



Q4 FY2018 Earnings Call

GAAP to non-GAAP Reconciliations

November 15, 2018

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

	Three Months Ended		Twelve Months Ended	
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
<i>(In millions, except percentages and per share amounts)</i>				
Non-GAAP Adjusted Gross Profit				
Reported gross profit - GAAP basis	\$ 1,780	\$ 1,787	\$ 7,817	\$ 6,532
Certain items associated with acquisitions ¹	45	45	179	172
Non-GAAP adjusted gross profit	<u>\$ 1,825</u>	<u>\$ 1,832</u>	<u>\$ 7,996</u>	<u>\$ 6,704</u>
Non-GAAP adjusted gross margin	45.5%	46.2%	46.3%	46.1%
Non-GAAP Adjusted Operating Income				
Reported operating income - GAAP basis	\$ 1,016	\$ 1,098	\$ 4,796	\$ 3,868
Certain items associated with acquisitions ¹	50	49	197	191
Acquisition integration and deal costs	3	-	5	3
Other gains, losses or charges, net	-	(9)	-	(12)
Non-GAAP adjusted operating income	<u>\$ 1,069</u>	<u>\$ 1,138</u>	<u>\$ 4,998</u>	<u>\$ 4,050</u>
Non-GAAP adjusted operating margin	26.6%	28.7%	29.0%	27.9%
Non-GAAP Adjusted Net Income				
Reported net income - GAAP basis	\$ 876	\$ 982	\$ 3,313	\$ 3,434
Certain items associated with acquisitions ¹	50	49	197	191
Acquisition integration and deal costs	3	-	5	3
Impairment (gain on sale) of strategic investments, net	(15)	(7)	(25)	(3)
Loss on early extinguishment of debt	-	-	-	5
Other gains, losses or charges, net	-	(9)	-	(12)
Income tax effect of share-based compensation ²	13	-	-	-
Income tax effect of changes in applicable U.S. tax laws ³	23	-	1,112	-
Resolution of prior years' income tax filings and other tax items	6	(11)	(26)	(79)
Income tax effect of non-GAAP adjustments ⁴	-	1	(7)	(14)
Non-GAAP adjusted net income	<u>\$ 956</u>	<u>\$ 1,005</u>	<u>\$ 4,569</u>	<u>\$ 3,525</u>
Non-GAAP Adjusted Earnings Per Diluted Share				
Reported earnings per diluted share - GAAP basis	\$ 0.89	\$ 0.91	\$ 3.23	\$ 3.17
Certain items associated with acquisitions	0.05	0.04	0.18	0.16
Impairment (gain on sale) of strategic investments, net	(0.01)	-	(0.02)	-
Other gains, losses or charges, net	-	(0.01)	-	(0.01)
Income tax effect of share-based compensation	0.01	-	-	-
Income tax effect of changes in applicable U.S. tax laws	0.02	-	1.08	-
Resolution of prior year's income tax filings and other tax items	0.01	(0.01)	(0.02)	(0.07)
Non-GAAP adjusted earnings per diluted share	<u>\$ 0.97</u>	<u>\$ 0.93</u>	<u>\$ 4.45</u>	<u>\$ 3.25</u>
Weighted average number of diluted shares	984	1,076	1,026	1,084

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

2 Applied adopted the accounting standard related to share-based compensation (ASU 2016-09) in the first quarter of fiscal 2018, which resulted in \$51 million tax benefit on a GAAP basis for fiscal 2018; this benefit was 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		Twelve Months Ended	
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
<i>(In millions, except percentages)</i>				
Reported operating income (GAAP basis)	\$ 638	\$ 801	\$ 3,634	\$ 3,173
Certain items associated with acquisitions ¹	46	46	183	184
Non-GAAP adjusted operating income	<u>\$ 684</u>	<u>\$ 847</u>	<u>\$ 3,817</u>	<u>\$ 3,357</u>
Non-GAAP adjusted operating margin (% of net sales)	29.6%	34.8%	35.0%	35.3%

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

	Three Months Ended		Twelve Months Ended	
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
<i>(In millions, except percentages)</i>				
Reported operating income (GAAP basis)	\$ 289	\$ 232	\$ 1,102	\$ 817
Certain items associated with acquisitions ¹	-	-	-	1
Acquisition integration costs	1	-	2	3
Non-GAAP adjusted operating income	<u>\$ 290</u>	<u>\$ 232</u>	<u>\$ 1,104</u>	<u>\$ 821</u>
Non-GAAP adjusted operating margin (% of net sales)	29.7%	27.9%	29.4%	27.2%

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

	Three Months Ended		Twelve Months Ended	
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
<i>(In millions, except percentages)</i>				
Reported operating income (GAAP basis)	\$ 202	\$ 212	\$ 679	\$ 502
Certain items associated with acquisitions ¹	4	3	14	5
Acquisition integration costs	-	-	1	-
Non-GAAP adjusted operating income	<u>\$ 206</u>	<u>\$ 215</u>	<u>\$ 694</u>	<u>\$ 507</u>
Non-GAAP adjusted operating margin (% of net sales)	29.3%	31.8%	27.8%	26.7%

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		Twelve Months Ended	
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
<i>(In millions)</i>				
Operating expenses (GAAP basis)	\$ 764	\$ 689	\$ 3,021	\$ 2,664
Certain items associated with acquisitions	(5)	(4)	(18)	(19)
Acquisition integration and deal costs	(3)	-	(5)	(3)
Other gains, losses or charges, net	-	9	-	12
Non-GAAP adjusted operating expenses	<u>\$ 756</u>	<u>\$ 694</u>	<u>\$ 2,998</u>	<u>\$ 2,654</u>

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

	Three Months Ended	
	October 28, 2018	October 29, 2017
<i>(In millions)</i>		
Provision for income taxes (GAAP basis)	\$ 122	\$ 92
Income tax effect of share-based compensation	(13)	-
Income tax effect of changes in applicable U.S. tax laws	(23)	-
Resolution of prior years' income tax filings and other tax items	(6)	11
Income tax effect of non-GAAP adjustments	-	(1)
Non-GAAP adjusted provision for income taxes	\$ 80	\$ 102

	Three Months Ended	
	October 28, 2018	October 29, 2017
<i>(In millions, except percentages)</i>		
Income before income taxes (GAAP basis)	\$ 998	\$ 1,074
Certain items associated with acquisitions	50	49
Acquisition integration and deal costs	3	-
Impairment (gain on sale) of strategic investments, net	(15)	(7)
Loss on early extinguishment of debt	-	-
Other gains, losses or charges, net	-	(9)
Non-GAAP adjusted income before income taxes	\$ 1,036	\$ 1,107
Effective income tax rate (GAAP basis)	12.2%	8.6%
Non-GAAP adjusted effective income tax rate	7.7%	9.2%

APPLIED MATERIALS, INC.
RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK

Non-GAAP outlook for the first 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; the normalized tax benefit of share-based compensation of approximately \$42 million, or \$0.04 per share; and net income tax benefit related to intra-entity intangible asset transfers of \$18 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.