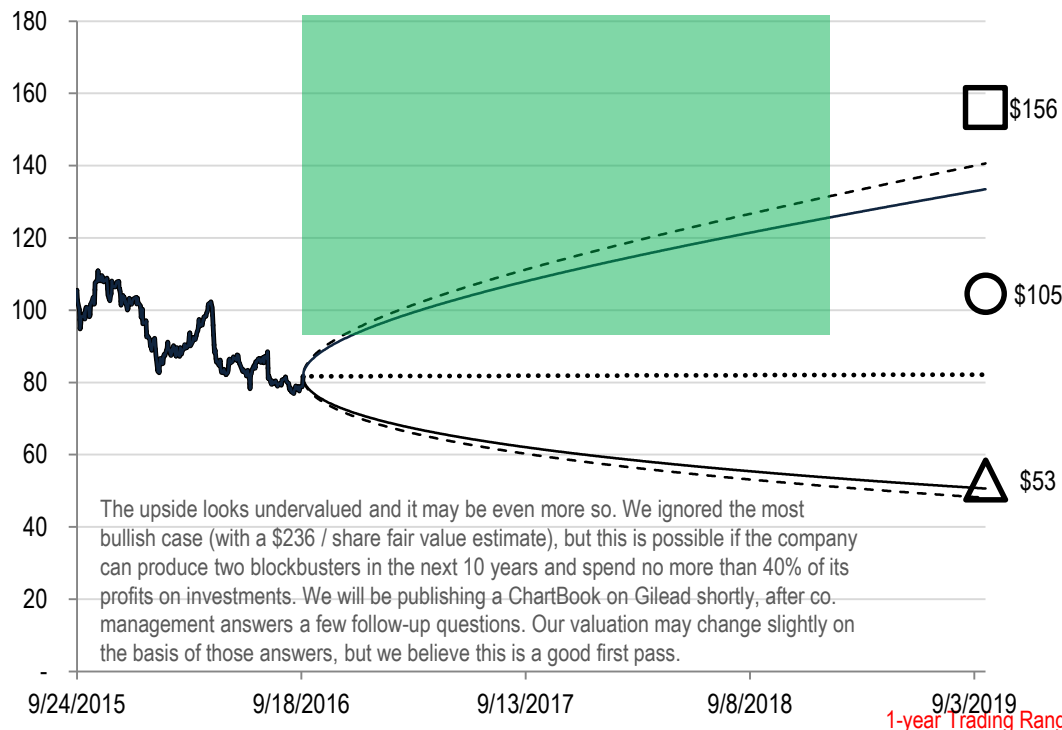


B / S	P / C / S	Strike	Exp.	Premium
Buy	Call	95.00	JAN '18	(\$5.20)



IOI Tear Sheet : Gilead Sciences (GILD)

Levered Long (Low Conviction)

Data as of 21 September 2016

IOI's Take

Gilead Sciences is a spectacular biotechnology investor. Its 2011 purchase of Pharmasset for \$11b yielded a revolutionary treatment for Hepatitis C Virus (HCV) that has generated \$40b in revenues & roughly \$21b in OCP to date. Its HIV franchise is also very strong and durable, with the recent introduction of better, safer treatments and the use of its older drugs to *prevent* HIV infection. A next possible area that it may shine is NASH, a kidney disease. Hepatitis B treatments may also prove successful. The issue is that developing drugs (investing in biotech start-ups) is risky business and there is no guarantee of success. PE Ratio is low, but if pipeline fizzles, appropriate.

Drivers

S-T Revenue Growth	A new \$10b blockbuster in next 5 years is best case. Intense competition for HCV market and no blockbuster is worst case Proj: +10% (Best), -4% (Worst)
S-T Profitability	Enormous op. leverage in this business. Over 50% OCP margin 1H16. Proj: +50% (B), +33% (W)
Investment Level / Eff.	40% of OCP spent on Investments. Highly effective over last 5 years. Proj (med-term growth): +10% (B), -4% (W)
Balance Sheet	Co. has regulatory risk, especially with recent focus on pharma pricing (Shkreli, EpiPen). Black Swan negative.

Valuation & Return

Valuation Uncertainty: High

	Low	Likely	High
Stock Fair Value (\$)	53	105	156
Stock Return (%)	-35	30	93
Option Period Return (%)	-100	92	1,073
Option Annual Return (%)	-100	64	541

Historical Metrics

	Historical Median	
	5-year	10-year
Revenue Growth (%)	16	26
Profit Margin (%)	40	40
Med-term Growth	High	High

Market Risk

Short-term market risk will center on NASH trials and approval process. PS Ratio is not very useful for this company due to big swings in historical values. Upside risk is very high too if GILD can create a blockbuster.

