

Q4 FY2014 Earnings Call

GAAP to non-GAAP Reconciliations

November 13, 2014



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

	Three Months Ended			Twelve Months Ended	
	Oct 26, 2014	Jul 27, 2014	Oct 27, 2013	Oct 26, 2014	Oct 27, 2013
<i>(In millions, except percentages)</i>					
Non-GAAP Adjusted Gross Margin					
Reported gross margin - GAAP basis	\$ 959	\$ 992	\$ 795	\$ 3,843	\$ 2,991
Certain items associated with acquisitions ¹	42	38	40	158	166
Acquisition integration costs	-	-	-	1	3
Non-GAAP adjusted gross margin	<u>\$ 1,001</u>	<u>\$ 1,030</u>	<u>\$ 835</u>	<u>\$ 4,002</u>	<u>\$ 3,160</u>
Non-GAAP adjusted gross margin percent (% of net sales)	44.2%	45.5%	42.0%	44.1%	42.1%
Non-GAAP Adjusted Operating Income					
Reported operating income - GAAP basis	\$ 412	\$ 391	\$ 211	\$ 1,520	\$ 432
Certain items associated with acquisitions ¹	48	44	47	183	201
Acquisition integration costs	4	9	11	34	38
Loss (gain) on derivative associated with announced business combination, net	(39)	10	7	(30)	7
Certain items associated with announced business combination ²	23	23	17	73	17
Impairment of goodwill and intangible assets	-	-	-	-	278
Restructuring charges and asset impairments ^{3, 4, 5}	(2)	-	30	5	63
Gain on sale of facility	(4)	-	-	(4)	(4)
Non-GAAP adjusted operating income	<u>\$ 442</u>	<u>\$ 477</u>	<u>\$ 323</u>	<u>\$ 1,781</u>	<u>\$ 1,032</u>
Non-GAAP adjusted operating margin percent (% of net sales)	19.5%	21.1%	16.2%	19.6%	13.7%
Non-GAAP Adjusted Net Income					
Reported net income - GAAP basis	\$ 290	\$ 301	\$ 183	\$ 1,106	\$ 256
Certain items associated with acquisitions ¹	48	44	47	183	201
Acquisition integration costs	4	9	11	34	38
Loss (gain) on derivative associated with announced business combination, net	(39)	10	7	(30)	7
Certain items associated with announced business combination ²	23	23	17	73	17
Impairment of goodwill and intangible assets	-	-	-	-	278
Restructuring charges and asset impairments ^{3, 4, 5}	(2)	-	30	5	63
Impairment (gain on sale) of strategic investments, net	(5)	(1)	(3)	(9)	1
Gain on sale of facility	(4)	-	-	(4)	(4)
Reinstatement of federal R&D tax credit	-	-	-	-	(13)
Resolution of prior years' income tax filings and other tax items	16	(19)	(10)	(6)	(24)
Income tax effect of non-GAAP adjustments	7	(18)	(54)	(38)	(102)
Non-GAAP adjusted net income	<u>\$ 338</u>	<u>\$ 349</u>	<u>\$ 228</u>	<u>\$ 1,314</u>	<u>\$ 718</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 included a \$2 million favorable adjustment of restructuring reserve and results for the twelve months ended October 26, 2014 included \$5 million of employee-related costs 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 twelve months ended October 27, 2013 included \$39 million of employee-related costs, net, related to the restructuring program announced on October 3, 2012, and restructuring and asset impairment charges of \$26 million related to the restructuring program announced on May 10, 2012, partially offset by a favorable adjustment of \$2 million related to other restructuring plans.

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

	Three Months Ended			Twelve Months Ended	
	Oct 26, 2014	July 27, 2014	Oct 27, 2013	Oct 26, 2014	Oct 27, 2013
<i>(In millions, except per share amounts)</i>					
Non-GAAP Adjusted Earnings Per Diluted Share					
Reported earnings per diluted share - GAAP basis	\$ 0.23	\$ 0.24	\$ 0.15	\$ 0.90	\$ 0.21
Certain items associated with acquisitions	0.04	0.03	0.03	0.13	0.14
Acquisition integration costs	-	0.01	-	0.02	0.02
Certain items associated with announced business combination	0.01	0.02	0.01	0.05	0.01
Gain on derivative associated with announced business combination, net	(0.02)	-	-	(0.02)	-
Impairment of goodwill and intangible assets	-	-	-		0.21
Restructuring charges and asset impairments	-	-	0.01		0.03
Reinstatement of federal R&D tax credit and resolution of prior years' income tax filings and other tax items	0.01	(0.02)	(0.01)	(0.01)	(0.03)
Non-GAAP adjusted earnings per diluted share	<u>\$ 0.27</u>	<u>\$ 0.28</u>	<u>\$ 0.19</u>	<u>\$ 1.07</u>	<u>\$ 0.59</u>
Weighted average number of diluted shares	1,236	1,233	1,222	1,231	1,219

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

	Three Months Ended			Twelve Months Ended	
	Oct 26, 2014	Jul 27, 2014	Oct 27, 2013	Oct 26, 2014	Oct 27, 2013
<i>(In millions)</i>					
Integration and certain items associated with acquisitions					
Cost of products sold	\$ 42	\$ 38	\$ 40	\$ 159	\$ 169
Research, development and engineering	1	1	2	4	8
Selling, general and administrative	9	14	16	54	62
Total	<u>\$ 52</u>	<u>\$ 53</u>	<u>\$ 58</u>	<u>\$ 217</u>	<u>\$ 239</u>

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

<i>(In millions)</i>	Three Months Ended	
	Oct 26, 2014	
Operating expenses (GAAP basis)	\$	547
Gain on derivative associated with announced business combination, net		39
Certain items associated with acquisitions		(6)
Acquisition integration costs		(4)
Certain items associated with announced business combination		(23)
Restructuring charges and asset impairments		2
Gain on sale of facility		4
Non-GAAP adjusted operating expenses	\$	559

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

<i>(In millions, except percentages)</i>	Three Months Ended			Twelve Months Ended	
	Oct 26, 2014	Jul 27, 2014	Oct 27, 2013	Oct 26, 2014	Oct 27, 2013
Net sales (GAAP basis)	\$ 1,434	\$ 1,476	\$ 1,243	\$ 5,978	\$ 4,775
Reported operating income (GAAP basis)	\$ 305	\$ 381	\$ 213	\$ 1,391	\$ 876
Certain items associated with acquisitions	46	42	44	172	175
Acquisition integration costs	1	-	1	2	(2)
Restructuring charges and asset impairments	-	-	-	-	1
Non-GAAP adjusted operating income	\$ 352	\$ 423	\$ 258	\$ 1,565	\$ 1,050
GAAP operating margin percent (% of net sales)	21.3%	25.8%	17.1%	23.3%	18.3%
Non-GAAP adjusted operating margin percent (% of net sales)	24.5%	28.7%	20.8%	26.2%	22.0%

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

<i>(In millions, except percentages)</i>	Three Months Ended			Twelve Months Ended	
	Oct 26, 2014	Jul 27, 2014	Oct 27, 2013	Oct 26, 2014	Oct 27, 2013
Net Sales (GAAP basis)	\$ 592	\$ 567	\$ 538	\$ 2,200	\$ 2,023
Reported operating income (GAAP basis)	\$ 146	\$ 154	\$ 115	\$ 573	\$ 436
Certain items associated with acquisitions	-	-	1	3	5
Restructuring charges and asset impairments	-	-	-	-	2
Non-GAAP adjusted operating income	\$ 146	\$ 154	\$ 116	\$ 576	\$ 443
GAAP operating margin percent (% of net sales)	24.7%	27.2%	21.4%	26.0%	21.6%
Non-GAAP adjusted operating margin percent (% of net sales)	24.7%	27.2%	21.6%	26.2%	21.9%

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

<i>(In millions, except percentages)</i>	Three Months Ended			Twelve Months Ended	
	Oct 26, 2014	Jul 27, 2014	Oct 27, 2013	Oct 26, 2014	Oct 27, 2013
Net Sales (GAAP basis)	<u>\$ 190</u>	<u>\$ 119</u>	<u>\$ 163</u>	<u>\$ 615</u>	<u>\$ 538</u>
Reported operating income (GAAP basis)	\$ 52	\$ 25	\$ 19	\$ 129	\$ 74
Certain items associated with acquisitions	-	1	1	2	6
Non-GAAP adjusted operating income	<u>\$ 52</u>	<u>\$ 26</u>	<u>\$ 20</u>	<u>\$ 131</u>	<u>\$ 80</u>
GAAP operating margin percent (% of net sales)	27.4%	21.0%	11.7%	21.0%	13.8%
Non-GAAP adjusted operating margin percent (% of net sales)	27.4%	21.8%	12.3%	21.3%	14.9%

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

<i>(In millions, except percentages)</i>	Three Months Ended			Twelve Months Ended	
	Oct 26, 2014	Jul 27, 2014	Oct 27, 2013	Oct 26, 2014	Oct 27, 2013
Net Sales (GAAP basis)	<u>\$ 48</u>	<u>\$ 103</u>	<u>\$ 44</u>	<u>\$ 279</u>	<u>\$ 173</u>
Reported operating income (loss) (GAAP basis)	\$ (3)	\$ 24	\$ (30)	\$ 15	\$ (433)
Certain items associated with acquisitions	2	1	1	6	15
Impairment of goodwill and intangible assets	-	-	-	-	278
Restructuring charges and asset impairments	-	-	7	-	25
Non-GAAP adjusted operating income (loss)	<u>\$ (1)</u>	<u>\$ 25</u>	<u>\$ (22)</u>	<u>\$ 21</u>	<u>\$ (115)</u>
GAAP operating margin percent (% of net sales)	-6.3%	23.3%	-68.2%	5.4%	-250.3%
Non-GAAP adjusted operating margin percent (% of net sales)	-2.1%	24.3%	-50.0%	7.5%	-66.5%

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

	<u>Three Months Ended</u>	<u>Twelve Months Ended</u>
	<u>Oct 26, 2014</u>	<u>Oct 26, 2014</u>
<i>(In millions, except percentages)</i>		
Provision for income taxes (GAAP basis)	\$108	\$342
Income tax effect of non-GAAP adjustments	(7)	38
Resolutions of prior years' income tax filings and other tax items	(16)	6
Non-GAAP adjusted provision for income taxes	<u>\$ 85</u>	<u>\$ 386</u>
Income before income taxes (GAAP basis)	\$398	\$1,448
Certain items associated with acquisitions	48	183
Acquisition integration costs	4	34
Gain on derivative associated with announced business combination, net	(39)	(30)
Certain items associated with announced business combination	23	73
Restructuring charges and asset impairments	(2)	5
Gain on sale of strategic investments, net	(5)	(9)
Gain on sale of facility	(4)	(4)
Non-GAAP adjusted income before income taxes	<u>\$423</u>	<u>\$1,700</u>
Effective income tax rate (GAAP basis)	27.1%	23.6%
Non-GAAP adjusted effective income tax rate	20.1%	22.7%

APPLIED MATERIALS, INC.
RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK

Non-GAAP outlook for the first quarter of fiscal 2015 (including non-GAAP gross margin, operating margin, operating expenses and EPS) excludes known charges related to completed acquisitions and integration costs of approximately \$45 million, or \$0.03 per share, but does not exclude other non-GAAP adjustments that may arise subsequent to November 13, 2014.