

Equity Research

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**Gilead Sciences Inc. (GILD- \$68.15)**

Rating: Overweight

Price Target: \$88.00

**GILD CEO speculation debate may be over; appointing O'Day is positive, in our view**

REV	1Q	2Q	3Q	4Q
2017A	6,505.0A	7,141.0A	6,512.0A	5,949.0A
2018E	5,088.0A	5,647.7A	5,596.1A	5,574.2E
2019E	5,493.7E	5,485.9E	5,407.5E	5,467.7E
EPS	1Q	2Q	3Q	4Q
2017A	2.23A	2.56A	2.27A	1.76A
2018E	1.48A	1.91A	1.84A	1.74E
2019E	1.70E	1.70E	1.67E	1.71E
FY	2017A	2018E	2019E	
REV	26,107.0A	21,906.0E	21,854.9E	
P/S	3.4x	4.0x	4.0x	
EPS	8.82A	6.97E	6.78E	
P/E	7.7x	9.8x	10.1x	

**Investment Summary: Reiterate Overweight and 12-mo. PT of \$88 on GILD shares.** *The Wall Street Journal* is reporting that GILD may appoint Daniel O'Day as the next CEO of GILD. Daniel O'Day is currently CEO of Roche (since 2012) and has worked at Roche in various roles since 1987. One of the biggest overhangs for GILD, from speaking to investors, has been around who would be the next CEO and what that might signal around the company's strategy. We would expect the market to view this appointment positively, since it gives clarity around one of the most important questions around building a Gilead thesis.

**We are encouraged by the appointment of O'Day, as we think that the company is appointing a leader that will focus on product pipeline diversification and commercial growth.** O'Day has an extensive background in pharma and was unit head for arthritis and respiratory. We note GILD has a collaboration with GLPG for filgotinib (with Ph3 data reading out in 1Q19), which is being developed in inflammation and immunology categories like rheumatoid arthritis (RA) and bowel disease. One of his key legacies from Roche, in our view, was to weave products with companion diagnostics. In his career there, he was senior leadership in both pharma and diagnostics.

**We also would expect the new CEO could potentially be more aggressive around M&A strategy with GILD's significant amount of cash.** On p. 2, we show all the deals that were executed with O'Day as CEO of Roche. We also note that Gilead has close to \$30B in cash available (relative to its \$88B in market cap). From looking at the list, our observation is that many deals were done (especially ones under \$1B) and the InterMune deal looks like the biggest one at \$8B. Esbriet (the InterMune IPF) drug has been on market for four years and currently sells about \$750M based on 9 months YTD sales reported by Roche. Other notable deals during his time as CEO include: Santaris Pharma for \$450M, Seragon for \$725M, Adheron Therapeutics for \$580M, Trophos for \$540M, Tensha Therapeutics for \$545M, Ignyta for \$1.7B, Jecure Therapeutics, and Tusk Therapeutics for €655. Roche also made acquisition in cancer data platforms, including Flatiron Health for \$1.9B.

Current Statistics

Market Cap (\$Mil)	\$88,160	52 Wk. Range	\$89.54 - \$64.27
Avg. Daily Trading Volume (3 mo.) :	7,011,123	Shares Out (Mil) :	1,293.6

The Disclosure Section may be found on pages 3 - 4.

## Roche Recent M&amp;A History

Company	Focus	Year	Total Deal Size (\$M USD)
Tusk Therapeutics	I/O, antibodies	2018	\$758
Jecure Therapeutics	NASH (small molecule inhibitors of the NLRP3 inflammasome)	2018	-
ForSight VISION4	Retinal drug delivery	2017	-
Ignyta	Entrectinib (CNS-active tyrosine-kinase inhibitor)	2017	\$1,700
Tensha Therapeutics	Epigenetic technology that disrupts bromodomain and extra terminal domain (BET) proteins for oncology	2016	\$535
Foundation Medicine	Diagnostics	2015	\$2,400
Trophos	Lead SMA candidate and TRO40303 Ph1 for cardiac injury caused by lack of oxygen, and undisclosed number of preclinical assets. Also proprietary screening platform generating mitochondrial targeted compounds.	2015	\$545
CAPP Medical	ctDNA cancer screening	2015	-
GeneWeave	Microbiology diagnostics	2015	\$425
Kapa Biosystems	Next-gen sequencing	2015	-
Adheron Therapeutics	Autoimmune	2015	\$580
Seragon	RG6046, HER-negative breast cancer candidate	2014	\$1,725
Iquum	Diagnostics	2014	\$450
Genia	Sequencing platform	2014	\$350
Intermune	Pirfenidone for IPF	2014	\$8,300
Santaris Pharma	Locked Nucleic Acid (LNA) platform that has contributed to an emerging era of RNA-targeting therapeutics	2014	\$450
Bina Technologies	Software for genomic data analysis	2014	-
		<b>Total:</b>	<b>\$18,218</b>

Source: Company filings, Cantor Fitzgerald Research

### Valuation

We use a probability-adjusted DCF analysis to value Gilead shares. We assume a discount rate of 8%. We model revenues out to 2029 and from there assume a terminal value.

### Risks

Key risks to our Overweight rating and price target include HIV generic and competitive risks, particularly from GSK (Not Covered) on the branded side; a slower or less successful Biktarvy launch than expected; slowing CAR-T sales from current competition or emerging next-gen CAR-Ts; failure of the cell therapy modality to grow to drive stability and growth long term; and late-stage pipeline failures, particularly of the NASH franchise and filgotanib trials or other clinical; and regulatory or commercial risks that prevent these franchises from contributing sales.