Gilead Sciences Inc. (GILD)

Updated May 26th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$67	**5 Year CAGR Estimate:**	9.3%	**Quality Percentile:**	N/A
Fair Value Price:	$70	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	N/A
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	0.9%	**Total Return Percentile:**	N/A
Dividend Yield:	3.4%	**5 Year Price Target**	$91	**Valuation Percentile:**	

Overview & Current Events

Gilead is a biotechnology company that researches, develops and commercializes medicines with an antiviral focus. Its main products include treatments for HIV, Hepatitis B and C (HBV / HCV), but Gilead has also ventured into other areas such as oncology. Gilead was founded in 1987, is headquartered in Foster City, CA, and is currently valued at $87 billion.

Gilead's most recent quarterly results were announced on May 1, the company reported earnings per share of $1.48 and revenues of $5.1 billion. Both revenues and profits declined substantially versus the prior year's first quarter, due to the impact of lower sales for its HCV products.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.05	$1.41	$1.66	$1.78	$1.64	$1.81	$7.35	$11.91	$9.94	$8.84	***$6.45***	***$8.25***
DPS	-	-	-	-	-	-	-	$1.29	$1.84	$2.08	***$2.28***	***$2.85***

Gilead's main sales driver has been its HIV portfolio for many years, until its $11 billion takeover of Pharmasset started to pay off in 2014. With its HCV drugs Sovaldi and, later on, Harvoni, Gilead was able to grow its top line immensely in a very short time. Due to strong operating leverage – the company's drugs come with high gross margins and operating expenses were not overly high – Gilead's earnings per share exploded upwards by several hundred percent in a couple of years.

Since its HCV drugs do not only treat patients but cure them, the patient pool started to shrink very soon, which has led to a declining number of patients that start treatment with one of Gilead's HCV drugs. This is why profitability peaked in 2015 and has been declining since, including during the most recent quarter.

As HCV sales are now substantially lower than at the peak level further sales declines will not be as impactful for Gilead in the future, and Gilead's HIV business continues to perform well. This is why earnings will likely not continue to decline forever, it seems more likely that profits will bottom out in 2018 or 2019. Thanks to efforts by Gilead to grow its sales in the future there is a good chance that the company's EPS will be higher in the 2020s. Those efforts include expansion into new markets via acquisitions, e.g. Gilead's 2017 takeover of Kite Pharma that gave Gilead the CAR-T drug Yescarta (which was approved in November 2017, so it will take a while for sales to ramp up). Gilead has formed other oncology partnerships as well and continues to develop new drugs internally. One area of interest is the company's NASH (nonalcoholic steatohepatitis) drug candidates, as NASH is an indication with high unmet demand for treatments – experts project that the market size for NASH treatments will cross $20 billion during the 2020s. Gilead also has commercialization rights for Filgotinib (developed by Galapagos) that has a good chance to be successful in the rheumatoid arthritis, Crohn's disease and ulcerative colitis markets.

Gilead started paying a dividend in 2015 and has since increased it regularly, which it likely will continue to do.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	23.4	16.4	11.8	11.2	17.3	31.1	12.2	8.9	8.4	8.5	***10.5***	***11.0***
Avg. Yld.	-	-	-	-	-	-	-	1.2%	2.2%	2.8%	***3.4%***	***3.5%***

Gilead's valuation has been in a wide range over the last decade, from a very high valuation in 2013 (when earnings were still low but where the profit boost from Sovaldi and Harvoni was very foreseeable) to a low valuation during the last couple of years when earnings were high but when it was clear that they would shrink for a while.

Gilead now trades at 10.5 times this year's projected earnings, which isn't a high valuation at all, but due to the fact that the path going forward is not really certain (much depends on the success with drugs that are in development right now) it seems likely that its valuation will not expand significantly over the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	60.9%	55.7%	52.6%	36.4%	34.1%	36.7%	60.8%	55.3%	45.8%	30.9%	***29.0%***	***30.0%***
Debt/A	36.2%	33.0%	47.4%	60.1%	55.2%	47.8%	54.2%	63.1%	66.0%	70.9%	***73.0%***	***67.0%***
Int. Cov.	470	131	36.9	18.8	11.0	14.7	37.1	32.5	18.7	13.1	***12.0***	***15.0***
Payout	-	-	-	-	-	-	-	10.8%	18.5%	23.5%	***35.3%***	***34.5%***
Std. Dev.	28.8%	20.4%	25.1%	17.9%	32.9%	23.4%	29.0%	21.6%	23.1%	23.2%	***24.0%***	***23.0%***

Gilead made two major takeovers during the last decade. Pharmasset was acquired in 2011 and Kite Pharma was acquired in 2017. This led to increased assets in those two years, which is why Gilead's gross profits to assets ratio declined in 2011 and in 2017 (both targets were not producing any meaningful sales at the time of the takeover).

Gilead took on debt to finance both takeovers, which is why its debt to assets ratio grew during these two years as well. Since the company holds a sizeable cash position ($37 billion at the end of 2017) its debt is not a problem, and as the cash produces some interest income for Gilead its net interest expenses are not very high (which is why its interest coverage ratio is quite strong).

In the HIV market (that continues to grow globally) Gilead is the market leader and ViiV Healthcare is the other relevant player. It is unlikely that Gilead will lose its market position, and both players don't have any interest in engaging in a price war. Gilead's main problem over the last few quarters is that the HCV market continues to shrink (as more patients are cured), but that is not based on Gilead falling behind any competitor – it still controls the vast majority of this shrinking market. Gilead should not be negatively impacted by recessions, as demand for medicine is not based on how well the economy is doing – during the last financial crisis Gilead's profits continued to rise.

Final Thoughts & Recommendation

Gilead's HCV wonder drugs have peaked and revenues will likely continue to fall for a couple of quarters, but at some point in the future Yescarta, Filgotinib, its NASH drugs, etc. should be able to stop the downwards trend in Gilead's top line and growth should resume. With that said, a return to revenue growth is not a 'sure thing'. We do not recommend Gilead as a buy at current prices because of its elevated risk that is not offset by its sub 10% expected total returns.

Total Return Breakdown by Year