



# Gilead Sciences Inc. (GILD)

Updated May 9<sup>th</sup>, 2020 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$77	<b>5 Year CAGR Estimate:</b>	7.5%	<b>Market Cap:</b>	\$97B
<b>Fair Value Price:</b>	\$74	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	06/12/20
<b>% Fair Value:</b>	104%	<b>5 Year Valuation Multiple Estimate:</b>	-0.9%	<b>Dividend Payment Date:</b>	06/30/20
<b>Dividend Yield:</b>	3.5%	<b>5 Year Price Target</b>	\$94	<b>Years Of Dividend Growth:</b>	5
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	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, and is headquartered in Foster City, CA.

Gilead Sciences reported its first quarter earnings results on April 30. The company generated revenues of \$5.6 billion during the quarter, which was easily ahead of the analyst consensus estimate. The company's top line grew by 5% 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 for 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 thanks to an attractive 14% growth rate. Yescarta, which was acquired through the takeover of Kite Pharma, generated revenues of \$140 million during the quarter, up by 46% year over year.

Gilead generated earnings-per-share of \$1.68 during the first quarter, which was above the consensus estimate. The company got a lot of publicity during the last couple of weeks thanks to the fact that its drug *remdesivir* has been approved for the emergency treatment of coronavirus-caused COVID-19. It is not yet known whether this will boost Gilead's results meaningfully, as it is possible that the drug will only be given for free, as the company has already announced that 1.5 million doses will be donated, but the market has still bid up Gilead's shares.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$1.66	\$1.78	\$1.64	\$1.81	\$7.35	\$11.91	\$9.94	\$8.84	\$6.67	\$6.63	<b>\$6.70</b>	<b>\$8.55</b>
<b>DPS</b>	---	---	---	---	---	\$1.29	\$1.84	\$2.08	\$2.28	\$2.52	<b>\$2.72</b>	<b>\$3.81</b>
<b>Shares<sup>1</sup></b>	1.60	1.51	1.52	1.53	1.50	1.42	1.31	1.31	1.30	1.27	<b>1.25</b>	<b>1.20</b>

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.

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, and the start to 2020 was positive as well. 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 Gilead still has to invest meaningfully into pipeline drugs. Gilead owns the commercialization rights for Filgotinib, which was developed by Galapagos, which has a good chance of becoming successful in the rheumatoid arthritis, Crohn's disease, and ulcerative colitis markets. COVID-19 treatment remdesivir is a potential near-term sales driver as well, although that is still highly speculative at this point.

<sup>1</sup> In Billions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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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	11.5	11.0
Avg. Yld.	---	---	---	---	---	1.2%	2.2%	2.8%	3.6%	3.9%	3.5%	4.1%

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, although recently its valuation expanded a bit due to the market seeing potential in its emergency COVID-19 treatment.

## 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%	40.6%	44.6%

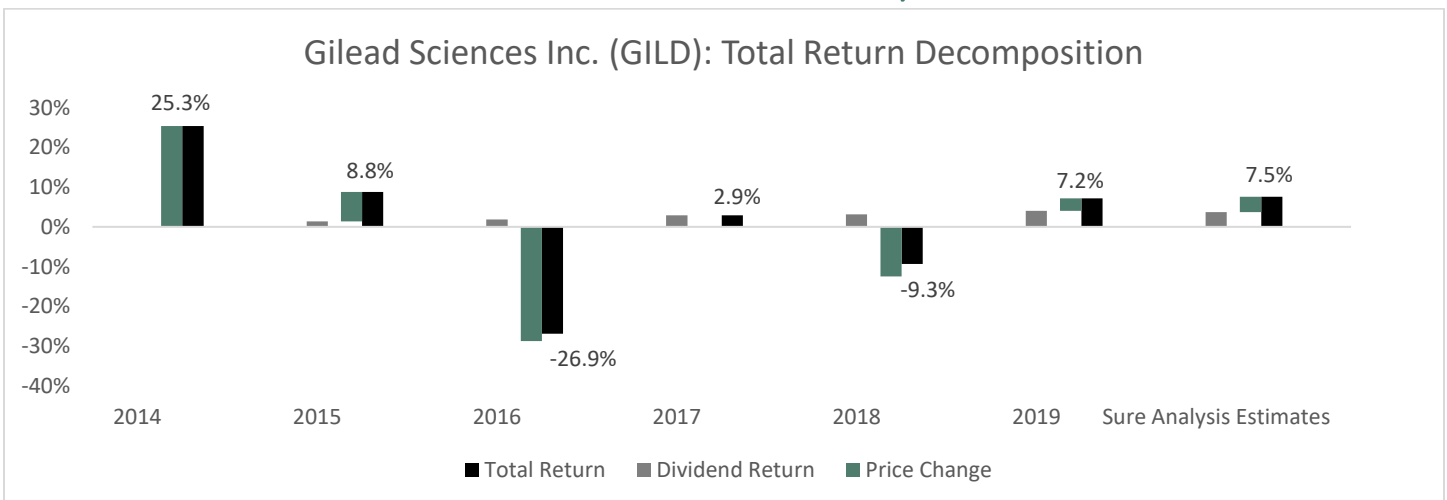
Gilead Sciences started to pay a dividend in 2015. Since then the dividend has been increased annually. Due to a combination of a high-single-digit dividend growth rate and declining earnings-per-share, Gilead's dividend payout ratio has risen substantially over the last couple of years. As we forecast 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 continued to shrink as more patients were 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

Thanks to the ongoing growth of its HIV portfolio, Gilead Sciences has managed to generate positive sales growth once again, despite the ongoing sales decline in its HCV franchise. 2020 will likely be a year of growing revenues, and with the upcoming commercialization of Filgotinib, Gilead could get back to growing its profits meaningfully over the next couple of years. Shares have risen considerably since our last update and are now trading slightly ahead of our fair value estimate, which is why 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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