



# Q2 FY2021 Earnings Call

## GAAP to non-GAAP Reconciliations

May 20, 2021

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

	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
<i>(In millions, except percentages and per share amounts)</i>				
<b>Non-GAAP Adjusted Gross Profit</b>				
Reported gross profit - GAAP basis	\$ 2,653	\$ 1,749	\$ 5,002	\$ 3,607
Certain items associated with acquisitions <sup>1</sup>	7	8	15	17
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	8	12	8
Other charges	2	—	2	—
Non-GAAP adjusted gross profit	<u>\$ 2,662</u>	<u>\$ 1,765</u>	<u>\$ 5,031</u>	<u>\$ 3,632</u>
Non-GAAP adjusted gross margin	47.7%	44.6%	46.8%	44.7%
<b>Non-GAAP Adjusted Operating Income</b>				
Reported operating income - GAAP basis	\$ 1,579	\$ 932	\$ 2,862	\$ 1,974
Certain items associated with acquisitions <sup>1</sup>	12	13	25	26
Acquisition integration and deal costs	11	21	35	34
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	10	24	10
Severance and related charges <sup>3</sup>	6	—	158	—
Deal termination fee	154	—	154	—
Other charges	6	—	6	—
Non-GAAP adjusted operating income	<u>\$ 1,768</u>	<u>\$ 976</u>	<u>\$ 3,264</u>	<u>\$ 2,044</u>
Non-GAAP adjusted operating margin	31.7%	24.7%	30.4%	25.2%
<b>Non-GAAP Adjusted Net Income</b>				
Reported net income - GAAP basis	\$ 1,330	\$ 755	\$ 2,460	\$ 1,647
Certain items associated with acquisitions <sup>1</sup>	12	13	25	26
Acquisition integration and deal costs	12	21	36	34
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	10	24	10
Severance and related charges <sup>3</sup>	6	—	158	—
Deal termination fee	154	—	154	—
Realized loss (gain) on strategic investments, net	6	5	4	7
Unrealized loss (gain) on strategic investments, net	(26)	2	(32)	4
Other charges	6	—	6	—
Income tax effect of share-based compensation <sup>4</sup>	6	8	(23)	(25)
Income tax effects related to intra-entity intangible asset transfers	17	16	37	37
Resolution of prior years' income tax filings and other tax items	(10)	(3)	(13)	(4)
Income tax effect of non-GAAP adjustments <sup>5</sup>	(4)	(10)	(45)	(15)
Non-GAAP adjusted net income	<u>\$ 1,509</u>	<u>\$ 817</u>	<u>\$ 2,791</u>	<u>\$ 1,721</u>

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.

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

5 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 RESULTS**

	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
<i>(In millions, except percentages and per share amounts)</i>				
<b>Non-GAAP Adjusted Earnings Per Diluted Share</b>				
Reported earnings per diluted share - GAAP basis	\$ 1.43	\$ 0.82	\$ 2.66	\$ 1.78
Certain items associated with acquisitions	0.01	0.01	0.02	0.02
Acquisition integration and deal costs	0.01	0.02	0.03	0.04
Certain incremental expenses related to COVID-19	—	0.01	0.02	0.01
Severance and related charges	0.01	—	0.13	—
Deal termination fee	0.17	—	0.17	—
Realized loss (gain) on strategic investments, net	0.01	0.01	—	0.01
Unrealized loss (gain) on strategic investments, net	(0.03)	—	(0.02)	—
Income tax effect of share-based compensation	0.01	0.01	(0.02)	(0.03)
Income tax effects related to amortization of intra-entity intangible asset transfers	0.02	0.02	0.04	0.04
Resolution of prior year's income tax filings and other tax items	(0.01)	(0.01)	(0.01)	(0.01)
Non-GAAP adjusted earnings per diluted share	\$ 1.63	\$ 0.89	\$ 3.02	\$ 1.86
Weighted average number of diluted shares	927	923	926	925

**APPLIED MATERIALS, INC.**  
**UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED**  
**SEMICONDUCTOR SYSTEMS OPERATING RESULTS**

	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
<i>(In millions, except percentages)</i>				
<b>Reported operating income (GAAP basis)</b>	\$ 1,542	\$ 782	\$ 2,803	\$ 1,697
Certain items associated with acquisitions <sup>1</sup>	10	10	20	20
Acquisition integration and deal costs	—	—	(2)	—
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	6	12	6
Other charges	3	—	3	—
<b>Non-GAAP adjusted operating income</b>	<u>\$ 1,555</u>	<u>\$ 798</u>	<u>\$ 2,836</u>	<u>\$ 1,723</u>
<b>Non-GAAP adjusted operating margin (% of net sales)</b>	39.1%	31.1%	37.7%	32.0%

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

	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
<i>(In millions, except percentages)</i>				
<b>Reported operating income (GAAP basis)</b>	\$ 358	\$ 256	\$ 690	\$ 534
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	4	8	4
Other charges	1	—	1	—
<b>Non-GAAP adjusted operating income</b>	<u>\$ 359</u>	<u>\$ 260</u>	<u>\$ 699</u>	<u>\$ 538</u>
<b>Non-GAAP adjusted operating margin (% of net sales)</b>	29.8%	25.5%	29.6%	26.7%

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

	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
<i>(In millions, except percentages)</i>				
<b>Reported operating income (GAAP basis)</b>	\$ 65	\$ 75	\$ 130	\$ 113
Certain items associated with acquisitions <sup>1</sup>	1	3	2	6
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	—	1	—
Severance and related charges <sup>3</sup>	—	—	8	—
<b>Non-GAAP adjusted operating income</b>	<u>\$ 66</u>	<u>\$ 78</u>	<u>\$ 141</u>	<u>\$ 119</u>
<b>Non-GAAP adjusted operating margin (% of net sales)</b>	17.6%	21.4%	17.9%	17.1%

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 related to workforce reduction actions globally across the Display and Adjacent Markets business.

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

	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
<i>(In millions)</i>				
<b>Operating expenses (GAAP basis)</b>	\$ 1,074	\$ 817	\$ 2,140	\$ 1,633
Certain items associated with acquisitions	(5)	(5)	(10)	(9)
Acquisition integration and deal costs	(11)	(21)	(35)	(34)
Certain incremental expenses related to COVID-19	—	(2)	(12)	(2)
Severance and related charges	(6)	—	(158)	—
Deal termination fee	(154)	—	(154)	—
Other charges	(4)	—	(4)	—
<b>Non-GAAP adjusted operating expenses</b>	\$ 894	\$ 789	\$ 1,767	\$ 1,588

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

	Three Months Ended	
	May 2, 2021	April 26, 2020
<i>(In millions)</i>		
<b>Provision for income taxes (GAAP basis) (a)</b>	\$ 215	\$ 123
Income tax effect of share-based compensation	(6)	(8)
Income tax effects related to intra-entity intangible asset transfers	(17)	(16)
Resolution of prior years' income tax filings and other tax items	10	3
Income tax effect of non-GAAP adjustments	4	10
<b>Non-GAAP adjusted provision for income taxes (b)</b>	<u>\$ 206</u>	<u>\$ 112</u>

	Three Months Ended	
	May 2, 2021	April 26, 2020
<i>(In millions, except percentages)</i>		
<b>Income before income taxes (GAAP basis) (c)</b>	\$ 1,545	\$ 878
Certain items associated with acquisitions	12	13
Acquisition integration and deal costs	12	21
Certain incremental expenses related to COVID-19	—	10
Severance and related charges	6	—
Deal termination fee	154	—
Realized loss (gain) on strategic investments, net	6	5
Unrealized loss (gain) on strategic investments, net	(26)	2
Other charges	6	—
<b>Non-GAAP adjusted income before income taxes (d)</b>	<u>\$ 1,715</u>	<u>\$ 929</u>

<b>Effective income tax rate (GAAP basis) (a/c)</b>	13.9%	14.0%
<b>Non-GAAP adjusted effective income tax rate (b/d)</b>	12.0%	12.1%

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

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	<u>Three Months Ended</u> <u>May 2,</u> <u>2021</u>
<i>(In millions)</i>	
<b>Free Cash Flow<sup>1</sup></b>	
Cash provided by operating activities	\$ 1,187
Capital expenditures	(204)
Free cash flow	<u>\$ 983</u>

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

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

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*(In millions)*

**Cash, cash equivalents and investments**

	<u>May 2, 2021</u>	<u>October 25, 2020</u>
Cash and cash equivalents	\$ 6,305	\$ 5,351
Short-term investments	460	387
Long-term investments	1,569	1,538
<b>Cash, cash equivalents, and investments</b>	<u><u>\$ 8,334</u></u>	<u><u>\$ 7,276</u></u>

**APPLIED MATERIALS, INC.****RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK**

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Non-GAAP outlook for the third quarter of fiscal 2021 (including non-GAAP gross margin, operating margin, operating expenses and EPS) excludes known charges related to completed acquisitions of approximately \$11 million, or \$0.01 per share, includes the normalized tax benefit of share-based compensation of approximately \$11 million, or \$0.01 per share, and a net income tax benefit related to intra-entity intangible asset transfers of \$22 million, or \$0.03 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.