



Q1 FY2023 Earnings Call

GAAP to non-GAAP Reconciliations

February 16, 2023



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

<i>(In millions, except percentages)</i>	Three Months Ended	
	January 29, 2023	January 30, 2022
Non-GAAP Adjusted Gross Profit		
Reported gross profit - GAAP basis	\$ 3,145	\$ 2,959
Certain items associated with acquisitions ¹	7	6
Non-GAAP adjusted gross profit	<u>\$ 3,152</u>	<u>\$ 2,965</u>
Non-GAAP adjusted gross margin	46.8 %	47.3 %
Non-GAAP Adjusted Operating Income		
Reported operating income - GAAP basis	\$ 1,970	\$ 1,976
Certain items associated with acquisitions ¹	11	9
Acquisition integration and deal costs	6	4
Severance and related charges ²	—	(4)
Non-GAAP adjusted operating income	<u>\$ 1,987</u>	<u>\$ 1,985</u>
Non-GAAP adjusted operating margin	29.5 %	31.7 %
Non-GAAP Adjusted Net Income		
Reported net income - GAAP basis	\$ 1,717	\$ 1,792
Certain items associated with acquisitions ¹	11	9
Acquisition integration and deal costs	6	4
Severance and related charges ²	—	(4)
Realized loss (gain) on strategic investments, net	(4)	2
Unrealized loss (gain) on strategic investments, net	(4)	(5)
Income tax effect of share-based compensation ³	(14)	(58)
Income tax effects related to intra-entity intangible asset transfers	17	18
Resolution of prior years' income tax filings and other tax items	(5)	(62)
Non-GAAP adjusted net income	<u>\$ 1,724</u>	<u>\$ 1,696</u>

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

2 The severance and related charges primarily related to a one-time voluntary retirement program offered to certain eligible employees.

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

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

	Three Months Ended	
	January 29, 2023	January 30, 2022
<i>(In millions, except per share amounts)</i>		
Non-GAAP Adjusted Earnings Per Diluted Share		
Reported earnings per diluted share - GAAP basis	\$ 2.02	\$ 2.00
Certain items associated with acquisitions	0.01	0.01
Acquisition integration and deal costs	0.01	—
Unrealized loss (gain) on strategic investments, net	—	(0.01)
Income tax effect of share-based compensation	(0.02)	(0.06)
Income tax effects related to intra-entity intangible asset transfers	0.02	0.02
Resolution of prior years' income tax filings and other tax items	(0.01)	(0.07)
Non-GAAP adjusted earnings per diluted share	<u>\$ 2.03</u>	<u>\$ 1.89</u>
Weighted average number of diluted shares	849	897

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

(In millions, except percentages)

	Three Months Ended	
	January 29, 2023	January 30, 2022
Semiconductor Systems Non-GAAP Adjusted Operating Income		
Reported operating income - GAAP basis	\$ 1,917	\$ 1,771
Certain items associated with acquisitions ¹	9	7
Non-GAAP adjusted operating income	<u>\$ 1,926</u>	<u>\$ 1,778</u>
Non-GAAP adjusted operating margin (% of net sales)	37.3 %	38.9 %

(In millions, except percentages)

	Three Months Ended	
	January 29, 2023	January 30, 2022
AGS Non-GAAP Adjusted Operating Income		
Reported operating income - GAAP basis	\$ 383	\$ 403
Non-GAAP adjusted operating income	\$ 383	\$ 403
Non-GAAP adjusted operating margin (% of net sales)	<u>28.0 %</u>	<u>30.5 %</u>

(In millions, except percentages)

	Three Months Ended	
	January 29, 2023	January 30, 2022
Display and Adjacent Markets Non-GAAP Adjusted Operating Income		
Reported operating income - GAAP basis	\$ 8	\$ 76
Certain items associated with acquisitions ¹	—	1
Non-GAAP adjusted operating income	<u>\$ 8</u>	<u>\$ 77</u>
Non-GAAP adjusted operating margin (% of net sales)	4.8 %	21.0 %

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

<i>(In millions)</i>	Three Months Ended	
	January 29, 2023	January 30, 2022
Operating expenses (GAAP basis)	\$ 1,175	\$ 983
Certain items associated with acquisitions	(4)	(3)
Acquisition integration and deal costs	(6)	(4)
Severance and related charges	—	4
Non-GAAP adjusted operating expenses	\$ 1,165	\$ 980

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

	Three Months Ended	
	January 29, 2023	January 30, 2022
<i>(In millions, except per share amounts)</i>		
Provision for income taxes (GAAP basis) (a)	\$ 244	\$ 133
Income tax effect of share-based compensation	14	58
Income tax effect related to intra-entity intangible asset transfers	(17)	(18)
Resolution of prior years' income tax filings and other tax items	5	62
Non-GAAP adjusted provision for income taxes (b)	<u>\$ 246</u>	<u>\$ 235</u>

	Three Months Ended	
	January 29, 2023	January 30, 2022
<i>(In millions, except percentages)</i>		
Income (loss) before income taxes (GAAP basis) (c)	\$ 1,961	\$ 1,925
Certain items associated with acquisitions	11	9
Acquisition integration and deal costs	6	4
Severance and related charges	—	(4)
Realized loss (gain) on strategic investments, net	(4)	2
Unrealized loss (gain) on strategic investments, net	(4)	(5)
Non-GAAP income before income taxes (d)	<u>\$ 1,970</u>	<u>\$ 1,931</u>
Effective income tax rate (GAAP basis) (a/c)	12.4 %	6.9 %
Non-GAAP adjusted effective income tax rate (b/d)	12.5 %	12.2 %

APPLIED MATERIALS, INC.
RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK

Non-GAAP outlook for the second quarter of fiscal 2023 (including non-GAAP gross margin, operating margin, operating expenses and EPS) excludes known charges related to completed acquisitions of approximately \$10 million, or \$0.01 per share, includes the normalized tax benefit of share-based compensation of approximately \$4 million, or \$0.01 and includes a net income tax benefit related to intra-entity intangible asset transfers of \$17 million, or \$0.02 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.

APPLIED MATERIALS, INC.
UNAUDITED CALCULATION OF RETURN ON INVESTED CAPITAL

	Twelve Months Ended	
	October 30, 2022	October 31, 2021
<i>(In millions, except percentages)</i>		
Non-GAAP operating profit after tax		
Non-GAAP adjusted operating income	\$ 7,861	\$ 7,322
Non-GAAP adjusted effective income tax rate	11.8 %	11.5 %
Non-GAAP operating profit after tax	\$ 6,933	\$ 6,480
Invested Capital		
Total assets	\$ 26,726	\$ 25,825
Total liabilities	(7,379)	(6,344)
Invested capital	<u>\$ 19,347</u>	<u>\$ 19,481</u>
Return on invested capital	35.6 %	

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

<i>(In millions, except percentages)</i>	Twelve Months Ended	
	October 30, 2022	October 31, 2021
Non-GAAP Adjusted Operating Income		
Reported operating income - GAAP basis	\$ 7,788	\$ 6,889
Certain items associated with acquisitions ¹	39	47
Acquisition integration and deal costs	38	45
Certain incremental expenses related to COVID-19 ²	—	24
Severance and related charges ³	(4)	157
Deal termination fee	—	154
Other charges	—	6
Non-GAAP adjusted operating income	\$ 7,861	\$ 7,322

- 1 These items are incremental charges attributable to completed acquisitions, consisting of amortization of purchased intangible assets.
- 2 Temporary incremental employee compensation during the COVID-19 pandemic.
- 3 The severance and related charges primarily related to a one-time voluntary retirement program offered to certain eligible employees.

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

	Twelve Months Ended	
	October 30, 2022	October 31, 2021
<i>(In millions, except percentages)</i>		
Provision for income taxes (GAAP basis) (a)	\$ 1,074	\$ 883
Income tax effect of non-GAAP adjustments	3	33
Income tax effect related to intra-entity intangible asset transfers	(252)	(64)
Resolution of prior years' income tax filings and other tax items	80	(33)
Non-GAAP adjusted provision for income taxes (b)	<u>\$ 905</u>	<u>\$ 819</u>

	Twelve Months Ended	
	October 30, 2022	October 31, 2021
<i>(In millions, except percentages)</i>		
Income (loss) before income taxes (GAAP basis) (c)	\$ 7,599	\$ 6,771
Certain items associated with acquisitions	39	47
Acquisition integration and deal costs	34	46
Severance and related charges	(4)	157
Deal termination fee	—	154
Certain incremental expenses related to COVID-19 pandemic	—	24
Realized loss (gain) on strategic investments, net	(3)	(52)
Unrealized loss (gain) on strategic investments, net	(4)	(47)
Other changes	—	6
Non-GAAP income before income taxes (d)	<u>\$ 7,661</u>	<u>\$ 7,106</u>
Effective income tax rate (GAAP basis) (a/c)	14.1 %	13.0 %
Non-GAAP adjusted effective income tax rate (b/d)	11.8 %	11.5 %

APPLIED MATERIALS, INC.
UNAUDITED CALCULATION OF RETURNS TO STOCKHOLDERS

<i>(In millions)</i>	Twelve Months Ended				
	October 30, 2022	October 31, 2021	October 25, 2020	October 27, 2019	October 28, 2018
Returns to Stockholders					
Costs of stock repurchased	\$ 6,103	\$ 3,750	\$ 649	\$ 2,403	\$ 5,283
Payments of dividends to stockholders	873	838	787	771	605
Total returns to stockholders	\$ 6,976	\$ 4,588	\$ 1,436	\$ 3,174	\$ 5,888

Common Shares Repurchased

Number of shares repurchased	54	28	12	60	102
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<i>(In millions)</i>	Twelve Months Ended				
	October 27, 2017	October 30, 2016	October 25, 2015	October 26, 2014	October 27, 2013
Returns to Stockholders					
Cash provided by operating activities	\$ 1,172	\$ 1,892	\$ 1,325	\$ —	\$ 245
Capital expenditures	430	444	487	485	456
Total returns to stockholders	\$ 1,602	\$ 2,336	\$ 1,812	\$ 485	\$ 701

Common Shares Repurchased

Number of shares repurchased	28	96	76	—	18
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<i>(In millions, except percentages)</i>	Fiscal 2013 to Fiscal 2022	Fiscal 2018 to Fiscal 2022
Returns to Stockholders		
Cumulative free cash flow	\$ 27,429	\$ 18,739
Cumulative returns to stockholders	\$ 28,998	\$ 22,062
Percentage of returns to stockholders over free cash flow	106 %	118 %

Shares Repurchased

<i>(In millions, except percentages)</i>	
Non-weighted common shares outstanding as of October 28, 2012	1,197
Cumulative number of common stocks repurchased (Fiscal 2013 to Fiscal 2022)	474
Percentage of shares repurchased	40 %

APPLIED MATERIALS, INC.
UNAUDITED CALCULATION OF NON-GAAP MEASURES

<i>(In millions)</i>	Three Months Ended	Twelve Months Ended				
	January 29, 2023	October 30, 2022	October 31, 2021	October 25, 2020	October 27, 2019	October 28, 2018
Free Cash Flow¹						
Cash provided by operating activities	\$ 2,270	\$ 5,399	\$ 5,442	\$ 3,804	\$ 3,247	\$ 3,787
Capital expenditures	(287)	(787)	(668)	(422)	(441)	(622)
Free Cash Flow	\$ 1,983	\$ 4,612	\$ 4,774	\$ 3,382	\$ 2,806	\$ 3,165

<i>(In millions)</i>	Twelve Months Ended				
	October 27, 2017	October 30, 2016	October 25, 2015	October 26, 2014	October 27, 2013
Free Cash Flow¹					
Cash provided by operating activities	\$ 3,789	\$ 2,566	\$ 1,163	\$ 1,800	\$ 623
Capital expenditures	(345)	(253)	(215)	(241)	(197)
Free Cash Flow	\$ 3,444	\$ 2,313	\$ 948	\$ 1,559	\$ 426

¹ Free cash flow is a non-GAAP measure and is defined as net cash provided by operating activities less capital expenditures.