



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



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