



Gilead Sciences Inc. (GILD)

Updated February 6th, 2020 by Jonathan Weber

Key Metrics

| | | | | | |
|-----------------------------|------|--|------|----------------------------------|----------|
| Current Price: | \$68 | 5 Year CAGR Estimate: | 9.0% | Market Cap: | \$86B |
| Fair Value Price: | \$69 | 5 Year Growth Estimate: | 5.0% | Ex-Dividend Date: | 03/12/20 |
| % Fair Value: | 99% | 5 Year Valuation Multiple Estimate: | 0.2% | Dividend Payment Date: | 03/30/20 |
| Dividend Yield: | 4.0% | 5 Year Price Target | \$88 | Years Of Dividend Growth: | 5 |
| Dividend Risk Score: | C | Retirement Suitability Score: | B | Last Dividend Increase: | 7.9% |

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 \$85 billion.

Gilead Sciences reported its fourth quarter earnings results on February 4. The company generated revenues of \$5.9 billion during the fourth quarter, which was easily ahead of the analyst consensus estimate. The company's top line grew by 1.4% compared to the previous year's quarter. Gilead's Hepatitis C franchise continued to shrink, due to a declining patient pool for this indication. Gilead's other businesses showed growth rates that were high enough to compensate the ongoing shrinking of its HCV business, though. This was primarily the result of rising revenues from Gilead's HIV drugs, which generated revenues that were more than \$500 million higher than the revenues those drugs generated during the previous year's quarter. Yescarta, which was acquired through the takeover of Kite Pharma, generated revenues of \$122 million during the quarter, up by 51% year over year.

Gilead generated earnings-per-share of \$1.30 during the fourth quarter, which was below the consensus estimate. Management's guidance for 2020 calls for product sales of ~\$22 billion, and earnings-per-share in a range of \$6.05 to \$6.45, which means that this year's profits will most likely be below 2019's level.

Growth on a Per-Share Basis

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|---------------------------|--------|--------|--------|--------|--------|---------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$1.66 | \$1.78 | \$1.64 | \$1.81 | \$7.35 | \$11.91 | \$9.94 | \$8.84 | \$6.67 | \$6.63 | \$6.25 | \$7.98 |
| DPS | --- | --- | --- | --- | --- | \$1.29 | \$1.84 | \$2.08 | \$2.28 | \$2.52 | \$2.72 | \$3.81 |
| Shares¹ | 1.60 | 1.51 | 1.52 | 1.53 | 1.50 | 1.42 | 1.31 | 1.31 | 1.30 | 1.27 | 1.25 | 1.20 |

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 quickly, 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 2019.

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 grow, which is why earnings will likely not continue to decline forever; 2019 was a year during which Gilead managed to grow its revenues again. 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 start to climb again as well, although right now profits are still hurt due to growth investments such as Filgotinib. Gilead owns the commercialization rights for Filgotinib, which was developed by Galapagos, and as this drug has a good chance of becoming successful in the rheumatoid arthritis, Crohn's disease, and ulcerative colitis markets in the foreseeable future, revenue growth could see a jolt in late 2020 or 2021, with profits likely starting to rise as well around that time.

¹ In Billions

Disclosure: This analyst has a long position in GILD.



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Valuation Analysis

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Now | 2025 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 11.8 | 11.2 | 17.3 | 31.1 | 12.2 | 8.9 | 8.4 | 8.5 | 9.4 | 9.8 | 10.9 | 11.0 |
| Avg. Yld. | --- | --- | --- | --- | --- | 1.2% | 2.2% | 2.8% | 3.6% | 3.9% | 4.0% | 4.3% |

Gilead Sciences has never traded at a high valuation, except for 2013, when the steep earnings growth during 2014 was foreseeable. Gilead has been valued at a relatively low valuation since 2015, and shares continue to be valued at just 11 times earnings. We believe that shares are nevertheless fairly valued here, as growth has not materialized yet.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|--------|------|------|------|------|------|-------|-------|-------|-------|-------|-------|-------|
| Payout | --- | --- | --- | --- | --- | 10.8% | 18.5% | 23.5% | 34.2% | 38.0% | 43.5% | 47.8% |

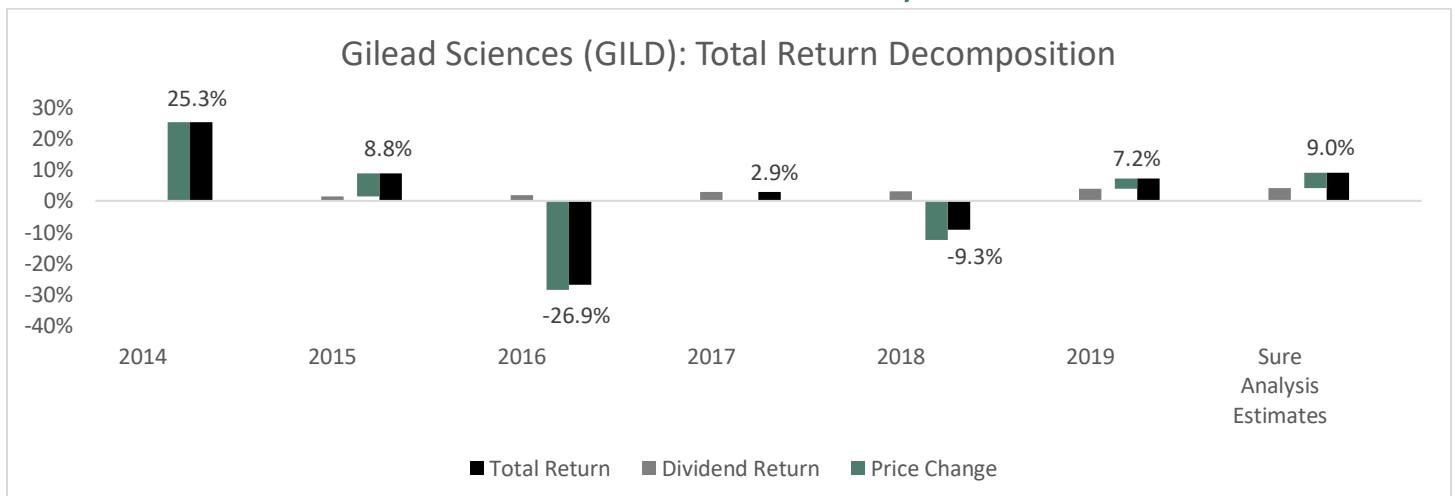
Gilead Sciences started to pay a dividend in 2015. Since then the dividend has been increased annually. Due to a combination of a high-single-digit dividend growth rate and declining earnings-per-share, Gilead's dividend payout ratio has risen substantially over the last couple of years. As we forecast 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, and the market is more or less shared by these two companies. It is unlikely that Gilead will lose its market position, and both players have no interest in engaging in a price war. Gilead's main problem over the last few years was 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 its recession resilience.

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. Revenues started to rise again in 2019, although profits have continued to decline due to investments into the company's drug pipeline. 2020 will likely be a year of growing revenues as well, and with the upcoming commercialization of Filgotinib, Gilead could get back to growing its profits over the next couple of years. Shares look fairly valued but offer an above-average yield. We rate the stock a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 7,949 | 8,385 | 9,702 | 11,202 | 24,890 | 32,639 | 30,390 | 26,107 | 22,127 | 22,449 |
| Gross Profit | 6,080 | 6,261 | 7,231 | 8,343 | 21,102 | 28,633 | 26,129 | 21,736 | 17,274 | 17,774 |
| Gross Margin | 76.5% | 74.7% | 74.5% | 74.5% | 84.8% | 87.7% | 86.0% | 83.3% | 78.1% | 79.2% |
| SG&A Exp. | 1,044 | 1,242 | 1,461 | 1,699 | 2,983 | 3,426 | 3,398 | 3,878 | 4,056 | 4,381 |
| D&A Exp. | 265 | 302 | 278 | 345 | 1,050 | 1,098 | 1,158 | 1,286 | 1,429 | |
| Operating Profit | 3,962 | 3,790 | 4,010 | 4,524 | 15,265 | 22,193 | 17,633 | 14,124 | 8,200 | 4,287 |
| Operating Margin | 49.8% | 45.2% | 41.3% | 40.4% | 61.3% | 68.0% | 58.0% | 54.1% | 37.1% | 19.1% |
| Net Profit | 2,901 | 2,804 | 2,592 | 3,075 | 12,101 | 18,108 | 13,501 | 4,628 | 5,455 | 5,386 |
| Net Margin | 36.5% | 33.4% | 26.7% | 27.5% | 48.6% | 55.5% | 44.4% | 17.7% | 24.7% | 24.0% |
| Free Cash Flow | 2,772 | 3,507 | 2,798 | 2,915 | 12,261 | 20,503 | 16,299 | 11,308 | 7,476 | |
| Income Tax | 1,024 | 862 | 1,038 | 1,151 | 2,797 | 3,553 | 3,609 | 8,885 | 2,339 | (204) |

Balance Sheet Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets | 11,593 | 17,303 | 21,240 | 22,579 | 34,664 | 51,716 | 56,977 | 70,283 | 63,675 | 61,627 |
| Cash & Equivalents | 908 | 9,884 | 1,804 | 2,113 | 10,027 | 12,851 | 8,229 | 7,588 | 17,940 | |
| Accounts Receivable | 1,622 | 1,951 | 1,751 | 2,182 | 4,635 | 5,854 | 4,514 | 3,851 | 3,327 | 3,582 |
| Inventories | 1,204 | 1,390 | 1,745 | 1,697 | 1,386 | 1,955 | 1,587 | 801 | 814 | 2,067 |
| Goodwill & Int. Ass. | 1,426 | 2,067 | 12,797 | 13,069 | 12,245 | 11,419 | 10,143 | 21,259 | 19,855 | 17,903 |
| Total Liabilities | 5,471 | 10,436 | 11,696 | 10,834 | 18,845 | 32,603 | 37,614 | 49,782 | 42,141 | 38,977 |
| Accounts Payable | 803 | 1,206 | 1,327 | 1,256 | 955 | 1,178 | 1,206 | 814 | 790 | |
| Long-Term Debt | 3,485 | 7,607 | 8,224 | 6,636 | 12,404 | 22,055 | 26,346 | 33,542 | 27,322 | - |
| Shareholder's Equity | 5,864 | 6,739 | 9,303 | 11,370 | 15,426 | 18,534 | 18,887 | 20,442 | 21,387 | 22,650 |
| D/E Ratio | 0.59 | 1.13 | 0.88 | 0.58 | 0.80 | 1.19 | 1.39 | 1.64 | 1.28 | - |

Profitability & Per Share Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------|-------|-------|-------|-------|-------|--------|-------|-------|-------|-------|
| Return on Assets | 27.3% | 19.4% | 13.4% | 14.0% | 42.3% | 41.9% | 24.8% | 7.3% | 8.1% | 8.6% |
| Return on Equity | 47.4% | 44.5% | 32.3% | 29.7% | 90.3% | 106.6% | 72.2% | 23.5% | 26.1% | 24.5% |
| ROIC | 33.4% | 23.3% | 16.1% | 17.0% | 51.9% | 52.2% | 31.1% | 9.3% | 10.6% | 15.1% |
| Shares Out. | 1.60 | 1.51 | 1.52 | 1.53 | 1.50 | 1.42 | 1.31 | 1.31 | 1.30 | 1.27 |
| Revenue/Share | 4.55 | 5.31 | 6.13 | 6.61 | 15.11 | 21.46 | 22.38 | 19.79 | 16.92 | 17.58 |
| FCF/Share | 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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