



Q3 FY2016 Earnings Call

GAAP to non-GAAP Reconciliations

August 18, 2016

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

	Three Months Ended			Nine Months Ended	
	July 31, 2016	May 1, 2016	July 26, 2015	July 31, 2016	July 26, 2015
<i>(In millions, except percentages)</i>					
Non-GAAP Adjusted Gross Profit					
Reported gross profit - GAAP basis	\$ 1,192	\$ 1,004	\$ 1,018	\$ 3,112	\$ 2,993
Certain items associated with acquisitions ¹	42	41	41	125	120
Inventory charges (reversals) related to restructuring ^{3, 5}	(1)	-	34	(2)	34
Non-GAAP adjusted gross profit	\$ 1,233	\$ 1,045	\$ 1,093	\$ 3,235	\$ 3,147
Non-GAAP adjusted gross margin	43.7%	42.7%	43.9%	43.0%	43.2%
Non-GAAP Adjusted Operating Income					
Reported operating income - GAAP basis	\$596	\$425	\$396	\$1,375	\$1,270
Certain items associated with acquisitions ¹	47	46	47	141	138
Acquisition integration and deal costs	2	-	1	2	2
Loss (gain) on derivatives associated with terminated business combination, net	-	-	3	-	(89)
Certain items associated with terminated business combination ²	-	-	1	-	50
Inventory charges (reversals) related to restructuring and asset impairments, net ^{3, 4, 5}	(1)	(1)	50	(3)	50
Foreign exchange loss due to functional currency change ⁶	-	-	19	-	19
Non-GAAP adjusted operating income	\$ 644	\$ 470	\$ 517	\$ 1,515	\$ 1,440
Non-GAAP adjusted operating margin	22.8%	19.2%	20.8%	20.1%	19.8%
Non-GAAP Adjusted Net Income					
Reported net income - GAAP basis ⁷	\$ 505	\$ 320	\$ 329	\$ 1,111	\$1,041
Certain items associated with acquisitions ¹	47	46	47	141	138
Acquisition integration and deal costs	2	-	1	2	2
Loss (gain) on derivatives associated with terminated business combination, net	-	-	3	-	(89)
Certain items associated with terminated business combination ²	-	-	1	-	50
Inventory charges (reversals) related to restructuring and asset impairments, net ^{3, 4, 5}	(1)	(1)	50	(3)	50
Impairment (gain on sale) of strategic investments, net	-	(1)	(1)	(3)	6
Foreign exchange loss due to functional currency change ⁶	-	-	19	-	19
Loss on early extinguishment of debt	-	-	-	5	-
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items ⁷	1	16	(21)	(12)	(92)
Income tax effect of non-GAAP adjustments ⁸	(4)	(4)	(18)	(13)	(15)
Non-GAAP adjusted net income	\$ 550	\$ 376	\$ 410	\$ 1,228	\$1,110

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 terminated business combination agreement with Tokyo Electron Limited, consisting of acquisition-related and integration planning costs.

3 Results for the three and nine months ended July 31, 2016 primarily included benefit from sales of solar equipment tools for which inventory had been previously reserved related to the cost reductions in the solar business.

4 Results for the three months ended May 1, 2016 included a \$1 million favorable adjustment of employee-related costs associated with the cost reductions in the solar business.

5 Results for the three and nine months ended July 26, 2015 primarily included \$34 million of inventory charges and \$17 million of restructuring charges and asset impairments related to cost reductions in the solar business.

6 Results for the three and nine months ended July 26, 2015 included a \$19 million foreign exchange loss due to an immaterial correction of an error related to functional currency change.

7 Amounts for nine months ended July 26, 2015 included an adjustment to decrease the provision for income taxes by \$35 million with a corresponding increase in net income, resulting in an increase in 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.

8 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

	Three Months Ended			Nine Months Ended	
	July 31, 2016	May 1, 2016	July 26, 2015	July 31, 2016	July 26, 2015
<i>(In millions, except per share amounts)</i>					
Non-GAAP Adjusted Earnings Per Diluted Share					
Reported earnings per diluted share - GAAP basis ¹	\$0.46	\$0.29	\$0.27	\$0.99	\$0.84
Certain items associated with acquisitions	0.04	0.04	0.03	0.11	0.10
Certain items associated with terminated business combination	-	-	-	-	0.03
Gain on derivatives associated with terminated business combination, net	-	-	-	-	(0.05)
Restructuring, inventory charges and asset impairments	-	-	0.03	-	0.03
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items ¹	-	0.01	(0.02)	(0.01)	(0.07)
Foreign exchange loss due to functional currency change	-	-	0.02	-	0.02
Non-GAAP adjusted earnings per diluted share	<u>\$0.50</u>	<u>\$0.34</u>	<u>\$0.33</u>	<u>\$1.09</u>	<u>\$0.90</u>
Weighted average number of diluted shares	1,093	1,119	1,231	1,123	1,238

¹ Amounts for nine months ended July 26, 2015 included an adjustment to decrease the provision for income taxes by \$35 million with a corresponding increase in net income, resulting in an increase in 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
SEMICONDUCTOR SYSTEMS OPERATING MARGIN

	Three Months Ended			Nine Months Ended	
	July 31, 2016	May 1, 2016	July 26, 2015	July 31, 2016	July 26, 2015
<i>(In millions, except percentages)</i>					
Reported operating income (GAAP basis)	\$ 511	\$ 364	\$ 411	\$ 1,140	\$ 1,092
Certain items associated with acquisitions	45	46	44	138	131
Non-GAAP adjusted operating income	<u>\$ 556</u>	<u>\$ 410</u>	<u>\$ 455</u>	<u>\$ 1,278</u>	<u>\$ 1,223</u>
Non-GAAP adjusted operating margin (% of net sales)	31.1%	25.8%	27.8%	26.9%	26.4%

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

	Three Months Ended			Nine Months Ended	
	July 31, 2016	May 1, 2016	July 26, 2015	July 31, 2016	July 26, 2015
<i>(In millions, except percentages)</i>					
Reported operating income (GAAP basis)	\$ 175	\$ 165	\$ 162	\$ 489	\$ 470
Certain items associated with acquisitions	1	-	-	1	1
Inventory charges related to restructuring	-	-	3	-	3
Non-GAAP adjusted operating income	<u>\$ 176</u>	<u>\$ 165</u>	<u>\$ 165</u>	<u>\$ 490</u>	<u>\$ 474</u>
Non-GAAP adjusted operating margin (% of net sales)	26.8%	26.1%	25.5%	25.8%	25.8%

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

	Three Months Ended			Nine Months Ended	
	July 31, 2016	May 1, 2016	July 26, 2015	July 31, 2016	July 26, 2015
<i>(In millions, except percentages)</i>					
Reported operating income (GAAP basis)	\$ 63	\$ 31	\$ 35	\$ 142	\$ 163
Certain items associated with acquisitions	-	-	1	-	3
Non-GAAP adjusted operating income	<u>\$ 63</u>	<u>\$ 31</u>	<u>\$ 36</u>	<u>\$ 142</u>	<u>\$ 166</u>
Non-GAAP adjusted operating margin (% of net sales)	20.1%	16.6%	19.5%	18.8%	23.4%

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

<i>(In millions)</i>	Three Months Ended	
	July 31, 2016	May 1, 2016
Operating expenses (GAAP basis)	\$ 596	\$ 579
Reversals related to restructuring, net	-	1
Certain items associated with acquisitions	(5)	(5)
Acquisition integration costs	(2)	-
Non-GAAP adjusted operating expenses	<u>\$ 589</u>	<u>\$ 575</u>

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

	Three Months Ended	
	July 31, 2016	
<i>(In millions, except percentages)</i>		
Provision for income taxes (GAAP basis)	\$	59
Reinstatement of federal R&D tax credit, resolutions of prior years' income tax filings and other tax items		(1)
Income tax effect of non-GAAP adjustments		4
Non-GAAP adjusted provision for income taxes	\$	62
Income before income taxes (GAAP basis)	\$	564
Certain items associated with acquisitions		47
Reversals related to restructuring, net		(1)
Acquisition integration costs		2
Non-GAAP adjusted income before income taxes	\$	612
Effective income tax rate (GAAP basis)		10.5%
Non-GAAP adjusted effective income tax rate		10.1%

APPLIED MATERIALS, INC.
RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK

Non-GAAP outlook for the fourth quarter of fiscal 2016 (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 and any additional charges related to completed or future acquisitions or other non-operational or unusual items that are unknown at this time, as well as other tax related items, which we are not able to predict without unreasonable efforts due to their inherent uncertainty.