

SIM SPRING 2016

HEALTH CARE STOCKS

EDUARDO MORAES

GRANT WILLIAMS

LIXIN XU

SIYU ZOU



THE OHIO STATE UNIVERSITY
FISHER COLLEGE OF BUSINESS

AGENDA

Overview

**HCA
Holdings,
Inc.**

**McKesson
Corporation**

**Medtronic
PLC**

**Gilead
Sciences,
Inc.**



OVERVIEW

Overview

Business
Analysis

Economic
Analysis

Financial
Analysis

Valuation
Analysis



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SECTOR RECOMMENDATIONS

Healthcare 14.70% of S&P500

- **3rd largest holding in S&P500**

Healthcare 13.06% of SIM fund

- **4th largest holding in SIM fund**

Healthcare 15% of SIM fund

- **2nd largest holding in SIM fund**

OVERVIEW

Company Holding	Recommendation	Weight in SIM Portfolio	Current Price	Target Price	Expected Return
Gilead	Buy	4.14%	\$89.65	\$133.12	48.5%
McKesson	Buy	4.03%	\$157.41	\$188.24	19.6%
HCA	Neutral	0.00%	\$79.20	\$105	33%
Medtronic	Buy	4.89%	\$75.61	\$83.12	9.94%

HCA HOLDINGS, INC.

HCA



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OVERVIEW

Hospital Management Company

Facilities in 20 States

**Market Cap
31.34b**

**Primarily in
Florida & Texas**

**Industry's
Largest**

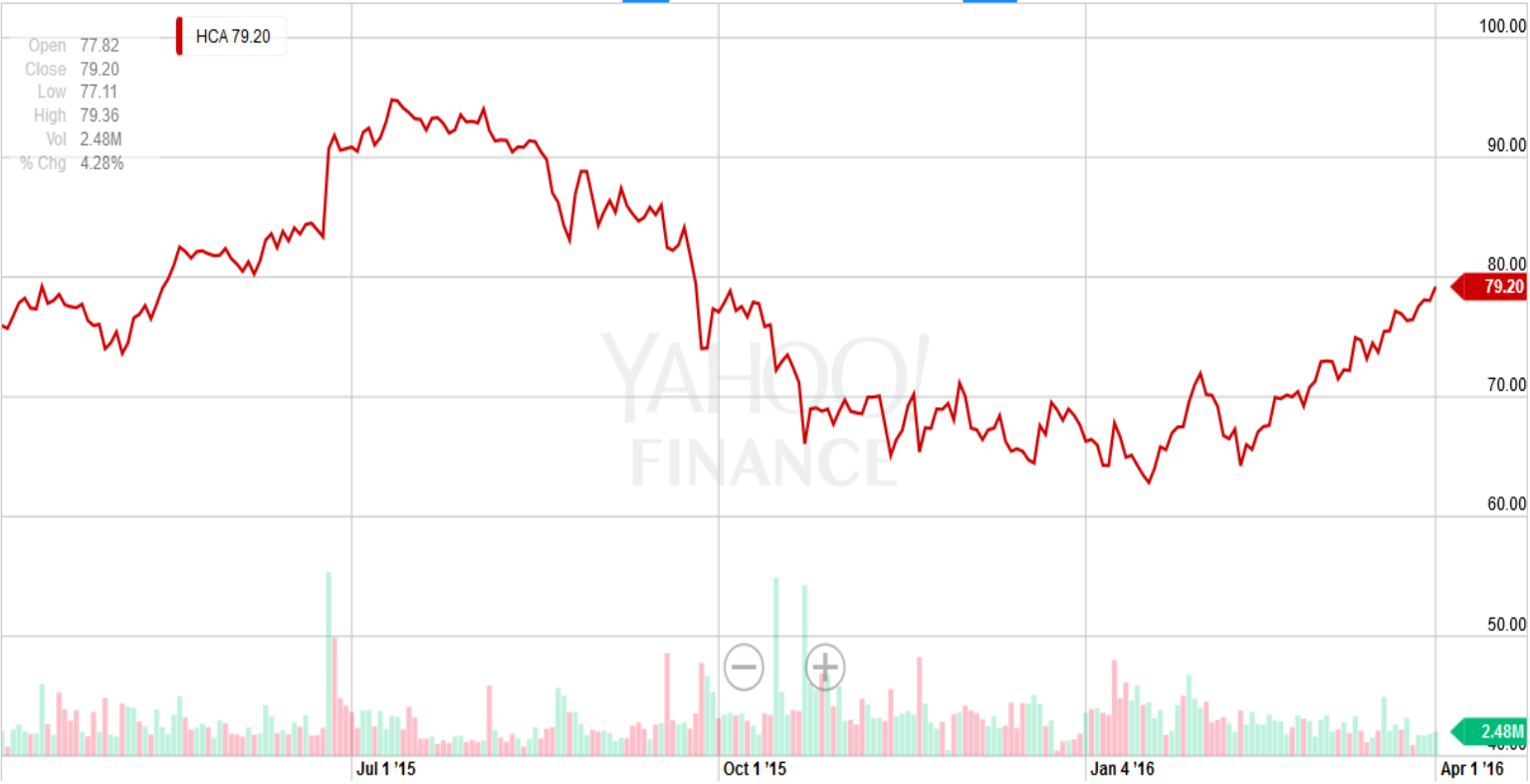
**Total Debt
30.64b**

HCA



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PERFORMANCE



HCA

KEY DRIVERS

Demographics

- **Aging U.S. population**

Declining Uninsured Rates

- **Medicaid expansion**
- **Improving economy**

Labor Costs

- **Able to keep labor costs low in states with right to work laws**

HCA



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KEY RISKS

Regulations

- **Affordable Care Act**
- **2016 Election**

Debt

- **Highly levered**
- **Costs 4% of revenue just to service debt**

Pricing

- **Over 90% of sales are to Government or managed health plans**

HCA



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HISTORIC VALUATIONS

HCA Holdings' Historic High, Low, and Current Multiples				
Absolute Basis	High	Low	Median	Current
P/E (ttm)	17.83	7.06	13.06	15.87
P/B	N.A	N.A	N.A	N.A
P/S	1.04	0.33	0.63	0.78
P/EBITDA	5.21	1.46	3.37	3.89

HCA



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RELATIVE VALUATION

Nation Wide Industry Competitors for HCA					
Ticker	P/E (ttm)	P/S (ttm)	P/B	P/CF (ttm)	EV/EBITDA (ttm)
Average	11.55	0.55	1.88	8.95	7.67
HCA	15.87	0.78	N.A.	11.06	7.50
LNPT	16.51	0.58	1.31	7.84	7.60
CYH	4.94	0.12	0.55	3.74	6.82
THC	8.19	0.14	3.11	8.67	8.13
UHS	15.49	1.20	2.56	13.43	8.27

HCA



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DCF

HCA HOLDINGS

Grant Williams

DISCOUNTED CASH FLOW

Terminal Discount Rate = 9.25%
Terminal FCF Growth = 1.50%

Year	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Revenue	42,257	45,004	48,154	51,284	54,361	57,215	59,790	62,032	63,893	65,330	66,310
% Growth		6.50%	7.00%	6.50%	6.00%	5.25%	4.50%	3.75%	3.00%	2.25%	1.50%
Operating Income	6,579	7,331	7,936	8,513	9,024	9,498	9,985	10,359	10,670	10,910	11,074
Operating Margin	15.57%	16.29%	16.48%	16.60%	16.60%	16.60%	16.70%	16.70%	16.70%	16.70%	16.70%
Interest and Other	(1,775)	(1,895)	(1,974)	(2,154)	(2,283)	(2,403)	(2,541)	(2,636)	(2,715)	(2,809)	(2,851)
Interest % of Sales	-4.20%	-4.21%	-4.10%	-4.20%	-4.20%	-4.20%	-4.25%	-4.25%	-4.25%	-4.30%	-4.30%
Taxes	1,530	1,734	1,899	2,026	2,148	2,260	2,372	2,461	2,534	2,581	2,620
Tax Rate	31.85%	31.89%	31.86%	31.86%	31.86%	31.86%	31.86%	31.86%	31.86%	31.86%	31.86%
Net Income	3,274	3,703	4,062	4,333	4,593	4,834	5,072	5,262	5,420	5,520	5,603
% Growth		13.1%	9.7%	6.7%	6.0%	5.2%	4.9%	3.8%	3.0%	1.8%	1.5%
Add Depreciation/Amort	2,028	2,115	2,167	2,180	2,310	2,432	2,541	2,636	2,715	2,777	2,818
% of Sales	4.80%	4.70%	4.50%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%
Plus/(minus) Changes WC	(344)	(439)	(440)	(472)	(500)	(526)	(550)	(571)	(588)	(601)	(610)
% of Sales	-0.81%	-0.97%	-0.91%	-0.92%	-0.92%	-0.92%	-0.92%	-0.92%	-0.92%	-0.92%	-0.92%
Subtract Cap Ex	2,535	2,745	2,961	3,077	3,126	3,147	3,139	3,102	3,035	2,940	2,818
Capex % of sales	6.00%	6.10%	6.15%	6.00%	5.75%	5.50%	5.25%	5.00%	4.75%	4.50%	4.25%
Free Cash Flow	2,423	2,634	2,828	2,964	3,278	3,593	3,924	4,226	4,513	4,756	4,993
% Growth		8.69%	7.35%	4.82%	10.59%	9.61%	9.23%	7.70%	6.78%	5.38%	4.99%
			High		Low						
NPV of Cash Flows	22,676	46%	22,676	44%	22,676	47%					
NPV of terminal value	26,995	54%	28,928	56%	25,297	53%			Terminal Value		65,389
Projected Equity Value	49,671	100%	51,604	100%	47,972	100%					
Free Cash Flow Yield	7.17%								Free Cash Yield		7.64%
Current P/E	12.9	11.5	10.6						Terminal P/E		11.7
<i>Projected P/E</i>	15.2	13.4	12.2								
Current EV/EBITDA	7.4	6.7	6.3						Terminal EV/EBITDA		6.8
<i>Projected EV/EBITDA</i>	9.2	8.4	7.8								
Shares Outstanding Diluted	427										
Current Price	\$ 79.20	High	Low								
Implied equity value/share	\$ 116.40	\$ 120.93	\$ 112.42								
Upside/(Downside) to DCF	47.0%	52.7%	41.9%								

HCA



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SENSITIVITY ANALYSIS

Sensitivity Table of Intrinsic Value Per Share

Growth Rate	Discount Rate							
	\$ 79.20	8.50%	8.75%	9.00%	9.25%	9.50%	9.75%	10.00%
0.75%	\$115.93	\$113.97	\$112.13	\$110.39	\$108.76	\$107.21	\$105.75	
1.00%	\$118.19	\$116.09	\$114.12	\$112.27	\$110.54	\$108.90	\$107.35	
1.25%	\$120.60	\$118.35	\$116.25	\$114.27	\$112.42	\$110.68	\$109.03	
1.50%	\$123.18	\$120.76	\$118.51	\$116.40	\$114.42	\$112.57	\$110.82	
1.75%	\$125.95	\$123.35	\$120.93	\$118.67	\$116.56	\$114.58	\$112.71	
2.00%	\$128.94	\$126.13	\$123.52	\$121.10	\$118.83	\$116.71	\$114.73	
2.25%	\$132.16	\$129.12	\$126.31	\$123.70	\$121.26	\$118.99	\$116.87	

MCKESSON CORPORATION

McKesson



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BRIEF INTRODUCTION



Delivers pharmaceuticals, medical supplies, and health care information technologies to the healthcare industry in the United States and internationally

**Two Sectors:
Distribution Solutions (90% Revenue) and Technology Solutions**

Ranked 14th on the FORTUNE 500

Founded in 1833

**The leader in U.S/
International expansion**

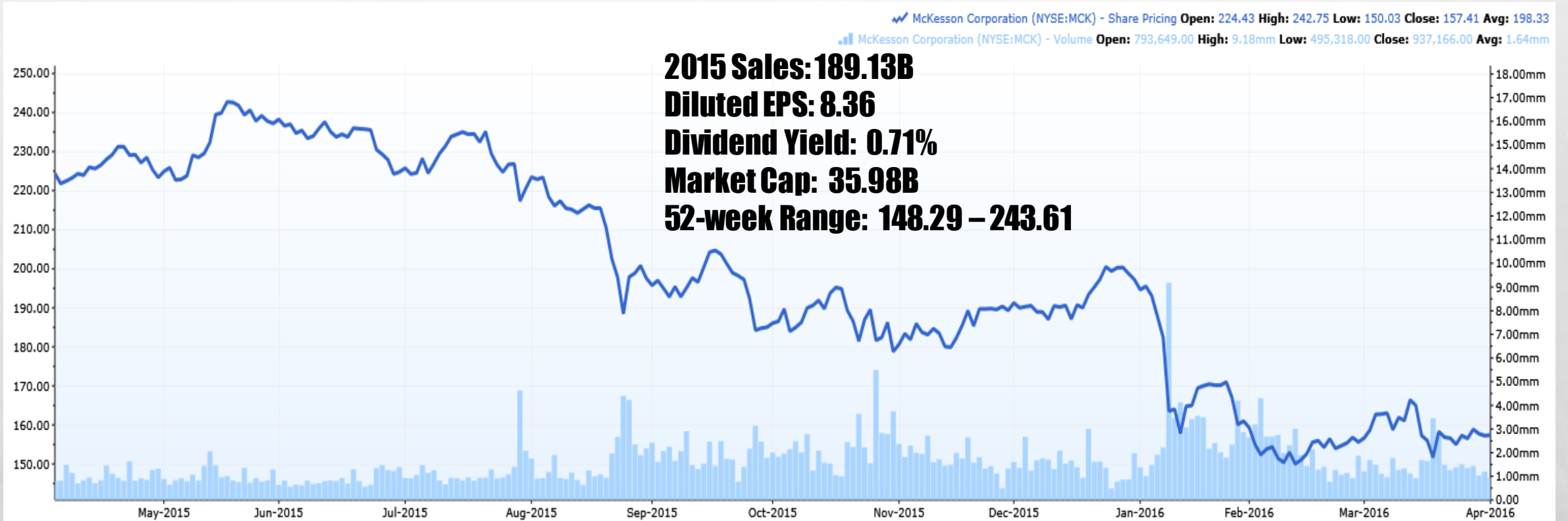
More than 187 b annual revenue

McKesson



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PERFORMANCE (APR 6, 2015 – APR 1, 2016)



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KEY DRIVERS

Connectivity and Healthcare Ecosystem

- **To create universal access to the healthcare data and improve connectivity**

Acquisitions

- **Global Expansion (Celesio)**
- **New technology or product (Vantage Oncology, LLC and Biologics, Inc.)**
- **Reduce operation cost and enlarge synergies**

Innovation and Technology

- **Technology Solution got 1st place in 2014 and 3rd place in 2015**
- **Health care IT giant (Layoff 1,600 employees)**
- **Influence Policy to profit from further innovation**

McKesson



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KEY RISKS

Regulations

- **Financial Crisis in Europe**
- **2016 Election**
- **Healthcare regulation change would increase cost**

Low Margin

- **Small changes in operation margin make huge difference in the target price**

Litigation Risk

- **\$68m in 2014 and \$ 72m in 2013**

FINANCIAL RATIOS

Profitability analysis	Mar31,2015	Mar 31, 2014	Mar 31, 2013	Mar 31, 2012	Mar 31, 2011	Mar 31, 2010
Return on Sales						
Gross profit margin	6.37%	6.04%	5.70%	5.35%	5.33%	5.22%
Operating profit margin	1.66%	1.72%	1.89%	1.75%	1.62%	1.85%
Net profit margin	0.82%	0.92%	1.09%	1.14%	1.07%	1.16%
Return on Investment						
Return on equity (ROE)	18.45%	14.82%	18.93%	20.54%	16.65%	16.77%
Return on assets (ROA)	2.74%	2.44%	3.85%	4.24%	3.89%	4.48%

Efficiency Analysis	Mar 31, 2015	Mar 31, 2014	Mar 31, 2013	Mar 31, 2012	Mar 31, 2011	Mar 31, 2010
Accounts Receivable Turnover	13.96	12.22	12.28	13.67	13.96	13.72
Inventory Turnover	12.15	10.94	11.32	12.04	11.37	11.47

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FINANCIAL RATIOS (CONT'D)

Liquidity Analysis	Mar 31, 2015	Mar 31, 2014	Mar 31, 2013	Mar 31, 2012	Mar 31, 2011	Mar 31, 2010
Current ratio	1.09	1.10	1.08	1.09	1.19	1.26
Quick ratio	63.00%	62.00%	58.00%	61.00%	68.00%	69.00%
Cash ratio	16.00%	14.00%	11.00%	15.00%	19.00%	22.00%

DuPont Analysis	ROE	=	Net Profit Margin	×	Asset Turnover	×	Leverage
Mar 31, 2015	18.45%		0.82%		3.32		6.73
Mar 31, 2014	14.82%		0.92%		2.66		6.07
Mar 31, 2013	18.93%		1.09%		3.52		4.92
Mar 31, 2012	20.54%		1.14%		3.71		4.84
Mar 31, 2011	16.65%		1.07%		3.63		4.28
Mar 31, 2010	16.77%		1.16%		3.86		3.74

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RELATIVE VALUATION

	P/E	P/B	P/S
McKesson	18.70	4.04	0.20
AmerisourceBergen Corporation	50.20	13.89	0.13
Cardinal Health, Inc.	20.20	4.08	0.27

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MULTIPLE VALUATION

Absolute Valuation	Current Multiple	Target Multiple	Target/Current	Expected EPS	Target Price
P/E	18.70	15.39	0.82	2.51	133.94
P/B	4.04	7.34	1.82	-	295.69
P/S	0.20	0.20	1.00	-	162.75

McKesson



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DCF VALUATION

Analyst: Siyu Zou Date: 08/02/2016		Terminal Discount Rate = 9.50% Terminal FCF Growth = 3.00%									
Year	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Revenue	192,250	203,798	214,466	225,190	236,449	248,272	260,685	271,113	281,957	290,416	299,128
% Growth		6.0%	5.2%	5.0%	5.0%	5.0%	5.0%	4.0%	4.0%	3.0%	3.0%
Operating Income	3,523	3,531	3,716	4,053	4,256	4,469	4,953	5,151	5,357	5,518	5,683
Operating Margin	1.8%	1.7%	1.7%	1.8%	1.8%	1.8%	1.9%	1.9%	1.9%	1.9%	1.9%
Interest and Other	(332)	(352)	(370)	(450)	(473)	(497)	(521)	(542)	(564)	(581)	(598)
Interest % of Sales	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
Taxes	894	436	629	1,009	1,059	1,112	1,241	1,290	1,342	1,382	1,424
Tax Rate	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%
Net Income	2,298	2,289	2,409	2,594	2,724	2,860	3,191	3,318	3,451	3,555	3,661
% Growth		-0.4%	5.2%	7.7%	5.0%	5.0%	11.6%	4.0%	4.0%	3.0%	3.0%
Add Depreciation/Amort	952	1,019	1,072	1,126	1,182	1,241	1,303	1,084	1,128	1,162	1,197
% of Sales	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%
Plus/(minus) Changes WC	(826)	(240)	(222)	(225)	(236)	(248)	(261)	(271)	(282)	(290)	(299)
% of Sales	-0.4%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
Subtract Cap Ex	379	408	429	450	709	745	782	813	846	871	897
Capex % of sales	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Free Cash Flow	2,044	2,660	2,830	3,045	2,960	3,108	3,451	3,318	3,451	3,555	3,661
% Growth		30.1%	6.4%	7.6%	-2.8%	5.0%	11.0%	-3.9%	4.0%	3.0%	3.0%
NPV of Cash Flows	19,621	46%									
NPV of terminal value	23,411	54%									
Projected Equity Value	43,032	100%									
Free Cash Flow Yield	5.68%										
										Terminal Value	58,018
										Free Cash Yield	6.31%
Current P/E	15.7	15.7	14.9								
Projected P/E	18.7	18.8	17.9								
Current EV/EBITDA	9.2	9.1	8.6								
Projected EV/EBITDA	10.8	10.6	10.1								
Shares Outstanding	229										
Current Price	\$ 157.41										
Implied equity value/share	\$ 188.24										
Upside/(Downside) to DCF	19.6%										
Debt	8,720										
Cash	3,410										
Cash/share	14.92										

McKesson



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SENSITIVITY ANALYSIS

\$188.24	0.070	0.075	0.080	0.085	0.090	0.095	0.100	0.105	0.110
0.015	246.88	225.77	207.92	192.63	179.40	167.83	157.63	148.57	140.47
0.020	262.72	238.42	218.19	201.08	186.42	173.72	162.62	152.83	144.13
0.025	282.08	253.61	230.33	210.93	194.52	180.46	168.28	157.62	148.23
0.030	306.28	272.18	244.90	222.58	203.98	188.24	174.75	163.06	152.83
0.035	337.39	295.38	262.70	236.55	215.15	197.31	182.21	169.27	158.05

McKesson



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RECOMMENDATION - BUY

Company Holding	Recommendation	Recommended weight	Current Price	Target Price	Expected Return
McKesson	Buy	4.1%	\$157.41 (April 1, 2016)	\$188.24	19.6%

McKesson



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MEDTRONIC PLC

BRIEF INTRODUCTION



World's largest medical devices manufacturing company, operating in over 440 locations across 155 countries.

Four Business Segments:

Cardiac & Vascular Group (35% of Revenues)

Minimally Invasive Therapies Group (33% of Revenues)

Restorative Therapies Group (25% of Revenues)

Diabetes Group (7% of Revenues)

Acquired/Merged with Covidien and moved its headquarters to Dublin, Ireland

Market Cap: \$105 Billion

Medtronic



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PERFORMANCE (APR 6, 2015 – APR 1, 2016)

2015 Sales: 25.82B
Diluted EPS: 1.75
Dividend Yield: 1.50%
Market Cap: 105B
52-week Range: 55.54 – 79.08

Apr 06, 2015 - Apr 05, 2016 • MDT



Medtronic



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KEY DRIVERS

Synergies from Covidien Merger

- **Cost savings from combining administrative and back-office operations;**
- **Consolidating manufacturing plants and information technology systems.**

Product Portfolio & Global Reach

- **Extremely diversified product portfolio (>53,000 patents);**
- **The firm makes extensive use of economies of scale;**
- **Global presence allows the company to offset demand elasticity.**

Tax Savings & Improved Cash Flows

- **12.5% Corporate tax rate in Ireland VS 35% Corporate tax rate in the U.S.**
- **This tax inversion will generate tax savings worth over \$800 Million a year.**

Medtronic



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KEY RISKS

Regulations

- **Re-institution of the ACA's 2.3% excise tax**

International Exposure

- **Since 40% of MDT's Revenues come from overseas, the firm is exposed to the European and LATAM markets**

Litigation Risk

- **Exposed to product liability claims (self-insured)**
- **Product Recalls & Patent litigation**

FINANCIAL RATIOS

Profitability analysis	2011	2012	2013	2014	2015
Return on Sales					
Gross profit margin	75.45%	75.97%	75.13%	74.52%	68.86%
Operating profit margin	24.74%	26.53%	26.53%	22.42%	18.59%
Net profit margin	19.43%	22.35%	20.90%	18.02%	13.20%
Return on Investment					
Return on equity (ROE)	19.39%	21.14%	18.57%	15.76%	5.03%
Return on assets (ROA)	10.18%	10.93%	9.95%	8.08%	2.51%

Medtronic



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RELATIVE VALUATION

Medtronic Company Valuation				
Relative to Industry				
	<i>High</i>	<i>Low</i>	<i>Median</i>	<i>Current</i>
Price / Earnings	0.5	0.7	0.6	0.9
Price / Book	0.9	0.9	0.8	0.5
Price / Sales	0.9	0.9	1.1	1.1
Price / EBITDA	1.1	0.6	0.8	1.3
Relative to S&P 500				
	<i>High</i>	<i>Low</i>	<i>Median</i>	<i>Current</i>
Price / Earnings	1.1	0.8	0.9	1.5
Price / Book	2.1	1.1	1.2	0.8
Price / Sales	3.3	3.0	2.3	2.3
Price / EBITDA	1.9	1.0	1.1	1.6

Source: Bloomberg. January 2016.

Medtronic



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MULTIPLE VALUATION

Absolute Valuation	High	Low	Median	Current	Target Multiple	Price Target
P/E	26.3	10	15.3	25.8	29	\$84.90
P/B	6.2	1.8	3	2	2.6	\$96.67
P/S	6.2	2.2	3.4	3.8	3.6	\$70.76
P/EBITDA	24.1	6.9	12	19.6	19	\$73.41

Medtronic



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DCF VALUATION

Medtronic Discounted Cash Flow Valuation

Terminal Discount Rate = 9.0%
Terminal FCF Growth = 3.50%

Year	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Revenue	26,067	27,207	28,194	29,321	30,465	31,623	32,793	33,973	35,162	36,393	37,667
% Growth	29.00%	4.4%	3.6%	4.0%	3.9%	3.8%	3.7%	3.6%	3.5%	3.5%	3.5%
Operating Income	5,888	6,988	6,593	7,004	7,277	7,553	7,833	8,115	8,399	8,693	8,997
Operating Margin	22.6%	25.7%	23.4%	23.9%	23.9%	23.9%	23.9%	23.9%	23.9%	23.9%	23.9%
Interest and Other	(719)	(989)	(1,112)	(1,010)	(1,050)	(1,090)	(1,130)	(1,171)	(1,211)	(1,254)	(1,298)
Interest % of Sales	-2.8%	-3.8%	-3.9%	-3.4%	-3.4%	-3.4%	-3.4%	-3.4%	-3.4%	-3.4%	-3.4%
Taxes	846	938	934	838	871	904	937	971	1,005	1,040	1,077
Tax Rate	14.4%	13.4%	14.2%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%
Net Income	4,323	5,061	4,548	5,155	5,356	5,560	5,766	5,973	6,182	6,399	6,623
% Growth	22%	17.1%	-10.1%	13.4%	3.9%	3.8%	3.7%	3.6%	3.5%	3.5%	3.5%
Add Depreciation/Amort	1,216	1,255	1,350	1,368	1,421	1,475	1,530	1,585	1,640	1,698	1,757
% of Sales	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%
Plus/(minus) Changes WC	(33)	(254)	(315)	(293)	(396)	(443)	(328)	(408)	(316)	(328)	(339)
% of Sales	-0.1%	-0.9%	-1.1%	-1.0%	-1.3%	-1.4%	-1.0%	-1.2%	-0.9%	-0.9%	-0.9%
Subtract Cap Ex	700	900	844	787	818	849	881	912	944	977	1,011
Capex % of sales	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Free Cash Flow	4,806	5,162	4,739	5,443	5,563	5,743	6,087	6,238	6,562	6,792	7,029
% Growth		7.4%	-8.2%	14.9%	2.2%	3.2%	6.0%	2.5%	5.2%	3.5%	3.5%

NPV of Cash Flows	37,033	40%
NPV of terminal value	55,876	60%
Projected Equity Value	92,909	100%
Free Cash Flow Yield	5.80%	

Current P/E	19.2	16.4	18.2
Projected P/E	21.5	18.4	20.4
Current EV/EBITDA	15.7	13.6	14.1
Projected EV/EBITDA	17.1	14.8	15.3

Shares Outstanding 1,096

Current Price	\$ 75.61
Implied equity value/share	\$ 84.81
Upside/(Downside) to DCF	12.2%

\$84.81

Debt	33,752
Cash	4,843
Cash/share	4.42

Terminal Value	132,279
Free Cash Yield	5.31%
Terminal P/E	20.0
Terminal EV/EBITDA	15.0

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SENSITIVITY ANALYSIS

Sensitivity Analysis						
		Discount Rate				
		8.50%	8.75%	9.00%	9.25%	9.50%
Growth Rate	3.00%	\$ 87.76	\$ 83.88	\$ 80.33	\$ 77.07	\$ 74.05
	3.25%	\$ 90.43	\$ 86.27	\$ 82.47	\$ 79.00	\$ 75.80
	3.50%	\$ 93.36	\$ 88.88	\$ 84.81	\$ 81.09	\$ 77.69
	3.75%	\$ 96.60	\$ 91.75	\$ 87.37	\$ 83.38	\$ 79.74
	4.00%	\$ 100.20	\$ 94.93	\$ 90.18	\$ 85.89	\$ 81.98

RECOMMENDATION - BUY

Medtronic Price Target		
Metric	Target Price	Weight
Discounted Cash Flow	\$84.81	50%
Price / Earnings	\$84.90	12.5%
Price / Book	\$96.67	12.5%
Price / Sales	\$70.76	12.5%
Price / EBITDA	\$73.41	12.5%
Projected Target Price	\$83.12	
Current Price	\$75.61	
Potential Upside	9.94%	

Company Holding	Recommendation	Recommended weight	Current Price	Target Price	Expected Return
Medtronic	Buy	5.0%	\$75.61	\$83.12	9.94%

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GILEAD SCIENCES, INC.

Gilead
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BRIEF INTRODUCTION

Biopharmaceutical Company – Commercialized Medicine

HIV, Liver Diseases, Cardiovascular

Over 30 Countries

Founded in 1987

Went Public in 1992

Leading Position

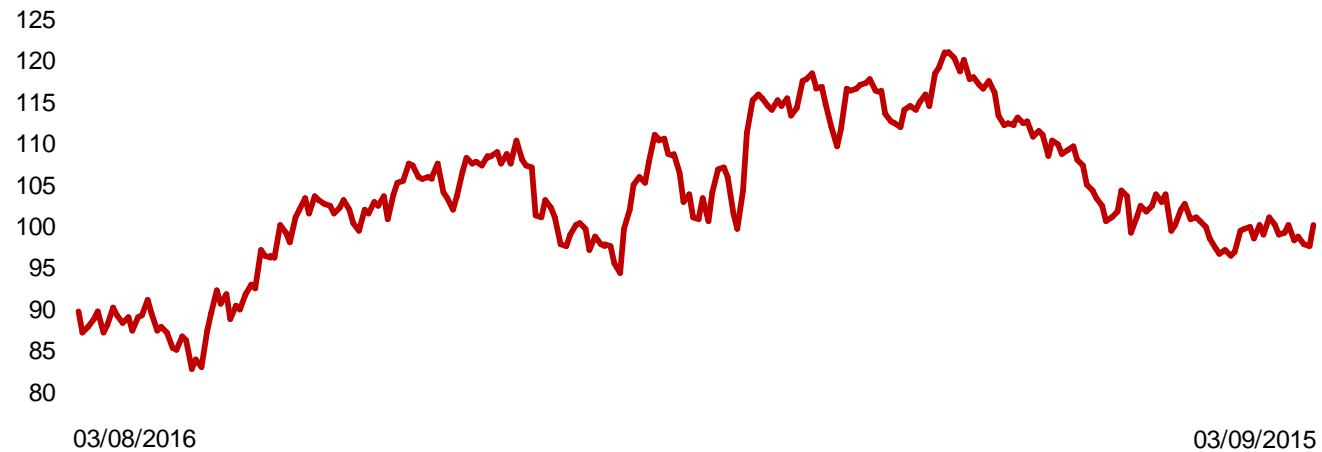
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PERFORMANCE

Gilead 52-Week Stock Performance (As of March 8, 2016)



Highest: 121.21 (06/23/2015)

Lowest: 82.71 (02/02/2016)

Current Price: 95.57 (04/05/2016)

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KEY DRIVERS

R&D And Patents

- **New products and potential product candidates**
- **Competitiveness**

Acquisitions

- **Product portfolio**
- **New technology or improvement on technology**

Product Driver

- **Antiviral products**
- **Cannibalization**

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FINANCIAL RATIOS

Year	2015	2014	2013	2012	2011
ROE	94.73%	76.23%	26.03%	26.97%	40.63%
ROA	34.93%	34.79%	13.59%	12.12%	16.12%
Gross Margin	87.73%	84.78%	74.48%	74.53%	74.67%
EBITDA Margin	77.23%	72.80%	59.31%	59.47%	59.86%
Operating Margin	68.00%	61.33%	40.39%	41.33%	45.20%
Net Profit Margin	55.47%	48.45%	27.29%	26.53%	33.27%

Terminal Discount Rate = 10.75%
Terminal FCF Growth = 4.25%

(million \$)	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Revenue	32,019	31,635	31,476	30,060	29,158	29,129	29,391	29,920	30,788	31,927	33,284
% Growth		-1.2%	-0.5%	-4.5%	-3.0%	-0.1%	0.9%	1.8%	2.9%	3.7%	4.3%
Operating Income	21,581	21,448	21,215	19,840	19,011	18,963	19,398	19,837	20,659	21,870	22,833
Operating Margin	67.4%	67.8%	67.4%	66.0%	65.2%	65.1%	66.0%	66.3%	67.1%	68.5%	68.6%
Interest and Other	(640)	(569)	(535)	(481)	(408)	(408)	(411)	(509)	(585)	(670)	(732)
Interest % of Sales	-2.0%	-1.8%	-1.7%	-1.6%	-1.4%	-1.4%	-1.4%	-1.7%	-1.9%	-2.1%	-2.2%
Other Income (Expenses)	128	127	157	90	87	87	88	90	123	128	133
% of Sales	0.4%	0.4%	0.5%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%
Taxes	3,582	3,571	3,126	3,485	4,093	4,639	4,747	4,832	5,018	5,300	5,525
Tax Rate	17.0%	17.0%	15.0%	18.0%	22.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net Income	17,487	17,434	17,712	15,964	14,598	14,004	14,328	14,586	15,178	16,027	16,709
% Growth		-0.3%	1.6%	-9.9%	-8.6%	-4.1%	2.3%	1.8%	4.1%	5.6%	4.2%
Add Depreciation/Amort	1,217	1,139	1,070	902	816	757	735	748	800	958	1,065
% of Sales	3.8%	3.6%	3.4%	3.0%	2.8%	2.6%	2.5%	2.5%	2.6%	3.0%	3.2%
Plus/(minus) Changes WC	9,513	282	(16)	(150)	(233)	(291)	(441)	(180)	31	223	333
% of Sales	29.7%	0.9%	-0.1%	-0.5%	-0.8%	-1.0%	-1.5%	-0.6%	0.1%	0.7%	1.0%
Subtract Cap Ex	640	569	535	601	671	728	764	808	831	926	832
Capex % of sales	2.0%	1.8%	1.7%	2.0%	2.3%	2.5%	2.6%	2.7%	2.7%	2.9%	2.5%
Free Cash Flow	27,576	18,286	18,231	16,115	14,510	13,742	13,858	14,347	15,178	16,283	17,274
% Growth		-33.7%	-0.3%	-11.6%	-10.0%	-5.3%	0.8%	3.5%	5.8%	7.3%	6.1%
NPV of Cash Flows	95,084	49%									
NPV of terminal value	99,799	51%							Terminal Value		277,055
Projected Equity Value	194,884	100%									
Free Cash Flow Yield	21.40%								Free Cash Yield		6.24%
Current P/E	7.4	7.4	7.3							Terminal P/E	16.6
<i>Projected P/E</i>	11.1	11.2	11.0								
Current EV/EBITDA	5.5	5.6	5.6							Terminal EV/EBITDA	11.5
<i>Projected EV/EBITDA</i>	8.4	8.5	8.6								
Shares Outstanding	1,464										
Current Price	89.65										
Implied equity value/share	133.12										
Upside/(Downside) to DCF	48.50%										
Debt	9,891										
Cash	12,851										
Cash/share	8.78										

DCF VALUATION

MULTIPLE VALUATION

Multiples	Gilead	Average	Amgen	Celgene	Biogen	
P/E	7.42	15.39	15.40	22.50	16.24	
P/S	4.27	6.37	5.49	9.74	5.98	
P/B	7.53	8.28	4.18	15.74	5.68	
P/CF	7.56	20.81	13.27	41.64	20.75	
EV/EBITDA	5.78	15.32	11.28	33.51	10.70	
Multiples	Max	Min	Average of 3 Peer Firms	Average of Industry	Denominators	
P/E	22.50	15.40	18.05	15.39	EPS	12.37
P/S	9.74	5.49	7.07	6.37	Sales/Share	22.29
P/B	15.74	4.18	8.53	8.28	Book Value/Share	35.41
P/CF	41.64	13.27	25.22	20.81	Cash Flow/Share	12.05
EV/EBITDA	33.51	10.70	18.50	15.32	EBITDA/Share	17.22
Gilead Value						
P/E*E	278.33	190.50	223.24	190.37		
P/S*S	217.15	122.40	157.62	142.02		
P/B*B	557.34	148.01	302.16	293.19		
P/CF*CF	501.70	159.88	303.86	250.73		
EV/EBITDA*EBITDA	576.97	184.23	318.47	263.78		

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ABSOLUTE VALUATION

Multiples	Gilead Multiple	Target Multiple	Target Multiple /Gilead Multiple	Current Price	Target Price
P/E	7.42	13.50	1.82	89.65	163.11
P/S	4.27	10.10	2.37	89.65	212.05
P/B	7.53	8.20	1.09	89.65	97.63
EV/EBITDA	5.78	10.00	1.73	89.65	155.10

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TECHNICAL ANALYSIS



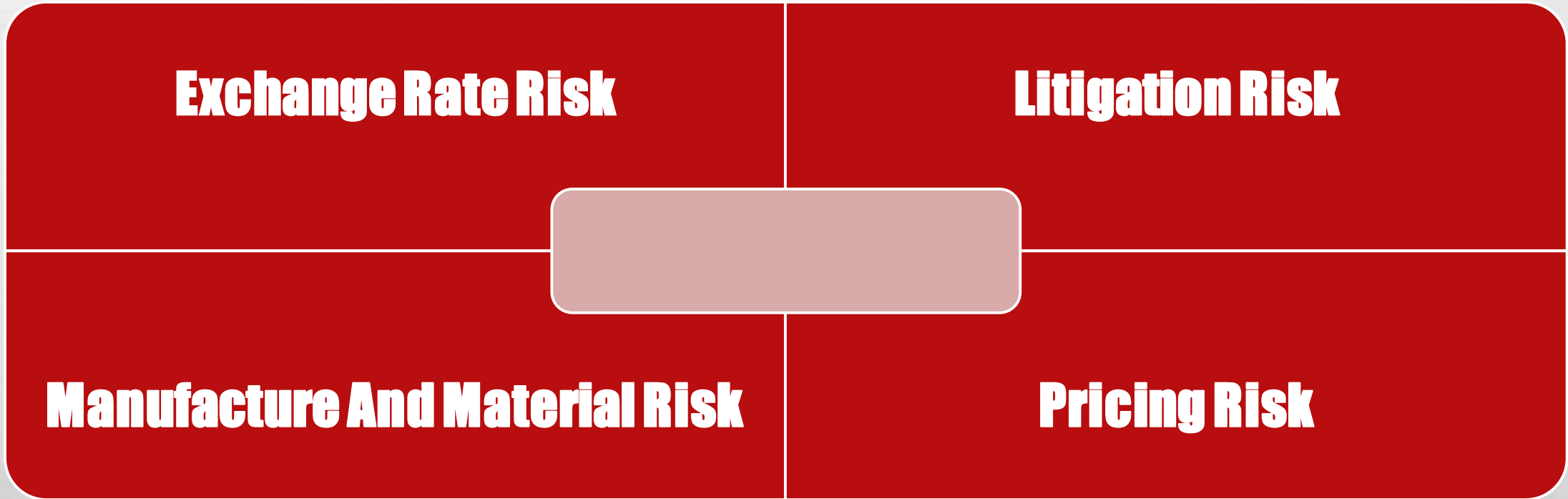
Downward Price Pressure

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RISK



CATALYST

Undervalued in all three valuation approaches

Competitive advantages

Fundamental drivers for future increase

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RECOMMENDATION

BUY

BUY PRICE: 89.65 TARGET PRICE: 133.12 UPSIDE: 48.50%

CURRENT WEIGHT: 4.14% TARGET WEIGHT: 5.00% BPS: 86

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Q & A



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