Gilead Sciences Inc. (GILD)

Updated August 4th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$72	**5 Year CAGR Estimate:**	9.7%	**Market Cap:**	$89B
Fair Value Price:	$76	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	09/14/20
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.2%	**Dividend Payment Date:**	09/29/20
Dividend Yield:	3.8%	**5 Year Price Target**	$98	**Years Of Dividend Growth:**	5
Dividend Risk Score:	B	**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, and is headquartered in Foster City, CA.

Gilead Sciences reported its second quarter earnings results on July 30. The company generated revenues of $5.1 billion during the quarter, which was below the analyst consensus estimate. The company's top line declined by 10% 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 a stronger performance, but did not generate sales comparable to the previous quarter, due to the impact of the pandemic during that time frame. Treatment starts for patients were down, as the healthcare industry focused on battling the coronavirus, which led to less activity in the indications Gilead is active in. Yescarta and Bictarvy, two of Gilead's growth drugs, still grew 30% and 44% year over year, respectively.

Gilead generated earnings-per-share of $1.11 during the second quarter, which was below the consensus estimate. The company got a lot of publicity during the last couple of months 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, but management's guidance for 2020 was quite positive. The company forecasts revenues of $24 billion, and earnings-per-share in a range of $6.25 to $7.65, which would be a solid improvement versus fiscal 2019, despite the fact that Q2's revenues and earnings were below the prior year'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	***$6.95***	***$8.87***
DPS	---	---	---	---	---	$1.29	$1.84	$2.08	$2.28	$2.52	***$2.72***	***$3.81***
Shares[1]	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.

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 2020 will most likely be another positive year. 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 it is not yet known how much the drug will be used.

[1] In Billion

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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	***10.4***	***11.0***
Avg. Yld.	---	---	---	---	---	1.2%	2.2%	2.8%	3.6%	3.9%	***3.8%***	***3.9%***

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%	***39.1%***	***43.0%***

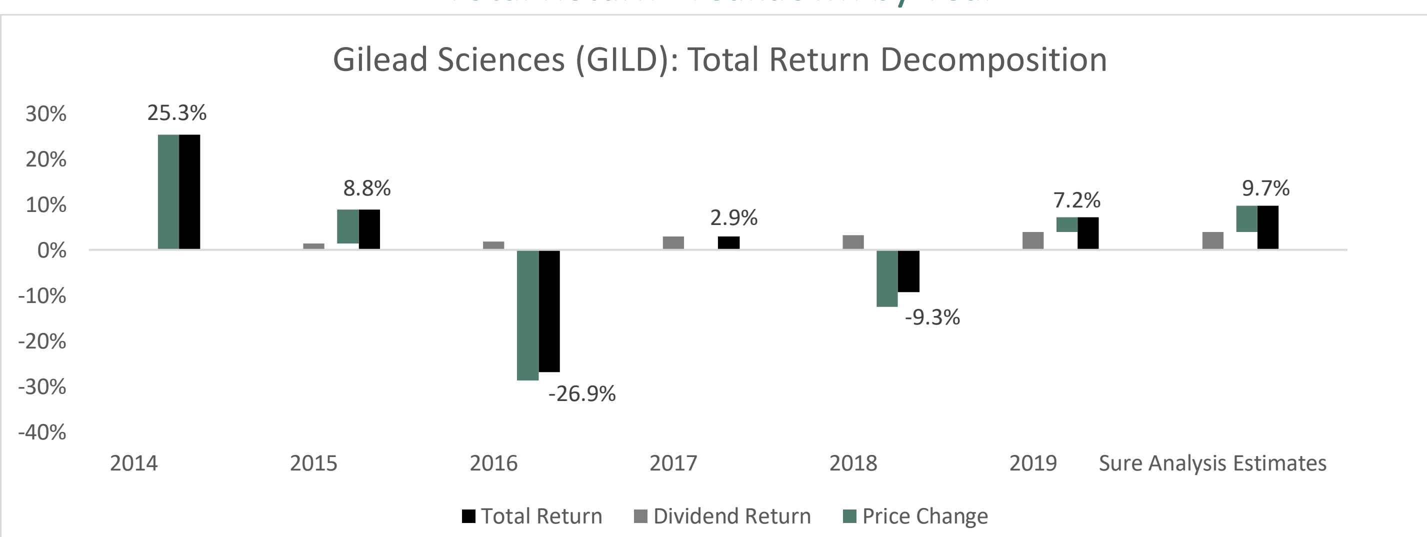
Gilead Sciences started to pay a dividend in 2015. Since then the dividend has been increased annually. Due to a combination of a high-single-digit dividend growth rate and declining earnings-per-share, Gilead's dividend payout ratio has risen substantially over the last couple of years. As we forecast 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. It is unlikely that Gilead will lose its market position, and the major 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 is not negatively impacted by recessions to a large degree, 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

Thanks to the ongoing growth of its HIV portfolio, Gilead Science's management's outlook for the current year is a quite positive one. 2020 will likely be a year of growing revenues and growing profits, and with the upcoming commercialization of Filgotinib, Gilead could get back to growing more meaningfully over the next couple of years. Shares have decline slightly since our last update and are now trading below our fair value estimate once again, which is why we rate the stock a buy at current prices.

Total Return Breakdown by Year



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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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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.