Gilead Sciences, Inc.

NASD: GILD - Biotechnology

Grade
45.3

Rated 'SELL' since May 31, 2018, when it was downgraded from 'HOLD'

Overview

Company Scores Poor Fundamental Grades

MarketGrader currently has a SELL rating on Gilead Sciences, Inc. (GILD), based on a final overall grade of 45.3 scored by the company's fundamental analysis. Gilead Sciences, Inc. scores at the 56th percentile among all 5821 North American equities currently followed by MarketGrader. Our present rating dates to May 31, 2018, when it was downgraded from 'HOLD'. Relative to the Biotechnology sub-industry, which is comprised of 315 companies, Gilead Sciences, Inc.'s grade of 45.3 ranks 50th. The industry grade leader is Nektar Therapeutics (NKTR) with an overall grade of 93.2. The stock, up 6.98% in the last six months, has outperformed both the Biotechnology group, down 10.37% and the S&P 500 Index, which has returned 1.1% in the same period. Please go to pages two and three of this report for a complete breakdown of GILD's fundamental analysis.

Earnings

- Last Earnings Release: 10/26/2018
- Last Qtr. Actual vs. Est.: $1.84 / $1.61
- Next Release: 10/30/2018
- Year Ending 12/31/2016: $11.43
- Year Ending 12/31/2017: $10.78

Quick Facts

- Dividend Yield: 3.27%
- 52 Wk High: $88.80
- 52 Wk Low: $64.88
- Short Interest: 0% of float
- Market Cap: $88.2B

Price, Rating and Sentiment History - 2 Years

Gilead Sciences, Inc.

**Value**

- **Capital Structure**: F
- **P/E Analysis**: D
- **Price/Book Ratio**: F
- **Price/Cash Flow Ratio**: C
- **Price/Sales Ratio**: A+
- **Market Value**: B

**Growth**

- **Market Growth LT**: F
- **Market Growth ST**: F
- **EPS Growth**: F
- **Growth Potential**: F
- **Earnings Impact**: B
- **Earnings Surprise**: B

**Investors Betting on a Turnaround Must Be Cautious as Company’s Growth Record is Still Very Weak**

Gilead Sciences,’s sales growth continued its ongoing long term decline last quarter. Total revenue for the period was $5.66 billion, 20.13% below the $7.13 billion booked by the company a year ago. Its 12-month trailing revenue, which also included last quarter’s results, was $23.35 billion, 18.99% lower than the 12 months ended three years ago. As sales continue to slide the company will need to cut costs in order to protect its margins and its cash reserves. However, unless business conditions improve soon, more drastic restructuring measures may be required. In its latest report the company also said profit fell from the comparable quarter a year ago, extending its long term profit decline. We measure long term profit growth by comparing full year (12-month trailing) net income to the equivalent period three years earlier. Gilead Sciences, posted a Second quarter profit decrease of 40.87% to $1.82 billion from $3.07 billion (excluding extraordinary items) a year earlier; it also reported a 85.32% drop in profit in the 12 months ended last quarter to $2.21 billion from the $15.04 billion it made in the same period three years before. During the last quarter the company's ongoing margin contraction accelerated, with an average drop in EBITDA, operating and net margins of 38.14% from the year ago period.

The company's stock rose a moderate 3.32% after it reported earnings on October 26, 2018 that were 14.29% higher than what analysts were expecting. This report continues a remarkable trend of beating analysts’ estimates consistently, having exceeded them by an average of 10.10% in the last six reports.

**Shares Look Expensive Particularly Relative to the Company’s Mediocre Financial Results**

Currently trading at 10.01 times 12-months’ earnings per share, Gilead Sciences,’s stock is too expensive relative to our “optimum” P/E ratio of 7.50, which is based on the company’s five year EPS growth rate. In order to calculate it, MarketGrader looks at the company’s quarterly earnings in 12-month rolling periods; by this measure Gilead Sciences,’s earnings per share have declined at an annualized rate of -8.09% in the last five years. The recent contraction in profit margins could contribute to further deterioration in EPS growth and also lead to lower Profitability grades, both of which would have a negative effect on the stock. At the current price the stock is trading at 10.01 times forward estimates for the next four quarters, which means that based on future expected earnings the stock trades below where it trades based on trailing results and below the market's forward P/E of 15.20. This, combined with the company's current fundamentals, suggests that even though at face value the stock may seem cheap, investors don’t think so since they put more value on its past than its future earnings, a reflection of poor growth prospects.

Gilead Sciences,’s are trading at 4.12 times their book value, which is based on the company's stockholders' equity. However, MarketGrader’s price to book value analysis is based on a company's tangible book value, which excludes goodwill and other intangibles from its assets. In this case, Gilead Sciences,’s intangible assets of $27.22 billion exceed its $21.67 billion in stockholders’ equity by $5.55 billion, which means its tangible book value is negative. This makes the shares’ price to tangible book ratio meaningless. Thus, part of the risk of owning the company's shares lies in the possibility of a significant write-down of its intangible assets, which would automatically make its shares much more expensive than they currently appear to be. The company's low price to cash flow ratio of 9.60, based on the $7.10 it generated in cash flow per share over the last four quarters, would be an attractive valuation if its overall fundamentals weren’t so poor. Therefore such a low ratio could mean investors aren't willing to pay much for the company's earnings prospects. Its price to sales ratio of 3.78, based on trailing 12-month sales, is 90.63% lower than the Biotechnology’s average ratio of 40.38, a very large discount to its peers. Finally, from a value perspective, we look at how much bigger the company's market capitalization is than its latest operating profits after subtracting taxes. Gilead Sciences,’s $88.22 billion market cap is, by this measure, fairly priced at 24.41 times its most recent quarterly net income (including depreciation).
Gilead Sciences, Inc.


Profitability Grades Are Solid, Indicating the Company's Business Is Strong and Healthy

Gilead Sciences’ profitability indicators offer an interesting contrast between healthy profit margins and a very poor record of returns on shareholder equity based on the results for the last 12 months. During this period the company earned a $2.21 billion net profit, equivalent to 9.46% of total sales, an acceptable net profit margin while its operating margin was better than its peer group average. The average operating margin for the Biotechnology industry was 9.01% during the same period, 407.23% below the company’s 46.51%. Gilead Sciences,‚s business is showing clear signs of deterioration as seen in the weak return on equity of 10.19% achieved by the company in the last four quarters. This compares to the 53.86% return on equity recorded in the 12 months ended a year earlier.

In light of weakening profitability it will be important that the company doesn’t expand its considerable leverage too much more. Its total debt is 1.34 times its total equity, with long term debt accounting for 54.60% of total capital. Both of these ratios are manageable assuming the company can stop the current slide. Gilead Sciences,’s core earnings power has eroded significantly in the last year based on its twelve month trailing EBITDA of $12.65 billion, which represents a 30.48% decline from the $18.19 billion earned in the twelve months ended a year earlier. EBITDA attempts to measure core earnings by including interest expenses, income taxes, depreciation and amortization, all non-operating expenses. These figures are nevertheless incorporated in other parts of our analysis that look at EPS and net income gains or losses.

Company’s Cash Flow Indicators Are Solid Across the Board but Offer Some Room for Improvement

Gilead Sciences,’ cash flow fell considerably during the latest quarter to $1.57 billion, a 55.39% decline from the $3.53 billion reported after the same quarter last year. This marks an accelerating decline from twelve month trailing cash flow, which fell to $9.29 billion in the period ended last quarter, 34.88% lower than the $14.27 billion in the year earlier period, underscoring the ongoing deterioration of the company’s business. The company’s ability to pay off its debt by simply using the cash it generates from operations is excellent, based on last quarter’s net debt to EBITDA ratio of 0.90. This is based on net debt (total debt minus cash on hand) of $2.48 billion and EBITDA of $2.76 billion, giving it plenty of flexibility to reduce leverage or raise additional capital if necessary to pursue new strategic opportunities. During the last twelve months Gilead Sciences,’s total debt went from accounting for 53.70% of total capital a year ago to 57.28% in its latest quarter. However, in the same period its cash on hand increased from $21.61 billion to $26.58 billion, a 23.01% jump for the year.

An important indicator of management efficiency used by MarketGrader is Economic Value Added, or EVA, which measures each company’s true return to shareholders after accounting not only for the cost of running the business (operating costs) but also the cost of the capital it employs. By measuring the real cost of capital, both equity and debt, EVA measures the creation of true economic profit. In this case Gilead Sciences, had $47.73 billion in invested capital in its most recent quarter, a combination of both equity and long term debt. However, the company’s weighted cost of equity of 3.64% is much larger than the weighted cost of debt, which is 0.74%. When combined, the two result in a total cost of capital of 4.38%, quite low compared to the company’s total return on invested capital of 22.75% based on 12-month trailing operating income. The result is an excellent economic value added of 18.37%, a very high return to investors after all capital costs are covered. The company hiked its quarterly common dividend in its latest quarter, reported on June 30, 2018, to $0.570 cents a share from $0.520 cents, a 9.62% increase. It has now been paying dividends for at least 3 years and the stock’s current yield is 3.27%. Gilead Sciences, spent $2.86 billion in dividends over the last twelve months, equivalent to 30.75% of its cash flow and 129.39% of its after-tax earnings. By comparison, it paid out 80.74% if its earnings during the 12 months ended the quarter before last, which means it is paying out significantly more than it is earning, eroding its liquidity and damaging its balance sheet. This is particularly worrisome in light of its generally poor fundamentals.

November 1, 2018

GILD - Biotechnology

NASD: GILD - Biotechnology

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Profile

Gilead Sciences, Inc. is a biopharmaceutical company, which engages in the research, development, and commercialization of medicines in areas of unmet medical need. The firm offers antiviral products under Harvoni, Genvoya, Epclusa, Truvada, Atripla, Descovy, Stribild, Viread, Odefsey, Complera/Eviplera, Sovaldi, and Vosevi brands. It also offers other pharmaceutical products under the Letairis, Ranexa, AmBisome, and Zydelig brands. The company was founded by Michael L. Riordan on June 22, 1987 and is headquartered in Foster City, CA.

MarketGrader Dilution Analysis

Impact of Change in Shares on EPS - Q4 2018

Dilution Summary

*EPS Latest: $1.39
*EPS Year Ago: $2.33
EPS Change 1 Yr.: (40%)
C. Shares - Latest(M): 1,308
C. Shares - Yr Ago(M): 1,317
C. Shares - 1Yr Chg.: (1%)
EPS if Yr. Ago Shares: $1.38
EPS Chg. if Yr. Ago: (41%)
EPS Loss from Dilution: $0.01

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

Income Statement

<table>
<thead>
<tr>
<th>Last Qtr</th>
<th>12 Mo. Trailing</th>
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<tbody>
<tr>
<td>Revenue</td>
<td>$5.7B</td>
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<tr>
<td>Op. Income</td>
<td>$2.3B</td>
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<tr>
<td>Net Income</td>
<td>$1.8B</td>
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Balance Sheet

<table>
<thead>
<tr>
<th>Latest</th>
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<tbody>
<tr>
<td>Total Assets</td>
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<tr>
<td>Total Debt</td>
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<td>Stockholders Eq.</td>
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Ratios

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<th>12 Mo. Trailing</th>
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<tr>
<td>Price/Earnings</td>
<td>9.16</td>
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<tr>
<td>Price/Tangible Book</td>
<td>-16.06</td>
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<tr>
<td>Price/Cash Flow</td>
<td>9.60</td>
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<tr>
<td>Price/Sales</td>
<td>3.78</td>
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<tr>
<td>Debt/Cash Flow</td>
<td>312.81</td>
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<tr>
<td>Return on Equity</td>
<td>10.19%</td>
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<tr>
<td>Gross Margin</td>
<td>78.99%</td>
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<tr>
<td>Operating Margin</td>
<td>46.51%</td>
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<tr>
<td>Net Profit Margin</td>
<td>9.46%</td>
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</table>
### Health Care

**Stocks in Sector: 746**
- Buys: 72 (9.65%)
- Holds: 59 (7.91%)
- Sells: 615 (82.44%)

**No. of stocks at:**
- 52-Wk. High: 8
- 52-Wk. Low: 59
- Above 50 & 200-day MA: 138
- Below 50 & 200-day MA: 444

### Biotechnology

**Stocks in Sub-Industry: 303**
- Buys: 20 (6.60%)
- Holds: 10 (3.30%)
- Sells: 273 (90.10%)

**No. of stocks at:**
- 52-Wk. High: 3
- 52-Wk. Low: 30
- Above 50 & 200-day MA: 42
- Below 50 & 200-day MA: 206

### 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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<tbody>
<tr>
<td>1</td>
<td>NKTR</td>
<td>93.25</td>
<td>2.05</td>
<td>Nektar Therapeutics</td>
<td>$38.68</td>
<td>2018-11-08</td>
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<td>2</td>
<td>EXEL</td>
<td>90.78</td>
<td>3.11</td>
<td>Exelixis, Inc.</td>
<td>$13.87</td>
<td>2018-11-02</td>
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<td>3</td>
<td>CORT</td>
<td>85.00</td>
<td>0.39</td>
<td>Concept Therapeutics Incorporated</td>
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<td>2018-11-01</td>
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<td>CNCE</td>
<td>84.41</td>
<td>4.21</td>
<td>Concert Pharmaceuticals, Inc.</td>
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<td>CCXI</td>
<td>82.13</td>
<td>2.17</td>
<td>Chemocentryx, Inc.</td>
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<td>SVA</td>
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<td>2.66</td>
<td>Sinovac Biotech Ltd.</td>
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<td>ENTA</td>
<td>80.30</td>
<td>0.95</td>
<td>Enanta Pharmaceuticals, Inc.</td>
<td>$77.16</td>
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<td>REGN</td>
<td>79.69</td>
<td>5.94</td>
<td>Regeneron Pharmaceuticals, Inc.</td>
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<td>Ligand Pharmaceuticals Incorporated</td>
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<td>VMD.CA</td>
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<td>Viamed Healthcare Inc.</td>
<td>$5.60</td>
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<td>4.84</td>
<td>Gilead Sciences, Inc.</td>
<td>$68.18</td>
<td>2019-02-05</td>
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### Sentiment

**GILD - 1 Years**

**GILD - 1 Year Comparison**

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