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**Bristol-Myers Squibb & Celgene:  
The Creation of a Global BioPharma Leader?**

Case Study and Teaching Note

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**Abstract:** This case is entitled to discuss the strategic motivation of Bristol-Myers Squibb to conduct the merger with the biotechnology company Celgene by considering the company's current situation as well as the current economic environment. Besides strategic motivations, this case focuses also on the financial merits that may arise in connection with the merger and analyzes the potential impact on shareholder value by taking a closer look at the target company's business, financial situation as well as expected prospects. As this transaction deviates from Bristol-Myers' historically successful M&A strategy and as Celgene is facing an extreme patent cliff on its blockbuster product, shareholders are left questioning the rationale of the deal.

**Title:** Bristol-Myers Squibb & Celgene: Acquisition of the largest Patent Cliff in History

**Key words:** Mergers & Acquisitions, Corporate Finance, Patent cliff

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## **Introduction**

On February 22, 2019, Adam Maxwell, institutional investor and shareholder of Bristol-Myers Squibb, received the joint proxy statement recommending shareholders to vote in favor of the pending merger of Bristol-Myers Squibb and Celgene. By the end of 2018, most biotech companies, including Celgene, were trading at their lows due to economic uncertainty. Since investors tend to hold onto less volatile stocks in times of economic uncertainty, the value of more volatile companies like biotech firms is hurt more than the value of established pharma companies. In order to conduct a comprehensive evaluation of the proposed merger, Adam instructed his research employee to assist regarding the upcoming shareholder vote on April 12<sup>th</sup>, 2019. The day before the meeting, Adam started to review the provided material by his associate including information on the background of the merger, the assessment of the strategic and financial value and numerous valuation analyses.

## **Bristol-Myers Squibb History**

Headquartered in New York City, the American pharmaceutical company Bristol-Myers Squibb (BMY) was established from the merger of the two companies Bristol-Myers and Squibb in 1989<sup>1</sup>. Its roots began in New York in 1858, when the Squibb corporation was founded by Edward Robinson Squibb, and in 1887, when the two friends William McLaren Bristol and John Ripley Myers invested in the failing drug manufacturer Clinton Pharmaceutical Company<sup>2</sup>. In 1899 Clinton Pharmaceutical Company was renamed to Bristol-Myers and turned into a publicly held company on the New York stock exchange by 1929 with gross profits of \$1 billion and products sold in 26 countries<sup>3</sup>. After several years of research, the company successfully developed its first anti-cancer treatment in 1967. The main merger of Bristol-Myers and Squibb took place in 1989, thereby creating a global leader in healthcare with its main focus on oncology, immuno-oncology and cardiovascular diseases and was by that time perceived as the world's second-largest pharmaceutical enterprise<sup>4</sup>.

On May 4<sup>th</sup> 2010, Lamberto Andreotti, who had been with BMS for 12 years, became CEO of the company. By that time, the company followed a "string of pearls" strategy, where BMY was "focused on entering into a series of transactions, including acquisitions, licensing agreements, joint ventures and other business arrangements, that are intended to enrich [Bristol-Myers]' pipeline, technology, capabilities and talent. Therefore, [Bristol-Myers continued] to look for opportunities to complement its internal capabilities with external innovation."<sup>5</sup> This strategy of partnerships and smaller acquisitions elevated the company to a market leader position with a strong presence in oncology. Following years of success and outperformance

(Exhibit 1), the former COO Caforio Tenure, who joined BMY in 2000, took over Andreotti's role as CEO in May 2015<sup>6</sup>.

As of year-end 2018, BMY has brought numerous therapies on the market and generated \$22.6 billion in 2018 sales, showing a modest and stable growth over the past few years (Exhibit 2 and 3). Its number one product Opdivo was one of the most successful commercial oncology launches. With annual sales of \$6.7 billion in 2018, representing a 36% growth year-over-year, Opdivo accounted for almost 30% of the company's total revenue<sup>7</sup>. Additionally, BMY's launched product Eliquis was the #1 worldwide novel anti-coagulant with sales amounting to \$6.4 billion in 2018, implying a growth rate of 32% and 29% of BMY's total sales. Together with Opdivo and Eliquis, BMY's main products have been developed through the company's "string of pearls" strategy and comprise 86% of 2018 revenue (Exhibit 4). By leveraging the company's commercialization capabilities, BMY has successfully launched five products that each generated over one billion dollars in 2018 sales, of which two are part of the 10 largest selling drugs in the pharma industry in this year<sup>8</sup>.

### **The Search of a Target**

In January 2015, shortly after the FDA<sup>i</sup> approval of the immuno-oncology drug Opdivo, Adam became a shareholder of Bristol-Myers Squibb, holding approximately 16 million shares of the currently 1.6 billion shares outstanding. During this time, share prices of BMY peaked due to the abnormally high sales of blockbuster drug Opdivo.

However, as in 2016 Opdivo, which is an immuno-therapy drug used for the treatment of several types of cancers, experienced a string of failures in expanding its use for several types of cancer, such as lung cancer, kidney cancer and forms of brain cancer, the company lost \$23 billion in market value over the subsequent two days (Exhibit 5)<sup>9</sup>. Consequently, in 2018 Opdivo faced increased competition by Merck's rival drug Keytruda, which received FDA approval for the treatment of lung cancer. Accordingly, the rival drug generated sales of \$7.2 billion in 2018, and thereby exceeded the annual sales of Opdivo for the first time<sup>10</sup>. Besides rising competition, the two blockbuster products Eliquis and Opdivo were threatened by eventual losses of exclusivity in 2026 and 2028 respectively (Exhibit 6)<sup>11</sup>. The loss of exclusivity (LOE) enables the approval of competitor drugs by the FDA, which are mostly marketed at lower prices, implying potential sale declines of Eliquis and Opdivo. While growth rates of both products were expected to continue for the next decade, the management and board

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<sup>i</sup> Food and Drug Administration responsible for protecting and promoting public health through the control and supervision of various food- and drug-related products, U.S. Food and Drug Administration, <http://www.fda.gov>

of directors of Bristol-Myers stated their awareness about the need for building a strong pipeline for future growth.

### **Celgene History**

Headquartered in New Jersey, the American biotechnology corporation Celgene completed its IPO in August 1987 on the NASDAQ<sup>12</sup>. With a strong focus on the treatment of cancer and inflammatory diseases, the company was primarily engaged in the discovery, the development and the commercialization of innovative therapies in areas like immuno-oncology and neuro-inflammation.

In July 1998, Celgene received the FDA approval to market its first product Thalomid, a drug used for the treatment of patients suffering skin lesions caused by leprosy<sup>13</sup>. The drug proved to be a blockbuster therapy since it was also approved as a first-line therapy in combination with dexamethasone for the treatment of patients with newly diagnosed Multiple Myeloma (MM)<sup>ii</sup>. Thus, Thalomid became the first oral therapy for MM. The commercial launch of Thalomid was an important milestone for Celgene. The new findings derived from the research of Thalidomide served as a substantial foundation for the development of new drugs<sup>14</sup>. More precisely, Lenalidomide was found as being more efficient and less toxic than Thalidomide. In 2005, the FDA approved the use of Lenalidomide, which Celgene launched as Revlimid and was used for the treatment of myelodysplastic syndromes (MS)<sup>15</sup>. Shortly after, Revlimid was also approved as a therapy for MM which opened a much larger commercial opportunity and hence became Celgene's number one product. Following the approval of Revlimid in the EU in July 2007, the company announced in its 2008 year-end conference call that its total revenue sales increased by more than 50% year-over-year with an increase of Revlimid's net total sales of 49% to \$369 million<sup>16</sup>. Over the next few years, Celgene received further approvals by the FDA for other cancer-related drugs, such as Istodax, Abraxane, and Pomalyst. Through the commercial launch of Otezla in 2014, Celgene diversified its main reliance on drugs used for the treatment of cancer and entered the immunology and inflammatory market<sup>17</sup>.

Referring to Celgene's balance sheet and income statements as of 2018 (Exhibit 7 and 8), the biotech company developed a strong product range with a focus on cancer-related therapies. In 2018, Celgene generated net revenue sales of \$15 billion implying a growth of 17.5%<sup>18</sup>. Generating about \$9,685 millions of sales in 2018, the number one product Revlimid accounted for 63% of total 2018 revenues and showed significant growth of 18.3% (Exhibit 9). Celgene's second best-selling product Pomalyst generated \$2,040 millions of sales in 2018 and grew by

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<sup>ii</sup> Multiple Myeloma is a form of cancer that affects plasma cells.

22.6%<sup>19</sup>. However, the biotech's growth prospects were not limited to Revlimid and Pomalyst as the company established a broad product range and promising compounds in its pipeline which reduce Celgene's over-reliance on blood-related cancers. Over the past few years, the biotech company reinvested about 39.3% of total revenues in its research and development supporting its existing products and pipeline. On its annual meeting in December 2018, Celgene announced that it expects to launch its key late-stage product candidates Ozanimod, Fedratinib, Luspatercept, bb2121, and JCAR017 in 2019 and 2020 with a strong focus on hematology and oncology and expects potential revenue sales of \$15 billion<sup>20</sup> (Exhibit 10 and 11). Beyond its late-stage product candidates, Celgene is able to diversify its revenue stream through its strong early-stage pipeline.

Turning to Celgene's key patent expirations and exclusivities, the company is facing an extreme patent cliff. Since the expiration of patents implies the approval of generic drugs from competitors, which are usually sold at lower prices, the patent expiration of Celgene's blockbuster drug Revlimid, which contributed tremendously to Celgene's 2018 revenue, implies that the company will experience an abrupt drop in sales after the patent expiration in 2027 and 2024 in the U.S. and Europe respectively (Exhibit 12). In December 2015, Celgene announced its settlement of litigation with its direct competitor Natco Pharma Ltd. (Natco) as well as Accord Healthcare Ltd. (Accord) relating to certain patents for Revlimid. As part of the settlement, Natco was granted a volume-limited license to sell generic lenalidomide in the U.S. commencing in March 2022. Celgene also granted a volume-limited license to Accord for the European market commencing in February 2022<sup>21</sup>.

### **The Pharma Market**

Over the past decade, the cost of developing a new drug has skyrocketed. As a result, the average return on research and development has drastically fallen in 2018, representing its lowest level over the past nine years<sup>22</sup>. Traditionally, large pharmaceutical companies were responsible for all aspects of the research and development process. However, due to the rising costs and hence the resulting fruitless returns, pharma companies are continuing to outsource these processes instead of developing new drugs in-house, thus leading to an industry-wide disintegration of pharma companies<sup>23</sup>. This disintegration is further reinforced by the ongoing advancements in the technology provided by biotech companies and allows large pharma companies to refocus its efforts to result in greater productivity. Additionally, the disintegration of the drug discovery, development and distribution imply a growing number of new biotech companies emerging in a market with traditionally substantial barriers to entry. Consequently, as competition is rising and return on R&D investments continue to fall, the acquisitions of

biotech companies are surging. Within the first two months in 2019, the deal value of both biotech and pharmaceutical companies approached about \$146 billion in the U.S., exceeding the announced deal value in all of 2018 and 2017<sup>24</sup>.

### **Merger rationale**

In order to pursue the “string of pearls” strategy and to meet long-term strategic goals and plans, BMY’s management and board of directors regularly reviewed and assessed the company’s performance and operations by considering potential opportunities to enhance shareholder value, including potential strategic acquisitions, collaborations, investments and other strategic transactions and opportunities. In addition to the “string of pearls” strategy and strategic M&A opportunities, the board considered the alternative opportunity of a parallel assessment of asset swaps and joint ventures with peer companies<sup>25</sup>. However, after identifying six franchise options<sup>iii</sup>, the board determined that each would have only limited strategic and financial impact stating that a full acquisition of Celgene has emerged as the most attractive opportunity. To that end, Bristol-Myers former Chairman and CEO, Jim Cornelius, who initiated the “string of pearls” strategy, stated: “The Celgene transaction enables Bristol-Myers Squibb to buy the “whole necklace” rather than stringing together individual assets. This path forward is a smart move for the long term as it eliminates paying potentially high individual premiums and minimizes certain risks associated with several smaller transactions.”<sup>26</sup>

Discussions of a business combination between BMY and Celgene first arose in the second quarter of 2017, briefly entering into a confidentiality agreement on April 4, 2017, before calling off further negotiations prior to commencing a full due diligence<sup>27</sup>. Over the next year, the business prospects of both companies soured as Celgene faced numerous R&D setbacks and rising concerns on Revlimid’s patent cliff and the clinical success of Merck & Co.’s rival drug Keytruda eroded BMY’s commercial advantage in immuno-oncology.

The idea of a potential transaction with Celgene was reviewed from time to time with BMY’s lead financial advisor Morgan Stanley and the support of Evercore and Dyal, including the assistance of its legal counsel Kirkland and Ellis. JPMorgan Chase and Citi served as Celgene’s financial advisers, while Wachtell Lipton advised as legal counsel. Accordingly, the process was overseen by a board comprised of 11 directors with substantial operating, financial and scientific expertise, including 10 of whom are independent and of which 5 directors joined BMY’s board over the past three years<sup>28</sup>. Besides the significance of enhancing shareholder

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<sup>iii</sup> Franchise is a type of license which gives access to a business and allows the acquirer to sell a product or a service of the business.

value, the review also included the consideration of whether such consolidation would further each company's strategic objectives as well as its competitive position.

On September 11 and 12, the BMS Board held its regularly scheduled meeting. Morgan Stanley provided an extensive financial analysis related to a potential acquisition of Celgene based on publicly available information. After reviewing the strategic rationale of the acquisition and the respective financial analyses, the BMS board decided to further approach the idea of a potential merger. The BMY board met eight times between June 2018 and January 2019 to discuss the merits of a Celgene acquisition and to negotiate over what would constitute fair value for Celgene. However, the companies' eroding share prices played a significant role in determining an appropriate fair value for Celgene (Exhibit 13).

On December 29, 2018, following lengthy discussions on these matters, mutual agreement was reached on a price per Celgene common share of \$50 in cash and one share of BMY common stock. In addition, each share of Celgene common stock would receive a Contingent Value Right (CVR) that would pay \$9 contingent on the achievement of certain milestones before the specified milestone dates. The CVR would pay only if the FDA approves on or before the specified milestone date of December 31, 2020, the commercial manufacturing, marketing and sale of Celgene's late-stage pipeline products Ozanimod, JCAR017 and bb2121 with certain additional requirements related to the regulatory approvals. Additionally, Bristol-Myers believes to provide support for the trading price of BMY common stock and to allow for additional value creation upside potential by indicating its intention to execute a share buy-back of approximately \$5 billion occurring post-closing<sup>29</sup>.

The companies' boards of directors convened separately on January 2, 2019, to review the final proposal and consider the fairness opinion of their financial advisers. Both boards approved the merger followed by the execution of the merger agreement, effective January 3, 2019. On the morning of January 3, 2019, BMY and Celgene issued a joint press release announcing the proposed combination<sup>30</sup>.

### **Value of the merger consideration**

Based on Bristol-Myers' closing price of \$52.43 on January 2, 2019, the last trading day before the announcement of the merger agreement, the value of the cash and stock consideration to be received by Celgene shareholders amounted to \$102.43 per share implying a premium of approximately 53.7% on the closing price of the Celgene common stock on January 2<sup>31</sup>. In addition to the cash and stock consideration, each Celgene shareholder was entitled to receive an additional \$9 in cash through the CVR. Considering the terms and conditions, the deal was

valued at a record-size of approximately \$74 billion excluding the debt of Celgene, thus ranking as the largest pharmaceutical-company acquisition in history (Exhibit 14)<sup>32</sup>. Including net debt, the value of the transaction was valued at roughly \$91 billion.

In order to pay the cash amount to Celgene stockholders as well as related fees and transaction costs in connection with the merger, Bristol-Myers Squibb estimated that it would need approximately \$36 billion. Therefore, the BMY Board planned to fund the cash portion through a combination of cash on hand and debt financing in the form of a bridge financing facility of approximately \$33.5 billion, fully committed by Morgan Stanley Senior Funding Inc. and MUFG Bank, Ltd. In addition to this, the company entered into a term loan agreement on January 18, amounting to \$8 billion, which will reduce the commitments under the bridge facility to about \$25.5 billion<sup>33</sup>. Given the high debt intake, Moody's and S&P announced that they might consider a potential downgrade of the company's credit rating from A+ to BBB+<sup>34</sup>, since the higher debt implies that BMY's interest rates will rise significantly, thereby reducing its financial flexibility.

As a result of the acquisition, current BMY and Celgene shareholder will hold approximately 69% and 31% of the combined company, respectively. The closing was expected to occur in Q3 2019 with Giovanni Caforio serving as chairman and CEO and two additional board members of Celgene representing a total of 13 board members of the combined company<sup>35</sup>.

Based on the proxy statement issued on February 1, shareholders were to weigh the risks of the merger against the expected rewards. BMY and Celgene had highly complementary portfolios with leading franchises in oncology, immunology, and inflammation and cardiovascular disease. Both companies confidentially attributed strategic as well as financial benefits emerging from the merger.

### **Strategic benefits**

As a consequence of the complementary product portfolios of the merging companies, the combination creates a leading biopharma company with global reach and scale giving the ability to serve patients suffering from cancer, inflammatory and immunologic disease and the possibility to cross-sell products which enhances the combined company's revenue and margin profile to an operating margin of 36% compared to 28% on a standalone basis<sup>36</sup>. In addition to the enhanced scale and balance, the combined company establishes a leading oncology franchise in both companies' principal area of expertise, namely solid tumors and hematologic malignancies, led by Opdivo and Yervoy, which are BMY's leading products, as well as by Revlimid and Pomalyst, which serve as the best-selling products of Celgene<sup>37</sup>. The combination

further creates a leading cardiovascular franchise led by Eliquis as well as a top-five immunology and inflammation franchise led by the products Orencia and Otezla (Exhibit 15)<sup>38</sup>. Following the completion of the merger, the combined company is expected to generate more than \$1 billion in annual sales resulting from a more diverse product portfolio, which will consist of nine so-called blockbuster drugs, than either company on a standalone basis<sup>39</sup>.

As both companies are facing eventual losses of exclusivity of their number one selling products, the combined company is expected to be better positioned to address current and future regulatory challenges as well as competitive challenges facing industry participants, including operating in the future pharmaceutical landscape through the creation of a more diversified and younger product portfolio with six expected near-term product launches representing more than \$15 billion in additional revenue potential (Exhibit 10)<sup>40</sup>. Noticeably, five of these six potential near-term product launches stem from Celgene's strong late-stage pipeline, which will substantially increase revenue by leveraging the commercial capabilities of BMY allowing to speed up the revenue growth of Celgene's late-stage products.

By acquiring Celgene, BMY is expected to be well-positioned for long-term growth and value creation through the establishment of a diverse early-stage pipeline across solid tumors and hematologic malignancies, cardiovascular disease and fibrotic disease as well as immunology and inflammation. Hence, the tie-up will greatly increase BMY's Phase I and II products which further support registrational opportunities. Accordingly, the acquisition of Celgene adds significant value to Bristol-Myers' pipeline as Chief Executive Officer Giovanni Caforio stated: "That's really the value of the deal is the pipeline. We talk about five pipeline assets, potential launches in the next two years. [...] So we're making great progress already, which is validating our thesis."<sup>41</sup> (Exhibit 16). He further points out the strong combined discovery capabilities as well as the advantage of leveraging Celgene's innovative medicines.

### **Financial benefits**

Besides strategic benefits, the combination would also deliver significant financial benefits (Exhibit 17). Through a strong balance sheet with more than \$45 billion of expected free cash flow generation over the first three full years post-closing, Bristol-Myers is able to rapidly reduce its transaction-related indebtedness to de-lever its balance sheet, hence committing the company to maintain its strong investment grade credit rating<sup>42</sup>. Accordingly, through greater financial resources, the combined company is expected to have significant financial flexibility to realize the full potential of the enhanced pipeline as well as to realize investments in innovation for long-term growth<sup>43</sup>. Noticeably, the credit rating agencies Moody's and S&P

agree with the BMY management by stating that they expect the company's leverage to reduce rapidly after the transaction has been closed<sup>44</sup>. Furthermore, besides the increased debt intake, the BMY management expects to increase its dividend payments to shareholders due to the expectation of strong cash flow prospects of the combined company, resulting in the creation of shareholder value.

Additionally, through the anticipated post-closing accelerated share repurchase agreement to repurchase \$5 billion of the company's common stock, the management expects significant capital returns greatly in excess of Celgene's and BMY's cost of capital<sup>45</sup>. Based on management's estimates, the combination will result in an EPS accretion of greater than 40% in the first full year resulting in substantial earnings improvement for shareholders. In addition to this, management projected meaningful run-rate cost synergies amounting to approximately \$2.5 billion by 2022<sup>46</sup>, which are attributed to numerous factors such as the cost-cutting effect of duplicate capacity on marketing costs, the reduction of overlapping R&D personnel, the elimination of overcapacity, the consolidation of research departments, the exploitation of economies of scale as well as the realization of a greater tax shield through the additional debt intake.

### **Market Reaction**

On January 3, 2019, the day of the announcement of the respective merger, BMY's stock price closed down at \$45.12, implying a share price drop of about 14%. Considering the market reaction based on Celgene's share price movement, the stock price of the company had surged to \$51.66, implying an increase of 1.4% (Exhibit 18)<sup>47</sup>.

On February 27, 2019, Wellington Management, one of the world largest independent hedge funds and BMY's largest institutional shareholder with approximately 135.3 million shares, stated its concerns about the merger suggesting to vote against the deal due to the high risk associated with the combination<sup>48</sup>. The subsequent day, the hedge fund Starboard Value, which holds about one million shares of BMY, joined Wellington's opposition against the deal<sup>49</sup>. These developments raised uncertainty among investors. The view of Starboard and Wellington could lead other shareholders to follow their decision posing a significant risk towards the completion of the merger. In response to the opposition of the hedge funds, BMY shares surged about 1.4% to \$51.66 at closing. As opposed to this, Celgene shares experienced a substantial drop, closing down 9% to \$83.12<sup>50</sup>. Accordingly, the market seemed to reflect its agreement with both hedge funds' opinions on the merger.

## **Starboard Value's Opposition to the Merger**

### *Corporate Governance*

On February 28, 2019, activist investor Starboard Value issued a letter to shareholders of Bristol-Myers criticizing the proposed acquisition of Celgene as poorly conceived and ill-advised and hence, stated its intention to vote against the deal<sup>51</sup>. By criticizing the announcement of the deal, Starboard Value expressed its lack of confidence in Bristol-Myers' management team and board of directors' ability to execute the acquisition of Celgene considering the company's substantial underperformance over the past five years in which Giovanni Caforio served as Chief Executive Officer<sup>52</sup>. Following years of success with Lamberto Andreotti as CEO, the numerous clinical trial failures and rising competition from Merck's rival drug Keytruda, which occurred under the supervision of the new CEO Giovanni Caforio, led to Bristol-Myers' stock price underperformance compared to its direct peers (Exhibit 19). As a result of the poor record of the company's management, the company is noting its lowest P/E ratio since years, which is well below its competitors (Exhibit 20). Starboard Chief Investment Officer Jeffrey Smith stated the concerns regarding the management team in the letter: "These results are not reflective of a management team and Board of Directors that has earned the right, in our view, to execute on a "bet the company" acquisition."<sup>53</sup>

It is imperative to point out, that Starboard Value is questioning the motivations for this extremely large acquisition of Celgene since the activist investor concluded from BMY's S-4 company filing that the company only had two weeks of full data room access in order to undertake an extensive due diligence. Closely followed by Bristol-Myers' clinical trial failures, the company became a potential acquisition target of two activists who showed interest in exploring a potential acquisition. Starboard stated in its letter to shareholders its concerns regarding the sufficient evaluation of alternative opportunities to create shareholder value since it seems that the BMY management did hastily approach the acquisition of Celgene in order to avoid further potential strategic interests resulting in substantial shareholder pressure to consider a potential sale<sup>54</sup>.

### *Strategic and Financial Issues*

Besides dealing out criticism about the management's questionable governance, Starboard Value stated its belief that there is a better path for BMY, requiring the company to consider all alternatives to create shareholder value including a sale of the company or substantial improvement in profitability as a standalone company. Referring to the latter case, the company exhibits the highest R&D spending as a percentage of revenue in relation to its peers in the year

2018 resulting in EBITDA margins which are well below peer average (Exhibit 21). Therefore, the company could substantially improve margins by significantly cutting its costs, whereby the company would pursue a lower-risk strategy.

In addition, Starboard Value argued that BMY is acquiring a massive patent cliff by considering Celgene's extreme dependence on its blockbuster drug Revlimid, which accounted for more than 60% of total sales in 2018 (Exhibit 22). As Revlimid is considered as a small molecule drug, for which the genericization process occurs more rapidly than for large molecule drugs, the product is much easier to replicate and thus, Revlimid is facing a dramatic sales decline post-loss-of-exclusivity. Additionally, given the rarity of such a high revenue generating product, which is representing a highly attractive opportunity for generic manufacturers, this reinforces the fact that Revlimid is exposed to massive generic competition before its LOE in 2022. As a result, BMY's shares would experience an extreme overhang. Consequently, Starboard Value stated its belief that the company would be better positioned as a standalone company by considering its product portfolio<sup>55</sup>. As opposed to its peers, the product portfolio of BMY possesses much less small molecule drugs resulting in a more durable product portfolio and substantially slower sales declines for its marketed products.

Based on the hedge fund's rigorous analysis of the transaction, Starboard Value concluded that the management's projections, which are outlined in the company's S-4 filing, to generate nearly \$19 billion from Celgene's marketed products by 2028 are tremendously risky and unrealistic. As all of Celgene's current marketed products will lose its patent protection over the next eight years, the company would need to rebuild its complete revenue base. Considering the known patent-cliffs for Celgene's marketed products, the largest part of the expected revenue seems to stem from yet uncommercialized products including Celgene's late-stage product pipeline which would need to account for about 60% of the projected revenue. Accordingly, the remainder of 40% would be generated by the early-stage pipeline. As stated in BMY's 10-K disclosure, approximately 92% of small molecule drugs entering Phase I development fail to receive FDA approval. Assuming rates closely related to BMY's statement to go forward, a small percentage of 3.2% of Celgene's early-stage products would be approved, hence putting the assumption to generate \$7 billion of revenue from early-stage products by 2028 in question.

### **Recommendation of independent proxy advisory firms ISS and Glass Lewis**

Despite the growing consensus of voting against the merger, it is extremely challenging for shareholders to enforce their "no" votes without the support of the leading independent proxy

advisory firms Institutional Shareholder Services (ISS) and Glass Lewis. Due to large costs of conducting an extensive due diligence, large institutional shareholders hire these proxy advisory firms in order to retain their service. On March 29, 2019, ISS stated in a report to shareholders its recommendation to vote in favor of the pending merger<sup>56</sup>. Both advisory firms recognized the strategic rationale of the transaction and the substantial value that will be delivered to shareholders of Bristol-Myers Squibb.

Besides the significant diversification of BMY's revenue stream through the combination of the merging companies' complementary portfolios, Bristol-Myers additionally gains numerous late-stage products enhancing the current BMY pipeline<sup>57</sup>. Furthermore, as both companies are headquartered in New Jersey and noticeably exhibit overlapping research and development centers, ISS noted in its report the meaningful cost-cutting synergies that could result from the combination. By considering the products and current pipelines of both companies, which both present a main focus in fighting cancer and blood-related diseases, the transaction appears as logical and sound. Due to the clinical overlap, the combined company could substantially benefit from cost savings as well as the expertise of Celgene in areas such as manufacturing and as previously mentioned in R&D processes.

The independent advisory firm Glass Lewis noted the strategic rationale of the deal by underlining in its March 29, 2019 report the significant enhancement of returns to shareholders. By leveraging Celgene's five near-term product launches, the launch of these late-stage products would place the combined company in a leading position as well as deviate Bristol-Myers' dependence on its blockbuster product Opdivo, which generated about 30% of 2018 total annual revenue sales and would in addition supplement the revenue stream of its current marketed products<sup>58</sup>.

In response to BMY's press release referring to the recommendation of ISS and Glass Lewis, stock prices of Bristol-Myers closed down 0.3% at \$47.71 whereas shares of Celgene surged about 8% to \$94.34 (Exhibit 18). Consequently, the activist investor Starboard Value withdrew its proxy statement encouraging shareholders to vote against the combination after the support of the influential advisory firms. However, the activist investor noted in a statement that it would still vote against the transaction since it is confident in its belief that the transaction represents a high risk to shareholders.

## **Valuation**

Even though the views of both independent advisory firms remain relevant for shareholders in order to accurately assess the deal, Adam was still hesitant to vote in favor of the pending

merger. Considering Starboard Value's letter to shareholders, Adam started to get serious doubts concerning the management's base case assumptions regarding the evaluation of the combined company's future revenues and synergies, since the management is assuming to realize all of the revenues in 2028 from Celgene's pipeline of future drugs, which are not even approved by the FDA.

Understanding the value of the BMY-Celgene merger was a challenging undertaking in times when the stock market suffered a tremendous loss towards year-end 2018. High uncertainty caused by the trade war between the two major nations U.S. and China as well as a rate increase from the Federal Reserve resulted in the worst December since the Great Depression<sup>59</sup>. While investors were looking for "safe havens", the biotech sector, which is considered relatively risky, suffered during this time of crisis. As a result, many shareholders of Bristol-Myers were concerned that the company was overpaying for Celgene, especially since the completion of the transaction would result in the largest pharma consolidation in history. However, as Celgene's trading ratio is currently at its two-year low and its P/E ratio was at an all-time low at the time when the transaction was announced, BMY is buying the company at a low point in biotech stock market prices especially while much of the value is attributed to Celgene's near-term product launches and its early-stage pipeline.

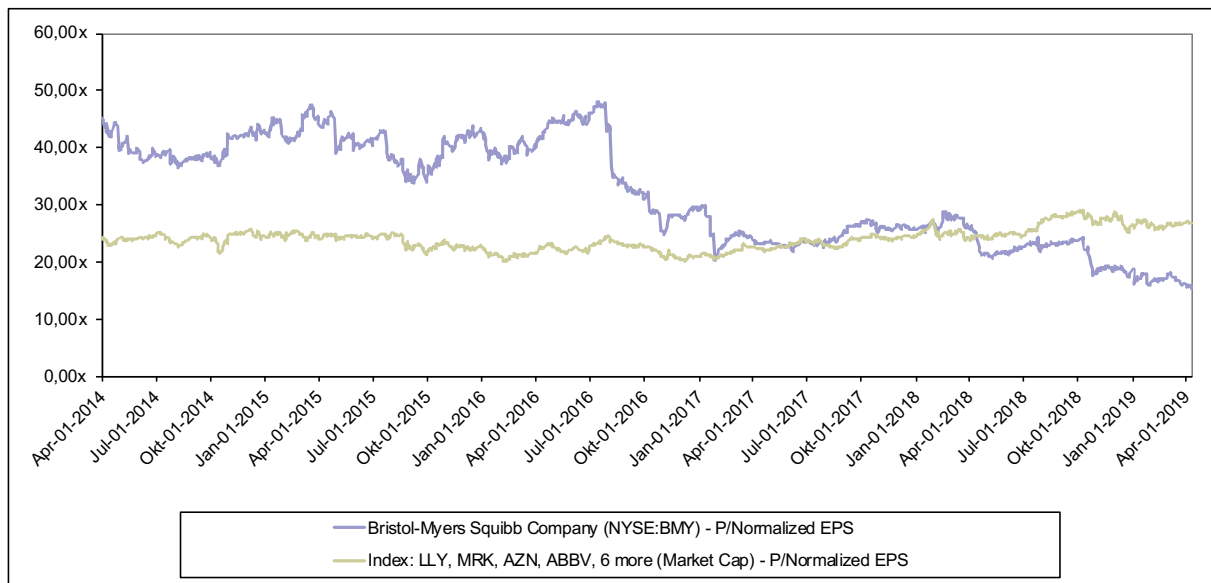
Adam's associate had summarized the valuation ranges of Celgene by using multiples, discounted cash flows and market prices. However, the valuation of synergies was challenging as the projection of cost savings can be critical to the success of the acquisition. As the high risk of incorrectly assessing Celgene's future revenue could significantly destroy shareholder value, Adam reviewed the synergies valuation in BMY's proxy statement.

### **The decision**

The day prior to the shareholder vote, Adam reviewed the analysis provided by his associate including the stock price history of both companies as well as the development of P/E ratios. In order to properly assess the value and synergies of the proposed merger, Adam focused on trying to answer the following questions: Is the transaction strategically logical? Is the valuation range for Celgene appropriate? What is the value of synergies?

## Appendix

**Exhibit 1: Bristol-Myers Squibb Historical P/E Evolution compared to Pharma Index**



Source: CapitalIQ

## Exhibit 2: Bristol-Myers Squibb Consolidated Balance Sheets

	December 31,	
	2018	2017
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 6.911	\$ 5.421
Marketable securities	1.973	1.391
Receivables	5.965	6.300
Inventories	1.195	1.166
Prepaid expenses and other	1.116	576
Total Current Assets	17.160	14.854
Property, plant and equipment	5.027	5.001
Goodwill	6.538	6.863
Other intangible assets	1.091	1.210
Deferred income taxes	1.371	1.610
Marketable securities	1.775	2.480
Other assets	2.024	1.533
Total Assets	\$ 34.986	\$ 33.551
<b>LIABILITIES</b>		
Current Liabilities:		
Short-term debt obligations	\$ 1.703	\$ 987
Accounts payable	1.892	2.248
Accrued liabilities	6.489	6.014
Deferred income	172	83
Income taxes payable	398	231
Total Current Liabilities	10.654	9.563
Deferred income	468	454
Income taxes payable	3.043	3.548
Pension and other liabilities	1.048	1.164
Long-term debt	5.646	6.975
Total Liabilities	20.859	21.704
Commitments and contingencies		
<b>EQUITY</b>		
Bristol-Myers Squibb Company Shareholders' Equity:		
Preferred stock, \$2 convertible series, par value \$1 per share: Authorized 10 million shares; issued and outstanding 3,590 in 2018 and 4,070 in 2017, liquidation value of \$50 per share	-	-
Common stock, par value of \$0.10 per share: Authorized 4.5 billion shares; 2.2 billion issued in both 2018 and 2017	221	221
Capital in excess of par value of stock	2.081	1.898
Accumulated other comprehensive loss	-2.762	-2.289
Retained earnings	34.065	31.160
Less cost of treasury stock - 576 million common shares in 2018 and 575 million common shares in 2017	-19.574	-19.249
Total Bristol-Myers Squibb Company Shareholders' Equity	14.031	11.741
Noncontrolling interest	96	106
Total Equity	14.127	11.847
Total Liabilities and Equity	\$ 34.986	\$ 33.551

Source: Bristol-Myers Squibb, February 2019, SEC Form 10-K.

### Exhibit 3: Bristol-Myers Squibb Consolidated Income Statements

EARNINGS	Year Ended December 31,					
	2018		2017		2016	
Net product sales	\$	21.581	\$	19.258	\$	17.702
Alliance and other revenues		980		1.518		1.725
Total Revenues		22.561		20.776		19.427
Cost of products sold		6.547		6.094		4.969
Marketing, selling and administrative		4.551		4.751		4.979
Research and development		6.345		6.482		5.012
Other income (net)		-850		-1.682		-1.448
Total Expenses		16.593		15.645		13.512
Earnings Before Income Taxes		5.968		5.131		5.915
Provision for Income Taxes		1.021		4.156		1.408
Net Earnings		4.947		975		4.507
Noncontrolling Interest		27		-32		50
Net Earnings Attributable to BMS	\$	4.920	\$	1.007	\$	4.457
Earnings per Common Share						
Basic	\$	3.01	\$	0.61	\$	2.67
Diluted		3.01		0.61		2.65

Source: Bristol-Myers Squibb, February 2019, SEC Form 10-K.

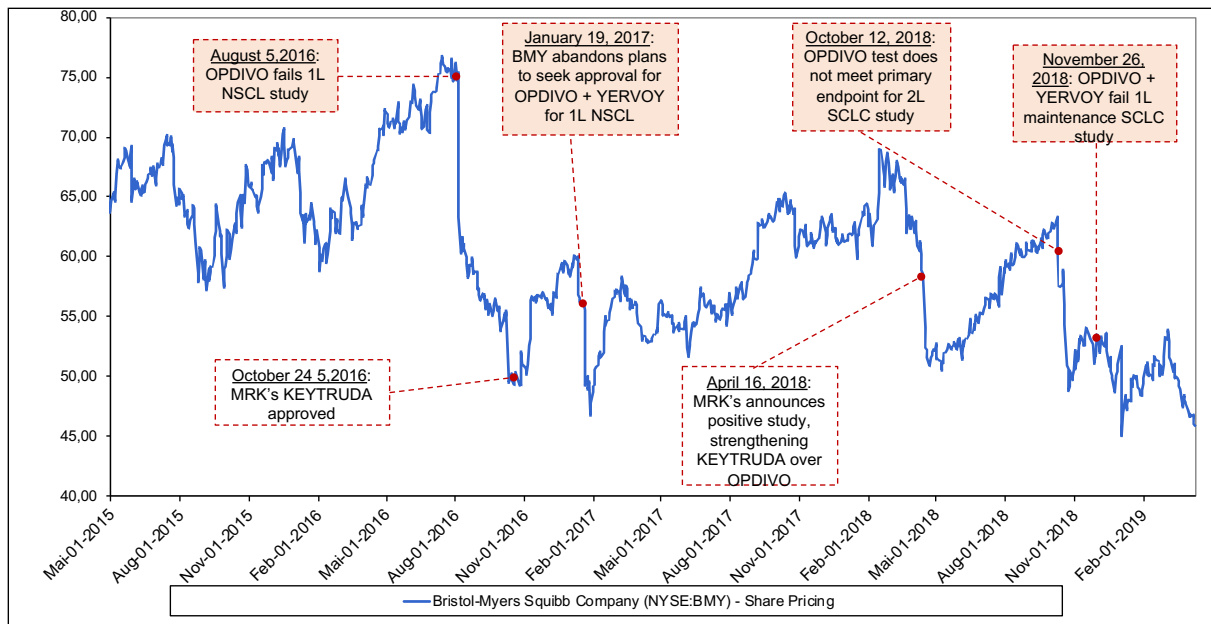
### Exhibit 4: Bristol-Myers Squibb Prioritized Products Revenues

#### Product Revenues

Dollars in Millions	Year Ended December 31,					
	2018		2017		2016	
Prioritized Brands						
<b>Opdivo</b>	\$	<b>6.735</b>	\$	<b>4.948</b>	\$	<b>3.774</b>
U.S.		4.239		3.102		2.664
Non-U.S.		2.496		1.846		1.110
<b>Eliquis</b>		<b>6.438</b>		<b>4.872</b>		<b>3.343</b>
U.S.		3.760		2.887		1.963
Non-U.S.		2.678		1.985		1.380
<b>Orencia</b>		<b>2.710</b>		<b>2.479</b>		<b>2.265</b>
U.S.		1.875		1.704		1.532
Non-U.S.		835		775		733
<b>Sprycel</b>		<b>2.000</b>		<b>2.005</b>		<b>1.824</b>
U.S.		1.091		1.105		969
Non-U.S.		909		900		855
<b>Yervoy</b>		<b>1.330</b>		<b>1.244</b>		<b>1.053</b>
U.S.		941		908		802
Non-U.S.		389		336		251
<b>Empliciti</b>		<b>247</b>		<b>231</b>		<b>150</b>
U.S.		164		151		133
Non-U.S.		83		80		17

Source: Bristol-Myers Squibb, February 2019, SEC Form 10-K.

### Exhibit 5: Bristol-Myers Squibb Share Price Performance after Caforio turned CEO



Source: Starboard Value Letter to Shareholders of Bristol-Myers Squibb.

### Exhibit 6: Bristol-Myers Squibb Marketed Products Estimated Loss of Exclusivity

Prioritized Brands	Estimated LOE		
	U.S.	EU	Japan
Opdivo (nivolumab)	2028	2030	2031
Eliquis (apixaban)	2026	2026	2026
Orencia (abatacept)	2021	2021	2019
Sprycel (dasatinib)	2020	^^	2021
Yervoy (ipilimumab)	2025	2026	2025
Empliciti (elotuzumab)	2029	2029	2029

Source: Bristol-Myers Squibb, February 2019, SEC Form 10-K.

## Exhibit 7: Celgene Consolidated Balance Sheets

	December 31,	
	2018	2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4.234	\$ 7.013
Debt securities available-for-sale	496	3.219
Equity investments with readily determinable fair values	1.312	1.810
Accounts receivable, net of allowances of \$38 and \$36 as of December 31, 2018 and 2017, respectively	2.066	1.921
Inventory	458	541
Other current assets	501	388
Total current assets	9.067	14.892
Property, plant and equipment, net	1.367	1.070
Intangible assets, net	16.213	8.436
Goodwill	8.003	4.866
Other non-current assets	830	877
Total assets	\$ 35.480	\$ 30.141
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	\$ 501	-
Accounts payable	418	305
Accrued expenses and other current liabilities	2.987	2.523
Income taxes payable	78	84
Current portion of deferred revenue	73	75
Total current liabilities	4.057	2.987
Deferred revenue, net of current portion	73	34
Income taxes payable	2.190	2.490
Deferred income tax liabilities	2.753	1.327
Other non-current liabilities	477	544
Long-term debt, net of discount	19.769	15.838
Total liabilities	29.319	23.220
Commitments and Contingencies (Note 19)		
<b>Stockholders' Equity:</b>		
Preferred stock, \$.01 par value per share, 5.0 million shares authorized; none outstanding as of December 31, 2018 and 2017, respectively	-	-
Common stock, \$.01 par value per share, 1,150.0 million shares authorized; issued 981.5 million and 971.7 million shares as of December 31, 2018 and 2017, respectively	10	10
Common stock in treasury, at cost; 281.3 million and 212.4 million shares as of December 31, 2018 and 2017, respectively	-26.336	-20.243
Additional paid-in capital	14.978	13.806
Retained earnings	17.559	13.061
Accumulated other comprehensive (loss) income	-50	287
Total stockholders' equity	6.161	6.921
Total liabilities and stockholders' equity	\$ 35.480	\$ 30.141

Source: Celgene, February 2019, SEC Form 10-K.

## Exhibit 8: Celgene Consolidated Income Statements

	Years Ended December 31,		
	2018	2017	2016
<b>Revenue:</b>			
Net product sales	\$ 15,265	\$ 12,973	\$ 11,185
Other revenue	16	30	44
Total revenue	15,281	13,003	11,229
<b>Expenses:</b>			
Cost of goods sold (excluding amortization of acquired intangible assets)	587	461	438
Research and development	5,673	5,915	4,470
Selling, general and administrative	3,250	2,941	2,658
Amortization of acquired intangible assets	468	329	459
Acquisition related charges (gains) and restructuring, net	112	-1,350	38
Total costs and expenses	10,090	8,296	8,063
Operating income	5,191	4,707	3,166
<b>Other income and (expense):</b>			
Interest and investment income, net	45	105	30
Interest (expense)	-741	-522	-500
Other income (expense), net	337	24	-324
Income before income taxes	4,832	4,314	2,372
Income tax provision	786	1,374	373
Net income	<u>\$ 4,046</u>	<u>\$ 2,940</u>	<u>\$ 1,999</u>
<b>Net income per share:</b>			
Basic	\$ 5.65	\$ 3.77	\$ 2.57
Diluted	\$ 5.51	\$ 3.64	\$ 2.49
<b>Weighted average shares:</b>			
Basic	716,30	779,20	777,20
Diluted	733,80	808,70	803,30

Source: Celgene, February 2019, SEC Form 10-K.

## Exhibit 9: Celgene Total Revenue from Products by Geography

		Years Ended December 31,		
		2018	2017	2016
<b>Hematology / Oncology:</b>				
<b>REVLIMID®</b>				
	U.S.	\$ 6.469	\$ 5.426	\$ 4.417
	International	3.216	2.761	2.557
	Worldwide	9.685	8.187	6.974
<b>POMALYST®/IMNOVID®</b>				
	U.S.	1.391	1.008	778
	International	649	606	533
	Worldwide	2.040	1.614	1.311
<b>ABRAXANE®</b>				
	U.S.	663	607	634
	International	399	385	339
	Worldwide	1.062	992	973
<b>VIDAZA®</b>				
	U.S.	9	8	12
	International	585	620	596
	Worldwide	594	628	608
<b>All Other</b>				
	U.S.	208	203	236
	International	68	70	66
	Worldwide	276	273	302
<b>Total Hematology / Oncology:</b>				
	U.S.	8.740	7.252	6.077
	International	4.917	4.442	4.091
	Worldwide	13.657	11.694	10.168
<b>Inflammation &amp; Immunology:</b>				
<b>OTEZLA®</b>				
	U.S.	1.275	1.058	904
	International	333	221	113
	Worldwide	1.608	1.279	1.017
<b>Total net product sales</b>				
	U.S.	10.015	8.310	6.981
	International	5.250	4.663	4.204
	Worldwide	15.265	12.973	11.185
<b>Other revenue</b>				
		16	30	44
<b>Total revenue</b>				
		\$ 15.281	\$ 13.003	\$ 11.229

Source: Celgene, February 2019, SEC Form 10-K.

**Exhibit 10: Near Term Product Launch Opportunities of Combined Company with expected Revenue of \$15 billion**

<b>Iuspaterecept</b>	<ul style="list-style-type: none"><li>• U.S. and EU regulatory submissions expected in first half 2019 in 2L MDS and Beta-Thalassemia</li></ul>
<b>Iiso-cel (JCAR017)</b>	<ul style="list-style-type: none"><li>• CD19 CAR-T with strong efficacy and a potentially differentiated safety and tolerability profile for R/R DLBCL</li></ul>
<b>bb2121</b>	<ul style="list-style-type: none"><li>• Potential to be first- and possibly best-in-class BCMA CAR-T in Multiple Myeloma</li></ul>
<b>fedratinib</b>	<ul style="list-style-type: none"><li>• Targeting patients who relapsed from or are intolerant to Jakafi in Myelofibrosis</li></ul>
<b>ozanimod</b>	<ul style="list-style-type: none"><li>• U.S. NDA and EU MAA submissions for RMS planned for Q1 2019</li></ul>
<b>TYK-2</b>	<ul style="list-style-type: none"><li>• Biologic-like efficacy in Psoriasis with upside potential to address multiple autoimmune diseases</li></ul>

Source: Bristol-Myers Squibb Investor Presentation.

## Exhibit 11: Celgene Products under Development in Key Areas of Expertise<sup>1</sup>

	Area of Research	Status <sup>1</sup>	Entered Current Status	
<b>Multiple Myeloma (MM)</b>				
IMiD: REVLIMID®	RRMM	Post-approval research	2006	
	Newly diagnosed transplant ineligible	Post-approval research	2015	
	Newly diagnosed multiple myeloma (NDMM) post-ASCT maintenance	Post-approval research	2017	
POMALYST®/IMNOVID®	RRMM	Post-approval research	2013	
THALOMID®/Thalidomide Celgene®	NDMM	Post-approval research	2006	
BCMA CAR T: (bb2121)	RRMM	Phase II/Pivotal	2017	
BCMA CAR T:(bb21217)	RRMM	Phase I	2017	
BCMA CAR T: (JCARH125)	RRMM	Phase I	Q1 2018	
CELMoD®: CC-220	RRMM	Phase I/II	2016	
CELMoD®: CC-92480	RRMM	Phase I	2017	
BCMA TCE: CC-93269	RRMM	Phase I	Q2 2018	
<b>Myelodysplastic Syndromes (MDS)</b>				
VIDAZA®	MDS	Post-approval research	2004	
IMiD: REVLIMID®	Deletion 5q	Post-approval research	2005	
CC-486	Lower-risk	Phase III	2013	
	Post hypomethylating agent (HMA) failure	Phase II	2015	
FT-1101	MDS	Phase I	2015	
Iuspatercept (ACE-536)	MDS	Phase III	2016	
<b>Acute Myeloid Leukemia (AML)</b>				
VIDAZA®	AML (20%-30% blasts) (EU)	Post-approval research	2008	
	AML (>30% blasts) (EU)	Post-approval research	2015	
FT-1101	AML	Phase I	2015	
IDHIFA®	AML	Post-approval research	2017	
CELMoD®: CC-90009	Relapsed refractory AML	Phase I	2016	
CC-486	Post-induction AML maintenance	Phase III	2013	
CD3xCD33: GEM333	AML	Phase I	Q2 2018	
<b>Lymphoma</b>				
IMiD: REVLIMID®	Mantle cell lymphoma: Relapsed and/or refractory (US)	Post-approval research	2013	
	Mantle cell lymphoma: Relapsed and/or refractory (EU)	Post-approval research	2016	
	Diffuse large B-cell (ABC-subtype): first line	Phase III	2015	
	Indolent lymphoma: Relapsed and/or refractory	Regulatory submission	Q4 2018	
	Adult T-cell leukemia-lymphoma (Japan)	Post-approval research	2017	

	Area of Research	Status <sup>1</sup>	Entered Current Status
<b>Inflammation &amp; Immunology</b>			
<b>OTEZLA® (apremilast)</b>	Psoriatic arthritis	Post-approval research	2014
	Plaque psoriasis	Post-approval research	2014
	Behçet's disease	Regulatory submission	Q3 2018
	Scalp psoriasis	Phase IIIb	2017
	Pediatric psoriasis	Phase III	Q4 2018
	Relapsing multiple sclerosis	Regulatory submission <sup>2</sup>	Q1 2018
<b>ozanimod</b>	Ulcerative colitis	Phase III	2015
	Crohn's disease	Phase III	Q2 2018
<b>CC-99677</b>	Inflammation	Phase Ib	Q2 2018
<b>IL-2 mutein: CC-92252</b>	Inflammation	Phase Ib	Q3 2018
<b>Anti-IL-13: RPC-4046</b>	Eosinophilic esophagitis	Phase II	2014
<b>CELMoD®: CC-220</b>	SLE	Phase IIb	2017
JNK inhibitor:	Idiopathic pulmonary fibrosis (IPF)	Phase II	2017
<b>CC-90001</b>			
Anti-PD-1 agonist:			
<b>CC-90006</b>	Psoriasis	Phase I	2016
<b>Solid Tumors</b>			
nab-paclitaxel:			
<b>ABRAXANE®</b>	Breast: Metastatic	Post-approval research	2005
	Non-small cell lung: Advanced (first-line)	Post-approval research	2012
	Pancreatic: Metastatic (first-line)	Post-approval research	2013
	Pancreatic: Adjuvant	Phase III	2014
	Gastric: Metastatic (Japan) <sup>6</sup>	Post-approval research	2013
Proteasome inhibitor:			
<b>Marizomib</b>	Glioblastoma	Phase III	Q3 2018
Anti-CD47 Antibody:			
<b>CC-90002</b>	Solid tumors	Phase I	2015
LSD1 Inhibitor:			
<b>CC-90011</b>	Solid tumors	Phase I	2016
BET Inhibitor:			
<b>CC-90010</b>	Glioblastoma	Phase I	2017
Anti-PD-1:			
<b>Tislelizumab (BGB-A317)</b>	Hepatocellular carcinoma (HCC)	Phase III	Q1 2018
	Non-small cell lung cancer (NSCLC)	Phase III	Q1 2018

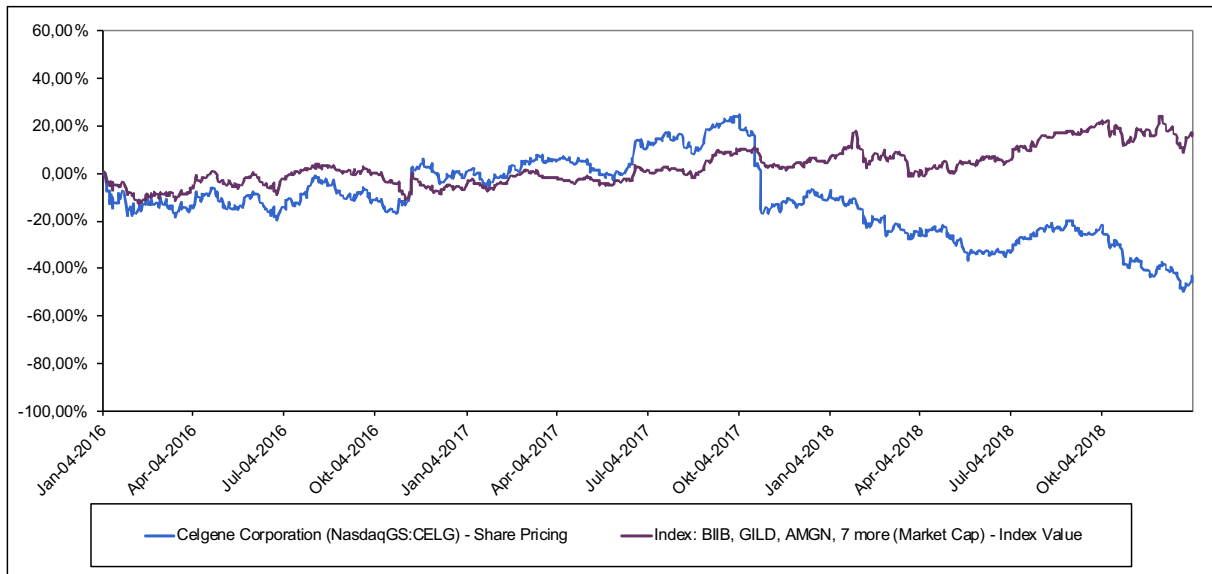
<sup>1</sup> Please note that this does not represent the full list of Celgene's products under development.  
Source: Celgene, February 2019, SEC Form 10-K.

## Exhibit 12: Celgene Key Patent Expirations and Exclusivities for Celgene Marketed Products

	U.S.	Europe
REVLIMID® brand drug (U.S. and European use patents)	2027	2024
POMALYST®/IMNOVID® brand drug (U.S. drug substance/use patent)	2025	2023
OTEZLA® brand drug (U.S./European drug substance patent)	2028	2028
ABRAXANE® brand drug (U.S. use patent and European use/formulation patents)	2026	2022
VIDAZA® brand drug (U.S. use patent and EMA regulatory exclusivities only)	2011	2019

Source: Celgene, February 2019, SEC Form 10-K.

**Exhibit 13:** Celgene Historical Stock Price Performance Compared to Biotech Index



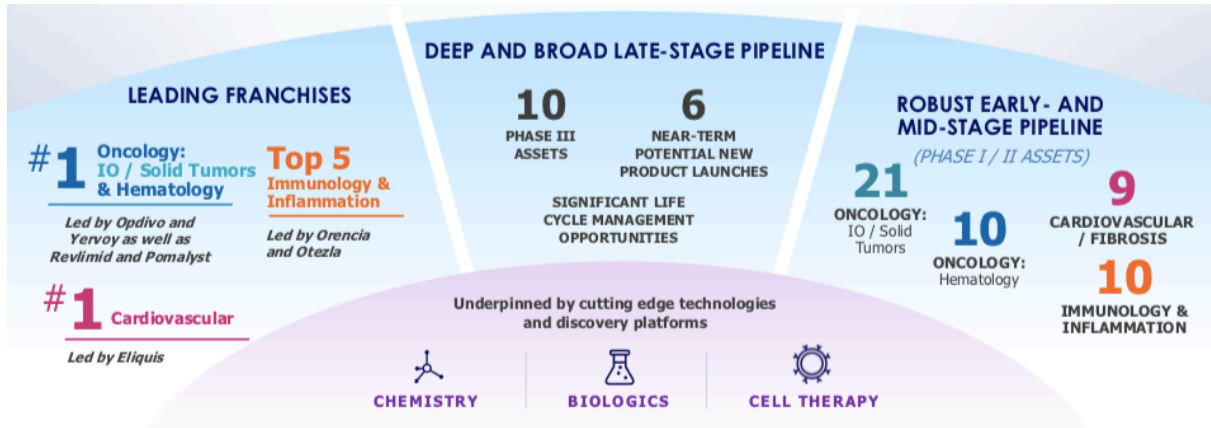
Source: CapitalIQ

**Exhibit 14:** Acquisition of Celgene Largest Pharma Transaction Value compared to Recent Pharma Transaction

Largest Pharmaceutical Transactions in History			
Target	Acquirer	Year Announced	Transaction Value <sup>(1)</sup>
	 Bristol-Myers Squibb	2019	\$91 Billion
		1999	\$87 Billion
		2018	\$81 Billion
		2004	\$73 Billion
		2000	\$72 Billion
		2014	\$65 Billion

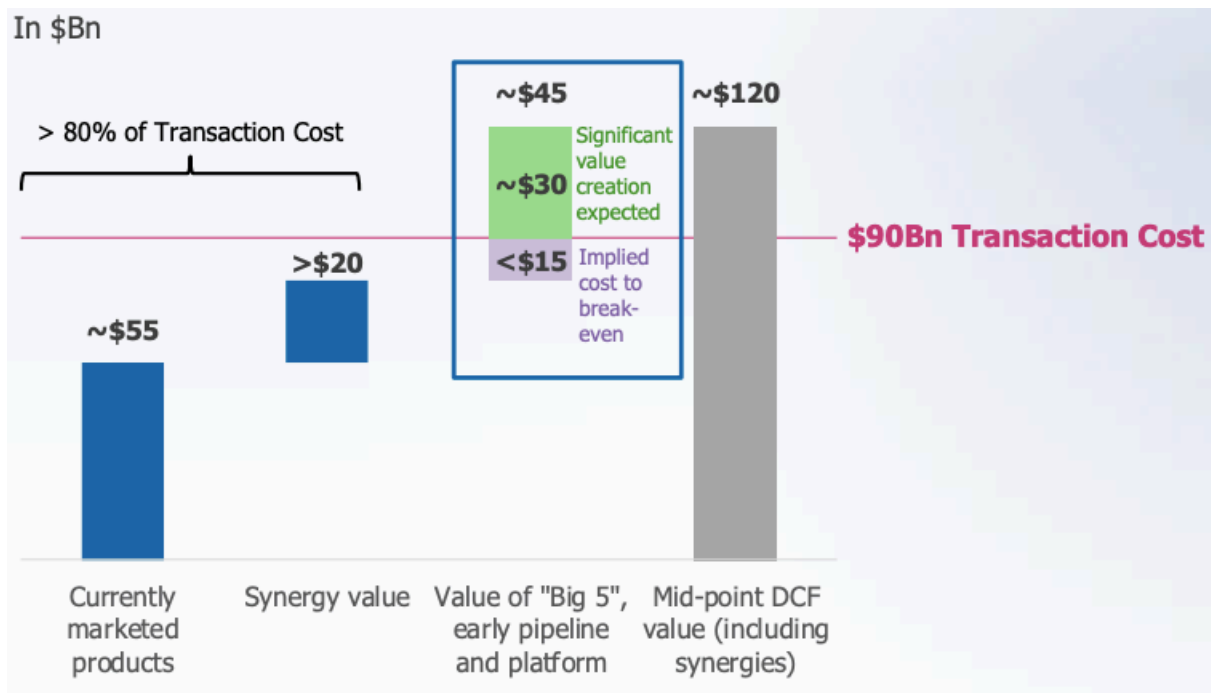
Source: Starboard Value Letter to Shareholders of Bristol-Myers Squibb.

**Exhibit 15:** Summary of Benefits arising from Merger



Source: Bristol-Myers Squibb Investor Presentation.

**Exhibit 16:** Celgene Components of Value Estimated by BMY Management



Source: Bristol-Myers Squibb Investor Presentation.

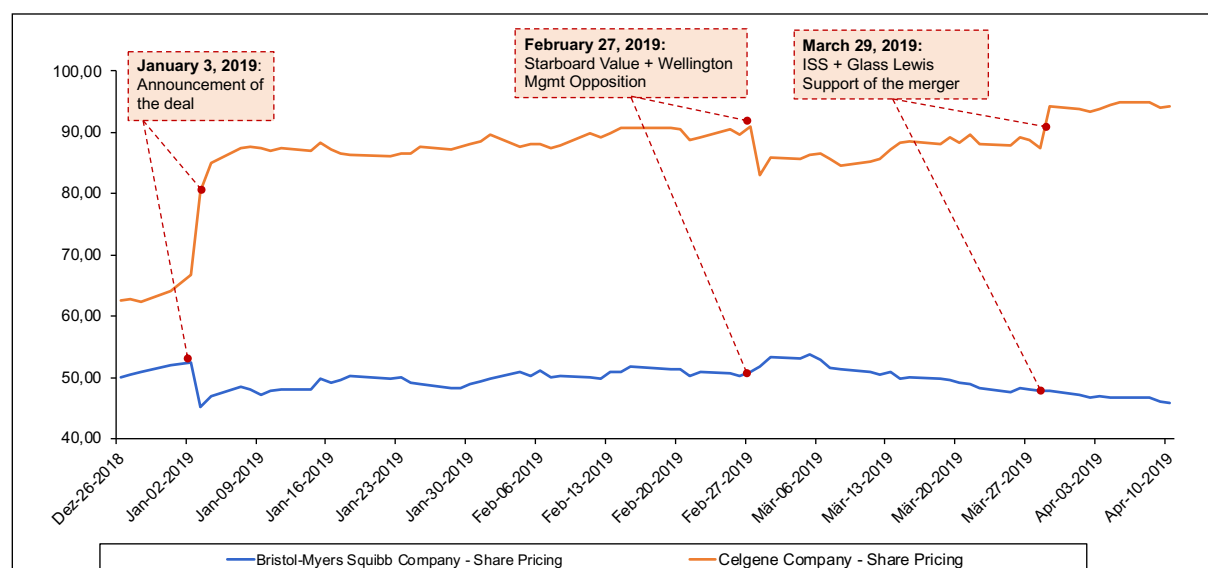
## Exhibit 17: Strategic and Financial Benefits adapted from BMY Proxy Statement

### *Strategic Benefits of the Transaction*

- the merger will create a leading biopharmaceutical company, well positioned for sustained innovation and long-term growth and to address the needs of patients with cancer, inflammatory and immunologic disease and cardiovascular disease through high-value innovative medicines and leading scientific capabilities and, with complementary areas of focus, the combined company will operate with global reach and scale, while maintaining the speed and agility that is core to each company's strategic approach;
- the merger will create a leading oncology franchise in both solid tumors and hematologic malignancies, led by OPDIVO<sup>®</sup>, YERVOY<sup>®</sup>, REVLIMID<sup>®</sup> and POMALYST<sup>®</sup>, and a leading immunology and inflammation franchise led by ORENCIA<sup>®</sup> and OTEZLA<sup>®</sup>;
- the combined company will have a deep and diverse early-stage pipeline across solid tumors and hematologic malignancies, immunology and inflammation, cardiovascular disease and fibrotic disease;
- the combined company will have near-term launch opportunities that are expected to represent greater than \$15 billion in revenue potential, with ten Phase 3 assets and six expected near-term potential product launches, and the commercial capabilities of the combined company could facilitate the launch of these products;
- the combined company will have a more diverse product portfolio than either company on a standalone basis, with nine products expected to have more than \$1 billion in annual sales;
- the combined company will have a strong balance sheet and cash flow generation to enable significant investment in innovation, with more than \$45 billion of expected free cash flow generation by the third full year following the completion of the merger;
- the combined company is expected to have greater financial resources and flexibility, even after taking into account transaction-related indebtedness, to realize the full potential of its pipeline, to engage in research and development, to invest in other development opportunities for sustainable long-term growth, including through the combined company's established collaboration network, and to maintain an investment grade credit rating;
- the combined company is expected to be in a better position to operate in the current and expected future pharmaceutical landscape, including operating in and responding to the current and expected future regulatory and competitive challenges facing industry participants;
- the expectation that the combined company will enter into an accelerated share repurchase agreement to repurchase \$5 billion of its common stock following completion of the merger, which will lead to meaningful capital returns;
- the expectation that the transaction will result in meaningful cost synergies, with anticipated run-rate cost synergies of approximately \$2.5 billion by 2022;
- the belief that the complementary cultures of the two companies will allow for, and that the Bristol-Myers Squibb management team will be able to work together with members of Celgene management to enable, a successful integration of Bristol-Myers Squibb and Celgene following the consummation of the merger; and
- the expectation that the complementary nature of the businesses and products of Bristol-Myers Squibb and Celgene will allow for a successful integration of the two companies, and enhance the combined company's future opportunity and flexibility in determining whether to elect to engage in a potential separation or other strategic transaction involving one or both of its businesses.

Source: Bristol-Myers Squibb, February 2019, SEC Form S-4.

**Exhibit 18: Market Reaction on Bristol-Myers Squibb and Celgene Share Prices in connection with the merger**



Source: Starboard Value Letter to Shareholders of Bristol-Myers Squibb

**Exhibit 19: Summary Returns Bristol-Myers Squibb over different Time Periods and Over / Underperformance of Peers and Indices**

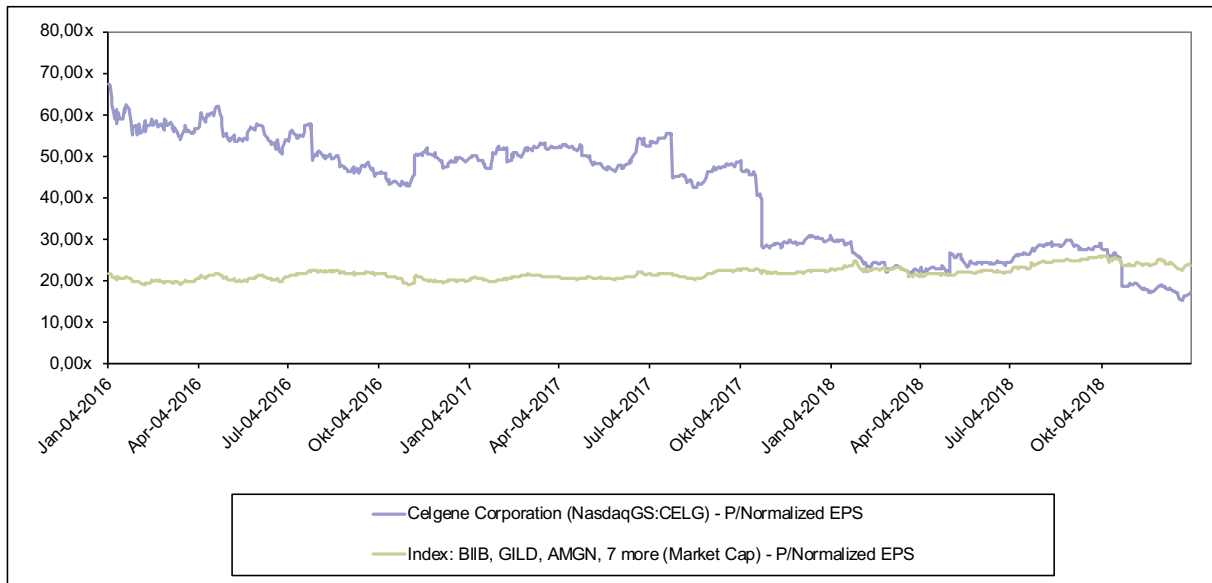
**Total Shareholder Return**

	1 Year	3 Year	Caforio Tenure (1) as CEO
S&P 500 Index	-5,1%	30,6%	29,6%
NYSE Arca Pharmaceutical Index (DRG)	5,3%	13,6%	8,0%
S-4 Selected Peer Group	7,6%	18,6%	17,5%
Direct Peer Group	5,3%	23,6%	18,0%
<b>Bristol-Myers Squibb</b>	<b>-12,2%</b>	<b>-18,1%</b>	<b>-11,9%</b>
Underperformance vs. S&P 500	-7,1%	-48,7%	-41,5%
Over/(Underperformance) vs. DRG	-17,5%	-31,8%	-19,9%
Over/(Underperformance) vs. S-4 Selected Peer Group	-19,7%	-36,7%	-29,4%
Over/(Underperformance) vs. Direct Peer Group	-17,4%	-41,8%	-29,9%

<sup>1</sup> As of May 2015 (day Caforio took over as CEO).

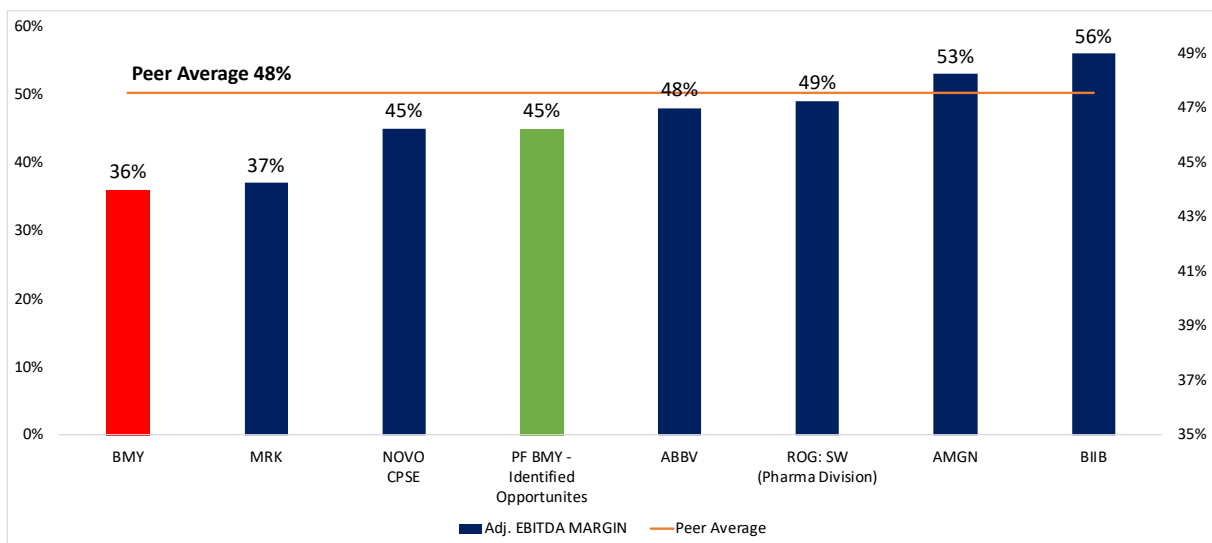
Source: Starboard Value Letter to Shareholders of Bristol-Myers Squibb

**Exhibit 20: Celgene Historical P/E Evolution Compared to Biotech Index**



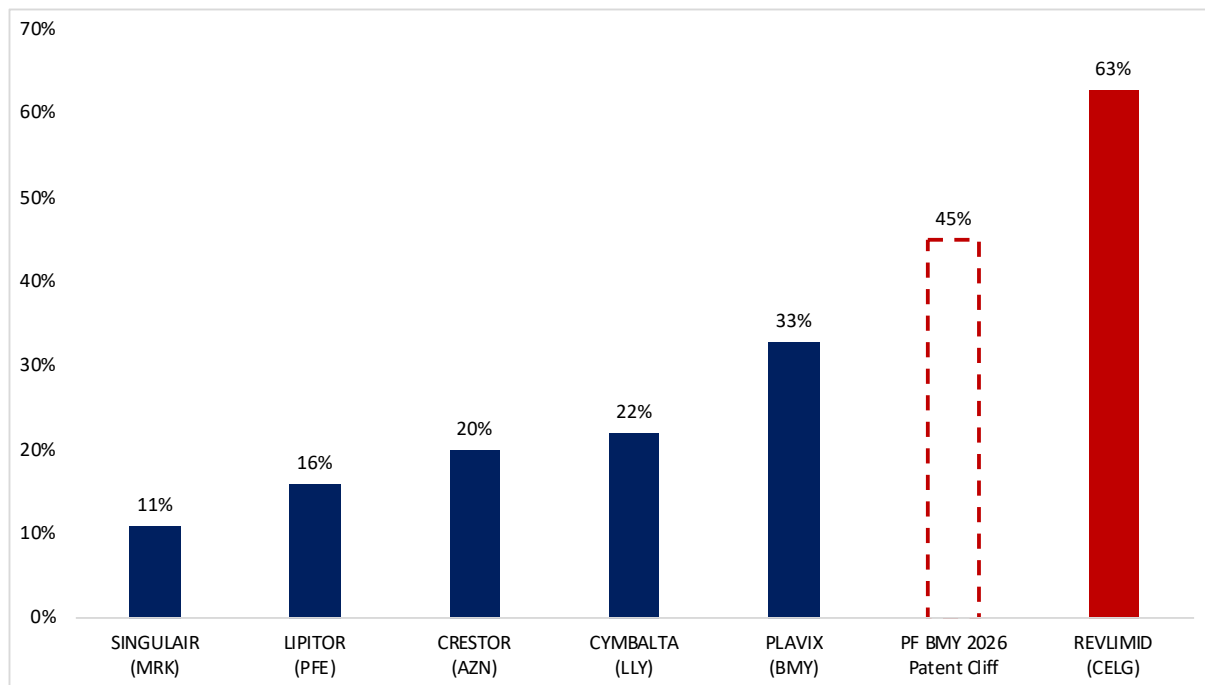
Source: CapitalIQ

**Exhibit 21: 2018 Adjusted EBITDA Margin for Bristol-Myers vs. Direct Peers<sup>1</sup>**



<sup>1</sup> Starboard Selected Direct Peers include: ABBV, AMGN, BIIB, MRK, CPSE:NOVO.B, SWX:ROG  
 Source: Starboard Value Letter to Shareholders of Bristol-Myers Squibb.

**Exhibit 22: Selected Blockbuster Drugs\* - % of Total Company Revenues Prior to Patent Cliff**



\* Blockbuster drugs from Merck, Pfizer, AstraZeneca, Eli Lilly, Bristol-Myers Squibb and Celgene (from left to right)

Source: Starboard Value Letter to Shareholders of Bristol-Myers Squibb.

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- <sup>1</sup>Bristol-Myers Squibb. n.d. „History Timeline“. Accessed September 2019. <https://www.bms.com/about-us/our-company/history-timeline.html>
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