Bristol-Myers Squibb Company

NYSE: BMY - Pharmaceuticals: Major

Overview

Company Performs Well In Fundamental Analysis

MarketGrader currently has a BUY rating on Bristol-Myers Squibb Company (BMY), based on a final overall grade of 67.9 scored by the company's fundamental analysis. Bristol-Myers Squibb Company scores at the 94th percentile among all 5815 North American equities currently followed by MarketGrader. Our present rating dates to August 3, 2016, when it was upgraded from 'SELL'. Relative to the Pharmaceuticals: Major sub-industry, which is comprised of 28 companies, Bristol-Myers Squibb Company's grade of 67.9 ranks seventh. The industry grade leader is Novo Nordisk A/S Sponsored ADR Class B (NVO) with an overall grade of 77.7. Relative to the Pharmaceuticals: Major sub-industry which has returned 12.47% in the last six months, the stock has performed poorly, up 9.45%, albeit better than the S&P 500's 8.39%. Please go to pages two and three of this report for a complete breakdown of BMY's fundamental analysis.

Earnings

- Last Earnings Release: 07/27/2017
- Last Qtr. Actual vs. Est.: $0.74 / $0.73
- Next Release: 10/25/2017
- Year Ending 12/31/2016: $2.87
- Year Ending 12/31/2017: $2.98

Quick Facts

- Dividend Yield: 2.76%
- 52 Wk High: $76.19
- 52 Wk Low: $46.82
- Short Interest: 1% of float
- Market Cap: $92.0B

Grade

- Rating: BUY
- Score: 67.9
- Percentile: 94th
- Date: August 3, 2016

Price, Rating and Sentiment History - 2 Years

While Not Entirely Negative, Growth Indicators Show Several Signs of Weakness

Bristol-Myers Squibb Company’s latest financial report wasn’t very encouraging from a revenue growth perspective, extending an anemic growth record also evident from a long term view. The company’s total revenue last quarter was $5.14 billion, only 5.60% higher than the year earlier period’s revenue of $4.87 billion. In the 12 months ended also last quarter, Bristol-Myers Squibb Company’s total sales were $20.24 billion, a 24.88% rise from the $16.21 billion in revenue booked in the equivalent period ended three years ago, a poor showing over such a long period of time. As such, any boost to the company’s bottom line will have to come from cutting costs, suggesting it will be important for investors to watch closely the company’s margins in the next couple of quarters. The company also reported in its latest earnings announcement that profits had fallen from the year earlier period, reversing a trend of long term profit growth. By long term growth we refer to the change in full year (12-month trailing) net income from the comparable period three years earlier. Bristol-Myers Squibb Company’s Second quarter net fell 21.44% to $916.00 million from the year earlier profit of $1.17 billion (excluding extraordinary items), which contrasts with its growth in 12-month trailing profit over a three year period. Also including last quarter’s results, the company’s profit grew to $4.59 billion for the 12 months ended June 30, 2017, a 70.61% jump from full year profit of $2.69 billion reported for the period ended three years earlier. The company reported strong margin growth during its latest quarter, extending its recent expansion, albeit at a slower pace from the two preceding periods; its EBITDA, operating and net margins grew by an average of 20.15% compared to the same quarter a year before.

The company reported earnings on July 27, 2017 that were 1.37% higher than the analysts’ consensus estimate; however, the stock fell 1.27% following the announcement. Even though this report disappointed investors, it extended a trend of positive earnings surprises, as it has surpassed analysts’ estimates by an average of 7.94% in the last six reports.

Assuming the Company’s Fundamentals Don’t Deteriorate in Coming Quarters, the Stock’s Valuation is Acceptable at this Level

Bristol-Myers Squibb Company’s stock, currently priced at 18.80 times 12-month’ earnings per share, trades 27.25% higher than our “optimum” P/E ratio of 14.77. This ratio, calculated by MarketGrader, is determined by the growth in the company’s earnings in the last five years, measured over 12-month rolling periods. Based on this formula Bristol-Myers Squibb Company has grown earnings per share at a 5.74% annualized rate during the last five years. If the recent growth in the company’s margins is sustained in the form of strong Profitability indicators—as it has now—it means the company could be gaining market share. This should translate into better EPS growth, providing a boost to the stock. The stock’s forward P/E of 18.80, based on its earnings estimate for the next four quarters, represents a premium to the S&P 500 index’s forward P/E of 15.20 but is lower than its trailing P/E of 20.40. Therefore value could apparently be found in the company’s future earnings growth even though relative to the market the stock might not seem cheap (the fundamentals may already be factored into the price). But assuming the company remains fundamentally strong, the stock might have further room to run, or at least be a relatively safe place to be if earnings estimates materialize into actual reported results.

Bristol-Myers Squibb Company’s are trading at 6.30 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 Companies’ intangible assets of $15.85 billion exceed its $14.70 billion in stockholders’ equity by $1.15 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. Its shares seem reasonably priced at 17.57 times the $3.19 in cash flow per share generated by the company over the last twelve months, if only because its overall fundamentals are pretty healthy. Its stock also trades at 4.55 times trailing 12-month sales, a 48.55% discount to its industry’s average of 8.84. 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. Based on this measure Bristol-Myers Squibb Company’s $92.02 billion market cap is an acceptable valuation, representing a modest multiple of 17.18 times its latest quarterly net income plus depreciation.
Bristol-Myers Squibb Company

Company’s Cash Flow Is Very Well Managed as Our Analysis Reflects a Very Healthy Operation

Bristol-Myers Squibb Company’s cash flow grew considerably in its latest quarter to $1.58 billion, a 285.4% increase from $411.00 million reported in the year earlier period. When compared to year-over-year growth in 12-month trailing cash flow of 354.31%, the recent quarterly increase represents a slowdown in the company’s operating income growth, which is likely to contribute to lower earnings in coming quarters and pressure the company to cut costs in order to maintain its margins. The company’s ability to pay off its debt by simply using the cash it generates from operations is excellent, based on last quarter’s net debt to EBITDA ratio of 0.77. This is based on net debt (total debt minus cash on hand) of $1.71 billion and EBITDA of $2.23 billion, giving it plenty of flexibility to reduce leverage or raise additional capital if necessary to pursue new strategic opportunities. During the last twelve months Bristol-Myers Squibb Company’s total debt went from accounting for 31.11% of total capital a year ago to 35.86% in its latest quarter. However, in the same period its cash on hand increased from $4.65 billion to $4.15 billion, a 39.86% jump for the year.

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 $21.61 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 3.80% is much larger than the weighted cost of debt, which is 0.57%. When combined, the two result in a total cost of capital of 4.37%, quite low compared to the company’s total return on invested capital of 24.70% based on 12-month trailing operating income. The result is an excellent economic value added of 20.33%, a very high return to investors after all capital costs are covered. The company increased its quarterly common dividend on June 30, 2017 by 2.63%, to $39.00 cents a share from $37.40 cents. It has paid a dividend for at least 40 years and, based on this latest payout, the stock is currently yielding 2.76%. Bristol-Myers Squibb Company, which recently increased its payout ratio, has spent $2.57 billion in common dividend payments during the last 12 months. This represents 48.75% of total cash flow and 56.02% of after-tax earnings, a modest increase from the 52.96% of earnings it paid out in the year ended a quarter earlier. The increasing trend of an already elevated payout is worth monitoring for signs of liquidity problems even though the company’s fundamentals are generally healthy.

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In light of the company’s strong performance its capital structure might be too conservative, with total debt being only a fraction of its total equity. Its long term debt accounts for only 31.98% of total capital. Bristol-Myers Squibb Company’s core earnings in the last twelve months grew moderately from the twelve months ended a year earlier. The company’s EBITDA for the most recent period was $7.62 billion, or 25.33% above the $6.08 billion earned from its core operations in the prior period. EBITDA is used by MarketGrader to measure the company’s true earnings power since it includes interest expenses, income taxes, depreciation and amortization, all non-operating expenses, which are nevertheless accounted for in other parts of our analysis that look at EPS gains and net income.

Bristol-Myers Squibb Company is a very profitable company with strong overall indicators in this section of our analysis. The company’s different measures of return to shareholders and margins are typically above those of its peers. In the last four quarters Bristol-Myers Squibb Company earned a profit of $4.59 billion, equivalent to 22.66% of its sales in the period. Operating income during that same period accounted for 26.38% of sales, 47.43% higher than the average operating margin for the Pharmaceuticals: Major industry, which was 16.13%. Bristol-Myers Squibb Company’s return on equity, based on trailing 12-month earnings, is not only outstanding at 31.20%, but it’s higher than the 19.63% return on equity from the year earlier period. This is an important metric of management efficiency in our grading system, as it measures the amount earned on an investment in the company’s common stock.
Bristol-Myers Squibb Company

Profile

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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New York, NY 10154
Phone: www.bms.com

Biggest Company in Sub-Industry
Johnson & Johnson (JNJ)
Grade 68.3
Market Cap:$356.96 billion

Smallest Company in Sub-Industry
Crescita Therapeutics, Inc
Grade 21.7
Market Cap:$8.15 million

MarketGrader Dilution Analysis

Impact of Change in Shares on EPS - Q3 2017

| EPS Latest | $0.56 |
| EPS Year Ago | $0.69 |
| EPS Change 1 Yr. | (20%) |
| C. Shares - Latest(M) | 1,650 |
| C. Shares - Yr Ago(M) | 1,679 |
| C. Shares - 1Yr Chg. | (2%) |
| EPS if Yr. Ago Shares | $0.55 |
| EPS Chg. if Yr. Ago | (21%) |
| EPS Loss from Dilution | $0.01 |

*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 $33.4B
Total Debt $8.2B
Stockholders Eq. $14.7B
All numbers in millions except EPS

Ratios

Price/Earnings (12 mo. trailing) 18.83
Price/Tangible Book 80.44
Price/Cash Flow 17.57
Price/Sales 4.55
Debt/Cash Flow 155.92
Return on Equity 31.20%
Gross Margin (12 mo. trailing) 70.51%
Operating Margin (12 mo. trailing) 22.66%
Net Profit Margin (12 mo. trailing)
### Top Down Analysis

#### Health Care

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<th>#</th>
<th>Ticker</th>
<th>Grade</th>
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<th>Name</th>
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<td>N</td>
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#### Pharmaceuticals: Major

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### Sentiment

1. Price Trend. B  
2. Price Momentum. D  
3. Earnings Guidance. B  
4. Short Interest. A+

**BMY - 1 Years**

**BMY - 1 Year Comparison**

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