

Company: Gilead Sciences	Ticker: GILD	Current Price: \$ 73.56	Sector: Healthcare	Industry: Biotechnology
Target Price: \$ 117.49	CY P/E: 6.18		Beta: 0.95	Market Cap: \$ 95,860
Stop Loss: \$ 62.53	Forward P/E: 6.30		Credit Rating: A	Avg Vol: 10.7 mil
52 Week High / Low: \$111.11 \$72.71	TTM EPS: \$11.53		Rating Outlook: A	Dividend Yield: 2.42%

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. **FINANCIAL TRENDS:** In 2014, total revenues rose 122.2% to \$24.89 billion, from \$11.2 billion in 2013, driven by the approval of its Hepatitis C drug, Sovaldi, which had sales of \$10.3 billion in 2014. EPS increased from \$2.04 in 2013 to \$8.09 in 2014. In February 2015, GILD declared the company's first quarterly dividend of \$0.43 beginning in Q2 2015. In conjunction with the dividend announcement, GILD announced a \$15 billion stock repurchase program.

Industry Outlook:

The global pharmaceuticals market increased 6% to \$1.1 trillion in 2015, up from \$1.0 trillion in 2014, with nearly 40% of the growth coming from specialty drugs, including oncology, autoimmune, respiratory, and anti-viral drugs. S&P projects pharmaceutical sales will reach \$1.4 trillion by 2020. The pharmaceuticals industry's stock performance has been aided by several factors, including expanding global presence (together with expanding access to health care in many emerging markets), positive demographics such as an expanding elderly population, benefits from the health care reform law, and a healthy M&A environment. This has resulted in increased global sales. Branded and specialty drugs will likely drive spending growth in the developed markets, while an overall increase in the use of pharmaceuticals will likely spur growth in emerging markets. The CAGR for global sales from 2016 to 2020 is forecast to range from 4% to 7%, with the US forecasted to grow 5%-8%.

Investment Thesis:

Foundamental: (1) **Market:** 180 mn patients suffer from HPV in the world. GILD dominates in HCV treatment by Sovaldi and Harvoni, with 85% market share. Yet, GILD only served 16% of the estimated 6.6 million HCV patients in the U.S. and 5 European countries; (2) **Market:** it has been actively entering global or emerging markets like China which has 15 million HCV patients by 2018; (3) **Product:** Epclusa, approved in June 2016, is the only pill to treat all six HCV strains; (4) **Product:** the approval of its HIV medicine, Genvoya, boosts sales in HIV category and offsets declines in HCV; (5) **Strategy:** M&A could triggers new growth. GILD has just boosted its debt level by \$5 billion, to \$27 billion, and has \$9 billion in cash. This indicates that it is ready to buy. **Financial:** Strong and stable margin, cash flow and ROE. **Relative analysis:** GILD's P/E and EV/EBITDA ratio are way under the industry's average and competitors' value.

Investment Risks:

- (1) Competing hepatitis C regimens from Merck and AbbVie, are impairing GILD's flagship medicine's profit and are giving buyers the ability to negotiate aggressively.
- (2) Gilead's HIV franchise will see the first important patent expirations in 2018 and 2021, and the firm needs to convert patients to newer products like Genvoya to avoid a significant hit to sales.
- (3) Results of nine clinical trials for potential drugs will be disclosed by December 31st 2016.

Discounted Cash Flow Analysis

(million USD)	2017	2018	2019	2020
Free Cash Flow	\$ 15,502.20	\$ 14,761.00	\$ 15,461.91	\$ 16,196.11
Terminal Value				\$ 179,956.78
Total Flows	\$ 15,502.20	\$ 14,761.00	\$ 15,461.91	\$ 196,152.89
PV of Flows	\$ 14,721.09	\$ 13,310.95	\$ 13,240.46	\$ 159,507.51
Enterprise Value	\$ 200,780.01			
Outstanding Debt	\$ 32,187.00			
Equity Value	\$ 168,593.01			
Outsatndng Share:	1,435			
Equity Value per sh	\$ 117.49			

Past Performance



Competitors GILD

Name	Price	% Chg	TTM Sales \$ mil
Gilead Sciences Inc	\$73.55	1.25 ↑	32,371
Roche Holding AG	\$240.81	-0.53 ↓	52,356
Roche Holding AG Dividend Right Cert.	\$236.00	0.47 ↑	52,356
Roche Holding AG ADR	\$29.51	0.55 ↑	52,356
Amgen Inc	\$163.08	0.28 ↑	22,474
Novo Nordisk A/S B	\$40.68	1.71 ↑	16,298

Financial Performance

(\$millions)	2012	2013	2014	2015	TTM 2016	Est 2017	Est 2018
Revenue	\$ 9,703.00	\$ 11,202.00	\$ 24,890.00	\$ 32,639.00	\$ 32,371.00	\$ 29,383.00	\$ 29,166.00
EBIT	\$ 3,972.90	\$ 4,515.11	\$ 15,268.00	\$ 22,347.00	\$ 20,662.00	\$ 18,699.40	NM
EBITDA	\$ 4,251.10	\$ 4,858.80	\$ 16,318.00	\$ 23,445.00	\$ 21,785.00	\$ 19,122.30	\$ 17,510.00
Net Income	\$ 2,592.00	\$ 3,075.00	\$ 12,101.00	\$ 18,108.00	\$ 16,346.00	\$ 15,001.40	\$ 15,055.00
Revenue Growth %	15.7%	15.5%	122.2%	31.1%	-5.7%	-3.6%	-0.7%
EBITDA%	43.8%	43.4%	65.6%	71.8%	67.3%	65.1%	60.0%
Operating Profit %	41.3%	40.4%	61.3%	68.0%	63.0%	63.6%	NM
Net Income Margin	26.7%	27.4%	48.6%	55.5%	50.5%	51.1%	51.6%
Total Debt/(EBITDA-CAPEX)	2.38	1.22	1.47	0.00	1.04	1.18	1.25
EPS	\$1.64	\$1.81	\$7.35	\$11.91	\$11.34	\$11.53	\$11.61
PE Ratio	17.30	31.10	12.20	8.90	6.40	6.30	NM
Current Ratio	1.50	1.10	3.10	2.50	1.76	NM	NM
ROE	32.3%	29.8%	90.3%	106.6%	102.7%	64.20%	83.14%
ROA	14.8%	15.1%	43.5%	43.2%	36.67%	28.11%	44.00%
Dividend Per share	NA	NA	NA	\$1.29	\$1.79	\$2.10	\$2.10
FCF	\$2,798.00	\$ 2,914.00	\$12,261.00	\$19,582.00	\$16,990.00	\$15,502.20	\$ 14,761.00

Discounted Cash Flow

	2011-2016	2016-2020
Avg Revenue growth	32.64%	4.04%
Avg EBITDA Margin	54.84%	60.00%
Avg Net Income Margin	38.34%	50.00%
Avg Debt/Equity	0.83	1.2
Avg FCF / Margin	41.15%	35%
Cost of Debt		4.04%
Tax Rate		20.5%
Cost of Equity		8.20%
WACC	10.00%	5.31%
Perpetuity growth rate	1%	3.00%

Analyst Opinion:

Buy: 15	Hold: 12	Sell: 0
JP Morgan	Rating	Target
S&P Net Advantage	Overweight	\$115 (2017)
Value Line	Strong Buy	\$125 (2017)
	Timeliness:5	\$115~\$175 (2019~2021)

Relative Valuation

	GILD	Amgen	Industry Avg.
P / E (2016)	6.18	17.26	13.08
Forward P / E (2017)	6.30	14.16	11.88
EV/EBITDA (2016)	4.67	9.68	9.95
Dividend Yield	2.42%	2.20%	1.16%
PEG Ratio	3.91	1.82	2.04
TTM EPS	\$11.34	\$9.77	\$10.65
Rev Grth	-5.7%	5.92%	8.21%
EBITDA Grth (YoY)	-12.39%	9.05%	32.11%
Operating Margin	63.0%	41.8%	45.1%
Debt / Equity	1.38	1.10	1.41
Market Cap	\$ 95,860.0	\$121,700.0	\$ 89,680.0
Revenue (TTM)	\$ 32,371.0	\$ 22,470.0	\$ 19,060.0
EBITDA (TTM)	\$ 21,785.0	11,851 mn	\$ 10,850.0
Price / Cash Flow	6.14	13.45	11.00

Total Return

	GILD	Industry	S&P 500
YTD	-27.03%	-11.62%	5.89%
1 Year	-27.88%	-6.70%	7.38%
Last 3 Yea	3.51%	7.77%	8.83%
Last 5 Yea	30.21%	26.23%	13.87%

	GILD	Industry
Governance Disclosure Score	51.79	58.04
ESG Disclosure:	24.79	34.61
Social Disclosure Score	28.07	25.00
Environmental Disclosure Score	11.63	28.68

Prepared by Pei-ju Lee (Oct 17, 2016) using Bloomberg, Value Line, S&P Net Advantage, Capital IQ, Thomson One Banker, Morning Star, Yahoo Finance