

Gilead Sciences

Lowering Numbers; Why It's Still a Buy

Conclusions on 4Q update: Surprises in both directions; net: Lowering ests

Despite a 10% beat on 4Q EPS and the *upside surprise* of a new \$15bn share buyback and Gilead's first-ever dividend, the focus of Gilead's 4Q was on the *downside surprise* of guiding to a 46% gross-to-net adjustment for HCV sales in 2015 (vs. 22% at YE14). Clearly this negatively affects sales and market size forecasts, both of which we move lower in our model. We further think the discounting will impact not only GILD shares, but also represents a *headline negative for the sector* (though several names are less exposed to price erosion). That said, it's really not the end of the world for GILD numbers, since [1] we ultimately got to that level of HCV discounting (just not until the outer years), and [2] this level of discounting occurs in other large segments as well, such as HIV and multiple sclerosis. The offset to the lower value of the HCV market is the value creation from capital allocation. Although we expect a hit to the stock, we maintain our Buy rating, as our DCF is still supportive; the multiple is already cheaper than all other biotechs / pharma, and pipeline and M&A could drive multiple expansion.

Impact of wider gross-to-net

[1] Lower HCV market value. The 46% gross-to-net is about twice as wide as we expected, and lowers our sales and market size estimates (peak global HCV market size: \$24bn, from \$28bn). **[2] Volumes are going higher...** As expected the volumes compensate for lower pricing near term. Arguably the market penetration will be higher over time because it will be more affordable to treat patients. **[3] ...but the patients are being treated sooner.** This is good: more patients are captured by Gilead ahead of further competition, and the time value of money says sooner is better than later. However, out year ests go lower as the patient pool is depleted faster.

Impact to our model: Lowering 2015e EPS by 4%, but numbers more concrete

We increased the gross-to-net in HCV to 46% in 2015e, and increasing thereafter. This lowers our sales and EPS estimates, though the new \$15bn repo and dividend helps offset.

Valuation: Buy; Lowering PT to \$120 (from \$125) based on 11.4x our 2016e EPS

GILD currently trades at 9.7x our 2016 EPS estimate, vs. next lowest biotech (14x) and pharma (12x).

Equities

Americas
Biotechnology

12-month rating **Buy**

12m price target **US\$120.00**
Prior: **US\$125.00**

Price **US\$107.18**

RIC: GILD.O BBG: GILD US

Trading data and key metrics

52-wk range	US\$114.22-65.48
Market cap.	US\$171bn
Shares o/s	1,596m (COM)
Free float	99%
Avg. daily volume ('000)	17,016
Avg. daily value (m)	US\$1,713.4
Common s/h equity (12/15E)	US\$15.4bn
P/BV (12/15E)	10.3x
Net debt / EBITDA (12/15E)	NM

EPS (UBS, diluted) (US\$)

	12/15E			
	From	To	% ch	Cons.
Q1E	2.28	2.27	-0.61	2.38
Q2E	2.40	2.34	-2.53	2.47
Q3E	2.46	2.35	-4.33	2.50
Q4E	2.56	2.34	-8.65	2.54
12/15E	9.71	9.31	-4.11	9.79
12/16E	11.16	10.50	-5.90	10.97
12/17E	12.20	11.25	-7.81	11.59

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Highlights (US\$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	9,398	10,804	24,474	27,171	28,917	29,514	28,011	26,583
EBIT (UBS)	4,580	4,989	16,584	18,357	19,716	20,352	19,777	19,124
Net earnings (UBS)	3,084	3,465	13,312	14,548	15,706	16,269	15,915	15,381
EPS (UBS, diluted) (US\$)	1.95	2.06	8.10	9.31	10.50	11.25	11.48	11.60
DPS (US\$)	0.00	0.00	0.00	1.29	1.72	1.72	1.72	1.72
Net (debt) / cash	(6,362)	(4,504)	(3,335)	10,798	20,078	30,185	40,420	50,273
Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
EBIT margin %	48.7	46.2	67.8	67.6	68.2	69.0	70.6	71.9
ROIC (EBIT) %	46.5	32.1	102.1	176.7	455.7	447.1	437.8	442.3
EV/EBITDA (core) x	9.2	18.3	9.0	9.3	8.7	8.4	8.7	9.1
P/E (UBS, diluted) x	14.5	27.3	11.1	11.5	10.2	9.5	9.3	9.2
Equity FCF (UBS) yield %	6.6	3.2	6.8	7.7	8.4	9.0	9.1	8.5
Net dividend yield %	0.0	0.0	0.0	1.2	1.6	1.6	1.6	1.6

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US\$107.18 on 03 Feb 2015 19:41 EST

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Investment Thesis

Gilead Sciences

Investment case

We rate GILD shares BUY, on the basis of 1) several pipeline catalysts over the next 12 months, 2) potential upside to 2015-16 estimates, which have been reset lower, and 3) the lowest P/E multiple on 2016E EPS. Key to upside to 2015 numbers is the launch of Harvoni in hepatitis C, which should drive share outperformance as we expect GILD's HCV regimens to be both the first- and best in a very large market with double-digit-billion dollar potential. Additionally, we see significant pipeline opportunities with simtuzumab in fibrosis, and in the TAF program in HIV that provides opportunities to extend the life of the franchise beyond the core tenofovir patents expire in 2018. Further, we view oncology as an underappreciated program.

Upside scenario

Our upside scenario of \$142 reflects a higher multiple (14x, still at a discount to the group) to reflect a bullish outlook on the pipeline and cash flow redeployment, as well as for the HCV and HIV businesses. In HCV, upside drivers include a higher diagnosis rate leading to a larger market opportunity and deeper penetration. Additional upside could come from reimbursement and pricing, where our base-case model is relatively conservative. We see additional upside from HIV and TAF, with higher utilization extending the revenue tail before patent expiry.

Downside scenario

Our downside scenario of \$89 reflects a suppressed (8.5x) multiple to reflect a failure of the pipeline and weak HCV sales due to pricing pressure or competition.

Upcoming catalysts

1).Ph2 data of 3D combo at EASL (April 22-26); 2) Ph3 data of SOF+GS-5816 in 3Q15; 3) Ph3 C-EDGE data from Merck; 4) Ph2 simtuzumab in NASH and IPF, and MMP9 in 3 cancer trials and 1 UC in 2015. 5) M&A.

12-month rating

Buy

12m price target

US\$120.00

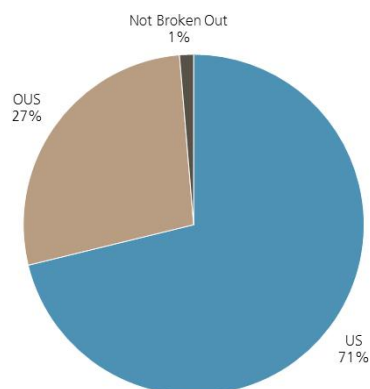
Business description

Gilead Sciences, Inc. discovers, develops, and commercializes treatments for infectious and pulmonary diseases. Its currently marketed products include Stribild, Complera, Atripla, Truvada, Viread, and Emtriva for HIV; Hepsera for hepatitis B; and AmBisome for the treatment of fungal diseases. Gilead also receives royalties from Roche for Tamiflu, a treatment for influenza. Gilead's key pipeline programs are sofosbuvir in hepatitis C, TAF in HIV, and idelisil in cancer.

Industry outlook

As an industry, we expect biotech stocks to outperform the broader markets on the basis of attractive growth relative to the S&P 500. Within biotech, the long term revenue and earnings growth outlook is the key determinant of biotech stock performance. Companies creating new product cycles through organic pipeline development and strategic acquisitions, paired with financial metrics and shareholder friendly programs (buy-backs, dividends, etc) are likely to outperform. Gilead's significant double-digit growth is above the peer group mean and in our view, justifies a higher multiple than currently implied on 2014-15 EPS. Further, GILD could see significant multiple expansion relative to peers if acquisitions or pipeline development improves the out-year outlook.

Revenues by region (%) (2014)



Source for chart and table: UBS estimates

Revenues by segment

Segment Revenues (\$m)	2012	2013	2014E	2015E	2016E
HIV	8,004	9,092	10,216	10,802	11,620
HCV	0	139	8,478	11,211	13,701
HBV	138	109	78	72	68
Oncology	0	0	109	284	490
Other	1,561	1,862	1,929	1,979	2,022
Total	9,703	11,202	20,809	24,348	27,902

Key facts and comments from the quarter

[1] HCV pricing. The 46% is a blended discount for Sovaldi and Harvoni across payers, reflecting larger private discounts (we est 40%) and a shift in mix toward public payers who receive discounting over 50%. The discounts are triggered by volumes, with contracts set to limit denials and increase access (in-line, see HERE).

[2] Patient access. Contracts are in place for about 60% of covered lives in US, and Harvoni gained access to 80% of those. The treatment rate in EU will be lower due to budgetary constraints

[3] 4Q numbers. HIV is in great shape, beating by \$181m (7%), driven by higher US sales across major products. Mgmt did not exclude the possibility for a HIV price increase in 2015. Harvoni beat by \$466m (30%), with inventory 2-3days (\$65-100m) higher than normal.

[4] Guidance. \$26-27bn of 2015 product sales (consensus \$28bn) factored in discount and 250k treatment capacity in HCV.

[5] Pipeline. The BTK inhibitor will be studies in combination with Gilead's other kinase inhibitors. The 4 and 6wk data of the pan-genotypic triple pill will be presented at EASL. The MMP9 antibody is advancing based on activity in ph1b.

The tables showing the 4Q variance and changes to our model appear in the following pages.

Figure 1: Gilead 4Q14 results vs. expectations

	4Q14 Actual (\$M)	Consensus (\$M)	4Q14 UBSe (\$M)	Actual vs. Consensus (\$M)	Actual vs. UBSe (\$M)
TOTAL ATRIPLA	925	878	900	47	25
TOTAL TRUVADA	897	825	861	72	36
TOTAL VIREAD	311	262	254	49	57
TOTAL COMPLERA	348	346	364	2	(16)
TOTAL STRIBILD (QUAD)	385	351	379	35	6
TOTAL ELVITEGRAVIR	0	11	17	(11)	(17)
TOTAL COBICISTAT	0	12	21	(12)	(21)
TOTAL SOVALDI	1,732	2,040	2,140	(308)	(408)
TOTAL HARVONI	2,107	1,504	1,551	603	556
Total Antiviral Products	<u>6,726</u>	<u>6,146</u>	<u>6,512</u>	<u>580</u>	<u>214</u>
Total Product Sales	<u>7,222</u>	<u>6,545</u>	<u>6,970</u>	<u>677</u>	<u>252</u>
Royalties/Corp. Partner/Contract Revenue	82	86	82	(3)	0
Total Operating Revenue	7,314	6,724	7,055	590	259
Operating Expenses (adjusted non-GAAP)					
COGS	847	854	811	(7)	36
R&D	899	639	656	260	243
SG&A	<u>799</u>	<u>744</u>	<u>797</u>	<u>55</u>	<u>2</u>
Total Operating Expenses	2,545	2,237	2,265	308	280
Income (Loss) from Operations	4,769	4,449	4,791	320	(22)
Provision for Income Taxes	811	780	967	31	(156)
Tax Rate (non-GAAP)	17.4%	17.9%	20.7%	-0.5%	-3.3%
Net Income (loss) (adjusted non-GAAP)	3,883	3,542	3,712	341	171
EPS, non-GAAP (diluted ex-FAS123R)	\$2.43	\$2.22	\$2.32	\$0.21	\$0.12
Number of Shares (non-GAAP Diluted)	1596	1620	1602	(24)	(6)

Source: Company reports, Factset, and UBS estimates

Figure 2: Gilead 2015e-2018e model updates

USD MMs except EPS, December fiscal year	2015E	2016E	2017E
Ambisome - New	370	351	316
Ambisome - Old	359	341	307
Change	10	10	9
Letairis - New	574	553	533
Letairis - Old	574	553	533
Change	-	-	-
Ranexa - New	556	589	619
Ranexa - Old	543	575	604
Change	14	14	15
Idelalisib - New	183	381	591
Idelalisib - Old	183	381	591
Change	-	-	-
Other products - New	191	214	239
Other products - Old	184	206	230
Change	7	7	8
Total Product Sales - New	27,171	28,917	29,514
Total Product Sales - Old	27,553	30,235	31,597
Change	(382)	(1,319)	(2,083)
Total Operating Revenue - New	27,647	29,625	30,478
Total Operating Revenue - Old	27,979	30,891	32,520
Change	(332)	(1,266)	(2,042)
Total Operating Expenses (incl. FAS123R) - New	9,290	9,909	10,127
Total Operating Expenses (incl. FAS123R) - Old	8,859	9,548	9,758
Change	431	360	368
Income (Loss) from Operations - New	18,357	19,716	20,352
Income (Loss) from Operations - Old	19,120	21,342	22,762
Change	(763)	(1,626)	(2,410)
Net Income (loss) (adjusted non-GAAP) - New	14,528	15,706	16,269
Net Income (loss) (adjusted non-GAAP) - Old	15,146	17,089	18,327
Change	(618)	(1,383)	(2,058)
EPS, non-GAAP (diluted ex-FAS123R) - New	\$9.30	\$10.50	\$11.25
EPS, non-GAAP (diluted ex-FAS123R) - Old	\$9.70	\$11.16	\$12.20
Change	(\$0.40)	(\$0.66)	(\$0.95)
Number of Shares (non-GAAP Diluted) - New	1,562	1,496	1,446
Number of Shares (non-GAAP Diluted) - Old	1,562	1,532	1,502
Change	1	(36)	(56)

Source: Company reports and UBS estimates

Gilead Sciences (GILD.O)

Income statement (US\$m)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Revenues	9,398	10,804	24,474	27,171	11.0	28,917	6.4	29,514	28,011	26,583
Gross profit	6,997	8,096	21,510	24,074	11.9	25,792	7.1	26,580	25,638	24,526
EBITDA (UBS)	4,858	5,333	16,969	18,788	10.7	20,175	7.4	20,821	20,215	19,124
Depreciation & amortisation	(278)	(345)	(385)	(431)	11.8	(459)	6.7	(470)	(438)	0
EBIT (UBS)	4,580	4,989	16,584	18,357	10.7	19,716	7.4	20,352	19,777	19,124
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	(52)	0	0	0	-	0	-	0	0	0
Net interest	(339)	(301)	(412)	(434)	-5.4	(373)	14.1	(329)	(293)	(293)
Exceptionals (incl goodwill)	(577)	(464)	(1,317)	(1,348)	-2.3	(1,405)	-4.2	(1,390)	(1,235)	(1,137)
Profit before tax	3,612	4,223	14,855	16,575	11.6	17,938	8.2	18,633	18,249	17,694
Tax	(1,123)	(1,240)	(2,902)	(3,404)	-17.3	(3,668)	-7.7	(3,785)	(3,600)	(3,481)
Profit after tax	2,489	2,983	11,953	13,171	10.2	14,270	8.3	14,848	14,650	14,214
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	18	18	42	29	-31.6	31	8.0	32	31	30
Extraordinary items	85	89	104	340	225.0	365	7.4	376	366	354
Net earnings (local GAAP)	2,592	3,090	12,100	13,539	11.9	14,666	8.3	15,256	15,047	14,598
Net earnings (UBS)	3,084	3,465	13,312	14,548	9.3	15,706	8.0	16,269	15,915	15,381
Tax rate (%)	31.1	29.4	19.5	20.5	5.1	20.4	-0.4	20.3	19.7	19.7
Per share (US\$)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
EPS (UBS, diluted)	1.95	2.06	8.10	9.31	15.0	10.50	12.7	11.25	11.48	11.60
EPS (local GAAP, diluted)	1.64	1.83	7.36	8.67	17.7	9.80	13.1	10.55	10.86	11.01
EPS (UBS, basic)	2.04	2.27	8.75	9.88	13.0	11.17	13.1	12.00	12.28	12.44
Net DPS (US\$)	0.00	0.00	0.00	1.29	-	1.72	33.3	1.72	1.72	1.72
Cash EPS (UBS, diluted)*	2.13	2.26	8.33	9.59	15.0	10.81	12.7	11.58	11.80	11.60
Book value per share	6.31	7.10	8.56	10.43	21.9	17.75	70.1	25.96	34.91	44.43
Average shares (diluted)	1,581.38	1,685.17	1,643.58	1,562.25	-4.9	1,496.00	-4.2	1,446.00	1,386.00	1,326.00
Balance sheet (US\$m)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Cash and equivalents	1,862	2,132	6,469	19,852	206.9	28,382	43.0	37,739	47,224	56,327
Other current assets	4,294	5,142	6,502	6,871	5.7	7,138	3.9	7,261	7,108	6,969
Total current assets	6,156	7,274	12,971	26,722	106.0	35,520	32.9	45,000	54,332	63,296
Net tangible fixed assets	1,100	1,166	1,303	1,457	11.8	1,554	6.7	1,589	1,481	1,401
Net intangible fixed assets	12,797	13,069	12,879	0	-	0	-	0	0	0
Investments / other assets	1,186	988	925	953	3.0	969	1.7	979	974	972
Total assets	21,240	22,497	28,078	29,133	3.8	38,044	30.6	47,567	56,788	65,669
Trade payables & other ST liabilities	3,068	3,628	4,043	4,082	1.0	4,105	0.6	4,115	4,099	4,088
Short term debt	1,169	2,697	1,872	1,872	0.00	1,872	0.00	1,872	1,872	1,872
Total current liabilities	4,238	6,325	5,915	5,954	0.7	5,976	0.4	5,986	5,971	5,960
Long term debt	7,055	3,939	7,932	7,182	-9.5	6,432	-10.4	5,682	4,932	4,182
Other long term liabilities	397	424	567	634	11.8	677	6.7	692	645	610
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	11,689	10,688	14,414	13,770	-4.5	13,085	-5.0	12,360	11,548	10,751
Common s/h equity	9,551	11,808	13,664	15,362	12.4	24,959	62.5	35,207	45,240	54,918
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	21,240	22,497	28,078	29,133	3.8	38,044	30.6	47,567	56,788	65,669
Cash flow (US\$m)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Net income (before pref divs)	2,592	3,090	12,100	13,539	11.9	14,666	8.3	15,256	15,047	14,598
Depreciation & amortisation	278	345	385	431	11.8	459	6.7	470	438	0
Net change in working capital	177	(218)	(1,069)	(346)	67.6	(248)	28.3	(107)	158	0
Other operating	166	(97)	(1,067)	(344)	67.7	(246)	28.5	(105)	160	0
Operating cash flow	3,213	3,120	10,350	13,280	28.3	14,631	10.2	15,514	15,803	14,598
Tangible capital expenditure	(397)	(191)	(191)	(191)	0.0	(191)	0.0	(191)	(191)	0
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	0	0	0	-	0	-	0	0	0
Other investing	(11,449)	(64)	16	8	-	8	-	8	8	0
Investing cash flow	(11,846)	(254)	(175)	(183)	-5.0	(183)	0.0	(183)	(183)	0
Equity dividends paid	0	0	0	0	-	0	-	0	0	0
Share issues / (buybacks)	(1,579)	(2,544)	(5,348)	(3,000)	43.9	(3,000)	0.0	(3,000)	(3,000)	0
Other financing	0	0	0	0	-	0	-	0	0	0
Change in debt & pref shares	2,143	0	3,993	(750)	-	(750)	0.00	(750)	(750)	0
Financing cash flow	563	(2,544)	(1,355)	(3,750)	-176.8	(3,750)	0.0	(3,750)	(3,750)	0
Cash flow inc/(dec) in cash	(8,070)	322	8,820	9,346	6.0	10,698	14.5	11,581	11,870	14,598
FX / non cash items	32	(52)	(4,483)	4,036	-	(2,168)	-	(2,223)	(2,385)	(5,494)
Balance sheet inc/(dec) in cash	(8,038)	269	4,338	13,383	208.5	8,530	-36.3	9,358	9,485	9,103

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.*Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Gilead Sciences (GILD.O)

Valuation (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
P/E (local GAAP, diluted)	17.2	30.6	12.2	12.4	10.9	10.2	9.9	9.7
P/E (UBS, diluted)	14.5	27.3	11.1	11.5	10.2	9.5	9.3	9.2
P/CEPS	12.7	22.5	10.0	10.5	9.3	8.7	8.5	8.6
Equity FCF (UBS) yield %	6.6	3.2	6.8	7.7	8.4	9.0	9.1	8.5
Net dividend yield (%)	0.0	0.0	0.0	1.2	1.6	1.6	1.6	1.6
P/BV x	4.5	7.9	10.5	10.3	6.0	4.1	3.1	2.4
EV/revenues (core)	4.8	9.1	6.2	6.4	6.1	5.9	6.2	6.6
EV/EBITDA (core)	9.2	18.3	9.0	9.3	8.7	8.4	8.7	9.1
EV/EBIT (core)	9.8	19.6	9.2	9.5	8.9	8.6	8.8	9.1
EV/OpFCF (core)	9.9	19.6	9.2	9.5	8.8	8.5	8.8	9.3
EV/op. invested capital	4.6	6.3	9.4	NM	NM	NM	NM	NM
Enterprise value (US\$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Market cap.	42,858	92,406	148,915	171,059	171,059	171,059	171,059	171,059
Net debt (cash)	2,034	5,433	3,919	3,919	3,919	3,919	3,919	3,919
Buy out of minorities	0	0	0	0	0	0	0	0
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	44,893	97,839	152,835	174,979	174,979	174,979	174,979	174,979
Non core assets	0	0	0	0	0	0	0	0
Core enterprise value	44,893	97,839	152,835	174,979	174,979	174,979	174,979	174,979
Growth (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenue	16.0	15.0	126.5	11.0	6.4	2.1	-5.1	-5.1
EBITDA (UBS)	9.7	9.8	NM	10.7	7.4	3.2	-2.9	-5.4
EBIT (UBS)	11.0	8.9	NM	10.7	7.4	3.2	-2.8	-3.3
EPS (UBS, diluted)	1.3	5.4	NM	15.0	12.7	7.2	2.1	1.0
Net DPS	-	-	-	-	33.3	0.0	0.0	0.0
Margins & Profitability (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Gross profit margin	74.5	74.9	NM	NM	NM	NM	NM	NM
EBITDA margin	51.7	49.4	69.3	69.1	69.8	70.5	72.2	71.9
EBIT margin	48.7	46.2	67.8	67.6	68.2	69.0	70.6	71.9
Net earnings (UBS) margin	32.8	32.1	54.4	53.5	54.3	55.1	56.8	57.9
ROIC (EBIT)	46.5	32.1	102.1	176.7	455.7	447.1	437.8	442.3
ROIC post tax	34.0	23.6	NM	NM	NM	NM	NM	NM
ROE (UBS)	37.6	32.4	104.5	100.2	77.9	54.1	39.6	30.7
Capital structure & Coverage (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Net debt / EBITDA	1.3	0.8	0.2	(0.6)	(1.0)	(1.4)	(2.0)	(2.6)
Net debt / total equity %	66.6	38.1	24.4	(70.3)	(80.4)	(85.7)	(89.3)	(91.5)
Net debt / (net debt + total equity) %	40.0	27.6	19.6	NM	NM	NM	NM	NM
Net debt/EV	14.2	4.6	2.2	(6.2)	(11.5)	(17.3)	(23.1)	(28.7)
Capex / depreciation %	142.7	55.3	49.5	44.3	41.5	40.6	43.6	-
Capex / revenue %	4.2	1.8	0.8	0.7	0.7	0.6	0.7	0.0
EBIT / net interest	13.5	16.6	40.3	42.3	52.9	61.9	67.5	65.3
Dividend cover (UBS)	-	-	-	7.7	6.5	7.0	7.1	7.2
Div. payout ratio (UBS) %	-	-	-	13.1	15.4	14.3	14.0	13.8
Revenues by division (US\$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Others	9,398	10,804	24,474	27,171	28,917	29,514	28,011	26,583
Total	9,398	10,804	24,474	27,171	28,917	29,514	28,011	26,583
EBIT (UBS) by division (US\$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Others	4,580	4,989	16,584	18,357	19,716	20,352	19,777	19,124
Total	4,580	4,989	16,584	18,357	19,716	20,352	19,777	19,124

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	+12.0%
Forecast dividend yield	1.6%
Forecast stock return	+13.6%
Market return assumption	5.5%
Forecast excess return	+8.1%

Statement of Risk

We see several risks to our BUY rating on GILD shares. If the Quad pill in HIV fails to achieve revenue expectations we expect shares would react negatively. Additionally, if generic entrants come to the market sooner than expected, or take a larger portion of the HIV market share than we currently model. Further, if pricing pressure in Europe, and discounts and rebates in the US also continue, we expect GILD shares could react negatively. Most importantly however, we believe GILD shares are levered to the success/failure of the HCV program. and note risk to our Buy rating if [1] Sofosbuvir launch fails to meet expectations, [2] competitor data impress, or [3] regulatory decisions cause potential delays to approval.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	47%	37%
Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	11%	21%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 December 2014.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Securities LLC: Matthew Roden, PhD; Jeffrey Hung; Charles Shi, PhD.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Gilead Sciences ^{16, 18}	GILD.O	Buy	N/A	US\$107.18	03 Feb 2015

Source: UBS. All prices as of local market close.

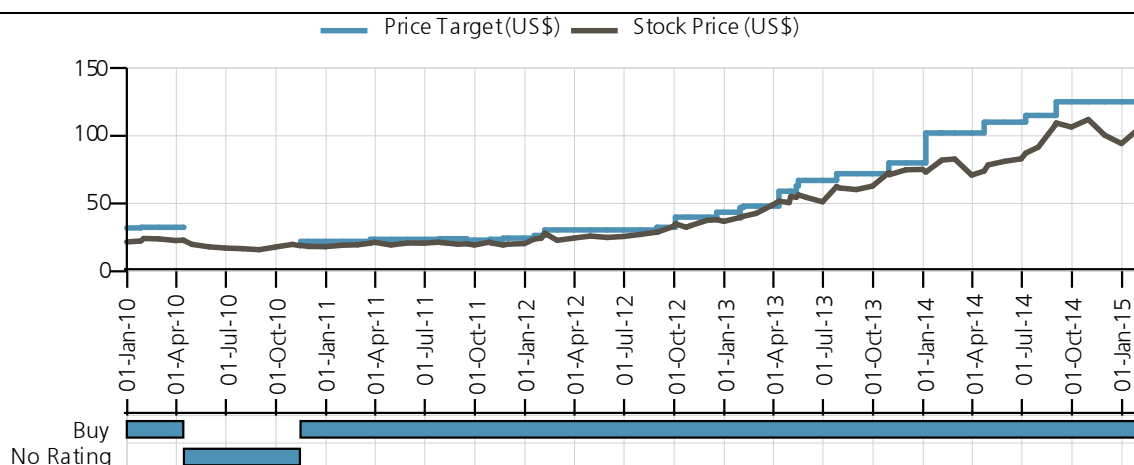
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

18. A U.S.-based global equity strategist, a member of his team, or one of their household members has a long common stock position in Gilead Sciences Inc.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Gilead Sciences (US\$)



Source: UBS, as of 03 Feb 2015

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