

Q1 FY2015 Earnings Call

GAAP to non-GAAP Reconciliations

February 11, 2015



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

	Three Months Ended		
	Jan 25, 2015	Oct 26, 2014	Jan 26, 2014
<i>(In millions, except percentages)</i>			
Non-GAAP Adjusted Gross Profit			
Reported gross profit - GAAP basis	\$ 959	\$ 959	\$ 891
Certain items associated with acquisitions ¹	40	42	39
Non-GAAP adjusted gross profit	<u>\$ 999</u>	<u>\$ 1,001</u>	<u>\$ 930</u>
Non-GAAP adjusted gross margin (% of net sales)	42.3%	44.2%	42.5%
Non-GAAP Adjusted Operating Income			
Reported operating income - GAAP basis	\$ 458	\$ 412	\$ 330
Certain items associated with acquisitions ¹	46	48	45
Acquisition integration costs	1	4	11
Gain on derivative associated with announced business combination, net	(78)	(39)	(24)
Certain items associated with announced business combination ²	20	23	11
Impairment of goodwill and intangible assets	-	-	-
Restructuring charges and asset impairments ³	-	(2)	7
Gain on sale of facility	-	(4)	-
Non-GAAP adjusted operating income	<u>\$ 447</u>	<u>\$ 442</u>	<u>\$ 380</u>
Non-GAAP adjusted operating margin (% of net sales)	18.9%	19.5%	17.4%
Non-GAAP Adjusted Net Income			
Reported net income - GAAP basis	\$ 348	\$ 256	\$ 253
Certain items associated with acquisitions ¹	46	48	45
Acquisition integration costs	1	4	11
Gain on derivative associated with announced business combination, net	(78)	(39)	(24)
Certain items associated with announced business combination ²	20	23	11
Restructuring charges and asset impairments ³	-	(2)	7
Impairment (gain on sale) of strategic investments, net	1	(5)	(5)
Gain on sale of facility	-	(4)	-
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items	(17)	50	(15)
Income tax effect of non-GAAP adjustments	17	7	(4)
Non-GAAP adjusted net income	<u>\$ 338</u>	<u>\$ 338</u>	<u>\$ 279</u>

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

3 Results for the three months ended October 26, 2014 and January 26, 2014 included a \$2 million favorable adjustment of restructuring reserve and employee-related costs of \$7 million, respectively, related to the restructuring program announced on October 3, 2012.

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

	Three Months Ended		
	Jan 25, 2015	Oct 26, 2014	Jan 26, 2014
<i>(In millions, except per share amounts)</i>			
Non-GAAP Adjusted Earnings Per Diluted Share			
Reported earnings per diluted share - GAAP basis	\$ 0.28	\$ 0.21	\$ 0.21
Certain items associated with acquisitions	0.03	0.04	0.03
Acquisition integration costs	-	-	0.01
Certain items associated with announced business combination	0.01	0.01	-
Gain on derivative associated with announced business combination, net	(0.04)	(0.02)	(0.01)
Impairment of goodwill and intangible assets	-	-	-
Restructuring charges and asset impairments	-	-	-
Impairment of strategic investments	-	-	-
Gain on sale of facilities, net	-	-	-
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items	(0.01)	0.03	(0.01)
Non-GAAP adjusted earnings per diluted share	<u>\$ 0.27</u>	<u>\$ 0.27</u>	<u>\$ 0.23</u>
Weighted average number of diluted shares	1,240	1,236	1,225

APPLIED MATERIALS, INC.
UNAUDITED INTEGRATION AND CERTAIN ITEMS ASSOCIATED WITH ACQUISITIONS

	Three Months Ended		
	Jan 25, 2015	Oct 26, 2014	Jan 26, 2014
<i>(In millions)</i>			
Integration and certain items associated with acquisitions			
Cost of products sold	\$ 40	\$ 42	\$ 39
Research, development and engineering	-	1	2
Selling, general and administrative	7	9	15
Total	\$ 47	\$ 52	\$ 56

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

	<u>Three Months Ended</u>	
	<u>Jan 25, 2015</u>	
<i>(In millions)</i>		
Operating expenses (GAAP basis)	\$	501
Restructuring charges and asset impairments		
Certain items associated with acquisitions		(6)
Acquisition integration costs		(1)
Gain on derivative associated with announced business combination, net		78
Certain items associated with announced business combination		(20)
Non-GAAP adjusted operating expenses	<u>\$</u>	<u>552</u>

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

	Three Months Ended		
	Jan 25, 2015	Oct 26, 2014	Jan 26, 2014
<i>(In millions, except percentages)</i>			
Net sales (GAAP basis)	\$ 1,446	\$ 1,434	\$ 1,484
Reported operating income (GAAP basis)	\$ 307	\$ 305	\$ 314
Certain items associated with acquisitions	43	46	42
Acquisition integration costs	-	1	1
Non-GAAP adjusted operating income	\$ 350	\$ 352	\$ 357
GAAP operating margin (% of net sales)	21.2%	21.3%	21.2%
Non-GAAP adjusted operating margin (% of net sales)	24.2%	24.5%	24.1%

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

	Three Months Ended		
	Jan 25, 2015	Oct 26, 2014	Jan 26, 2014
<i>(In millions, except percentages)</i>			
Net Sales (GAAP basis)	\$ 583	\$ 592	\$ 507
Reported operating income (GAAP basis)	\$ 153	\$ 146	\$ 125
Certain items associated with acquisitions	1	-	1
Non-GAAP adjusted operating income	\$ 154	\$ 146	\$ 126
GAAP operating margin (% of net sales)	26.2%	24.7%	24.7%
Non-GAAP adjusted operating margin (% of net sales)	26.4%	24.7%	24.9%

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

	Three Months Ended		
	Jan 25, 2015	Oct 26, 2014	Jan 26, 2014
<i>(In millions, except percentages)</i>			
Net Sales (GAAP basis)	\$ 275	\$ 190	\$ 159
Reported operating income (GAAP basis)	\$ 72	\$ 52	\$ 26
Certain items associated with acquisitions	1	-	1
Non-GAAP adjusted operating income	\$ 73	\$ 52	\$ 27
GAAP operating margin (% of net sales)	26.2%	27.4%	16.4%
Non-GAAP adjusted operating margin (% of net sales)	26.5%	27.4%	17.0%

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

	Three Months Ended		
	Jan 25, 2015	Oct 26, 2014	Jan 26, 2014
<i>(In millions, except percentages)</i>			
Net Sales (GAAP basis)	\$ 55	\$ 48	\$ 40
Reported operating loss (GAAP basis)	\$ (4)	\$ (3)	\$ (11)
Certain items associated with acquisitions	1	2	1
Non-GAAP adjusted operating loss	\$ (3)	\$ (1)	\$ (10)
GAAP operating margin (% of net sales)	-7.3%	-6.3%	-27.5%
Non-GAAP adjusted operating margin (% of net sales)	-5.5%	-2.1%	-25.0%

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

	Three Months Ended
	Jan 25, 2015
<i>(In millions, except percentages)</i>	
Provision for income taxes (GAAP basis)	\$89
Income tax effect of non-GAAP adjustments	(17)
Resolutions of prior years' income tax filings and other tax items	17
Non-GAAP adjusted provision for income taxes	\$ 89
Income before income taxes (GAAP basis)	\$437
Certain items associated with acquisitions	46
Acquisition integration costs	1
Gain on derivative associated with announced business combination, net	(78)
Certain items associated with announced business combination	20
Impairment of strategic investment	1
Non-GAAP adjusted income before income taxes	\$427
Effective income tax rate (GAAP basis)	20.4%
Non-GAAP adjusted effective income tax rate	20.8%

APPLIED MATERIALS, INC.
RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK

Non-GAAP outlook for the second quarter of fiscal 2015 (including non-GAAP gross margin, operating margin, operating expenses and EPS) excludes known charges related to completed acquisitions of approximately \$45 million, or \$0.03 per share, but does not exclude other non-GAAP adjustments that may arise subsequent to February 11, 2015.