Q2 FY2017 Earnings Call
GAAP to non-GAAP Reconciliations

May 18, 2017
# Applied Materials, Inc.

**Unaudited Reconciliation of GAAP to Non-GAAP Adjusted Results**

## Non-GAAP Adjusted Gross Profit

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>Six Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>April 30, 2017</td>
<td>January 29, 2017</td>
</tr>
<tr>
<td></td>
<td>$1,600</td>
<td>$1,445</td>
</tr>
<tr>
<td>Reported gross profit - GAAP basis</td>
<td>$1,004</td>
<td>$3,045</td>
</tr>
<tr>
<td>Certain items associated with acquisitions</td>
<td>$1,920</td>
<td></td>
</tr>
<tr>
<td>Inventory reversals related to restructuring</td>
<td>$1,487</td>
<td></td>
</tr>
<tr>
<td>Non-GAAP adjusted gross profit</td>
<td>$1,641</td>
<td></td>
</tr>
<tr>
<td>Non-GAAP adjusted gross margin</td>
<td>46.3%</td>
<td>45.8%</td>
</tr>
</tbody>
</table>

## Non-GAAP Adjusted Operating Income

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>Six Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>April 30, 2017</td>
<td>January 29, 2017</td>
</tr>
<tr>
<td></td>
<td>$940</td>
<td>$807</td>
</tr>
<tr>
<td>Reported operating income - GAAP basis</td>
<td>$425</td>
<td></td>
</tr>
<tr>
<td>Certain items associated with acquisitions</td>
<td>$93</td>
<td></td>
</tr>
<tr>
<td>Acquisition integration costs</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Reversals related to restructuring</td>
<td>$2</td>
<td></td>
</tr>
<tr>
<td>Other gains, losses or charges, net</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Non-GAAP adjusted operating income</td>
<td>$987</td>
<td></td>
</tr>
<tr>
<td>Non-GAAP adjusted operating margin</td>
<td>27.8%</td>
<td></td>
</tr>
</tbody>
</table>

## Non-GAAP Adjusted Net Income

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>Six Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>April 30, 2017</td>
<td>January 29, 2017</td>
</tr>
<tr>
<td></td>
<td>$824</td>
<td>$703</td>
</tr>
<tr>
<td>Reported net income - GAAP basis</td>
<td>$320</td>
<td></td>
</tr>
<tr>
<td>Certain items associated with acquisitions</td>
<td>$93</td>
<td></td>
</tr>
<tr>
<td>Acquisition integration costs</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Reversals related to restructuring, net</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Impairment (gain on sale) of strategic investments, net</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Loss on early extinguishment of debt</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Other gains, losses or charges, net</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Reinstatement of federal R&amp;D tax credit, resolution of prior years' income tax filings and other tax items</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Income tax effect of non-GAAP adjustments</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Non-GAAP adjusted net income</td>
<td>$861</td>
<td></td>
</tr>
</tbody>
</table>

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1. These items are incremental charges attributable to completed acquisitions, consisting of amortization of purchased intangible assets.
2. Results for the three and six months ended May 1, 2016 included favorable adjustments associated with the costs reductions in the solar business.
3. These amounts represent non-GAAP adjustments above multiplied by the effective tax rate within the jurisdictions the adjustments affect.
# APPLIED MATERIALS, INC.
## UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED RESULTS

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th></th>
<th>Six Months Ended</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-GAAP Adjusted Earnings Per Diluted Share</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reported earnings per diluted share - GAAP basis</td>
<td>$0.76</td>
<td>$0.65</td>
<td>$0.29</td>
<td>$1.40</td>
</tr>
<tr>
<td>Certain items associated with acquisitions</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
<td>0.08</td>
</tr>
<tr>
<td>Reinstatement of federal R&amp;D tax credit, resolution of prior years’ income tax filings and other tax items</td>
<td>(0.01)</td>
<td>(0.02)</td>
<td>0.01</td>
<td>(0.02)</td>
</tr>
<tr>
<td>Non-GAAP adjusted earnings per diluted share</td>
<td>$0.79</td>
<td>$0.67</td>
<td>$0.34</td>
<td>$1.46</td>
</tr>
<tr>
<td>Weighted average number of diluted shares</td>
<td>1,087</td>
<td>1,089</td>
<td>1,119</td>
<td>1,088</td>
</tr>
</tbody>
</table>

(In millions, except per share amounts)
## Applied Materials, Inc.
### Unaudited Reconciliation of GAAP to Non-GAAP Adjusted Semiconductor Systems Operating Margin

*(In millions, except percentages)*

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>Six Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reported operating income (GAAP basis)</td>
<td>$808</td>
<td>$690</td>
</tr>
<tr>
<td>Certain items associated with acquisitions</td>
<td>46</td>
<td>46</td>
</tr>
<tr>
<td>Non-GAAP adjusted operating income</td>
<td>$854</td>
<td>$736</td>
</tr>
<tr>
<td>Non-GAAP adjusted operating margin (% of net sales)</td>
<td>35.5%</td>
<td>34.2%</td>
</tr>
</tbody>
</table>

## Applied Materials, Inc.
### Unaudited Reconciliation of GAAP to Non-GAAP Adjusted AGS Operating Margin

*(In millions, except percentages)*

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>Six Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reported operating income (GAAP basis)</td>
<td>$194</td>
<td>$178</td>
</tr>
<tr>
<td>Acquisition integration costs</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Non-GAAP adjusted operating income</td>
<td>$195</td>
<td>$179</td>
</tr>
<tr>
<td>Non-GAAP adjusted operating margin (% of net sales)</td>
<td>26.9%</td>
<td>26.5%</td>
</tr>
</tbody>
</table>

## Applied Materials, Inc.
### Unaudited Reconciliation of GAAP to Non-GAAP Adjusted Display and Adjacent Markets Operating Margin

*(In millions, except percentages)*

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>Six Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reported operating income (GAAP basis)</td>
<td>$84</td>
<td>$115</td>
</tr>
<tr>
<td>Certain items associated with acquisitions</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Non-GAAP adjusted operating income</td>
<td>$84</td>
<td>$115</td>
</tr>
<tr>
<td>Non-GAAP adjusted operating margin (% of net sales)</td>
<td>21.5%</td>
<td>27.3%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>Six Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>April 30, 2017</td>
<td>May 1, 2016</td>
</tr>
<tr>
<td>Operating expenses (GAAP basis)</td>
<td>$660</td>
<td>$638</td>
</tr>
<tr>
<td>Reversals related to restructuring, net</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Certain items associated with acquisitions</td>
<td>(5)</td>
<td>(5)</td>
</tr>
<tr>
<td>Acquisition integration costs</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>Other gains, losses or charges, net</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td><strong>Non-GAAP adjusted operating expenses</strong></td>
<td><strong>$654</strong></td>
<td><strong>$635</strong></td>
</tr>
</tbody>
</table>
### Unaudited Reconciliation of GAAP to Non-GAAP Adjusted Effective Income Tax Rate

#### In millions, except percentages

<table>
<thead>
<tr>
<th></th>
<th>April 30, 2017</th>
<th>January 29, 2017</th>
<th>May 1, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Provision for income taxes (GAAP basis)</strong></td>
<td>$84</td>
<td>$68</td>
<td>$75</td>
</tr>
<tr>
<td>Reinstatement of federal R&amp;D tax credit, resolutions of prior years' income tax filings and other tax items</td>
<td>6</td>
<td>16</td>
<td>(16)</td>
</tr>
<tr>
<td>Income tax effect of non-GAAP adjustments</td>
<td>4</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td><strong>Non-GAAP adjusted provision for income taxes</strong></td>
<td>$94</td>
<td>$89</td>
<td>$63</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>April 30, 2017</th>
<th>January 29, 2017</th>
<th>May 1, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income before income taxes (GAAP basis)</strong></td>
<td>$908</td>
<td>$771</td>
<td>$395</td>
</tr>
<tr>
<td>Certain items associated with acquisitions</td>
<td>$46</td>
<td>$47</td>
<td>$46</td>
</tr>
<tr>
<td>Reversals related to restructuring, net</td>
<td>-</td>
<td>-</td>
<td>(1)</td>
</tr>
<tr>
<td>Acquisition integration costs</td>
<td>1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Impairment (gain on sale) of strategic investments, net</td>
<td>-</td>
<td>5</td>
<td>(1)</td>
</tr>
<tr>
<td>Other gains, losses or charges, net</td>
<td>-</td>
<td>(3)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Non-GAAP adjusted income before income taxes</strong></td>
<td>$955</td>
<td>$821</td>
<td>$439</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>April 30, 2017</th>
<th>January 29, 2017</th>
<th>May 1, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Effective income tax rate (GAAP basis)</strong></td>
<td>9.3%</td>
<td>8.8%</td>
<td>19.0%</td>
</tr>
<tr>
<td><strong>Non-GAAP adjusted effective income tax rate</strong></td>
<td>9.8%</td>
<td>10.8%</td>
<td>14.4%</td>
</tr>
</tbody>
</table>
Non-GAAP outlook for the third quarter of fiscal 2017 (including non-GAAP gross margin, operating margin, operating expenses and EPS) excludes known charges related to completed acquisitions of approximately $47 million, or $0.04 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.