



## COMPANY UPDATE / RATING CHANGE / ESTIMATES CHANGE

### Pharmaceuticals

Analyst: Kurt Kemper, CFA  
502-588-8446 / [kkemper@hilliard.com](mailto:kkemper@hilliard.com)  
Institutional Sales Desk: George Moorin  
502-588-9141 / [GMoorin@hilliard.com](mailto:GMoorin@hilliard.com)  
J.J.B. Hilliard, W.L. Lyons, LLC  
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#### Key Metrics

BMJ - NYSE (as of 09/11/17)	\$62.72
2 Yr. Price Target	N/A
52-Week Range	\$46.01 - \$63.46
Shares Outstanding (mm)	1,650
Market Cap. (\$mm)	\$102,856
1-Mo. Average Daily Volume (000s)	1,413
Institutional Ownership	69.8%
Debt / Total Capital	29.1%
ROE (TTM)	29.9%
Book Value / Share	\$8.98
Price / Book Value	7.0x
Indicated Dividend / Yield	\$1.56 2.5%
TTM Operating Margin	29.1%

#### Non-GAAP EPS FYE 12/31

		Prior	Curr.	Prior	Curr.
	2016A	2017E	2017E	2018E	2018E
1Q	\$0.74		\$0.84A	\$0.74	\$0.74
2Q	\$0.69		\$0.74A	\$0.77	\$0.77
3Q	\$0.77	\$0.76	\$0.76	\$0.88	\$0.88
4Q	\$0.63	\$0.63	\$0.63	\$0.81	\$0.81
Year	\$2.83	\$2.97	\$2.97	\$3.20	\$3.20
P/E	22.2x		21.1x		19.6x

Figures may not add up due to rounding

#### Revenue (\$billions)

		Prior	Curr.	Prior	Curr.
	2016A	2017E	2017E	2018E	2018E
1Q	\$4.39		\$4.93A	\$4.71	\$4.71
2Q	\$4.87		\$5.14A	\$4.90	\$4.90
3Q	\$4.92	\$5.17	\$5.17	\$5.11	\$5.11
4Q	\$5.24	\$5.23	\$5.23	\$5.44	\$5.44
Year	\$19.43	\$20.47	\$20.47	\$20.15	\$20.15

**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.

## Bristol-Myers Squibb Company

BMJ – NYSE – Neutral – 3

### Downgrading to Neutral after Price Appreciation

- With BMJ approaching our previously published two-year price target of \$65, we believe shares are appropriately valued and are downgrading the stock to Neutral from Long-term Buy.
- We believe the Checkmate-214 news has increased investor optimism regarding other Opdivo/ Yervoy combinations (namely Checkmate-227), as well as helped investors appreciate the very real possibility of a progression-free survival (PFS) failure but overall survival (OS) success. Investors should note Checkmate-227 will likely result in volatility for the stock. We feel the market is now taking a more balanced view of the prospects of Checkmate-227 than the pessimism that seemed to dominate the stock in the wake of rival Merck's success in the same indication.
- We believe the company's diversified approach to the lung cancer market and strong commitment to biomarker research bodes well for the company's future. As such, we remain comfortable with investors holding BMJ shares.
- We have made some minor positive tweaks to our longer-term estimates based on growing confidence in the pipeline. That confidence is primarily derived from updated data for relatlimab (the anti-LAG-3 antibody) at the European Society for Medical Oncology (ESMO) 2017 Congress.

**Note Important Disclosures on pages 4 and 5**  
**Note Analyst Certification on page 4**

## 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 due to a very important clinical trial that we believe will cause volatility in the stock. 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	1Q17 A	2Q17 A	3Q17 E	4Q17 E	2017 E	2018 E	2019 E	2020 E	2021 E
Baraclude	1,312	1,192	282	273	264	258	1,077	792	634	507	405
HCV	1,603	1,578	162	112	91	77	442	277	223	160	105
Reyataz	1,139	912	193	188	184	172	737	419	242	145	87
Sustiva	1,252	1,065	184	188	201	174	746	242	121	97	77
Empliciti	3	150	53	55	56	59	223	265	292	307	322
Opdivo	942	3,774	1,127	1,195	1,188	1,153	4,662	5,112	6,773	7,959	9,153
Sprycel	1,620	1,824	463	506	479	481	1,930	1,812	1,901	1,525	621
Yervoy	1,126	1,053	330	322	335	340	1,327	1,509	1,622	1,703	1,596
Orencia	1,885	2,265	535	650	633	692	2,510	2,603	2,447	2,259	2,094
Eliquis	1,860	3,343	1,101	1,176	1,241	1,297	4,814	5,416	6,093	6,550	6,877
Other*	3,818	2,271	499	479	499	525	2,002	1,702	1,652	2,126	2,777
<b>Total</b>	<b>16,560</b>	<b>19,427</b>	<b>4,929</b>	<b>5,144</b>	<b>5,171</b>	<b>5,227</b>	<b>20,471</b>	<b>20,150</b>	<b>22,000</b>	<b>23,338</b>	<b>24,115</b>
<b>% of Total</b>											
Baraclude	7.9%	6.1%	5.7%	5.3%	5.1%	4.9%	5.3%	3.9%	2.9%	2.2%	1.7%
HCV	9.7%	8.1%	3.3%	2.2%	1.8%	1.5%	2.2%	1.4%	1.0%	0.7%	0.4%
Reyataz	6.9%	4.7%	3.9%	3.7%	3.6%	3.3%	3.6%	2.1%	1.1%	0.6%	0.4%
Sustiva	7.6%	5.5%	3.7%	3.7%	3.9%	3.3%	3.6%	1.2%	0.6%	0.4%	0.3%
Empliciti	0.0%	0.8%	1.1%	1.1%	1.1%	1.1%	1.1%	1.3%	1.3%	1.3%	1.3%
Opdivo	5.7%	19.4%	22.9%	23.2%	23.0%	22.1%	22.8%	25.4%	30.8%	34.1%	38.0%
Sprycel	9.8%	9.4%	9.4%	9.8%	9.3%	9.2%	9.4%	9.0%	8.6%	6.5%	2.6%
Yervoy	6.8%	5.4%	6.7%	6.3%	6.5%	6.5%	6.5%	7.5%	7.4%	7.3%	6.6%
Orencia	11.4%	11.7%	10.9%	12.6%	12.2%	13.2%	12.3%	12.9%	11.1%	9.7%	8.7%
Eliquis	11.2%	17.2%	22.3%	22.9%	24.0%	24.8%	23.5%	26.9%	27.7%	28.1%	28.5%
Other*	23.1%	11.7%	10.1%	9.3%	9.6%	10.0%	9.8%	8.4%	7.5%	9.1%	11.5%

\* 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												
	2015 A	2016 A	1Q17 A	2Q17 A	3Q17 E	4Q17 E	2017 E	2018 E	2019 E	2020 E	2021 E	12/31/2015	12/31/2016	3/31/2017	6/30/2017	9/30/2017	12/31/2017	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	
<i>In billions (except share data)</i>																							
<i>Fiscal Period End</i>																							
<b>Net Revenue</b>	16.56	19.43	4.93	5.14	5.17	5.23	20.47	20.15	22.00	23.34	24.11												
Gross Margin %	76.4%	74.5%	74.5%	69.6%	71.9%	71.7%	71.9%	72.5%	72.7%	72.9%	73.2%												
Core Operating Expenses	10.8	9.9	2.4	2.8	2.5	2.8	10.5	9.7	9.7	10.1	10.3												
Other (Income)/Expense	(0.2)	(1.3)	(0.6)	(0.5)	(0.1)	(0.1)	(1.4)	(0.9)	(1.1)	(1.2)	(1.1)												
Total Operating Expenses	10.6	8.6	1.7	2.3	2.4	2.7	9.1	8.8	8.5	8.9	9.2												
<b>GAAP Operating Income</b>	2.1	5.9	2.0	1.3	1.3	1.1	5.7	5.8	7.4	8.1	8.5												
GAAP Operating Margin %	12.5%	30.4%	39.7%	25.2%	26.1%	20.3%	27.6%	28.6%	33.8%	34.8%	35.1%												
<b>Operating Income ex. Spec. Items</b>	4.3	6.2	1.8	1.6	1.6	1.3	6.3	6.7	8.3	8.4	8.8												
Non-GAAP Operating Margin %	25.8%	31.7%	35.9%	30.7%	30.9%	25.6%	30.7%	33.2%	37.5%	36.2%	36.4%												
Non-GAAP Effective Tax Rate	20.9%	22.0%	20.2%	22.4%	21.0%	21.0%	21.1%	20.9%	20.9%	21.0%	21.0%												
<b>Non-GAAP Net Income</b>	3.4	4.8	1.4	1.2	1.3	1.1	5.0	5.3	6.5	6.7	6.9												
Diluted Shares Outstanding	1.68	1.68	1.67	1.65	1.65	1.64	1.65	1.64	1.63	1.63	1.62												
<b>Non-GAAP Diluted EPS</b>	\$1.98	\$2.83	\$0.84	\$0.74	\$0.76	\$0.63	\$2.97	\$3.20	\$3.97	\$4.06	\$4.24												
GAAP Diluted EPS	\$0.93	\$2.65	\$0.94	\$0.56	\$0.64	\$0.50	\$2.64	\$2.75	\$3.56	\$3.90	\$4.08												
<b>Balance Sheet</b>																							
Cash and Equivalents	2.4	4.2	3.9	3.5	3.4	4.1	4.1	5.4	7.9	11.5	15.1												
Other Current Assets	8.0	9.5	9.7	10.9	10.4	10.4	10.4	10.5	11.1	11.4	11.5												
<b>Total Current Assets</b>	10.4	13.7	13.6	14.3	13.8	14.4	14.4	15.9	18.9	22.9	26.6												
Net PP&E	4.4	5.0	5.0	4.9	5.3	5.7	5.7	6.5	7.3	8.1	8.9												
Intangible Assets	8.3	8.3	8.2	8.1	8.1	8.1	8.1	8.1	8.2	8.2	8.2												
Other Assets	8.6	6.8	6.2	6.0	6.1	6.2	6.2	6.3	6.3	6.5	6.6												
<b>Total Assets</b>	31.7	33.7	32.9	33.4	33.3	34.4	34.4	36.9	40.7	45.8	50.3												
Current Liabilities	8.0	8.8	8.5	9.0	9.3	9.9	9.9	9.2	10.2	10.5	10.1												
Non-Current Liabilities	9.3	8.5	9.9	9.6	9.1	9.2	9.2	9.4	8.5	8.7	9.0												
<b>Total Liabilities</b>	17.3	17.4	18.4	18.6	18.4	19.1	19.1	18.6	18.7	19.2	19.0												
<b>Total Shareholders' Equity</b>	14.4	16.3	14.5	14.8	14.9	15.3	15.3	18.3	22.0	26.6	31.2												
<b>Cash Flow Statement</b>																							
Cash Flow from Operations	1.8	2.9	0.9	1.6	1.7	1.7	5.9	4.9	7.2	7.3	7.1												
Cash Flow from Investing	(1.6)	1.5	(0.2)	(1.0)	(0.2)	(0.3)	(1.7)	(0.8)	(0.7)	(0.7)	(0.7)												
Cash Flow from Financing	(3.4)	(2.4)	(1.0)	(1.0)	(1.6)	(0.8)	(4.4)	(2.8)	(4.0)	(3.0)	(2.9)												
<b>Free Cash Flow to Equity</b>	-0.1	1.7	2.3	1.0	0.7	1.5	3.9	4.1	5.3	6.6	6.4												

Source: Company Reports and Hilliard Lyons estimates

Additional information is available upon request.

Prices of other stocks mentioned: Merck &amp; Co. (MRK - \$65.13)

**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.

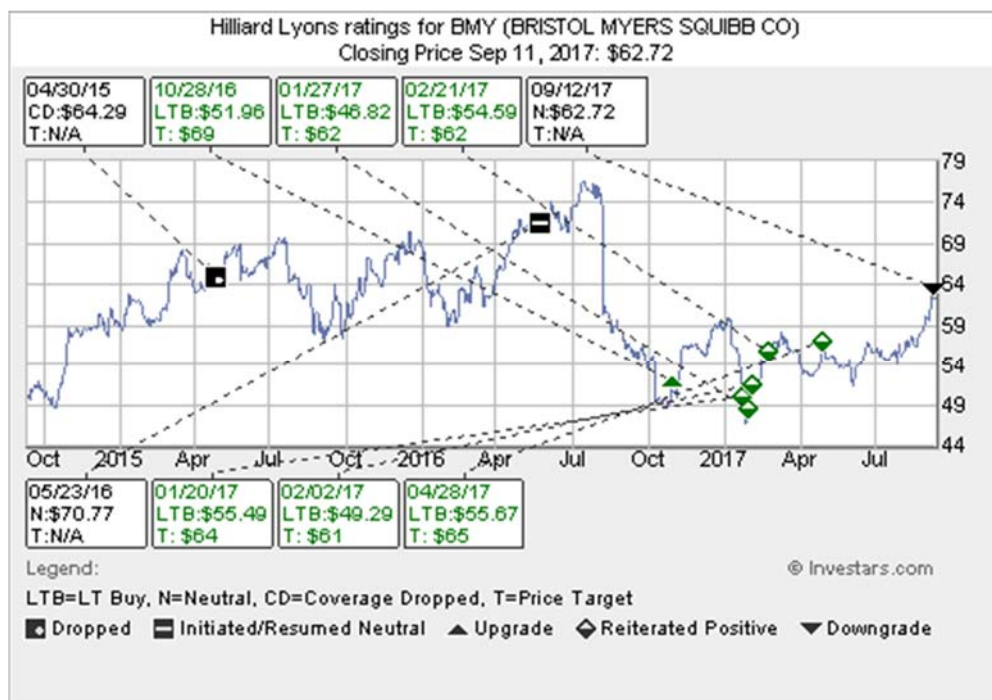
**Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

**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.



Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	40	32%	10%	90%
Hold/Neutral	77	62%	8%	92%
Sell	8	6%	0%	100%

As of 6 September 2017

**Other Disclosures**

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