



Gilead Sciences Inc. (GILD)

Updated November 21st, 2022 by Jonathan Weber

Key Metrics

Current Price:	\$85	5 Year CAGR Estimate:	3.9%	Market Cap:	\$106B
Fair Value Price:	\$71	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	12/14/22
% Fair Value:	121%	5 Year Valuation Multiple Estimate:	-3.7%	Dividend Payment Date:	12/29/22
Dividend Yield:	3.4%	5 Year Price Target	\$86	Years Of Dividend Growth:	7
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Hold

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 third quarter earnings results on November 2. The company generated revenues of \$7.0 billion during the quarter, which was above the analyst consensus estimate. The company's top line declined by 5% compared to the previous year's quarter. Gilead's Hepatitis C franchise continues to decline, but other businesses showed a better performance. Gilead's COVID therapy Veklury (remdesivir), which generated revenues of \$1.8 billion during the previous year's quarter, saw its sales drop considerably, as competing drugs have come to the market. Adjusted for that, Gilead's product sales would have been up by 11% year over year on the back of strong HIV sales. HIV drug Biktarvy, Gilead's biggest drug in terms of sales volumes, generated an attractive 21% sales increase.

Gilead generated earnings-per-share of \$1.90 during the third quarter, which was easily above the consensus estimate. Gilead has updated and increased its guidance range for 2022, now forecasting revenues of \$26 billion, which is up \$1 billion versus the previous guidance midpoint. Gilead has stated that its earnings-per-share should fall into a range of \$6.95 to \$7.15 during the current year, which is below the levels seen in 2020 and 2021, but above the earnings the company generated during 2018-2019. This also is a higher earnings-per-share estimate compared to what Gilead had guided for earlier this year, as it has now raised the guidance two times in a row.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.64	\$1.81	\$7.35	\$11.91	\$9.94	\$8.84	\$6.67	\$6.63	\$7.09	\$7.28	\$7.05	\$8.58
DPS	---	---	---	\$1.29	\$1.84	\$2.08	\$2.28	\$2.52	\$2.72	\$2.84	\$2.92	\$3.73
Shares¹	1.52	1.53	1.50	1.42	1.31	1.31	1.30	1.27	1.26	1.26	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 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.

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 was 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, developed by Galapagos, which has a good chance of becoming successful in several immunotherapeutic indications. COVID-19 treatment remdesivir has been a growth driver in 2020 and 2021, but it is expected that the impact of remdesivir will be less pronounced going forward.

¹ 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.3	31.1	12.2	8.9	8.4	8.5	9.4	9.8	8.1	10.0	12.1	10.0
Avg. Yld.	---	---	---	1.2%	2.2%	2.8%	3.6%	3.9%	4.8%	3.9%	3.4%	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. Shares have risen since our last update, and are now trading above our fair value earnings multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	10.8%	18.5%	23.5%	34.2%	38.0%	38.4%	39.0%	41.4%	43.4%

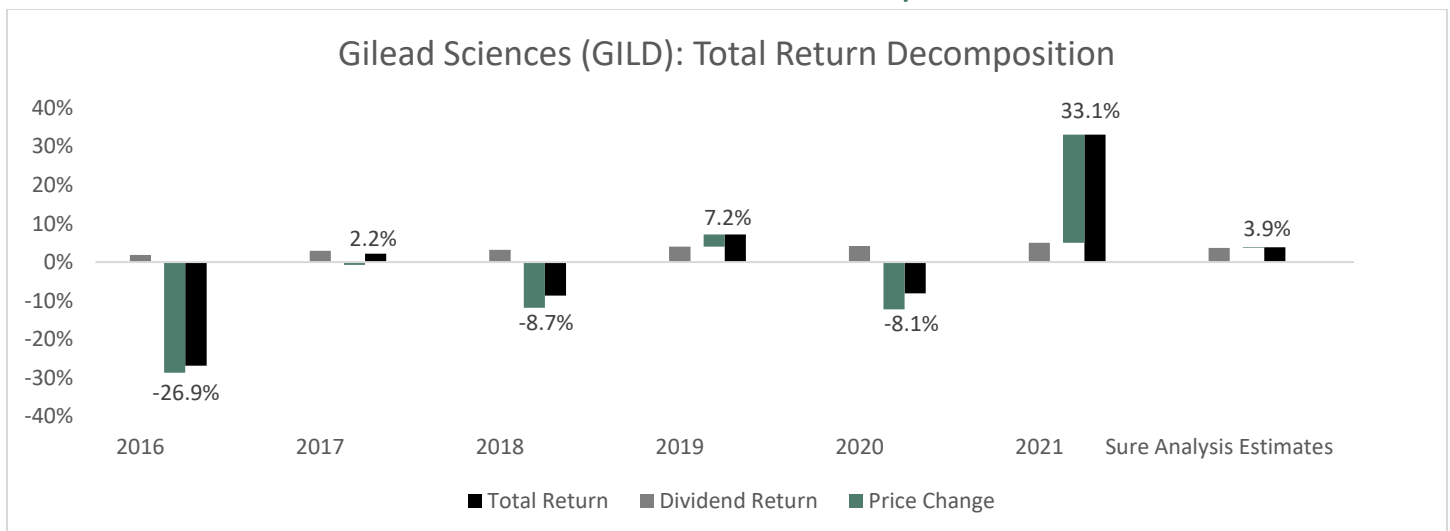
Gilead Sciences started to pay a dividend in 2015. Since then the dividend has been increased annually. Due to a combination of a high-single-digit dividend growth rate and declining earnings-per-share, Gilead's dividend payout ratio has risen substantially over the last couple of years. As we forecast 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 its strong HIV portfolio and progress in the oncology franchise, Gilead Science's management's outlook for the coming years isn't bad. 2020 and 2021 were years of growing revenues and profits, following several years of declining profitability, thanks to COVID drug remdesivir. 2022, where the remdesivir impact will be smaller, looks like a down year for Gilead, but we believe that at least some growth beyond 2022 is likely. Shares are trading above our fair value estimate and offer a sizeable dividend yield. We rate Gilead Sciences' stock a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	9,702	11,202	24,890	32,639	30,390	26,107	22,127	22,449	24,689	27,305
Gross Profit	7,231	8,343	21,102	28,633	26,129	21,736	17,274	17,774	20,117	20,704
Gross Margin	74.5%	74.5%	84.8%	87.7%	86.0%	83.3%	78.1%	79.2%	81.5%	75.8%
SG&A Exp.	1,461	1,699	2,983	3,426	3,398	3,878	4,056	4,381	5,151	5,246
D&A Exp.	278	345	1,050	1,098	1,158	1,286	1,429	1,404	1,480	
Operating Profit	4,010	4,524	15,265	22,193	17,633	14,124	9,298	9,338	9,927	10,095
Operating Margin	41.3%	40.4%	61.3%	68.0%	58.0%	54.1%	42.0%	41.6%	40.2%	37.0%
Net Profit	2,592	3,075	12,101	18,108	13,501	4,628	5,455	5,386	123	6,225
Net Margin	26.7%	27.5%	48.6%	55.5%	44.4%	17.7%	24.7%	24.0%	0.5%	22.8%
Free Cash Flow	2,798	2,915	12,261	20,503	16,299	11,308	7,476	8,319	7,518	11,384
Income Tax	1,038	1,151	2,797	3,553	3,609	8,885	2,339	(204)	1,580	2,077

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	21,240	22,579	34,664	51,716	56,977	70,283	63,675	61,627	68,407	67,952
Cash & Equivalents	1,804	2,113	10,027	12,851	8,229	7,588	17,940	11,631	5,997	
Accounts Receivable	1,751	2,182	4,635	5,854	4,514	3,851	3,327	3,582	4,892	4,493
Inventories	1,745	1,697	1,386	1,955	1,587	801	814	922	1,683	2,734
Goodwill & Int. Ass.	12,797	13,069	12,245	11,419	10,143	21,259	19,855	17,903	41,234	41,787
Total Liabilities	11,696	10,834	18,845	32,603	37,614	49,782	42,141	38,977	50,186	46,888
Accounts Payable	1,327	1,256	955	1,178	1,206	814	790	713	844	
Long-Term Debt	8,224	6,636	12,404	22,055	26,346	33,542	27,322	24,593	31,402	-
Shareholder's Equity	9,303	11,370	15,426	18,534	18,887	20,442	21,387	22,525	18,202	21,064
LTD/E Ratio	0.88	0.58	0.80	1.19	1.39	1.64	1.28	1.09	1.73	-

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	13.4%	14.0%	42.3%	41.9%	24.8%	7.3%	8.1%	8.6%	0.2%	9.1%
Return on Equity	32.3%	29.7%	90.3%	107%	72.2%	23.5%	26.1%	24.5%	0.6%	31.7%
ROIC	16.1%	17.0%	51.9%	52.2%	31.1%	9.3%	10.6%	11.2%	0.3%	17.6%
Shares Out.	1.52	1.53	1.50	1.42	1.31	1.31	1.30	1.27	1.26	1.26
Revenue/Share	6.13	6.61	15.11	21.46	22.38	19.79	16.92	17.58	19.55	21.64
FCF/Share	1.77	1.72	7.44	13.48	12.00	8.57	5.72	6.51	5.95	9.02

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

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