Company Scores Very Poor Fundamental Grades

MarketGrader currently has a SELL rating on Bristol-Myers Squibb Company (BMY), based on a final overall grade of 39.6 scored by the company's fundamental analysis. Bristol-Myers Squibb Company scores at the 43rd percentile among all 5824 North American equities currently followed by MarketGrader. Our present rating dates to February 12, 2018, when it was downgraded from 'BUY'. Relative to the Pharmaceuticals: Major sub-industry, which is comprised of 57 companies, Bristol-Myers Squibb Company's grade of 39.6 ranks 17th. The industry grade leader is Novo Nordisk A/S Sponsored ADR Class B (NVO) with an overall grade of 73.1. The stock, up 11.43% in the last six months, has outperformed both the Pharmaceuticals: Major group, down 0.75% and the S&P 500 Index, which has returned 4.78% in the same period. Please go to pages two and three of this report for a complete breakdown of BMY's fundamental analysis.
Bristol-Myers Squibb Company

Investors Betting on a Turnaround Must Be Cautious as Company’s Growth Record is Still Very Weak

According to its latest earnings report, Bristol-Myers Squibb Company booked $5.70 billion in total revenue last quarter, a 10.89% rise from the year earlier period's $5.14 billion, which is not only a healthy increase but an improvement from its long term sales growth. Also including the latest quarter the company had $21.60 billion in 12-month trailing revenue, only 31.84% higher than the $16.38 billion booked during the equivalent period ended three years ago, a modest increase in such timeframe. The next couple of quarters will help investors determine if the recent increase in top line growth is sustainable and whether it will lead to higher profits. In its latest report the company also said profit fell from the comparable quarter a year ago, extending its long term profit decline. We measure long term profit growth by comparing full year (12-month trailing) net income to the equivalent period three years earlier. Bristol-Myers Squibb Company’s net income fell 59.28% to $373.00 million during the Second quarter from $916.00 million (excluding extraordinary items) in the equivalent period a year ago; its profit also fell in the last twelve months to $376.00 million, 78.99% lower than the $1.79 billion it earned during the 12 months ended three years earlier. During the last quarter the company’s ongoing margin contraction accelerated, with an average drop in EBITDA, operating and net margins of -22.72% from the year ago period.

Despite beating analysts’ estimates by a sizable 17.44% with its July 26, 2018 earnings report, investors seemed unimpressed as the company’s stock fell 3.59% following the announcement. This may be a sign that the earnings surprise is attributed to one-time items or that the company offered lowered guidance for future earnings. Despite investors’ adverse reaction to this report, it continued a trend of beating earnings estimates, with an average 7.44% positive surprise over the last six quarters, which means that based on future expected earnings the price the stock is trading at 15.11 times forward estimates for the next four quarters, which puts the stock's decline following this latest announcement in perspective given such strong record.

Shares Look Expensive Particularly Relative to the Company’s Mediocre Financial Results

Bristol-Myers Squibb Company’s shares trade currently at 250.04 times the company’s 12-months’ earnings per share, more than two times our “optimum” P/E of 7.50. This ratio is calculated by MarketGrader by looking at the last five years’ quarterly earnings, in 12-month rolling periods, in order to determine its fair value. On this account Bristol-Myers Squibb Company’s earnings per share have fallen at an annualized rate of -22.45% during this time. This growth rate is likely to deteriorate further in light of the company’s most recent margin contraction, unless it is reversed very soon and its Profitability grades improve. At the current price the stock is trading at 15.11 times forward estimates for the next four quarters, which means that based on future expected earnings the stock trades below where it trades based on trailing results and below the market’s forward P/E of 15.20. This, combined with the company’s current fundamentals, suggests that even though at face value the stock may seem cheap, investors don’t think so since they put more value on its past than its future earnings, a reflection of poor growth prospects.

Bristol-Myers Squibb Company’s are trading at 7.64 times their book value, which is based on the company’s stockholders’ equity. However, MarketGrader’s price to book value analysis is based on a company’s tangible book value, which excludes goodwill and other intangibles from its assets. In this case, Bristol-Myers Squibb Company’s intangible assets of $16.46 billion exceed its $12.32 billion in stockholders’ equity by $4.14 billion, which means its tangible book value is negative. This makes the shares’ price to tangible book ratio meaningless. Thus, part of the risk of owning the company’s shares lies in the possibility of a significant write-down of its intangible assets, which would automatically make its shares much more expensive than they currently appear to be. The company has generated $3.09 of cash flow per share in the last twelve months, which at the current price, translates into a 18.59 price to cash flow ratio. This would be a fair valuation if its fundamental indicators weren’t so weak. Its price to sales ratio of 4.34, based on trailing 12-month sales, is 95.66% lower than the Pharmaceuticals: Major’s average ratio of 100.16, a very large discount to its peers. Finally, from a value perspective, we look at how much bigger the company’s market capitalization is than its latest operating profits after subtracting taxes. By this measure Bristol-Myers Squibb Company’s $93.85 billion market cap is excessively high considering it is 82.54 times its most recently reported net income plus depreciation (added back since it’s a non-cash charge).
Bristol-Myers Squibb Company

NYSE: BMY - Pharmaceuticals: Major

**Profitability**

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Utilization</td>
<td>D</td>
</tr>
<tr>
<td>Capital Utilization</td>
<td>F</td>
</tr>
<tr>
<td>Operating Margins</td>
<td>A-</td>
</tr>
<tr>
<td>Relative Margins</td>
<td>A</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>F</td>
</tr>
<tr>
<td>Gross Profitability</td>
<td>A+</td>
</tr>
</tbody>
</table>

While Company's Profitability Grades Are Pretty Solid, They Offer Plenty of Room for Improvement

Bristol-Myers Squibb Company reported $376.00 million in net profits during the 12 months ended last quarter, accounting for 1.74% of all sales booked in the quarter, a very weak net profit margin. This contributed to a poor return on equity, helping drag down the company's profitability composite grade despite an operating margin than beat the industry average. This suggests that either the entire group operates in a thin margin environment and is not very profitable or that the company had very large non-operating costs such as interest expenses or one-time charges. Operating income during that same period accounted for 20.44% of sales, 140.52% higher than the average operating margin for the Pharmaceuticals: Major industry, which was 8.22%. Bristol-Myers Squibb Company's dismal return on equity of 3.05% based on its last four quarter's results marks a deterioration from the year earlier period, in which the return on equity was 31.20%. This pattern indicates either a questionable business model or extremely difficult operating conditions.

The company's debt burden is relatively light, which should serve it well during such lean times, assuming its return on equity improves soon. Its total debt is less than three quarters of total equity and long term debt makes up 31.53% of its total capital. Bristol-Myers Squibb Company's core earnings have shown a significant slowdown in the company's business based on twelve month trailing EBITDA of $6.38 billion. This represents a -19.22% decline from the same period ended a year earlier in which the company's core operations generated $7.90 billion. EBITDA is used as a measure of earnings power because it includes non-operating charges like interest expenses, income taxes and depreciation and amortization, which aren't even cash expenses. All of these are included in several areas of our analysis that look at EPS and net income.

An important indicator of management efficiency used by MarketGrader is Economic Value Added, or EVA, which measures each company's true return to shareholders after accounting not only for the cost of running the business (operating costs) but also the cost of the capital it employs. By measuring the real cost of capital, both equity and debt, EVA measures the creation of true economic profit. In this case Bristol-Myers Squibb Company had $17.99 billion in invested capital in its most recent quarter, a combination of both equity and long term debt. However, the company's weighted cost of equity of 4.33% is much larger than the weighted cost of debt, which is 0.17%. When combined, the two result in a total cost of capital of 4.50%, quite low compared to the company's total return on invested capital of 24.54% based on 12-month trailing operating income. The result is an excellent economic value added of 20.04%, a very high return to investors after all capital costs are covered. The company increased its quarterly common dividend on June 30, 2018 by 2.56%, to $0.400 cents a share from $0.390 cents.

Company's Cash Flow Indicators Are Solid Across the Board but Offer Some Room for Improvement

Bristol-Myers Squibb Company’ cash flow fell considerably during the latest quarter to $1.06 billion, a 33.27% decline from the $1.58 billion reported after the same quarter last year. This marks an accelerating decline from twelve month trailing cash flow, which fell to $5.06 billion in the period ended last quarter, 3.95% lower than the $5.27 billion in the year earlier period, underscoring the ongoing deterioration of the company’s business. The company’s net debt to EBITDA ratio jumped from 0.69 a year ago to 1.56 in the latest reported quarter, based on net debt (total debt minus cash on hand) of $1.31 billion and EBITDA of $843.00 million. While the increase from the year before was pretty significant, the current ratio is still very low and suggests the company is managing its leverage appropriately and could easily pay off its debt with the cash it has on hand and what it generates from operations. During the same period Bristol-Myers Squibb Company’s total debt went from accounting for 35.86% of its total capital to 37.49% in its latest quarter, while its cash on hand fell by 6.61%. Unless it begins generating a larger cash flow from operations, all this increased leverage may start hindering future growth and further erode the company’s profitability.

Economic Value

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Invested Capital</td>
<td>$19.7B</td>
</tr>
<tr>
<td>Return on Inv. Capital</td>
<td>24.54%</td>
</tr>
<tr>
<td>Weighted Cost of Equity</td>
<td>4.33%</td>
</tr>
<tr>
<td>Weighted Cost of Debt</td>
<td>0.17%</td>
</tr>
<tr>
<td>Total Cost of Capital</td>
<td>4.50%</td>
</tr>
<tr>
<td>Economic Value Added</td>
<td>20.04%</td>
</tr>
</tbody>
</table>

Dividend Yield Quarterly

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Flow Qtrly.</td>
<td>$1.1B</td>
</tr>
<tr>
<td>Cash Flow Qtrly Year Ago</td>
<td>$1.6B</td>
</tr>
<tr>
<td>Cash Flow 1 Yr. Chg.</td>
<td>(33.27%)</td>
</tr>
<tr>
<td>Cash Flow 12 Mo. Tr. Latest</td>
<td>$5.1B</td>
</tr>
<tr>
<td>Cash Flow 12 Mo. Tr. 3Y Ago</td>
<td>$2.2B</td>
</tr>
<tr>
<td>Cash Flow 12 Mo. Tr. 3Y Chg.</td>
<td>133.06%</td>
</tr>
<tr>
<td>Free Cash Flow Last Qtr.</td>
<td>$899M</td>
</tr>
</tbody>
</table>

Bristol-Myers Squibb Co. is engaged in the discovery, development, licensing, manufacturing, marketing, distribution and sale of biopharmaceutical products on a global basis. Its pharmaceutical products include chemically-synthesized drugs or small molecules, and an increasing portion of products produced from biological processes. The company's products include ELIQUIS, an oral Factor Xa inhibitor targeted at the prevention and treatment of venous thromboembolic disorders and stroke prevention in atrial fibrillation; ABILIFY, an atypical antipsychotic agent for adult patients with schizophrenia, bipolar mania disorder and major depressive disorder and also has pediatric uses in schizophrenia and bipolar disorder; REYATAZ, a protease inhibitor for the treatment of HIV; SUSTIVA, a non-nucleoside reverse transcriptase inhibitor for the treatment of HIV; BARACLUDE, a potent and selective inhibitor of hepatitis B virus, which is used for the treatment of chronic hepatitis B infection; ERBITUX, an IgG1 monoclonal antibody designed to target and block the epidermal growth factor receptor, which is expressed on the surface of certain cancer cells in multiple tumor types, as well as some normal cells; SPRYCEL, a multi-targeted tyrosine kinase inhibitor for treatment of adults with all phases of chronic myeloid leukemia with resistance or intolerance to prior therapy, including GLEEVEC, and for the treatment of adults with Philadelphia chromosome-positive acute lymphoblastic leukemia with resistance or intolerance to prior therapy; YERVOY, a biological product, which is a monoclonal antibody for the treatment of patients with unresectable or metastatic melanoma; ORENCIA, a biological product, which is a protein with novel immunosuppressive activity targeted initially at adult patients with moderate to severe rheumatoid arthritis; NULOJIX, a biological product, which is a protein with novel immunosuppressive activity for the prevention of kidney transplant rejection; ONGLYZA, a dipeptidyl peptidase-4 inhibitor, which is an oral compound indicated for the treatment of type 2 diabetes as an adjunct to diet and exercise; and KOMBIGLYZE, an adjunct to diet and exercise to imp

Key Facts:
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Biggest Company in Sub-Industry
Johnson & Johnson (JNJ)
Grade  46.5
Market Cap:$359.14 billion

Smallest Company in Sub-Industry
Crescita Therapeutics, In
Grade  22.2
Market Cap:$9.77 million

Income Statement
Last Qtr (06/2018)  12 Mo. Trailing
Revenue $5.7B $21.6B
Op. Income $642M $4.4B
Net Income $373M $376M
*EPS $0.23  0
*Earnings per share are based on fully diluted net income per share excluding extraordinary items.  This number may not match the headline number reported by the company.

Balance Sheet
Latest
Total Assets $32.6B
Total Debt $7.4B
Stockholders Eq. $12.3B
All numbers in millions except EPS

Ratios
Price/Earnings (12 mo. trailing)  17.01
Price/Tangible Book -22.72
Price/Cash Flow  18.59
Price/Sales  4.34
Debt/Cash Flow  145.93
Return on Equity  3.05%
Gross Margin (12 mo. trailing)  73.44%
Operating Margin (12 mo. trailing)  20.44%
Net Profit Margin (12 mo. trailing)  1.74%

# Bristol-Myers Squibb Company

**NYSE: BMY - Pharmaceuticals: Major**

## Top Down Analysis

### Health Care

**Stocks in Sector: 746**
- Buys: 68 (9.12%)
- Holds: 64 (8.58%)
- Sells: 614 (82.31%)

**No. of stocks at:**
- 52-Wk. High: 4
- 52-Wk. Low: 54
- Above 50 & 200-day MA: 0
- Below 50 & 200-day MA: 0

### Pharmaceuticals: Major

**Stocks in Sub-Industry: 49**
- Buys: 5 (10.20%)
- Holds: 4 (8.16%)
- Sells: 40 (81.63%)

**No. of stocks at:**
- 52-Wk. High: 0
- 52-Wk. Low: 5
- Above 50 & 200-day MA: 0
- Below 50 & 200-day MA: 0

## Sentiment

1. **Price Trend.** A-
2. **Price Momentum.** F
3. **Earnings Guidance.** B
4. **Short Interest.** A+

### BMY - 1 Years

![Graph showing BMY stock price trend from Nov 17 to Oct 18](image)

### BMY - 1 Year Comparison

![Graph showing BMY stock price performance compared to S&P 500 Index and Barron's 400 Index from 2018 to 2021](image)

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