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| **Company: Gilead Sciences** | **Ticker: GILD Current Price: 89.50** | **Industry: Health Care Sub Industry: Biotechnology**  |
| Target Price: $122.3Stop Loss: $71.652 Week High/ Low: 123.37 / 81.89 | TTM P/E: 7.49Forward P/E: 7.35EPS: 12.36 | Beta: 1.02Credit Rating: A (Moody)Rating Outlook: Stable  | Market Cap: $126.40 billionAvg Vol : 14.92 millionDividend Yield: 1.7% |
| **Company Background:**  |
| Gilead Sciences (GILD) primary areas of focus include human immunodeficiency virus (HIV); liver diseases, such as chronic hepatitis C virus (HCV) infection and chronic hepatitis B virus (HBV) infection; oncology and inflammation; and serious cardiovascular and respiratory conditions. It has operations in approximately 30 countries worldwide. During FY2015 HCV portfolio contributed to 58% of revenue and HIV drug portfolio contributed 40% of revenue (Gilead HIV drugs serves almost 80% of treated HIV patients in the United States). Further currently company has nine products in phase 3 clinical trials. |
| **Industry Outlook:**  |
| **F**undamental outlook for the biotechnology sub-industry for the next 12 months reflects favorable prospects for new and novel therapies to reach commercialization. The current period is seen as a strong period for the reporting of late-stage clinical results, and a more accommodating U.S. FDA for approvals. In 2014, the FDA approved 41 new therapies, up from 27 in 2013, the most since a record 53 were approved in 1996. These newly approved drugs have significant commercial prospects and represent major advances in therapeutic areas such as hepatitis C, multiple sclerosis and cancer. A favorable mergers and acquisitions (M&A) climate, as large pharmaceutical firms move to offset lost revenues from expiring drug patents and large biotech bolster their drug pipelines amid maturing products. The pharma and biotech sectors have recently faced significant market weakness, largely because of recent headlines about price-gouging, strong policy positions from presidential candidates, notably Hillary Clinton, and congressional investigations into drug pricing.  |
| **Investment Thesis:**  |
| Gilead's focus on infectious disease has paid off in. With a small salesforce, inexpensive manufacturing, and selective research and development, it generates stellar profit margins, and the firm's pipeline is extending its reach into other high-margin markets like hepatitis C and hematological oncology. With the approval of hepatitis C drug Sovaldi in late 2013, Gilead's competitive advantages have strengthened, moving it into wide-moat territory. Gilead will see new competitive threats in HIV; Glaxo could introduce a Truvada/Tivicay single tablet regimen once Truvada patents begin to expire in 2018, and generic versions of Atripla should be available beyond 2021. However, we think Complera and Stribild will have a strong grasp on the market by this time, resetting the firm's HIV patent cliff into the 2020s.In summary, Gilead's substantial pipeline offers numerous opportunities for continued growth, both in the short and longer term, and the financial strength of the company allows it to be thoughtful and opportunistic in pursuing partnerships or acquisitions that will further expand the future portfolio of products. |
| **Investment Risks:**  |
| **1) A** large slowdown in Harvoni sales due to competition. 2) More than 60% of Gilead's U.S.- based HIV sales volume represents government purchases, and higher rebates on some of these sales were implemented in 2010. Austerity measures also had a higher-than-average impact on prices in Europe in 2010, and escalating overall health-care costs and tight budgets. 3) Possible government regulations putting pricing pressure on the company. 4) Key patents begin to expire in 2018, and next-generation products could struggle to provide sufficient differentiation for reimbursement in all key markets. This puts pressure on the HIV franchise beginning around 2021. |
| **3-5 take away from last quarter investor call transcript: Q3 2015** |
| 1. Genvoya, is most recent product to be introduced; and growing pipeline with multiple programs for which milestones are expected during the coming year, including regulatory decisions on two products for HIV and one each for HCV and HBV.
2. Increase of the quarterly dividend from $0.43 per share to $0.47 per share,
3. Board authorized a new $12 billion share repurchase program to be initiated after the completion of the current $15 billion program, which, as of December 31, 2015, had $8 billion remaining
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| **Financial Performance:** | **Discounted Cash Flow**  |
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| --- | --- | --- | --- | --- | --- | --- |
|  | 2013 | 2014 | 2015 | Q2-2015 | Q3-2016 | Q4-2016 |
| Revenue | 11,202.0 | 24,890.0 | 32,639.0 | 8,244.0 | 8,295.0 | 8,506.0 |
| Operating Profit | 4,524.0 | 15,265.0 | 22,193.0 | 5,616.0 | 5,585.0 | 5,621.0 |
| Net Income  | 3,075.0 | 12,101.0 | 18,108.0 | 4,492.0 | 4,600.0 | 4,683.0 |
| Revenue Growth % | 15.5 | 122.2 | 31.1 | 26.2 | 37.3 | 16.3 |
| EBITDA | 4,869.0 | 16,315.0 | — | 5,889.0 | 5,863.0 | — |
| Operating Profit % | 40.4 | 61.3 | 68.0 | 68.1 | 67.3 | 66.1 |
| Profit Margin  | 27.5 | 48.6 | 55.5 | 54.5 | 55.5 | 55.1 |
| D/E | 56.5 | 78.4 | — | 73.8 | 123.9 | — |
| Interest Coverage  | — | — | — | — | — | — |
| EPS | 2.0 | 8.0 | 12.4 | 3.1 | 3.1 | 3.3 |
| PE Ratio  | 40.6 | 12.7 | 8.5 | 12.1 | 8.9 | 8.5 |
| Current Ratio | 1.1 | 3.1 | 3.4 | 2.0 | 2.8 | 3.4 |
| ROE | 29.7 | 90.3 | 104.8 | 92.9 | 109.1 | 104.8 |
| ROA | 14.0 | 42.3 | 41.9 | 42.8 | 42.6 | 41.9 |
| Dividend Per share  | 0.0 | 0.0 | 1.3 | 0.4 | 0.4 | 0.4 |

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| --- | --- | --- |
|  | 2010-15 | 2016-20 |
| Avg Revenue growth  | 38% | -2% |
| Avg EBITDA Margin  | 55% | 64% |
| Avg Net Income Margin  | 40% | 52% |
| Avg Debt/Equity  | 66.38 | - |
| Avg FCF / Margin  | 43% | 52% |
| Cost of Debt (After Tax) | 1.9% |
| Tax Rate | 22% |
| Cost of Equity  | 10.1% |
| WACC | 9.0% |
| Perpetuity growth rate  | 2.5% |

**Analyst Opinion**

|  |  |  |
| --- | --- | --- |
| Buy:17 | Hold: 8 | Sell: 0 |
| Avg Target 118.35 | Rating  | Target  |
| S&P Net Advantage  | 5 | $155 |
| Morning Star | 5 | $128 |
| Value Line  | S:3, T:2 | - |

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| **Relative Valuation** | **Total Return** |
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| --- | --- | --- | --- | --- | --- |
| Name | Average  | GILD US | AMGN US | CELG US | BIIB US |
| Mkt Cap (USD bi) | 95,202.93 | 128,711.80 | 113,084.41 | 81,629.23 | 57,386.28 |
| P/E | 21.69 | 7.49 | 16.41 | 46.24 | 16.63 |
| P/B | 7.67 | 6.64 | 4.04 | 13.88 | 6.12 |
| Dividend Yield  | 0.89 | 1.44 | 2.10 | 0.00 | 0.00 |
| PEG Ratio | 2.14 | 4.63 | 1.60 | 0.86 | 1.47 |
| Trailing 12M EPS  | 9.94 | 12.37 | 9.25 | 2.34 | 15.82 |
| 5 yr-Revn Grth  | 19.69 | 33.60 | 7.58 | 19.17 | 18.42 |
| Profit Margin | 34.69 | 55.06 | 32.51 | 21.89 | 29.29 |
| Operat. Profit M | 44.77 | 66.08 | 36.72 | 35.12 | 41.14 |
| Debt/Equity  | 136.65 | - | 112.37 | 240.76 | 69.61 |
| Net Sales T12M | 18,580.19 | 32,639.00 | 21,662.00 | 9,256.00 | 10,763.76 |
| Net Income  | 8,572.05 | 17,075.16 | 8,278.01 | 4,822.00 | 4,113.00 |

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|  | GILD | Industry | S&P 500 |
| YTD | -11.66% | -22.58% | -5.93% |
| 1 year | -14.00% | -20.41% | -8.43% |
| Last 3 Years  | 114.90% | 80.38% | 26.49% |
| Last 5 Years  | 354.76% | 176.62% | 43.13% |

**CSR Characteristics**

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| --- | --- | --- |
|  | GILD | Industry  |
| Governance Disclosure Score | 51.79 | 60.71 |
| ESG Disclosure:  | 14.05 | 38.03 |
| Social Disclosure Score | 8.77 | 23.68 |
| Environmental Disclosure Score | 6.98 | 37.21 |

**Prepared by: Akhilesh Kumar (Feb 18, 2016) using Bloomberg, Value Line, S&P Net Advantage, Morning Star, Yahoo Finance** |