

Bristol myers squibb

Business, Corporate Governance



Bristol Myers Squibb was formed in 1887 when McLaren Bristol and John Ripley Myers bought the Clinton pharmaceutical Company in Clinton New York. In 1900 Bristol-Myers broke through into the black -- it has remained there ever since. In 1924, gross profits topped \$1 million for the first time in Bristol-Myers' history. The company's products were then sold in 26 countries. At this point, the shares held by John Myers's heirs became available for sale, triggering a series of moves that in 1929 turned Bristol-Myers into a publicly held company, listed on the New York Stock Exchange.

The postwar depression prompted Bristol-Myers to jettison its pharmaceutical business and devote itself entirely to its specialties: Sal Hepatica and Ipana, its two big winners, and a dozen or so assorted toiletries, antiseptics and cough syrups. By the end of the war, it was clear that penicillin and other antibiotics represented an immense opportunity for Bristol-Myers. In 1921 the Squibb Company coined its slogan: "The priceless ingredient in every product is the honor and integrity of its maker", which is now the corporate slogan of Bristol Myers Squibb.

In 1989 Bristol-Myers merged with Squibb, creating a global leader in the healthcare industry. The merger created what was then the world's second-largest pharmaceutical enterprise. BMS is now ranked #8 in the pharma sector. Current Drugs, Issues and Interests The Company operates in three segments: Pharmaceuticals, Nutritionals and Other Healthcare. The Pharmaceuticals segment is made up of the global pharmaceutical and international consumer medicines business. The Nutritionals segment consists of Mead Johnson Nutritionals (Mead Johnson), primarily an infant formula and children's nutritional business.

The Other Healthcare segment consists of ConvaTec, Medical Imaging and Consumer Medicines (United States and Canada) businesses. In 1991, the company received U. S. Food and Drug Administration (FDA) approval in the U. S. for Videx® (didanosine) also known as ddI, making it the second medicine available for treating HIV infection (the other being AZT). Other approvals that year included an antibiotic, Cefzil® (cefprozil); two cardiovascular agents, Pravachol® (pravastatin sodium) Tablets and Monopril® (fosinopril sodium) Tablets; and a central nervous system drug, Stadol NS® (butorphanol tartrate) C-IV.

In that same year, the companies signed a Cooperative Research and Development Agreement with the National Cancer Institute to research and develop a new compound for treating certain types of cancer. This compound, TAXOL® (paclitaxel) Injection, immediately was established as the company's top research priority. Bristol-Myers Squibb invested hundreds of millions of dollars to supply TAXOL in sufficient quantities for clinical trials, to prepare data for regulatory submission and to develop alternative sources of TAXOL (which originally was derived from the bark of an endangered tree, the Pacific Yew).

TAXOL launched in 1993 and quickly became one of the world's most widely used cancer treatments. For a few years BMS held the exclusive rights to harvest the bark of the endangered yew trees on US soil, the tree's bark is used in making TAXOL. By the end of 1995, the company had over 60 product lines with \$50 million or more in annual sales worldwide. At the beginning of 1998, the FDA granted clearance to market Excedrin® Migraine for the relief of migraine headache pain and associated symptoms. Excedrin

Migraine became the first migraine headache medication available to consumers without a prescription.

In 1999, Bristol-Myers Squibb announced SECURE THE FUTURE™, a \$100 million commitment to advance HIV/AIDS research and community outreach programs in five southern African countries: South Africa, Botswana, Namibia, Lesotho and Swaziland. And in 2000, Bristol-Myers Squibb, together with four other pharmaceutical companies and international agencies, joined the UNAIDS Drug ACCESS Initiative. The ACCESS program aims to make antiretroviral medicines and therapies to treat opportunistic infections more widely available in African countries that have developed a coherent national AIDS strategy.

As part of the program, the company offered to lower the prices of HIV/AIDS medicines in those countries by 90 percent. More recently, Bristol-Myers Squibb took its access efforts a step further, offering HIV/AIDS drugs below cost in Africa and committing an additional \$15 million for extending SECURE THE FUTURE to four Western African countries -- Burkina Faso, Cote d'Ivoire, Mali and Senegal. The company is also ensuring that its patents do not prevent inexpensive HIV/AIDS therapy in Africa.

The patent for Zerit, rights to which are owned by Yale University and Bristol-Myers Squibb, is now available at no cost to treat AIDS in southern Africa. However, issues like losing patents like this and a few more in South Africa has caused many problems for drug companies and BMS is not immune to them. In September 2000, Bristol-Myers Squibb announced a new strategy that includes a sharpened focus on medicines and an aggressive external

development program. As part of this new strategy, the company announced its intention to divest its Clairol and Zimmer businesses.

The company announced in June 2001 that it had entered into a definitive agreement to acquire the DuPont Pharmaceuticals Company for \$7.8 billion; an acquisition intended to further strengthen Bristol-Myers Squibb's medicines business. With the DuPont acquisition, Bristol-Myers Squibb added Sustiva® (efavirenz) Capsules to its HIV portfolio and also gained products such as Coumadin® (warfarin sodium tablets, USP) Crystalline, the U. S. leading prescribed anti-coagulant and Cardiolite® (Kit for the preparation of Technetium Tc99m Sestamibi for Injection), a medical imaging agent.

In November 2002, the FDA approved Abilify® (aripiprazole) for the treatment of schizophrenia. In 2003, the company teamed up with cancer survivor and Tour de France champion Lance Armstrong to sponsor the Bristol-Myers Squibb TOUR OF HOPE™, an unprecedented week-long coast-to-coast cycling event. En route, the 26-member team of cancer survivors, caregivers, physicians, nurses and researchers raised awareness of cancer research and the importance of clinical trials in developing new treatments.

Reyataz® (atazanavir sulfate), the first protease inhibitor for the treatment of HIV/AIDS with once-a-day dosing, was introduced in the U. S. in July 2003 and approved for marketing in Europe in March 2004. On March 29, 2005, the FDA approved Baraclude® (entecavir). Baraclude, discovered by Bristol-Myers Squibb scientists, is indicated for the treatment of chronic hepatitis B infection. Bristol-Myers Squibb announced the FDA approval of Orencia® (abatacept) for the treatment of rheumatoid arthritis on December 23, 2005. Orencia is the first in a new class of medications for this disease.

<https://assignbuster.com/bristol-myers-squibb/>

On February 28, 2006, Bristol-Myers Squibb and Somerset Pharmaceuticals announced FDA approval of EMSAM® (selegiline transdermal system), the first transdermal patch for the treatment of major depressive disorder. SPRYCEL® (dasatinib), discovered by Bristol-Myers Squibb scientists, was approved by the FDA on June 28, 2006, for the treatment of chronic myeloid leukemia. Bristol-Myers Squibb and Gilead Sciences announced the FDA approval of ATRIPLA™ (efavirenz 600 mg/ emtricitabine 200 mg/ tenofovir disoproxil fumarate 300 mg) on July 12, 2006. ATRIPLA is the first-ever once-daily single tablet regimen for HIV.

As a strategy they are focusing on ten diseases, these are affective (psychiatric) disorders, Alzheimer's/dementia, atherosclerosis/thrombosis, diabetes, hepatitis, HIV/AIDS, obesity, oncology, rheumatoid arthritis and related diseases, and solid organ transplant. Current Financials The current financial information of the company from MSN Central is as below. The revenues have not been growing in spite of all the successful products that have been launched and that is an area for change. The company needs to improve its revenues and have a positive trend in profits too.

The profits are almost 16%, however, that looks pale when compared to GSK and Merck – both in the 20- 22% range (Fortune 500 list). In fact at 15%, the company is ranked 10 out of 12 in the pharma sector and the revenues are 8 out of 12. That for a company that is going to be 120 years in 2007 is poor. As discussed in the current drugs, issues and interests section, the company is focusing on some key diseases and getting some fantastic drugs in the market. However, all this is somehow not improving the revenue. In fact in the last 5 years, revenue has grown at less than 2% year on year.

On the current price (\$24), the share gives a 6% return on investment (EPS is \$1.43). Currently, they are benefiting from the effects of letting go of their CEO Peter Dolan and the company is touted as a takeover target. Their major problem is the failure to prevent Apotex from manufacturing Plavix. Although BMS tried to stop Apotex by getting into a deal that would give Apotex \$40 million for not manufacturing the drug, the US State Attorney Generals however didn't let the deal go through and instead the company got into an investigation because of the whole mess that the deal created.

From the BMS perspective, they were doing the right thing; Plavix generates revenues of \$5.9 Billion. \$3.8 Billion are BMS and the rest is Sanofi-Aventis. \$3.8 Billion is almost 20% of BMS's revenue and Plavix gives approximately 40% of the profits in their US business. All this has a big impact on the dividend given by the company and most analysts have suggested that the dividend payout will have to be cut by almost 30-40 cents; it was \$1.12 the previous year.

BMS has a good line up of drugs that are in the pipeline and would be a good takeover for any pharma company that has strong cash flow but weak pipeline. These are rumors but looking at the current scenario, it is a good possibility. The interim CEO James Cornelius headed Guidant and helped its sell-off. Vision, Mission and Goals The current vision mission and goals of BMS are referred as a pledge. The pledges are to different stakeholders and are as follows: The BMS Pledge Our company's mission is to extend and enhance human life by providing the highest-quality pharmaceutical and related health care products.

We pledge -- to our patients and customers, to our employees and partners, to our shareholders and neighbors, and to the world we serve -- to act on our belief that the priceless ingredient of every product is the honor and integrity of its maker. To Customers We pledge excellence in everything we make and market, providing the safest, most effective and highest-quality medicines and health care products. We promise to continually improve our products through innovation, diligent research and development, and an unyielding commitment to be the very best. To Shareholders

We pledge our dedication to responsibly increasing the shareholder value of your company based upon continued growth, strong finances, productive collaborations and innovation in research and development. To Communities We pledge conscientious citizenship, a helping hand for worthwhile causes and constructive action that supports a clean and healthy environment. We pledge Bristol-Myers Squibb to the highest standard of moral and ethical behavior and to policies and practices that fully embody the responsibility, integrity and decency required of free enterprise if it is to merit and maintain the confidence of our society.

The new era for BMS must ensure that the pledge to the shareholders is held more firmly than it has been in the last few years. The company must improve revenues and margins. The stagnant revenues and profits are a cause for worry in the longer run. All pharma companies are fighting against smaller companies that want to make generics and Pfizer itself has been fighting for the patent of Lipitor, the world's best selling drug with \$12.9 Billion in revenues. BMS needs to ensure that the scandals that have been

hitting it in the last 5 years never happen again and the company needs to have a higher standard of governance.

Shareholder value erodes very quickly for many reasons, but off the last 3-5 years, corporate governance has been a major issue. Companies with tens of billions of dollars of revenue have disappeared and stockholders have suddenly seen their investment disappear with them. BMS has serious corporate governance issues. The company was hit by financial scandals when it was caught pushing inventories and showing them as sales. They have a court appointed overseer because of showing higher revenues and now with the Plavix issue they are in an even bigger mess as far as corporate governance goes.

Apart from that, according to IMS health, a pharmaceutical information and consulting company, sales of prescription medicines worldwide rose 7% to \$602 billion,. The United States still accounts for the lion's share of that, with \$252 billion in annual sales, but sales in it and the other nine biggest markets grew by only 5. 7%. But emerging markets such as China, Russia, South Korea and Mexico outpaced those markets, growing a whopping 81%. However, when we look at the overall picture 10 -20 years from now we see that the population of the developed world is going to fall and there will be more and more people who will be retired.

This also means there will be more medicines required. I do not see myself dying at the age of 70 in the year 2040; medicaltechnologywill be so advanced in the next 30 years that it will probably keep me alive till I reach 80 or 90. This is great news for the pharma companies. However, the question beckons that the people who can afford expensive medicines for

<https://assignbuster.com/bristol-myers-squibb/>

diseases that BMS is targeting are only in the developed countries where the growth has stagnated or is less than 10%. The growth is in the developing world, but the diseases that BMS is targeting are all that need lots of medicines and very expensive medicines.

Taxol for example, is used for cancer patients. The medicine is now made by other companies too, and yet the prices for Taxol in the developing world are really high and people find it hard to afford Taxol. In my opinion, BMS has to handle 2 issues: First is Corporate Governance and the second is to crack the developing markets and increase market share in those countries, this will automatically increase its stagnant revenues and breathe some life into its ailing business. The markets are stagnant in the developed world.

New Vision Statement I am making a few changes to the current pledges that BMS has to customers and shareholders. The changes reflect what the company needs to do in order to transform itself. To Customers We pledge excellence in everything we make and market, providing the safest, most effective, and cost effective and highest-quality medicines and health care products. We promise to continually improve our products through innovation, diligent research and development, and an unyielding commitment to be the very best. To Shareholders

We pledge our dedication to responsibly increasing the shareholder value of your company based upon continued growth, strong finances, productive collaborations and innovation in research and development. We pledge to be extremely careful in all governance issues and not succumb to the pressures of the market. We pledge to conduct our business with utmost fairness. Key Change Issues Lack of Corporate Governance is something that no company

will admit, but that is the major problem facing BMS right now. Having an overseer is a bad indicator. The key change issues that we will face while changing the attitude towards corporate governance are:

1. The first issue is to change the behavior of bosses who force employees to act in ways that will be against any corporate governance policy. 2. The second change will be to create an atmosphere where an employee can raise an integrity or corporate governance concern. This is critical right now as it seems that over the last few years many things were not raised. 3. The third change will be in terms of managing the markets and expectations of all stakeholders, ultimately it is the expectations of the markets or other stakeholders that push the employees to cover up things or show a bright picture when there is none.

It is important to manage the expectations. The next key change after corporate governance is to ensure that we can capture the growing markets. To capture the new markets, we will have to make a couple of changes in the way we do business. These changes are likely to be as follows: 1. Lower the cost of drugs – most of the money goes into research. The drugs that conquer markets cost hundreds of millions of dollars to make. So the cost of developing drugs has to be lowered, once this cost is lowered, the cost of the drug per se can also be lowered accordingly.

2. Come with products that cater to the growing segments there – it is likely that the people in the developing countries will be using medicines that are generic. For a branded product to conquer that market, the companies have to give an added value to their product. This might mean, reworking some of the old compounds and coming up with ‘extra strong versions’ or other

versions that would differentiate the medicines BMS could come up with a line of medication aimed at women with PMS or aimed at people over 70.

This might be the normal medicines, but with a different potency or properties so that they would be 'better suited' to a different age group. 3. Newer gene types – this might mean that there will be opportunities as people from different races might have different problems or might need different treatments. It is possible that the genes or body types in different races might respond differently to different molecules and thus would require modifications to the current molecules. Depending on the cost of doing this modification, BMS can decide to modify certain molecules to better suit different races.

How will these areas be changed? What are the broad sets of proposals for change? The Critical Change requirement is Corporate Governance. Corporate Governance is something that every company talks and boasts about but as we can see in case of BMS, this has failed grossly. The company actively needs to change the situation within its departments and especially in the higher ranks to improve the Corporate Governance scenario and educate people about the problems that are caused because of bad governance.

Before I dwell into how to combat corporate governance, I would like to talk about why officials higher up in the ranks and even some in the lower ranks resort to concealing information that might be damaging to the company. The first reason is to ensure that their jobs are secure. If a person conceals information it is because they feel that the particular piece of information will be damaging to their job, their department or their interest. This is the basic

level and it is very individualistic. However, it is this same thing that drives even the bigger corporate information scandals.

The second reason for concealing information or reporting wrong figures is to ensure that the company meets its goals. To take an example from an IT company, it is one thing to not report a data theft because it might compromise the jobs of the IT security personnel, but quite another not to report the bugs that might exist in the new software that a company is making. Different projects have different timelines and it is critical for companies to meet those timelines as revenues and profits are based on the sales of that new product.

If we take windows Vista for example, vista has been delayed numerous times and because of that many partners of Microsoft are suffering, especially Intel. Microsoft has in public announced about the delays; however a smaller company might choose to not mention a delay in their quarterly update. For the officials in the company it is something that protects the shareholders and other partners from the value perspective, but what they fail to see is the long term damage that their actions are causing.

Concealing information today will have its repercussions in the next two quarters and eventually if someone finds out the true picture, the stock market will kill the script and the valuation will suffer enormously. However, a public announcement about the delay will cause temporary drop in the stock valuation (till the product is back on track or launched in the market) but on a personal level, it will affect the persons' bonus (for sure) and the growth prospects of the higher ranks who were responsible for not delivering the results.

The cost of revealing the truth means jobs and immediate losses in the stock markets. Many of the higher ranking officials have stock options and this makes it even more lucrative from a personal perspective to ensure that the company is shown in good light and seen as an entity that meets its goals and beats the market predictions. The corporate governance scenario gets worse because of the stock options but it can be much better if every one looked at the picture from a long term perspective. In the longer term, the company will deliver the products and make the profits.

What every individual must realize is that a company will survive beyond every employee and every leader. One employee or a leader cannot make the company, there is always a team. However, a leader can easily break the company and corporate governance is one way of doing it with much ease. Coming to ways on how BMS can change the corporate governance culture within the organization; I would recommend the following 3 changes: 1. Top down pressure to conceal information 2. Protective climate for whistle blowers 3. Managing the expectations of the stock market and other stakeholders

Top down pressure to conceal information Driving the first one seems to be the toughest one, but this is where the board members have to set the rules and deal facts with an iron hand. All directors and Country Heads must be responsible towards Corporate Governance and the Finance people especially should run their reports through the board. The board must appoint an independent third party evaluator and auditor to ensure that the reports being presented are correct and any discrepancy must be dealt by

terminating the country head and seizing all stock options that the person may have.

Termination with seizure of stock options at all levels will mean that the lure of a high stock price will not be a motivating factor in concealing information and we can expect people to take a long term view of the situation instead of a short term view based on when their stock options might be due. With a personal lure of money gone, the top management would be forced to look at share value in the longer term and hence won't be pushing their direct reports to fudge information.

In addition to this, I recommend that one board member be assigned the task of being an auditor and also the point of contact for all kind of tip-offs or corporate governance whistle blowers. This will give the employees all over the company more faith in the system. The biggest problem for whistle blowers or people who have issues with corporate governance is that they fear for their jobs and they fear that if they still have their jobs, they will be treated with disgust in the office for going against what might be termed as 'normal practice' in that division.

The presence of a board member as a person who can look into corporate governance issues ensures that people can raise concerns in confidence without the fear of being outcasted at their jobs. This board member of course needs to have a team of people who will investigate the issues that are raised. At the middle management level or at the level where people head departments at country levels, the country head must tighten the leash and implement all corporate policies.

The country heads must have audits from outside parties to ensure the authenticity of the financial statements and the systems within the company. At the lower management levels the managers should be responsible for their business. However; the ultimate responsibility would be with the middle management. The board member however, should be contactable by everyone within the organization. The organization change needed is to re-align the salary packages of the people who have stock options.

This would entail the compensation and benefits team to look at the packages again and set up a new corporate policy about rewarding and retaining employees. The major change is only for the upper management to ensure that they don't abuse their power to increase the value of their shares. The stock option change will also weed out the people who do not have a longing for working with BMS. It is very important for a company to ensure that their top management is a group of people who take the company close to their heart, and of course these people are there for the long term.

Protective climate for whistle blowers The next issue we need to cover is about protecting the whistle blowers. The appointment of a board member to look after the corporate governance issues should quell any fears that a person might have about corporate governance. In addition to this, a very small step that might go a long way is to bring up issues with a pseudo identity, where people can write in and give information without being obligated to divulge their identity even to the board member.

The whistle blowers biggest fear is that their job and career gets jeopardized if it is found out that they were the ones who raised concerns that brought

down the whole unit and the jobs of several people. People take it against them and they are outcaste. I also recommend that these people have help from outside sources such as counseling etc that may be needed as they grapple with the effects of being whistle blowers or as they continue to live without talking to anyone about being the whistle blowers.

In addition to this, the company should actually owe these people an incentive for doing the company a favor by helping it exposing thing internally and managing the fall out and taking corrective actions. Such revelations by outsiders can be far more damaging and bring the company into disrepute apart from all the lawsuits and the hassles of the law. The board is always responsible for ensuring that things are going on smoothly within the company and ultimate beneficiary of having an internal system that exposes the corporate governance problems within the company actually helps the board save the company and their own reputations.