

Q4 FY2021 Earnings Call

GAAP to non-GAAP Reconciliations

November 18, 2021



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

	Three Months Ended		Twelve Months Ended	
	October 31, 2021	October 25, 2020	October 31, 2021	October 25, 2020
<i>(In millions, except percentages)</i>				
Non-GAAP Adjusted Gross Profit				
Reported gross profit - GAAP basis	\$ 2,945	\$ 2,130	\$ 10,914	\$ 7,692
Certain items associated with acquisitions ¹	6	12	27	37
Certain incremental expenses related to COVID-19 ²	—	—	12	23
Other charges	—	—	2	—
Non-GAAP adjusted gross profit	<u>\$ 2,951</u>	<u>\$ 2,142</u>	<u>\$ 10,955</u>	<u>\$ 7,752</u>
Non-GAAP adjusted gross margin	48.2%	45.7%	47.5%	45.1%
Non-GAAP Adjusted Operating Income				
Reported operating income - GAAP basis	\$ 2,014	\$ 1,283	\$ 6,889	\$ 4,365
Certain items associated with acquisitions ¹	11	16	47	54
Acquisition integration and deal costs	5	26	45	80
Certain incremental expenses related to COVID-19 ²	—	—	24	30
Severance and related charges ³	(1)	—	157	—
Deal termination fee	—	—	154	—
Other charges	—	—	6	—
Non-GAAP adjusted operating income	<u>\$ 2,029</u>	<u>\$ 1,325</u>	<u>\$ 7,322</u>	<u>\$ 4,529</u>
Non-GAAP adjusted operating margin	33.1%	28.3%	31.7%	26.3%
Non-GAAP Adjusted Net Income				
Reported net income - GAAP basis	\$ 1,712	\$ 1,131	\$ 5,888	\$ 3,619
Certain items associated with acquisitions ¹	11	16	47	54
Acquisition integration and deal costs	5	26	46	80
Certain incremental expenses related to COVID-19 ²	—	—	24	30
Severance and related charges ³	(1)	—	157	—
Deal termination fee	—	—	154	—
Realized loss (gain) on strategic investments, net	(41)	—	(43)	(1)
Unrealized loss (gain) on strategic investments, net	(11)	(7)	(56)	(8)
Loss on early extinguishment of debt	—	—	—	33
Other charges	—	—	6	—
Income tax effect of share-based compensation ⁴	12	13	—	—
Income tax effects related to intra-entity intangible asset transfers	4	10	64	114
Resolution of prior years' income tax filings and other tax items	55	(36)	33	(41)
Income tax effect of non-GAAP adjustments ⁵	10	(5)	(33)	(35)
Non-GAAP adjusted net income	<u>\$ 1,756</u>	<u>\$ 1,148</u>	<u>\$ 6,287</u>	<u>\$ 3,845</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		Twelve Months Ended	
	October 31, 2021	October 25, 2020	October 31, 2021	October 25, 2020
<i>(In millions, except per share amounts)</i>				
Non-GAAP Adjusted Earnings Per Diluted Share				
Reported earnings per diluted share - GAAP basis	\$ 1.89	\$ 1.23	\$ 6.40	\$ 3.92
Certain items associated with acquisitions	0.01	0.02	0.04	0.05
Acquisition integration and deal costs	0.01	0.02	0.04	0.07
Certain incremental expenses related to COVID-19	—	—	0.02	0.03
Loss on early extinguishment of debt	—	—	—	0.03
Severance and related charges	—	—	0.13	—
Deal termination fee	—	—	0.17	—
Realized loss (gain) on strategic investments, net	(0.03)	—	(0.03)	—
Unrealized loss (gain) on strategic investments, net	(0.01)	(0.01)	(0.05)	(0.01)
Other charges	—	—	0.01	—
Income tax effect of share-based compensation	0.01	0.02	—	—
Income tax effects related to amortization of intra-entity intangible asset transfers	—	0.01	0.07	0.12
Resolution of prior year's income tax filings and other tax items	0.06	(0.04)	0.04	(0.04)
Non-GAAP adjusted earnings per diluted share	<u>\$ 1.94</u>	<u>\$ 1.25</u>	<u>\$ 6.84</u>	<u>\$ 4.17</u>
Weighted average number of diluted shares	907	921	919	923

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

	Three Months Ended		Twelve Months Ended	
	October 31, 2021	October 25, 2020	October 31, 2021	October 25, 2020
<i>(In millions, except percentages)</i>				
Reported operating income (GAAP basis)	\$ 1,723	\$ 1,059	\$ 6,311	\$ 3,714
Certain items associated with acquisitions ¹	9	12	38	41
Acquisition integration costs	—	2	(2)	3
Certain incremental expenses related to COVID-19 ²	—	—	12	20
Other charges	—	—	3	—
Non-GAAP adjusted operating income	<u>\$ 1,732</u>	<u>\$ 1,073</u>	<u>\$ 6,362</u>	<u>\$ 3,778</u>
Non-GAAP adjusted operating margin (% of net sales)	40.2%	35.0%	39.1%	33.2%

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

	Three Months Ended		Twelve Months Ended	
	October 31, 2021	October 25, 2020	October 31, 2021	October 25, 2020
<i>(In millions, except percentages)</i>				
Reported operating income (GAAP basis)	\$ 425	\$ 320	\$ 1,508	\$ 1,127
Certain incremental expenses related to COVID-19 ²	—	—	8	8
Other charges	—	—	1	—
Non-GAAP adjusted operating income	<u>\$ 425</u>	<u>\$ 320</u>	<u>\$ 1,517</u>	<u>\$ 1,135</u>
Non-GAAP adjusted operating margin (% of net sales)	31.0%	28.9%	30.3%	27.3%

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

	Three Months Ended		Twelve Months Ended	
	October 31, 2021	October 25, 2020	October 31, 2021	October 25, 2020
<i>(In millions, except percentages)</i>				
Reported operating income (GAAP basis)	\$ 85	\$ 95	\$ 314	\$ 291
Certain items associated with acquisitions ¹	1	3	4	12
Certain incremental expenses related to COVID-19 ²	—	—	1	1
Severance and related charges ³	—	—	8	—
Non-GAAP adjusted operating income	<u>\$ 86</u>	<u>\$ 98</u>	<u>\$ 327</u>	<u>\$ 304</u>
Non-GAAP adjusted operating margin (% of net sales)	20.6%	20.2%	20.0%	18.9%

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		Twelve Months Ended	
	October 31, 2021	October 25, 2020	October 31, 2021	October 25, 2020
<i>(In millions)</i>				
Operating expenses (GAAP basis)	\$ 931	\$ 847	\$ 4,025	\$ 3,327
Certain items associated with acquisitions	(5)	(4)	(20)	(17)
Acquisition integration and deal costs	(5)	(26)	(45)	(80)
Certain incremental expenses related to COVID-19	—	—	(12)	(7)
Severance and related charges	1	—	(157)	—
Deal termination fee	—	—	(154)	—
Other charges	—	—	(4)	—
Non-GAAP adjusted operating expenses	\$ 922	\$ 817	\$ 3,633	\$ 3,223

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

	Three Months Ended	
	October 31, 2021	October 25, 2020
<i>(In millions)</i>		
Provision for income taxes (GAAP basis) (a)	\$ 294	\$ 112
Income tax effect of share-based compensation	(12)	(13)
Income tax effects related to intra-entity intangible asset transfers	(4)	(10)
Resolution of prior years' income tax filings and other tax items	(55)	36
Income tax effect of non-GAAP adjustments	(10)	5
Non-GAAP adjusted provision for income taxes (b)	<u>\$ 213</u>	<u>\$ 130</u>

	Three Months Ended	
	October 31, 2021	October 25, 2020
<i>(In millions, except percentages)</i>		
Income before income taxes (GAAP basis) (c)	\$ 2,006	\$ 1,243
Certain items associated with acquisitions	11	16
Acquisition integration and deal costs	5	26
Severance and related charges	(1)	—
Realized loss (gain) on strategic investments, net	(41)	—
Unrealized loss (gain) on strategic investments, net	(11)	(7)
Non-GAAP adjusted income before income taxes (d)	<u>\$ 1,969</u>	<u>\$ 1,278</u>
Effective income tax rate (GAAP basis) (a/c)	14.7%	9.0%
Non-GAAP adjusted effective income tax rate (b/d)	10.8%	10.2%

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

	Three Months Ended				
	October 31, 2021	August 1, 2021	May 2, 2021	January 31, 2021	October 25, 2020
<i>(In millions)</i>					
Free Cash Flow¹					
Cash provided by operating activities	\$ 1,148	\$ 1,686	\$ 1,187	\$ 1,421	\$ 1,315
Capital expenditures	(206)	(137)	(204)	(121)	(162)
Free cash flow	<u>\$ 942</u>	<u>\$ 1,549</u>	<u>\$ 983</u>	<u>\$ 1,300</u>	<u>\$ 1,153</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

	<u>October 31,</u> <u>2021</u>	<u>October 25,</u> <u>2020</u>
<i>(In millions)</i>		
Cash, cash equivalents and investments		
Cash and cash equivalents	\$ 4,995	\$ 5,351
Short-term investments	464	387
Long-term investments	2,055	1,538
Cash, cash equivalents, and investments	<u><u>\$ 7,514</u></u>	<u><u>\$ 7,276</u></u>

APPLIED MATERIALS, INC.
RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK

Non-GAAP outlook for the first quarter of fiscal 2022 (including non-GAAP gross margin, operating margin, operating expenses and EPS) excludes known charges related to completed acquisitions of approximately \$9 million, or \$0.01 per share and includes a net income tax benefit related to intra-entity intangible asset transfers of \$20 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.