



# Q2 FY2020 Earnings Call

## GAAP to non-GAAP Reconciliations

May 14, 2020

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

	Three Months Ended		Six Months Ended	
	April 26, 2020	April 28, 2019	April 26, 2020	April 28, 2019
<i>(In millions, except percentages and per share amounts)</i>				
<b>Non-GAAP Adjusted Gross Profit</b>				
Reported gross profit - GAAP basis	\$ 1,749	\$ 1,530	\$ 3,607	\$ 3,195
Certain items associated with acquisitions <sup>1</sup>	8	9	17	19
Certain incremental expenses related to COVID-19 <sup>5</sup>	8	—	8	—
Non-GAAP adjusted gross profit	\$ 1,765	\$ 1,539	\$ 3,632	\$ 3,214
Non-GAAP adjusted gross margin	44.6%	43.5%	44.7%	44.1%
<b>Non-GAAP Adjusted Operating Income</b>				
Reported operating income - GAAP basis	\$ 932	\$ 776	\$ 1,974	\$ 1,684
Certain items associated with acquisitions <sup>1</sup>	13	14	26	28
Acquisition integration and deal costs	21	4	34	7
Certain incremental expenses related to COVID-19 <sup>5</sup>	10	—	10	—
Non-GAAP adjusted operating income	\$ 976	\$ 794	\$ 2,044	\$ 1,719
Non-GAAP adjusted operating margin	24.7%	22.4%	25.2%	23.6%
<b>Non-GAAP Adjusted Net Income</b>				
Reported net income - GAAP basis	\$ 755	\$ 666	\$ 1,647	\$ 1,437
Certain items associated with acquisitions <sup>1</sup>	13	14	26	28
Acquisition integration and deal costs	21	4	34	7
Certain incremental expenses related to COVID-19 <sup>5</sup>	10	—	10	—
Realized loss (gain) on strategic investments, net	5	(4)	7	(6)
Unrealized loss (gain) on strategic investments, net	2	(7)	4	(17)
Income tax effect of share-based compensation <sup>2</sup>	8	1	(25)	(4)
Income tax effect of changes in applicable U.S. tax laws <sup>3</sup>	—	—	—	(24)
Income tax effects related to amortization of intra-entity intangible asset transfers	16	(31)	37	(59)
Resolution of prior years' income tax filings and other tax items	(3)	17	(4)	76
Income tax effect of non-GAAP adjustments <sup>4</sup>	(10)	—	(15)	1
Non-GAAP adjusted net income	\$ 817	\$ 660	\$ 1,721	\$ 1,439

1 These items are incremental charges attributable to completed acquisitions, consisting of amortization of purchased intangible assets.

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

3 Charges to income tax provision related to a one-time transition tax as a result of U.S. tax legislation.

4 Adjustment to provision for income taxes related to non-GAAP adjustments reflected in income before income taxes.

5 Temporary incremental employee compensation during the COVID-19 pandemic.

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

	Three Months Ended		Six Months Ended	
	April 26, 2020	April 28, 2019	April 26, 2020	April 28, 2019
<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	\$ 0.82	\$ 0.70	\$ 1.78	\$ 1.50
Certain items associated with acquisitions	0.01	0.01	0.02	0.03
Acquisition integration and deal costs	0.02	—	0.04	—
Certain incremental expenses related to COVID-19	0.01	—	0.01	—
Realized loss (gain) on strategic investments, net	0.01	—	0.01	—
Unrealized loss (gain) on strategic investments, net	—	—	—	(0.02)
Income tax effect of share-based compensation	0.01	—	(0.03)	(0.01)
Income tax effect of changes in applicable U.S. tax laws	—	—	—	(0.02)
Income tax effects related to amortization of intra-entity intangible asset transfers	0.02	(0.03)	0.04	(0.06)
Resolution of prior year's income tax filings and other tax items	(0.01)	0.02	(0.01)	0.08
Non-GAAP adjusted earnings per diluted share	<u>\$ 0.89</u>	<u>\$ 0.70</u>	<u>\$ 1.86</u>	<u>\$ 1.50</u>
Weighted average number of diluted shares	923	948	925	957

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

	Three Months Ended		Six Months Ended	
	April 26, 2020	April 28, 2019	April 26, 2020	April 28, 2019
<i>(In millions, except percentages)</i>				
<b>Reported operating income (GAAP basis)</b>	\$ 782	\$ 579	\$ 1,697	\$ 1,210
Certain items associated with acquisitions <sup>1</sup>	10	10	20	21
Certain incremental expenses related to COVID-19 <sup>2</sup>	6	—	6	—
<b>Non-GAAP adjusted operating income</b>	<b>\$ 798</b>	<b>\$ 589</b>	<b>\$ 1,723</b>	<b>\$ 1,231</b>
<b>Non-GAAP adjusted operating margin</b> (% of net sales)	31.1%	27.0%	32.0%	27.7%

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

	Three Months Ended		Six Months Ended	
	April 26, 2020	April 28, 2019	April 26, 2020	April 28, 2019
<i>(In millions, except percentages)</i>				
<b>Reported operating income (GAAP basis)</b>	\$ 256	\$ 283	\$ 534	\$ 568
Certain incremental expenses related to COVID-19 <sup>2</sup>	4	—	4	—
<b>Non-GAAP adjusted operating income</b>	<b>\$ 260</b>	<b>\$ 283</b>	<b>\$ 538</b>	<b>\$ 568</b>
<b>Non-GAAP adjusted operating margin</b> (% of net sales)	25.5%	28.8%	26.7%	29.2%

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

	Three Months Ended		Six Months Ended	
	April 26, 2020	April 28, 2019	April 26, 2020	April 28, 2019
<i>(In millions, except percentages)</i>				
<b>Reported operating income (GAAP basis)</b>	\$ 75	\$ 42	\$ 113	\$ 157
Certain items associated with acquisitions <sup>1</sup>	3	4	6	7
<b>Non-GAAP adjusted operating income</b>	<b>\$ 78</b>	<b>\$ 46</b>	<b>\$ 119</b>	<b>\$ 164</b>
<b>Non-GAAP adjusted operating margin</b> (% of net sales)	21.4%	13.2%	17.1%	19.2%

<sup>1</sup> These items are incremental charges attributable to completed acquisitions, consisting of amortization of purchased intangible assets.

<sup>2</sup> Temporary incremental employee compensation during the COVID-19 pandemic.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>April 26, 2020</b>	<b>April 28, 2019</b>	<b>April 26, 2020</b>	<b>April 28, 2019</b>
<i>(In millions)</i>				
<b>Operating expenses (GAAP basis)</b>	\$ 817	\$ 754	\$ 1,633	\$ 1,511
Certain items associated with acquisitions	(5)	(5)	(9)	(9)
Acquisition integration and deal costs	(21)	(4)	(34)	(7)
Certain incremental expenses related to COVID-19	(2)	—	(2)	—
<b>Non-GAAP adjusted operating expenses</b>	<b>\$ 789</b>	<b>\$ 745</b>	<b>\$ 1,588</b>	<b>\$ 1,495</b>

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

	<b>Three Months Ended</b>	
	<b>April 26, 2020</b>	<b>April 28, 2019</b>
<i>(In millions)</i>		
<b>Provision for income taxes (GAAP basis) (a)</b>	\$ 123	\$ 93
Income tax effect of share-based compensation	(8)	(1)
Income tax effects related to amortization of intra-entity intangible asset transfers	(16)	31
Resolution of prior years' income tax filings and other tax items	3	(17)
Income tax effect of non-GAAP adjustments	10	—
<b>Non-GAAP adjusted provision for income taxes (b)</b>	<b>\$ 112</b>	<b>\$ 106</b>

	<b>Three Months Ended</b>	
	<b>April 26, 2020</b>	<b>April 28, 2019</b>
<i>(In millions, except percentages)</i>		
<b>Income before income taxes (GAAP basis) (c)</b>	\$ 878	\$ 759
Certain items associated with acquisitions	13	14
Acquisition integration and deal costs	21	4
Certain incremental expenses related to COVID-19	10	—
Realized loss (gain) on strategic investments, net	5	(4)
Unrealized loss (gain) on strategic investments, net	2	(7)
<b>Non-GAAP adjusted income before income taxes (d)</b>	<b>\$ 929</b>	<b>\$ 766</b>
<b>Effective income tax rate (GAAP basis) (a/c)</b>	14.0%	12.3%
<b>Non-GAAP adjusted effective income tax rate (b/d)</b>	12.1%	13.8%

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

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	<u>Three Months Ended</u> <u>April 26,</u> <u>2020</u>
<i>(In millions)</i>	
<b>Free Cash Flow<sup>1</sup></b>	
Cash provided by operating activities	\$ 635
Capital expenditures	(71)
Free cash flow	<u>\$ 564</u>

<sup>1</sup> 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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	<u>April 26,</u> <u>2020</u>	<u>January 26,</u> <u>2020</u>
<i>(In millions)</i>		
<b>Cash, cash equivalents and investments</b>		
Cash and cash equivalents	\$ 5,281	\$ 3,424
Short-term investments	423	536
Long-term investments	1,678	1,713
Cash, cash equivalents and investments	<u>\$ 7,382</u>	<u>\$ 5,673</u>
Less: cash drawn from Revolving Credit Agreement (included in "Cash and cash equivalents")	<u>(1,500)</u>	<u>-</u>
<b>Cash, cash equivalents, and investments excluding cash drawn from Revolving Credit Agreement</b>	<u><u>\$ 5,882</u></u>	<u><u>\$ 5,673</u></u>