COWEN
AND COMPANY

Biotechnology

Gilead Sciences

Equity Research

Earnings Update

February 4, 2015

Price: $107.18 (02/3/2015)

Price Target: $125.00

OUTPERFORM (1)

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Key Data

Symbol	NASDAQ: GILD
52-Week Range:	$116.83 - 63.50
Market Cap (MM):	$161,698.6
Net Debt (MM):	$1,206.7
Cash/Share:	$1.39
Dil. Shares Out (MM):	1,636.5
Enterprise Value (MM):	$163,714.4
ROIC:	NA
ROE (LTM):	NA
BV/Share:	$8.98
Dividend:	$1.72
Yield:	1.60%

FY (Dec)	2014A	2015E	2016E
Earnings Per Share			
Q1	$1.48	$2.45	-
Prior Q1	*-*	*$2.58*	*-*
Q2	$2.36	$2.47	-
Prior Q2	*-*	*$2.64*	*-*
Q3	$1.84	$2.44	-
Prior Q3	*-*	*$2.61*	*-*
Q4	$2.43	$2.49	-
Prior Q4	*$2.41*	*$2.67*	*-*
Year	$8.09	$9.85	$11.60
Prior Year	*$8.07*	*$10.50*	*$11.85*
P/E	13.2x	10.9x	9.2x
Consensus EPS	$8.09	$9.79	$10.97

Consensus source: Thomson Reuters

Revenue (MM)			
Year	$24,889.7	$28,089.0	$30,295.9
Prior Year	*$24,543.7*	*$28,324.0*	*$30,267.4*
EV/S	6.6x	5.8x	5.4x

Q4 Solid, 2015 Sales Guidance In-Line, But Commentary Won't Quell Fears

The Cowen Insight

GILD reported Q4:14 HCV sales ahead of consensus, and provided 2015 product sales guidance generally in line with expectations. Management's gross to net commentary implies larger discounts in 2015 than anticipated, which we expect will stoke investors' fears about price competition and the longevity of the U.S. patient bolus. We continue to believe GILD is undervalued and maintain our $125 PT.

Strong Q4 HCV Sales Drive Top- And Bottom- Line Upside.

Q4 **HCV** sales were $3.8B, ahead of our $3.75BE and consensus of about $3.35B. U.S. sales were $3.2B, and ex-US were $660MM. Management indicated that wholesaler inventories were at the upper end of the contractual range, suggesting stocking contributed some of the upside. Q4 **HIV** franchise revenue was $2.9B (+15.5%Y/Y), ahead of our $2.7BE and consensus of $2.6B. Total revenue was $7.3B (+135% Y/Y) vs our $7.0BE and consensus of $6.7B. Non-GAAP EPS was $2.43 vs our $2.41E.

2015 Product Sales And GM Guidance Consistent With Expectations, But Gross To Net Commentary Worse.

GILD guided to 2015 product sales of $26B-$27B, and non-GAAP gross margins of 87%-90%. With expectations for 2015 non-HCV product sales at about $13B, guidance therefore implies 2015 HCV worldwide sales of $13B - $14B, which we think is generally in line with prior expectations. Prior GM consensus was 87.6%. Notably, Gilead expects the U.S. gross to net adjustment on HCV sales to increase from 22% in 2014 to 46% in 2015. Management indicated that the increase is due to public payors (Medicaid, VA, etc) making up a larger percentage of the mix in 2015, as well as larger discounts being negotiated with private payors. Gilead said that private payors' discounts are correlated to market access, meaning that payors with fewer restrictions in their formulary will be granted a larger discount. In fact, with improving market access, GILD projects there could be as many as 250K HCV patients treated in the U.S. in 2015. Unfortunately, GILD investors have two major concerns: HCV price competition, and the longevity of the HCV patient bolus. We expect this commentary to stoke both fears as investors will worry that discounts will continue to increase as more players enter the HCV market, and that the diagnosed U.S. patient population will be treated more quickly.

Tweaking Our 2015 HCV Estimate.

While the net price in the U.S. market is less than we anticipated, ex-US volumes are increasing more quickly, and these effects largely offset. We have cut our 2015 U.S. GT 1 price from $60K to $48K, and our GT2/3 price from $84K to $52K. We have modestly increased our share assumptions, but our 2015 U.S. estimate has decreased from $12.8B to $10B. Our ex-U.S. pricing assumptions have remained the same (~ $40K-50K), but now we project GILD will treat 93K patients ex-U.S., while we had projected 46K. Our ex-U.S. HCV est has increased from $2.2B to $4.5B. Our 2015 HCV est has decreased from $15B to $14.5B, although our 2016-2019 ests are unchanged.

At A Glance

Our Investment Thesis

We believe Sovaldi will be the cornerstone of future all-oral HCV combos. Sovaldi was launched in the U.S. in December 2013, and we project Gilead's HCV franchise will achieve $18B in worldwide sales by 2019. We expect that through a combination of HIV market growth, share gains, and price increases, GILD's HIV franchise will continue to grow at least in line with our projections for a 2% CAGR during 2014-19E. We expect GILD to outperform the market over the next 12 months as Gilead's HIV franchise continues to grow, the HCV franchise's launch progresses, and consensus estimates continue to increase.

Forthcoming Catalysts

- EASL presentations (April 22-26)
- Data from simtuzumab in NASH (H2:15)
- TAF U.S. and EU regulatory decisions (Q4)

Base Case Assumptions

- HCV sales reach $14.5B in 2015 and $18B in 2019
- GILD's HIV franchise grows from $10B in 2014 to $12.6B in 2017, and declines following the expiration of tenofovir's patents.
- The rest of GILD's pipeline and product portfolio contributes modest value

Upside Scenario

- GILD's HCV franchise significantly exceeds $20B in peak sales potential
- TAF successfully extends the HIV franchise's dominance beyond tenofivir patent expiration
- A candidate from GILD's pipeline generates significant revenue

Downside Scenario

- Payers/competition constrain Sovaldi adoption and/or sales fail to achieve our forecasts
- GILD's HIV franchise fails to meet our projections due to competition, or a major change in the treatment paradigm

Price Performance

Source: Bloomberg

Company Description

Gilead develops and markets treatments for HIV, HBV, HCV, and fungal infections. Gilead's revenue growth over the next several years will be driven by its HCV portfolio. That franchise is led by Sovaldi, a nucleoside inhibitor for the treatment of HCV. Results from Sovaldi's Phase III trials have shown it to be potent and well tolerated with a high barrier to viral resistance and we expect it to achieve $18B in revenue by 2019. Gilead's leading HIV franchise is anchored by Viread, a well-tolerated, efficacious, 1x/daily nucleotide analog that posted 2014 (13th year) sales of $1.1B. Gilead has developed several Viread-based combination pills including Truvada, Atripla, Complera and Stribild which together have captured >90% share of treatment-naive HIV patients, driving HIV franchise revenue to $10.0B in 2014.

Analyst Top Picks

	Ticker	Price (02/3/2015)	Price Target	Rating
BioMarin Pharmaceutical	BMRN	$92.76	$115.00	Outperform
Gilead Sciences	GILD	$107.18	$125.00	Outperform
Portola Pharmaceuticals	PTLA	$28.29	$45.00	Outperform

GILD Declared Dividend, Remains Committed To Returning Cash To Shareholders.

GILD's board has authorized a $0.43 quarterly dividend, equating to an approximate 1.6% - 1.7% dividend yield. GILD's board has further authorized a $15B share buyback, in addition to the ongoing $5B buyback (of which $3B is remaining). GILD noted that it has been returning about 50% of its cashflow to shareholders in recent years, and management remains committed to maintaining a similar level in the future.

Pipeline Update.

Gilead continues to research **Harvoni**'s utility in special patient populations. Data from ongoing studies in HIV coinfected and advanced liver disease patients will report data in 2015 (likely at EASL). Gilead's pan-genotypic HCV therapy (**GS-5816**+Sofosbuvir) will report Ph3 data in H2:15. Management believes a 3-DAA regimen (**GS-9857+GS-5816+Sofosbuvir**) could further shorten treatment durations. Data from the 4 and 6-week treatment arms of Ph2 trails using this regimen will be presented at EASL. The first NDA for **TAF** has been granted a PDUFA date of November 5, 2015. Gilead's Hepatitis B program will report data from Phase 2 trials of **GS-4774 and GS-9620** in H1:15 and H2:15 respectively. Outside of virology, Gilead disclosed that **simtuzumab** failed to produce signs of efficacy in a Ph2 myelofibrosis trial. Simtuzumab's potentially pivotal Ph2 NASH data is expected in H2:15. Ph2 simtuzumab data in PSC is also expected by YE. **GS-5745** (anti-MMP9 mAb) will be advanced into Ph2 trials for Crohn's disease, ulcerative colitis (UC) and gastric cancer (GC) following encouraging Ph1 data in UC and GC. In 2015, **GS-4997** (ASK1 inhibitor) will be advanced into Ph2 for NASH. The recently acquired FXR inhibitor from Phenex will also begin a Ph1 NASH trial.

Investment Thesis

Gilead develops and markets treatments for HIV, HBV, HCV, and fungal infections. Gilead's revenue growth over the next several years will be driven by its HCV portfolio. That franchise is led by Sovaldi, a nucleoside inhibitor for the treatment of HCV. Results from Sovaldi's Phase III trials have shown it to be potent and well tolerated with a high barrier to viral resistance. We believe these data suggest Sovaldi is set to be the cornerstone of future all-oral HCV combos. Sovaldi was launched in the U.S. in December 2013 and in the EU in January 2014. The HCV franchise is off to a fast start as it posted >$12.3B in revenue its first full year. Despite emerging competition and pushback from payors, we think GILD's HCV franchise will be $18B at peak. Gilead's leading HIV franchise is anchored by Viread, a well-tolerated, efficacious, 1x/daily nucleotide analog that posted 2014 (13th year) sales of $1.1B. Gilead's first fixed-dose co-formulation of Emtriva and Viread, Truvada, achieved 2014 sales of $3.3B. A fixed dose 3-in-1 formulation of Viread, Emtriva, and Bristol's NNRTI Sustiva has further solidified GILD's HIV franchise and drove total franchise revenue to >$10.3B in 2014. We expect future growth of Gilead's HIV franchise will be in part driven by two new Truvada-based combo pills, Complera and Stribild. Complera was launched during H2:11, while Stribild was launched following its August 2012 approval. We project the two will achieve combined sales of $6.9B by 2019. In September 2014 GILD released results from Phase III trials of Viread follow-on, TAF, which demonstrated an improved kidney and bone profile. We expect GILD will switch a meaningful percentage of its HIV franchise onto TAF-based regimens before Viread's patents expire, extending the franchise's commercial life. We expect that through a combination of HIV market growth, share gains, launches of the new combo pills, and price increases, GILD's HIV franchise will continue to grow at least in line with our projections for 2% franchise growth during 2014-19E, despite Viread's 2018 patent expiration. We expect GILD to outperform the market over the next 12 months as Gilead's HIV franchise continues to grow, the HCV franchise launch outpaces expectations, and consensus estimates continue to increase.

Gilead - Upcoming Milestones/Events

Indication/Milestone	Timing
Initiate Ph. II trials for idelalisib in front-line iNHL	Q1:15
Initiate Ph. II/III trial of GS-6615 in hypertrophic cardiomyopathy	Q1:15
Full Phase III TAF data presentations at CROI	February 23-26, 2015
Japanese approval of Sovaldi	H1:15
Top-line data from Phase 2 study of GS-4774 in HBV	H1:15
Initiate Phase II trail for GS-4997 (ASK1 inhibitor) in NASH	H1:15
Initiate Phase I trail for FXR agonist (from Phenex) in NASH	H1:15
Phase I data from studies of GS-5745 (MMP9 mAb) in RA, COPD, and Solid Tumors	H1:15
Data from Harvoni trials in patients with advanced liver disease or HIV coinfection at EASL	April 22-26, 2015
Top-line data from Phase 2 studies of Sofosbuvir+GS-6815+GS-9857 (4 and 6 weeks) at EASL	April 22-26, 2015
File NDA and MAA for F/TAF	Q2:15
Data from Phase II study of simtuzumab in NASH	Mid-2015
Top-line data from Phase 3 studies of Sofosbuvir+GS-5816	Q3:15
Top-line data from Phase 2 study of GS-9620 (TLR7 agonist) in HBV	H2:15
Top-line data from Phase 2 studies of Sofosbuvir+GS-6815+GS-9857 (12 and 24 weeks)	H2:15
Japanese approval of Harvoni	H2:15
Initiate Phase II trial of GS-9883 in HIV	H2:15
Initiate Phase III trials of Sofosbuvir+GS-6815+GS-9857	H2:15
File NDA and MAA for R/F/TAF	Q4:15
PDUFA date for E/C/F/TAF	Nov 5, 2015
Janssen files NDA for D/C/F/TAF	2015
Initiate Phase II trials of GS-5745 (anti-MMP9 mAb) in Ulcerative Colitis and Gastric Cancer	2015
Initiate Phase I/II trial of GS-5745 (anti-MMP9 mAb) in Crohn's Disease	2015
Phase II data for GS-5806 in adult RSV infections	2015
Final data from Phase II open label trial of GS-9973 in hematologic malignancies	2015
Additional worldwide Sovaldi/Harvoni filings, approvals, and reimbursement agreements	2015

Source: Cowen and Company

GILD DCF Analysis

Financial Year End	12/31
Valuation Date	2/3/2015
Discount Rate	**6.0%**

Tuesday, February 03, 2015

SMM	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Viread	1058	1060	1080	1080	75	50	25	12	12	12	12	12	12	12	12	12	12	12	12
Growth (%)	*10%*	*0%*	*2%*	*0%*	*-93%*	*-33%*	*-50%*	*-54%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Emtriva	28	30	30	30	30	30	30	12	12	12	12	12	12	12	12	12	12	12	12
Growth (%)	*1%*	*9%*	*0%*	*0%*	*0%*	*0%*	*0%*	*-60%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Truvada	3339	3345	3300	3300	2250	1875	1,969	1,280	640	320	160	80	40	20	10	5	2	1	1
Growth (%)	*6%*	*0%*	*-1%*	*0%*	*-32%*	*-17%*	*5%*	*-35%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*
Atripla	3470	3320	3100	2900	2600	2400	2,520	1,638	819	410	205	102	51	26	13	6	3	2	1
Growth (%)	*-5%*	*-4%*	*-7%*	*-6%*	*-10%*	*-8%*	*5%*	*-35%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*
Complera	1228	1635	1900	2150	2400	2600	2,860	2,860	2,860	2,860	2,860	715	644	579	521	469	422	380	342
Growth (%)	*52%*	*33%*	*16%*	*13%*	*12%*	*8%*	*10%*	*0%*	*0%*	*0%*	*0%*	*-75%*	*-10%*	*-10%*	*-10%*	*-10%*	*-10%*	*-10%*	*-10%*
Stribild	1198	1910	2550	3150	3750	4250	4,888	5,523	6,241	6,927	7,689	8,458	9,304	9,769	10,258	10,771	11,309	11,875	12,468
Growth (%)	*122%*	*59%*	*34%*	*24%*	*19%*	*13%*	*15%*	*13%*	*13%*	*11%*	*11%*	*10%*	*10%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*
Sovaldi/Harvoni	12390	14500	16000	17000	17500	18000	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000	17,100	16,245	15,433	6,173	926
Growth (%)		*17%*	*10%*	*6%*	*3%*	*3%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*-5%*	*-5%*	*-5%*	*-60%*	*-85%*
Zydelig	23	160	250	350	450	550	633	715	808	896	995	1,095	1,204	1,264	1,327	1,394	1,464	1,537	1,614
Growth (%)		*600%*	*56%*	*40%*	*29%*	*22%*	*15%*	*13%*	*13%*	*11%*	*11%*	*10%*	*10%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*
AmBisome	389	350	350	165	83	83	42	21	10	5	3	1	1	0	0	0	0	0	0
Growth (%)	*11%*	*-10%*	*0%*	*-53%*	*-50%*	*0%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*
Hepsera	42	40	30	25	13	13	7	3	2	1	0	0	0	0	0	0	0	0	0
Growth (%)	*-49%*	*-4%*	*-25%*	*-17%*	*-48%*	*0%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*
Letairis	595	600	625	650	420	50	25	13	6	3	2	1	0	0	0	0	0	0	0
Growth (%)	*19%*	*1%*	*4%*	*4%*	*-35%*	*-88%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*
U.S. Ranexa Sales	510	555	575	600	600	250	125	63	31	16	8	4	2	1	0	0	0	0	0
Growth (%)	*14%*	*9%*	*4%*	*4%*	*0%*	*-58%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*	*-50%*
Aztreonam Lysine	135	145	155	165	180	190	205	215	226	233	240	247	255	262	270	278	287	295	304
Growth (%)	*6%*	*7%*	*7%*	*6%*	*9%*	*6%*	*8%*	*5%*	*5%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*
Others	70	24	26	26	26	25	25	25	25	25	25	25	25	25	25	25	25	25	25
Growth (%)	*86%*	*-65%*	*8%*	*0%*	*0%*	*-4%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Royalty, Contract Other Revenueb	416	415	325	225	225	225	225	225	225	225	225	225	225	225	225	225	225	225	225
Growth (%)	*4%*	*0%*	*-22%*	*-31%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Total Revenues	24890	28089	30296	31816	30602	30591	31577	30604	29917	29945	30436	28978	29775	30196	29774	29443	29194	26536	18929
Growth (%)	*125%*	*13%*	*8%*	*5%*	*-4%*	*0%*	*3%*	*-3%*	*-2%*	*0%*	*2%*	*-5%*	*3%*	*1%*	*-1%*	*-1%*	*-1%*	*-30%*	*-22%*
COGS	2964	3178	3319	3341	3157	3115	2,894	2,428	2,198	2,108	2,094	1,453	1,477	1,484	1,472	1,467	1,468	1,220	1,095
COGS as a % of sales	*12%*	*11%*	*11%*	*11%*	*10%*	*10%*	*9%*	*8%*	*7%*	*7%*	*7%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*6%*	*7%*
R&D	2585	3075	3250	3450	3600	3700	1,283	1,224	608	898	609	580	298	302	298	294	292	205	159
R&D as a % of Revenues	*10%*	*11%*	*11%*	*11%*	*5%*	*5%*	*4%*	*4%*	*3%*	*3%*	*2%*	*2%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*
SG&A	2,757	3,100	3,280	3,365	3,470	3,525	2,842	1,838	1,197	1,198	609	590	595	604	595	589	584	411	319
SG&A as a % of Revenues	*11%*	*11%*	*11%*	*11%*	*11%*	*12%*	*9%*	*6%*	*4%*	*4%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*
Operating Income	19169	21811	23697	25110	23975	23952	26042	26339	26522	26639	27732	26945	27702	28108	27707	27387	27142	18906	14515
Interest Expense	(514)	(375)	(225)	(125)	(100)	(100)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)
Tax	3,800	3,966	3,990	4,247	3,939	3,936	4,419	4,469	4,500	4,520	4,706	4,572	4,701	4,770	4,702	4,647	4,606	3,205	2,459
Tax rate	*19%*	*19%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*
NOL Tax Assets Utilized																			
Tax rate																			
Taxes Paid	3,800	3,966	3,990	4,247	3,939	3,936	4,419	4,469	4,500	4,520	4,706	4,572	4,701	4,770	4,702	4,647	4,606	3,205	2,459
Principal payment on debt																			
Approx Free Cash Flow To Shareholders	15,055	17,471	19,482	20,737	19,936	19,916	21,573	21,820	21,972	22,069	22,976	22,323	22,951	23,288	22,955	22,689	22,486	15,650	12,006
Years	-0.10	0.90	1.90	2.90	3.90	4.90	5.90	6.90	7.90	8.90	9.90	10.90	11.90	12.90	13.90	14.90	15.90	16.90	17.90
Discount Factor	1.01	0.93	0.86	0.80	0.74	0.69	0.63	0.59	0.54	0.50	0.47	0.43	0.40	0.37	0.34	0.32	0.29	0.27	0.25
NPV of Cash flows	15,168	16,299	16,825	16,583	14,764	13,857	13,695	12,825	11,960	11,124	10,722	9,646	9,183	8,628	7,874	7,206	6,613	4,262	3,027

Terminal Value Calculation

Final year FCF	22,976
Perpetual Growth Rate	
Terminal Value	**0**
Discount Factor	0.47
Present Value of Terminal Value	**0**
Present Value of Cash Flows	**194,894**
Enterprise Value	**194,894**
Add: Cash on Balance Sheet	-724
Market Value	**194,170**
Fully Diluted Shares Outstanding	1,597.0
Value per Fully Diluted Share	**$121.58**

Source: Cowen and Company

GILD Quarterly P&L ($MM)

	Q1:14A	Q2:14A	Q3:14A	Q4:14A	2014A	Q1:15E	Q2:15E	Q3:15E	Q4:15E	2015E
Viread	210.6	260.7	275.6	311.0	1058.0	265.0	265.0	265.0	265.0	1060.0
Emtriva	6.5	7.0	7.0	7.0	27.5	7.5	7.5	7.5	7.5	30.0
Truvada	759.7	806.6	875.5	897.0	3338.8	850.0	840.0	830.0	825.0	3345.0
Atripla	779.6	870.7	894.8	925.0	3470.1	860.0	840.0	820.0	800.0	3320.0
Complera	250.7	299.5	330.3	348.0	1228.5	375.0	400.0	420.0	440.0	1635.0
Stribild	215.3	269.5	328.0	385.0	1197.8	425.0	460.0	495.0	530.0	1910.0
Total HIV Franchise	**2,222.4**	**2,514.0**	**2,711.2**	**2,873.0**	**10,320.7**	**2,782.5**	**2,812.5**	**2,837.5**	**2,867.5**	**11,300.0**
Sovaldi/Harvoni	2274.3	3480.8	2796.1	3839.0	12390.2	3625.0	3625.0	3625.0	3625.0	14500.0
Zydelig			5.9	17.0	22.9	25.0	35.0	45.0	55.0	160.0
AmBisome	92.1	94.8	98.1	104.0	389.0	90.0	90.0	85.0	85.0	350.0
Hepsera	11.7	10.0	10.0	10.0	41.7	10.0	10.0	10.0	10.0	40.0
Letairis	122.9	144.7	146.4	181.0	595.0	149.0	150.0	150.0	151.0	600.0
U.S. Ranexa Sales	111.6	122.0	132.5	144.0	510.1	135.0	137.5	140.0	142.5	555.0
Aztreonam Lysine	32.5	33.0	34.0	35.5	135.0	35.0	35.0	35.0	40.0	145.0
Other[a]	3.4	13.7	34.0	18.5	69.6	6.0	6.0	6.0	6.0	24.0
Total Product Sales	**4871.0**	**6412.9**	**5968.2**	**7222.0**	**24474.1**	**6857.5**	**6901.0**	**6933.5**	**6982.0**	**27674.0**
Y/Y growth	*104%*	*141%*	*120%*	*137%*	*127%*	*41%*	*8%*	*16%*	*-3%*	*13%*
Royalty, Contract Other Revenue[b]	128.0	122.0	73.6	92.0	415.6	160.0	120.0	65.0	70.0	415.0
Total Revenue	**4999.0**	**6534.9**	**6041.8**	**7314.0**	**24889.7**	**7017.5**	**7021.0**	**6998.5**	**7052.0**	**28089.0**
Y/Y growth	*97%*	*136%*	*117%*	*134%*	*122%*	*40%*	*7%*	*16%*	*-4%*	*13%*
COGS (non-GAAP)	611.3	722.9	783.1	847.0	2964.3	787.8	793.1	796.0	800.6	3177.5
Gross Margin	*87%*	*89%*	*87%*	*88%*	*88%*	*89%*	*89%*	*89%*	*89%*	*89%*
R&D (non-GAAP)	557.8	542.0	586.3	899.0	2585.1	740.0	755.0	770.0	810.0	3075.0
% of Revenue	*11%*	*8%*	*10%*	*12%*	*10%*	*11%*	*11%*	*11%*	*11%*	*11%*
SG&A (non-GAAP)	500.1	569.2	888.3	799.0	2756.6	755.0	770.0	780.0	795.0	3100.0
% of Revenue	*10%*	*9%*	*15%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*
Stock comp expense	82.2	83.1	99.3	95.0	359.7	100.0	105.0	110.0	115.0	430.0
In-process R&D, Acquisition Costs, and Restructuring	204.8	204.9	205.6	344.0	959.4	260.0	260.0	260.0	250.0	1,030.0
Total Expenses	**1956.3**	**2122.2**	**2562.6**	**2984.0**	**9625.1**	**2642.8**	**2683.1**	**2716.0**	**2770.6**	**10812.5**
Income/(Loss) from Operations	3042.7	4412.8	3479.2	4330.0	15264.6	4374.7	4337.9	4282.5	4281.4	17276.5
Operating Margins	*61%*	*68%*	*58%*	*59%*	*61%*	*62%*	*62%*	*61%*	*61%*	*62%*
Gain/(Loss) on sale of Assets and Other	(18)	(4)	(5)	-	(27)					
Interest Income	25.0	35.0	35.0	37.0	132.0	50.0	50.0	50.0	50.0	200.0
Interest Expense	(101.3)	(137.0)	(138.4)	(137.0)	(513.6)	(100.0)	(100.0)	(100.0)	(75.0)	(375.0)
Net Interest	(76.3)	(102.0)	(103.4)	(100.0)	(381.6)	(50.0)	(50.0)	(50.0)	(25.0)	(175.0)
Income/(Loss) before taxes	2948.5	4307.1	3370.8	4230.0	14856.4	4324.7	4287.9	4232.5	4256.4	17101.5
Provision for income taxes	725.9	656.6	646.6	768.0	2797.1	800.1	793.3	783.0	787.4	3163.8
Tax Rate	*25%*	*15%*	*19%*	*18%*	*19%*	*19%*	*19%*	*19%*	*19%*	*19%*
Net loss attributable to noncontrolling interest	4.8	5.1	7.0	25.0	41.9	2.0	2.0	2.0	2.0	8.0
Net Income/(Loss)	**2,227.4**	**3,655.6**	**2,731.3**	**3,487.0**	**12,101.3**	**3,526.6**	**3,496.6**	**3,451.5**	**3,471.0**	**13,945.7**
GAAP EPS	**$1.33**	**$2.20**	**$1.67**	**$2.18**	**$7.36**	**$2.24**	**$2.26**	**$2.23**	**$2.28**	**$9.00**
Impact of FAS 123, 1x items	260.4	266.1	282.4	396.0	1,205.0	326.7	331.2	335.8	331.2	1,325.0
Net Income/(Loss) ex FAS 123, 1x	**2,487.8**	**3,921.7**	**3,013.7**	**3,883.0**	**13,306.2**	**3,853.3**	**3,827.9**	**3,787.3**	**3,802.2**	**15,270.6**
Pro Forma EPS ex FAS 123, 1x Items	**$1.48**	**$2.36**	**$1.84**	**$2.43**	**$8.09**	**$2.45**	**$2.47**	**$2.44**	**$2.49**	**$9.85**
Diluted Shares Outstanding	1680	1664	1637	1597	1644	1575	1550	1550	1525	1550

Source: Cowen and Company

GILD Annual P&L ($MM)

	2014A	2015E	2016E	2017E	2018E	2019E	14/19
Viread	1,058	1,060	1,080	1,080	75	50	
Emtriva	28	30	30	30	30	30	
Truvada	3,339	3,345	3,300	3,300	2,250	1,875	
Atripla	3,470	3,320	3,100	2,900	2,600	2,400	
Complera	1,228	1,635	1,900	2,150	2,400	2,600	
Stribild	1,198	1,910	2,550	3,150	3,750	4,250	
Total HIV Franchise	**10,321**	**11,300**	**11,960**	**12,610**	**11,105**	**11,205**	2%
Sovaldi/Harvoni	12,390	14,500	16,000	17,000	17,500	18,000	
Zydelig	23	160	250	350	450	550	
AmBisome	389	350	350	165	83	83	
Hepsera	42	40	30	25	13	13	
Letairis	595	600	625	650	420	50	
U.S. Ranexa Sales	510	555	575	600	600	250	
Aztreonam Lysine	135	145	155	165	180	190	
Other	70	24	26	26	26	25	
Total Product Sales	**24,474**	**27,674**	**29,971**	**31,591**	**30,377**	**30,366**	4%
Y/Y growth	*127%*	*13%*	*8%*	*5%*	*-4%*	*0%*	
Royalty, Contract and Other Revenue	415.6	415.0	325.0	225.0	225.0	225.0	
Total Revenue	**24,889.7**	**28,089.0**	**30,295.9**	**31,816.0**	**30,601.7**	**30,591.4**	4%
Y/Y growth	*122%*	*13%*	*8%*	*5%*	*-4%*	*0%*	
COGS (non-GAAP)	2,964.3	3,177.5	3,319.1	3,341.2	3,156.6	3,114.6	
Gross Margin	*88%*	*89%*	*89%*	*89%*	*90%*	*90%*	
R&D (non-GAAP)	2,585.1	3,075.0	3,250.0	3,450.0	3,600.0	3,700.0	
% of Revenue	*10%*	*11%*	*11%*	*11%*	*12%*	*12%*	
SG&A (non-GAAP)	2,756.6	3,100.0	3,280.0	3,365.0	3,470.0	3,525.0	
% of Revenue	*11%*	*11%*	*11%*	*11%*	*11%*	*12%*	
Total Expenses	**9,625.1**	**10,812.5**	**11,098.4**	**11,108.5**	**11,050.3**	**11,173.2**	3%
Income/(Loss) from Operations	15,264.6	17,276.5	19,197.5	20,707.5	19,551.4	19,418.2	
Operating Margins	*61%*	*62%*	*63%*	*65%*	*64%*	*63%*	
Interest Income	132.0	200.0	260.0	290.0	340.0	385.0	
Interest Expense	(513.6)	(375.0)	(225.0)	(125.0)	(100.0)	(100.0)	
Net Interest	(381.6)	(175.0)	35.0	165.0	240.0	285.0	
Income/(Loss) before taxes	14,856.4	17,101.5	19,232.5	20,872.5	19,791.4	19,703.2	
Provision for income taxes	2,797.1	3,163.8	3,269.5	3,548.3	3,265.6	3,251.0	
Tax Rate	*19%*	*19%*	*17%*	*17%*	*17%*	*17%*	
Net loss attributable to noncontrolling interest	41.9	8.0	8.0	8.0	8.0	8.0	
Net Income/(Loss)	**12,101.3**	**13,945.7**	**15,971.0**	**17,332.2**	**16,533.8**	**16,460.2**	
GAAP EPS	**$7.36**	**$9.00**	**$10.83**	**$12.38**	**$12.72**	**$12.66**	
Impact of FAS 123, 1x items	1,205.0	1,325.0	1,143.1	871.3	755.8	764.9	
Net Income/(Loss) ex FAS 123, 1x	**13,306.2**	**15,270.6**	**17,114.1**	**18,203.5**	**17,289.6**	**17,225.1**	5%
Pro Forma EPS ex FAS 123, 1x Items	**$8.09**	**$9.85**	**$11.60**	**$13.00**	**$13.30**	**$13.25**	10%
Diluted Shares Outstanding	1644	1550	1475	1400	1300	1300	

Source: Cowen and Company

GILD Statement of Cash Flows ($MM)

	2013A	2014E	2015E	2016E	2017E	2018E	2019E
Net Income/(Loss)	3,057.3	12,101.3	13,945.7	15,971.0	17,332.2	16,533.8	16,460.2
Depreciation, Amortization, Stock Comp and IPR&D	596.7	600.0	600.0	600.0	600.0	600.0	600.0
Tax benefits from employee stock plans	5.9	0.0	0.0	0.0	0.0	0.0	0.0
Change in net working capital ex Inventory	(219.5)	(200.0)	200.0	(200.0)	200.0	(200.0)	(200.0)
Inventories	(343.1)	(350.0)	(350.0)	(350.0)	(350.0)	(350.0)	(350.0)
Other	7.8	2.0	2.0	2.0	2.0	2.0	2.0
Net cash provided by (used in) operating activities	3,105.0	12,153.3	14,397.7	16,023.0	17,784.2	16,585.8	16,512.2
(Purchase)/Sale/Maturation of marketable securities	315.1	200.0	200.0	200.0	200.0	200.0	200.0
Capital expenditures	(190.8)	(200.0)	(200.0)	(200.0)	(200.0)	(200.0)	(200.0)
Issuance of notes and acquisitions, net of cash acquired	(378.6)	0.0	0.0	0.0	0.0	0.0	0.0
Net cash provided by (used in) investing activities	(254.4)	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from issuances of/ Repurchase of common stock	(269.3)	(2,539.0)	(300.0)	(300.0)	(300.0)	(300.0)	(300.0)
Proceeds from issuance of/ Repurchase of debt/notes	(2,705.3)	0.0	0.0	0.0	0.0	0.0	0.0
Other	430.6	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Net cash provided by financing activities	(2,543.9)	(2,540.0)	(301.0)	(301.0)	(301.0)	(301.0)	(301.0)
Effect of exchange rate changes on cash	2.4	0.0	0.0	0.0	0.0	0.0	0.0
Net increase (decrease) in cash and cash equivalents	309.1	9,613.3	14,096.7	15,722.0	17,483.2	16,284.8	16,211.2
Cash and cash equivalents at beginning of year	1,803.8	2,112.9	11,726.2	25,822.9	41,544.9	59,028.1	75,312.9
Cash and cash equivalents at end of year	2,112.9	11,726.2	25,822.9	41,544.9	59,028.1	75,312.9	91,524.0

COWEN SUMMARY:							
Cash Flow from Operations (a)	3,105	12,153	14,398	16,023	17,784	16,586	16,512
Capital Spending	(191)	(200)	(200)	(200)	(200)	(200)	(200)
Owner's Cash Flow	**2,914**	**11,953**	**14,198**	**15,823**	**17,584**	**16,386**	**16,312**
Financing	(2,542)	(2,540)	(301)	(301)	(301)	(301)	(301)
Non-Recurring Items	(64)	200	200	200	200	200	200
Beginning Cash & Equivalent	1,804	2,113	11,726	25,823	41,545	59,028	75,313
Change in Cash & Equivalent	309	9,613	14,097	15,722	17,483	16,285	16,211
Ending Cash & Equivalent	2,113	11,726	25,823	41,545	59,028	75,313	91,524
(a) Excludes non-recurring items							

Source: Cowen and Company

Valuation Methodology And Risks

Valuation Methodology

Biotechnology:
In calculating our 12-month target price, we employ one or more valuation methodologies, which include a discounted earnings analysis, discounted cash flow analysis, net present value analysis and/or a comparable company analysis. These analyses may or may not require the use of objective measures such as price-to-earnings or price-to-sales multiples as well as subjective measures such as discount rates.

We make investment recommendations on early stage (pre-commercial) biotechnology companies based upon an assessment of their technology, the probability of pipeline success, and the potential market opportunity in the event of success. However, because these companies lack traditional financial metrics, we do not believe there are any good methodologies for assigning a specific target price to such stocks.

Investment Risks

Biotechnology:
There are multiple risks that are inherent with an investment in the biotechnology sector. Beyond systemic risk, there is also clinical, regulatory, and commercial risk. Additionally, biotechnology companies require significant amounts of capital in order to develop their clinical programs. The capital-raising environment is always changing and there is risk that necessary capital to complete development may not be readily available.

Risks To The Price Target

Gilead develops and commercializes drugs for a number of indications, including HIV, HCV, HBV, influenza, cancer, and pulmonary hypertension. Forecasting sales for any product is difficult, as the outlook could be altered by new safety/efficacy findings, emerging competition, alterations in the medical treatment paradigm, or changes in the pricing/reimbursement environment. Gilead's stock price could also be impacted by the changes in the outlook for key pipeline programs, most notably Sovaldi, ledipasvir, and idelalisib. Evaluating the market potential for drugs that have not yet been approved is particularly risky. Moreover, the market exclusivity for most of Gilead's franchises depends on patents, which are subject to challenge by generic drugmakers. The value of Gilead's franchises could be diminished should they lose the protection of key patents.

Addendum

Stocks Mentioned In Important Disclosures

Ticker	Company Name
BMRN	BioMarin Pharmaceutical
GILD	Gilead Sciences
PTLA	Portola Pharmaceuticals

Analyst Certification

Each author of this research report hereby certifies that (i) the views expressed in the research report accurately reflect his or her personal views about any and all of the subject securities or issuers, and (ii) no part of his or her compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed in this report.

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COWEN AND COMPANY RATING DEFINITIONS

Cowen and Company Rating System effective May 25, 2013

Outperform (1): The stock is expected to achieve a total positive return of at least 15% over the next 12 months

Market Perform (2): The stock is expected to have a total return that falls between the parameters of an Outperform and Underperform over the next 12 months

Underperform (3): Stock is expected to achieve a total negative return of at least 10% over the next 12 months

Assumption: The expected total return calculation includes anticipated dividend yield

Cowen and Company Rating System until May 25, 2013

Outperform (1): Stock expected to outperform the S&P 500

Neutral (2): Stock expected to perform in line with the S&P 500

Underperform (3): Stock expected to underperform the S&P 500

Assumptions: Time horizon is 12 months; S&P 500 is flat over forecast period

Cowen Securities, formerly known as Dahlman Rose & Company, Rating System until May 25, 2013

Buy – The fundamentals/valuations of the subject company are improving and the investment return is expected to be 5 to 15 percentage points higher than the general market return

Sell – The fundamentals/valuations of the subject company are deteriorating and the investment return is expected to be 5 to 15 percentage points lower than the general market return

Hold – The fundamentals/valuations of the subject company are neither improving nor deteriorating and the investment return is expected to be in line with the general market return

Cowen And Company Rating Definitions

Distribution of Ratings/Investment Banking Services (IB) as of 12/31/14

Rating	Count	Ratings Distribution	Count	IB Services/Past 12 Months
Buy (a)	461	60.50%	109	23.64%
Hold (b)	288	37.80%	14	4.86%
Sell (c)	13	1.71%	0	0.00%

(a) Corresponds to "Outperform" rated stocks as defined in Cowen and Company, LLC's rating definitions. (b) Corresponds to "Market Perform" as defined in Cowen and Company, LLC's ratings definitions. (c) Corresponds to "Underperform" as defined in Cowen and Company, LLC's ratings definitions.

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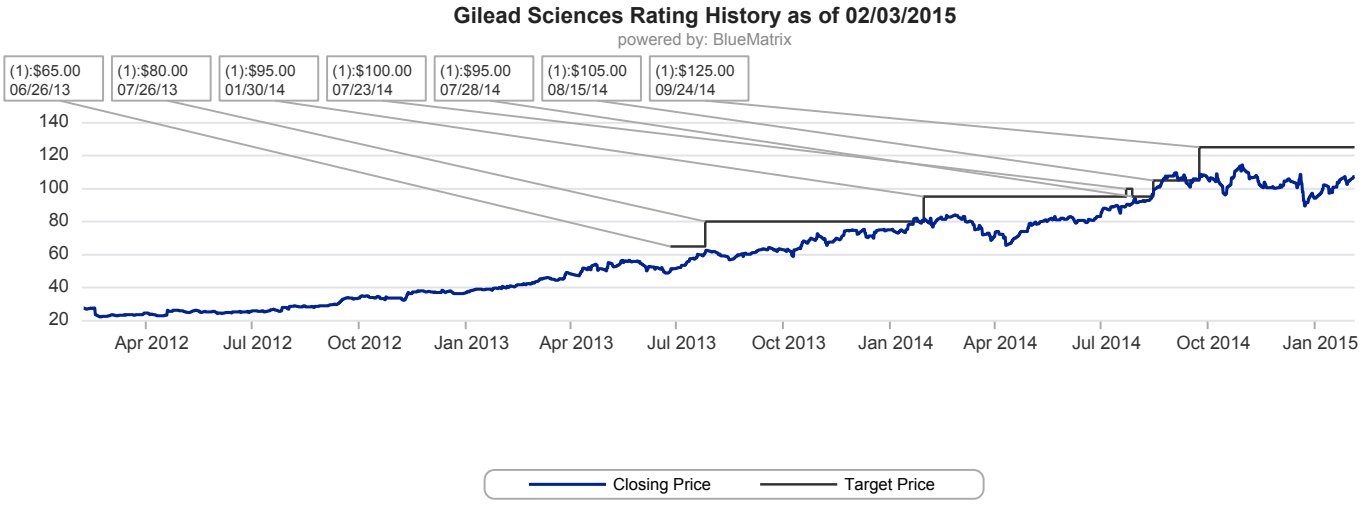

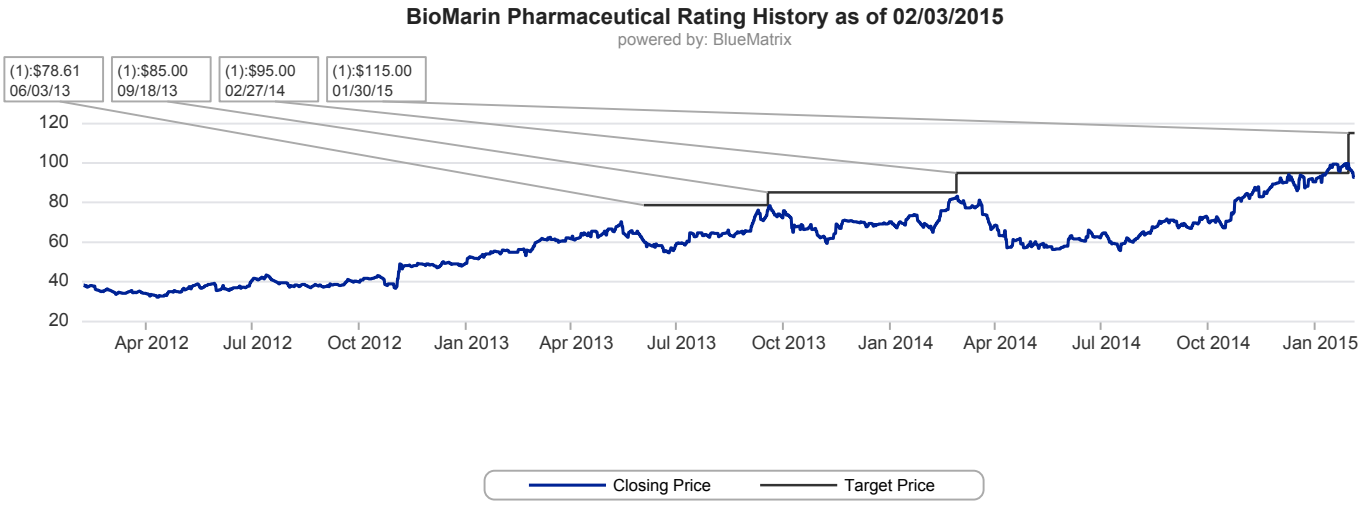

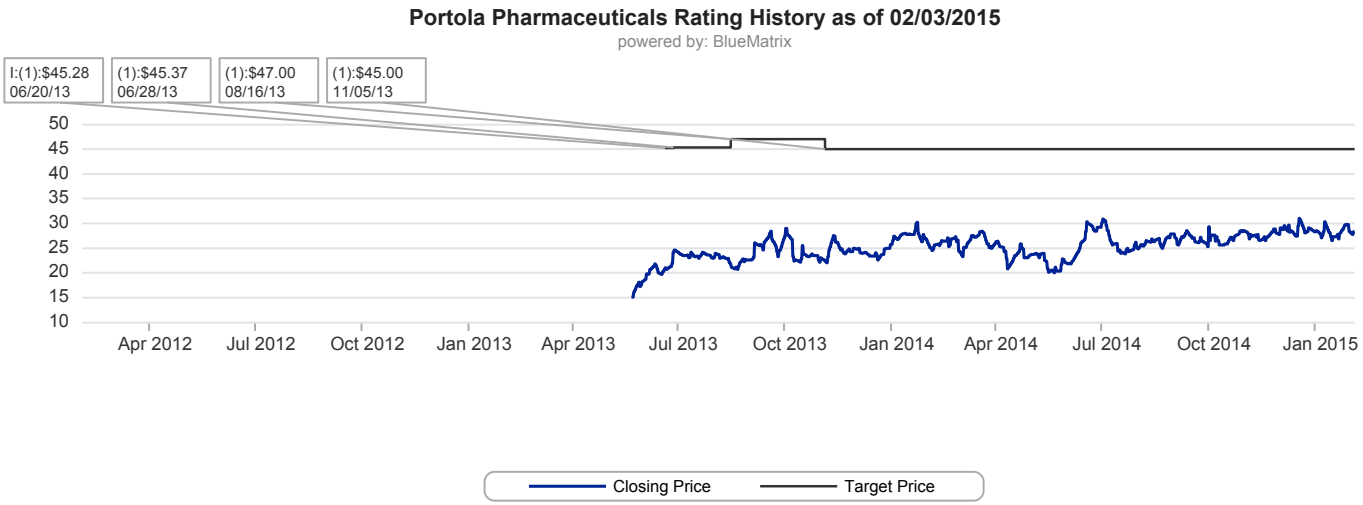

Legend for Price Chart:

I = Initiation | 1 = Outperform | 2 = Market Perform | 3 = Underperform | UR = Price Target Under Review | T = Terminated Coverage | $xx = Price Target | NA = Not Available | S=Suspended

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