Is Bristol Myers-Squibb Worth It?

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Bristol Myers- Squibb (BMY) is a global pharmaceutical company whose main mission is to discover, develop and deliver innovative therapies that help patients overcome serious diseases. They are headquartered in New York City with R&D sites located in Lawrence Township, New Jersey and Wallingford, Connecticut and other sites located in East Syracuse, New York; Princeton Pike, Hopewell and New Brunswick, New Jersey; and in Swords, Ireland; Braine-l'Alleud, Belgium; Tokyo, Japan; and Bangalore, India. [1]

Bristol-Myers and Squibb merged in 1989, the merged company became Bristol-Myers Squibb. After the merger in 1999, President Clinton awarded Bristol-Myers Squibb the National Medal of Technology which is nation's highest recognition for technological achievement, "for extending and enhancing human life through innovative pharmaceutical research and development and for redefining the science of clinical study through groundbreaking and hugely complex clinical trials that are recognized models in the industry." [1]

However, in 2002 BMY was accused of illegally maintaining a monopoly on its cancer treatment, Taxol and was sued for an anti-trust lawsuit which cost the company $125 million for settlement. That year, the company was involved in an accounting scandal as well where they were offering excess inventory to customers to create higher sales numbers. Since then, BMY has settled with the SEC and the Department of Justice and agreed to pay $150 million while neither admitting nor denying guilt. This led to a significant restatement of revenues from 1999 to 2001. [2]

Throughout the years, BMY has acquired many companies to grow and improve their medicines to compete with other leading pharmaceutical companies. [3] Its first acquisition was in 2007 when it acquired Adnexus Therapeutics to help advance its oncology pipeline. Following that, they acquired Kosan Biosciences in 2008 to add more oncology drugs to its pipeline. BMY wanted to expand its expertise and so started investing in monoclonal antibodies and protein therapeutics, this is when they acquired Medarex and ZymoGenetics. BMY then recognized fibrotic diseases as an area of unmet medical need and discovered its interconnection with the other research that was happening in the company. This led them to buy Amira Pharmaceuticals and Inhibitex Inc which was the hepatitis C drug developer. In 2012, BMY took over Amylin Pharmaceuticals because the company was involved in the discovery, development, and commercialization of drugs for diabetes and obesity. Following that in 2014, BMY wanted to increase its portfolio and so bought iPierian, Inc. to work on their research on neurodegenerative diseases. In 2015, BMY wanted to expand its immune-oncology pipeline and so they acquired all of the outstanding capital stock of Flexus Biosciences. BMY wanted to compete with other leading pharmaceutical companies and so invested in Cardioxyl's heart failure therapy and Padlock Therapeutics' immunomodulation. In recent years, to further strengthen its oncology pipeline, BMY acquired Cormorant Pharmaceuticals for $520 million [4] and IFM therapeutics for $300 million, and contingent payments of up to $1.01 billion. [5] The programs from these companies' help BMY broaden their ability to investigate additional pathways across the immune system and complements their immuno-oncology portfolio.

Citing major developments and a market capitalization of US$87 billion and stock appreciation of 61.4%, Bristol-Myers Squibb was ranked as the best drug company of 2013 by Forbes Magazine. [6]

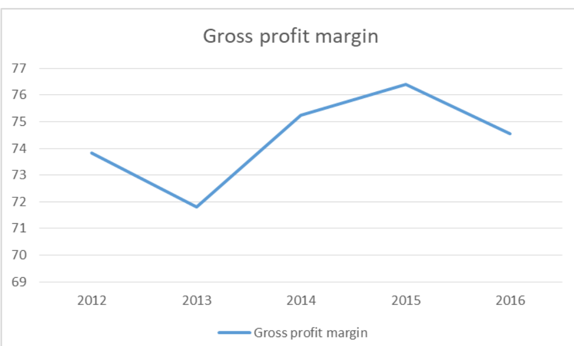
Since BMY is a leading pharmaceutical company and it is publically traded, its stocks are available for sale to investors interested in making a profit when the company succeeds. As of November 2017, there are 1,160,698 shares held by 1717 owners, which is 70.92% of the institution. [7] In this paper, I am going to analyze the financial situation of BMY and determine whether I would invest $10,000 that I earned this summer in the company. So before I invest in a company, there are six things that I should be informed about:

1. Financial performance- if the company has been making money and if they have the ability to pay short-term debts.
2. Company's track record- if the company has been growing over time and if their stock prices have been increasing or decreasing.
3. Business costs- from the company's operating statements, we can see how the company's costs relate to its sales.
4. Leadership- the stability of the management in the company and the structure of its board of directors and their qualifications.
5. Risk factors- if the company is trying something new and untested and how it compares to their competitors in the same field.
6. Dividend history- a regular increase in dividend prices mean a healthy income for investors but if the overall market drops, the dividends help support the stock prices.

After learning more about these six topics, I can decide whether I would like to invest in BMY. [8]

Financial Performance:

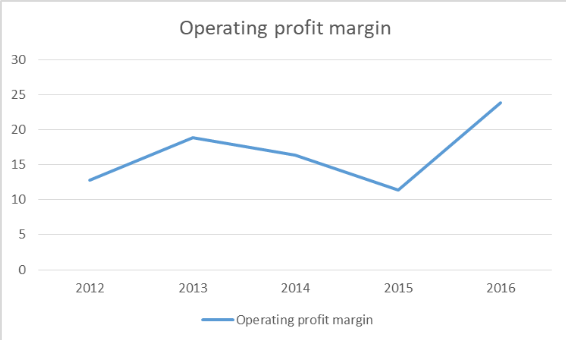
I plan on looking at the financial statements to analyze the data available and assess the Profitability by looking at the *Gross Margin, Operating Margin, Net Margin and Return on Equity and Return on Asset*. This will help me assess the company's performance in the past and make predictions about the future. There are four components of the company's financial statements, the Balance Sheet, the Income Statement, the Statement of Cash Flows, and the Statement of Shareholder's Equity. Profitability ratios are a class of financial metrics that are used to assess a business's ability to generate earnings compared to its expenses and other relevant costs incurred during a specific period of time.



Year	Gross profit margin
2012	73.84
2013	71.81
2014	75.24
2015	76.39
2016	74.54

[9]

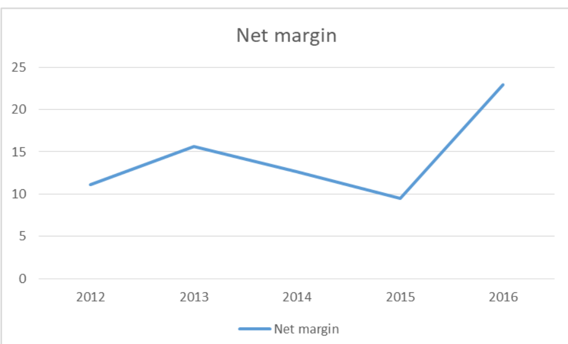
Gross profit margin is used to assess a company's financial health and business model by revealing the proportion of money left over from revenues after accounting for the cost of goods sold (COGS). The Gross Margin is calculated by dividing gross profit by revenues. BMY's gross profit margin improved from 2014 to 2015 but then deteriorated significantly from 2015 to 2016 to 74.54%.



Year	Operating profit margin
2012	12.83
2013	18.9
2014	16.32
2015	11.41
2016	23.83

[9]

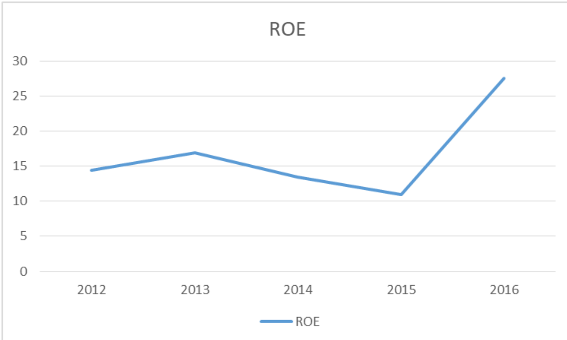
Operating margin is used to measure a company's pricing strategy and operating efficiency. Operating margin is a measurement of what proportion of a company's revenue is left over after paying for variable costs of production such as wages, raw materials, etc. BMY's operating profit margin deteriorated from 16.32% to 11.41% between 2014 and 2015 but then improved from 2015 to 2016 to 23.83% exceeding the 2014 level.



Year	Net margin
2012	11.12
2013	15.64
2014	12.62
2015	9.45
2016	22.94

[9]

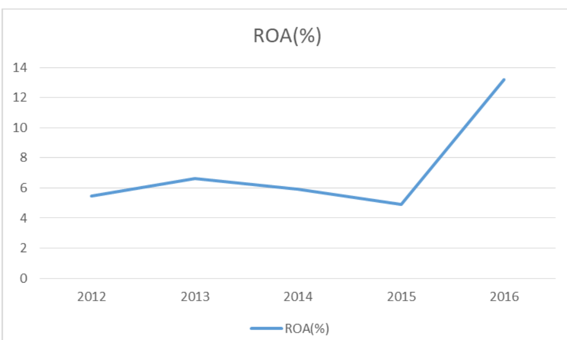
Net margin is the percentage of revenue remaining after all operating expenses, interest, taxes and preferred stock dividends (but not common stock dividends) have been deducted from a company's total revenue. BMY's net profit margin deteriorated from 2014 to 2015 from 12.62% to 9.45% but then improved from 2015 to 2016 to 22.94% which was the highest it has been in the past five years.



Year	ROE(%)
2012	14.39
2013	16.91
2014	13.49
2015	10.97
2016	27.55

[9]

The Net Income/Common Equity which is the *Return on Common Equity* is useful for comparing the profitability of a company to that of other firms in the same industry and reveals the profit a company generates with the money shareholders have invested. From the graph above, we can see that the ROE for BMY dropped significantly from 16.91% to 10.97% between the years 2013 and 2015 and then drastically increased to 27.55% in 2016.



Year	ROA(%)
2012	5.46
2013	6.64
2014	5.94
2015	4.93
2016	13.22

[9]

The *Return on Assets* is the Net Income/Total Assets which gives a manager, an investor, or an analyst an idea as to how efficient a company's management is at using its assets to generate earnings. A company's total assets are the sum of its total liabilities and shareholder's equity and these are used to fund the company. The ROA value gives investors an idea of how effective the company is in converting the money it invests into net income. The higher the ROA number, the better, because the company is earning more money on less investment. It looks like in 2015, BMY re-evaluated its strategies as its ROA was very low and this can be because the management was not allocating its resources efficiently and then the ROA increased from 4.93% to 13.22% in 2016.

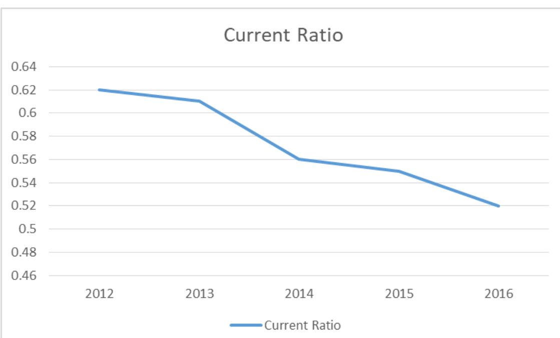
Company's Track Record:

[10]

Because the stock market functions like an auction, when there are more buyers than there are sellers, the price has to adapt or no trades are made. This tends to drive the price upwards, increasing the market quotation at which investors can sell their shares, enticing investors who had previously not been interested in selling to sell. On the other hand, when sellers outnumber buyers, there is a rush to dump stock and whoever is willing to take the lowest bid sets the price resulting in a race-to-the-bottom. There may be temporary problems in the business that cause the stock to become unattractive to investors and this depends on whether the main revenue stream is the production and selling of drugs or patents, and if the line of the drug right now or the patents issued at the moment are not going favorably for the company.

For BMY, the stock prices have increased to $61.43 showing that the new drug Opdivo to treat cancer has been working well in its clinical trials and will be profitable for the company and thus the stockholders.

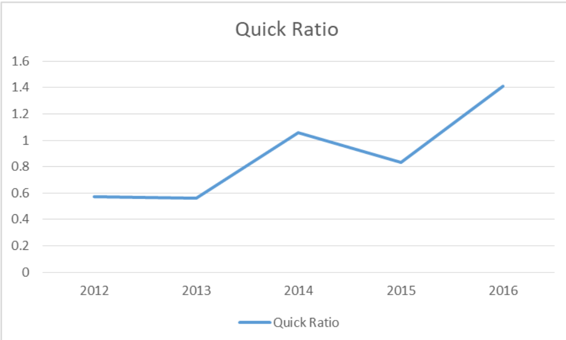
The *current ratio* measures BMY's ability to pay short-term and long-term obligations. The current ratio considers the current total assets of a company relative to that company's current total liabilities. From the graph below we can see that BMY's financial position is not ideal. BMY is using debt to fuel its growth and this can affect the future prospects of the business. From 2012 to 2016, the current ratio has dropped 0.10 from 0.62 to 0.52.



Year	Current Ratio
2012	0.62
2013	0.61
2014	0.56
2015	0.55
2016	0.52

[11]

The *quick ratio* is a measure of how well a company can meet its short-term financial liabilities. It is also known as the acid-test ratio, and can be calculated as follows: (Cash + Marketable Securities + Accounts Receivable) / Current Liabilities. The quick ratio has increased from 0.57 in 2012 to 1.06 in 2014 and it dropped again in 2015 to 0.83 and then reached its highest value for the past five years in 2016 at 1.41, which illustrates the ability to avoid short-term cash problems.

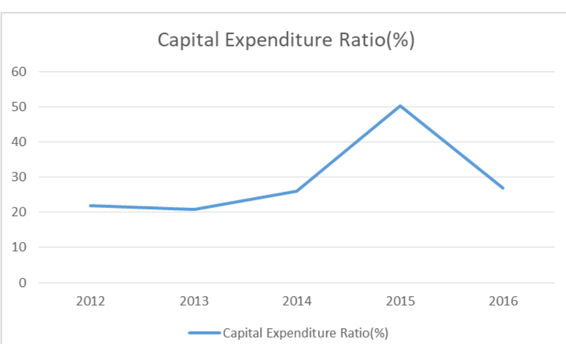


Year	Quick Ratio
2012	0.57
2013	0.56
2014	1.06
2015	0.83
2016	1.41

[12][13]

Business Costs:

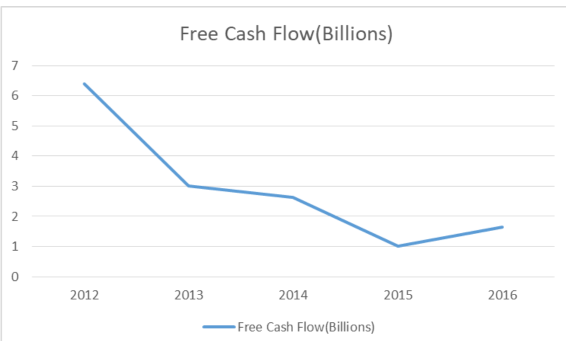
Capital Expenditure Ratio is the ratio of a company's cash from operations to its capital expenditures for acquiring or upgrading assets, such as buildings or equipment, required to improve or maintain business operations. BMY has consistently used a small portion of their net income buying new equipment or investing in new facilities. This indicates that BMY may require minimal investment to stay competitive. This leaves them with extra money to spend on growing their business and potentially buying back stock. From the graph below, we can see that the ratio remained close from 2012 to 2016, except in 2015 where the ratio doubled from 25.92% to 50.28% showing that they used a larger percentage of their cash in upgrading or growing their resources that year.



Year	Capital Expenditure Ratio(%)
2012	21.91
2013	20.81
2014	25.92
2015	50.28
2016	26.96

[11]

Free cash flow (FCF) is a measure of BMY's financial performance, calculated as operating cash flow minus capital expenditures. FCF represents the cash that BMY is able to generate after spending the money required to maintain or expand its asset base. BMY has been able to maintain profitability in good times and bad. This could mean BMY has an extremely strong business or has the ability to scale down costs when needed. This shows us that BMY is a fairly resilient business and has created positive free cash flow for all of the past 5 years, however from the trend of the curve below, we can see that the amount is decreasing exponentially.

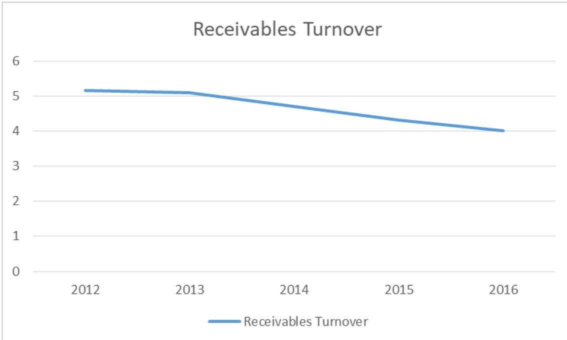


Year	Free Cash Flow(Billions)
2012	6.39
2013	3.01
2014	2.62
2015	1.01
2016	1.64

[11]

Leadership:

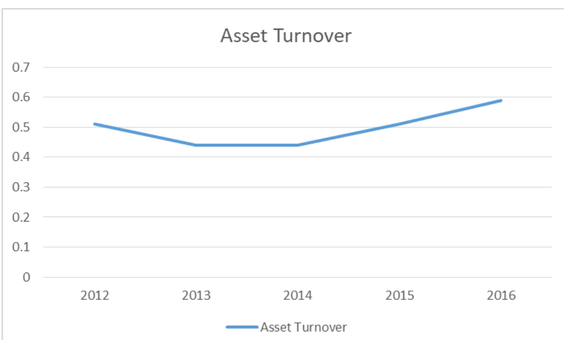
The *receivables turnover ratio* measures how efficiently BMY uses its assets. Receivables turnover ratio can be calculated by dividing the net value of credit sales during a given period by the average accounts receivable during the same period. We can see that BMY has a constant receivables turnover ratio ranging from 5.16 to 4.02 in the past five years.



Year	Receivables Turnover
2012	5.16
2013	5.09
2014	4.7
2015	4.31
2016	4.02

[12][13]

The *asset turnover* ratio measures BMY's ability to generate sales from its assets by comparing net sales with average total assets. From the graph below, we can see how efficiently BMY can use its assets to generate sales. The value increased from 0.51 in 2012 to 0.59 thus increasing the efficiency in the past five years.

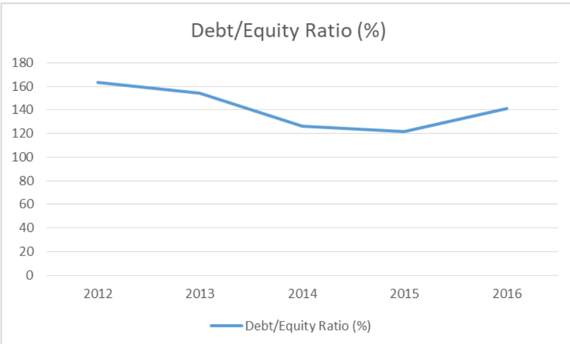


Year	Asset Turnover
2012	0.51
2013	0.44
2014	0.44
2015	0.51
2016	0.59

[12][13]

Risk Factors:

The *Debt/Equity Ratio* is calculated by dividing BMY's total liabilities by its stockholders' equity and is used to measure its financial leverage. The main points that can affect this ratio are how heavily the company is invested in a particular R&D and the repercussion in case it does not materialize or if there is a heavy competition for the same and it loses its patent. This would be an off-balance sheet item. Also, an unsettled litigation is an off-balance sheet item and does not reduce profit till it is decided; it remains an unforeseen liability till it materializes. BMY has settled more litigations in 2016 than in 2015, this is why the ratio in 2016 is 141.47%, which is an increase of around 20% from 2015.



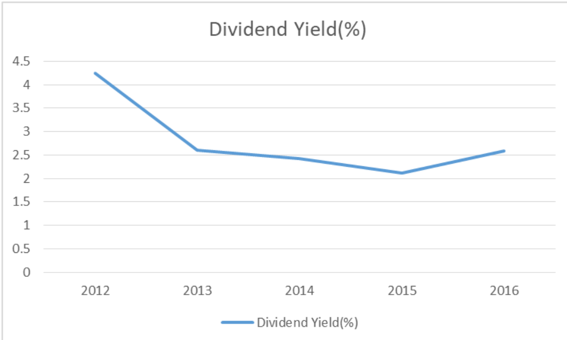
Year	Debt/Equity Ratio (%)
2012	163.39
2013	154.12
2014	126.35
2015	121.44
2016	141.47

[12][13]

Dividend History:

The *dividend yield* is the dividend per share, divided by the price per share. It is also a company's total annual dividend payments divided by its market capitalization, assuming the number of shares is constant. Dividend yields are a measure of an investment's productivity, and some even view it as an interest rate earned on an investment.

BMY has consistently distributed a dividend for at least the past 5 years and normally, only profitable companies pay out dividends. Such a long dividend history suggests that BMY is very established in its market and that its dividend distribution is likely to continue for a long period of time. Therefore, investors often view companies that have paid out significant dividends for an extended period of time as safer and more stable investments. Thus, should events occur which are detrimental to the share price like the failure of a clinical trial or drug production, the dividend combined with the stability of the company can support the stock price.



Year	Dividend Yield(%)
2012	4.25
2013	2.6
2014	2.42
2015	2.12
2016	2.59

[11]

Conclusion:

From my analysis done above, I would invest $10,000 in Bristol Myers-Squibb since there are more positives than negatives. The company's strengths can be seen in many areas like its operating profit margin, return on equity, and return on assets, net margin, cash flow, and dividend yield. However, the current ratio shows us that BMY uses debt to expand its business operations and this can have adverse effects on the future of the company. Throughout the years, BMY has acquired a large number of start-ups and it keeps growing its pipelines. Their main goal is to discover, develop and deliver transformational medicines for patients through their internal discovery efforts and innovative collaborations and strategic business development opportunities. From all the research that I have done, the management of BMY is doing a great job in taking steps towards achieving this goal. I would definitely invest my hard earned money in a company that is so driven and innovative. I feel like BMY will grow to be a large company that delivers the best therapies to patients and it will definitely make its mark in the pharmaceutical industry. I have had the opportunity to interact with some of its employees and all of them are motivated and driven towards achieving this goal. Additionally, they are very helpful and are excited to pass on their knowledge and expertise to interns as they believe them to be the future of the company.

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