Overview
Company Scores Very Good Fundamental Grades
MarketGrader currently has a BUY rating on Gilead Sciences, Inc. (GILD), based on a final overall grade of 77.3 scored by the company's fundamental analysis. Gilead Sciences, Inc. scores at the 99th percentile among all 5793 North American equities currently followed by MarketGrader. Our present rating dates to March 14, 2014, when it was upgraded from 'HOLD'. With an overall grade of 77.3, Gilead Sciences, Inc. is the highest graded company in the Biotechnology sub-industry, followed by Epicore BioNetworks Inc. (EBN.CA), with an overall grade of 76.3. The stock, up 18.42% in the last six months, has outperformed both the Biotechnology group, up 15.42% and the S&P 500 Index, which has returned 7.8% in the same period. Please go to pages two and three of this report for a complete breakdown of GILD's fundamental analysis.

Price, Rating and Sentiment History - 2 Years

Earnings
Last Earnings Release 10/27/2017
Last Qtr. Actual vs. Est. $2.27 / $2.13
Next Release 10/31/2017 $2.13
Year Ending 12/31/2016 $11.43
Year Ending 12/31/2017 $10.78

Quick Facts
Dividend Yield 2.63%
52 Wk High $85.47
52 Wk Low $64.12
Short Interest 0% of float
Market Cap $100.6B

Growth
Market Growth LT (1)
Market Growth ST (2)
EPS Growth (3)
Growth Potential (4)
Earnings Imp. (5)
Earnings Surprise (6)

Profitability
Asset Utilization (1)
Capital Utilization (2)
Operating Margins (3)
Relative Margins (4)
Return on Equity (5)
Gross Profitability (6)

Value
(1) Capital Structure
(2) P/E Analysis
(3) P/Book Ratio
(4) P/Cash Flow Ratio
(5) P/Sales Ratio
(6) Market Value

Cash Flow
(1) Cash Flow Growth
(2) EBITDA Margin
(3) Debt/CF Ratio
(4) Interest Coverage
(5) Economic Value
(6) Retention Rate

Gilead Sciences, Inc.

**Mixed Growth Record Based on Company's Recent Reports Suggest Investors Use Caution in Buying the Stock**

Gilead Sciences, traditionally healthy sales growth appears to have virtually ground to a halt during its most recent quarter, in which it booked $7.13 billion in total revenue. This represents a decline of 8.45% relative to the year earlier revenue of $7.79 billion for the comparable quarter. This drop contrasts to the 62.34% increase in the company's 12-month trailing revenue over a three year period. Gilead Sciences, had a total of $28.41 billion in 12-month trailing revenue up to--and including--its latest quarter compared to the $17.50 billion it reported for the equivalent period ended three years ago. This reversal suggests a very rapid deterioration in the company's business which, based on the company's past performance and stable business, might also be affecting its competitors.

Friday's earnings announcement of $2.27 per share earned last period topped the consensus analyst estimate of $2.13. Our Earnings Impact grade, which measures investors' reaction to the report, will be updated after the next trading session since it tracks the change in the price of the stock from the day before to the day after the announcement. Gilead Sciences,'s most recent earnings announcement is consistent with its solid long term earnings surprise record, having exceeded the street's consensus estimate by 4.62%, on average, in its last six announcements.

**The Stock's Valuation is Attractive Based on the Company's Overall Financial Strength**

Trading currently at 9.81 times 12-month earnings per share, Gilead Sciences,'s stock is priced inexpensively relative to its EPS growth rate in the last five years. Our indicator looks at the 12-month period ended in each quarter within the last five years and calculates the company's annualized growth rate, which is then used to compute the stock's "optimum" P/E. Based on this analysis, Gilead Sciences,'s earnings per share have grown strongly at an average annualized rate of 40.56%, which translates into an optimum P/E ratio of 27.89, 64.82% higher than where the stock trades now. This growth has resulted in strong financial performance, evidenced by the company's Profitability grade. For this to continue, it must reverse its recent margin slide soon. Currently the stock also has a forward P/E of 9.81, which interestingly enough is higher than its trailing P/E but lower than the S&P 500's forward P/E of 15.20. Investors therefore see more value in the company's future earnings but not as much as they see in the market in general; coupled with the company's strong fundamentals, this situation could represent an interesting but risky opportunity, meaning short term volatility with the possibility of handsome returns in the long term.

Gilead Sciences, current market value could appear low relative to its stockholders' equity, based on a price to book ratio of 4.48. However, 58.27% of the company's total stockholders' equity is in the form of goodwill and other intangible assets, a very substantial percentage. Excluding these assets Gilead Sciences,'s price to tangible book ratio climbs to 4.48, a much higher multiple indicating the shares trade at a significant premium. Based on the $10.83 in cash flow per share generated by the company in the last twelve months, at the current price of $77.07 the stock trades at 7.11 times cash flow, an attractive valuation considering the strength of its overall fundamentals. Its price to sales ratio of 3.54, based on trailing 12-month sales, is 90.57% lower than the Biotechnology's average ratio of 37.56, a very large discount to its peers. Our final value indicator looks at the relationship between the company's current capitalization and its operating profits after deducting taxes. By this measure Gilead Sciences, is priced very attractively with a total value of $100.65 billion , only 7.51 times higher than its latest quarterly net income plus depreciation.
Gilead Sciences, Inc.

NASD: GILD - Biotechnology

**Profitability**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Utilization</td>
<td>A+</td>
</tr>
<tr>
<td>Capital Utilization</td>
<td>A+</td>
</tr>
<tr>
<td>Operating Margins</td>
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<tr>
<td>Relative Margins</td>
<td>A+</td>
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<tr>
<td>Return on Equity</td>
<td>A+</td>
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<tr>
<td>Quality of Revenues</td>
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</table>

**Company’s Profitability Is Remarkable, Reflective of Excellent Operating Conditions and Strong Management**

Gilead Sciences, is a very profitable company with strong overall profitability indicators in this section of our analysis. The company’s different measures of return to shareholders and margins are typically above those of its peers. In the last four quarters Gilead Sciences, earned a profit of $12.21 billion, equivalent to 42.98% of its sales in the period. The Biotechnology industry had an average operating margin of 6.98% in the period. The company's operating margin of 58.88% exceeded that average by 737.18%. Based on how much it has earned in the last four quarters, the return on Gilead Sciences, common stock has been a remarkable 53.86% during this time, even though this is below the 105.21% return on equity achieved in the year earlier period. This metric plays an important role in how our system measures a company’s management efficiency.

Assuming these numbers reflect a recent downturn in the company’s business, it'll be important that it maintain its healthy capital structure in which long term debt accounts for 53.69% of its total capital. Its leverage is manageable with total debt being only 1.16 times its total equity. Gilead Sciences,’s core earnings have shown a significant slowdown in the company’s business based on twelve month trailing EBITDA of $18.65 billion. This represents a 17.87% decline from the same period ended a year earlier in which the company’s core operations generated $22.71 billion. EBITDA is used as a measure of earnings power because it includes non-operating charges like interest expenses, income taxes and depreciation and amortization, which aren't even cash expenses. All of these are included in several areas of our analysis that look at EPS and net income.

**Cash Flow**

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Cash Flow Growth</td>
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<tr>
<td>EBITDA Margin</td>
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<tr>
<td>Debt/Cash Flow Ratio</td>
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<tr>
<td>Interest Cov. Capacity</td>
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<tr>
<td>Economic Value</td>
<td>A+</td>
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<tr>
<td>Retention Rate</td>
<td>A+</td>
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</tbody>
</table>

**Company’s Cash Flow Is Very Well Managed as Our Analysis Reflects a Very Healthy Operation**

Gilead Sciences,’s cash flow declined significantly last quarter to $3.53 billion, 28.62% lower than the year earlier quarterly cash flow of $4.94 billion. This extends an accelerating decline in the company's profitability since its cash flow has also fallen in the last twelve months to $3.53 billion from the $4.94 billion during the twelve months ended a year earlier, a 19.95% drop. The company’s net debt --defined as total debt minus cash on hand--of $4.69 billion is only 1.00 times as large as its last quarter's EBITDA of $4.70 billion. This ratio is 59.64% smaller than it was at the end of the same quarter a year before, a very significant reduction in its leverage. This affords the company plenty of flexibility in managing its balance sheet to stimulate future growth, pay out a dividend or pursue strategic objectives such as acquisitions.

Also, in a few more signs that Gilead Sciences, is managing its balance sheet very conservatively, its total debt as a percentage of total capital was reduced during the last twelve months while its cash on hand grew. Total debt now represents 53.70% of total capital compared to 58.75% a year earlier, while the company had $21.61 billion in cash on hand last quarter, 146.91% more than it did at the end of the year earlier quarter. These developments enhance the company's substantial flexibility in pursuing future growth opportunities and improve total returns to its shareholders.

MarketGrader measures every company's economic value added (EVA) to determine its ability to generate a true economic profit after covering not only its operating costs but also its cost of capital. It is essentially the return left over to shareholders after deducting the company's cost of equity and cost of debt from total return on investment. In Gilead Sciences,’s case, the business generated a 34.16% return on investment during the last four quarters, based on operating income for the period. The company had $48.97 billion in total invested capital in its most recently reported quarter, which included all common and preferred equity plus all long term debt. After breaking down invested capital into equity and debt, we conclude that Gilead Sciences,’s weighted cost of equity of 4.09% is only slightly larger than its cost of debt of 3.67%. The combination of both, or 5.76% in total cost of capital is small when compared to the total return on investment, leaving a total of 28.40% in economic value added, a remarkable return to the company's shareholders after covering both operating and capital costs. The company hiked its quarterly common dividend in its latest quarter, reported on June 30, 2017, to $52.00 a share from 0.47 cents, a 10.64% increase. It has now been paying dividends for at least 2 years and the stock’s current yield is 2.63%. Gilead Sciences, paid out $2.61 billion in common dividends during the 12 months ended the last quarter, accounting for 18.29% of cash flow and 21.36% of total earnings after taxes. This relatively modest payout is slightly higher than the 20.22% of total earnings is paid out in the 12 months ended a quarter earlier.

Assuming it maintains its generally positive fundamentals, the company has ample flexibility to increase its payout by a bigger margin in the future should it wish to do so.
Gilead Sciences, Inc. is a research-based biopharmaceutical company that discovers, develops and commercializes innovative medicines in areas of unmet medical need. Its primary areas of focus include human immunodeficiency virus (HIV)/AIDS, liver diseases such as hepatitis B and C and serious cardiovascular/metabolic and respiratory conditions. The company’s product portfolio is comprised of Atripla, Truvada, Viread, Emtriva, Complera/Eviplera, Hepsera, AmBisome, Letairis, Ranexa, Cayston and Vistide. It was founded by Michael L. Riordan on June 22, 1987 and is headquartered in Foster City, CA.

Key Facts:
333 Lakeside Drive
Foster City, CA 94404
Phone: www.gilead.com

Biggest Company in Sub-Industry
Amgen Inc. (AMGN)
Grade 70.7
Market Cap:$127.24 billion

Smallest Company in Sub-Industry
Precipio, Inc. (PRPO)
Grade 12.9
Market Cap:$1.78 million

Income Statement
Last Qtr (06/2017) 12 Mo. Trailing
Revenue $7.18 $28.48
Op. Income $4.28 $16.78
Net Income $3.18 $12.28
*EPS $2.33 0

*Earnings per share are based on fully diluted net income per share excluding extraordinary items. This number may not match the headline number reported by the company.

Balance Sheet
Latest
Total Assets $60.38
Total Debt $26.36
Stockholders Eq. $22.78

All numbers in millions except EPS

Ratios
Price/Earnings (12 mo. trailing) 7.53
Price/Tangible Book 10.73
Price/Cash Flow 7.11
Price/Sales 3.54
Debt/Cash Flow 184.31
Return on Equity 53.86%
Gross Margin (12 mo. trailing) 83.73%
Operating Margin (12 mo. trailing) 58.88%
Net Profit Margin (12 mo. trailing) 42.98%

MarketGrader Dilution Analysis
Impact of Change in Shares on EPS - Q4 2017

Common Shares Used for Diluted EPS - 5 Yrs. Quarterly (in Millions)

Stockholders Equity - Quarterly

Dividend History

*2012 '13 '14 '15 '16 '17
Qtr 1 0.00 0.00 0.00 0.00 0.43 0.52
Qtr 2 0.00 0.00 0.00 0.43 0.47 0.52
Qtr 3 0.00 0.00 0.00 0.43 0.47
Qtr 4 0.00 0.00 0.00 0.43 0.47"
# Gilead Sciences, Inc.

**NASD: GILD - Biotechnology**

## Top Down Analysis

<table>
<thead>
<tr>
<th>#</th>
<th>Ticker</th>
<th>Grade</th>
<th>Sentiment</th>
<th>Name</th>
<th>Price</th>
<th>Next EPS</th>
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<td>DMG.H.</td>
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<td>P</td>
<td>Masimo Corporation</td>
<td>$88.21</td>
<td>11/01/2017</td>
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## Sentiment

- **Price Trend:** Neutral
- **Price Momentum:** Positive
- **Earnings Guidance:** B-
- **Short Interest:** A+

**Sentiment Score:** 7.4

## GILD - 1 Years

![GILD - 1 Year Graph]

## GILD - 1 Year Comparison

![GILD - 1 Year Comparison Graph]

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