

Gilead Sciences, Inc.

NASDAQ:GILD

Analyst: Pierre Gouesclou

Sector: Healthcare

BUY

Price Target: \$114.83

Key Statistics as of 4/23/2016

Market Price:	\$101.93
Industry:	Biotechnology
Market Cap:	\$138.08 B
52-Week Range:	\$81.89 - \$123.37
Beta:	0.92

Thesis Points:

- Strong financial data.
- Efficient product pipeline.
- Switch in capital structure to generate more value.
- Seek potential Acquisitions.

Company Description:

Gilead sciences, Inc., one of the Biotechnology Industry leader with a market cap of \$134.4 Billion has been developing and commercializing products since their creation in the 80's. In 1987 the company went public with a stock price of \$0.5 per share and is valued at a little less than \$100 today. With their important pipeline the company was able to expand their revenue segment to various type of disorders. Since 2015 the stock price has acknowledged an increase in value due to Political movements regarding drug price limitations in the United-States. This decrease in value can become an investment opportunity.



Thesis

In the past years, Gilead Sciences (NASDAQ:GILD) has outperformed most of the earnings estimate due to their increasing revenue streams and efficient pipeline. Currently, the company has several products under Phase 3 that will soon be introduced in the market in order to strengthen their revenue. Furthermore, the company has shown stable financial results and has efficiently managed their important debt. As a sign of confidence to the investors, Gilead Sciences' management has triggered a vast wealth distribution to shareholders composed of a dividend payout and a stock repurchase program. As the leader of the biotechnology industry, Gilead was not spared by the political environment of the last years. With the threat of a regulation on drug prices, the firm has suffered an important fall in their stock value until recently due to the fear of a reduction of their margins. Gilead Sciences has a strong customer base and a healthy product pipeline that might generate an increase in stock price in the next year.

Industry Outlook

The Biotechnology industry is currently suffering due to the upcoming presidential elections. All candidates running for the White House have been discussing the importance of regulating the price of drugs and biotechnological products in the future. Given these discussions the markets have been severely sanctioning the stocks of these biotechnology companies. In addition to these sanctions the industry has been suffering from increases in regulations issues. The most recent example is the annulation of the merger deal between Pfizer and Allergan a few months ago. This "Healthcare bashing" can prove to be an interesting investment opportunity for investors.

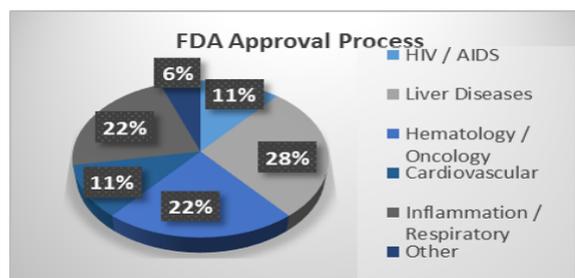
Pipeline

Current products: At this point in time, Gilead produces and sells 21 products made to deal with HIV, cardiovascular, respiratory and other health issues. The cash cows of the company are their treatments for HIV, which accounts for 58.6% of their total product sales. This phenomenon is increasing through the year as their other product percentage of sales is reducing drastically. This focus on HIV treatments can be seen as a lack of diversity and can become a possible weakness for the company in the future. Given this possible weakness, the company started researching and developing an important amount of products in other fields than HIV.

In Millions of USD except Per Share	FY 2012		FY 2013		FY 2014		FY 2015	
12 Months Ending	12/31/2012	96.8%	12/31/2013	96.4%	12/31/2014	98.3%	12/31/2015	98.5%
Product Sales	9,271.4	96.8%	10,804.0	96.4%	24,474.0	98.3%	32,151.0	98.5%
Antiviral Products	8,141.8	85.0%	9,342.0	83.4%	22,791.0	91.6%	30,207.0	92.5%
HCV Franchise	-	-	139.0	1.2%	12,410.0	49.9%	19,140.0	58.6%
Truvada	3,181.1	33.2%	3,136.0	28.0%	3,340.0	13.4%	3,459.0	10.6%
Atripla	3,574.5	37.3%	3,648.0	32.6%	3,470.0	13.9%	3,134.0	9.6%
Stribild	57.5	0.6%	539.0	4.8%	1,197.0	4.8%	1,825.0	5.6%
Complere	382.2	3.6%	810.0	7.2%	1,223.0	4.9%	1,427.0	4.4%
Viread	848.7	8.9%	959.0	8.6%	1,058.0	4.3%	1,108.0	3.4%
Other Antiviral	-	-	111.0	1.0%	88.0	0.4%	69.0	0.2%
Genvoya	-	-	-	-	-	-	45.0	0.1%
Entriova	29.4	0.3%	-	-	-	-	-	-
Hepsera	108.3	1.1%	-	-	-	-	-	-
Other Products	-	-	1,462.0	13.1%	1,683.0	6.8%	1,944.0	6.0%
Letairis	410.1	4.3%	520.0	4.6%	595.0	2.4%	700.0	2.1%
Ranexa	372.9	3.9%	449.0	4.0%	510.0	2.0%	588.0	1.8%
Ambisome	346.6	3.6%	352.0	3.1%	388.0	1.6%	350.0	1.1%
Other Product	126.9	1.3%	141.0	1.3%	167.0	0.7%	174.0	0.5%
Zydelig	-	-	0.0	-	23.0	0.1%	132.0	0.4%
Cayston	-	-	-	-	-	-	-	-

(Source: Bloomberg.)

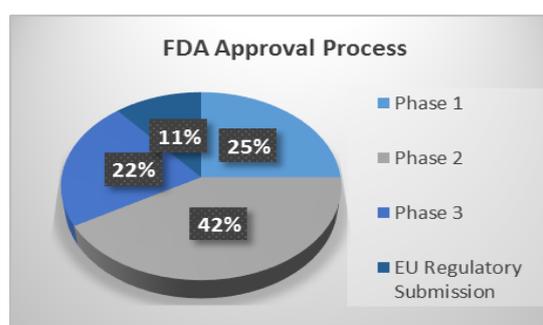
Products in development: Gilead Sciences has an important pool of products in development for several types of diseases. Out of 36 products, only 4 are undertaken with a focus on HIV, which represents only 11% of the research portfolio. The firm is attempting to enhance the efficiency of their other existing segments and create new sources of revenues. Gilead Sciences has an important amount of their development Portfolio placed into prototypes for liver diseases, inflammations and hematology. This focus on new segments may prove profitable for Gilead Sciences' stock price in the near future.



(Source:

Corporate Website)

According to the Corporate Website of Gilead Sciences, most of their products in development (42%) are under Phase 2 of testing against 33% that are in Phase 3 or waiting for the EU Regulatory Submission. Their wide pipeline is a real advantage for the company in case of a test failure or a rejection by the FDA.



(Source: Corporate Website)

Wealth distribution

On the 2nd of February, Gilead announced a buyback

program of \$3.1 billion and paid a dividend of \$627 million to its shareholders. Due to an important operating cash flow of \$4.1, Gilead decided to return wealth to its investors in order to boost the attractiveness of the share. Since this announcement, the company acknowledged an increase in stock price. Below is an extract of the last earnings call of the company regarding the composition of the stock repurchase program.

-77% of free cash flow was returned (inclusive of dividend and warrant settlements) during the period from January 2010 through September 2015

	Type of Activity	Dollar Amount (In Millions)	Shares / Warrants	Average Purchase Price
Q1 2015	Open Market Share Repurchase*	\$3,000	29,593,030	\$101.38
Q2 2015	Open Market Share Repurchase*	\$900	8,811,676	\$102.14
Q2 2015	Warrant Repurchase**	\$3,865	46,000,000	\$113.96
Q3 2015	Open Market Share Repurchase*	\$3,050	27,570,455	\$110.63

(Source: Corporate earning calls)

One of the reasons for this repurchase program might also be related to the assumption that the stock is undervalued and that the company could repurchase it in order to sell it with a profit later. In both cases, this wealth distribution is a positive sign on behalf of management that can afford spending important amounts of liquidity on benefits for the investors.

Recurrent beating of estimates

In the past quarters, Gilead had a tendency to beat most of the analyst estimates during their earnings. In the Bloomberg extract below, we can observe that the company had outperformed the estimates due to their outstanding sales and their very conservative forecasts. Furthermore, their sales in Europe and Asia are expected to acknowledge an important growth in the next year. The company is also enhancing their product pipeline, allowing additional revenue streams. Given these expectations, we can assume that Gilead will keep beating the estimates in the future.



(Source: Bloomberg)

Financials

Margin management: Gilead Sciences has acknowledged

Siena Market Line 4th week of November 2015

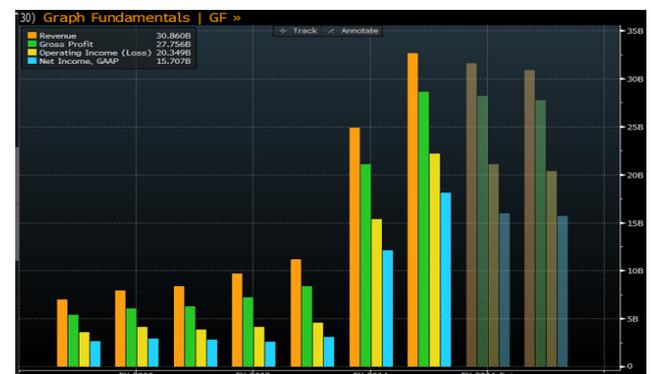
important growth in revenues during the prior fiscal years, soaring to 21.7% in 2015. In addition to this growth, the company has acknowledged increases in gross profit margins, EBITDA margins and net income margins between 2014 and 2015 of respectively 3%, 5% and 7%. This implies that the company has an efficient cost management policy and constantly generates more and more value through their operations. Below are the data extracts from Capital IQ underlining this effect.

	2010	2011	2012	2013	2014	2015
Revenue	7,949.4	8,385.4	9,702.0	11,202.0	24,890.0	32,639.0
Growth	-	5%	16%	15%	122%	31%
Gross Profit	6,079.5	6,261.0	7,231.0	8,343.0	21,102.0	28,633.0
% Margin	76%	75%	75%	74%	85%	88%
EBITDA	3,962.2	3,818.3	4,299.0	4,524.0	15,615.0	22,193.0
% Margin	50%	46%	44%	40%	63%	68%
Net Income	2,901.3	2,803.6	2,592.0	3,075.0	12,101.0	18,108.0
% Margin	36%	33%	27%	27%	49%	55%

(Source: Capital IQ)

Income Statement: Between 2010 and 2015, Gilead was able to be more efficient on their activities with a net income growth of 524% for a revenue growth of 311%. As mentioned below, the company was able to efficiently manage their costs without minimizing their expenses related to expansions translated by SG&A and R&D. From 2014 to 2015, Gilead Sciences increased their R&D by 20% and their SG&A by 15.

As a biotechnology company, Gilead has acknowledged the importance of research and development in order to enhance revenue streams. Due to their capital structure and sensitivity to debt, the company is suffering from a steep increase in interest expenses. Between 2014 and 2015, interest expenses increased by 67% following the enhancement of the long-term debt of Gilead. Despite several increases in expenses, Gilead managed to land an increase of net income of 50% from 2014 to 2015. On an operational aspect, Gilead Sciences remains very efficient overall.



(Source: Bloomberg)

Cash Flow: Since 2010, Gilead Sciences has had only 2 negative net changes in cash (2010 and 2012). The negative net change in cash for 2012 was mostly due to

their important cash acquisitions. In the last two years, the company had an important positive change in cash generated by their operations and their borrowing policy. The company issued notes with a principal of \$10.00 billion in 2015 and \$8.00 billion in 2014. These notes were issued for corporate purposes such as debt repayment (over their past acquisitions in 2012), working capital efficiency enhancement and their dividend/stock repurchase policy.

In 2015, their repurchase program had an expense of \$10.00 billion for the firm, in that aspect, we can understand the issuance of such an important debt. The company was able to generate positive net changes in cash but increased their sensitivity to debt in the process.

ROIC/WACC: From 2010 to 2013, the company has acknowledged an important increase in WACC. In order to resist this negative trend, the company started to take over long-term debt in 2014. We can observe that after this decision, the WACC decreased to 9.7% in 2015. Their WACC will be set at 9% for the continuing period. Gilead Sciences has benefited from an impressive ROIC for the past years. Although it has been slightly decreasing during the years, it will remain consequently impressive for the years to come with a continuing period value of 39%.

	2010	2011	2012	2013	2014	2015	Continuing
WACC	7.2%	7.2%	7.3%	11.4%	8.7%	9.7%	9%
ROIC	55.9%	55.9%	41.4%	21.7%	52.4%	49.5%	39%
ROIC/WACC	7.76	7.76	5.71	1.90	6.01	5.11	4.17

(Source: Pro Forma.)

The ROIC/WACC ratio shows a strong correlation between the capital structure and the value creation of the company overall. From 2010 to 2013, Gilead Sciences went through a period of decrease for this ratio. This implied that the company was still creating a value amount but this value was lesser than the past years. Since the contraction of debt and the shifting of the capital structure, the firm has begun creating more value and is currently stabilizing at a rate of 4.17 in the continuing period. By rebalancing this ratio, I believe that the company will start being attractive to the investors.

Acquisitions

Gilead Sciences has acknowledged a small but interesting acquisitions history in the last years. Its most recent acquisition was Galapagos NV (NASDAQ:GLPG) where the company planned to pay \$725 million to

acquire a stake in the drug maker. Galapagos NV had already been approached by AbbVie Inc. (NYSE:ABBV) a few months before due to an experimental drug the company was developing. After the announcement of the acquisition of Galapagos on the 8th of December 2015 for a purchase on the 19th January 2016, Gilead's stock price decreased heavily in response.



(Source: Bloomberg.)

More recently this year, the company announced the acquisition of Nimbus Therapeutics for a price of \$400 million and an additional \$800 million in their R&D. This company is working on preclinical ACC inhibitors and non-alcoholic steatohepatitis. Through such acquisitions, Gilead Sciences is attempting to expand their activities and therefore lower their operational risk related to the small size of their segments. Even today, there are many rumors on the markets regarding possible additional acquisition targets for Gilead. With their increase in revenue and the macroeconomic environment in the healthcare industry, the company is able to purchase smaller companies for a very affordable price.

Conclusion

Gilead Sciences has acknowledged an interesting increase in their financial statements in the past years. In addition, the company benefits from its position as the leader of the industry and its impressive pipeline of current and developing products. Furthermore, the company is currently taking debt in order to finance their activities and reduce their WACC. Therefore, I would recommend a buy on Gilead Sciences with a 1-year target of \$114.93, which implies an increase of 13.78% compared to the current price. The probability of a price increase of 96.1%.

Gilead Sciences Inc. (GILD)

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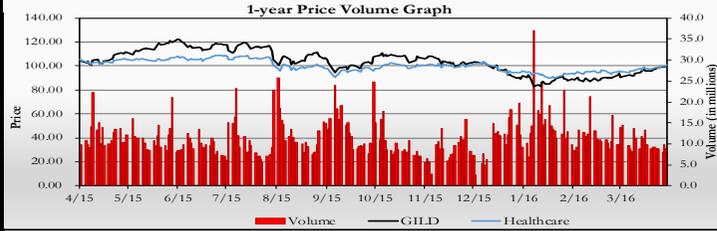
NEUTRAL

Analysis by Pierre Gouesclou
4/23/2016

Current Price: **\$101.93**
Dividend Yield: **1.1%**

Intrinsic Value: **\$103.93**
Target Price: **\$114.83**

Target 1 year Return: **13.78%**
Probability of Price Increase: **96.1%**



Description
Gilead Sciences, Inc., a research-based biopharmaceutical company, discovers, develops, and commercializes medicines in areas of unmet medical needs in North America, South America, Europe, and the Asia-Pacific.

General Information
Sector: Healthcare
Industry: Biotechnology
Last Guidance: November 3, 2015
Next earnings date: April 28, 2016
Estimated Country Risk Premium: 6.86%
Effective Tax rate: 34%
Effective Operating Tax rate: 35%

Market Data	
Market Capitalization	\$138,078.64
Daily volume (mil)	10.30
Shares outstanding (mil)	1354.64
Diluted shares outstanding (mil)	1521.00
% shares held by institutions	78%
% shares held by investments Managers	74%
% shares held by hedge funds	2%
% shares held by insiders	0.67%
Short interest	2.15%
Days to cover short interest	2.36
52 week high	\$123.37
52-week low	\$81.89
Levered Beta	0.92
Volatility	28.44%

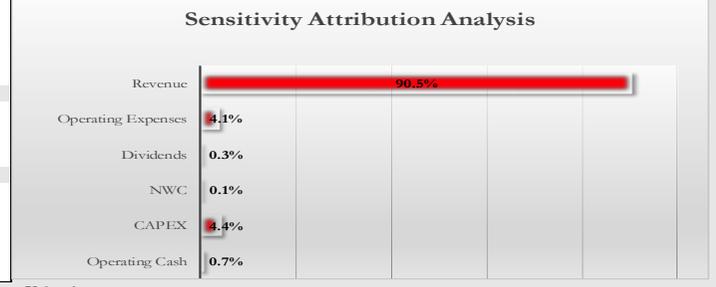
Quarter ending	Revenue	EBITDA
12/31/2014	-5.53%	8.71%
3/31/2015	-4.02%	9.37%
6/30/2015	-1.63%	4.66%
9/30/2015	-0.24%	5.31%
12/31/2015	-3.65%	N/A
Mean	-3.01%	7.01%
Standard error	0.9%	1.2%

Past Earning Surprises		Peers	
Amgen Inc.	4.17% per annum over 6y	Biogen Inc.	-1.8% per annum over 6y
Biogen Inc.	2.97% per annum over 6y	Celgene Corporation	-1.8% per annum over 6y
Celgene Corporation	7.9% per annum over 6y	AbbVie Inc.	-1.8% per annum over 6y
AbbVie Inc.	8.76% per annum over 6y	Regeneron Pharmaceuticals, Inc.	-1.8% per annum over 6y
Regeneron Pharmaceuticals, Inc.	-100% per annum over 3y	Pfizer Inc.	33.77% per annum over 3y
Pfizer Inc.	N/M	Eli Lilly and Company	N/M
Eli Lilly and Company		Bristol-Myers Squibb Company	
Bristol-Myers Squibb Company			



Management	Position	Total compensations growth	Total return to shareholders
Martin, John	Executive Chairman	4.17% per annum over 6y	-1.8% per annum over 6y
Milligan, John	Chief Executive Officer, Pre	2.97% per annum over 6y	-1.8% per annum over 6y
Washington, Robin	Chief Financial Officer and	7.9% per annum over 6y	-1.8% per annum over 6y
Bischoberger, Norbert	Chief Scientific Officer and	8.76% per annum over 6y	-1.8% per annum over 6y
Alton, Gregg	Executive Vice President of	-100% per annum over 3y	33.77% per annum over 3y
Pletcher, Brett	Executive Vice President, Ge	N/M	N/M

Profitability	GILD (LTM)	GILD (5 years historical average)	Industry (LTM)
ROIC	45.5%	42.60%	12.70%
NOPAT Margin	49%	42.64%	21.7%
Revenue/ Invested Capital	0.92	1.00	0.59
ROE	47.4%	35.04%	13.90%
Adjusted net margin	48%	41.02%	19.0%
Revenue/ Adjusted Book Value	0.99	0.85	0.73

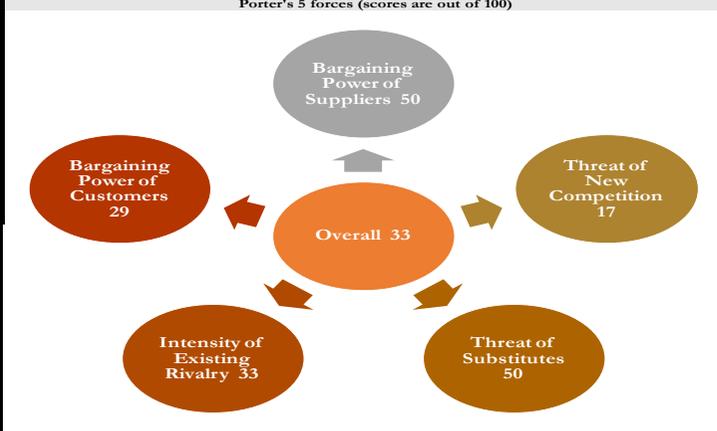


Invested Funds	GILD (LTM)	GILD (5 years historical average)	Industry (LTM)
Total Cash/Total Capital	28.2%	25.3%	30%
Estimated Operating Cash/Total Capital	24.8%	19.7%	N/A
Non-cash working Capital/Total Capital	2.4%	4.9%	7%
Invested Capital/Total Capital	75.4%	86.0%	63%

Capital Structure	GILD (LTM)	GILD (5 years historical average)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.16	0.14	0.15
Cost of Existing Debt	5.11%	4.93%	7.10%
Estimated Cost of new Borrowing	0.97%	2.39%	7.10%
CGFS Risk Rating	AAA	A	B
Unlevered Beta (LTM)	0.87	0.51	0.90
WACC	9.88%	7.25%	9.85%

Porter's 5 forces (scores are out of 100)	Period	Revenue growth	NOPAT margin	ROIC/WACC
	Base Year	31.1%	49.5%	4.61
	12/31/2016	-6.4%	47.8%	3.93
	12/31/2017	-4.2%	45.9%	3.68
	12/31/2018	-13.4%	44.4%	3.24
	12/31/2019	-6.3%	59.8%	4.68
	12/31/2020	-0.2%	57.9%	4.93
	12/31/2021	0.2%	56.7%	5.03
	12/31/2022	-7.3%	54.6%	4.63
	12/31/2023	2.4%	53.5%	5.08
	12/31/2024	3.4%	52.2%	5.18
	12/31/2025	3.9%	50.7%	5.21
	Continuing Period	2.1%	49.0%	5.13

Valuation	Net Claims	Price per share
Base Year	\$6,651.58	\$12,643.25
12/31/2016	\$10,648.08	-\$2,799.08
12/31/2017	\$21,643.70	-\$17,082.33
12/31/2018	\$24,355.30	-\$31,512.28
12/31/2019	\$35,488.49	-\$47,005.80
12/31/2020	\$39,067.91	-\$60,548.60
12/31/2021	\$38,914.19	-\$73,638.16
12/31/2022	\$37,307.21	-\$89,861.65
12/31/2023	\$32,984.08	-\$101,048.84
12/31/2024	\$30,480.77	-\$111,929.62
12/31/2025	\$29,585.64	-\$122,607.37
Continuing Period		



Period	Invested Capital	Net Claims	Price per share
Base Year	\$6,651.58	\$12,643.25	\$101.25
12/31/2016	\$10,648.08	-\$2,799.08	\$112.11
12/31/2017	\$21,643.70	-\$17,082.33	\$121.96
12/31/2018	\$24,355.30	-\$31,512.28	\$131.50
12/31/2019	\$35,488.49	-\$47,005.80	\$140.91
12/31/2020	\$39,067.91	-\$60,548.60	\$150.24
12/31/2021	\$38,914.19	-\$73,638.16	\$159.59
12/31/2022	\$37,307.21	-\$89,861.65	\$170.86
12/31/2023	\$32,984.08	-\$101,048.84	\$180.18
12/31/2024	\$30,480.77	-\$111,929.62	\$189.57
12/31/2025	\$29,585.64	-\$122,607.37	\$198.99
Continuing Period			