



Bristol-Myers Squibb (BMY)

Updated July 28th, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$68	5 Year CAGR Estimate:	13.5%	Market Cap:	\$153 billion
Fair Value Price:	\$101	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	10/1/2021 ¹
% Fair Value:	68%	5 Year Valuation Multiple Estimate:	8.1%	Dividend Payment Date:	11/2/2021
Dividend Yield:	2.9%	5 Year Price Target	\$117	Years Of Dividend Growth:	14
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	8.9%

Overview & Current Events

Bristol-Myers Squibb was created when Bristol-Myers and Squibb merged on October 4th, 1989. Bristol-Myers can trace its corporate beginnings back to 1887. Today this leading drug maker of cardiovascular and anti-cancer therapeutics has annual revenues of about \$46 billion.

Bristol-Myers announced that it was buying Celgene Corporation (CELG) for \$74 billion. Almost two-thirds of Celgene's revenues come from *Revlimid*, which treats multiple myeloma and other cancers, and loses patent exclusivity in 2022. The company's patent is facing lawsuits in court that could allow competition sooner than expected. Bristol-Myers received approval for the acquisition in July and the deal closed on 11/20/2019. However, we expect this acquisition to factor heavily into Bristol-Myers' results for the years to come.

Bristol-Myers released second quarter earnings results on 7/28/2021. Revenue grew 15.5% to \$11.7 billion, coming in \$470 million better than expected. Adjusted earnings-per-share of \$1.93 compared favorably to adjusted earnings-per-share of \$1.63 in the prior year and was \$0.03 above estimates.

U.S. revenues improved 14% to \$7.5 billion while international was up 18%. Currency exchange was an 8% tailwind to results. For the quarter, *Revlimid* sales increased 11% to \$3.2 billion due to recovery to pre-COVID levels as well as longer treatment duration. *Eliquis*, which prevents blood clots, grew 29% to \$2.8 billion due to ongoing strength in demand in both U.S. and international markets. *Eliquis* has become the top oral anticoagulant in several international countries since 2019 and had more than \$9 billion in sales last year. *Opdivo*, which treats cancers such as advanced renal carcinoma, returned to growth, with sales improving 16% to \$1.9 billion due to new launches for use. Revenue for *Orencia*, which treats rheumatoid arthritis, grew 9% to \$814 million. SG&A expenses grew 16% to \$1.9 billion due to higher advertising and promotion costs. Gross margins expanded 560 basis points to 79% due to lower price accounting adjustments.

Bristol-Myers reaffirmed its guidance and expects adjusted earnings-per-share in a range of \$7.35 to \$7.55 for 2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.16	\$1.16	\$1.54	\$1.20	\$0.93	\$2.65	\$3.01	\$3.98	\$4.69	\$6.44	\$7.45	\$8.64
DPS	\$1.33	\$1.37	\$1.41	\$1.45	\$1.49	\$1.53	\$1.57	\$1.60	\$1.64	\$1.80	\$1.96	\$2.50
Shares²	1685	1630	1641	1662	1661	1664	1625	1623	1918	2252	2252	2150

Bristol-Myers' earnings-per-share saw a small increase in the years during and directly following the last recession. Since 2012, earnings results have been varied. Overall, Bristol-Myers has seen earnings-per-share grow at a rate of 12.9% per year over the last decade, but much of this growth has occurred over the past three years. Due to the unpredictable nature of the company's results, we project 3% growth.

¹ Estimated date

² In millions of shares

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Bristol-Myers has increased its dividend at a CAGR of 3.1% over the past 10 years. The trend had been that shareholders receive a \$0.01 dividend-per-quarter raise each year. However, that was broken recently and the company increased its dividend by 8.9% for the 2/1/2021 payment. We project 5% dividend growth annually over the next five years.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.4	28.7	28.6	43.6	---	23.9	20.4	13.0	13.7	9.6	9.1	13.5
Avg. Yld.	4.6%	4.1%	3.2%	2.8%	2.3%	2.4%	2.8%	3.2%	2.6%	2.9%	2.9%	2.1%

While Bristol-Myers was growing earnings from 2008-2012, the stock's price-to-earnings ratio barely budged. When earnings started to decline, the stock price accelerated, which led to some very high earnings multiples. We are reaffirming our target multiple of 13.5x earnings. This brings Bristol-Myers' valuation more in line with large pharma companies in the same situation. Bristol-Myers shares have increased \$6, or 9.7%, since our 5/2/2021 update. Based off of guidance for 2021, shares have a P/E multiple of 9.1. Valuation could add 8.1% to annual returns if shares of Bristol-Myers reach our target by 2026.

Safety, Quality, Competitive Advantage, & Recession Resiliency

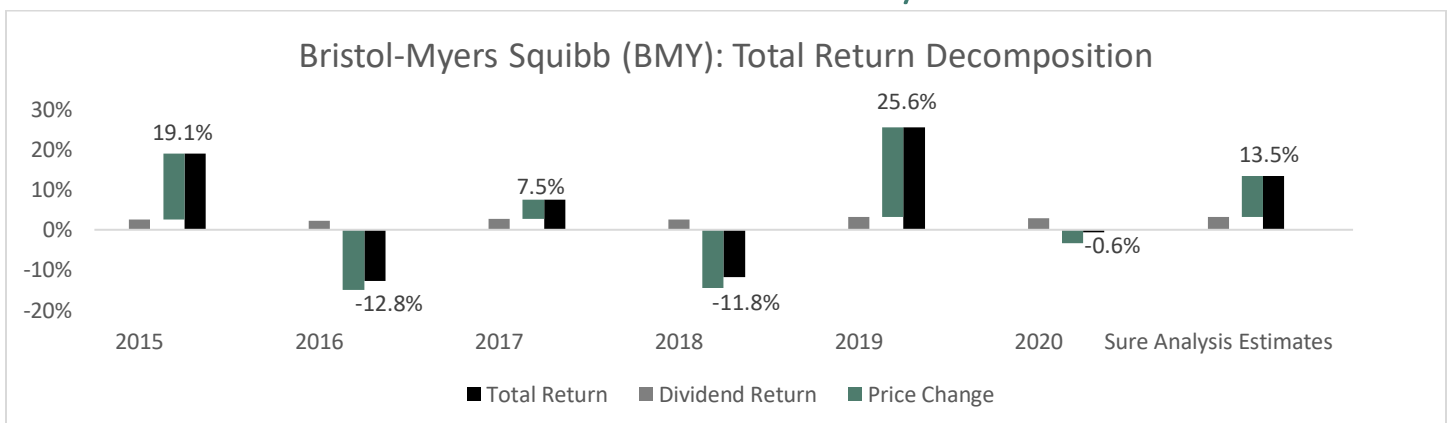
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	62%	118%	92%	121%	160%	58%	52%	40%	35%	28%	26%	29%

The company's competitive advantage is its ability to either create (through research & development) or acquire patents for pharmaceuticals with high potential revenue. Bristol-Myers top three selling pharmaceuticals, *Revlimid*, *Opdivo* and *Eliquis*, have shown solid growth rates and are expected to see high peak annual sales. The addition of Celgene should add to the top and bottom lines. Bristol-Myers saw earnings increase during the last recession, which is quite normal for drug companies. Even in a recession, people will seek treatment for health problems, especially those of the cancer variety.

Final Thoughts & Recommendation

After second quarter results, Bristol-Myers Squibb is now expected to offer a total annual return of 13.5% through 2026, down from our prior estimate of 15.6%. Projected returns stem from a 3% earnings growth rate, 2.9% starting dividend yield and a high single-digit tailwind from possible multiple expansion. Most top products performed well with *Opdivo* returning to growth during the quarter. We maintain our 2026 price target of \$117 as well as our buy rating on Bristol-Myers due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	21244	17621	16385	15879	16560	19427	20776	22561	26145	42518
Gross Profit	15646	13011	11766	11947	12651	14458	14762	16094	18067	30745
Gross Margin	73.6%	73.8%	71.8%	75.2%	76.4%	74.4%	71.1%	71.3%	69.1%	72.3%
SG&A Exp.	5170	5175	5104	5699	5001	4979	4751	4551	4871	7661
D&A Exp.	628	681	763	467	376	382	789	637	1746	10380
Operating Profit	6637	3932	2931	1714	1730	4467	3446	5114	5913	2177
Op. Margin	31.2%	22.3%	17.9%	10.8%	10.4%	23.0%	16.6%	22.7%	22.6%	5.1%
Net Profit	3709	1960	2563	2004	1565	4457	1007	4920	3439	-9015
Net Margin	17.5%	11.1%	15.6%	12.6%	9.5%	22.9%	4.8%	21.8%	13.2%	-21.2%
Free Cash Flow	4473	6393	3008	2622	1285	1843	4220	6115	7374	13299
Income Tax	1721	-161	311	352	446	1408	4156	1021	1515	2124

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	32970	35897	38592	33749	31748	33707	33551	34986	129944	118481
Cash & Equivalents	5776	1656	3586	5571	2385	4237	5421	6911	12346	14546
Acc. Receivable	2250	1708	1690	2100	2948	3774	4347	4636	6476	7219
Inventories	1384	1657	1498	1560	1221	1241	1166	1195	4293	2074
Goodwill & Int.	8710	16413	9414	8780	8300	8260	8073	7629	86457	73790
Total Liabilities	17103	22259	23356	18766	17324	17360	21704	20859	78246	80599
Accounts Payable	2603	2202	2559	2487	1565	1664	2248	1892	2445	2713
Long-Term Debt	5491	7394	8340	7832	6689	6708	7962	7349	46733	50676
Total Equity	15956	13623	15154	14852	14266	16177	11741	14031	51598	37822
D/E Ratio	0.34	0.54	0.55	0.53	0.47	0.41	0.68	0.52	0.91	1.34

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	11.6%	5.7%	6.9%	5.5%	4.8%	13.6%	3.0%	14.4%	4.2%	-7.3%
Return on Equity	23.4%	13.3%	17.8%	13.4%	10.7%	29.3%	7.2%	38.2%	10.5%	-20.2%
ROIC	17.5%	9.2%	11.5%	8.6%	7.1%	20.2%	4.7%	23.8%	5.7%	-9.6%
Shares Out.	1717	1688	1662	1670	1679	1680	1652	1637	1712	2258
Revenue/Share	12.37	10.44	9.86	9.51	9.86	11.56	12.58	13.78	15.27	18.83
FCF/Share	2.61	3.79	1.81	1.57	0.77	1.10	2.55	3.74	4.31	5.89

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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