



CAIRN  
INVESTMENT  
GROUP

## COMPANY SPOTLIGHT:

# Gilead Sciences Inc.

Headquartered in Foster City, CA, Gilead is a biopharmaceutical research and development company specializing in the development of infectious disease pharmaceuticals with an emphasis on HIV and hepatitis C.

Dr. John Milligan is the company's CEO and has been with the company over 25 years.

## COMPANY HIGHLIGHTS AND FINANCIALS

Gilead is a leader in infectious disease pharmaceutical research and development with an emphasis on HIV and hepatitis C once-daily, single-tablet treatments. The company's HIV drugs make it possible for infected patients to live a normal life with very few side effects. In 2011, Gilead purchased Pharmasset for \$11 billion dollars which added hepatitis C treatment to their portfolio. This acquisition has paid huge dividends as the two drugs they develop for hepatitis C, Sovaldi and Harvoni, have now produced annual revenues of over \$20 billion dollars. Together, Gilead repre-

sents approximately 80% of HIV treatments and about 60% of hepatitis C treatments worldwide. Strong internal drug development and fortuitous acquisitions have enabled the company to generate large amounts of cash (over \$16 billion in free cash flow) that is used to reinvest back into the business, pay dividends, and repurchase shares at attractive prices. More recently, the company has been expanding its oncology and immunology franchise, which could help spur future growth when combined with their current development portfolio.

## VALUATION AND RISKS

As of the date of this report, Gilead is trading at a discount compared to historical valuations (60% below sales and cash flow multiples) and below fair value based on scenario analysis of free cash flow growth. Gilead has a dividend yield of 2.35% and generates over \$16 billion in free cash flow to give them the flexibility to continue to raise their dividend over time. On a free cash flow basis, we expect them to grow cash flow at 1% annually over the next decade, below its current growth rate of 30% over the previous 10 years, due to higher pricing pressure on pharmaceuticals,

### KEY POINTS

- :: A leader in HIV and hepatitis C drug research and development.
- :: Strong market position, serving 80% of HIV patient treatments and 60% hepatitis C treatments.
- :: Good financial health with over \$8 billion in cash.
- :: Compelling upside as valuations and growth remain attractive due to growth in the hepatitis C and HIV markets.
- :: R&D is over 13% of sales at \$4.2 billion and has grown 33% year over year.

increased competition and high revenue concentration. Modeling our conservative estimation places a price of \$106 on shares which is almost a 36% premium based on current price. If our conservative assumptions turn out to still be overly optimistic, we still feel there is a margin of safety built into the current price based on the company's high returns on capital and strong cash flow generation.

Though considered a leader in the HIV and hepatitis C markets, Gilead operates in a highly competitive environment (Merck and Abbvie). We would like to see continued discipline in regards to capital allocation, research and development and acquisition spending. Continued focus on the Gilead's revenue breakdown, integration among its recent acquisitions, and continued growth in their drug pipeline will be areas to monitor closely.

Weighing the risks and rewards, we feel the substantial discount at which Gilead currently trades offers a good long-term opportunity.

—Patrick Mason, Investment Analyst, Cairn Investment Group



**ABOUT CAIRN INVESTMENT GROUP** Cairn Investment Group is an independent fee only Registered Investment Advisor based in Portland, Oregon. Cairn staff has the experience and capabilities to serve our investors with a level of personal attention that only a smaller, independent company can provide. We pride ourselves on working in close contact with our investors.

503.241.4901 :: 877.241.4901 :: [cairninvestment.com](http://cairninvestment.com)

121 SW Morrison, Suite 1060 :: Portland, Oregon 97204

© 2016 Cairn Investment Group

Cairn Investment Group and its affiliates ("Cairn") produces Company Spotlight reports ("Reports") for its clients and the general public. The Reports are impersonal and do not provide individualized advice or recommendations for any specific investor or portfolio. Investing involves substantial risk. Cairn makes no guarantee or other promise as to any results that may be obtained from using the Reports. Past performance should not be considered indicative of future performance. No reader should make any investment decision without first conducting his or her own research and due diligence. At various times Cairn may own, buy or sell the securities discussed for purposes of investment or trading. Cairn disclaims any and all liability in the event any information, commentary, analysis, opinions, advice and/or recommendations in the Reports prove to be inaccurate, incomplete or unreliable or result in any investment or other losses.

The Reports commentary, analysis, opinions, advice and recommendations represent the then current views of Cairn, and are subject to change at any time. The information provided in the Reports is obtained from sources the author believes to be reliable. However, the author has not independently verified or otherwise investigated all such information.

This is not a solicitation or offer to buy or sell any securities. Cairn does not receive any compensation from any of the companies featured in the Reports. Any redistribution of the Reports or the information contained therein, without the written consent of Cairn is strictly prohibited.