

01

MAKING IT EASIER TO TREAT HIV/AIDS

Gilead owes much of its success to simplifying complicated drug regimens **by Aili McConnon**

GILEAD SCIENCES

Industry
Pharmaceuticals

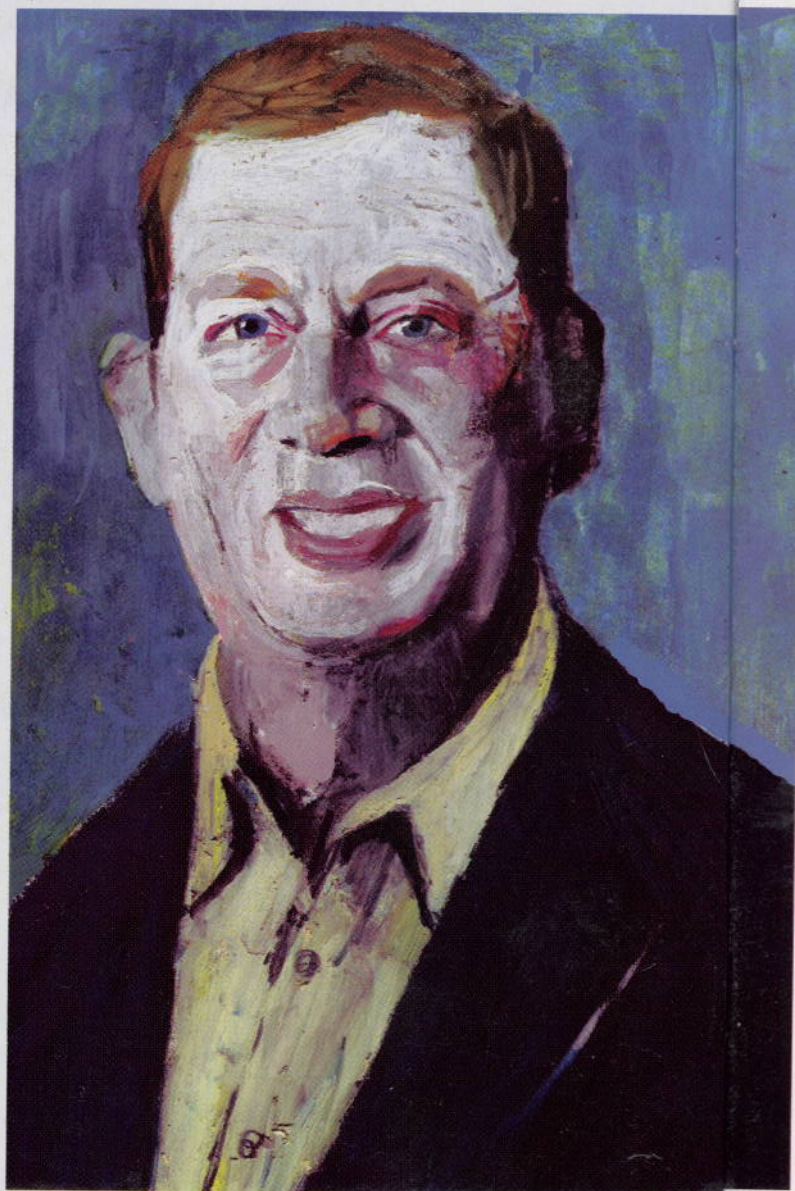
Sales
\$5.3 billion

Net Income
\$2 billion

In late February 2008, some 40,000 people learned they may have been exposed to hepatitis C if they'd received injections of anaesthetics at the Endoscopy Center of Southern Nevada in the last four years. The scale of this exposure frightens public health officials because hep C can be a silent killer. The chronic liver disease, which afflicts some 3.2 million Americans and an estimated 170 million people worldwide, often produces no symptoms for a decade or more. But left untreated, it eventually can cause liver cirrhosis, cancer, and death. The best existing treatments involve yearlong drug regimens that cure only about 50% of patients, and often bring dire side effects.

The size of the hep C market and the lack of effective, patient-friendly treatments have captured the attention of **John Martin, CEO of Gilead Sciences**, one of the world's top developers of drugs for infectious diseases. "Hepatitis C represents an enormous unmet medical need and a big opportunity for Gilead," he says. And when Martin makes such pronouncements, investors in the biomedical sector listen up. Gilead's lush returns on its popular treatments for HIV/AIDS have landed it on the BW 50 list five years in a row. This year, the top slot went to the Foster City (Calif.) company, whose name is a biblical reference to a region where trees produce a healing resin called "balm of Gilead." Sales growth over the past three years has topped 38%, and in the same period shareholders reaped a 43.9% return. Gilead earned \$2 billion on \$5.3 billion in sales in the past 12 months.

Gilead owes much of its success to making it easier for patients to comply with complex and uncomfortable drug regimens. It was among the first companies to come up with once-a-day pills for HIV, replacing cocktails of medications that sometimes had to be administered intravenously. In



2008, Gilead's top three HIV treatments generated 84% of its product sales. Today, 8 of every 10 new patients diagnosed with HIV in the U.S. start on Gilead drugs and, typically, remain on them for many years.

SEARCHING FOR A LIFESAVER

As doctors and public health experts frequently lament, the number of new HIV infections each year is growing, not shrinking. Physicians estimate 56,000 people contract the disease annually in the U.S. alone, and at present only about 50% of infected people are being treated. Even as Gilead strives to reach a wider swath of this community, it is also hoping to broaden the use of once-a-day pills in other disease areas. One is hepatitis, which is caused by several different viruses that attack the liver. Gilead's first drug in this category—Hepsera, for the hep B virus—generated \$341 million in sales in 2008. And it recently received approval in the U.S. and other countries to treat hep B patients with its HIV drug Viread. For drugmakers, this patient pool is important because it is nearly twice as large as the HIV

ILLUSTRATIONS BY ANDREA VENTURA

02

CF INDUSTRIES HOLDINGS**Industry**
Fertilizers**Sales**
\$3.9 billion**Net Income**
\$685 million

From its roots in the mid-1940s as a fertilizer cooperative for Midwestern farmers, CF Industries transformed itself into the leading maker and distributor of nitrogen and phosphate fertilizers. CF Industries' profits boomed in recent years as fears of a commodity shortage caused prices to soar. Profits hit \$685 million in 2008, up 84% from 2007.



Even with demand now down sharply, **CEO Stephen Wilson** is caught in a takeover battle as companies scramble to bulk up. Wilson launched a bid for Terra Industries and is now fending off an unsolicited offer from rival Agrium—which CF rejected.

03

DIAMOND OFFSHORE**Industry**
Energy Equipment & Services**Sales**
\$3.5 billion**Net Income**
\$1.3 billion

Houston-based Diamond Offshore has a storied history in offshore drilling. Entrepreneur Alden Laborde launched Ocean Drilling and Exploration to sell the industry's first deep-water rigs in 1953, and after several changes in ownership, Loews stepped in during the oil slump of 1992 and bought the company's assets for just \$372 million. Loew's still controls



50% of Diamond. It benefited greatly from the oil boom: Profits leapt 55% last year, to \$1.3 billion. Earnings could be crimped due to falling commodity prices, but **CEO Lawrence Dickerson** says he's entering the downturn with \$10 billion worth of long-term contracts.

04

WINDSTREAM**Industry**
Telecommunication Services**Sales**
\$3.2 billion**Net Income**
\$435 million

When Windstream was created from the spin-off of Little Rock-based Alltel's local telephone division in 2006, former Alltel CFO Jeff Gardner took the helm. The company combines the services of regional players Alltel and Valor Communications, grabbing customers that giants such as AT&T and Verizon Communications don't reach. Windstream has managed to reap steady profits by offering phone, digital TV, and broadband service to rural customers in 16 states. Because the company has no wireless product, its growth prospects aren't as robust as those of other telecoms, but these days stability counts for a lot.

population in the U.S., and only 3% of infections are currently treated.

An effective therapy for the hep C strain could be an even bigger lifesaver—as well as a blockbuster—according to some infectious disease experts. The illness is endemic in some parts of the world, and there is no vaccine against this strain. Alan Carr, an analyst with investment firm Needham & Co., estimates the market for hep C medications could reach \$4 billion to \$5 billion by 2015. Says Martin: “Like HIV, hep C will require a combination therapy. We need to develop multiple products and have a combination pill to treat this disease.” Gilead faces competition from a number of companies in this arena, including Vertex, a rising biotech star, and Schering-Plough, which is being acquired by industry powerhouse Merck. But that may not harm Gilead's prospects in the long run, says Jason Kantor, an analyst with RBC Capital Markets. “Gilead isn't racing to become first in market but to be best-in-class.”

How does the recession affect Gilead's prospects? In some previous slumps, drug companies have been a safe haven, but there are no guarantees. Earlier this year Gilead surprised analysts when it predicted slower sales for 2009.

As a result, Gilead is redoubling its efforts to diversify. In March, Martin said he would spend \$1.4 billion to buy CV Therapeutics, which develops drugs for cardiovascular diseases. Gilead's focus on hard-to-cure infectious diseases may also put it in a strong position compared with some other drugmakers. Why? Because unlike people with, say, hypertension or arthritis—who can temporarily curtail their medications without causing irreparable harm—HIV patients who fail to comply with drug regimens can face dire consequences. “If you skip doses, the virus will mutate, you will develop resistance, and then the drug will no longer work,” Martin says. In other words, for patients and for drug companies, it pays to take the pain out of compliance. **|BW|**