

Q1 FY2014 Earnings Call

GAAP to non-GAAP Reconciliations

February 12, 2014



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

	Three Months Ended		
	January 26, 2014	October 27, 2013	January 27, 2013
<i>(In millions, except percentages and per share amounts)</i>			
Non-GAAP Adjusted Gross Margin			
Reported gross margin - GAAP basis	\$ 891	\$ 795	\$ 582
Certain items associated with acquisitions ¹	39	40	43
Acquisition integration and deal costs	-	-	1
Non-GAAP adjusted gross margin	<u>\$ 930</u>	<u>\$ 835</u>	<u>\$ 626</u>
Non-GAAP adjusted gross margin percent (% of net sales)	42.5%	42.0%	39.8%
Non-GAAP Adjusted Operating Income			
Reported operating income - GAAP basis	\$ 330	\$ 211	\$ 39
Certain items associated with acquisitions ¹	45	47	54
Acquisition integration and deal costs	11	11	10
Unrealized loss (gain) on derivative associated with announced business combination	(24)	7	-
Certain items associated with announced business combination ²	11	17	-
Restructuring charges and asset impairments ^{3, 4, 5}	7	30	9
Non-GAAP adjusted operating income	<u>\$ 380</u>	<u>\$ 323</u>	<u>\$ 112</u>
Non-GAAP adjusted operating margin percent (% of net sales)	17.4%	16.2%	7.1%
Non-GAAP Adjusted Net Income			
Reported net income - GAAP basis	\$ 253	\$ 183	\$ 34
Certain items associated with acquisitions ¹	45	47	54
Acquisition integration and deal costs	11	11	10
Unrealized loss (gain) on derivative associated with announced business combination	(24)	7	-
Certain items associated with announced business combination ²	11	17	-
Restructuring charges and asset impairments ^{3, 4, 5}	7	30	9
Impairment (gain on sale) of strategic investments, net	(5)	(3)	-
Reinstatement of federal R&D tax credit	-	-	(10)
Resolution of prior years' income tax filings and other tax items	(15)	(10)	(11)
Income tax effect of non-GAAP adjustments	(4)	(54)	(17)
Non-GAAP adjusted income	<u>\$ 279</u>	<u>\$ 228</u>	<u>\$ 69</u>

1 These items are incremental charges attributable to completed acquisitions, consisting of inventory fair value adjustments on products sold, and 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 costs.

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

4 Results for the three months ended October 27, 2013 included \$27 million of employee-related costs related to the restructuring program announced on October 3, 2012, and restructuring and asset impairment charges of \$7 million related to the restructuring program announced on May 10, 2012, partially offset by a favorable adjustment of \$4 million in restructuring charges related to other restructuring plans.

5 Results for the three months ended January 27, 2013 included \$4 million of employee-related costs related to the restructuring program announced on October 3, 2012, asset impairment charges of \$3 million related to the restructuring program announced on May 10, 2012 and severance charges of \$2 million related to the integration of Varian.

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

	Three Months Ended		
	January 26, 2014	October 27, 2013	January 27, 2013
<i>(In millions, except percentages and per share amounts)</i>			
Non-GAAP Adjusted Earnings Per Diluted Share			
Reported earnings per diluted share - GAAP basis	\$ 0.21	0.15	0.03
Certain items associated with acquisitions	0.03	0.03	0.03
Acquisition integration and deal costs	0.01	-	0.01
Unrealized gain on derivative associated with announced business combination	(0.01)	-	-
Certain items associated with announced business combination	-	0.01	-
Restructuring charges and asset impairments	-	0.01	0.01
Reinstatement of federal R&D tax credit and resolution of prior years' income tax filings and other tax items	(0.01)	(0.01)	(0.02)
Non-GAAP adjusted earnings per diluted share	<u>\$ 0.23</u>	<u>\$ 0.19</u>	<u>\$ 0.06</u>
Weighted average number of diluted shares	1,225	1,222	1,212

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

<i>(In millions)</i>	Three Months Ended		
	<u>January 26, 2014</u>	<u>October 27, 2013</u>	<u>January 27, 2013</u>
Integration and deal costs and certain items associated with acquisitions			
Cost of products sold	\$ 39	\$ 40	\$ 44
Research, development and engineering	2	2	2
Selling, general and administrative	15	40	18
Total	<u>\$ 56</u>	<u>\$ 82</u>	<u>\$ 64</u>

APPLIED MATERIALS, INC.
RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED GROSS MARGIN

	Three Months Ended		
	January 26, 2014	October 27, 2013	January 27, 2013
<i>(In millions, except percentages)</i>			
Net Sales (GAAP basis)	\$ 2,190	\$ 1,988	\$ 1,573
Reported gross margin (GAAP basis)	\$ 891	\$ 795	\$ 582
Certain items associated with acquisitions	39	40	43
Acquisition integration and deal costs	-	-	1
Non-GAAP adjusted gross margin	\$ 930	\$ 835	\$ 626
GAAP gross margin percent (% of net sales)	40.7%	40.0%	37.0%
Non-GAAP adjusted gross margin percent (% of net sales)	42.5%	42.0%	39.8%

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

	Three Months Ended	
	January 26, 2014	
<i>(In millions)</i>		
Operating expenses (GAAP basis)	\$	561
Unrealized gain on derivative associated with announced business combination		24
Certain items associated with acquisitions		(6)
Acquisition integration costs		(11)
Certain items associated with announced business combination		(11)
Restructuring charges and asset impairments		(7)
Non-GAAP adjusted operating expenses	\$	550

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

	Three Months Ended		
	January 26, 2014	October 27, 2013	January 27, 2013
<i>(In millions, except percentages)</i>			
Net sales (GAAP basis)	\$ 1,484	\$ 1,243	\$ 969
Reported operating income (GAAP basis)	\$ 314	\$ 213	\$ 134
Certain items associated with acquisitions	42	44	44
Acquisition integration and deal costs, net	1	1	1
Restructuring charges and asset impairments	-	-	1
Non-GAAP adjusted operating income	<u>\$ 357</u>	<u>\$ 258</u>	<u>\$ 180</u>
GAAP operating margin percent (% of net sales)	21.2%	17.1%	13.8%
Non-GAAP adjusted operating margin percent (% of net sales)	24.1%	20.8%	18.6%

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

	Three Months Ended		
	January 26, 2014	October 27, 2013	January 27, 2013
<i>(In millions, except percentages)</i>			
Net Sales (GAAP basis)	\$ 507	\$ 538	\$ 471
Reported operating income (GAAP basis)	\$ 125	\$ 115	\$ 89
Certain items associated with acquisitions	1	1	1
Restructuring charges and asset impairments	-	-	1
Non-GAAP adjusted operating income	\$ 126	\$ 116	\$ 91
GAAP operating margin percent (% of net sales)	24.7%	21.4%	18.9%
Non-GAAP adjusted operating margin percent (% of net sales)	24.9%	21.6%	19.3%

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

	Three Months Ended		
	January 26, 2014	October 27, 2013	January 27, 2013
<i>(In millions, except percentages)</i>			
Net Sales (GAAP basis)	<u>\$ 159</u>	<u>\$ 163</u>	<u>\$ 87</u>
Reported operating income (GAAP basis)	\$ 26	\$ 19	\$ 3
Certain items associated with acquisitions	1	1	2
Non-GAAP adjusted operating income	<u>\$ 27</u>	<u>\$ 20</u>	<u>\$ 5</u>
 GAAP operating margin percent (% of net sales)	 16.4%	 11.7%	 3.4%
 Non-GAAP adjusted operating margin percent (% of net sales)	 17.0%	 12.3%	 5.7%

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

	Three Months Ended		
	January 26, 2014	October 27, 2013	January 27, 2013
<i>(In millions, except percentages)</i>			
Net Sales (GAAP basis)	\$ 40	\$ 44	\$ 46
Reported operating loss (GAAP basis)	\$ (11)	\$ (30)	\$ (54)
Certain items associated with acquisitions	1	1	7
Restructuring charges and asset impairments	-	7	3
Non-GAAP adjusted operating loss	<u>\$ (10)</u>	<u>\$ (22)</u>	<u>\$ (44)</u>
GAAP operating margin percent (% of net sales)	-27.5%	-68.2%	-117.4%
Non-GAAP adjusted operating margin percent (% of net sales)	-25.0%	-50.0%	-95.7%

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

Three Months Ended

January 26, 2014

(In millions, except percentages)

Provision for income taxes (GAAP basis)	\$	62
Resolutions of prior years' income tax filings and other items		15
Income tax effect of non-GAAP adjustments		4
Non-GAAP adjusted provision for income taxes	\$	81
Income before income taxes (GAAP basis)		315
Certain items associated with acquisitions		45
Restructuring charges and asset impairments		7
Acquisition integration and deal costs		11
Certain items associated with announced business combination		11
Unrealized gain on derivative associated with announced business combination		(24)
Gain on sale strategic investments, net		(5)
Non-GAAP adjusted income before income taxes	\$	360
Effective income tax rate (GAAP basis)		19.7%
Non-GAAP adjusted effective income tax rate		22.5%