

Q2 FY2015 Earnings Call

GAAP to non-GAAP Reconciliations

May 14, 2015



APPLIED MATERIALS, INC.
UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED RESULTS

	Three Months Ended			Six Months Ended	
	Apr 26, 2015	Jan 25, 2015	Apr 27, 2014	Apr 26, 2015	Apr 27, 2014
<i>(In millions, except percentages)</i>					
Non-GAAP Adjusted Gross Profit					
Reported gross profit - GAAP basis	\$ 1,016	\$ 959	\$ 1,001	\$ 1,975	\$ 1,892
Certain items associated with acquisitions ¹	39	40	39	79	78
Acquisition integration costs	-	-	1	-	1
Non-GAAP adjusted gross profit	<u>\$ 1,055</u>	<u>\$ 999</u>	<u>\$ 1,041</u>	<u>\$ 2,054</u>	<u>\$ 1,971</u>
Non-GAAP adjusted gross margin	43.2%	42.3%	44.2%	42.8%	43.4%
Non-GAAP Adjusted Operating Income					
Reported operating income - GAAP basis	\$ 416	\$ 458	\$ 387	\$ 874	\$ 717
Certain items associated with acquisitions ¹	45	46	46	91	91
Acquisition integration costs	-	1	10	1	21
Loss (gain) on derivative associated with announced business combination, net	(14)	(78)	23	(92)	(1)
Certain items associated with announced business combination ²	29	20	16	49	27
Restructuring charges and asset impairments ³	-	-	-	-	7
Non-GAAP adjusted operating income	<u>\$ 476</u>	<u>\$ 447</u>	<u>\$ 482</u>	<u>\$ 923</u>	<u>\$ 862</u>
Non-GAAP adjusted operating margin	19.5%	18.9%	20.5%	19.2%	19.0%
Non-GAAP Adjusted Net Income					
Reported net income - GAAP basis ⁴	\$ 364	\$ 348	\$ 262	\$ 712	\$ 515
Certain items associated with acquisitions ¹	45	46	46	91	91
Acquisition integration costs	-	1	10	1	21
Loss (gain) on derivative associated with announced business combination, net	(14)	(78)	23	(92)	(1)
Certain items associated with announced business combination ²	29	20	16	49	27
Restructuring charges and asset impairments ³	-	-	-	-	7
Impairment (gain on sale) of strategic investments, net	6	1	2	7	(3)
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items ⁴	(54)	(17)	12	(71)	(3)
Income tax effect of non-GAAP adjustments	(14)	17	(23)	3	(27)
Non-GAAP adjusted net income	<u>\$ 362</u>	<u>\$ 338</u>	<u>\$ 348</u>	<u>\$ 700</u>	<u>\$ 627</u>

1 These items are incremental charges attributable to completed acquisitions, consisting of amortization of purchased intangible assets.

2 These items are incremental charges related to the announced business combination agreement with Tokyo Electron Limited, consisting of acquisition-related and integration planning costs.

3 Results for the six months ended April 27, 2014 included a \$7 million of employee-related costs related to the restructuring program announced on October 3, 2012.

4 Amounts for the three and six months ended April 26, 2015 included an adjustment to decrease the provision for income taxes by \$39 million and \$35 million, respectively, with a corresponding increase in net income and diluted earnings per share of \$0.03. The adjustment was excluded in Applied's non-GAAP adjusted results and was made primarily to correct an error in the recognition of cost of sales in the U.S. related to intercompany sales, which resulted in overstating profitability in the U.S. and the provision for income taxes in immaterial amounts in each year since fiscal 2010.

APPLIED MATERIALS, INC.
UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED RESULTS

	Three Months Ended			Six Months Ended	
	Apr 26, 2015	Jan 25, 2015	Apr 27, 2014	Apr 26, 2015	Apr 27, 2014
<i>(In millions, except per share amounts)</i>					
Non-GAAP Adjusted Earnings Per Diluted Share					
Reported earnings per diluted share - GAAP basis ¹	\$0.29	\$0.28	\$0.21	\$0.57	\$0.42
Certain items associated with acquisitions	0.03	0.03	0.03	0.07	0.06
Acquisition integration costs	-	-	0.01	-	0.01
Certain items associated with announced business combination	0.02	0.01	0.01	0.03	0.02
Loss (gain) on derivative associated with announced business combination, net	(0.01)	(0.04)	0.01	(0.05)	-
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items ¹	(0.04)	(0.01)	0.01	(0.06)	-
Non-GAAP adjusted earnings per diluted share	\$0.29	\$0.27	\$0.28	\$0.56	\$0.51
Weighted average number of diluted shares	1,241	1,240	1,229	1,241	1,227

¹ Amounts for the three and six months ended April 26, 2015 included an adjustment to decrease the provision for income taxes by \$39 million and \$35 million, respectively, with a corresponding increase in net income and diluted earnings per share of \$0.03. The adjustment was excluded in Applied's non-GAAP adjusted results and was made primarily to correct an error in the recognition of cost of sales in the U.S. related to intercompany sales, which resulted in overstating profitability in the U.S. and the provision for income taxes in immaterial amounts in each year since fiscal 2010.

APPLIED MATERIALS, INC.
UNAUDITED INTEGRATION AND CERTAIN ITEMS ASSOCIATED WITH ACQUISITIONS

	Three Months Ended			Six Months Ended	
	Apr 26, 2015	Jan 25, 2015	Apr 27, 2014	Apr 26, 2015	Apr 27, 2014
<i>(In millions)</i>					
Integration and certain items associated with acquisitions					
Cost of products sold	\$ 39	\$ 40	\$ 40	\$ 79	\$ 79
Research, development and engineering	1	-	-	1	2
Selling, general and administrative	5	7	16	12	31
Total	\$ 45	\$ 47	\$ 56	\$ 92	\$ 112

APPLIED MATERIALS, INC.
UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED OPERATING EXPENSES

<i>(In millions)</i>	Three Months Ended	
	Apr 26, 2015	
Operating expenses (GAAP basis)	\$	600
Gain on derivative associated with announced business combination, net		14
Certain items associated with acquisitions		(6)
Acquisition integration costs		-
Certain items associated with announced business combination		(29)
Non-GAAP adjusted operating expenses	\$	579

APPLIED MATERIALS, INC.
UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED SSG OPERATING MARGIN

<i>(In millions, except percentages)</i>	Three Months Ended			Six Months Ended	
	Apr 26, 2015	Jan 25, 2015	Apr 27, 2014	Apr 26, 2015	Apr 27, 2014
Net sales (GAAP basis)	\$ 1,560	\$ 1,446	\$ 1,584	\$ 3,006	\$ 3,068
Reported operating income (GAAP basis)	\$ 374	\$ 307	\$ 391	\$ 681	\$ 705
Certain items associated with acquisitions	44	43	42	87	84
Acquisition integration costs	-	-	-	-	1
Non-GAAP adjusted operating income	\$ 418	\$ 350	\$ 433	\$ 768	\$ 790
GAAP operating margin (% of net sales)	24.0%	21.2%	24.7%	22.7%	23.0%
Non-GAAP adjusted operating margin (% of net sales)	26.8%	24.2%	27.3%	25.5%	25.7%

APPLIED MATERIALS, INC.
UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED AGS OPERATING MARGIN

<i>(In millions, except percentages)</i>	Three Months Ended			Six Months Ended	
	Apr 26, 2015	Jan 25, 2015	Apr 27, 2014	Apr 26, 2015	Apr 27, 2014
Net Sales (GAAP basis)	\$ 646	\$ 583	\$ 534	\$ 1,229	\$ 1,041
Reported operating income (GAAP basis)	\$ 170	\$ 153	\$ 148	\$ 323	\$ 273
Certain items associated with acquisitions	-	1	2	1	3
Non-GAAP adjusted operating income	\$ 170	\$ 154	\$ 150	\$ 324	\$ 276
GAAP operating margin (% of net sales)	26.3%	26.2%	27.7%	26.3%	26.2%
Non-GAAP adjusted operating margin (% of net sales)	26.3%	26.4%	28.1%	26.4%	26.5%

APPLIED MATERIALS, INC.
UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED DISPLAY OPERATING MARGIN

<i>(In millions, except percentages)</i>	Three Months Ended			Six Months Ended	
	Apr 26, 2015	Jan 25, 2015	Apr 27, 2014	Apr 26, 2015	Apr 27, 2014
Net Sales (GAAP basis)	\$ 163	\$ 275	\$ 147	\$ 438	\$ 306
Reported operating income (GAAP basis)	\$ 40	\$ 72	\$ 26	\$ 112	\$ 52
Certain items associated with acquisitions	-	1	-	1	1
Non-GAAP adjusted operating income	\$ 40	\$ 73	\$ 26	\$ 113	\$ 53
GAAP operating margin (% of net sales)	24.5%	26.2%	17.7%	25.6%	17.0%
Non-GAAP adjusted operating margin (% of net sales)	24.5%	26.5%	17.7%	25.8%	17.3%

APPLIED MATERIALS, INC.
UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED EES OPERATING MARGIN

<i>(In millions, except percentages)</i>	Three Months Ended			Six Months Ended	
	Apr 26, 2015	Jan 25, 2015	Apr 27, 2014	Apr 26, 2015	Apr 27, 2014
Net Sales (GAAP basis)	\$ 73	\$ 55	\$ 88	\$ 128	\$ 128
Reported operating loss (GAAP basis)	\$ (5)	\$ (4)	\$ 5	\$ (9)	\$ (6)
Certain items associated with acquisitions	1	1	2	2	3
Non-GAAP adjusted operating loss	\$ (4)	\$ (3)	\$ 7	\$ (7)	\$ (3)
GAAP operating margin (% of net sales)	(6.8)%	(7.3)%	5.7%	(7.0)%	(4.7)%
Non-GAAP adjusted operating margin (% of net sales)	(5.5)%	(5.5)%	8.0%	(5.5)%	(2.3)%

APPLIED MATERIALS, INC.
UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED EFFECTIVE INCOME TAX

	Three Months Ended
	Apr 26, 2015
<i>(In millions, except percentages)</i>	
Provision for income taxes (GAAP basis) ¹	\$ 25
Reinstatement of federal R&D tax credit, resolutions of prior years' income tax filings and other tax items	54
Income tax effect of non-GAAP adjustments ¹	14
Non-GAAP adjusted provision for income taxes	\$ 93
Income before income taxes (GAAP basis)	\$ 389
Certain items associated with acquisitions	45
Acquisition integration costs	-
Gain on derivative associated with announced business combination	(14)
Certain items associated with announced business combination	29
Impairment of strategic investments, net	6
Non-GAAP adjusted income before income taxes	\$ 455
Effective income tax rate (GAAP basis) ¹	6.4%
Non-GAAP adjusted effective income tax rate	20.4%

¹ Amounts for the three months ended April 26, 2015 included an adjustment to decrease the provision for income taxes by \$39 million, with a corresponding increase in net income and diluted earnings per share of \$0.03. The adjustment was excluded in Applied's non-GAAP adjusted results and was made primarily to correct an error in the recognition of cost of sales in the U.S. related to intercompany sales, which resulted in overstating profitability in the U.S. and the provision for income taxes in immaterial amounts in each year since fiscal 2010.

APPLIED MATERIALS, INC.
RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK

Non-GAAP outlook for the third quarter of fiscal 2015 (including non-GAAP gross margin, operating margin, operating expenses and EPS) excludes known charges related to completed acquisitions of approximately \$45 million, or \$0.03 per share, but does not exclude other non-GAAP adjustments that may arise subsequent to May 12, 2015.