



Gilead Sciences (GILD)

Updated October 26th, 2018 by Jonathan Weber

Key Metrics

Current Price:	\$69	5 Year CAGR Estimate:	9.2%	Volatility Percentile:	62.9%
Fair Value Price:	\$72	5 Year Growth Estimate:	5.0%	Momentum Percentile:	33.2%
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	0.9%	Growth Percentile:	29.7%
Dividend Yield:	3.3%	5 Year Price Target	\$92	Valuation Percentile:	50.7%
Dividend Risk Score:	C	Retirement Suitability Score:	C	Total Return Percentile:	44.3%

Overview & Current Events

Gilead is a biotechnology company 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 current trades with a market capitalization of \$89 billion.

Gilead Sciences has reported its third quarter earnings results on October 25. The company recorded revenues of \$5.6 billion, a decline of 14% versus the prior year's quarter. This result was not surprising, as the impact of lower HCV sales negatively impacts the year-over-year comparison. Gilead's top line result was actually better than what analysts had forecasted. Gilead's HIV product revenues continued to grow during the third quarter, primarily due to its newer-generation products such as Genvoya. Gilead has generated earnings-per-share of \$1.84 during Q3, down 19% year over year. The decline in net profits can be attributed to the shrinking of Gilead's HCV franchise. Gilead has increased its revenue guidance for fiscal 2018, the midpoint was upped from \$20.5 billion to \$21.1 billion.

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	\$6.55	\$8.36
DPS	-	-	-	-	-	-	-	\$1.29	\$1.84	\$2.08	\$2.28	\$2.85
Shares	1.82	1.80	1.60	1.51	1.52	1.53	1.50	1.42	1.31	1.31	1.30	1.25

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 new HCV drugs Gilead was able to grow its top line very quickly. Due to strong operating leverage Gilead's earnings-per-share exploded. Since its HCV drugs cure patients, 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 profits peaked in 2015 and have 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. Gilead has formed other oncology partnerships as well and continues to develop new drugs internally. One area of interest are the company's NASH (nonalcoholic steatohepatitis) drug candidates, as NASH is an indication with high unmet demand for treatments. Gilead also has commercialization rights for Filgotinib (developed by Galapagos), which has a good chance of becoming successful in the rheumatoid arthritis, Crohn's disease and ulcerative colitis markets.

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%	3.3%	3.5%

Disclosure: This analyst has a long position in the security discussed in this research report.



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Gilead's valuation was significantly higher ten years ago, but after profits exploded upwards, and then started to decline, Gilead has been valued at a low valuation relative to the earnings the company generates. This seems fair, as a company with declining profits does not warrant a high valuation. Right now shares trade at 10.5 times this year's profits, which is slightly less than the long-term median. Investors get an above-average dividend yield of 3.3% right here.

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%	34.8%	34.1%
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%

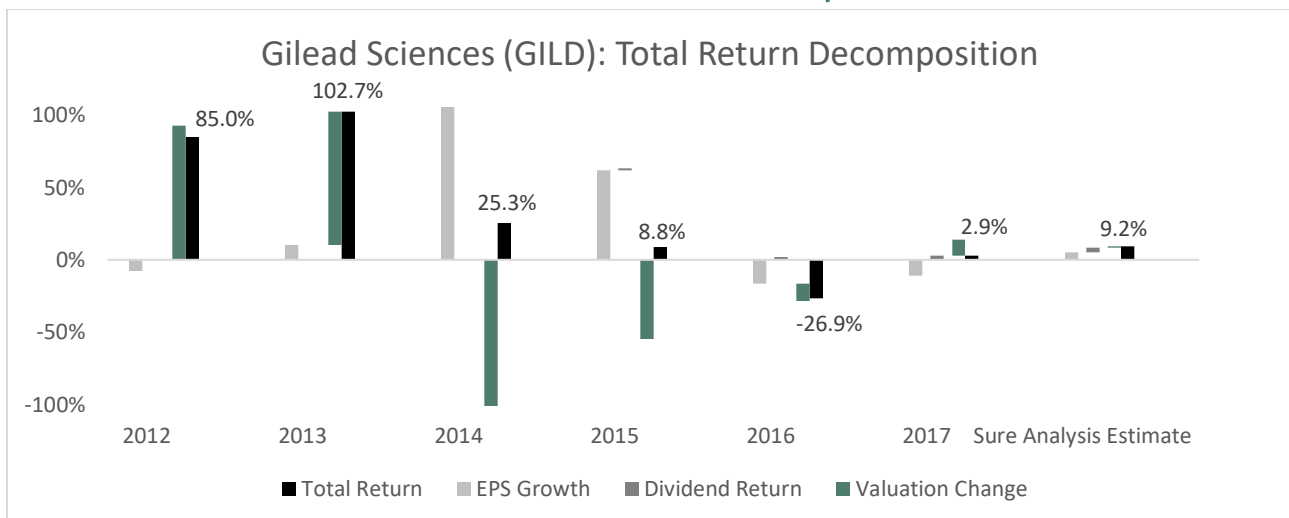
Gilead made two major takeovers during the last decade. Pharmasset was acquired in 2011, and Kite Pharma was acquired in 2017. This led to increased assets in those two years, which is why Gilead's gross profits to assets ratio declined in 2011 and in 2017 (both targets were not producing any meaningful 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 (\$31 billion at the end of Q3 2018) its debt is not a problem.

In the HIV market, which continues to grow globally, Gilead is the market leader. ViiV Healthcare is the other relevant player. It is unlikely that Gilead will lose its market position, and both players do not 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. 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 Sciences is a biotech company with a strong long-term growth track record. It is likely that profits will bottom out during the coming quarters, as decline rates in the HCV business are getting less severe, and as new products are introduced. Through a combination of some earnings-per-share growth, its dividend, and some multiple expansion Gilead could deliver high-single-digit total returns. For those seeking exposure to the industry shares are a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	5336	7011	7949	8385	9702	11202	24890	32639	30390	26107
Gross Profit	4209	5416	6080	6261	7231	8343	21102	28633	26129	21736
Gross Margin	78.9%	77.2%	76.5%	74.7%	74.5%	74.5%	84.8%	87.7%	86.0%	83.3%
SG&A Exp.	797	947	1044	1242	1461	1699	2983	3426	3398	3878
D&A Exp.	156	213	265	302	278	345	1050	1098	1158	1286
Operating Profit	2689	3529	3962	3790	4010	4524	15265	22193	17633	14124
Operating Margin	50.4%	50.3%	49.8%	45.2%	41.3%	40.4%	61.3%	68.0%	58.0%	54.1%
Net Profit	1979	2636	2901	2804	2592	3075	12101	18108	13501	4628
Net Margin	37.1%	37.6%	36.5%	33.4%	26.7%	27.5%	48.6%	55.5%	44.4%	17.7%
Free Cash Flow	2028	2850	2772	3507	2798	2915	12261	20503	16299	11308
Income Tax	702	876	1024	862	1038	1151	2797	3553	3609	8885

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	6937	9699	11593	17303	21240	22579	34664	51716	56977	70283
Cash & Equivalents	1459	1273	908	9884	1804	2113	10027	12851	8229	7588
Accounts Receivable	1023	1390	1622	1951	1751	2182	4635	5854	4514	3851
Inventories	928	1052	1204	1390	1745	1697	1386	1955	1587	801
Goodwill & Int. Ass.	123	1525	1426	2067	12797	13069	12245	11419	10143	21259
Total Liabilities	2471	3193	5471	10436	11696	10834	18845	32603	37614	49782
Accounts Payable	601	811	803	1206	1327	1256	955	1178	1206	814
Long-Term Debt	1155	1248	3485	7607	7062	4003	11936	21075	26346	33542
Shareholder's Equity	4273	6367	5864	6739	9303	11370	15426	18534	18887	20442
D/E Ratio	0.27	0.20	0.59	1.13	0.76	0.35	0.77	1.14	1.39	1.64

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	31.0%	31.7%	27.3%	19.4%	13.4%	14.0%	42.3%	41.9%	24.8%	7.3%
Return on Equity	51.2%	49.5%	47.4%	44.5%	32.3%	29.7%	90.3%	107%	72.2%	23.5%
ROIC	37.6%	39.4%	33.4%	23.3%	16.7%	19.0%	55.6%	53.3%	31.4%	9.3%
Shares Out.	1.82	1.80	1.60	1.51	1.52	1.53	1.50	1.42	1.31	1.31
Revenue/Share	2.78	3.75	4.55	5.31	6.13	6.61	15.11	21.46	22.38	19.79
FCF/Share	1.06	1.53	1.59	2.22	1.77	1.72	7.44	13.48	12.00	8.57

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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