# Taking Stock: Bristol-Myers Squibb margins need a shot in the arm

*by Malcolm Berko*

Dear Mr. Berko: I'm thinking of buying 100 shares of Bristol-Myers for income and growth. You always said that the best time to buy a stock is when nobody wants it and it seems that nobody wants to own Bristol-Myers. I bought two issues nobody wanted just over a year ago when you recommended the Ford Motor Convertible Preferreds and the General Motors Preferred. I bought 150 shares of each and got a 12 percent yield on my investment plus some good capital gains. And I want to know if I should do the same thing with Bristol-Myers? Tell me what's wrong with the company and what management is doing to fix its problems. And please give me some idea of how high the stock could move if I bought it at the current $26 price.

G.F.

Cleveland

Dear G.F.: Bristol-Myers Squibb Co. (BMY-$27.50) pedaled $17.6 billion worth of wondrously costly pills, unguents, salves, liquids, medicaments and powders that heal the sick but send them to the poor house. BMY is having a bear of a problem in a patent trial against Ontario-based Weston Pharmaceutical, which flooded the market with Apotex, the generic version of BMY's Plavix.

The outcome of this patent infringement trial is important to BMY because Plavix (a clot-busting blockbuster drug and the second-largest prescribed drug in the world) revenues delivered $700 million, or 35 percent, of BMY's $1.9 billion in net income last year. This is a battle royale that BMY can hardly afford to lose. But no matter who loses the feud - the attorneys representing Weston and Bristol-Myers will euchre millions in blood money, which will be added to the cost of both clot-busting drugs.

The Street seems to think that BMY will prevail, feeling that Weston's argument for invalidation of BMY's patent is too specious to prevail in trial. A win would give BMY patent protection through 2011.

In the meanwhile, BMY's earnings are flat as a cookie sheet but the power of its fecund pipeline might make this struggling kingpin a hot takeover target, wobbly finances and all. The company has produced eight super-drugs in the past four years, has three exciting cancer drugs in late stage development and over 14 concoctions in its multifarious pipeline to treat maladies from postpartum depression to the hiccups. In fact, BMY has the most prolific pipeline in the industry for drugs that treat melanoma as well as breast and bladder cancer.

It seems that Dr. Elliot Sigal, who's the drug head at BMY, has galvanized the research and development department by tying researchers' bonuses to their discoveries and in the process has created one of the most admired research machines in the industry. His unique leadership (introducing researchers to patients to personalize their work - combinations of hard and soft incentives and personal recognition) has created an ambience and an esprit de corps that intones, "The patient is our most important end result."

BMY has become a buyout material and according to Jami Rubin (Morgan Stanley), "It's not a question of if; rather it's a question of when!"

BMY's revenues have low blood pressure while operating and net profit margins plus as return on equity and capital have metastasized since 2002. Its dividend has flat-lined and long-term debt has distended by 500 percent. So Chief Executive Officer Jim Cornelius (who recently took over as head pill-man) is on a cost-cutting rampage. He lowered expenses by $100 million last year and believes he can wring another $500 million of nonproductive expenses from the income statement in 2007. And Cornelius thinks he can weed out another billion or so over the next couple years using a program with a silly name (WorkRight 2) that includes closing some of BMY's 28 manufacturing plants.

But the big question is: Why didn't earlier management do this? Earnings growth appears moderate over the coming four to five years so it's doubtful that the dividend will be increased from the current $1.12. And if Cornelius's WorkRight 2 programs don't bear fruit, BMY will need a transfusion. So BMY's current problems might be another drug company's opportunity.

Possible suitors include Novartis, Sanofi-Adventis and Astra-Zeneca. A possible buyout price will be in the neighborhood of $35 to $38 a share. So a 200-share purchase at the current price may be a good speculation and its 4.1 percent yield may make the wait worthwhile.

Please address your financial questions to Malcolm Berko, P.O. Box 1416, Boca Raton, FL 33429 or e-mail him at malber@adelphia.net.