



GILEAD

Advancing Therapeutics.
Improving Lives.

GILD Equity Research Report

2015-2016 UConn SMF

April 21, 2016

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Business Summary

Key Financial Metrics

Stock Price: \$101.74 (4/21/16)
52-Week High: \$123.37
52-Week Low: \$81.89
FCF/Share (LTM): 5.57
FCF Yield: 6.6%
Beta: .44

Market Cap: 137,821M
P/E Ratio: 8.54
EPS: \$12.36
ROIC: 52.4%
ROA: 41.87%
Debt/Com Equity: 119.67%

Sector: Health Care
Industry: Health Care Supply Chain
ROE: 106.64%
Gross Margin: 87.73%
EBITDA: \$23,291
Debt/Assets: 42.79%

Stock Performance vs. SP500 (1 Year)



Corporate Information

Management:

President/CEO: John F. Milligan
Chairman: John C. Martin
Exec VP/CFO:
Robin L. Washington

Headquarters:

Foster City, CA

Employees:

8,000 (As of Dec. 31, 2015)

Business Summary

Gilead is a leading biotechnology company that develops and produces pharmaceuticals for a variety of unmet medical afflictions. Gilead's main business focuses on the treatment and cure of Hepatitis C and the treatment of HIV/AIDS. In addition to HIV and HCV, they have recently been expanding oncology, inflammation, and cardiovascular segments.

Gilead is the global leader in Hepatitis C treatment with its drugs Sovaldi and Harvoni. Sovaldi, a combined-treatment regimen, was the first ever cure for Hepatitis C. Gilead later developed its successor, Harvoni, a single treatment cure for Hepatitis C. Both drugs have been proven to be over 96% effective, with minimal side effects. While Gilead was first to cure Hepatitis C, AbbVie's Viekira Pak and Merck's recently approved Zepatier have entered the HCV space. However, Viekira Pak requires multiple pills and has triggered FDA warnings for risk of serious liver injury. As competition strengthens, Gilead continues to develop new drugs for additional unmet diseases while also seeking expansion of current products to foreign markets.

Outside of Hepatitis C, Gilead has a favorable pipeline of 11 drugs currently in Phase 3, with its single-tablet HIV treatment Genvoya recently receiving FDA approval. Other drugs in the pipeline consist of new treatments for HIV, Hepatitis C, Hepatitis B, pancreatic and gastric cancer, and inflammation and cardiovascular disease. Gilead also recently acquired EpiTherapeutics in May, 2015 for \$65 million. This acquisition has improved its drug pipeline with preclinical small molecule inhibitors of enzymes involved in regulating gene transcription in cancer.

Industry Overview

Figure 1- S&P 500 Biotech Performance YTD SPY



Figure 2- Historical FDA Approval of NMEs

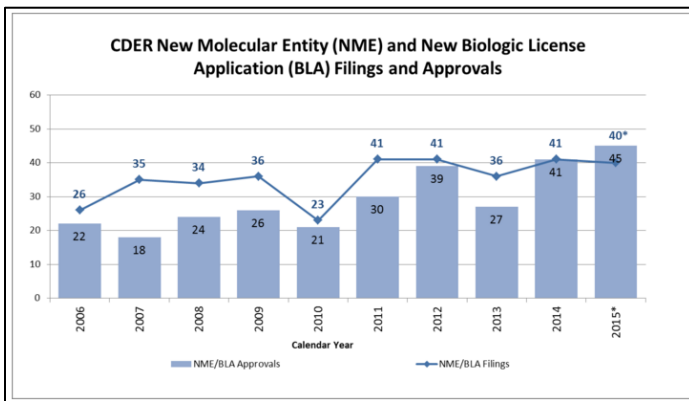
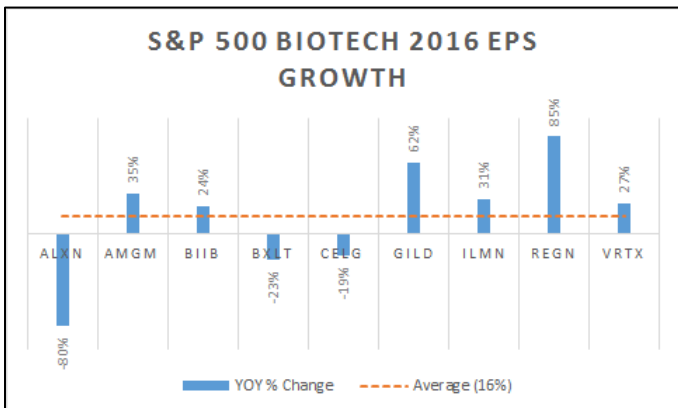


Figure 3- EPS Growth of S&P 500 Biotech Companies



The healthcare industry has experienced significant changes over the past year regarding increasing political tension. However, there is a tremendous amount of innovation and discovery to be seen in biotechnology and health care. Also, as emerging nations begin to develop a larger middle class, it will lead to expanding markets as well as support long term growth of these companies.

In the recent past, there has been increasing concern regarding the uncertainty of the U.S. health care reform as well as drug pricing and reimbursement pressure. Changes to the Affordable Care Act will have an impact on the long-term potential of the healthcare industry for the future. Also, as biotech firms continue to introduce highly priced medications, public scrutiny regarding their high margins will remain prominent. However, this public scrutiny does not seem to have gained any relevance but has made many headlines and caused short-term volatility in stock prices. There have also been many mergers and acquisitions in the past year that have yet to show their impact on the industry. Generic drug manufacturers have also begun to cause a threat to high margin companies by undercutting prices for similar medications.

Despite uncertainty regarding the U.S. health care reform, biotech drug innovation has remained strong. The FDA continues to approve record numbers of drugs as biotech research continues to generate breakthrough therapies. In 2015, 45 novel drugs were approved as New Molecular Entities (NMEs), which are chemical structures that have never been approved before, often serving previously unmet medical needs. Gilead's single-tablet HIV regimen, Genvoya, was among this list and fast tracked due to its potential to serve unmet medical needs. The bar graph in figure 2 illustrates the growth of NME approvals in the past ten years. Overall, as these new drugs come to the market, new consumers around the world will be gaining access to these modern medicines. The growing middle class of emerging markets will lead to an increase in market share by newly developed nations. Companies that have displayed promising pipelines of potential new drugs remain as strong candidates for investment.

Year to date, as of 4/20/2016, the S&P 500 Biotech Index has dropped a total of 18% after slowly recovering from a 52 week low in February 2016. As seen in figure 1, this is a significant underperformance compared to the S&P 500, largely due to the fear of pricing regulation. The top S&P 500 Biotech gainers year to date are Baxalta and Amgen, who have risen 5.90% and .55% respectively. The top losers are Vertex Pharmaceuticals and Illumina, who have dropped 28.77% and 33.87% respectively. Despite widespread underperformance, earnings remain strong and the average EPS of Biotech firms in the S&P 500 has grown 16% in the past year.

Competitive Landscape

Since Sovaldi was first introduced in 2012, Gilead has been a dominant leader in the treatment and cure of Hepatitis C in terms of both effectiveness and market share. Gilead remains in an excellent competitive position with the largest market share, a high level of effectiveness, and single tablet regimens. However, competing biotech firms continue to gain ground on Harvoni and Sovaldi as drug innovation and research expands.

As illustrated by the figures below, Abbvie, Merck, and Gilead each have a unique competitive advantage. Merck's Zepatier provides the lowest cost option and has received high ratings for Genotype (GT) 4. Abbvie's Viekira Pak has the highest level of effectiveness for GT1, however it requires a multi-pill regimen. Gilead has the advantage of being the first to offer an oral HCV treatment, both Harvoni and Sovaldi have high levels of effectiveness, and each drug offers the convenience of single tablet regimens.

Figure 4- HCV Competitive Analysis

Gilead					
HCV Competitive Analysis					
Drug	Maker	Genotypes	Effectiveness per Genotype (GT)	Price	Overall Competitive advantage
Harvoni	Gilead	1,4	96%	\$ 94,500	Single tablet, top rated for GT1a and GT4
Sovaldi	Gilead	1,2,3,4	90% GT1, 96% GT2, 93% GT3, 84% GT4	\$ 80,000	First oral HCV treatment, single tablet
Viekira Pak	Abbvie	1	97%	\$ 83,319	Effective for GT1b
Zepatier	Merck	1,4	95% GT1, 98% GT4	\$ 54,600	Lowest price
Olysio*	Jansen	1	94%	\$ 66,360	Minimal side effects
Daklinza*	Bristol-Myers Squibb	1,2,3,4	100% GT1, 96% GT2, 89% GT3, 80% GT4	\$ 63,000	Top rated for GT2

*with sofosbuvir (aka sovaldi)

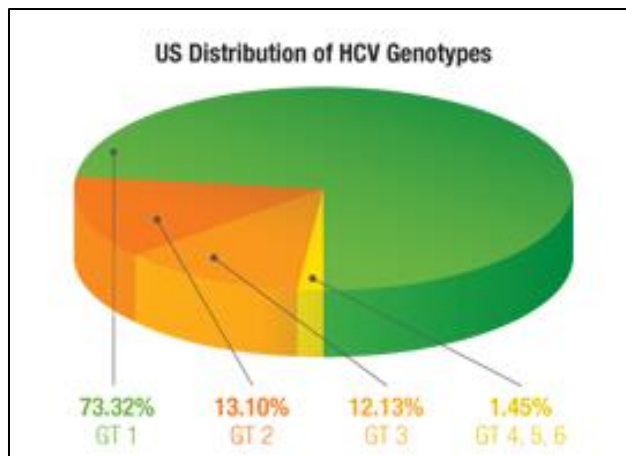
Figure 5- Global HIV Therapy Rankings

Gilead Tops Global Rankings Among HIV Therapies					
U.S.			Europe Big-5		
Rank	Naïve	All Patients	Rank	Naïve	All Patients
1	Stribild	Atripla	1	Eviplera	Atripla
2	Complera	Complera	2	Atripla	Eviplera
3	Atripla	Stribild	3	Truvada + other 3 rd Agent	Truvada + other 3 rd Agent
4	Truvada + other 3 rd Agent	Truvada + other 3 rd Agent	4	Stribild	Truvada + other 3 rd Agent
5	Other NRTI + other 3 rd Agent	Truvada + other 3 rd Agent	5	Truvada + other 3 rd Agent	Truvada + other 3 rd Agent

Source: Ipsos Healthcare HIV U.S. Therapy Monitor Q2 2014. EU Naïve Source: Ipsos Healthcare HIV EU Scope Q2 2014. EU All Patient Source: Ipsos Healthcare HIV EU Monitor Q1 2014.

Single tablet regimens

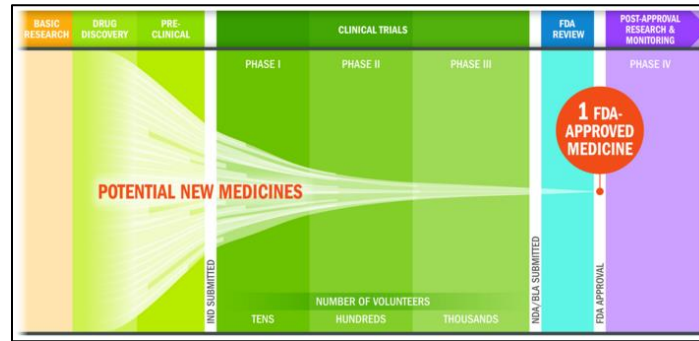
Figure 6- Genotype Distribution



Gilead has also been a leader in HIV since 2001. Seven out of ten American HIV patients initiate their treatment with a Gilead product and the top five HIV regimens in the U.S and Europe each contain a Gilead product (as seen in figure 6). In terms of the competitive landscape, Gilead's most daunting competitive pressures lie in generic manufacturers once patents for Viread (U.S and Europe) and Atripla (Europe only) will expire in 2018.

Business Model

Figure 7- Drug Development Process



1. Research and Drug Development

Gilead first starts its process by researching and developing cutting edge drugs to serve currently unmet medical needs. Gilead initiates preclinical testing via laboratory and animal studies. Researchers can screen up to 1,000,000 compounds, whereas only 250 will enter preclinical process. The preclinical process typically takes 6 to 7 years to be completed. These preclinical trials are used to assess the safety, biological activity and formulations of the newfound drugs.

2. Patent Prosecution

Once a drug is developed, Gilead files for Patent approval in order to protect its exclusive rights to produce and sell the drug. If FDA approved, the drug will then be patented for 15 years.

3. Clinical Trial Phases I-III

Following the preclinical testing of 250 compounds, around 5 of these new compounds will enter clinical testing. Phase I: Trials of 20-100 healthy volunteers are conducted to determine the safety and dosage. These trials range from 0.5-1.5 years.

Phase II: Trials of 100-500 patient volunteers are conducted to evaluate drug efficacy and patient side effects. These trials range from 1-2 years.

Phase III: Trials of 1,000-5,000 patient volunteers to confirm effectiveness and monitor adverse reactions from long term use. These trials range from 2-3.5 years.

4. FDA Approval Process

The FDA takes around 1-2 years for final approval of the drug. Per order of the FDA, Gilead must conduct post-marketing surveillance of their drugs. The FDA requires additional testing and continuous drug monitoring in public use.

5. Drug Manufacturing

Gilead must first evaluate the drug formulation for uniformity and reliability. Gilead then conducts the process of industrial scale synthesis of drug at company owned manufacturing facilities.

6. Contract Negotiation with Generic Manufacturers

Gilead conducts contract negotiation with generic drug manufacturers around the globe to license their drug formulation. With the aid of generic manufacturers, it allows Gilead to provide worldwide availability to their drugs.

7. Contract Negotiations with Pharmacy Benefit Managers

Gilead negotiates drug pricing as much as 50% of sticker price with PBM's. Pharmacy benefit managers work to buy drugs at the best discount for their customers. Gilead competes with other drug manufacturers to obtain exclusive contracts at favorable prices.

8. Sales, Marketing, and Distribution to the End Consumer

Gilead then promotes its drugs through commercial infrastructure throughout North America, Europe, Asia, Australia and New Zealand. Third-party distributors also promote products in other regions. Gilead sells and distributes mostly through wholesale channels. However, its drugs Letairis and Cayston are distributed through specialty pharmacies. The company's product distribution processes are handled primarily by wholesalers, including Cardinal Health (14% of revenue), McKesson, (24%), and AmerisourceBergen (25%).

Business Segments

HIV: With the release of Viread in 2001, Gilead continues to be on the cutting edge of HIV treatment in hopes of finding a cure. Gilead had worked to provide anti-retroviral therapy to service the nearly 37 million people worldwide living with HIV. Gilead's most popular HIV drugs include Truvada and Atripla. More than 60 percent of people now treated for HIV in developing world countries receive Gilead medicines.

Liver Disease: Gilead also has liver disease programs focused on expanding treatment options for chronic hepatitis B and C. Its two main drugs are Harvoni and Sovaldi. Gilead has worked to make these drugs available in emerging economies through less expensive, generic drugs. With more than 100 million people afflicted with HCV in emerging markets, these agreements aim to distribute the drugs across 91 developing countries.

Hematology/Oncology: Gilead's prominent hematology drug, Zydelig, offers treatment to patients with relapsed chronic lymphocytic leukemia, follicular lymphoma or small lymphocytic lymphoma. In addition, an investigational anti-MMP9 antibody is under evaluation in gastric cancer and other solid tumors.

Cardiovascular: Gilead continues to develop potential treatment options for people living with serious cardiovascular diseases, such as pulmonary arterial hypertension. Gilead's cardiovascular drugs include Letairis, Ranexa, and Lexiscan.

Inflammation/Respiratory: Gilead also has drugs for respiratory diseases, Crohn's disease, and rheumatoid arthritis in its drug pipeline, mostly in the initial phases of the clinical trial process. GS-5745 is a compound being studied by Gilead to treat inflammatory diseases that involve different organ systems, including ulcerative colitis, Crohn's disease, rheumatoid arthritis and lung diseases.

Revenue Breakdown

Figure 8- 2013 Revenue Distribution

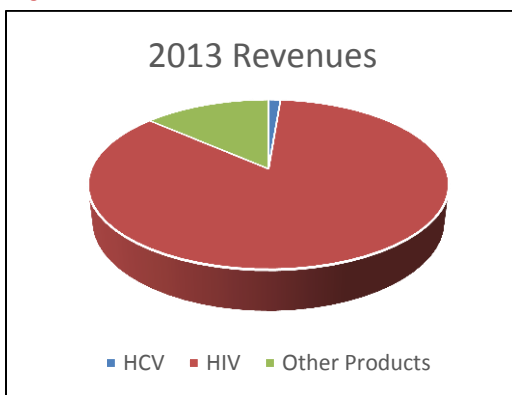
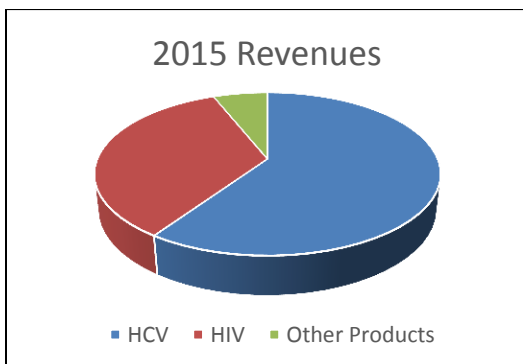


Figure 9- 2015 Revenue Distribution



Gilead's distribution of revenues has greatly changed in the past couple years. In 2013, just after the release of Sovaldi, more than 82% of revenues came from HIV treatments. In 2015 the overwhelming success of Harvoni and Sovaldi dramatically shifted revenues with 59% of revenues generated from HCV products and 34% generated from HIV products. While HIV sales have actually increased 20% from 2013 to 2015, exorbitant HCV growth has overshadowed success in the HIV segment.

Despite remaining a small portion of overall revenues, products for cardiovascular and inflammation segments have been incrementally expanding, as seen in our per-product revenue breakdown in Appendix B. For example, Letairis, a drug used to treat pulmonary arterial hypertension, has generated an average revenue growth of 19% each of the past three years. Looking into the future, we expect high revenue growth from drugs such as Zydelig, which a non-invasive treatment for leukemia.

Overall, Gilead's revenues are currently dominated by HIV and HCV segments, largely due to an explosion in the sales of Harvoni and Sovaldi. However, given that the majority of drugs in Gilead's Pipeline relate to cardiovascular, inflammation, and oncology segments, we expect Gilead to have a more diversified revenue stream in the future.

Risk Factors

Political Pressure: One key driver of biotech underperformance in the second half of 2015 and going forward into 2016 has been the threat of downward political pricing pressures. While analysts do not expect any major regulatory changes in the near future, the recent presidential election has widely spurred discussion regarding the consumer affordability and increasing margins on prescription drugs. While Harvoni has been one of the most expensive drugs sold in the United States to date, it is evident Gilead would be a prominent target should any regulation take place. However, drug manufacturers like Gilead continually justify the high costs of their drugs given the fact that purchasing these drugs are at a discount to the cost of a lifetime of care.

Competing Drugs: In just a short period of time, the HCV space has seen many new entrants, each competing on price and overall effectiveness. While Gilead has a commanding lead in this industry, entrants such as Merck and Abbvie will chip away at Gilead's potential sales. In terms of HIV, Gilead is expected to encounter increasing competition from generic manufacturers in upcoming years. To counter pressure from its competitors, Gilead seeks to continue its efforts towards the development of products of superior quality and effectiveness.

Patent Expiration: While Harvoni and Sovaldi are patent protected until 2028, Gilead will see major patent expirations in 2018. Atripla, which accounted for over \$3B or 9.6% of 2015 sales, will reach European patent expiration in 2018 and U.S. patent expiration in 2021. Viread, another HIV treatment, accounted for 3.4% of 2015 sales and will reach patent expiration in both Europe and the U.S. in 2018. Atripla and Viread revenues will be greatly affected as generic versions of these drugs are created. However, Gilead hopes to bolster HIV sales with the development of more effective products that meet the same medical needs.

Business Mix: With 59% of revenues resulting from the sale of two products (Harvoni and Sovaldi), Gilead is highly weighted in Hepatitis C. This leaves Gilead's overall total revenues highly susceptible to any major changes in the HCV space. Gilead is working to manage this risk by remaining competitive with the development of more effective HCV therapies. They are also working to develop breakthrough therapies for a diverse range of unmet medical needs, such as in cancer and Hepatitis B.

Product Pipeline

Figure 10- 2016 Pipeline Distribution by Segment

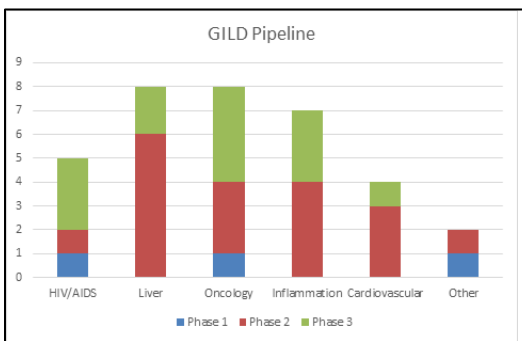
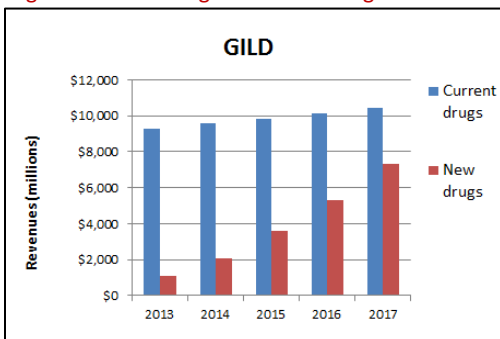


Figure 11- New Drug vs. Current Drug Revenue



Although Gilead's current drug portfolio has widely successful drugs such as Harvoni and Sovaldi, Gilead continues to develop innovative products. Among its extensive pipeline of 34 drugs, a few specific products have the potential to make a huge impact.

One of its drugs is Simtuzumab, a monoclonal antibody designed to inhibit the lysyl oxidase-like-2 enzyme, which is believed to play a role in tumor metastasis and the advancement of fibrotic diseases. Simtuzumab could also be a potential treatment for nonalcoholic steatohepatitis, or NASH. It is estimated that NASH affects 2% to 5% of the U.S. population. NASH is a serious disease that can lead to liver complications, liver cancer, or even death. Gilead is expected to report top-line data on its 96-week phase 2 study in NASH patients. If the data is promising, Gilead may be able to file for an accelerated approval of Simtuzumab since there are currently no NASH treatments on the market today.

Zydelig is another promising drug in Gilead's pipeline that is already approved to treat three types of blood cancers: relapsed chronic lymphocytic leukemia, small lymphocytic leukemia, and relapsed follicular B-cell non-Hodgkin lymphoma. We can expect sales of Zydelig to increase substantially in the next few years.

Gilead is also developing a drug named GS-9620 which could end up turning out as the functional cure for both HIV and chronic hepatitis-B. GS-9620 currently is in Phase 1 for HIV and Phase 2 for HBV.

Improving upon widespread success in HCV, Gilead is also in Phase 3 with a two-drug combo, namely Sovaldi/sofosbuvir plus velpatasvir. This combination pack is aimed to treat all six genotypes of the virus. This combo could potentially eliminate competitor's market share of non-Gilead drugs that must be used in combination with Sovaldi, namely Olysio and Daklinza.

Looking Ahead

Looking at Gilead's position for the next couple years, we feel that competitive pressures in the HCV space will continue to take away from Gilead's revenue from Sovaldi and Harvoni. Since both HCV drugs represent a large portion of overall sales, it will result in a total decline in 2016 revenues. In the next couple years, HIV sales will also begin to decline due to impending patent expiration. However, despite these short-term challenges, we are confident that Gilead will be able generate growth in the long-term.

Gilead will continue to have high demand in the Hepatitis C space given millions of people have been diagnosed and are currently left untreated. Gilead is a financially sound company with a balance sheet that gives them the flexibility to make key partnerships and acquisitions going forward. Gilead continues to create breakthrough therapies for unmet medical needs with cure rates of up to 99%. It's growing product pipeline with additional HIV, oncology, inflammation, and cardiovascular treatments will continue to generate increasing revenue well in to the future. As seen in our Discounted Cash Flow Model in appendix A, we value Gilead at a target price of \$122.02 as we believe it is currently undervalued by the market at this time.

Appendix A: Discounted Cash Flow Valuation

Gilead

DCF Valuation

(\$ millions except share data, fiscal year ending December 31)

	Historical					Projections				
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	\$ 8,385	\$ 9,703	\$ 11,202	\$ 24,890	\$ 32,639	\$ 31,150	\$ 28,950	\$ 29,000	\$ 29,641	\$ 30,649
% growth		16%	15%	122%	31%	-5%	-2%	0%	2%	3%
Less: COGS	\$ 2,124	\$ 2,471	\$ 2,859	\$ 3,788	\$ 4,011	\$ 4,672	\$ 4,921	\$ 5,510	\$ 6,225	\$ 7,049
Gross Profit	\$ 6,261	\$ 7,231	\$ 8,343	\$ 21,102	\$ 27,957	\$ 26,477	\$ 24,028	\$ 23,490	\$ 23,416	\$ 23,599
Gross Margin %	75%	75%	74%	85%	88%	85%	83%	81%	79%	77%
Less: Op Expenses										
SG&A	\$ 1,205	\$ 1,436	\$ 1,694	\$ 2,982	\$ 3,422	\$ 3,650	\$ 3,392	\$ 3,398	\$ 3,473	\$ 3,591
% of revenue	14%	15%	15%	12%	10%	12%	12%	12%	12%	12%
R&D	\$ 1,192	\$ 1,683	\$ 2,057	\$ 2,737	\$ 3,018	\$ 4,000	\$ 3,718	\$ 3,724	\$ 3,806	\$ 3,936
% of Revenue	14%	17%	18%	11%	9%	13%	13%	13%	13%	13%
Other	\$ -	\$ (4)	\$ -	\$ (15)	\$ (10)	\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating Expenses	\$ 2,397	\$ 3,115	\$ 3,751	\$ 5,704	\$ 6,430	\$ 7,650	\$ 7,110	\$ 7,122	\$ 7,279	\$ 7,527
FCF										
EBIT	\$ 3,864	\$ 4,117	\$ 4,592	\$ 15,398	\$ 21,527	\$ 18,827	\$ 16,918	\$ 16,368	\$ 16,137	\$ 16,072
Less: Taxes	\$ 862	\$ 1,040	\$ 1,150	\$ 2,800	\$ 3,553	\$ 3,765	\$ 3,468	\$ 3,437	\$ 3,469	\$ 3,536
% tax	22%	25%	25%	18%	17%	20%	21%	21%	22%	22%
EBIAT	\$ 3,002	\$ 3,077	\$ 3,442	\$ 12,598	\$ 17,974	\$ 15,062	\$ 13,450	\$ 12,931	\$ 12,667	\$ 12,537
Plus: D&A	\$ 392	\$ 278	\$ 345	\$ 1,050	\$ 1,262	\$ 1,174	\$ 1,091	\$ 1,093	\$ 1,117	\$ 1,155
% of Revenue	5%	3%	3%	4%	4%	4%	4%	4%	4%	4%
Less: CapEx	\$ 132	\$ 397	\$ 191	\$ 557	\$ 730	\$ 697	\$ 683	\$ 684	\$ 699	\$ 723
Less: Increase in NOWC	\$ 220	\$ 177	\$ (563)	\$ (518)	\$ 100	\$ (117)	\$ (117)	\$ (117)	\$ (117)	\$ (117)
Unlevered FCF	\$ 3,042	\$ 2,781	\$ 4,159	\$ 13,609	\$ 18,405	\$ 15,655	\$ 13,975	\$ 13,456	\$ 13,202	\$ 13,085
% growth		-9%	50%	227%	35%	-15%	-11%	-4%	-2%	-1%

Assumptions:

Discount	10%
Terminal Growth Rate	3%

Year	0	1	2	3	4	5	6
FCF	\$ 18,405	\$ 15,655	\$ 13,975	\$ 13,456	\$ 13,202	\$ 13,085	\$ 13,477
Disc FCF		\$ 14,232	\$ 11,549	\$ 10,109	\$ 9,017	\$ 8,125	\$ 7,608

Implied Equity Value and Share Price:

Sum of DFCF	\$ 60,640
Terminal Value	\$ 108,680
Enterprise Value	\$ 169,320
Less: Net Debt	\$ 4,028
Equity Value	\$ 165,292
Shares Outstanding	1354.64
Per Share Value	\$122.02
Trading at	\$ 98.99
Margin of Safety	23.3%

Sensitivity Analysis:

		WACC				
		8.5%	9.5%	10.0%	10.5%	11.0%
Growth Rate	2.0%	\$ 137	\$ 119	\$ 111	\$ 105	\$ 99
	2.5%	\$ 145	\$ 124	\$ 116	\$ 109	\$ 103
	3.0%	\$ 155	\$ 131	\$ 122	\$ 114	\$ 107
	3.5%	\$ 166	\$ 139	\$ 129	\$ 120	\$ 112
	4.0%	\$ 181	\$ 148	\$ 136	\$ 126	\$ 117

We derived our above valuation based on historical figures reported in Gilead's 10-K filings, guidance from Gilead's most recent investor conference, and assumptions weighing Gilead's growth opportunities and threats. In February of 2016, Gilead's management team stated that they expect overall revenues to fall within \$30 to \$31B. Based on Gilead's product growth, we estimate 2016 revenues to fall closer to \$31B and see that revenues will continue to fall in 2017 due to competitive HCV pressures. However, we see Gilead's product portfolio outside of HCV and HIV as an opportunity for growth, and we expect Gilead to continue to improve upon the efficacy of its HIV and HCV products in order to remain on top of the industry. For these reasons we have projected modest revenue growth rates after 2017 to account for continued demand of existing products and the likelihood of product expansions (such as developing Sofosbuvir HCV regimens for additional genotypes). In the event of the development of new breakthrough therapies, such as a cure for Hepatitis B, we would expect a much higher growth rate than forecasted. Looking at revenue alone, we decided we would provide realistic expectations for continued sales while not taking into account any unexpected drug breakthrough in our valuation.

Appendix A: Discounted Cash Flow Valuation Continued

We also assumed that gross margin would gradually decrease as competitive and political pricing pressures would reduce prices for Sovaldi and Harvoni over time. Gilead's management team provided guidance that GAAP gross margin is expected to be 85% for 2016, so using this number we gradually and incrementally reduced gross margin to 77% in 2020.

SG&A and R&D expenses were projected based on historical averages and insight from the most recent earnings call. These numbers were kept consistent over the five year projection period. Tax expense, on the other hand, is projected at 20% for 2016 based on guidance from Gilead's management, but we expect this number to gradually increase to similar levels among the biotech industry.

Our final assumptions included a 3% terminal growth rate and a 10% weighted average cost of capital. Given these estimates, we generated an equity value of \$165.3B for Gilead, which equals a target value of \$122.02 per share. With a stock price of \$98.99 on April 18th, we estimate a 23.3% margin of safety.

Overall, we believe our target value is slightly conservative in nature. Gilead has the potential to generate much higher rates of growth due to the strength of their product pipeline and their current product sales. However, given the market sentiment that Gilead will not be able to sustain HCV sales due to competition from Merck and Abbvie, we found it necessary to acknowledge this imposing threat to see how Gilead's valuation would be affected from a realistic loss in HCV sales (as seen in the 5% drop in revenues in 2016 and the 2% drop in revenues in 2017). Based on our results, we believe the market is overestimating the potential loss in HCV sales and that Gilead is currently undervalued with a target price of \$122.02.

Appendix B: Product Revenue

Gilead

Revenue by Product

In Millions of USD except Per Share	FY 2008		FY 2009		FY 2010		FY 2011		FY 2012		FY 2013		FY 2014		FY 2015		FY 2016 Est		FY 2017 Est		
12 Months Ending	12/31/2008	100.0%	12/31/2009	100.0%	12/31/2010	100.0%	12/31/2011	100.0%	12/31/2012	100.0%	12/31/2013	100.0%	12/31/2014	100.0%	12/31/2015	100.0%	12/31/2016	100.0%	12/31/2017	100.0%	
Revenue	5,335.8	100.0%	7,011.4	100.0%	7,949.4	100.0%	8,385.4	100.0%	9,702.5	100.0%	11,202.0	100.0%	24,890.0	100.0%	32,639.0	100.0%	31,149.5	100.0%	28,949.6	100.0%	
Product Sales	5,084.8	95.3%	6,469.3	92.3%	7,389.9	93.0%	8,102.4	96.6%	9,271.4	95.6%	10,804.0	96.4%	24,474.0	98.3%	32,151.0	98.5%	30,659.5	98.4%	28,449.6	98.3%	
Antiviral Products	4,672.4	87.6%	5,838.9	83.3%	6,537.0	82.2%	7,049.7	84.1%	8,141.8	83.9%	9,342.0	83.4%	22,791.0	91.6%	30,207.0	92.5%	28,972.2	93.0%	26,774.9	92.5%	
HCV Franchise	—	—	—	—	—	—	—	—	—	—	139.0	1.2%	12,410.0	49.9%	19,140.0	58.6%	17,606.6	56.5%	15,927.2	55.0%	
Harvoni	—	—	—	—	—	—	—	—	—	0.0	—	—	2,127.0	8.5%	13,864.0	42.5%	12,286.6	39.4%	10,218.3	35.3%	
Sovaldi	—	—	—	—	—	—	—	—	—	139.0	1.2%	10,283.0	41.3%	5,276.0	16.2%	4,903.9	15.7%	3,384.4	11.7%		
HIV+Other Antiviral	3,679.1	87.6%	5,838.9	83.3%	6,537.0	82.2%	7,049.7	84.1%	8,141.8	83.9%	9,203.0	82.2%	10,381.0	41.7%	11,067.0	33.9%	11,365.6	36.5%	10,847.8	37.5%	
Truvada	2,106.7	39.5%	2,489.7	35.5%	2,649.9	33.3%	2,875.1	34.3%	3,181.1	32.8%	3,136.0	28.0%	3,340.0	13.4%	3,459.0	10.6%	3,489.5	11.2%	3,073.5	10.6%	
Atripla	1,572.5	29.5%	2,382.1	34.0%	2,926.6	36.8%	3,224.5	38.5%	3,574.5	36.8%	3,648.0	32.6%	3,470.0	13.9%	3,134.0	9.6%	2,833.8	9.1%	2,480.4	8.6%	
Stribild	—	—	—	—	—	—	—	—	57.5	0.6%	539.0	4.8%	1,197.0	4.8%	1,825.0	5.6%	1,737.1	5.6%	1,466.8	5.1%	
Complera	—	—	—	—	—	—	38.7	0.5%	342.2	3.5%	810.0	7.2%	1,228.0	4.9%	1,427.0	4.4%	1,489.1	4.8%	1,334.6	4.6%	
Viread	621.2	11.6%	667.5	9.5%	732.2	9.2%	737.9	8.8%	848.7	8.7%	959.0	8.6%	1,058.0	4.3%	1,108.0	3.4%	1,120.0	3.6%	1,013.5	3.5%	
Other Antiviral	—	—	—	—	—	—	—	—	—	111.0	1.0%	88.0	0.4%	69.0	0.2%	—	0.0%	—	0.0%		
Genvoya	—	—	—	—	—	—	—	—	—	—	—	—	—	45.0	0.1%	—	—	661.7	2.1%	1,447.1	5.0%
Emtriva	31.1	0.6%	28.0	0.4%	27.7	0.3%	28.8	0.3%	29.4	0.3%	—	—	—	—	—	—	—	23.1	0.1%	21.5	0.1%
Hepsera	341.0	6.4%	271.6	3.9%	200.6	2.5%	144.7	1.7%	108.3	1.1%	—	—	—	—	—	—	—	11.3	0.0%	10.3	0.0%
Other Products	412.4	7.7%	630.4	9.0%	852.9	10.7%	1,052.6	12.6%	1,256.6	13.0%	1,462.0	13.1%	1,683.0	6.8%	1,944.0	6.0%	1,687.3	5.4%	1,674.7	5.8%	
Letairis	112.9	2.1%	183.9	2.6%	240.3	3.0%	293.4	3.5%	410.1	4.2%	520.0	4.6%	595.0	2.4%	700.0	2.1%	771.6	2.5%	833.8	2.9%	
Ranexa	—	—	131.1	1.9%	239.8	3.0%	320.0	3.8%	372.9	3.8%	449.0	4.0%	510.0	2.0%	588.0	1.8%	655.9	2.1%	692.9	2.4%	
Ambisome	289.7	5.4%	298.6	4.3%	305.9	3.8%	330.2	3.9%	346.6	3.6%	352.0	3.1%	388.0	1.6%	350.0	1.1%	259.7	0.8%	148.1	0.5%	
Other Product	9.9	0.2%	16.8	0.2%	19.5	0.2%	31.6	0.4%	126.9	1.3%	141.0	1.3%	167.0	0.7%	174.0	0.5%	—	0.0%	—	0.0%	
Zydelig	—	—	—	—	—	—	—	—	—	0.0	—	—	23.0	0.1%	132.0	0.4%	—	0.0%	—	0.0%	
Cayston	—	—	—	—	47.5	0.6%	77.5	0.9%	—	—	—	—	—	—	—	—	—	94.3	0.3%	100.8	0.3%
Non Product Revenue	283.7	4.7%	542.1	7.7%	559.5	7.0%	283.0	3.4%	304.1	3.1%	398.0	3.6%	416.0	1.7%	488.0	1.5%	490.0	1.6%	500.0	1.7%	
Royalty Revenue	218.2	4.1%	491.8	7.0%	546.0	6.9%	268.8	3.2%	304.1	3.1%	398.0	3.6%	416.0	1.7%	488.0	1.5%	490.0	1.6%	500.0	1.7%	
Contract and Other Revenue	32.8	0.6%	50.3	0.7%	13.5	0.2%	14.2	0.2%	—	—	—	—	—	—	—	—	—	—	—	—	
Milestone Payments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Other	32.8	0.6%	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	

Source: Bloomberg

Appendix C: Revenue by Geography

Gilead

Revenue by Geography

In Millions of USD except Per Share 12 Months Ending	FY 2006 12/31/2006	FY 2007 12/31/2007	FY 2008 12/31/2008	FY 2009 12/31/2009	FY 2010 12/31/2010	FY 2011 12/31/2011	FY 2012 12/31/2012	FY 2013 12/31/2013	FY 2014 12/31/2014	FY 2015 12/31/2015
Revenue	3,026.1 100.0%	4,230.0 100.0%	5,335.8 100.0%	7,011.4 100.0%	7,949.4 100.0%	8,385.4 100.0%	9,702.5 100.0%	11,202.0 100.0%	24,890.0 100.0%	32,639.0 100.0%
United States	1,467.3 48.5%	2,166.1 51.2%	2,857.5 53.6%	3,599.3 51.3%	4,224.0 53.1%	4,608.3 55.0%	5,592.0 57.6%	6,695.0 59.8%	18,182.0 73.0%	21,234.0 65.1%
Outside of the United States	1,558.8 51.5%	2,064.0 48.8%	2,478.3 46.4%	3,412.1 48.7%	3,725.4 46.9%	3,777.0 45.0%	4,110.5 42.4%	4,507.0 40.2%	6,708.0 27.0%	11,405.0 34.9%
Other European countries	173.0 5.7%	213.5 5.0%	346.7 6.5%	603.1 8.6%	665.2 8.4%	578.8 6.9%	3,332.8 34.4%	3,614.0 32.3%	5,442.0 21.9%	7,528.0 23.1%
Other countries	171.7 5.7%	262.1 6.2%	369.1 6.9%	431.5 6.2%	554.6 7.0%	652.3 7.8%	777.7 8.0%	893.0 8.0%	1,266.0 5.1%	3,877.0 11.9%
Switzerland	382.4 12.6%	442.5 10.5%	193.3 3.6%	448.2 6.4%	458.6 5.8%	179.6 2.1%	—	—	—	—
Germany	126.4 4.2%	120.5 2.8%	242.2 4.5%	293.1 4.2%	275.0 3.5%	370.4 4.4%	—	—	—	—
Italy	149.4 4.9%	206.9 4.9%	277.4 5.2%	323.7 4.6%	345.2 4.3%	392.1 4.7%	—	—	—	—
Spain	169.8 5.6%	246.3 5.8%	356.6 6.7%	451.1 6.4%	456.6 5.7%	498.2 5.9%	—	—	—	—
United Kingdom	157.4 5.2%	223.1 5.3%	297.3 5.6%	393.0 5.6%	450.4 5.7%	518.4 6.2%	—	—	—	—
France	228.8 7.6%	349.3 8.3%	395.7 7.4%	468.3 6.7%	519.7 6.5%	587.3 7.0%	—	—	—	—

Source: Bloomberg

Appendix D: Income Statement

Gilead

Income Statement

In Millions of USD except Per S	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Last 12M	2016 Est	2017 Est
12 Months Ending	2/31/2009	2/31/2010	2/31/2011	2/31/2012	2/31/2013	2/31/2014	2/31/2015	2/31/2015	2/31/2016	2/31/2017
Revenue	7,011	7,349	8,385	9,703	11,202	24,890	32,639	32,639	31,707	30,914
+ Sales & Services Revenue	6,463.3	7,383.9	8,102.4	9,398.4	10,804.0	24,474.0	32,151.0	32,151.0		
+ Other Revenue	542.1	553.5	283.0	304.1	398.0	416.0	488.0	488.0		
- Cost of Revenue	1,595.6	1,863.9	2,124.4	2,471.4	2,859.0	3,788.0	4,006.0	4,006.0		
+ Cost of Goods & Services	1,595.6	1,863.9	2,124.4	2,471.4	2,859.0	3,788.0	4,006.0	4,006.0		
Gross Profit	5,415.8	6,079.5	6,261.0	7,231.2	8,343.0	21,102.0	28,633.0	28,633.0	28,345.8	27,842.9
+ Other Operating Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
- Operating Expenses	1,886.6	2,117.3	2,471.1	3,221.0	3,819.0	5,837.0	6,440.0	6,440.0		
+ Selling, General & Admin	946.7	1,044.4	1,242.0	1,461.0	1,639.0	2,983.0	3,426.0	3,426.0		
+ Research & Development	939.9	1,072.9	1,229.2	1,759.9	2,120.0	2,854.0	3,014.0	3,014.0		
+ Other Operating Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Operating Income (Loss)	3,529.2	3,962.2	3,789.8	4,010.2	4,524.0	15,265.0	22,193.0	22,193.0	21,883.9	20,505.5
- Non-Operating (Income) Loss	27.3	48.7	138.8	338.2	316.0	409.0	534.0	534.0		
+ Interest Expense, Net	—	—	—	—	—	—	688.0	688.0		
+ Interest Expense	70	109	205	361	307	412	688	688		
- Interest Income	—	—	—	—	—	—	0	0		
+ Foreign Exch (Gain) Loss	16.4	3.7	21.3	10.7	—	0.0	0.0	0.0		
+ (Income) Loss from Affiliates	0.0	0.0	0.0	0.0	0.0	0.0	—	—		
+ Other Non-Op (Income) Loss	-58.8	-64.0	-87.9	26.6	9.0	-3.0	-154.0	-154.0		
Pre-tax Income	3,502.0	3,913.5	3,651.0	3,812.0	4,208.0	14,856.0	21,659.0	21,659.0	21,446.9	19,890.5
- Income Tax Expense (Benefit)	876.4	1,023.8	861.9	1,038.4	1,151.0	2,797.0	3,553.0	3,553.0		
+ Current Income Tax	916.0	1,035.7	807.0	1,081.1	1,264.0	3,047.0	3,938.0			
+ Deferred Income Tax	-39.6	-11.9	55.0	-42.7	-113.0	-250.0	-385.0			
+ Tax Allowance/Credit	0.0	0.0	0.0	0.0	0.0	0.0	—	—		
Income (Loss) from Cont Ops	2,625.6	2,889.7	2,789.1	2,573.6	3,057.0	12,059.0	18,106.0	18,106.0	15,751.4	15,543.1
- Net Extraordinary Losses (Gains)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
+ Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
+ XO & Accounting Changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Income (Loss) Incl. MI	2,625.6	2,889.7	2,789.1	2,573.6	3,057.0	12,059.0	18,106.0	18,106.0		
- Minority Interest	-10.2	-11.5	-14.6	-18.0	-18.0	-42.0	-2.0	-2.0		
Net Income, GAAP	2,635.8	2,901.3	2,803.6	2,591.6	3,075.0	12,101.0	18,108.0	18,108.0	15,751.4	15,543.1
- Preferred Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
- Other Adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Net Income Avail to Common, G	2,636	2,901	2,804	2,592	3,075	12,101	18,108	18,108	17,268	16,625
Net Income Avail to Common, Adj	2,677.1	3,011.0	2,821.5	2,740.7	3,144.0	12,203.0	18,113.0	18,109.0	17,267.8	16,625.2
Net Abnormal Losses (Gains)	41.3	109.7	17.9	143.1	69.0	102.0	5.0	1.0		
Net Extraordinary Losses (Gains)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Basic Weighted Avg Shares	1,809.2	1,712.1	1,543.8	1,514.6	1,529.0	1,522.0	1,464.0	1,436.0		
Basic EPS, GAAP	1.5	1.7	1.8	1.7	2.0	8.0	12.4	12.4	11.3	11.7
Basic EPS from Cont Ops	1.5	1.7	1.8	1.7	2.0	8.0	12.4	12.4	11.3	11.7
Basic EPS from Cont Ops, Adjusted	1.5	1.8	1.8	1.8	2.1	8.0	12.4	12.4	12.3	12.4
Diluted Weighted Avg Shares	1,868.2	1,746.8	1,580.2	1,582.5	1,635.0	1,647.0	1,521.0	1,472.0		
Diluted EPS, GAAP	1.4	1.7	1.8	1.6	1.8	7.4	11.9	11.9	11.3	11.7
Diluted EPS from Cont Ops	1	2	2	2	2	7	12	12	11	12
Diluted EPS from Cont Ops, Adjusted	1.4	1.7	1.8	1.7	1.9	7.4	11.9	11.9	12.3	12.4
Reference Items										
Accounting Standard	US GAAP	US GAAP	US GAAP	US GAAP	US GAAP	US GAAP	US GAAP			
EBITDA	3,742.2	4,227.7	4,092.1	4,288.4	4,869.0	16,315.0	23,291.0	23,291.0	22,471.0	21,168.5
EBITDA Margin (T12M)	53.4	53.2	48.8	44.2	43.5	65.5	71.4	71.4	70.9	68.5
EBITA	3,678	4,160	4,020	4,206	4,766	16,190	23,130	23,014		
EBIT	3,529	3,962	3,790	4,010	4,524	15,265	22,193	22,193	21,884	20,506
Gross Margin	77.2	76.5	74.7	74.5	74.5	84.8	87.7	87.7	89.4	90.1
Operating Margin	50.34	49.84	45.20	41.33	40.39	61.33	68.00	68.00	69.02	66.33
Profit Margin	37.6	36.5	33.4	26.7	27.5	48.6	55.5	55.5	54.5	53.8
Sales per Employee	1,820,192.9	1,987,355.0	1,863,418.9	1,940,503.4	1,836,393.4	3,555,714.3	4,079,875.0			
Dividends per Share	0.0	0.0	0.0	0.0	0.0	0.0	1.3	1.3	1.8	2.1
Total Cash Common Dividends	0.0	0.0	0.0	0.0	0.0	0.0	1,890.0	1,890.0		
Depreciation Expense	64.6	67.2	72.2	82.8	103.0	125.0	161.0	276.9		
Rental Expense	37.30	41.70	48.10	53.90	53.60	66.00	78.00			

Source: Bloomberg

Appendix E: Balance Sheet

Gilead

Balance Sheet

In Millions of USD except Per 12 Months Ending	FT 2006	FT 2007	FT 2008	FT 2009	FT 2010	FT 2011	FT 2012	FT 2013	FT 2014	FT 2015
	3/31/2006	3/31/2007	3/31/2008	3/31/2009	3/31/2010	3/31/2011	3/31/2012	3/31/2013	3/31/2014	3/31/2015
Total Assets	4,086.0	5,834.7	6,936.8	9,698.6	11,592.6	17,303.1	21,239.8	22,579.0	34,664.0	51,839.0
Total Assets										
+ Cash, Cash Equivalents & STI	22.9%	20.1%	25.8%	17.1%	18.1%	57.2%	8.8%	9.4%	29.2%	28.2%
+ Cash & Cash Equivalents	20.0%	16.6%	21.0%	13.1%	7.8%	57.1%	8.5%	9.4%	28.9%	24.8%
+ ST Investments	3.0%	3.5%	4.8%	4.0%	10.3%	0.1%	0.3%	0.1%	0.3%	3.4%
+ Accounts & Notes Receiv	14.9%	13.6%	14.8%	14.3%	14.0%	11.3%	8.2%	9.7%	13.4%	11.3%
+ Accounts Receivable, Net	14.9%	13.6%	14.8%	14.3%	14.0%	11.3%	8.2%	9.7%	13.4%	11.3%
+ Notes Receivable, Net	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
+ Inventories	13.8%	10.3%	13.4%	10.8%	10.4%	8.0%	8.2%	7.5%	4.0%	3.8%
+ Raw Materials	8.8%	4.2%	7.3%	3.4%	3.5%	4.0%	3.9%	4.7%	2.6%	2.6%
+ Work In Process	1.1%	2.3%	2.0%	4.0%	3.9%	2.7%	1.7%	1.8%	1.4%	1.0%
+ Finished Goods	3.8%	3.7%	4.1%	3.4%	2.9%	1.3%	2.6%	2.6%	1.3%	1.6%
+ Other Inventory	—	—	0.0%	0.0%	0.0%	0.0%	0.0%	-1.6%	-1.4%	-1.5%
+ Other ST Assets	7.8%	7.9%	7.7%	7.4%	6.8%	3.9%	3.8%	4.4%	4.5%	4.5%
+ Prepaid Expenses	—	—	—	3.6%	3.3%	2.0%	2.1%	2.5%	1.7%	2.0%
+ Derivative & Hedging Assets	—	—	—	0.0%	0.5%	0.4%	0.1%	0.1%	0.9%	0.4%
+ Deferred Tax Assets	—	—	—	3.0%	2.4%	1.2%	1.2%	1.5%	1.5%	1.6%
+ Misc ST Assets	—	—	—	0.7%	0.5%	0.3%	0.3%	0.3%	0.5%	0.6%
Total Current Assets	59.5%	51.9%	61.7%	49.6%	49.2%	88.4%	29.0%	31.0%	51.1%	47.8%
+ Property, Plant & Equip, Net	8.8%	7.7%	7.6%	7.2%	6.0%	4.5%	5.2%	5.2%	4.8%	4.4%
+ Property, Plant & Equip	12.8%	11.1%	11.2%	10.4%	8.8%	6.5%	7.2%	7.4%	6.6%	5.9%
- Accumulated Depreciation	3.9%	3.5%	3.6%	3.1%	2.7%	2.1%	2.0%	2.2%	1.8%	1.5%
+ LT Investments & Receivables	11.1%	26.6%	20.9%	23.2%	27.8%	0.4%	3.4%	1.9%	4.6%	22.4%
+ LT Marketable Securities	11.1%	26.6%	20.9%	23.2%	27.8%	0.4%	3.4%	1.9%	4.6%	22.4%
+ Other LT Assets	20.6%	13.9%	9.8%	20.0%	16.9%	14.7%	62.4%	61.9%	39.5%	25.5%
+ Total Intangible Assets	—	—	1.8%	15.7%	12.3%	11.9%	60.3%	57.9%	35.3%	22.0%
+ Goodwill	—	—	1.8%	15.7%	12.3%	11.9%	60.3%	57.9%	34.8%	21.3%
+ Other Intangible Assets	—	—	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%	0.7%
+ Prepaid Expenses	—	—	—	2.3%	1.8%	1.0%	0.8%	0.9%	1.3%	0.8%
+ Deferred Tax Assets	—	—	—	1.0%	1.3%	0.8%	0.6%	0.8%	0.7%	0.6%
+ Derivative & Hedging Assets	—	—	—	0.0%	0.0%	0.1%	0.0%	0.0%	0.1%	0.0%
+ Misc LT Assets	20.6%	13.9%	8.0%	0.9%	1.5%	0.8%	0.7%	2.3%	2.0%	2.0%
Total Noncurrent Assets	40.5%	48.1%	38.3%	50.4%	50.8%	11.6%	71.0%	69.0%	48.9%	52.2%
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities & Shareholders' Equity										
+ Payables & Accruals	9.0%	5.0%	8.7%	18.0%	14.8%	14.1%	13.7%	15.1%	14.8%	16.3%
+ Accounts Payable	9.0%	5.0%	8.7%	8.4%	6.9%	7.0%	6.2%	5.1%	2.8%	2.3%
+ Accrued Taxes	—	—	—	1.7%	0.0%	0.2%	0.1%	0.0%	0.3%	—
+ Interest & Dividend Payable	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	—
+ Other Payables & Accruals	—	—	—	7.9%	7.9%	6.9%	7.4%	9.9%	11.8%	14.0%
+ ST Debt	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	5.5%	11.9%	1.4%	1.9%
+ ST Borrowing	—	0.0%	—	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
+ ST Capital Lease	—	0.0%	—	—	—	—	0.0%	0.0%	0.0%	0.0%
+ Current Portion of LT Debt	—	—	—	—	—	—	5.5%	11.9%	1.4%	1.9%
+ Other ST Liabilities	9.3%	7.6%	8.9%	1.3%	6.5%	0.4%	0.7%	1.3%	0.4%	0.9%
+ Deferred Revenue	—	—	—	1.3%	0.9%	0.4%	0.5%	0.5%	0.4%	0.8%
+ Derivative & Hedging	—	—	—	0.0%	0.3%	0.0%	0.3%	0.8%	0.0%	0.1%
+ Misc ST Liabilities	9.3%	7.6%	8.9%	0.1%	5.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Current Liabilities	18.7%	12.6%	17.6%	19.3%	21.3%	14.5%	28.0%	28.4%	16.6%	19.1%
+ LT Debt	31.8%	22.3%	15.8%	11.9%	24.5%	44.0%	33.2%	17.4%	34.4%	40.9%
+ LT Borrowing	—	22.3%	—	11.9%	24.5%	44.0%	33.2%	17.4%	34.4%	40.9%
+ LT Capital Lease	—	0.0%	—	—	—	—	0.0%	0.0%	0.0%	0.0%
+ Other LT Liabilities	3.7%	3.4%	2.2%	1.7%	1.4%	1.8%	1.9%	2.2%	3.4%	3.2%
+ Accrued Liabilities	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
+ Pension Liabilities	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
+ Provisions	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	—
+ Other Part-Not Bookable	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	—
+ Deferred Revenue	—	—	—	0.4%	0.3%	0.2%	0.1%	0.0%	0.0%	0.0%
+ Deferred Tax Liabilities	—	—	—	—	—	—	0.0%	0.4%	0.1%	—
+ Derivative & Hedging	—	—	—	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%
+ Misc LT Liabilities	3.7%	3.4%	2.2%	1.3%	1.1%	1.6%	1.7%	1.7%	3.2%	3.1%
Total Noncurrent Liabilities	35.6%	25.7%	18.0%	13.6%	25.9%	45.8%	35.1%	19.6%	37.7%	44.0%
Total Liabilities	54.3%	38.3%	35.6%	32.9%	47.2%	60.3%	55.1%	48.0%	54.4%	63.1%
+ Preferred Equity	—	—	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
+ Share Capital & APIC	66.2%	55.1%	56.7%	45.1%	40.1%	28.3%	26.6%	23.9%	6.9%	0.9%
+ Common Stock	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
+ Additional Paid in Capital	—	—	—	45.1%	40.1%	28.3%	26.6%	23.9%	6.9%	0.9%
- Treasury Stock	—	—	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
+ Retained Earnings	-21.8%	4.3%	4.3%	20.6%	10.2%	10.3%	17.4%	27.0%	38.7%	34.7%
+ Other Equity	0.1%	-0.1%	0.6%	-0.1%	0.3%	0.3%	-0.2%	-0.5%	0.9%	0.2%
Equity Before Minority Inter.	44.4%	59.3%	61.6%	65.6%	50.6%	39.9%	43.8%	50.4%	44.5%	35.8%
+ Minority Interest	1.3%	2.4%	2.8%	1.4%	2.2%	0.7%	1.1%	1.7%	1.1%	1.1%
Total Equity	45.7%	61.7%	64.4%	67.1%	52.8%	39.7%	44.9%	52.0%	45.6%	36.9%
Total Liabilities & Equity	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Bloomberg

Appendix F: Cash Flow Statement

Gilead

Cash Flow Statement

In Millions of USD except Per \$ 12 Months Ending	FY 2007 2/31/2007	FY 2008 2/31/2008	FY 2009 2/31/2009	FY 2010 2/31/2010	FY 2011 2/31/2011	FY 2012 2/31/2012	FY 2013 2/31/2013	FY 2014 2/31/2014	FY 2015 2/31/2015	Last 12M 2/31/2015
Cash from Operating Activities										
+ Net Income	1,615.3	2,011.2	2,635.8	2,901.3	2,803.6	2,591.6	3,075.0	12,101.0	18,108.0	18,108.0
+ Depreciation & Amortization	51.3	102.5	212.9	265.5	302.2	278.2	345.0	1,050.0	1,098.0	1,098.0
+ Non-Cash Items	431.2	219.2	249.7	347.6	312.8	217.3	247.0	185.0	-36.0	-36.0
+ Stock-Based Compensation	—	170.9	188.9	200.5	188.8	207.1	258.0	362.0	383.0	383.0
+ Deferred Income Taxes	133.1	-4.1	-42.0	12.2	64.1	-39.4	-98.0	-236.0	-393.0	-393.0
+ Other Non-Cash Adj	298.1	52.3	102.9	134.9	60.0	49.6	87.0	59.0	-26.0	-26.0
+ Chg in Non-Cash Work Cap	-332.4	-128.1	-18.4	-680.4	220.3	107.6	-562.0	-518.0	1,159.0	1,159.0
+ (Inc) Dec in Accts Receiv	-138.0	-257.2	-356.5	-348.9	-375.7	198.0	-315.0	-2,578.0	-1,397.0	-1,397.0
+ (Inc) Dec in Inventories	-34.6	-330.7	-75.3	-161.2	-200.8	-349.9	-343.0	143.0	-855.0	-855.0
+ Inc (Dec) in Accts Payable	-77.5	312.6	203.6	-4.5	428.9	117.5	-98.0	-283.0	226.0	226.0
+ Inc (Dec) in Other	-82.2	147.2	209.7	-165.9	367.9	142.0	194.0	2,206.0	3,185.0	3,185.0
+ Net Cash From Disc Ops	—	—	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash from Operating Activities	1,765.4	2,204.7	3,080.1	2,833.9	3,639.0	3,194.7	3,105.0	12,818.0	20,329.0	20,329.0
Cash from Investing Activities										
+ Change in Fixed & Intang	-78.6	-115.0	-230.1	-61.9	-131.9	-397.0	-190.0	-557.0	-747.0	-747.0
+ Disp in Fixed & Intang	—	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Disp of Fixed Prod Assets	—	—	—	—	—	—	—	—	0.0	0.0
+ Disp of Intangible Assets	—	—	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Acq of Fixed & Intang	-78.6	-115.0	-230.1	-61.9	-131.9	-397.0	-190.0	-557.0	-747.0	-747.0
+ Acq of Fixed Prod Assets	—	—	-230.1	-61.9	-131.9	-397.0	-190.0	-557.0	-747.0	-747.0
+ Acq of Intangible Assets	—	—	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Net Change in LT Investment	-1,172.4	-53.0	-738.0	-1,784.9	4,310.4	-672.4	315.0	-1,248.0	-17,239.0	—
+ Dec in LT Investment	2,329.7	3,220.1	1,876.0	3,717.8	9,438.1	572.5	572.0	859.0	—	—
+ Inc in LT Investment	-3,502.1	-3,273.1	-2,614.0	-5,502.7	-5,127.8	-1,244.9	-257.0	-2,107.0	-17,239.0	—
+ Net Cash From Acq & Div	—	—	-1,247.8	-91.0	-588.6	-10,751.6	-379.0	0.0	0.0	0.0
+ Cash from Divestitures	—	—	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Cash for Acq of Subs	—	—	-1,247.8	-91.0	-588.6	-10,751.6	-379.0	0.0	0.0	0.0
+ Cash for JVs	—	—	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Other Investing Activities	-51.4	-10.9	0.0	0.0	0.0	-25.0	0.0	-18.0	5,511.0	5,511.0
+ Net Cash From Disc Ops	—	—	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash from Investing Activities	-1,302.5	-178.8	-2,215.9	-1,937.8	3,589.8	-11,846.1	-254.0	-1,823.0	-12,475.0	-12,475.0
Cash from Financing Activities										
+ Dividends Paid	—	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1,874.0	-1,874.0
+ Cash From (Repayment) Debt	-99.5	-4.3	-311.1	2,094.1	4,009.2	2,356.4	-1,666.0	5,670.0	3,689.0	3,734.0
+ Cash From (Repay) ST Debt	—	—	—	0.0	—	213.9	—	—	—	—
+ Cash From LT Debt	—	—	400.0	2,462.5	4,660.7	2,144.7	0.0	7,906.0	—	—
+ Repayments of LT Debt	—	—	-711.1	-368.4	-651.5	-2.2	-1,666.0	-2,236.0	—	—
+ Cash (Repurchase) of Equity	-167.8	-1,531.5	-695.6	-3,564.3	-2,130.5	-86.5	10.0	-4,536.0	-9,098.0	-9,098.0
+ Increase in Capital Stock	319.7	438.1	302.9	458.3	252.6	580.5	592.0	813.0	904.0	904.0
+ Decrease in Capital Stock	-487.5	-1,969.6	-998.5	-4,022.6	-2,383.1	-667.0	-582.0	-5,349.0	-10,002.0	-10,002.0
+ Other Financing Activities	—	—	-44.8	131.5	-115.0	-1,706.5	-888.0	-4,159.0	-3,680.0	-3,680.0
+ Net Cash From Disc Ops	—	—	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash from Financing Activities	-267.3	-1,535.8	-1,051.4	-1,338.7	1,763.6	563.3	-2,544.0	-3,025.0	-4,963.0	-4,963.0
Effect of Foreign Exchange Rates	—	—	0.9	77.5	-16.5	7.9	2.0	-56.0	-67.0	-67.0
Net Changes in Cash	152.1	491.2	-186.3	-365.1	8,975.9	-8,080.1	309.0	7,914.0	2,824.0	2,824.0
Cash Paid for Taxes	565.2	495.5	746.2	1,129.6	621.0	1,101.2	1,051.0	2,060.0	3,137.0	
Cash Paid for Interest	7.5	7.4	9.0	15.7	62.2	249.4	238.0	330.0	529.0	

Source: Bloomberg

Appendix G: Additional Figures

Figure 12- Patent Expiration Dates

Products	Patent Expiration	
	U.S.	E.U.
Vistide	2010	2012
Hepsera	2014	2016
AmBisome	2016	2008
Macugen	2017	2017
Tamiflu	2017	2016
Letairis	2018	2020
Viread	2018*	2018
Ranexa	2019**	2023
Atripla	2021	2018
Cayston	2021	2021
Emtriva	2021	2016
Truvada	2021	2018
Lexiscan	2022	2025
Complera/Eviplera	2023	2022
Vitekta	***	2023
Sovaldi	2029	(2028)
Stribild	2029	(2027)
Tybost	***	(2027)

Dates in parentheses reflect the estimated expiration date of patents which may issue from currently pending applications. The estimated expiration dates do not include any potential additional exclusivity (e.g., patent term extension, supplementary protection certificates or pediatric exclusivity) that is not yet granted.

Figure 13- Global Prevalence of HCV

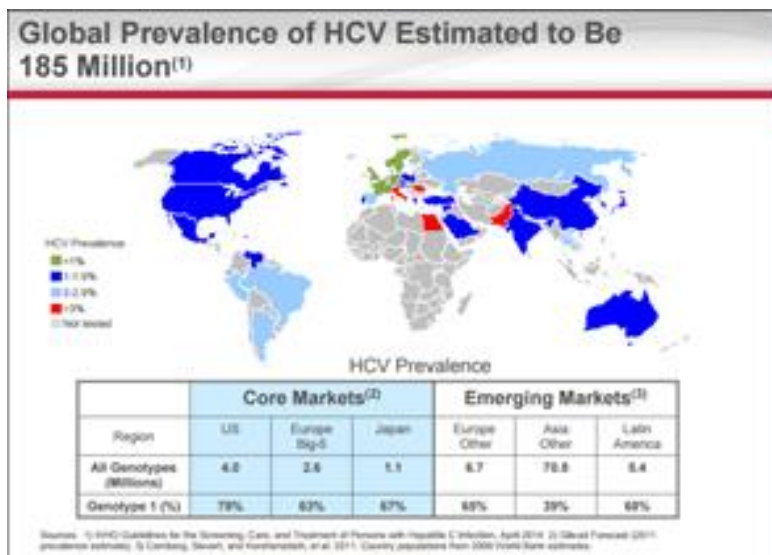
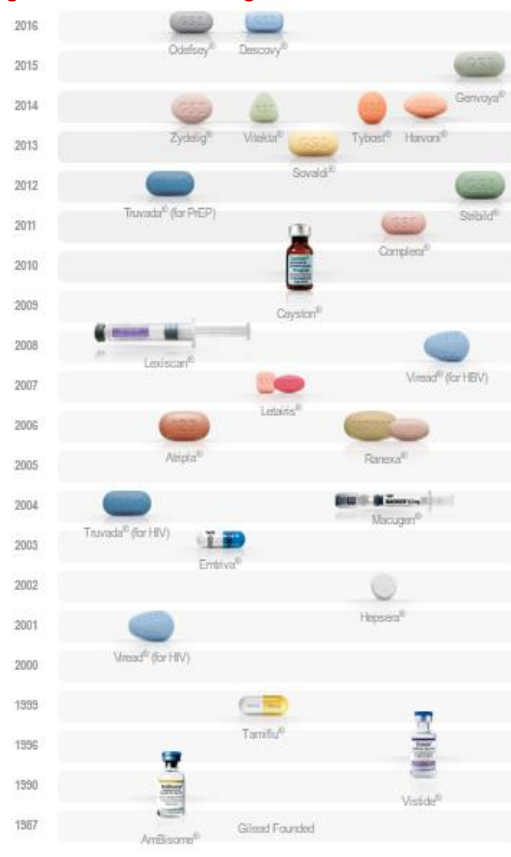


Figure 14- Timeline of Drugs



Appendix H: Sources

Bloomberg

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