

Gilead lives and dies by hep C



[Jonathan Gardner](#)

Hepatitis C is over. This is the underlying message of Gilead Sciences' decision to cut its revenue guidance for 2016 on uncertainty over sales trends for its sofosbuvir-based franchise as price pressure and slowing prescriptions begin to take their toll.

For a company that so overtly committed itself to hep C, Gilead has been made to suffer because of these signs that the good times are nearing an end – \$10bn in valuation bled away yesterday. This is not an unreasonable reaction, since sellside 2020 forecasts for its products have shrunk \$4bn in the past two years, and the group has yet to signal that it is ready for the big strategic deal that investors seem to be demanding (see table below).

The hep C market had long been assumed to feature patients with long-term infections waiting for more effective treatments with few side effects – the so-called “warehousing” of patients. Before the advent of the direct-acting antivirals, patients often sought treatment only with signs of disease progression because of poor tolerability of the interferon-ribavirin treatment.

Gilead's hep C franchise loses lustre

Company	Product	2020 consensus (July 2016) (\$m)	2020 consensus (July 2014 or nearest forecast) (\$m)	Change (\$m)
Gilead Sciences	Epclusa	1,904.8	863.7	1,041.1
	Harvoni	5,269.1	2,377.6	2,891.5
	Sovaldi	1,958.1	8,626.0	-6,667.9
	Sofosbuvir, velpatasvir & voxilaprevir	1,204.0	2,449.0	-1,245.0
	Combined	10,336.0	14,316.2	-3,980.2
AbbVie	Viekira Pak	1,229.4	2,499.5	-1,270.1
Merck & Co	Zepatier	2,688.6	1,513.6	1,175.0

The massive first-year sales for Gilead's Sovaldi and Harvoni are testament to this. But with a finite population that is gradually being cured, along with rising competition, the gold rush was bound to end. The surprise here is that neither the company nor the financial community were able to forecast how quickly it would.

Price war

With a population of three million patients in the US, hep C has made for a big target, and it was expected that the antiviral expertise of Merck & Co, Johnson & Johnson, AbbVie and Bristol-Myers Squibb would also be applied here – and help to bring the \$1,000-a-pill list price of the Gilead offerings down some ([Looking for a hep C price war? Merck just started it, January 29, 2016](#)).

In Gilead's second-quarter results call on Monday, finance chief Robin Washington acknowledged the pricing pressure as a combination of market share losses, a shift towards more heavily discounted US payers like government programmes, and lower prices achieved in Europe. A slowing in the growth of new patient starts in privately insured US patients can also be taken as an early sign of market saturation.

These trends come even as commercial insurers have eased policies that restricted coverage primarily to people with advancing liver disease.

Merck's Zepatier, meanwhile, has seen upgrades over the same period that Gilead's franchise has been downgraded, although its current 2020 forecast of \$2.7bn has fallen back from \$3bn a year ago.

A look at historical forecasts shows that analysts also missed when it came to initial uptake of Gilead's hep C programme, which has sofosbuvir as its backbone. It was not until mid-2014 that the consensus began to forecast double-digit-billion sales for sofosbuvir-based products, something it managed in that same year, its first full year on the market.

The massive sales achieved by this franchise in its first couple of years have left Gilead with a huge cash pile, which investors are anxious for the company to put to strategic use. The group's business development record outside the antiviral space is not stellar - cardiovascular disease and oncology have been disappointing ventures - but executives yesterday said they were interested in building a pipeline in new conditions.

As the hep C cash cow is even closer to being milked dry than expected, Gilead's business development department might want to pick up the pace. With this week's share slide, however, its position of strength in strategic negotiations has begun to erode.

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