



Gilead Sciences Inc. (GILD)

Updated February 5th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$70	5 Year CAGR Estimate:	10.5%	Volatility Percentile:	56.3%
Fair Value Price:	\$77	5 Year Growth Estimate:	5.0%	Momentum Percentile:	24.8%
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.9%	Growth Percentile:	33.5%
Dividend Yield:	3.6%	5 Year Price Target	\$95	Valuation Percentile:	69.9%
Dividend Risk Score:	C	Retirement Suitability Score:	B	Total Return Percentile:	62.9%

Overview & Current Events

Gilead is a biotechnology company with an antiviral focus. Its main products include treatments for HIV, Hepatitis B, and Hepatitis 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 reported its fourth quarter and full year earnings results on February 4. The company generated revenues of \$5.8 billion during the fourth quarter, which represents a decline of 2.5% compared to the prior year's quarter. Gilead Sciences' revenues came in higher than expected, though, as the analyst community had forecasted an even bigger revenue decline. Gilead's declining revenues are based on the fact that the sales from its Hepatitis C franchise continue to decline at a rapid pace, which is based on the fact that these medications are a cure, which means that the patient pool shrinks continuously. Gilead's other businesses showed compelling growth rates, but their growth was not large enough to offset the declines from the HCV business. Gilead's HIV revenues rose by 18% year over year, to \$4.1 billion, while Yescarta's revenues rose from \$7 million to \$81 million throughout the last year.

Gilead generated earnings-per-share of \$1.44 during the fourth quarter, which missed the analyst consensus by \$0.26. The company's earnings-per-share included a one-time charge for its inventories, though. Adjusted for that, earnings-per-share would have totaled \$1.75, which would have beaten the analyst consensus. Gilead guides for product sales of \$21.3 billion to \$21.8 billion, which would be relatively in line with 2018's sales.

Gilead has raised its dividend by 10.5%, to \$0.63 per share, on the day of the earnings release.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.41	\$1.66	\$1.78	\$1.64	\$1.81	\$7.35	\$11.91	\$9.94	\$8.84	\$6.67	\$6.77	\$8.64
DPS	-	-	-	-	-	-	\$1.29	\$1.84	\$2.08	\$2.28	\$2.52	\$3.60
Shares	1.80	1.60	1.51	1.52	1.53	1.50	1.42	1.31	1.31	1.30	1.29	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 upwards. 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 fiscal 2018.

Since HCV sales are now substantially lower than at the peak level, further sales declines will not be as impactful for Gilead in the future. Gilead's HIV business continues to perform well, which is why earnings will likely not continue to decline forever. 2018 likely was the bottom in terms of profitability. 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



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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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	16.4	11.8	11.2	17.3	31.1	12.2	8.9	8.4	8.5	9.4	10.0	11.0
Avg. Yld.	-	-	-	-	-	-	1.2%	2.2%	2.8%	3.6%	3.6%	3.8%

Gilead Sciences has never traded at an especially high valuation, except for 2013, when the steep earnings growth during 2014 was foreseeable, which led the market to pay up for Gilead's shares. Gilead has been valued at a relatively low valuation since profits peaked in 2015. We see some upside towards an 11 times earnings multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	-	-	-	-	-	-	10.8%	18.5%	23.5%	34.2%	37.2%	41.7%

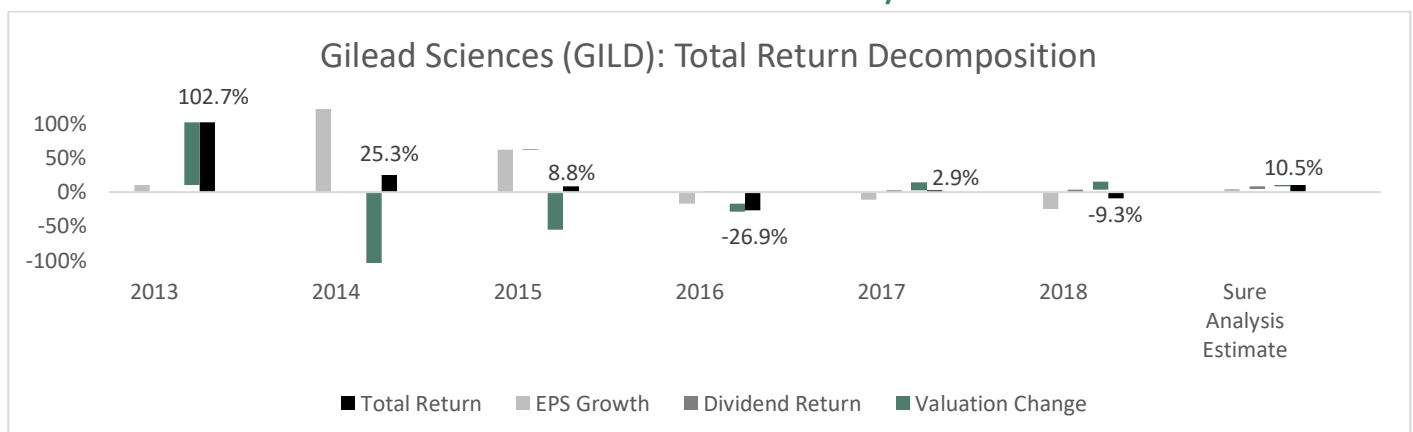
Gilead Sciences started to pay a dividend in 2015. Since then, the dividend has been increased annually. Due to a combination of a double-digits dividend growth rate and declining earnings-per-share, Gilead's dividend payout ratio has risen substantially over the last couple of years. As we forecast positive earnings growth going forward, the payout ratio will not rise as much during the coming years. The payout looks relatively safe, we believe.

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 years 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 battled with declining profits for years, but that can be explained by the declining addressable market for the company's HCV franchise. 2018 likely was the bottom year for Gilead's profitability. Due to the ramp-up of Yescarta and a strong performance from the HIV business, 2019 could see positive earnings growth. Shares look slightly undervalued and offer an above-average yield and total return potential, which is why we rate Gilead a buy at current prices.

Total Return Breakdown by Year



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Disclosure: This analyst has a long position in GILD.



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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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