

Bristol-Myers Squibb Company

Model Update

We are updating our model and establishing a 2016 price target of \$78. Please see changes below.

Overweight

BMJ, BMY US

Price: \$58.95

▲ Price Target: \$78.00
Previous: \$75.00



Pharmaceuticals — Major & Specialty

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Price Performance



Bristol-Myers Squibb Company (BMY;BMY US)

FYE Dec	2013A	2014A	2015E	2016E	2017E
EPS (\$)					
Q1 (Mar)	0.41	0.46	0.71A	-	-
Q2 (Jun)	0.44	0.48	0.53A	-	-
Q3 (Sep)	0.46	0.45	0.38	-	-
Q4 (Dec)	0.51	0.46	0.21	-	-
FY	1.82	1.85	1.84	2.25	3.09
Bloomberg EPS FY (\$)	1.75	1.80	1.84	2.25	2.97

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data

Price (\$)	58.95
Date Of Price	29 Sep 15
52-week Range (\$)	70.54-47.55
Market Cap (\$ mn)	98,623.35
Fiscal Year End	Dec
Shares O/S (mn)	1,673
Price Target (\$)	78.00
Price Target End Date	31-Dec-16

See page 4 for analyst certification and important disclosures.

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Investment Thesis, Valuation and Risks

Bristol-Myers Squibb Company (*Overweight; Price Target: \$78.00*)

Investment Thesis

We rate Bristol Overweight ahead of a number of potential important catalysts over the next 12-18 months for the company's immunotherapy platform. While Bristol trades at a high multiple on near-term earnings (26x 2016E), we forecast a roughly 24% EPS CAGR for the company through 2020 with substantial potential upside to these estimates as we get additional clarity on the company's pipeline.

Valuation

Bristol trades at around 26x our 2016 EPS estimate of \$2.25. This represents a 58% premium to its US major pharma peers. Recall that the US major pharma group currently trades at a 14% premium to the S&P 500 on 2016E P/E.

Establishing Dec-2016 price target of \$78 (previous Dec-15 price target of \$75).

Our price target is based on a DCF methodology as we believe this best captures the overall value of these businesses. For our Bristol DCF, we take the present value of cash flows within our forecast window and thereafter wind down the existing products business while including risk-adjusted contributions from pipeline assets. We use a 0% sector terminal growth rate and a WACC of 9.0% (above recent norms based on a higher equity risk premium given the litany of issues facing the sector over the next few years). This translates into a DCF value of \$78.

Risks to Rating and Price Target

Risks to our Overweight rating and price target include greater than expected operating margin pressure if SG&A spend moves higher (negative) and slower than expected product launches (negative).

Bristol-Myers Squibb Company: Summary of Financials

Income Statement - Annual	FY14A	FY15E	FY16E	FY17E	Income Statement - Quarterly	1Q15A	2Q15A	3Q15E	4Q15E
Revenues	15,879	16,034	16,907	19,076	Revenues	4,041A	4,163A	3,775	4,055
Cost of products sold	(3,781)	(3,699)	(3,804)	(4,101)	Cost of products sold	(813)A	(988)A	(925)	(973)
Gross profit	12,098	12,335	13,103	14,975	Gross profit	3,228A	3,175A	2,850	3,082
SG&A	(4,717)	(4,800)	(4,896)	(4,994)	SG&A	(1,028)A	(1,132)A	(1,168)	(1,472)
R&D	(3,913)	(4,124)	(4,289)	(4,397)	R&D	(854)A	(985)A	(1,010)	(1,276)
Operating income	3,468	3,410	3,918	5,584	Operating income	1,346A	1,058A	672	334
Net interest (income) / expense	(102)	(81)	48	132	Net interest (income) / expense	(21)A	(23)A	(18)	(18)
Other income / (expense)	-	-	-	-	Other income / (expense)	-	-	-	-
Pretax income	3,885	3,981	4,621	6,381	Pretax income	1,523A	1,188A	804	466
Income taxes	(767)	(836)	(832)	(1,149)	Income taxes	(317)A	(278)A	(153)	(89)
Net income - recurring	3,093	3,072	3,770	5,213	Net income - recurring	1,193A	890A	631	357
Diluted shares outstanding	1,670	1,669	1,678	1,686	Diluted shares outstanding	1,676A	1,667A	1,667	1,667
EPS - excluding non-recurring	1.85	1.84	2.25	3.09	EPS - excluding non-recurring	0.71A	0.53A	0.38	0.21
EPS - recurring	1.85	1.84	2.25	3.09	EPS - recurring	0.71A	0.53A	0.38	0.21
Balance Sheet and Cash Flow Data	FY14A	FY15E	FY16E	FY17E	Ratio Analysis	FY14A	FY15E	FY16E	FY17E
Cash and cash equivalents	5,571	3,932	6,061	9,285	Sales growth	(3.1%)	1.0%	5.4%	12.8%
Short Term Investment	1,864	1,277	1,277	1,277	EBIT growth	0.4%	(1.7%)	14.9%	42.5%
Accounts receivable	3,390	3,605	3,522	3,974	EPS growth - recurring	1.9%	(0.7%)	22.1%	37.6%
Inventories	1,560	1,622	1,585	1,709	Gross margin	76.2%	76.9%	77.5%	78.5%
Other current assets	2,223	2,604	2,604	2,604	EBIT margin	21.8%	21.3%	23.2%	29.3%
Current assets	14,608	13,040	15,050	18,849	Tax rate	19.7%	21.0%	18.0%	18.0%
PP&E	4,417	4,302	4,210	4,171	Net margin	19.5%	19.2%	22.3%	27.3%
Total assets	33,749	31,677	33,295	36,805	Return on assets (ROA)	9.2%	9.7%	11.3%	14.2%
Total debt	7,832	7,370	7,370	7,370	Return on equity (ROE)	20.6%	21.0%	23.4%	27.5%
Total liabilities	18,766	17,061	17,212	17,825	Free cash flow yield	2.7%	2.0%	4.6%	5.6%
Shareholders' equity	14,983	14,616	16,083	18,980					
Net income (including charges)	2,029	2,078	3,770	5,213					
D&A	467	612	730	671					
Change in working capital	1,172	(1,262)	271	37					
Other	(329)	124	183	183					
Cash flow from operations	3,148	2,320	4,953	6,103					
Capex	(526)	(458)	(338)	(382)					
Free cash flow	2,704	1,926	4,576	5,613					
Cash flow from investing activities	1,216	(683)	(338)	(382)					
Cash flow from financing activities	(2,437)	(3,299)	(2,486)	(2,498)					

Source: Company reports and J.P. Morgan estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Dec

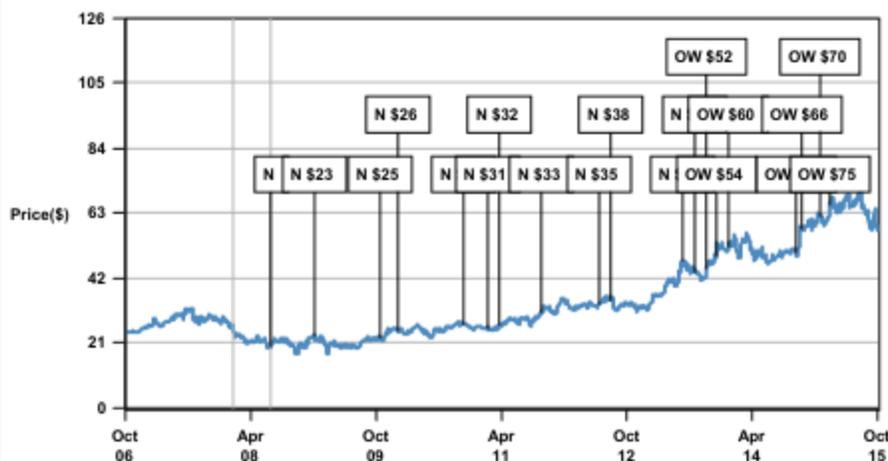
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Bristol-Myers Squibb Company (BMY, BMY US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Jun 24, 2006 - Jan 06, 2009.

Date	Rating	Share Price (\$)	Price Target (\$)
24-Jun-08	N	20.23	--
06-Jan-09	N	23.23	23.00
19-Oct-09	N	22.88	25.00
05-Jan-10	N	25.23	26.00
18-Oct-10	N	27.20	27.00
27-Jan-11	N	25.79	31.00
25-Mar-11	N	27.29	32.00
26-Sep-11	N	30.89	33.00
04-Jun-12	N	33.66	35.00
25-Jul-12	N	34.95	38.00
03-Jun-13	N	47.59	48.00
25-Jul-13	N	43.93	50.00
16-Sep-13	OW	45.14	52.00
23-Oct-13	OW	48.96	54.00
19-Dec-13	OW	52.59	60.00
10-Oct-14	OW	50.28	63.00
03-Nov-14	OW	58.19	66.00
20-Jan-15	OW	62.31	70.00
05-Mar-15	OW	66.05	75.00

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