



Gilead Sciences Inc. (GILD)

Updated November 13th, 2023 by Jonathan Weber

Key Metrics

Current Price:	\$75	5 Year CAGR Estimate:	5.8%	Market Cap:	\$93B
Fair Value Price:	\$68	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	12/14/23
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.1%	Dividend Payment Date:	12/28/23
Dividend Yield:	4.0%	5 Year Price Target	\$82	Years Of Dividend Growth:	9
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 7. The company generated revenues of \$7.1 billion during the quarter, which was above the analyst consensus estimate. The company's top line grew by just 0.1% compared to the previous year's quarter. Gilead's COVID therapy Veklury (remdesivir), which generated higher revenues during the previous year's quarter, saw its sales drop considerably, as competing drugs have come to the market and since the pandemic waned. Adjusted for that, Gilead's product sales would have been up by 5% 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 12% sales increase to \$3.1 billion during the quarter, and the overall HIV portfolio generated revenues of \$4.7 billion.

Gilead generated earnings-per-share of \$2.29 during the third quarter, which was well above the consensus estimate. Gilead has increased its revenue guidance range for 2023, forecasting revenues of \$26.8 billion. Gilead has stated that its earnings-per-share should fall into a range of \$6.65 to \$6.85 during the current year, which represents an increase versus the previous guidance range, but which is below the levels seen in recent years. Instead, profits would be around the level seen in the 2018-2019 time frame. The decline in Veklury sales plays a role in the forecasted profit decline compared to the last couple of years, when this COVID drug had a positive one-time impact.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.81	\$7.35	\$11.91	\$9.94	\$8.84	\$6.67	\$6.63	\$7.09	\$7.18	\$7.26	\$6.75	\$8.21
DPS	---	---	\$1.29	\$1.84	\$2.08	\$2.28	\$2.52	\$2.72	\$2.84	\$2.92	\$3.00	\$3.83
Shares¹	1.53	1.50	1.42	1.31	1.31	1.30	1.27	1.26	1.26	1.25	1.24	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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	31.1	12.2	8.9	8.4	8.5	9.4	9.8	8.1	10.0	11.8	11.1	10.0
Avg. Yld.	---	---	1.2%	2.2%	2.8%	3.6%	3.9%	4.8%	3.9%	3.4%	4.0%	4.7%

Gilead Sciences has never traded at an especially high valuation, except for 2013, when the steep earnings growth during 2014 was foreseeable. Gilead has been valued at a lowish valuation since 2015 when its HCV franchise started shrinking. Shares are currently trading somewhat above our fair value earnings multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	10.8%	18.5%	23.5%	34.2%	38.0%	38.4%	39.0%	40.2%	44.4%	46.6%

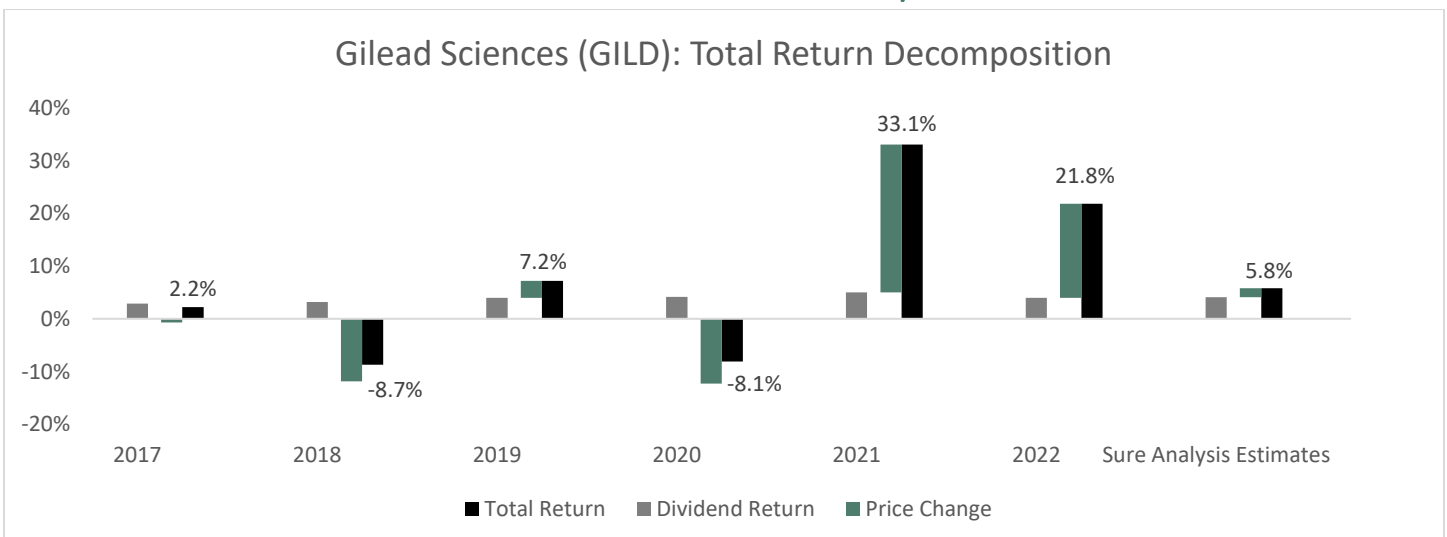
Gilead Sciences started to pay a dividend in 2015. Since then the dividend has been increased annually. Due to a combination of a high-single-digit dividend growth rate and declining earnings-per-share, Gilead's dividend payout ratio has risen substantially over the last couple of years. As we forecast 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. 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 sales outlook for the coming years isn't bad. 2020 to 2022 were years of growing revenues and profits, following several years of declining profitability, thanks to COVID drug remdesivir. 2023, where the remdesivir impact will be smaller, looks like a down year for Gilead, but we believe that at least some growth beyond 2023 is likely. Shares are trading above our fair value estimate and do not promise overly compelling total returns. We rate Gilead Sciences' stock a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	11,202	24,890	32,639	30,390	26,107	22,127	22,449	24,689	27,305	27,281
Gross Profit	8,343	21,102	28,633	26,129	21,736	17,274	17,774	20,117	20,704	21,624
Gross Margin	74.5%	84.8%	87.7%	86.0%	83.3%	78.1%	79.2%	81.5%	75.8%	79.3%
SG&A Exp.	1,699	2,983	3,426	3,398	3,878	4,056	4,381	5,151	5,246	5,673
D&A Exp.	345	1,050	1,098	1,158	1,286	1,429	1,404	1,480	2,050	2,103
Operating Profit	4,524	15,265	22,193	17,633	14,124	9,298	9,338	9,927	10,095	10,974
Operating Margin	40.4%	61.3%	68.0%	58.0%	54.1%	42.0%	41.6%	40.2%	37.0%	40.2%
Net Profit	3,075	12,101	18,108	13,501	4,628	5,455	5,386	123	6,225	4,592
Net Margin	27.5%	48.6%	55.5%	44.4%	17.7%	24.7%	24.0%	0.5%	22.8%	16.8%
Free Cash Flow	2,915	12,261	20,503	16,299	11,308	7,476	8,319	7,518	10,805	9,072
Income Tax	1,151	2,797	3,553	3,609	8,885	2,339	(204)	1,580	2,077	1,248

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	22,579	34,664	51,716	56,977	70,283	63,675	61,627	68,407	67,952	63,171
Cash & Equivalents	2,113	10,027	12,851	8,229	7,588	17,940	11,631	5,997	5,338	5,412
Accounts Receivable	2,182	4,635	5,854	4,514	3,851	3,327	3,582	4,892	4,493	4,777
Inventories	1,697	1,386	1,955	1,587	801	814	922	1,683	1,618	2,820
Goodwill & Int. Ass.	13,069	12,245	11,419	10,143	21,259	19,855	17,903	41,234	41,787	37,208
Total Liabilities	10,834	18,845	32,603	37,614	49,782	42,141	38,977	50,186	46,888	41,962
Accounts Payable	1,256	955	1,178	1,206	814	790	713	844	705	905
Long-Term Debt	6,636	12,404	22,055	26,346	33,542	27,322	24,593	31,402	26,695	25,230
Shareholder's Equity	11,370	15,426	18,534	18,887	20,442	21,387	22,525	18,202	21,069	21,209
LTD/E Ratio	0.58	0.80	1.19	1.39	1.64	1.28	1.09	1.73	1.27	1.19

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	14.0%	42.3%	41.9%	24.8%	7.3%	8.1%	8.6%	0.2%	9.1%	7.0%
Return on Equity	29.7%	90.3%	107%	72.2%	23.5%	26.1%	24.5%	0.6%	31.7%	21.7%
ROIC	17.0%	51.9%	52.2%	31.1%	9.3%	10.6%	11.2%	0.3%	12.8%	13.3%
Shares Out.	1.53	1.50	1.42	1.31	1.31	1.30	1.27	1.26	1.26	1.25
Revenue/Share	6.61	15.11	21.46	22.38	19.79	16.92	17.58	19.55	21.64	21.62
FCF/Share	1.72	7.44	13.48	12.00	8.57	5.72	6.51	5.95	8.56	7.19

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

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