



## COMPANY UPDATE / ESTIMATE CHANGE / PRICE TARGET CHANGE

### Key Metrics

BMY - NYSE (as of 02/17/17)	\$54.59
2 Yr. Price Target	\$62.00
52-Week Range	\$46.01 - \$77.12
Shares Outstanding (mm)	1,680
Market Cap. (\$mm)	\$91,232
1-Mo. Average Daily Volume (000s)	15,786
Institutional Ownership	70.6%
Debt / Total Capital	27.0%
ROE (TTM)	29.3%
Book Value / Share	\$9.59
Price / Book Value	5.7x
Indicated Dividend / Yield	\$1.56 2.9%
TTM Operating Margin	30.4%

### Operating EPS FY 12/31

		Prior	Curr.	Prior	Curr.
	2016A	2017E	2017E	2018E	2018E
1Q	\$0.74	\$0.76	\$0.78	\$0.80	\$0.81
2Q	\$0.69	\$0.70	\$0.71	\$0.77	\$0.77
3Q	\$0.77	\$0.66	\$0.67	\$0.75	\$0.76
4Q	\$0.63	\$0.57	\$0.58	\$0.74	\$0.74
Year	\$2.83	\$2.70	\$2.74	\$3.04	\$3.07
P/E	19.3x		19.9x		17.8x

Figures may not add up due to rounding

### Revenue (\$billions)

		Prior	Curr.	Prior	Curr.
	2016A	2017E	2017E	2018E	2018E
1Q	\$4.39	\$4.67	\$4.67	\$4.54	\$4.54
2Q	\$4.87	\$4.90	\$4.90	\$4.85	\$4.85
3Q	\$4.92	\$4.86	\$4.86	\$5.00	\$5.00
4Q	\$5.24	\$4.87	\$4.87	\$5.33	\$5.33
Year	\$19.43	\$19.29	\$19.29	\$19.72	\$19.72

**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, fibrotic diseases, and genetically defined diseases. The company also sells products for the treatment of virologic infections.

### Pharmaceuticals

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## Bristol-Myers Squibb Company

BMY – NYSE – Long-term Buy – 3

### Accelerated Share Repurchase Program Announced in Addition to Board Changes

- BMY, after talks with activist investor JANA Partners, announced the appointment of three additional Board members, effective immediately. Robert Bertolini, Matthew Emmens, and Theodore Samuels will temporarily expand the Board to 14 until the 2017 Annual Meeting in May, at which point only 11 directors will stand for election.
- BMY simultaneously announced an accelerated repurchase program of \$2 billion, with 80% finished by the end of February and the rest expected to be completed by the end of 2Q17. The shares will be repurchased from Morgan Stanley and Goldman Sachs at a discount to the volume-weighted average price during the period. BMY also established a 10b5-1 plan to enable continuous stock repurchase activity by the company.
- As a result of the accelerated share repurchase, we are decreasing our estimates for shares outstanding and therefore increase our EPS estimates. We have increased our 2017 non-GAAP EPS estimate by \$0.04 and our 2018 non-GAAP EPS estimate by \$0.03.
- Bob Bertolini previously served as the CFO of Bausch & Lomb and prior to that, the CFO of Schering-Plough Corporation. Mr. Bertolini currently serves on the boards of Charles River Laboratories and Actelion Pharma, which is set to be acquired by Johnson & Johnson.
- Matt Emmens is the former Chairman and CEO of Vertex Pharmaceuticals. Prior to Vertex, Mr. Emmens was the Chairman and CEO of Shire Pharmaceuticals and CEO of Astra Merck, the joint venture between Merck and AstraZeneca.
- Ted Samuels currently serves on the boards of Perrigo and Stamps.com. Mr. Samuels has over 35 years of financial industry experience, including serving as the president of Capital Guardian Trust Company and global equity portfolio manager at Capital Group.

**Note Important Disclosures on pages 5 and 6**  
**Note Analyst Certification on page 5**

## VALUATION & RATING

As a result of the estimate changes, we are increasing our two year price target to \$62 from \$61 and maintaining our Long-term Buy rating. Our two year price target is derived through two methodologies: 50% discounted free cash flow and 50% forward P/E. Our forward P/E portion is derived through a proprietary method that assesses the biopharmaceutical industry on the basis of risk and growth. Risk is measured by our estimates for future product concentration while growth is determined through either our estimates or market assumptions about long-term growth. For BMY, this results in a 20X multiple applied to FY18 operating EPS estimates for a \$61 P/E price target. Our discounted free cash flow assumptions include a WACC of 7.5% and terminal growth rate of 2%, as well as adding back net cash. The DCF model results in a \$62 price target. As such, we are raising our two year price target to \$62.

## 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. 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											
<i>In millions</i>	<u>2015 A</u>	<u>2016 A</u>	<u>1Q17 E</u>	<u>2Q17 E</u>	<u>3Q17 E</u>	<u>4Q17 E</u>	<u>2017 E</u>	<u>2018 E</u>	<u>2019 E</u>	<u>2020 E</u>	<u>2021 E</u>
Baraclude	1,312	1,192	235	232	229	226	921	746	597	478	382
HCV	1,603	1,578	190	155	145	138	628	500	425	361	307
Reyataz	1,139	912	183	204	157	121	664	396	237	142	85
Sustiva	1,252	1,065	243	242	245	129	859	278	186	149	119
Empliciti	3	150	55	58	62	67	243	311	404	505	631
Opdivo	942	3,774	975	1,004	1,024	1,045	4,048	4,914	6,443	7,410	8,521
Sprycel	1,620	1,824	446	468	472	486	1,873	1,913	2,050	1,298	458
Yervoy	1,126	1,053	293	309	316	322	1,240	1,411	1,517	1,593	1,490
Orencia	1,885	2,265	540	670	622	676	2,508	2,623	2,447	2,217	2,018
Eliquis	1,860	3,343	995	1,040	1,087	1,136	4,259	4,791	5,390	5,659	5,942
Other*	3,818	2,271	512	513	499	525	2,049	1,841	1,667	1,724	1,535
<b>Total</b>	<b>16,560</b>	<b>19,427</b>	<b>4,668</b>	<b>4,896</b>	<b>4,859</b>	<b>4,870</b>	<b>19,292</b>	<b>19,724</b>	<b>21,364</b>	<b>21,536</b>	<b>21,489</b>
<b>% of Total</b>											
Baraclude	7.9%	6.1%	5.0%	4.7%	4.7%	4.6%	4.8%	3.8%	2.8%	2.2%	1.8%
HCV	9.7%	8.1%	4.1%	3.2%	3.0%	2.8%	3.3%	2.5%	2.0%	1.7%	1.4%
Reyataz	6.9%	4.7%	3.9%	4.2%	3.2%	2.5%	3.4%	2.0%	1.1%	0.7%	0.4%
Sustiva	7.6%	5.5%	5.2%	4.9%	5.1%	2.6%	4.5%	1.4%	0.9%	0.7%	0.6%
Empliciti	0.0%	0.8%	1.2%	1.2%	1.3%	1.4%	1.3%	1.6%	1.9%	2.3%	2.9%
Opdivo	5.7%	19.4%	20.9%	20.5%	21.1%	21.5%	21.0%	24.9%	30.2%	34.4%	39.7%
Sprycel	9.8%	9.4%	9.6%	9.6%	9.7%	10.0%	9.7%	9.7%	9.6%	6.0%	2.1%
Yervoy	6.8%	5.4%	6.3%	6.3%	6.5%	6.6%	6.4%	7.2%	7.1%	7.4%	6.9%
Orencia	11.4%	11.7%	11.6%	13.7%	12.8%	13.9%	13.0%	13.3%	11.5%	10.3%	9.4%
Eliquis	11.2%	17.2%	21.3%	21.2%	22.4%	23.3%	22.1%	24.3%	25.2%	26.3%	27.7%
Other*	23.1%	11.7%	11.0%	10.5%	10.3%	10.8%	10.6%	9.3%	7.8%	8.0%	7.1%

\* 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

Prices of other stocks mentioned:

Morgan Stanley (MS - \$46.15)  
 Goldman Sachs (GS - \$250.38)  
 Charles River Laboratories (CRL - \$88.50)  
 Johnson & Johnson (JNJ - \$118.86)  
 Vertex Pharmaceuticals (VRTX - \$88.33)  
 Shire Pharmaceuticals (SHPG - \$181.08)  
 Merck & Co. (MRK - \$65.39)  
 AstraZeneca (AZN - \$29.16)  
 Perrigo Pharmaceuticals (PRGO - \$84.47)  
 Stamps.com (STMP - \$131.50)

<b>BRISTOL-MYERS SQUIBB</b>												<b>BMY: Long-term Buy</b>					
<i>(In billions (except share data))</i>																	
<i>Fiscal Period End</i>	<b>2015 A</b>	<b>2016 A</b>	<b>1Q17 E</b>	<b>2Q17 E</b>	<b>3Q17 E</b>	<b>4Q17 E</b>	<b>2017 E</b>	<b>2018 E</b>	<b>2019 E</b>	<b>2020 E</b>	<b>2021 E</b>						
	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>3/31/2017</b>	<b>6/30/2017</b>	<b>9/30/2017</b>	<b>12/31/2017</b>	<b>12/31/2017</b>	<b>12/31/2017</b>	<b>12/31/2018</b>	<b>12/31/2019</b>	<b>12/31/2020</b>	<b>12/31/2021</b>					
<b>Income Statement</b>																	
<b>Net Revenue</b>	16.56	19.43	4.67	4.90	4.86	4.87	19.29	19.72	21.36	21.54	21.49						
Gross Margin %	76.4%	74.5%	74.3%	73.0%	71.7%	72.1%	72.8%	73.0%	74.1%	74.3%	74.8%						
Total Operating Expenses	10.6	8.6	1.4	2.3	2.3	2.5	8.4	8.6	8.8	8.8	8.9						
<b>GAAP Operating Income</b>	2.1	5.9	2.1	1.3	1.2	1.0	5.6	5.8	7.1	7.2	7.2						
GAAP Operating Margin %	12.5%	30.4%	44.1%	26.6%	25.0%	21.0%	29.0%	29.4%	33.2%	33.2%	33.4%						
<b>Operating Income ex. Spec. Item</b>	4.3	6.2	1.6	1.5	1.4	1.2	5.8	6.4	7.4	7.4	7.5						
Non-GAAP Operating Margin %	25.8%	31.7%	35.1%	30.7%	29.1%	25.1%	30.0%	32.7%	34.5%	34.5%	34.7%						
<b>Non-GAAP Effective Tax Rate</b>	20.9%	22.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.4%	21.0%	21.0%	21.0%						
<b>Non-GAAP Net Income</b>	3.4	4.8	1.3	1.2	1.1	1.0	4.6	5.1	5.8	5.9	5.9						
Diluted Shares Outstanding	1.7	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6						
<b>Non-GAAP Diluted EPS</b>	\$1.98	\$2.83	\$0.78	\$0.71	\$0.67	\$0.58	\$2.74	\$3.07	\$3.55	\$3.57	\$3.55						
GAAP Diluted EPS	\$0.93	\$2.65	\$0.98	\$0.62	\$0.58	\$0.48	\$2.66	\$2.75	\$3.41	\$3.44	\$3.41						
<b>*Balance Sheet</b>																	
Cash and Equivalents	2.4	4.2	3.5	3.2	3.3	3.7	3.7	5.3	7.0	9.8	12.7						
Other Current Assets	8.0	9.4	8.4	8.7	8.7	8.7	8.7	9.0	9.5	9.4	9.6						
<b>Total Current Assets</b>	10.4	13.6	12.0	12.0	12.0	12.4	12.4	14.2	16.5	19.2	22.2						
Net PP&E	4.4	5.4	5.0	5.4	5.6	5.9	5.9	6.9	7.6	8.0	8.8						
Intangible Assets	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.4	8.4						
Other Assets	8.6	7.5	6.9	7.1	7.0	7.0	7.0	7.2	7.2	7.0	7.2						
<b>Total Assets</b>	31.7	34.8	32.1	32.7	32.9	33.6	33.6	36.7	39.6	42.6	46.6						
Current Liabilities	8.0	9.6	8.3	8.9	8.7	9.1	9.1	8.7	9.0	9.1	9.1						
Non-Current Liabilities	9.3	9.1	9.1	9.2	8.4	8.5	8.5	8.7	8.5	8.7	9.0						
<b>Total Liabilities</b>	17.3	18.7	17.3	18.0	17.2	17.6	17.6	17.5	17.6	17.8	18.1						
<b>Total Shareholders' Equity</b>	14.4	16.1	14.8	14.7	15.8	16.0	16.0	19.2	22.1	24.8	28.4						
<b>*Cash Flow Statement</b>																	
Cash Flow from Operations	1.8	3.9	0.7	1.7	1.0	1.3	4.7	5.3	6.1	6.2	6.5						
Cash Flow from Investing	(1.6)	1.2	(0.2)	(0.2)	(0.2)	(0.3)	(0.9)	(0.7)	(0.7)	(0.6)	(0.6)						
Cash Flow from Financing	(3.4)	(2.4)	(1.2)	(1.7)	(0.7)	(0.7)	(4.3)	(3.0)	(3.6)	(2.8)	(3.0)						
<b>Free Cash Flow to Equity</b>	-0.1	2.9	1.5	0.7	0.7	1.1	2.9	4.5	4.9	5.6	5.8						

\*2016 Balance Sheet and Cash Flow numbers are still estimates, as the company has not released a 10-K yet

Source: Company Reports and Hilliard Lyons estimates

Additional information is available upon request.

**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**

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

**Investment Ratings:**

**Buy** - We believe the stock has significant total return potential in the coming 12 months.

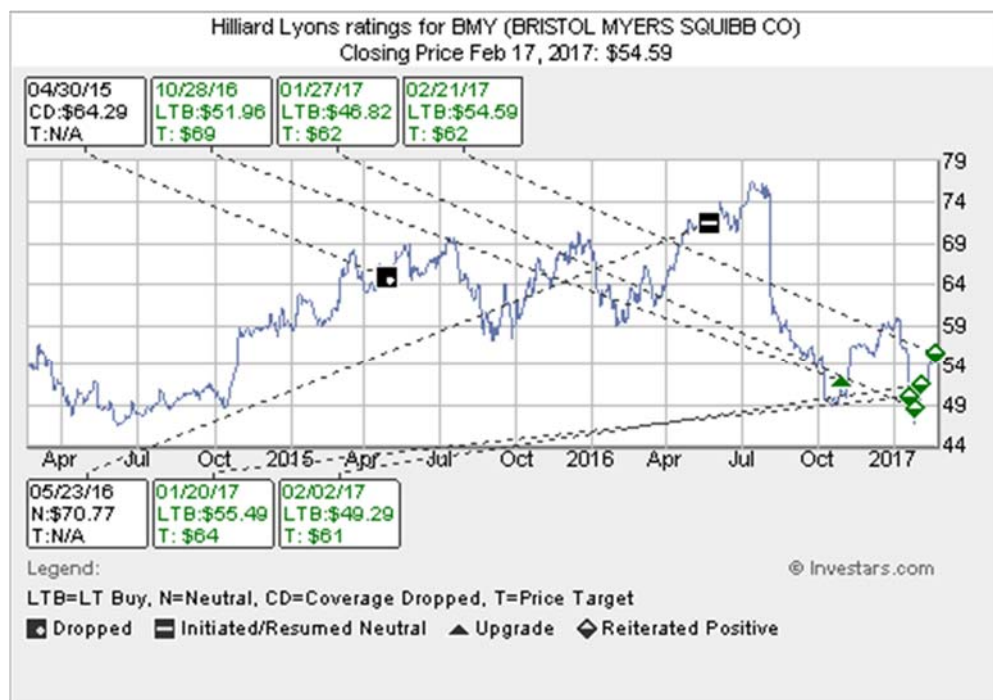
**Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

**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.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

**Other Disclosures**

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