Gilead Sciences – QuickView

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Investment summary: Oncology adds diversity

Gilead's investment case is understandably focused on its existing HIV franchise ($8.1bn sales in FY12) and burgeoning expectations for its hepC portfolio. However, consensus estimates currently attribute little value to Gilead's oncology portfolio, despite the company spending $1.3bn in the last two years to acquire late-stage cancer drugs. We therefore view the successful development of idelalisib (acquired through Calistoga for $600m), simtuzumab (Arresto Biosciences for $225m) and CYT387 (YM Biosciences for $510m), as well as further potential oncology targets, as an emerging theme in bolstering and diversifying Gilead's offering.

CYT387 targets myelofibrosis...

Gilead's recently completed $510m acquisition of YM adds a potentially unique JAK1/2 inhibitor for myelofibrosis (MF) – Phase I/II data from 166 patients has shown comparable spleen response activity to other JAK inhibitors, but a superior benefit on anaemia and transfusion dependency. With Gilead now in control we expect a more aggressive strategy for CYT387, posing a greater threat to Incyte's Jakafi, the only marketed JAK inhibitor in this setting. Gilead plans Phase III studies for CYT387 to start in H213, possibly going head-to-head with Jakafi, while further development for related myeloproliferative disorders (MDS, PV, ET) is also possible.

...and could complement simtuzumab

CYT387 could also prove to be of benefit in combination with simtuzumab (anti-LOXL2 MAb), acquired through the $225m purchase of Arresto in 2010. A 54-patient Phase II study of simtuzumab+Jakafi in MF is ongoing and results in Q213 could have a bearing on CYT387 plans. Simtuzumab is also in or about to start Phase IIb trials for pancreatic and colon cancers, as well as liver fibrosis, NASH, PSC and IPF.

Idelalisib leads the PI3K field

Gilead's third key cancer drug, idelalisib, was purchased through Calistoga in 2011 for $600m (including milestones). A PI3K delta inhibitor, the product is in Phase III studies for CLL and iNHL and is now the most advanced agent in development.

Valuation: Pipeline success required to underpin $68bn EV

Gilead's EV of $68bn ($2.7bn cash; $8.4bn debt) compares to a consensus NPV (EvaluatePharma) of $55bn, but this is derived almost entirely from the marketed HIV franchise and late-stage hepC portfolio. Successful cancer drug development would add another dimension to Gilead's investment case and help to underpin its EV.

Consensus estimates

Year End	Revenue ($m)	PBT ($m)	EPS ($)	DPS ($)	P/E (x)	Yield (%)
12/11	8,386	3,651	1.87	0.0	21.9	N/A
12/12	9,703	3,612	1.77	0.0	23.1	N/A
12/13e	10,621	4,427	1.86	0.0	22.0	N/A
12/14e	12,364	6,089	2.63	0.0	15.6	N/A

Source: Bloomberg

Price	$40.83
Market cap	$62bn

Share price graph

Share details

Code	GILD
Listing	NASDAQ
Sector	Pharma & biotech
Shares in issue	1.52bn

Business

Gilead Sciences is a US pharmaceutical company primarily focused on the development and commercialisation of anti-viral products, particularly for HIV (Atripla/Truvada) and hepatitis C (sofosbuvir). Gilead also has an emerging oncology portfolio in mid-to-late stage clinical trials.

Bull

- Market dominant HIV franchise.
- HepC portfolio (sofosbuvir NDA in Q213) potential to dominate market.
- Strong cash flow (>$750m average per quarter).

Bear

- HIV franchise (Viread) starts to lose market exclusivity in 2017.
- Increasingly sensitive to regulatory and commercial progress of sofosbuvir.
- HepC market opportunity may be overestimated.

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