BofA SECURITIES

Gilead Sciences Inc.

Takeaways from the Gilead/Kite Cell Therapy Event

Maintain Rating: BUY | PO: 95.00 USD | Price: 74.21 USD

Scalability of cell therapy business impresses

We attended Gilead/Kite's cell therapy event, where we did an onsite tour of one of the company's cell therapy manufacturing facilities. Our high-level takeaways on the company's cell therapy business are: 1) early investments in cell therapy manufacturing are expected to benefit the company long-term, both operationally and competitively, 2) Gilead is uniquely positioned to leverage first mover advantage in the expansion to community setting through its partnership(s), 3) armed with promising early data, we see a rapid clinical and commercial development path for anito cel (ddBCMA CAR-T) in multiple myeloma, and 4) the early stage cell therapy pipeline offers multiple shots on goal to support growth. Taken together, we remain confident in Gilead's ability to maintain its leadership in cell therapy over the near- and long-term, which has a combined TAM of >$40B across indications. Maintain Buy on GILD, $95 PO.

Reducing turnaround increases capacity, improves margins

With a median turnaround time (TAT) of 14 days (5 days for manufacturing, 9 days for QA/QC and shipping), 96% success rate, and end-to-end capabilities, Gilead already leads on cell therapy production. However, based on our discussions with Kite leadership and observations of the company's facility, we think Gilead will continue to widen its lead. Over the next few years, Gilead could potentially reduce TAT further to 10 days by 1) reducing time needed for QC from 7 days to 5 days through automation (2025 inflection) and 2) reducing manufacturing time further from 5 days to 3 days by improving T-cell collection quality and efficiency (Fit-CAR platform). In addition to reducing TAT, we expect automation in the cell therapy production process will reduce the equipment footprint, which can be leveraged to increase the company's current capacity 2.4x from 10K lots to 24K lots by 2026 and improve gross margin (>80% gross margin by 2030) through economies of scale. Net net, we view long-term scalability of the cell therapy business as feasible, supported by a robust manufacturing infrastructure.

Community expansion supports mid-term growth

While we expect the pilot community setting ATC (Tennessee Oncology) will begin to inflect in late 2024, we don't expect a material contribution to the topline for cell therapy sales until 2025+ (see our most recent management meeting takeaways) with 2H24 growth largely due to the backlog of referrals from transplant centers. That said, we think expansion into community setting should unlock a major growth opportunity for Gilead given that ~80% of the addressable population is treated in community setting. From discussions with management, we see potential for 25 additional community centers to be accredited, though we acknowledge significant capital (>$1M) necessary to build out infrastructure at some sites could limit the speed of adoption. While Gilead does not plan to box out competitors from activated community ATC's, we think Gilead's products will be favored due to first mover advantages.

See thoughts on opportunity in multiple myeloma and pipeline updates on p. 2.

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Refer to important disclosures on page 4 to 6. Analyst Certification on page 2. Price Objective Basis/Risk on page 2. 12670902

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Stock Data

Price	74.21 USD
Price Objective	95.00 USD
Date Established	8-Sep-2023
Investment Opinion	B-1-7
52-Week Range	71.37 USD - 87.87 USD
Mrkt Val (mn) / Shares Out (mn)	93,653 USD / 1,262.0
Free Float	99.9%
Average Daily Value (mn)	561.57 USD
BofA Ticker / Exchange	GILD / NAS
Bloomberg / Reuters	GILD US / GILD.OQ
ROE (2024E)	41.6%
Net Dbt to Eqty (Dec-2023A)	83.8%
ESGMeter™	High

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Abbreviations:
CAR-T: chimeric antigen receptor T-cell
ddBCMA: D-domain B-cell maturation antigen
QC/QA: quality control / quality assurance
OS: overall survival
2-4L+: second line through fourth line plus
LBCL: large B-cell lymphoma
ATC: authorized treatment center
SOC: standard of care
TAM: total of addressable market

Opportunity in multiple myeloma still in focus

Despite renewed concerns over the early death imbalance between treatment and SOC arms for Carvykti in 2-4L MM (see our note on the briefing documents), longer term survival data supports approval and a treatment paradigm shift, in our view. Still, we think that Gilead/Arcellx's (covered by Jason Gerberry) ddBCMA CAR-T (anito cel), which utilizes a unique synthetic binding domain, has a clear path to differentiation on safety and efficacy with lessons learned from trial design of CARTITUDE-4, notably on the impact of reducing time to CAR-T infusion on patient outcomes. We are incrementally more positive on the clinical and development path forward with potential regulatory approval of the tech transfer process from Lonzo for anito cel as early as 3Q24, process for bringing lentiviral vector production in-house ongoing, and data from iMMagine-1 in 4L+ MM along with initiation of the pivotal trial in earlier line (2-4L) MM in 2H24 (likely 4Q24), and commercial launch into later line (4L+) MM as early as 2026.

Cell therapy pipeline highlights

Gilead introduced a number of early pipeline assets with opportunities identified in multiple myeloma, autoimmune disorders, and solid tumors, though we highlight next generation cell therapy advancements from the bicistronic-CAR platform, which leverages 2 costimulatory domains. Initial phase 1 data from KITE-363 in LBCL expected in 2H24. Preclinical data demonstrates enhanced cell expansion potential without an increase in cytokine production, which could offer a better tolerability profile over current CAR-T's. Separately, Yescarta line extension into 1L DLBCL is expected to support near-term growth with pivotal data forthcoming (ZUMA-23 trial), supported by robust phase 2 results, which show an 81% 3-year OS rate.

Price objective basis & risk

Gilead Sciences Inc. (GILD)

Our $95 price objective is based on a sum-of-the parts net present value (NPV) analysis. We forecast sales of key franchises or products to 2030 using a weighted average cost of capital (WACC) of 8%, and include a terminal value where appropriate. Under these assumptions, we value the HIV franchise at $80/share, HCV and HDV at $7/share, the Kite platform at $8/share, remdesivir at $2/share, Trodelvy at $9/share, with the pipeline at $5/share and net cash at -$15/share.

Upside risks: 1) stronger-than-expected sales of Biktarvy in HIV and faster uptake of Descovy in PrEP, 2) greater durability of HCV revenues, 3) rapid uptake of Kite, 4) and success of the oncology pipeline may lead investors to assign further value to these programs.

Downside risks: 1) moderating sales of Biktarvy, Genvoya, Odefsey, and Descovy due to competition, which may include long-acting injectable formulations, 2) greater than expected erosion of HCV revenues, 3) limited upside from Gilead's CAR-Ts, 4) the oncology pipeline may have limited clinical success or be meaningfully delayed.

Analyst Certification

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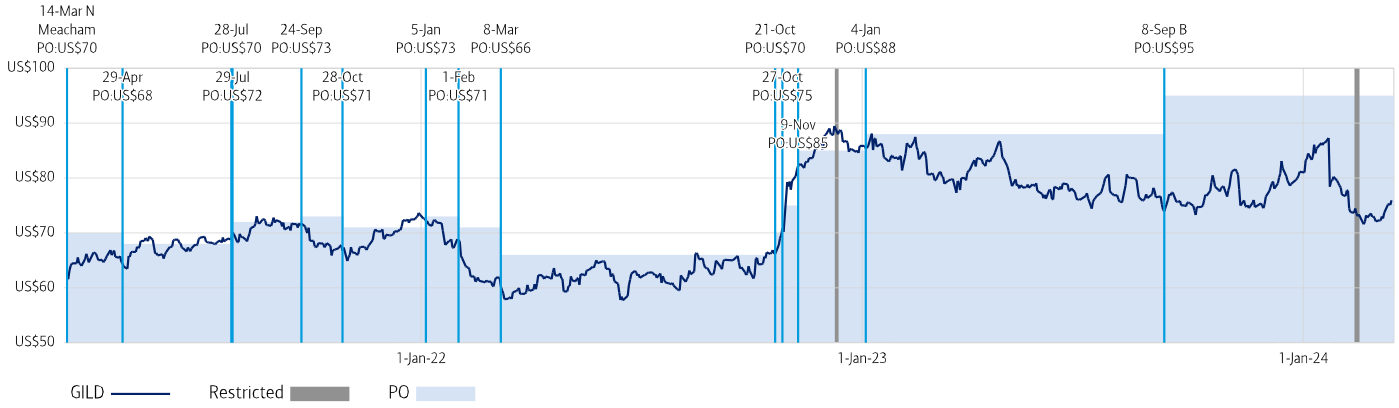
Gilead Sciences Inc. (GILD) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

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Sell	807	22.84%	Sell	383	47.46%

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