



Gilead Sciences Inc. (GILD)

Updated February 15th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$73	5 Year CAGR Estimate:	7.0%	Market Cap:	\$91B
Fair Value Price:	\$71	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	03/14/24
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.7%	Dividend Payment Date:	03/28/24
Dividend Yield:	4.2%	5 Year Price Target	\$86	Years Of Dividend Growth:	10
Dividend Risk Score:	B	Retirement Suitability Score:	A	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 fourth quarter earnings results on February 6. The company generated revenues of \$7.1 billion during the quarter, which was above the analyst consensus estimate. The company's top line was down by 4% 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 again, 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 7% year over year. HIV drug Biktarvy, Gilead's biggest drug in terms of sales volumes, generated an attractive 14% sales compared to the previous year, while Gilead's oncology portfolio also generated strong revenue growth of 37%.

Gilead generated earnings-per-share of \$1.72 during the fourth quarter, which was below the consensus estimate. Gilead has updated its revenue guidance range for 2024, forecasting revenues of around \$27.3 billion, which would be up slightly compared to the \$27.1 billion in revenue that the company generated in the previous year. Gilead Sciences is guiding for earnings-per-share to fall into a range of \$6.85 to \$7.25 during the current year, which results in a guidance midpoint of \$7.05, which would be better than 2023 but below the level seen in 2020-2022.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$7.35	\$11.91	\$9.94	\$8.84	\$6.67	\$6.63	\$7.09	\$7.18	\$7.26	\$6.72	\$7.05	\$8.58
DPS	---	\$1.29	\$1.84	\$2.08	\$2.28	\$2.52	\$2.72	\$2.84	\$2.92	\$3.00	\$3.08	\$3.57
Shares¹	1.50	1.42	1.31	1.31	1.30	1.27	1.26	1.26	1.25	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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	12.2	8.9	8.4	8.5	9.4	9.8	8.1	10.0	11.8	12.1	10.4	10.0
Avg. Yld.	---	1.2%	2.2%	2.8%	3.6%	3.9%	4.8%	3.9%	3.4%	3.7%	4.2%	4.2%

Gilead Sciences has not traded at a high valuation over the last decade, which can be explained by the mediocre business growth results in that time frame, following the sales declines in its HCV franchise. Shares are currently trading slightly above our fair value earnings multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	10.8%	18.5%	23.5%	34.2%	38.0%	38.4%	39.0%	40.2%	44.6%	43.7%	41.6%

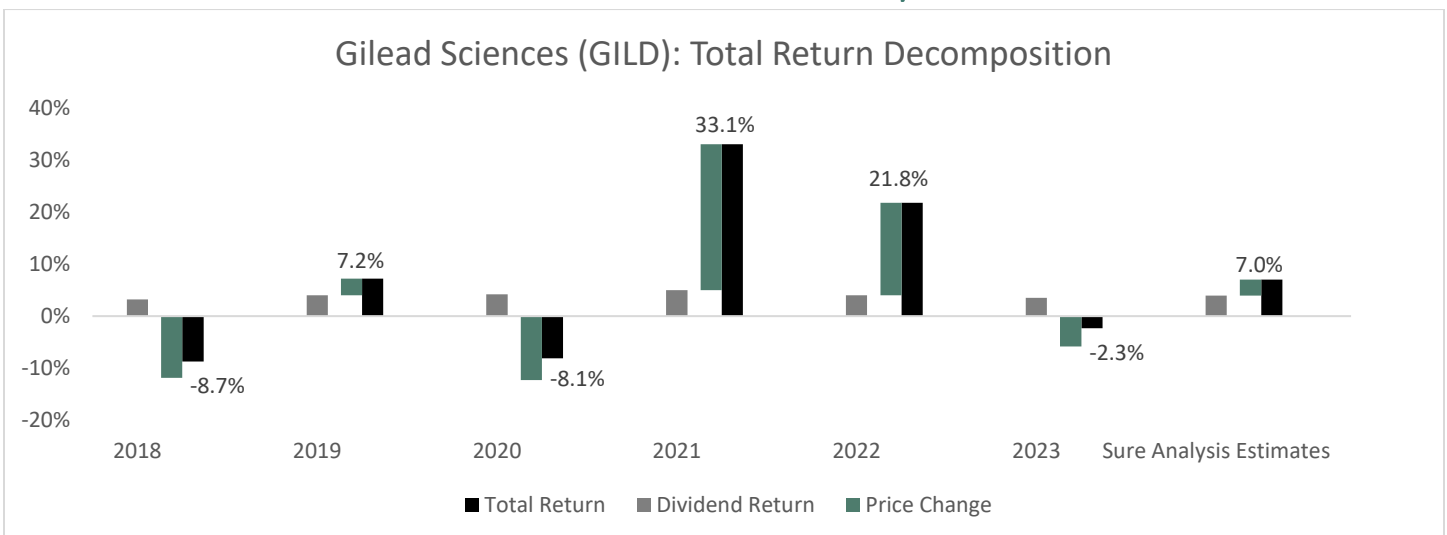
Gilead Sciences started to pay a dividend in 2015. Since then, the dividend has been increased annually. Due to a combination of a meaningful dividend growth rate and declining earnings-per-share, Gilead's dividend payout ratio has risen substantially since the dividend introduction. As we forecast positive 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 Sciences' 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 was smaller, was a down year for Gilead, but things are looking better for the current year and beyond. Shares are trading above our fair value estimate and promise solid total returns going forward. We rate Gilead Sciences' stock a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	24,890	32,639	30,390	26,107	22,127	22,449	24,689	27,305	27,281	27,116
Gross Profit	21,102	28,633	26,129	21,736	17,274	17,774	20,117	20,704	21,624	20,618
Gross Margin	84.8%	87.7%	86.0%	83.3%	78.1%	79.2%	81.5%	75.8%	79.3%	76.0%
SG&A Exp.	2,983	3,426	3,398	3,878	4,056	4,381	5,151	5,246	5,673	6,090
D&A Exp.	1,050	1,098	1,158	1,286	1,429	1,404	1,480	2,050	2,103	
Operating Profit	15,265	22,193	17,633	14,124	9,298	9,338	9,927	10,857	10,974	8,810
Operating Margin	61.3%	68.0%	58.0%	54.1%	42.0%	41.6%	40.2%	39.8%	40.2%	32.5%
Net Profit	12,101	18,108	13,501	4,628	5,455	5,386	123	6,225	4,592	5,665
Net Margin	48.6%	55.5%	44.4%	17.7%	24.7%	24.0%	0.5%	22.8%	16.8%	20.9%
Free Cash Flow	12,261	20,503	16,299	11,308	7,476	8,319	7,518	10,805	8,344	8,006
Income Tax	2,797	3,553	3,609	8,885	2,339	(204)	1,580	2,077	1,248	1,247

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	34,664	51,716	56,977	70,283	63,675	61,627	68,407	67,952	63,171	62,125
Cash & Equivalents	10,027	12,851	8,229	7,588	17,940	11,631	5,997	5,338	5,412	
Accounts Receivable	4,635	5,854	4,514	3,851	3,327	3,582	4,892	4,493	4,777	4,660
Inventories	1,386	1,955	1,587	801	814	922	1,683	1,618	1,507	3,366
Goodwill & Int. Ass.	12,245	11,419	10,143	21,259	19,855	17,903	41,234	41,787	37,207	34,768
Total Liabilities	18,845	32,603	37,614	49,782	42,141	38,977	50,186	46,888	41,962	39,376
Accounts Payable	955	1,178	1,206	814	790	713	844	705	905	
Long-Term Debt	12,404	22,055	26,346	33,542	27,322	24,593	31,402	26,695	25,230	-
Shareholder's Equity	15,426	18,534	18,887	20,442	21,387	22,525	18,202	21,069	21,240	22,749
LTD/E Ratio	0.80	1.19	1.39	1.64	1.28	1.09	1.73	1.27	1.19	-

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	42.3%	41.9%	24.8%	7.3%	8.1%	8.6%	0.2%	9.1%	7.0%	9.0%
Return on Equity	87.8%	103.7%	70.2%	23.2%	26.0%	24.4%	0.6%	31.7%	21.7%	25.8%
ROIC	51.9%	52.2%	31.1%	9.3%	10.6%	11.2%	0.3%	12.8%	9.7%	16.4%
Shares Out.	1.50	1.42	1.31	1.31	1.30	1.27	1.26	1.26	1.25	1.25
Revenue/Share	15.11	21.46	22.38	19.79	16.92	17.58	19.55	21.64	21.62	21.55
FCF/Share	7.44	13.48	12.00	8.57	5.72	6.51	5.95	8.56	6.61	6.36

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

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