

period but the magnitude of impact is greater in the near-term. The company has not given long-term tax guidance yet.

We estimate '14 tax rate at 23% which could further decrease to 18% over time if Sovaldi hits our revenue estimate

On core biz basis, there was no impact from R&D tax in 2014. This one-time benefit lead to a .5-.75% hit to their tax rate. We calculate 2014 tax rate at ~23.5% (28.5% core biz, then subtract 5% impact of \$5.7B Sovaldi sales). This math is based on our numbers suggest an implied Sovaldi tax rate at ~13% using revenue weighted calculations. This makes our weighted avg. tax rate for 2015 at ~21%. Every 100bps tax rate impacts 2015 EPS by 10c (1.3% our of '14 EPS).

Generic Sustiva will benefit COGS over next three years. We model COGS of 20% in '14 vs. 12% in '16 Sustiva (a component of Atripla not made by GILD) is going generic this year in Europe. In US, it will go generic in 2015. There is a step-down function of the royalty payments over three years according to mgmt.

Valuation & risks - Gilead still remains our top pick in large cap

We value GILD at \$132/sh using 17X 2015 multiple (10% discount to its biotech peers due to patent cliff on base biz). Our new '15 EPS is \$7.75/sh. Risks: weak sovaldi launch, poor base biz performance

Please click on below link for full report:

<http://pull.db-gmresearch.com/p/442-7CA3/21291538/0900b8c087e1098b.pdf>

Regards,

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