



Gilead Sciences Inc. (GILD)

Updated May 13th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$64	5 Year CAGR Estimate:	11.9%	Volatility Percentile:	45.8%
Fair Value Price:	\$75	5 Year Growth Estimate:	5.0%	Momentum Percentile:	44.3%
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.0%	Growth Percentile:	35.5%
Dividend Yield:	3.9%	5 Year Price Target	\$95	Valuation Percentile:	74.8%
Dividend Risk Score:	B	Retirement Suitability Score:	B	Total Return Percentile:	68.7%

Overview & Current Events

Gilead Sciences is a biotechnology company that operates with a clear focus on antiviral medication and treatments. 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 Sciences was founded in 1987, the company headquartered in Foster City, CA, and current trades with a market capitalization of \$83 billion.

Gilead Sciences reported its first quarter earnings results on May 2. The company generated revenues of \$5.28 billion during the first quarter, which represents an increase of 3.5% year over year. Revenues were in line with analyst estimates, but this nevertheless was somewhat of a win for the company, as this is the first quarter in years during which Gilead has managed to report a year-over-year increase in revenues. Gilead's Hepatitis C franchise continues to shrink, 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 growth rates that were high enough to overcompensate the ongoing shrinking of its HCV business, which is how the company managed to grow its sales compared to the previous year's quarter. Gilead's HIV revenues rose by 13% year over year, to \$3.6 billion, driven by a 16% sales gain for Odefsey. Yescarta, which was acquired through the takeover of Kite Pharma, generated revenues of \$96 million during the quarter, up 140% year over year, and up 20% on a quarter-to-quarter basis.

Gilead generated earnings-per-share of \$1.76 during the first quarter, which was up 19% year over year.

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 for many years has been its HIV portfolio, 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. Last year 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 earnings-per-share will be higher in the 2020s. Those efforts include expansion into new markets via acquisitions, such as 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.

One area of interest is the company's NASH (nonalcoholic steatohepatitis) drug candidates, as NASH is an indication with high unmet demand. 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.

Disclosure: This analyst has a long position in GILD.



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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	9.5	11.0
Avg. Yld.	---	---	---	---	---	---	1.2%	2.2%	2.8%	3.6%	3.9%	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 resulted in an above-average valuation for Gilead's shares. Gilead has been valued at a relatively low valuation since profits peaked in 2015, and shares continue to be valued below 10 times earnings. We see some upside towards an 11 times earnings multiple as earnings are starting to grow again.

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%

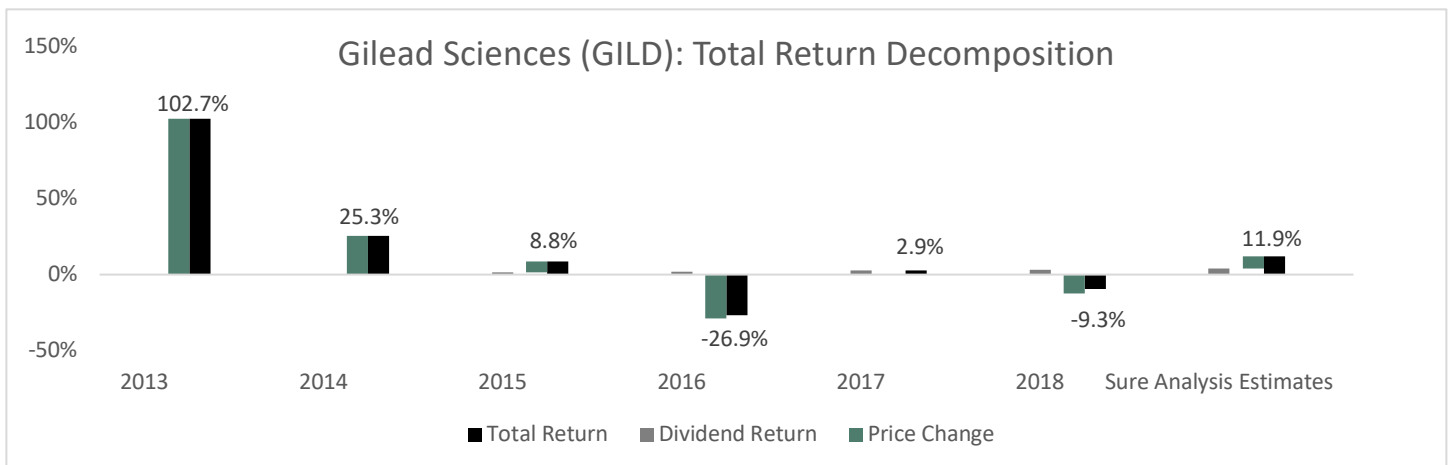
Gilead Sciences started to pay a dividend in 2015. Since then the dividend has been increased annually. Due to a combination of a double-digits dividend growth rate and declining earnings-per-share, Gilead's dividend payout ratio has risen substantially over the last couple of years. As we forecast positive 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 continues to be the market leader, holding a large market share. ViiV Healthcare is the other relevant player, the market is more or less shared by these two companies. 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, which proves the recession resiliency.

Final Thoughts & Recommendation

The peaking of the HCV business, and subsequent sales and earnings declines were a major hurdle for Gilead Sciences and its stock over the last couple of years. 2018 likely was the bottom year for Gilead's profitability, though, and Q1 results of 2019 were better than the previous year's results already. 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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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	7011	7949	8385	9702	11202	24890	32639	30390	26107	22127
Gross Profit	5416	6080	6261	7231	8343	21102	28633	26129	21736	17274
Gross Margin	77.2%	76.5%	74.7%	74.5%	74.5%	84.8%	87.7%	86.0%	83.3%	78.1%
SG&A Exp.	947	1044	1242	1461	1699	2983	3426	3398	3878	4056
D&A Exp.	213	265	302	278	345	1050	1098	1158	1286	1429
Operating Profit	3529	3962	3790	4010	4524	15265	22193	17633	14124	8200
Operating Margin	50.3%	49.8%	45.2%	41.3%	40.4%	61.3%	68.0%	58.0%	54.1%	37.1%
Net Profit	2636	2901	2804	2592	3075	12101	18108	13501	4628	5455
Net Margin	37.6%	36.5%	33.4%	26.7%	27.5%	48.6%	55.5%	44.4%	17.7%	24.7%
Free Cash Flow	2850	2772	3507	2798	2915	12261	20503	16299	11308	7476
Income Tax	876	1024	862	1038	1151	2797	3553	3609	8885	2339

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	9699	11593	17303	21240	22579	34664	51716	56977	70283	63675
Cash & Equivalents	1273	908	9884	1804	2113	10027	12851	8229	7588	17940
Accounts Receivable	1390	1622	1951	1751	2182	4635	5854	4514	3851	3327
Inventories	1052	1204	1390	1745	1697	1386	1955	1587	801	814
Goodwill & Int. Ass.	1525	1426	2067	12797	13069	12245	11419	10143	21259	19855
Total Liabilities	3193	5471	10436	11696	10834	18845	32603	37614	49782	42141
Accounts Payable	811	803	1206	1327	1256	955	1178	1206	814	790
Long-Term Debt	1248	3485	7607	8231	6700	12419	22057	26346	33542	27322
Shareholder's Equity	6367	5864	6739	9303	11370	15426	18534	18887	20442	21387
D/E Ratio	0.20	0.59	1.13	0.88	0.59	0.81	1.19	1.39	1.64	1.28

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	31.7%	27.3%	19.4%	13.4%	14.0%	42.3%	41.9%	24.8%	7.3%	8.1%
Return on Equity	49.5%	47.4%	44.5%	32.3%	29.7%	90.3%	107%	72.2%	23.5%	26.1%
ROIC	39.4%	33.4%	23.3%	16.1%	17.0%	51.8%	52.2%	31.1%	9.3%	10.6%
Shares Out.	1.80	1.60	1.51	1.52	1.53	1.50	1.42	1.31	1.31	1.30
Revenue/Share	3.75	4.55	5.31	6.13	6.61	15.11	21.46	22.38	19.79	16.92
FCF/Share	1.53	1.59	2.22	1.77	1.72	7.44	13.48	12.00	8.57	5.72

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

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