HILLIARD LYONS

COMPANY UPDATE / ESTIMATE CHANGE

Pharmaceuticals
Analyst: Kurt Kemper, CFA
502-588-8446 / kkemper@hilliard.com
Institutional Sales Desk: George Moorin
502-588-9141 / GMoorin@hilliard.com
J.J.B. Hilliard, W.L. Lyons, LLC
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Bristol-Myers Squibb Company

BMY – NYSE – Neutral – 3

Key Metrics

BMY - NYSE (as of 02/05/18)		$60.96
Price Target		N/A
52-Week Range		$51.52 - $66.09
Shares Outstanding (mm)		1,645
Market Cap. ($mm)		$99,773
1-Mo. Average Daily Volume (000s)		1,874
Institutional Ownership		71.1%
Debt / Total Capital		20.5%
ROE (TTM)		6.8%
Book Value / Share		$8.20
Price / Book Value		7.4x
Indicated Dividend / Yield	$1.60	2.6%
TTM Operating Margin		24.7%

Non-GAAP EPS FYE 12/31

	2017A	Prior 2018E	Curr. 2018E	Prior 2019E	Curr. 2019E
1Q	$0.84	$0.85	$0.84		$1.01
2Q	$0.74	$0.77	$0.79		$0.93
3Q	$0.75	$0.77	$0.83		$0.99
4Q	$0.68	$0.67	$0.68		$0.85
Year	$3.01	$3.06	$3.15	$3.76	$3.78
P/E	20.3x		19.4x		16.1x

Figures may not add up due to rounding

Revenue ($billions)

	2017A	Prior 2018E	Curr. 2018E	Prior 2019E	Curr. 2019E
1Q	$4.93	$4.99	$5.12		$5.38
2Q	$5.14	$5.12	$5.24		$5.58
3Q	$5.25	$5.13	$5.25		$5.64
4Q	$5.45	$5.44	$5.54		$5.98
Year	$20.78	$20.67	$21.14	$22.71	$22.58

Company Description *– Bristol-Myers Squibb Company is a multinational biopharmaceutical company focused on developing and marketing innovative medicines in the areas of oncology, immunology, cardiovascular, and fibrotic diseases. The company also sells products for the treatment of virologic infections.*

Strong 4Q17 Earnings and Incremental Positive for Checkmate-227 Data

- **4Q17 Results:** BMY reported revenues of $5.45 billion, growth of 3.9% year-over-year. This beat our estimate of $5.32 billion and the Street consensus estimate of $5.35 billion. Non-GAAP EPS of $0.68 beat our estimate of $0.65 and the Street consensus of $0.67. GAAP earnings were heavily impacted by a one-time tax charge.
- **Positive Highlights:** Opdivo sales remained strong despite some headwinds, exceeding our estimate and the Street consensus. Eliquis revenues also surprised to the upside.
- **Negative Highlights:** Yervoy missed our estimates, as domestic revenues declined due to pressure from Opdivo in adjuvant melanoma. The gross margin fell short of expectations, coming in at 69.3% versus our estimate of 71.8%. Core operating expenses (in GAAP terms) of $3.22 billion were higher than our estimate of $3.03 billion.
- **Checkmate-227:** Please see pages 3-4 for more discussion of the news unveiled with earnings.
- **Estimates:** We are increasing our 2018 revenue estimate to $21.14 billion versus our prior estimate of $20.67 billion. Mostly as a result of tax changes, we are boosting our non-GAAP EPS estimate to $3.15 from $3.06. For 2019, we actually decreased our revenue estimate to $22.58 billion from $22.71 billion but increased our non-GAAP EPS estimate to $3.78 from $3.76, once again due to tax reform.
- **Outlook and Valuation:** BMY has a volatile year coming up with the unveiling of data from several clinical trials, including those of competitors. With recent news regarding the Keynote-189 trial from Merck and its European regulatory implications, the pressure on BMY to deliver strong results in lung cancer trials has increased. We view the Checkmate-227 news as only a small, incremental positive for the company's positioning. Closing yesterday at 19.4X our next 12 months EPS estimates, we feel shares are fairly valued at this point and maintain our Neutral rating.

Note Important Disclosures on pages 9 and 10
Note Analyst Certification on page 9

ADDITIONAL COMMENTARY

Revenue Review				
Drug / Franchise *(in millions)*	**Our Estimate**	**4Q17 Results**	**4Q17 Y/Y Growth**	**2017 Y/Y Growth**
Baraclude	258	233	-21.3%	-11.7%
HCV	62	59	-73.9%	-74.3%
Reyataz	166	143	-30.6%	-23.5%
Sustiva	175	174	-29.3%	-31.5%
Empliciti	63	63	34.0%	54.0%
Opdivo	1,261	1,361	3.9%	31.1%
Sprycel	513	527	6.7%	9.9%
Yervoy	327	269	1.9%	18.1%
Orencia	692	662	5.9%	9.4%
Eliquis	1,282	1,363	43.8%	45.7%
Mature and Other	525	595	2.4%	-7.0%
Total Revenue	**5,323**	**5,449**	**3.9%**	**6.9%**

Source: Company Reports, Hilliard Lyons Estimates

Performance Review

- Revenue grew 4%, with a roughly 2% boost from currency swings. Growth was particularly strong in the U.S. (6.9%) with Europe increasing 2.4%; revenues in the rest of the world actually shrank 2.2%.
- The **Virology portfolio**, largely made up of older drugs off patent or nearing patent expiries, fell short of our estimates. International Baraclude results were worse than we expected, while domestic Reyataz revenues fell short of our estimates. The company doesn't appear to be ringing the register in China with their HCV franchise after being the first all-oral regimen to receive regulatory approval in the country. Inroads are difficult to make in China, but we fear the company largely missed the narrow window of opportunity, as the playing field has become much more crowded.
- **Empliciti** grew 5% sequentially, in line with our estimate. Competitive pressures continue to limit opportunities for Empliciti, in our opinion.
- **Opdivo** performance was strong and exceeded both our estimate and the Street consensus, led by 16% international sequential growth. Based on commentary about the revenue breakdown in the U.S., our calculations suggest the size of second-line (2L) non-small cell lung cancer (NSCLC) market continues to be more stable than we anticipated. As a reminder to investors, the 2L market is expected to shrink for Opdivo due to Keytruda uptake in 1L. Management noted their leading 2L NSCLC share in the U.S. is fairly stable. Management also noted performance was strong in both renal cell carcinoma (RCC), adjuvant melanoma and hepatocellular carcinoma (HCC).
- **Yervoy** missed our estimate due to a domestic sequential decline. While we anticipated the domestic weakness due to Opdivo uptake in adjuvant melanoma, it was worse than expected. International growth remained strong at 5% sequentially and 42% year-over-year.
- **Sprycel** revenue growth was strong domestically and roughly flat internationally. International revenues are set to decline at some point given the recent patent loss in Europe. However, we note the company stated last quarter that no generics have entered yet. We remind investors 4Q16 European revenues for Sprycel were approximately $100 million.

- **Orencia** growth remained strong on the domestic front but was flat in international markets. The drug has the additional tailwind of a psoriatic arthritis approval from the FDA and the European Commission. While materially helpful to the franchise, we don't expect a substantial boost to Orencia sales from this increasingly competitive category. Another positive news item came from the pharmacokinetic failure of Momenta and Mylan's biosimilar, likely pushing competition further into the future.
- **Eliquis** growth continues to be impressive. Eliquis is the leading novel oral anticoagulant (NOAC) with almost 50% share in total prescriptions (TRx) in the U.S., as well as the leader in new-to-brand (NBRx) share in several European countries.
- The GAAP gross margin declined 432 basis points from 4Q16 to 69.3%, falling short of our estimate of 71.8% and the Street consensus of 71.9%. Management pointed to product mix (particularly Eliquis and declining virology sales) as the primary source of the decline. As a reminder, Eliquis is part of an alliance with Pfizer and carries a gross margin around 50%.
- Core operating expenses came in higher than anticipated due to both MS&A and R&D. MS&A expenses were $1.30 billion versus our estimate of $1.22 billion, and R&D expenses were $1.92 billion versus our estimate of $1.81 billion.
- With Other Income of $0.14 billion (we estimated an expense of $0.04 billion), GAAP pre-tax income was $0.70 billion versus our estimate of $0.75 billion. A tax charge related to reform led GAAP EPS to be -$1.42. After non-GAAP adjustments of $0.68 billion and a non-GAAP tax rate of 18.5% (we estimated 21.3%), non-GAAP EPS were $0.68 versus our estimate of $0.65 and the Street consensus of $0.67.

Checkmate-227

Essentially the entire conference call was dedicated to the Checkmate-227 news, and understandably so. As a reminder to investors, this is a multi-part trial testing the immuno-oncology (I-O) combo Opdivo + Yervoy in first-line (1L) non-small cell lung cancer (NSCLC). Not only is the trial extremely important to BMY and the future of lung cancer treatment, but BMY surprised many, including us, with a significant change to trial structure and data analysis. BMY essentially merged the Part 1a and Part 1b arms of the trial and changed the biomarker for one of the co-primary endpoints. They seemingly got rid of two treatment options in these arms as well (Opdivo monotherapy and Opdivo + chemo). The company did this without making changes to *clinicaltrials.gov* or telling investors.

BMY changed the interim biomarker of choice from PD-L1 to tumor mutational burden (using FoundationOne from Foundation Medicine). But the changes and confusion don't end there. The primary endpoints for the trial are now progression-free survival (PFS) for patients with high TMB and overall survival (OS) for PD-L1+ patients. The company did confirm that OS for high TMB patients was a secondary endpoint, but this could potentially come with less alpha dedicated to it. Additionally, the company defined high TMB as patients with 10 or more mutations per megabase (mt/mb). This is different from the 20 Foundation Medicine uses as a cutoff for "high TMB" and expands the population from an estimated 13% (at 20 mt/mb) to an estimated 45% of patients BMY identified in the trial with 10 or more mt/mb.

The following is speculation on our part. In short, we believe BMY may be making a regulatory play here with a quick approval from an FDA willing to accept PFS data and hoping for the best with OS data. Armed with bad news from AstraZeneca and perhaps their own internal data on PD-L1 expression and PFS failure for I-O combos in addition to TMB analysis from other trials, BMY altered the PFS biomarker analysis from PD-L1 to TMB. On the call, the company stressed that the TMB PFS data was *highly* statistically significant and that the changes were discussed with the FDA. An accelerated approval, which the company suggested is at least going to be discussed with regulatory authorities, would allow BMY on to the 1L playing field domestically (we believe European regulators would not accept) and start the commercial

effort to educate physicians about the combo (and its toxicities) and the companion diagnostic (and its logistics). Furthermore, the FDA has recently been hesitant to withdraw accelerated approvals when OS fails: Merck in head and neck and Roche in bladder just to name a few.

However, this regulatory maneuver does not equate to a commercial hedge, which is the chief concern of investors. As we have harped on numerous times, PFS is not a perfect correlate of OS. And given the questions now surrounding the trial, as well as lingering concerns about toxicity of the I-O combo, we expect minimal uptake if the FDA grants accelerated approval in the near-term; we believe positive OS data will now be required for a meaningful adoption of the regimen by oncologists.

The lack of transparency from the company prompted our speculation on recent events and near-term actions. However, **today's news was too light on details for us to start speculating on the intermediate- and long-term.** Without statistics from this interim update, from AstraZeneca's MYSTIC trial, and from Merck's Keynote-189 trial, investors are left in limbo guessing about the OS outcomes for treatment combos and the commercial implications of such data. **Despite our view of minimal uptake in the near-term, we still believe the Checkmate-227 update is a small, incremental positive for the company. This is due to our opinion that an FDA accelerated approval is likely (but far from guaranteed), which allows BMY to jumpstart the commercial effort of education. This education effort, in turn, could be very important to more widespread and rapid uptake *if* OS data comes in sufficiently positive.**

News Review

Listed below are key news items since the last quarterly financial report:

- Opdivo continued its streak of **regulatory approvals.** The FDA approved the drug for the adjuvant treatment of melanoma. The European Commission approved Yervoy for pediatric patients with melanoma. The FDA approved Sprycel for pediatric patients with chronic myeloid leukemia in the chronic phase.
- BMY announced **clinical trial data** from Checkmate-214 showing the Opdivo + Yervoy combo improved overall survival regardless of PD-L1 expression. As a reminder to investors, the company had already announced success in PD-L1+ patients. The combo also displayed strong efficacy in 2L colorectal cancer for patients with certain biomarkers (dMMR or MSI-H). Another Opdivo success occurred in Checkmate-078, testing predominantly Chinese 2L NSCLC patients, likely marking Opdivo's entry point into China. BMY also announced a strong 32% objective response rate (ORR) in bladder cancer patients for its IDO1 inhibitor. Seattle Genetics' Adcetris combined with Opdivo generated an 83% ORR in 2L classical Hodgkin lymphoma; this combo is currently in the Phase 3 Checkmate-812 trial.

CATALYST CALENDAR

Date		Event	Drug(s)	Indication(s)	Phase	Details
2018	March	Checkmate-331	Opdivo	SCLC - 2L	3	Trial Data - Primary Completion
	March	FDA decision (PDUFA date)	Opdivo	4-week dosing schedule		
	April	FDA decision (PDUFA date)	Opdivo+Yervoy	Renal Cell Carcinoma - 1L		Checkmate-214 trial
	April	BMS-986142 study	BMS-986142 (BTK)	Rheumatoid arthritis	2	Trial Data - Study Completion
	May	Checkmate-714	Opdivo & Opdivo+Yervoy	Head and neck cancer - 1L & 2L	2	Trial Data - Primary Completion
	July	Checkmate-140	Opdivo	Follicular Lymphoma - 2L	2	Trial Data - Primary Completion
	September	Checkmate-451	Opdvio & Opdivo+Yervoy	ED-SCLC - 2L	3	Trial Data - Primary Completion
	September	Checkmate-040	Opdvio, Opdivo+Yervoy, & Opdivo+Cabometyx	Hepatocellular Carcinoma - 1L & 2L	1/2	Trial Data - Primary Completion
	October	Checkmate-459	Opdivo	Hepatocellular Carcinoma - 1L	3	Trial Data - Primary Completion
	October	PIVOT-02	Opdivo+NKTR-214	Solid tumors	1/2	Trial Data - Study Completion
	December	Study of I-O combo	Opdivo+urelumab (CD-137)	Solid tumors & B-cell NHL	1/2	Trial Data - Primary Completion
	December	Checkmate-650	Opdivo+Yervoy	Prostate cancer - 2L	2	Trial Data - Primary Completion
	Late '18, Early '19	Checkmate-227 pt. 1	Opdivo+Yervoy - OS	NSCLC - 1L - PD-L1+	3	Trial Data - Primary Completion
	-	Loss of exclusivity	Orencia			Japan
2019	2019	Checkmate-227 pt. 2	Opdivo+Chemo	NSCLC - 1L - all comers	3	Trial Data - Primary Completion
	January	Checkmate-142	Opdivo+relatlimab (LAG-3)	Colorectal cancer - 2L	2	Trial Data - Primary Completion
	January	Checkmate-651	Opdivo+Yervoy	Head and neck cancer - 1L	3	Trial Data - Primary Completion
	March	Checkmate-498	Opdivo+radiation therapy	Glioblastoma	3	Trial Data - Primary Completion
	March	PRM-151 IPF study	PRM-151 (Pentraxin-2)	Idiopathic Pulmonary Fibrosis	2	Trial Data - Study Completion
	April	PRM-151 MF study	PRM-151 (Pentraxin-2)	Myelofibrosis	2	Trial Data - Study Completion
	April	BMS-986205 study	BMS-986205 (IDO)+Opdivo+ or - Yervoy	Solid tumors	1/2	Trial Data - Primary Completion
	May	Checkmate-358	Opdivo+relatlimab or Opdivo+Yervoy	Virus-associated tumors	1/2	Trial Data - Primary Completion
	May	Checkmate-602	Opdivo+Empliciti & Others	Multiple Myeloma - 2L	3	Trial Data - Primary Completion
	June	Relatlimab study	Relatlimab+ or - Opdivo	Solid tumors	1/2	Trial Data - Primary Completion
	June	Checkmate-568	Opdvio+Yervoy + or - chemo	NSCLC - 1L	2	Trial Data - Primary Completion
	June	Checkmate-436	Opdivo+Adcetris	Non-Hodgkin's lymphomas - 2L	1/2	Trial Data - Primary Completion
	July	Checkmate-649	Opdivo+Yervoy or Opdivo+chemo	Gastric or gastroesophageal cancer	3	Trial Data - Primary Completion
	August	Hematologic study	Opdivo+Imbruvica	Hematologic cancers	1/2	Trial Data - Primary Completion
	August	Checkmate-9LA	Opdivo+Yervoy+chemo	NSCLC - 1L	3	Trial Data - Primary Completion
	September	Checkmate-722	Opdivo+Yervoy or Opdivo+chemo	EGFR-mt NSCLC - 2L	3	Trial Data - Primary Completion

Sources: Company reports, Hilliard Lyons Research, clinicaltrials.gov

Please note all dates listed in the table are estimates and subject to change. Furthermore, the timing of clinical trial data disclosure is uncertain. Please contact us for the dates of medical meetings that may be of relevance to BMY, which are not included in the table above.

Not included in the table are Phase 3 trial initiations, select external disclosures of completed trials, and regulatory decisions outside the U.S. In 2018, the company expects to start Phase 3 trials for the PEG-FG21 asset in nonalcoholic steatohepatitis (NASH) and Opdivo + Incyte's epacadostat in cancer. BMY could provide investors with data from Checkmate-143 and Checkmate-205 this year, and data for its TYK2 inhibitor in psoriasis next year. Finally, we expect approvals from European regulatory authorities regarding Opdivo in adjuvant melanoma and Opdivo + Yervoy in 1L RCC. Given the proliferation of I-O trials, it is possible this list of events is not exhaustive.

2018 GUIDANCE AND ESTIMATES UPDATE

2018 Guidance		
USD in billions except per share data	Management	HL Estimates
Revenue	↑ low- to mid-single digits	1.8%
Gross Margin	~70%	69.9%
MS&A Expenses	↓ low- to mid-single digits	-3.4%
R&D Expenses (GAAP)	↓ low double digits	-12.7%
R&D Expenses (non-GAAP)	↑ high single digits	6.7%
Other Income/ (Expense)	N/A	$1.19
Tax Rate	20% - 21%	19.9%
GAAP EPS	$3.00 - $3.15	$2.84
Non-GAAP EPS	$3.15 - $3.30	$3.15

Source: Company Reports
Guidance in both GAAP and non-GAAP terms unless otherwise specified

We are increasing our 2018 revenue estimate to $21.14 billion versus our prior estimate of $20.67 billion. Mostly as a result of tax changes, we are boosting our non-GAAP EPS estimate to $3.15 from $3.06. For 2019, we actually decreased our revenue estimate to $22.58 billion from $22.71 billion but increased our non-GAAP EPS estimate to $3.78 from $3.76, once again due to tax reform. Key changes include:

- From a revenue perspective, the biggest change was Opdivo. In 2018, we increased estimates for the drug as a result of pushing back the timeline of the shrinking 2L market. However, turning to 2019, we lowered estimates as a result of the Keynote-189 news likely allowing Merck to get a strong head start in Europe. We lowered Yervoy estimates for 2018 and 2019 as a result of the rapid erosion from Opdivo as well as concerns about threats from other combos invading sooner than we anticipated. We increased Orencia estimates as a result of the Momenta/ Mylan struggles. Most other revenue changes were more modest.
- We decreased our gross margin estimate both 2018 and 2019 as we once again admittedly underappreciated the impact of the shrinking virology portfolio.
- We increased operating expense estimates for 2018 but lowered them for 2019. Regarding MS&A, we believe the company can meet their goal of operating leverage in 2018 and left that metric flat on a dollar basis, followed by a decrease in 2019 estimates. Turning to R&D, we believe the company cannot afford to take its foot off the gas and therefore increased estimates. We note our lower GAAP EPS estimates are primarily driven by our expectation of continued business development deals in R&D, which we believe management may not be including in their GAAP EPS guidance.
- Finally, the company guided to a lower tax rate in 2018, although it likely was a modest disappointment considering the tax rate guidance of peers. On the other hand, management implied it will continue to decline over the coming years. The change to tax rate assumptions was the main driver of the increase in non-GAAP EPS estimates for 2019.

VALUATION & RATING

BMY closed yesterday at 19.4X our next twelve months non-GAAP EPS estimate. Our forward P/E multiple model, which assesses the biopharmaceutical industry on the basis of risk and growth, suggests this P/E is just modestly higher than it should be. However, 2018 was naturally set up to be a tough year due to rapid erosion of the virology portfolio, so the next twelve months is not the most useful for multiples. Looking at longer term estimates and a discounted cash flow model suggests potential upside from the current price, but not quite enough for us to change our rating. Thus, we are maintaining our Neutral rating.

SUITABILITY

Bristol-Myers Squibb is a large and well-established biopharmaceutical company with a diversified portfolio. However, we believe their portfolio will become more concentrated in coming years. Further, their event risk has risen in the near term given the lack of clarity and data from both the company (trial Checkmate-227) and competitors in the crucial non-small cell lung cancer space. Thus, we assign BMY shares a suitability rating of 3.

RISKS & CONSIDERATIONS

- **Competition and innovation** – The biopharmaceutical business requires complex operations with many unique and uncertain aspects. A competitor or new company could produce new therapies that could displace BMY drugs.
- **Regulatory** – The biopharmaceutical industry is subject to an intense regulatory environment throughout a product life cycle. Regulatory actions against the company or an individual product may harm financial results.
- **Legal** – Product lawsuits are extremely common in the biopharmaceutical sector. An unfavorable court decision could hamper the ability to market a product or subject the company to earlier generic competition.

Revenue Build

In millions	2015 A	2016 A	2017 A	1Q18 E	2Q18 E	3Q18 E	4Q18 E	2018 E	2019 E	2020 E	2021 E	2022 E
Baraclude	1,312	1,192	1,052	212	195	179	170	757	605	484	387	310
HCV	1,603	1,578	406	56	52	48	44	200	155	111	73	48
Reyataz	1,139	912	698	126	111	93	77	406	239	143	86	52
Sustiva	1,252	1,065	729	84	50	42	34	210	110	88	71	56
Empliciti	3	150	231	66	69	74	79	287	327	344	361	379
Opdivo	942	3,774	4,948	1,292	1,303	1,329	1,528	5,453	6,407	7,529	8,658	9,783
Sprycel	1,620	1,824	2,005	465	485	487	505	1,943	1,994	1,619	707	333
Yervoy	1,126	1,053	1,244	302	322	338	355	1,317	1,416	1,486	1,436	1,278
Orencia	1,885	2,265	2,479	576	700	679	716	2,671	2,534	2,286	2,096	1,921
Eliquis	1,860	3,343	4,872	1,430	1,465	1,518	1,553	5,966	6,861	7,547	8,075	8,479
Other*	3,818	2,271	2,112	509	489	458	476	1,932	1,930	2,367	2,976	3,783
Total	**16,560**	**19,427**	**20,776**	**5,118**	**5,241**	**5,246**	**5,536**	**21,141**	**22,579**	**24,004**	**24,926**	**26,422**
% of Total												
Baraclude	7.9%	6.1%	5.1%	4.1%	3.7%	3.4%	3.1%	3.6%	2.7%	2.0%	1.6%	1.2%
HCV	9.7%	8.1%	2.0%	1.1%	1.0%	0.9%	0.8%	0.9%	0.7%	0.5%	0.3%	0.2%
Reyataz	6.9%	4.7%	3.4%	2.5%	2.1%	1.8%	1.4%	1.9%	1.1%	0.6%	0.3%	0.2%
Sustiva	7.6%	5.5%	3.5%	1.6%	1.0%	0.8%	0.6%	1.0%	0.5%	0.4%	0.3%	0.2%
Empliciti	0.0%	0.8%	1.1%	1.3%	1.3%	1.4%	1.4%	1.4%	1.5%	1.4%	1.4%	1.4%
Opdivo	5.7%	19.4%	23.8%	25.3%	24.9%	25.3%	27.6%	25.8%	28.4%	31.4%	34.7%	37.0%
Sprycel	9.8%	9.4%	9.7%	9.1%	9.3%	9.3%	9.1%	9.2%	8.8%	6.7%	2.8%	1.3%
Yervoy	6.8%	5.4%	6.0%	5.9%	6.1%	6.4%	6.4%	6.2%	6.3%	6.2%	5.8%	4.8%
Orencia	11.4%	11.7%	11.9%	11.3%	13.4%	12.9%	12.9%	12.6%	11.2%	9.5%	8.4%	7.3%
Eliquis	11.2%	17.2%	23.5%	27.9%	28.0%	28.9%	28.1%	28.2%	30.4%	31.4%	32.4%	32.1%
Other*	23.1%	11.7%	10.2%	9.9%	9.3%	8.7%	8.6%	9.1%	8.5%	9.9%	11.9%	14.3%

** Includes older products such as Abilify and Erbitux (2015 only) and our estimate of risk-adjusted revenues from the pipeline*
Source:Company Reports and Hilliard Lyons estimates

BRISTOL-MYERS SQUIBB												BMY: NEUTRAL
In billions (except share data)	2015 A	2016 A	2017 A	1Q18 E	2Q18 E	3Q18 E	4Q18 E	2018 E	2019 E	2020 E	2021 E	2022 E
Fiscal Period End	12/31/2015	12/31/2016	12/31/2017	3/31/2018	6/30/2018	9/30/2018	12/31/2018	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022
Income Statement												
Net Revenue	**16.56**	**19.43**	**20.78**	**5.12**	**5.24**	**5.25**	**5.54**	**21.14**	**22.58**	**24.00**	**24.93**	**26.42**
Gross Margin %	*76.4%*	*74.5%*	*70.8%*	*70.5%*	*70.1%*	*70.4%*	*68.8%*	*69.9%*	*70.0%*	*70.1%*	*70.3%*	*70.8%*
Core Operating Expenses	10.8	9.9	11.1	2.4	2.5	2.4	2.8	10.1	10.1	10.2	10.5	11.0
Other (Income)/Expense	(0.2)	(1.3)	(1.5)	(0.3)	(0.3)	(0.3)	(0.3)	(1.2)	(1.3)	(1.4)	(1.3)	(1.3)
Total Operating Expenses	10.6	8.6	9.6	2.1	2.2	2.1	2.5	8.9	8.7	8.9	9.2	9.6
GAAP Operating Income	**2.1**	**5.9**	**5.1**	**1.5**	**1.5**	**1.6**	**1.3**	**5.8**	**7.1**	**8.0**	**8.3**	**9.1**
GAAP Operating Margin %	*12.5%*	*30.4%*	*24.7%*	*29.8%*	*27.7%*	*30.3%*	*23.2%*	*27.7%*	*31.3%*	*33.1%*	*33.4%*	*34.3%*
Operating Income ex. Spec. Items	**4.3**	**6.2**	**6.3**	**1.7**	**1.6**	**1.7**	**1.4**	**6.5**	**7.7**	**8.3**	**8.6**	**9.4**
Non-GAAP Operating Margin %	*25.8%*	*31.7%*	*30.5%*	*34.1%*	*31.0%*	*32.6%*	*25.3%*	*30.6%*	*34.0%*	*34.5%*	*34.7%*	*35.5%*
Non-GAAP Effective Tax Rate	*20.9%*	*22.0%*	*21.0%*	*20.4%*	*20.0%*	*19.5%*	*19.5%*	*19.9%*	*19.2%*	*18.7%*	*18.6%*	*18.5%*
Non-GAAP Net Income	**3.4**	**4.8**	**5.0**	**1.4**	**1.3**	**1.4**	**1.1**	**5.2**	**6.2**	**6.7**	**7.0**	**7.6**
Diluted Shares Outstanding	1.68	1.68	1.65	1.63	1.63	1.63	1.63	1.63	1.62	1.62	1.62	1.61
Non-GAAP Diluted EPS	**$1.98**	**$2.83**	**$3.01**	**$0.84**	**$0.79**	**$0.83**	**$0.68**	**$3.15**	**$3.78**	**$4.11**	**$4.32**	**$4.71**
GAAP Diluted EPS	$0.93	$2.65	$0.61	$0.73	$0.70	$0.78	$0.63	$2.84	$3.48	$3.96	$4.16	$4.55
***Balance Sheet**												
Cash and Equivalents	2.4	4.2	5.4	4.7	5.4	5.8	6.6	6.6	8.3	11.9	15.8	19.9
Other Current Assets	8.0	9.5	9.2	8.8	8.8	8.6	9.1	9.1	9.5	9.9	10.1	10.8
Total Current Assets	**10.4**	**13.7**	**14.6**	**13.5**	**14.2**	**14.4**	**15.7**	**15.7**	**17.8**	**21.8**	**25.9**	**30.7**
Net PP&E	4.4	5.0	5.4	5.7	5.9	6.1	6.3	6.3	7.0	7.9	8.7	9.5
Intangible Assets	8.3	8.3	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.2	8.2	8.2
Other Assets	8.6	6.8	5.9	6.0	6.0	6.0	5.9	5.9	6.0	6.2	6.2	6.3
Total Assets	**31.7**	**33.7**	**34.0**	**33.2**	**34.3**	**34.6**	**36.0**	**36.0**	**39.0**	**44.1**	**49.0**	**54.7**
Current Liabilities	8.0	8.8	10.6	8.9	9.2	8.9	9.9	9.9	10.3	10.5	10.9	11.5
Non-Current Liabilities	9.3	8.5	10.0	10.0	10.0	10.1	10.2	10.2	9.2	9.5	9.7	10.0
Total Liabilities	**17.3**	**17.4**	**20.6**	**18.9**	**19.3**	**19.0**	**20.1**	**20.1**	**19.5**	**20.0**	**20.6**	**21.5**
Total Shareholders' Equity	**14.4**	**16.3**	**13.4**	**14.3**	**15.1**	**15.6**	**15.9**	**15.9**	**19.5**	**24.1**	**28.4**	**33.2**
***Cash Flow Statement**												
Cash Flow from Operations	1.8	2.9	2.5	0.1	1.7	1.3	1.7	4.8	6.5	7.3	7.7	8.2
Cash Flow from Investing	(1.6)	1.5	(1.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.8)	(0.7)	(0.7)	(0.7)	(0.7)
Cash Flow from Financing	(3.4)	(2.4)	(4.4)	(0.7)	(0.7)	(0.7)	(0.7)	(2.8)	(4.0)	(2.9)	(3.1)	(3.3)
Free Cash Flow to Equity	**-0.1**	**1.7**	**1.0**	**-0.1**	**1.5**	**1.1**	**1.5**	**4.0**	**4.5**	**6.6**	**7.0**	**7.5**

**2017 figures still estimates as 10-K is not yet available*
Source: Company Reports and Hilliard Lyons estimates

Additional information is available upon request.

Prices of other stocks mentioned:
Merck & Company (MRK - $56.40)
Pfizer (PFE - $34.67)
Seattle Genetics (SGEN - $53.27)
Foundation Medicine (FMI - $69.85)
AstraZeneca (AZN - $33.78)
Roche (RHHBY - $29.20)
Momenta Pharmacueticals (MNTA - $15.40)
Mylan (MYL - $40.33)
Incyte (INCY - $85.34)

Analyst Certification

I, Kurt A. Kemper, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

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Investment Ratings:
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Definitions of Suitabilities:
1. A large cap, core holding with a solid history.
2. A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.
3. An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.
4. Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base.

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	**# of Stocks Covered**	**% of Stocks Covered**	**Banking**	**No Banking**
Buy	31	28%	10%	90%
Hold/Neutral	75	67%	9%	91%
Sell	6	5%	0%	100%

As of 8 January 2018

Other Disclosures

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