## **“1901 - IPANA**

Bristol Myers introduces Ipana toothpaste, featuring a disinfectant to prevent tooth decay and gum disease.”<sup>1</sup>

It was a real toothpaste constructed to prevent tooth disease. It was formulated exclusively for dental health. It had a quarter percent of sodium fluoride as an active ingredient. They were researching tooth health at the time.

This product was used for many decades and hit peak sales in the 1950s, when it was marketed by a mascot named “Bucky Beaver.”<sup>2</sup>

Just as a note the pharmaceuticals have not left the field of dental medicine

GlaxoSmithKline (“GSK”) is actively marketing Sensodyne today. The pharmas are still interested in dental health.

## **“1902 - SQUIBB QUALITY-CONTROL LABORATORY**

E.R. Squibb & Sons establishes its first quality-control laboratory. Soon, it has nearly 100 employees and produces over 800 preparations.”<sup>1</sup>

## **“1906 - PURE FOOD AND DRUG ACT**

President Theodore Roosevelt signs the Pure Food and Drug Act of 1906 into law. Although Dr. Squibb died in 1900, the act is a triumph of his lifelong crusade for safe, reliable pharmaceutical products.”<sup>1</sup>

### **“1917 - DIGITALIS**

E.R. Squibb & Sons pioneers the standardization of digitalis, derived from the foxglove plant as an early treatment for heart conditions.”<sup>1</sup>

Digitalis is interesting as it further substantiates thousands of years of plant-based medicine. In fact, the belief in plant-based pharma was evident until recently. Remember the movie *Medicine Man* from 1992? The movie presented a case against deforestation from the perspective of destroying the world’s apothecaries. That’s not to say that plant-based pharmacology is without merit, to the contrary, whether digitalis, penicillin, and a myriad of other remedies are and have been important over the course of millennia. However, the epistemological wave doesn’t occur for several decades.

### **“1929 - BRISTOL MYERS GOES PUBLIC**

Gross profits top \$1 million and the company’s products are sold in 26 countries. Bristol Myers becomes a publicly held firm on the New York Stock Exchange.”<sup>1</sup>

I find it interesting that they went public in 1929 as it is rather reminiscent of Pfizer’s buying Wyeth during the depths of 2008-2009.

Throughout this period both companies become deeply involved in penicillin, supplying the armed forces during World War II.<sup>1</sup>

### **“1948 - FLO-CILLIN ‘96’**

Bristol Laboratories introduces Flo-Cillin 96, a long-lasting injectable penicillin. Bufferin is also introduced.”<sup>1</sup>

Throughout this period both companies build and operate research facilities in NJ and CT. These research facilities are the largest private laboratories in the world. All focused on drug development. It is important to remark that some of the earliest platinum-based chemotherapeutics are discovered and used during this time.

During the following years, BMY also horizontally diversified with less than positive results (as many other companies did). This included buying Clairol and Palomar pictures.

### **“1972 - PALOMAR PICTURES INTERNATIONAL**

Bristol Myers announces the formation of Palomar Pictures International. Palomar produces several films, including *The Stepford Wives* and *The Taking of Pelham One Two Three*. The company exits the film business two years later.”<sup>1</sup>

However, research, specifically cancer research continued apace. And some drugs that would become household names were discovered. Your grandparents probably were prescribed many of them. Ultimately non-pharmaceutical ventures were either spun off, sold or otherwise abandoned as ethical drugs as they were called have a much higher margin. As the ability to prognosticate new drug development, R&D, as well as margins, increased while the focus of these companies narrowed and sharpened.

### **“1989 - BRISTOL MYERS AND SQUIBB MERGE**

Bristol Myers merges with Squibb, creating a global leader in the healthcare industry. The merger creates Bristol Myers Squibb, the world’s second-largest pharmaceutical enterprise. One of the first medicines the new company introduces is PARAPLATIN, approved for treating recurrent ovarian cancer.”<sup>1</sup>

### **“1991 - Product Approval**

FDA approves TAXOL® paclitaxel.

FDA approves VIDEX® (didanosine).”<sup>1</sup>

### **“2016 - PRINCETON PIKE CAMPUS OPENS**

This state-of-the-art campus in New Jersey features workspace designed to foster greater innovation, productivity and collaboration exclusively for drug development.”<sup>1</sup>

Bristol Myers Squibb is awarded the Prix Galien U.S. “Discovery of the Decade.” This is the third Prix Galien honor that the company has received, after being recognized for “Best Biotechnology Product” in 2012 and “Best Biotechnology Product” in 2015.”<sup>1</sup>

In 2019 Bristol Myers buys Celgene, which was a fantastic purchase. Not only adding to their revenue stream with the Celgene products, but augmenting their already healthy R&D efforts.

Interestingly, BMY won the Prix Galien Award. They won “Discovery of the Decade” for Yervoy and “Best Biotechnology Product” for Opdivo. <sup>3</sup>

So this is a company laser-focused on biotech products.

So BMY has been recognized as a biotech leader. The intellectual process at work over the past hundred years has moved from finding compounds to heal you, to developing compounds to heal you in an effort to fix you once and for all.

BMY is not spending \$6 billion per year lightly. Consider that this money could be returned to shareholders or used as a war chest. BMY is demonstrating its commitment to being a global biotech leader for the next hundred years.

Among their research efforts are biologics, which sounds pedestrian today. CAR (chimeric antigen receptors) T cell therapy is an example where an individual's T cells are modified to become trained cancer killers, like a biologic seal team. Trials on these therapies are taking place. The largest problem being the cytokine reaction that occurs as the cancer extermination begins.

Again, this seems almost common or expected today. And one can envision in the near future when med students have the same disgusted reaction to chemotherapy as we do when there is the mention of leeches and bloodletting as a therapeutic.

Looking further forward, BMJ is working on augmenting or disrupting RNA processes on a cellular level. On a cellular level, BMJ's research encompasses gene therapy and correcting the DNA molecule.

Remember that in 1986 the first mAb was approved. Today they are not only employed to treat cancers but almost anything malady one can conceive including psoriasis. As one watches TV, remark on the drug ads and how many ends in mAb shorthand for monoclonal antibody. So from one mAb in 1986 to about 70 today, that is pretty amazing. Now extrapolate 20 years in the future. Consider when cancer can be cured with whizzed up T cells and one's DNA can be rewritten to cure Huntington's disease. The biotechs, BMJ et al, have hired a generation of biochemists and provided them with a trillion dollars. This insight and massive deployment of resources have resulted in an epistemological revolution that's merely 35 years old. After the birth of quantum mechanics in about 1925 let's say, it took 20 years to develop the transistor and look how things have changed since then. Consider how BMJ will change the understanding of medicine in the next 20 years. BMJ is exemplary of the process that is going on in the entire pharmaceutical-bio industry. One cannot be anything but hopeful for the future.

Thanks and be well.

Medical Fund Top 10 Holdings (%) as of March 31, 2020	
Bristol-Myers Squibb Company	9.0%
Biogen, Inc	8.1%
Eli Lilly & Company	8.1%
Novartis AG - ADR	7.9%
Merck & Co., Inc	7.9%
Johnson & Johnson	7.2%
Pfizer, Inc	6.7%
AstraZeneca plc - ADR	6.1%
Gilead Sciences, Inc.	5.6%
GlaxoSmithKline plc - ADR	5.6%

## Medical Fund (No-Load)

As of March 31, 2020	MEDRX (Net of Fees)	S&P 500 Index	NASDAQ Index
<b>TOTAL RETURN</b>			
Year-to-Date	<b>-10.10</b>	-19.60	-14.18
One Year (annualized)	<b>-3.00</b>	-6.98	-0.38
Three Year (annualized)	<b>4.13</b>	5.10	9.21
Five Year (annualized)	<b>1.03</b>	6.73	9.46
Ten Year (annualized)	<b>8.64</b>	10.53	12.37
Twenty Year (annualized)	<b>5.84</b>	4.79	2.64
Since Inception(annualized)	<b>8.43</b>	5.50	5.16

Performance data quoted is as of March 31, 2020. All figures over one year are annualized. Past performance does not guarantee future results. The inception date for MEDRX is September 30, 1999. As a no-load fund, there is no sales charge. The above performance is without dividends reinvested. Investment return and principal value will vary, and shares may be worth more or less at redemption than original purchase. The Fund's operating expense ratio, gross of any fee waiver or expense reimbursements is 2.23%. In April 2019, Kinetics Asset Management LLC ("KAM") and Kinetics Advisers, LLC ("KA") reorganized into Horizon Asset Management LLC ("HAM"), following which HAM was renamed Horizon Kinetics Asset Management LLC ("HKAM"). KAM, HAM and KA were all wholly-owned subsidiaries of Horizon Kinetics LLC, and HKAM will remain a wholly-owned subsidiary. HKAM is the Fund's adviser, previously, KAM was the Fund's adviser. Neither the portfolio managers of the Fund nor the Fund's investment objective and investment strategy have changed. Horizon Kinetics Asset Management LLC, the Investment Adviser to the Medical Fund, has voluntarily agreed to waive fees and reimburse expenses so that Total Annual Fund Operating Expenses do not exceed 1.39% for No Load Class shares. These waivers and reimbursements may be discontinued at any time. Visit [www.kineticsfunds.com](http://www.kineticsfunds.com) for the most recent month-end performance data and a copy of the most recent Prospectus.

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*Index Descriptions & Definitions:*

The S&P® 500 Index represents an unmanaged, broad-based basket of stocks. It is typically used as a proxy for overall market performance. The S&P® 600 Index measures the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. The iShares MSCI ACWI Index seeks to measure the performance of both the MSCI World Index and MSCI Emerging Markets Index. The iShares EAFE Index measures international equity performance across large and mid-cap equities across developed markets in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Barclays 1-3 U.S. Credit Bond Index is composed of investment grade U.S. credit securities with a maturity between one and three years. The Barclays U.S. Aggregate Bond Index is composed of the Barclays U.S. Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, and includes securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least \$100 million. An investor cannot invest directly in an index.