

GILEAD SCIENCES, INC.
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION

(unaudited)

(in millions, except percentages and per share amounts)

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	Q1 2018
Cost of goods sold reconciliation:						
GAAP cost of goods sold	\$ 957	\$ 1,126	\$ 1,032	\$ 1,256	\$ 4,371	\$ 1,001
Acquisition-related – amortization of purchased intangibles	(210)	(210)	(209)	(283)	(912)	(301)
Stock-based compensation expenses ⁽¹⁾	(4)	(4)	(4)	(12)	(24)	(13)
Other ⁽²⁾	—	(20)	2	5	(13)	—
Non-GAAP cost of goods sold	<u>\$ 743</u>	<u>\$ 892</u>	<u>\$ 821</u>	<u>\$ 966</u>	<u>\$ 3,422</u>	<u>\$ 687</u>
Product gross margin reconciliation:						
GAAP product gross margin	85.0 %	84.0 %	83.9 %	78.5 %	83.0 %	80.0 %
Acquisition-related – amortization of purchased intangibles	3.3 %	3.0 %	3.3 %	4.8 %	3.6 %	6.0 %
Stock-based compensation expenses ⁽¹⁾	— %	— %	— %	0.2 %	0.1 %	0.3 %
Other ⁽²⁾	— %	0.3 %	— %	(0.1)%	0.1 %	— %
Non-GAAP product gross margin ⁽⁵⁾	<u>88.3 %</u>	<u>87.3 %</u>	<u>87.2 %</u>	<u>83.5 %</u>	<u>86.7 %</u>	<u>86.3 %</u>
Research and development expenses reconciliation:						
GAAP research and development expenses	\$ 931	\$ 864	\$ 789	\$ 1,150	\$ 3,734	\$ 937
Acquisition-related expenses – acquired IPR&D	—	—	—	(222)	(222)	—
Acquisition-related – other costs	—	—	—	(8)	(8)	(16)
Stock-based compensation expenses ⁽¹⁾	(42)	(47)	(53)	(90)	(232)	(103)
Other ⁽²⁾	—	(5)	9	15	19	(4)
Non-GAAP research and development expenses	<u>\$ 889</u>	<u>\$ 812</u>	<u>\$ 745</u>	<u>\$ 845</u>	<u>\$ 3,291</u>	<u>\$ 814</u>
Selling, general and administrative expenses reconciliation:						
GAAP selling, general and administrative expenses	\$ 850	\$ 897	\$ 879	\$ 1,252	\$ 3,878	\$ 997
Acquisition-related – transaction costs	—	—	(12)	(36)	(48)	—
Acquisition-related – other costs	—	—	—	(46)	(46)	(6)
Stock-based compensation expenses ⁽¹⁾	(43)	(51)	(56)	(243)	(393)	(104)
Other ⁽²⁾	—	(19)	(5)	(4)	(28)	(3)
Non-GAAP selling, general and administrative expenses	<u>\$ 807</u>	<u>\$ 827</u>	<u>\$ 806</u>	<u>\$ 923</u>	<u>\$ 3,363</u>	<u>\$ 884</u>
Operating margin reconciliation:						
GAAP operating margin	57.9 %	59.6 %	58.5 %	38.5 %	54.1 %	42.3 %
Acquisition-related – amortization of purchased intangibles	3.2 %	2.9 %	3.2 %	4.8 %	3.5 %	5.9 %
Acquisition-related expenses – acquired IPR&D	— %	— %	— %	3.7 %	0.9 %	— %
Acquisition-related – transaction costs	— %	— %	0.2 %	0.6 %	0.2 %	— %
Acquisition-related – other costs	— %	— %	— %	0.9 %	0.2 %	0.4 %
Stock-based compensation expenses ⁽¹⁾	1.4 %	1.4 %	1.7 %	5.8 %	2.5 %	4.3 %
Other ⁽²⁾	— %	0.6 %	(0.1)%	(0.3)%	0.1 %	0.1 %
Non-GAAP operating margin ⁽⁵⁾	<u>62.5 %</u>	<u>64.6 %</u>	<u>63.6 %</u>	<u>54.0 %</u>	<u>61.4 %</u>	<u>53.1 %</u>
Interest expense reconciliation:						
GAAP interest expense	\$ (261)	\$ (269)	\$ (291)	\$ (297)	\$ (1,118)	\$ (290)
Acquisition-related – transaction costs	—	—	18	—	18	—
Non-GAAP interest expense	<u>\$ (261)</u>	<u>\$ (269)</u>	<u>\$ (273)</u>	<u>\$ (297)</u>	<u>\$ (1,100)</u>	<u>\$ (290)</u>
Other income (expense), net reconciliation:						
GAAP other income (expense), net	\$ 111	\$ 130	\$ 150	\$ 132	\$ 523	\$ 170
Unrealized gains from marketable equity securities ⁽³⁾	—	—	—	—	—	(45)
Non-GAAP other income (expense), net	<u>\$ 111</u>	<u>\$ 130</u>	<u>\$ 150</u>	<u>\$ 132</u>	<u>\$ 523</u>	<u>\$ 125</u>

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Effective tax rate reconciliation:						
GAAP effective tax rate	25.4 %	25.4 %	26.1 %	28.0 %	65.7 %	24.3 %
Acquisition-related – amortization of purchased intangibles	(1.2)%	(1.1)%	(1.2)%	(1.1)%	(1.2)%	(2.3)%
Acquisition-related expenses – acquired IPR&D	— %	— %	— %	(2.1)%	(0.4)%	— %
Acquisition-related – transaction costs	— %	— %	— %	0.2 %	— %	— %
Acquisition-related – other costs	— %	— %	— %	0.3 %	— %	(0.1)%
Stock-based compensation expenses ⁽¹⁾	0.6 %	0.5 %	0.8 %	2.6 %	0.8 %	0.3 %
Unrealized gains from marketable equity securities ⁽³⁾	— %	— %	— %	— %	— %	0.6 %
Tax Reform impact	— %	— %	— %	(258.3)%	(40.6)%	— %
Other ⁽²⁾	— %	(0.1)%	— %	0.2 %	— %	— %
Non-GAAP effective tax rate ⁽⁵⁾	24.8 %	24.7 %	25.7 %	22.2 %	24.5 %	22.8 %
Net income (loss) attributable to Gilead reconciliation:						
GAAP net income (loss) attributable to Gilead	\$ 2,702	\$ 3,073	\$ 2,718	\$ (3,865)	\$ 4,628	\$ 1,538
Acquisition-related – amortization of purchased intangibles	202	202	201	246	851	281
Acquisition-related expenses – acquired IPR&D	—	—	—	222	222	—
Acquisition-related – transaction costs	—	—	24	24	48	—
Acquisition-related – other costs	—	—	—	36	36	18
Stock-based compensation expenses ⁽¹⁾	45	61	55	208	369	160
Unrealized gains from marketable equity securities ⁽³⁾	—	—	—	—	—	(45)
Tax Reform impact	—	—	—	5,490	5,490	—
Other ⁽²⁾	—	36	(8)	(18)	10	6
Non-GAAP net income attributable to Gilead	\$ 2,949	\$ 3,372	\$ 2,990	\$ 2,343	\$ 11,654	\$ 1,958
Diluted earnings / (loss) per share reconciliation:						
GAAP diluted earnings / (loss) per share ⁽⁴⁾	\$ 2.05	\$ 2.33	\$ 2.06	\$ (2.96)	\$ 3.51	\$ 1.17
Acquisition-related – amortization of purchased intangibles	0.15	0.15	0.15	0.19	0.65	0.21
Acquisition-related expenses – acquired IPR&D	—	—	—	0.17	0.17	—
Acquisition-related – transaction costs	—	—	0.02	0.02	0.04	—
Acquisition-related – other costs	—	—	—	0.03	0.03	0.01
Stock-based compensation expenses ⁽¹⁾	0.03	0.05	0.04	0.16	0.28	0.12
Unrealized gains from marketable equity securities ⁽³⁾	—	—	—	—	—	(0.03)
Tax Reform impact	—	—	—	4.16	4.16	—
Other ⁽²⁾	—	0.03	(0.01)	(0.01)	0.01	—
Non-GAAP diluted earnings per share ⁽⁵⁾	\$ 2.23	\$ 2.56	\$ 2.27	\$ 1.78	\$ 8.84	\$ 1.48
Non-GAAP adjustment summary:						
Cost of goods sold adjustments	\$ 214	\$ 234	\$ 211	\$ 290	\$ 949	\$ 314
Research and development expenses adjustments	42	52	44	305	443	123
Selling, general and administrative expenses adjustments	43	70	73	329	515	113
Interest expense adjustments	—	—	18	—	18	—
Other income (expense), net adjustment	—	—	—	—	—	(45)
Total non-GAAP adjustments before tax	299	356	346	924	1,925	505
Income tax effect	(52)	(57)	(74)	(206)	(389)	(85)
Tax Reform impact	—	—	—	5,490	5,490	—
Total non-GAAP adjustments after tax	\$ 247	\$ 299	\$ 272	\$ 6,208	\$ 7,026	\$ 420

Notes:

⁽¹⁾ Stock-based compensation expenses for the three and twelve months ended December 31, 2017 and three months ended March 31, 2018 include \$238 million and \$119 million, respectively, associated with Gilead's acquisition of Kite Pharma, Inc.

⁽²⁾ Amounts related to restructuring, contingent consideration and/or other individually insignificant amounts

⁽³⁾ Amounts represent fair value adjustments of marketable equity securities recorded in Other income (expense), net, on our Condensed Consolidated Statements of Income as a result of the adoption of Accounting Standards Update No. 2016-01 "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities" in 2018

⁽⁴⁾ Shares used in loss per share calculation for the three months ended December 31, 2017 exclude 13 million shares from dilutive equity awards

⁽⁵⁾ Amounts may not sum due to rounding

Management believes the non-GAAP information presented above is useful for investors, taken in conjunction with Gilead's GAAP financial statements, because management uses such information internally for its operating, budgeting and financial planning purposes. Non-GAAP information is not prepared under a comprehensive set of accounting rules and should only be used to supplement an understanding of Gilead's operating results as reported under United States generally accepted accounting principles. Non-GAAP measures may be defined and calculated differently by other companies in the same industry.