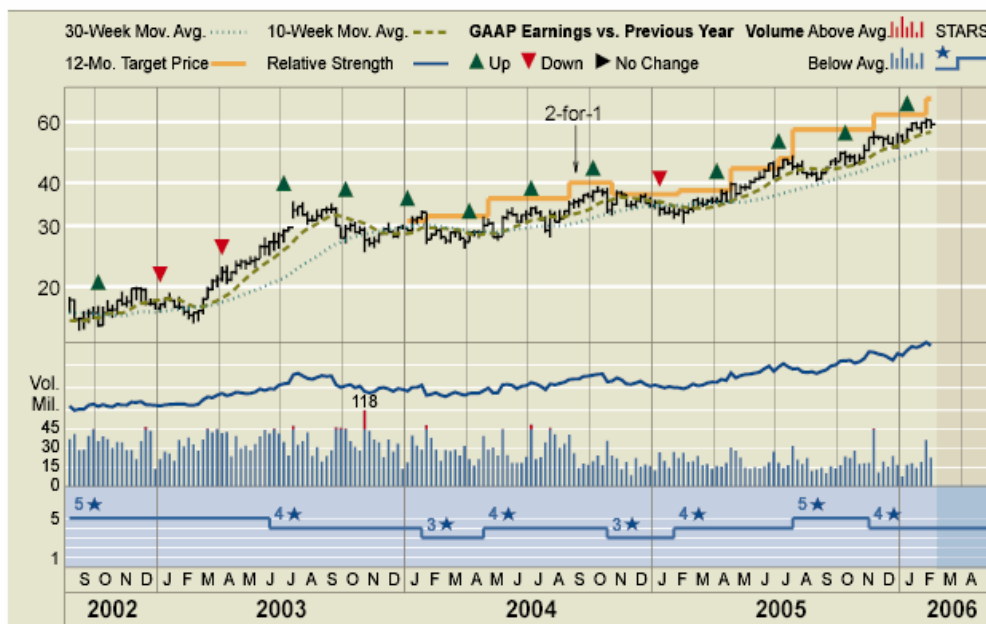


# GILEAD SCIENCES

Date: 02/20/2006  
 Proposal: Buy Proposal of 250 Shares  
 Ticker: GILD  
 Analyst: J. Hirsch & J. Park  
 Profile: Gilead Sciences, Inc., a biopharmaceutical company, engages in the discovery, development, and commercialization of therapeutics for patients suffering from life-threatening diseases primarily in North America, Europe, and Australia. It focuses its research and clinical programs on anti-infectives. Products include treatment of HIV infection, chronic hepatitis B, aviary influenza and more. and is heavily involved in AIDS research The company has collaborative relationships with Bristol-Myers Squibb Company; GlaxoSmithKline; Pfizer, Inc.; F. Hoffmann-La Roche, Ltd and more. Gilead was founded by Michael Riordan in 1987. The company is headquartered in Foster City, California (provided by Yahoo! Finance)

## VALUATION MEASURES & KEY STATISTICS

<b>Market Cap:</b>	28.14 B	<b>P/E (ttm):</b>	35.82
<b>Shares Outstanding:</b>	457.92 M	<b>P/E (forward):</b>	25.29
<b>Float:</b>	455.86 M	<b>PEG:</b>	1.56
<b>Avg. Daily Volume:</b>	4,244,900	<b>P/Sales:</b>	13.88
<b>Total Cash:</b>	2.32 B	<b>EPS (ttm):</b>	1.72
<b>Total Debt:</b>	0	<b>ROE (ttm):</b>	33.23%
<b>Profit Margin:</b>	40.13%	<b>ROA (ttm):</b>	23.46%
<b>Operating Margin:</b>	54.78%	<b>Revenue:</b>	2.03 B
<b>EBITDA:</b>	1.14 B	<b>Beta:</b>	1.45
<b>Short % of Float:</b>	1.80%	<b>% Held by Institutions</b>	86.60%



## **BUSINESS SUMMARY**

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Gilead Sciences, Inc., a biopharmaceutical company, engages in the discovery, development, and commercialization of therapeutics for patients suffering from life-threatening diseases primarily in North America, Europe, and Australia. Approximately 1,800 employees in North America, Europe and Australia contribute to the Gilead mission of advancing patient care by developing groundbreaking therapeutics to treat life-threatening infectious diseases.

### **Recent News:**

- February 10, 2006: Gilead Sciences launches 'Stop Hep B' Campaign which aims to combat chronic Hepatitis B by educating and empowering at-risk communities
- February 9, 2006: Gilead announces positive results from Phase I/II study of investigational HIV Integrase Inhibitor GS 9137
- February 7, 2006: Gilead Sciences has been chosen to present at the Merrill Lynch Global Pharmaceutical, Biotechnology & Medical Device Conference.

### **Mergers and Acquisitions:**

- In January 2003, GILD acquired Triangle Pharmaceuticals (VIRS) for about \$464 million in cash. VIRS's lead product was Emtriva (emtricitabine), an anti-HIV medication. Emtriva was approved by the FDA in July 2003, and in Europe in October 2003.

### **Product Description, Research and Development:**

- **Viread** (tenofovir DF); HIV Treatment.
  - 2001: FDA approved Viread to treat HIV patients. In addition to being used on patients who have become resistant to other reverse transcriptase inhibitors, clinical data on Viread's use in treating naive patients has helped to drive sales in the frontline treatment setting.
  - 2002: EU approval was granted
  - 2003: Sales for Viread were \$567 million
  - 2004: Viread sales grew to \$783 million, representing 59% of total company revenues
- **Hepsera** (adefovir dipivoxil); Hepatitis B.
  - 2002: Approved by the FDA
  - 2003: EU Approval Granted
  - 2005: out-licensed rights to GlaxoSmithKline (GSK) in exchange for milestones and royalties, launched in 6 Asian countries (including Japan).
- **AmBisome** (liposomal formulation of amphotericin B); Fungal Infections.
  - By delivering amphotericin B in a proprietary liposomal formulation, studies have shown it to be effective in reducing the rate and severity of kidney toxicity and injection-related reactions.
  - Co-marketed in the U.S. with Fujisawa Healthcare, and is also approved by the FDA to treat cryptococcal meningitis in AIDS patients.
  - 2003: Sales of \$198 Million
  - 2004: Sales of \$212 Million
- **Tamiflu**; Oral Treatment of Influenza A and B
  - Developed in partnership with Hoffman-La Roche (Switzerland)
  - 1999: Approved by FDA
  - 2000: Approved by Japan
  - 2002: Approved by EU
- **HIV Research**
  - In June 2005, GILD initiated a Phase I/II trial of GS 9137 to treat HIV. This compound was licensed from Japan Tobacco. GILD is collaborating with Genelabs Technologies, Inc. on research into compounds that may treat hepatitis C by inhibiting HCV polymerase. The company also has rights to certain compounds for treating hepatitis C from Achillion Pharmaceuticals.



**GOING FORWARD**

1. **Growth Potential:** Analysts project combined anti-HIV drug sales of \$1.38 billion for 2005 and \$1.63 billion for 2006. Analysts forecast Hepsera revenues of \$182 million and AmBisome sales of \$223 million for 2005, with Hepsera sales rising to \$209 million in 2006 and AmBisome sales growing to \$234 million. Analysts estimate EPS of \$1.59 for 2005 (excludes stock option expense). Including stock option expense, 2005 EPS estimate would be \$1.43, and 2006 EPS estimate is \$1.67, with \$2.01 estimated for 2007. Such statistics demonstrate Gilead Science's continued commitment to growth. Earnings per share estimate for the next fiscal year is 2.43 (2005 EPS = 2.07).

**Revenues/Earnings Data**

Fiscal year ending December 31, 2005

**Revenues (Million \$)**

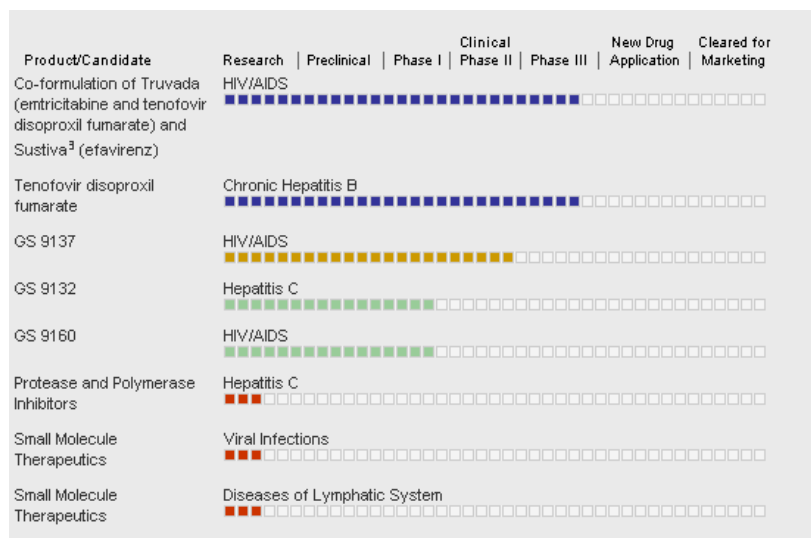
	2005	2004	2003	2002	2001	2000
1Q	430.4	309.1	165.1	78.42	57.84	47.71
2Q	495.3	319.7	238.9	109.4	50.69	50.13
3Q	493.4	326.2	200.4	134.0	50.92	45.24
4Q	609.3	369.6	263.5	145.0	74.33	52.48
Yr.	2,028	1,325	867.9	466.8	233.8	195.6

**Earnings per Share (\$)**

	2005	2004	2003	2002	2001	2000
1Q	0.34	0.25	-1.10	-0.01	-0.06	-0.01
2Q	0.41	0.24	0.23	0.05	-0.09	-0.01
3Q	0.38	0.25	0.17	0.05	-0.07	-0.05
4Q	0.59	0.24	0.43	0.09	0.31	-0.05
Yr.	1.72	0.99	-0.18	0.17	0.13	-0.12

This data demonstrates a consistently increasing trend in revenues, as well as earnings per share. This trend is predicted by analysts to continue in 2006 with its continued expansion and new product launches.

2. **Current Pipeline:** Gilead Sciences not only has a diversified product line in its pipeline, but is at various stages as well, allowing for a continued introduction of drugs to the market. In August 2005, a Phase I trial of GS 9132 (ACH-806) was initiated.





3. **Future International Expansion:** In 2003, GILD outlicensed Japanese rights to Viread, Emtriva, and Truvada to Japan Tobacco and is entitled to milestones and royalties on sales. In April 2004, Japan Tobacco successfully launched Viread in Japan. GILD found a similar success with its European launch of Truvada in 2005. The company has announced its future plans to expand its access program to a total of 97 countries, including Africa.

Moving Average Analysis			
Type	Price	%	Slope
10 Day	60.08	102.3	UP
20 Day	59.54	103.2	UP
50 Day	56.77	108.3	UP
200 Day	48.17	127.6	UP

4. **Combating the Avian Flu:** France confirmed on February 19 that it had found the deadly H5N1 bird flu strain in a wild duck. Testing by the Farm Ministry has proven that the deceased duck found in Eastern France on February 13, possessed the strain transmissible to humans, confirming its spread from Asia to Europe and Africa. Of the 171 individuals that this highly pathogenic avian influenza H5N1 virus has infected, it has killed 93 of them. It is clear that the Avian Flu poses a tremendous threat to the vitality of the World population and economy. Tamiflu – the first and only approved neuraminidase inhibitor available in convenient pill and liquid suspension form – is the primary treatment for the aviary flu. Tamiflu was discovered by Gilead Sciences, and brought to market by Gilead’s worldwide development and marketing partner, F. Hoffmann-La Roche.
5. **Diversification:** Having sold Intuitive Surgical (ISRG), Blyth Fund no longer holds a position in the biotechnology sector. Biotechnology is a promising market as global sales of prescription (including both branded and generic drugs) and over-the-counter (OTC) remedies top \$300 billion annually. Gilead Sciences has much growth potential (continued increase in revenue, earnings) within the expanding biotechnology industry. Market analysts forecast that the stock price will continue to increase throughout 2006.

#### INVESTMENT RISK FACTORS

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Among the risks to consider:

1. **Dependence on sales of HIV products:** Viread and Truvada, nucleoside class of anti-viral therapeutics, support existing operations. If treatment paradigm for HIV changes, results of operation would likely suffer and need to scale back operation to include spending on research and development efforts.
2. **New Products and Growth of Existing Product Revenues:** Each new product commercialization effort will face risks but required for increase in revenue and growth. There are potential difficulties in collaboration efforts with BMS. Despite testing additional formulations in clinical studies, the company could experience additional delays in filing for approval or fail to obtain regulatory approval, which may have material adverse effect on business and results of operations.
3. **Significant Competition:** Competitors have substantial clinical, regulatory and marketing resources (Ex: AmBisome vs. Merck & Co, and Pfizer, Hepsera vs. BMS). Such may impede the company’s ability to maximize its potential growth. Uncertainty over inventory changes could result in less predictable demand, another delay in developing the triple combination drug, and failure to address a pipeline that remains too narrowly focused on anti-infective drugs.

## DIRECT COMPETITORS

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	GILD	BMY	MRK	PFE	INDUSTRY
Market Cap:	28.14B	45.16B	78.83B	190.33B	162.57M
Employees:	N/A	N/A	N/A	N/A	71
Qtrly Rev Growth (yoy):	64.90%	-2.70%	0.30%	-8.90%	18.90%
Revenue (ttm):	2.03B	19.21B	22.01B	51.30B	9.84M
Gross Margin (ttm):	87.17%	69.64%	77.41%	83.77%	96.24%
EBITDA (ttm):	1.14B	5.33B	9.77B	20.86B	-14.38M
Oper Margins (ttm):	54.78%	21.22%	29.32%	29.90%	-234.78%
Net Income (ttm):	813.91M	2.99B	4.63B	8.09B	-16.49M
EPS (ttm):	1.716	1.513	2.105	1.091	-0.57
P/E (ttm):	35.82	15.25	17.13	23.67	34.56
PEG (5 yr expected):	1.56	4.97	5.81	2.49	1.44

## MANAGEMENT ANALYSIS

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The Gilead management team is responsible for making the critical decisions that determine Gilead's future. One CEO/President, Three Executive Vice Presidents, Five Senior Vice Presidents:

- John C. Martin, PhD**, President and CEO – Dr. Martin has served as Gilead's President and Chief Executive Officer and a member of the Board since April 1996. He joined Gilead as Vice President for Research and Development in 1990. Before this, he held several leadership positions at Bristol-Myers Squibb in the division of antiviral chemistry (1984-1990). Martin served the Syntex Corporation 1978-1984, after having gained a PhD in organic chemistry from the University of Chicago and an MBA in Marketing from Golden Gate University. Martin serves on numerous committees from CDC's Advisory Committee on HIV and STD Prevention and Treatment, to the Board of Trustees at the University of Chicago and Golden Gate University, and is a recipient of the International Society for Antiviral Research's Gertrude B. Elion award for Scientific Excellence.
- Norbert W. Bischofberger, PhD**, Executive Vice President, Research and Development - Dr. Bischofberger joined Gilead in August 1990 as Director of Organic Chemistry and was promoted to Vice President, Organic Chemistry in February 1993 and Senior Vice President, Research and Development in January 1998. In November 2000, Dr. Bischofberger was promoted to Executive Vice President of Research and Development. From 1986 to 1990, Dr. Bischofberger was in Genentech's DNA Synthesis Group, where he served most recently as Senior Scientist, DNA Chemistry. He received his PhD in Organic Chemistry at Eidgenossische Technische Hochschule in Zurich, Switzerland. He then performed postdoctoral research in steroid chemistry at Syntex, followed by research in Professor George Whiteside's lab at Harvard University, where his emphasis was organic chemistry and applied enzymology.

## CONCLUDING REMARKS

Gilead Sciences' total revenues of 493.5 million for Q3 2005 compared with 326.2 million for Q3 2004 demonstrates its continued expansion. Total revenues increased from 955.0 million to 1.4 billion from 2004 to 2005. The revenue continues to profit with increased product sales, royalty and contract revenues, and manufacturing collaborations (10Q, November). Its current HIV research to create



Gilead's therapeutics set new treatment standards.



innovative therapeutics with enhanced delivery modes, favorable resistance profiles, fewer side effects and strong efficacy guarantees enormous potential. Clearly, Gilead Sciences is a strong buy in a sector which the Blyth Fund now needs to regain a position. We strongly recommend 250 shares, as it would then comprise the historic commitment of 10% of the Fund's Portfolio to the biotechnology industry. History aside, the evolution of Gilead and its track record of success is testament to what the company has achieved through disciplines science, visionary thinking and diversified planning, and necessarily indicative of future advancement.

<b>INCOME STATEMENT (in thousands)</b>	Quarter 3 2005 09/30/2005	Quarter 2 2005 06/30/2005	Quarter 1 2005 03/31/2005	Quarter 4 2004 12/31/2004
Net Sales	493,451	495,269	430,414	369,585
Cost Of Goods Sold	65,498	63,269	57,415	48,704
<b>Gross Profit</b>	<b>427,953</b>	<b>432,000</b>	<b>372,999</b>	<b>320,881</b>
R and D Expenditures	78,830	59,697	70,434	75,027
SG and A Expenses	99,238	95,546	80,135	80,556
Income Before Depreciation & Amortization	249,885	276,757	222,430	165,298
Depreciation and Amortization	-	-	-	-
Interest Expense	26	15	9	1,143
Investment Gains (Losses)	-	-	-	-
<b>Total Operating Expenses</b>	<b>178,094</b>	<b>155,258</b>	<b>150,578</b>	<b>156,726</b>
Non-Operating Income	13,715	11,442	8,627	-1,635
Other Income	-	-	-	-
Income Before Tax	263,574	288,184	231,048	162,520
Provision For Income Taxes	84,342	92,217	73,935	52,276
Income After Tax	179,232	195,967	157,113	110,244
Minority Interest	-	-	-	-
Net Income Before Extra Items	179,232	195,967	157,113	110,244
Extra Items Discontinued Operations	-	-	-	-
<b>Net Income</b>	<b>179,232</b>	<b>195,967</b>	<b>157,113</b>	<b>110,244</b>



<b>BALANCE SHEET (in thousands)</b>	Quarter 3 2005 09/30/2005	Quarter 2 2005 06/30/2005	Quarter 1 2005 03/31/2005	Quarter 4 2004 12/31/2004
Cash	592,722	793,618	281,941	280,909
Marketable Securities	1,067,554	995,656	1,189,826	973,129
Receivables	400,623	371,984	385,444	371,245
Inventories	174,040	166,060	135,506	135,991
Raw Materials	-	-	-	93,942
Work In Progress	-	-	-	11,103
Finished Goods	-	-	-	30,946
Notes Receivable	-	-	-	-
Other Current Assets	62,776	57,502	77,527	88,420
<b>Total Current Assets</b>	<b>2,297,715</b>	<b>2,384,820</b>	<b>2,070,244</b>	<b>1,849,694</b>
Property, Plant, & Equipment, Gross	238,310	237,221	225,428	329,915
Accumulated Depreciation	-	-	-	106,809
Property, Plant, & Equipment, Net	238,310	237,221	225,428	223,106
Intangibles	337,894	-	-	-
Investment Advances To Subsidiaries	-	-	-	-
Deferred Charges	16,761	27,777	34,913	45,446
Deposits And Other Assets	28,005	38,296	38,898	37,717
Other Non-Current Assets	-	-	-	-
<b>Total Non-Current Assets</b>	<b>620,970</b>	<b>303,294</b>	<b>299,239</b>	<b>306,269</b>
<b>Total Assets</b>	<b>2,918,685</b>	<b>2,688,114</b>	<b>2,369,483</b>	<b>2,155,963</b>
Notes Payable	-	-	-	-
Accounts Payable	33,134	57,704	35,862	47,552
Current Long Term Debt	-	-	-	-
Current Portion Capital Leases	-	-	161	181
Accrued Expenses	216,150	170,491	180,810	177,142
Income Taxes	6,839	17,015	38,274	8,698
Other Current Liabilities	11,743	15,980	15,112	19,880
<b>Total Current Liabilities</b>	<b>267,866</b>	<b>261,190</b>	<b>270,219</b>	<b>253,453</b>
Mortgages	-	-	-	-
Deferred Charges To Income	-	-	-	31,404
Convertible Debt	-	-	-	-
Long Term Debt	291	293	-	-
Non-Current Portion Of Capital Leases	-	-	259	234



Minority Interest Liabilities	-1,465	-743	-	-
Other Long Term Liabilities	33,663	34,600	35,653	-
<b>Total Non-Current Liabilities</b>	<b>32,489</b>	<b>34,150</b>	<b>35,912</b>	<b>31,638</b>
<b>Total Liabilities</b>	<b>301,820</b>	<b>296,083</b>	<b>306,131</b>	<b>285,091</b>
Preferred Stock	-	-	-	-
Common Stock, Net	457	455	451	449
Capital Surplus	2,080,636	2,031,326	1,910,928	1,893,926
Retained Earnings	528,040	348,808	152,841	-4,272
Treasury Stock	-	-	-	-
Other Equity	9,197	12,185	-868	-19,231
<b>Total Shareholder Equity</b>	<b>2,618,330</b>	<b>2,392,774</b>	<b>2,063,352</b>	<b>1,870,872</b>
<b>Total Liabilities Shareholder Eq.</b>	<b>2,918,685</b>	<b>2,688,114</b>	<b>2,369,483</b>	<b>2,155,963</b>

<b>CASH FLOW STATEMENT</b>	Quarter 3	Quarter 2	Quarter 1	Quarter 4
<b>(in thousands)</b>	2005	2005	2005	2004
	09/30/2005	06/30/2005	03/31/2005	12/31/2004
Net Income (Loss)	532,312	353,080	157,113	449,371
Depreciation and Amortization	23,904	12,572	6,137	24,408
Net Increase (Decrease) In Assets Liabilities	-329,794	38,515	32,675	-122,890
Other Adjustments, Net	148,209	114,698	31,300	160,489
<b>Net Operating Cash Flow</b>	<b>374,631</b>	<b>518,865</b>	<b>227,225</b>	<b>511,378</b>
Increase (Decrease) In Property, Plant, and Equipment	-34,909	-23,623	-8,875	-51,366
Acquisition/Disposition Of Subsidiaries Or Other Business	-	-	-	-
Cash Provided By (Used In) Discontinued Operations	-	-	-	-
Increase (Decrease) In Investments	-95,773	-22,803	-218,631	-439,462
<b>Net Investing Cash Flow</b>	<b>-130,682</b>	<b>-46,426</b>	<b>-227,506</b>	<b>-490,828</b>
Other Cash Inflow (Outflow) From Financing	-	-	-	-
Dividends Or Other Distributions	-	-	-	-
Issuances (Purchases) Of Equity Security	107,157	77,222	17,031	78,796
Issuances (Repayments) Of Debt Security	-166	-117	120	-137
<b>Net Financing Cash Flow</b>	<b>106,991</b>	<b>77,105</b>	<b>17,151</b>	<b>78,659</b>
Effect Of Exchange Rates On Cash	-39,127	-36,835	-15,838	-13,019
Net Change In Cash Or Equivalent	311,813	512,709	1,032	86,190
Cash - Beginning Of Year	-	280,909	280,909	194,719
Cash - End Of Year	-	793,618	281,941	280,909