Heads you win, tails they lose: Buy Bristol-Myers Squibb on the most accretive acquisition in large cap pharma history

Buy Bristol-Myers Squibb Corporation

Ticker: BMY

Eric Gregg

Principal & Founder Four Tree Island Advisory LLC

www.fourtreeislandadvisory.com

Orientation & Company Overview

Valuation and Important Metrics

Date	5/2/19	P/E Based on IBES Consensus	2019	2020	2021
BMY Stock Price	$46.87	Johnson & Johnson	16.4	15.4	14.4
% of 52 Week High	74%	Pfizer	14.2	13.4	12.2
Shares Outstanding (bn)	1.64	Merck	17.0	15.2	13.6
Market Cap (bn)	$76.7	Eli Lilly	21.0	17.9	16.1
Debt (bn)	$6.0	Abbvie	9.0	8.3	7.6
Cash (bn)	$10.0	Amgen	12.5	11.8	11.4
Enterprise Value (bn)	$72.7	**Peer Median**	**15.3**	**14.3**	**12.9**
Dividend Yield	3.5%				
Last 5 Year EPS CAGR	16.9%	**Bristol-Myers (ex-Celgene)**	**11.2**	**10.3**	**9.5**
Proj 5 Year EPS CAGR (w/CELG)	20.3%	**Bristol-Myers (with Celgene based on BMY guidance)**	**9.3**	**7.1**	**5.9**

- Bristol-Myers Squibb ("Bristol") is a 160 year old biopharma based in Princeton, NJ – recognized leader in solid tumor therapy and immuno oncology
- In January, Bristol announced the $75+ billion acquisition of Celgene based in Summit, NJ – the leading company in blood cancers with a robust late stage pipeline
- BMY trades at a 25% discount to peers on a projected P/E basis and a ~50% discount on a pro forma with Celgene basis

The Set-Up:

Four Primary Factors Contributing to Bristol's Currently Washed Out Valuation

- Despite peer leading historical EPS growth, in 2018 market concerns about Bristol grew over:
  - Slowing growth in immuno oncology.
  - Bristol's thin near-term pipeline.
  - Continued setbacks in 1st Line Non-Small Cell Lung Cancer ("NSCLC").
- In 2019, Bristol announces Celgene deal – typical market reaction. Then, Starboard Value inserts itself and throws shade on management and the deal in the hopes of finessing a bidder.
- Since ISS and Glass Lewis endorsed the deal and Starboard conceded, merger arbitrageurs have engaged.
- With five firms advising on the deal, $34bn of financing and a $5bn ASR all in play, much of the sell-side is restricted and that research has gone silent pending closing of the deal.

Historical Non-GAAP EPS Growth of Bristol & Peers

Company	3 Year	5 Year
J&J	10%	8%
Pfizer	11%	6%
Merck & Co	7%	4%
Eli Lilly	17%	6%
AbbVie	23%	20%
Amgen	17%	14%
Median	**14%**	**7%**
Bristol-Myers Squibb	**26%**	**17%**

Source: Company earnings reports.

Why Bristol is Positioned to Meaningfully Outperform Over the Next 12-24 Months

Reason 1: Impressively Accretive Acquisition

Top Pharma Deals of All-Time Incl. of US Acquirer or Target

	Acquirer	Target	Year	Value with Debt ($BN)	Forecast Accretion
1	Pfizer	Warner-Lambert	2000	$112	1.5% accretive year 1 and 3.3% accretive in year 2
2	**Bristol-Myers Squibb**	**Celgene**	**2019**	**$87**	**>40% accretive in 1st full year and every year through 2025**
3	Actavis	Allergan	2015	$71	Expected to achieve "double-digit" accretion within 12 months
4	Pfizer	Wyeth	2009	$68	Accretive within the 2nd year post combination
5	Pfizer	Pharmacia	2002	$64	Non accretive year 1 and $0.06 per share accretive in year 2
6	Merck & Co.	Schering-Plough	2009	$47	Modestly accretive in Year 1 and significantly accretive thereafter
7	Roche	Genentech	2009	$44	5% accretive T+1 10% accretive T+2

Sources: Edgar, news releases and wikipedia.

Acquisition Multiples of Most Recent Precedent Transactions

Announce Date	Acquirer	Target	NTM P/E
5/8/18	Takeda	Shire	12.8x
1/11/16	Shire	Baxalta	21.3x
1/23/15	Pfizer	Allergan	27.2x
11/17/14	Actavis	Allergan	27.5x
7/18/14	AbbVie	Shire	26.0x
5/18/14	Pfizer	AstraZeneca	21.6x
3/9/09	Merck & Co	Schering-Plough	14.0x
1/26/09	Pfizer	Wyeth	13.7x
4/26/04	Sanofi	Aventis	19.0x
Median			**21.3x**
1/3/19	**Bristol-Myers**	**Celgene**	**9.9x**

Source: Bristol-Myers Squibb.

Why Bristol is Positioned to Meaningfully Outperform . . .

Reason 2: Celgene Deal Addresses Limited Near-Term Pipeline with Additional Five Potential Blockbusters

- Standalone Bristol only has one, near-term, potential blockbuster, new drug candidate (TYK-2 – psoriasis).
- Celgene has five, late-stage, de-risked new drug candidates including:
  - Ozanimod (Multiple Sclerosis) – submitted in Q1 for FDA review.
  - Fedratinib (Myelofibrosis - a bone marrow disorder) – under FDA priority review.
  - Luscpatercept (Myelodysplastic Syndrome and Beta-Thalassemia – bone marrow and blood disorders) – submitted in Q1 for FDA review.
  - Liso-Cel (Non-Hodgkins Lymphoma) – phase III – expecting FDA submission soon.
  - bb2121 (Highly Refractory Multiple Myeloma – blood cancer) – expected approval in 2020.
- Celgene sufficiently confident in late stage pipeline that they have tied $9 per share of their potential sales price (via a CVR) to FDA approval of three of them.
- Between, Bristol and Celgene, the "New Bristol" has half-a-dozen late stage drug candidates and over 50 candidates in phases 1 & 2.

Why Bristol is Positioned to Meaningfully Outperform . . .

Reason 3: Major Data Releases Portend Incremental Growth for Bristol's Immuno Oncology Platform

- Between Bristol's Opdivo and Yervoy, it has the top I/O franchise with $8.0bn of 2018 sales vs. Merck (with Keytruda with $7.2bn of sales) and Roche (with Tecentriq $772mm of sales).
- One of the biggest contributors to Bristol's stock underperformance since August 2016 was setbacks it experienced in 1st Line Non-Small Cell Lung Cancer or "NSCLC" (lung cancer being the #1 cancer killer killing 3x the #2 – colorectal).
- By necessity but very conveniently, Bristol withdrew its submission for 1st line NSCLC earlier this year to await further data from the Checkmate -227 part 1a study due soon.
- The opportunity in NSCLC is sufficiently large that that ambiguity around Opdivo in NSCLC limited the possibility of any interloper making a bid for Bristol.
- Dependent on the readout from that data, Bristol could be in the position to re-file in NSCLC as soon as this Summer – Celgene deal could easily close before then.
- Further, Bristol expects strong data from its Opdivo/Cabometyx (Exelixis) phase III trials in 1st Line Renal Cell Carcinoma (Kidney Cancer) come Winter.
- Bristol expects continued revenue growth for Opdivo for 2019 and years into the future.

Why Bristol is Positioned to Meaningfully Outperform

Reason 4: Torrent of Constructive Sell-Side Research Likely to Hit Near/Post Close of Celgene Acquisition – As soon as June as late as September

- Top Ranked Analysts from Evercore ISI, Morgan Stanley and Citibank are all restricted.
- With ~$34 billion of debt financing to be executed and syndicated and a $5bn ASR in play, undoubtedly other sell-side firms are restricted.
- Common practice for most sell-side analysts to not transition until close.
- With deal forecast to be >40% accretive on the top, bottom and EPS lines, adjustment to models is going to be significant.
- Quantitative, fundamental trading strategies and traditional active managers likely to be inundated with positive revisions.

Why Bristol is Positioned to Meaningfully Outperform . . .

Reason 5: Bristol Positioned to Rapidly Deleverage and Enhance Shareholder Payouts with $45 billion of Free Cash Flow in 1st Three Years Post Close

	2020	2021	2022	2023
BMY Pro Forma Cash Net Income per p.157 of S-4 (bn)	$14.5	$16.9	$17.8	$19.6
Assumed Debt Paydown (bn)	$5.0	$5.0	$5.0	$5.0
Assumed Capital Expenditures	$1.2	$1.2	$1.2	$1.2
Assumed Quarterly Dividend (Per Share)	$0.43	$0.45	$0.47	$0.50
Total Dividend Payout (bn)	$3.8	$3.8	$3.8	$3.9
Assumed Share Repurchase (bn)	$4.5	$6.9	$7.8	$9.5
Estimated Average Per Share Repurchase Price	$65	$78	$94	$112
Estimated YE Share Count	2,174	2,086	2,003	1,918
Estimated Average Share Count	2,209	2,130	2,044	1,961
Estimated Cash Net Income Per Share	$6.56	$7.93	$8.71	$10.00
2018 - 2023 BMY EPS CAGR	20%			
2018 - 2021 BMY EPS CAGR	26%			
2018 - 2021 Peer Median EPS CAGR	8%			

Bristol has guided to generating so much free cash flow, that it is in a position to a) rapidly pay down debt b) consistently raise its dividend and c) have plenty left over for significant share buybacks and/or tuck-in acquisitions.

Why Bristol is Positioned to Meaningfully Outperform . . .

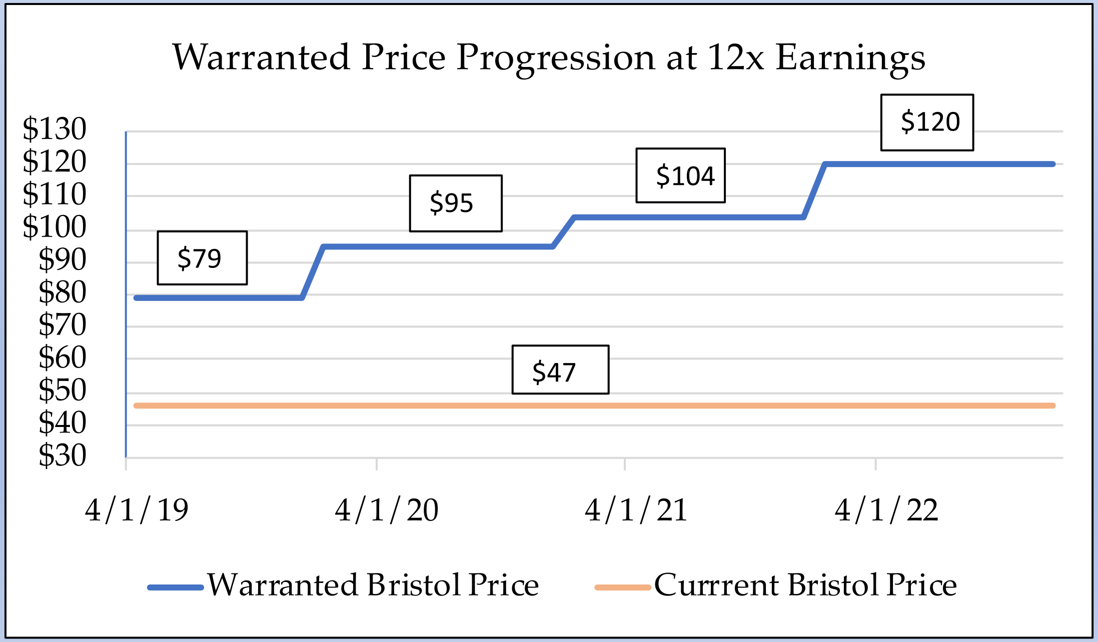
Reason 6: Close of Deal Results in Departure of Risk Arbs and Execution of $5BN ASR

- By definition, risk arb pressure on Bristol stock should disappear post closing of the transaction.
- Company has stated intent to immediately execute $5bn ASR in conjunction with close of transaction.
- There has been some speculation, like Barclays research, that Bristol may even increase the size of that ASR.
- The counterweight to all of this is that there will ~$34bn of newly issued Bristol shares going to Celgene shareholders.
- As many fundamental Celgene shareholders, while thrilled with the deal, still think Celgene cheap at the takeout price, with all the additional benefits of combination there's reasonable likelihood that a significant amount of Celgene shareholders hold onto their newly issued Bristol stock.

Why Bristol is Positioned to Meaningfully Outperform . . .

Reason 7: Bristol Appears Compellingly Valued in Context of Celgene Acquisition

- Peer Median 2020 P/E multiple (based on IBES consensus) is >14x.
- 12x for new Bristol seems eminently reasonable as it proves out execution and integration for the new company.
- Add in two years of a 3.5%+ per annum dividend yield (at the current stock price) and the total return in Bristol's stock could easily be >100% over the next 24 months.
- If by some highly surprising event the Celgene acquisition doesn't close, Starboard Value and Wellington (a top holder) are likely to be waiting in the wings to force shareholder value creation by other means.
- If Bristol doesn't execute within a reasonable degree of forecasts, might that also re-engage the activist community?



Summary

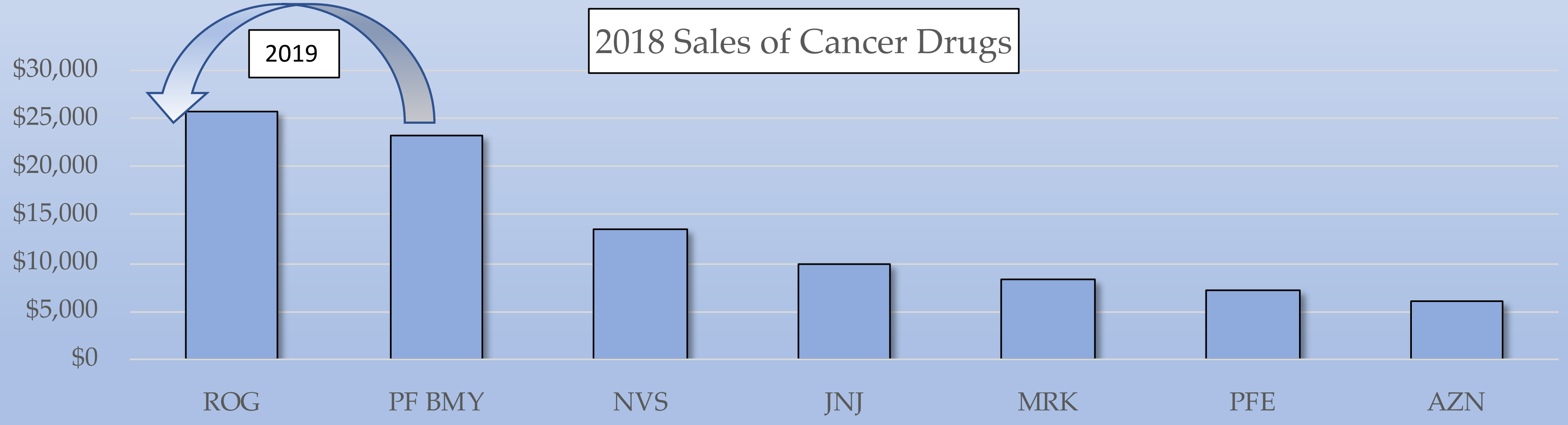
- While Bristol appeared cheap when it announced the Celgene combination it was trading at 12x consensus 2020 forecasts and was bidding 8x for a company trading at ~5x.
- The value levers in the Celgene deal are significant – most importantly $2.5bn in expected synergies and using very inexpensive borrowing to buy very inexpensive stock.
- Bristol's positioned to deliver 25% EPS CAGR over the next years – this for a company with a Pro Forma P/E of 7x – resulting in a PEG of <0.3x.
- Even if combined company forecasts are haircut by a reasonable amount, an investment in the new Bristol looks like a homerun.
- For those that believe that the Celgene deal closing is a lock, like me, you can buy Bristol at a 5% discount by buying Celgene now and rolling all cash and CVR proceeds into BMY.

Current Value of Bristol Offer for Celgene

Consideration	Amount (per share)
Cash	$50.00
1 Share Bristol Stock	$46.87
CVR (Estimated Value)	$3.00
Total	$99.87
Celgene Current	$95.21
Celgene Discount to Offer Price	**5%**

Final Thought

- With this deal, Bristol will vault from "a" to "the" leading biopharma in cancer with over $26bn of revenues: Bigger than Roche, Novartis, J&J, Merck or Pfizer.
- This for a company that had only $2bn of revenues from two cancer drugs 20 years ago.
- In addition to having the largest existing set of therapies to treat cancer, the combined company will have a virtually unmatched pipeline of additional drugs (and indications it is seeking for existing therapies) to treat cancer.
- In the spirit of Ira Sohn and the Sohn Foundation, an investment in Bristol not only appears like a homerun on the merits, it would seem to fit very well with the mission of Sohn and all those interested in fighting the fight against cancer.



YoY Growth	ROG	PF BMY	NVS	JNJ	MRK	PFE	AZN
YoY Growth	2%	20%	9%	36%	77%	19%	4%

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