



Q3 FY2019 Earnings Call

GAAP to non-GAAP Reconciliations

August 15, 2019

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

	Three Months Ended		Nine Months Ended	
	July 28, 2019	July 29, 2018	July 28, 2019	July 29, 2018
<i>(In millions, except percentages and per share amounts)</i>				
Non-GAAP Adjusted Gross Profit				
Reported gross profit - GAAP basis	\$ 1,557	\$ 1,864	\$ 4,752	\$ 5,860
Certain items associated with acquisitions ¹	9	45	28	134
Non-GAAP adjusted gross profit	<u>\$ 1,566</u>	<u>\$ 1,909</u>	<u>\$ 4,780</u>	<u>\$ 5,994</u>
Non-GAAP adjusted gross margin	44.0%	45.9%	44.0%	46.3%
Non-GAAP Adjusted Operating Income				
Reported operating income - GAAP basis	\$ 802	\$ 1,093	\$ 2,486	\$ 3,600
Certain items associated with acquisitions ¹	13	49	41	147
Acquisition integration and deal costs	5	—	12	2
Non-GAAP adjusted operating income	<u>\$ 820</u>	<u>\$ 1,142</u>	<u>\$ 2,539</u>	<u>\$ 3,749</u>
Non-GAAP adjusted operating margin	23.0%	27.4%	23.4%	29.0%
Non-GAAP Adjusted Net Income				
Reported net income - GAAP basis	\$ 571	\$ 1,016	\$ 2,008	\$ 2,281
Certain items associated with acquisitions ¹	13	49	41	147
Acquisition integration and deal costs	5	—	12	2
Impairment (gain on sale) of strategic investments, net	—	(14)	—	(10)
Loss (gain) on strategic investments, net	(8)	—	(31)	—
Income tax effect of share-based compensation ²	—	13	(4)	(13)
Income tax effect of changes in applicable U.S. tax laws ³	—	12	(24)	1,089
Income tax effects related to amortization of intra-entity intangible asset transfers	115	—	56	—
Resolution of prior years' income tax filings and other tax items	(1)	(29)	75	(32)
Income tax effect of non-GAAP adjustments ⁴	(3)	1	(2)	(7)
Non-GAAP adjusted net income	<u>\$ 692</u>	<u>\$ 1,048</u>	<u>\$ 2,131</u>	<u>\$ 3,457</u>
Non-GAAP Adjusted Earnings Per Diluted Share				
Reported earnings per diluted share - GAAP basis	\$ 0.61	\$ 1.01	\$ 2.11	\$ 2.20
Certain items associated with acquisitions	0.01	0.05	0.04	0.13
Acquisition integration and deal costs	0.01	—	0.01	—
Impairment (gain on sale) of strategic investments, net	—	(0.01)	—	(0.01)
Loss (gain) on strategic investments, net	(0.01)	—	(0.03)	—
Income tax effect of share-based compensation	—	0.01	—	(0.01)
Income tax effect of changes in applicable U.S. tax laws	—	0.01	(0.03)	1.05
Income tax effects related to amortization of intra-entity intangible asset transfers	0.12	—	0.06	—
Resolution of prior year's income tax filings and other tax items	—	(0.03)	0.08	(0.03)
Non-GAAP adjusted earnings per diluted share	<u>\$ 0.74</u>	<u>\$ 1.04</u>	<u>\$ 2.24</u>	<u>\$ 3.33</u>
Weighted average number of diluted shares	937	1,005	950	1,039

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

² GAAP basis tax benefit related to share-based compensation is being recognized ratably over the fiscal year on a non-GAAP basis.

³ Charges to income tax provision related to a one-time transition tax and a decrease in U.S. deferred tax assets as a result of the recent U.S. tax legislation.

⁴ Adjustment to provision for income taxes related to non-GAAP adjustments reflected in income before income taxes.

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

	Three Months Ended		Nine Months Ended	
	July 28, 2019	July 29, 2018	July 28, 2019	July 29, 2018
<i>(In millions, except percentages)</i>				
Reported operating income (GAAP basis)	\$ 613	\$ 831	\$ 1,823	\$ 2,847
Certain items associated with acquisitions ¹	11	45	32	137
Non-GAAP adjusted operating income	\$ 624	\$ 876	\$ 1,855	\$ 2,984
Non-GAAP adjusted operating margin (% of net sales)	27.5%	34.0%	27.6%	35.8%

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

	Three Months Ended		Nine Months Ended	
	July 28, 2019	July 29, 2018	July 28, 2019	July 29, 2018
<i>(In millions, except percentages)</i>				
Reported operating income (GAAP basis)	\$ 259	\$ 280	\$ 827	\$ 814
Acquisition integration costs	—	—	—	1
Non-GAAP adjusted operating income	\$ 259	\$ 280	\$ 827	\$ 815
Non-GAAP adjusted operating margin (% of net sales)	27.8%	29.4%	28.7%	29.3%

APPLIED MATERIALS, INC.
UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED
DISPLAY AND ADJACENT MARKETS OPERATING RESULTS

	Three Months Ended		Nine Months Ended	
	July 28, 2019	July 29, 2018	July 28, 2019	July 29, 2018
<i>(In millions, except percentages)</i>				
Reported operating income (GAAP basis)	\$ 41	\$ 156	\$ 198	\$ 456
Certain items associated with acquisitions ¹	2	4	9	10
Acquisition integration costs	1	—	1	1
Non-GAAP adjusted operating income	\$ 44	\$ 160	\$ 208	\$ 467
Non-GAAP adjusted operating margin (% of net sales)	13.0%	26.0%	17.4%	26.3%

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

Note: The reconciliation of GAAP and non-GAAP adjusted segment results above does not include certain revenues, costs of products sold and operating expenses that are reported within corporate and other and included in consolidated operating income.

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

	Three Months Ended		Nine Months Ended	
	July 28, 2019	July 29, 2018	July 28, 2019	July 29, 2018
<i>(In millions)</i>				
Operating expenses (GAAP basis)	\$ 755	\$ 771	\$ 2,266	\$ 2,260
Certain items associated with acquisitions	(4)	(4)	(13)	(13)
Acquisition integration and deal costs	(5)	—	(12)	(2)
Non-GAAP adjusted operating expenses	<u>\$ 746</u>	<u>\$ 767</u>	<u>\$ 2,241</u>	<u>\$ 2,245</u>

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

	Three Months Ended	
	July 28, 2019	July 29, 2018
<i>(In millions)</i>		
Provision for income taxes (GAAP basis)	\$ 211	\$ 61
Income tax effect of share-based compensation	—	(13)
Income tax effect of changes in applicable U.S. tax laws	—	(12)
Income tax effects related to amortization of intra-entity intangible asset transfers	(115)	—
Resolution of prior years' income tax filings and other tax items	1	29
Income tax effect of non-GAAP adjustments	3	(1)
Non-GAAP adjusted provision for income taxes	\$ 100	\$ 64

	Three Months Ended	
	July 28, 2019	July 29, 2018
<i>(In millions, except percentages)</i>		
Income before income taxes (GAAP basis)	\$ 782	\$ 1,077
Certain items associated with acquisitions	13	49
Acquisition integration and deal costs	5	—
Impairment (gain on sale) of strategic investments, net	—	(14)
Loss (gain) on strategic investments, net	(8)	—
Non-GAAP adjusted income before income taxes	\$ 792	\$ 1,112
Effective income tax rate (GAAP basis)	27.0%	5.7%
Non-GAAP adjusted effective income tax rate	12.6%	5.8%

APPLIED MATERIALS, INC.
RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK

Non-GAAP outlook for the fourth quarter of fiscal 2019 (including non-GAAP gross margin, operating margin, operating expenses and EPS) excludes known charges related to completed acquisitions of approximately \$14 million, or \$0.01 per share and includes net income tax benefit related to intra-entity intangible asset transfers of \$22 million or \$0.03 per share, but does not reflect any items that are unknown at this time, such as any additional charges related to acquisitions or other non-operational or unusual items, as well as other tax related items, which we are not able to predict without unreasonable efforts due to their inherent uncertainty.