



Q1 FY2020 Earnings Call

GAAP to non-GAAP Reconciliations

February 12, 2020

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

	Three Months Ended	
	January 26, 2020	January 27, 2019
<i>(In millions, except percentages and per share amounts)</i>		
Non-GAAP Adjusted Gross Profit		
Reported gross profit - GAAP basis	\$ 1,858	\$ 1,665
Certain items associated with acquisitions ¹	9	10
Non-GAAP adjusted gross profit	<u>\$ 1,867</u>	<u>\$ 1,675</u>
Non-GAAP adjusted gross margin	44.9%	44.6%
Non-GAAP Adjusted Operating Income		
Reported operating income - GAAP basis	\$ 1,042	\$ 908
Certain items associated with acquisitions ¹	13	14
Acquisition integration and deal costs	13	3
Non-GAAP adjusted operating income	<u>\$ 1,068</u>	<u>\$ 925</u>
Non-GAAP adjusted operating margin	25.7%	24.6%
Non-GAAP Adjusted Net Income		
Reported net income - GAAP basis	\$ 892	\$ 771
Certain items associated with acquisitions ¹	13	14
Acquisition integration and deal costs	13	3
Impairment (gain on sale) of strategic investments, net	2	(2)
Loss (gain) on strategic investments, net	2	(10)
Income tax effect of share-based compensation ²	(33)	(5)
Income tax effect of changes in applicable U.S. tax laws ³	—	(24)
Income tax effects related to amortization of intra-entity intangible asset transfers	21	(28)
Resolution of prior years' income tax filings and other tax items	(1)	59
Income tax effect of non-GAAP adjustments ⁴	(5)	1
Non-GAAP adjusted net income	<u>\$ 904</u>	<u>\$ 779</u>
Non-GAAP Adjusted Earnings Per Diluted Share		
Reported earnings per diluted share - GAAP basis	\$ 0.96	\$ 0.80
Certain items associated with acquisitions	0.01	0.01
Acquisition integration and deal costs	0.01	—
Loss (gain) on strategic investments, net	—	(0.01)
Income tax effect of share-based compensation	(0.03)	—
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	0.03	(0.03)
Resolution of prior year's income tax filings and other tax items	—	0.06
Non-GAAP adjusted earnings per diluted share	<u>\$ 0.98</u>	<u>\$ 0.81</u>
Weighted average number of diluted shares	927	965

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.

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

	Three Months Ended	
	January 26, 2020	January 27, 2019
<i>(In millions, except percentages)</i>		
Reported operating income (GAAP basis)	\$ 915	\$ 631
Certain items associated with acquisitions ¹	10	11
Non-GAAP adjusted operating income	\$ 925	\$ 642
Non-GAAP adjusted operating margin (% of net sales)	32.9%	28.3%

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

	Three Months Ended	
	January 26, 2020	January 27, 2019
<i>(In millions, except percentages)</i>		
Reported operating income (GAAP basis)	\$ 278	\$ 285
Non-GAAP adjusted operating income	\$ 278	\$ 285
Non-GAAP adjusted operating margin (% of net sales)	27.9%	29.6%

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

	Three Months Ended	
	January 26, 2020	January 27, 2019
<i>(In millions, except percentages)</i>		
Reported operating income (GAAP basis)	\$ 38	\$ 115
Certain items associated with acquisitions ¹	3	3
Non-GAAP adjusted operating income	\$ 41	\$ 118
Non-GAAP adjusted operating margin (% of net sales)	12.3%	23.3%

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

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

	Three Months Ended	
	<u>January 26, 2020</u>	<u>January 27, 2019</u>
<i>(In millions)</i>		
Operating expenses (GAAP basis)	\$ 816	\$ 757
Certain items associated with acquisitions	(4)	(4)
Acquisition integration and deal costs	(13)	(3)
Non-GAAP adjusted operating expenses	<u>\$ 799</u>	<u>\$ 750</u>

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

	Three Months Ended	
	January 26, 2020	January 27, 2019
<i>(In millions)</i>		
Provision for income taxes (GAAP basis) (a)	\$ 113	\$ 117
Income tax effect of share-based compensation	33	5
Income tax effect of changes in applicable U.S. tax laws	—	24
Income tax effects related to amortization of intra-entity intangible asset transfers	(21)	28
Resolution of prior years' income tax filings and other tax items	1	(59)
Income tax effect of non-GAAP adjustments	5	(1)
Non-GAAP adjusted provision for income taxes (b)	\$ 131	\$ 114

	Three Months Ended	
	January 26, 2020	January 27, 2019
<i>(In millions, except percentages)</i>		
Income before income taxes (GAAP basis) (c)	\$ 1,005	\$ 888
Certain items associated with acquisitions	13	14
Acquisition integration and deal costs	13	3
Impairment (gain on sale) of strategic investments, net	2	(2)
Loss (gain) on strategic investments, net	2	(10)
Non-GAAP adjusted income before income taxes (d)	\$ 1,035	\$ 893
Effective income tax rate (GAAP basis) (a/c)	11.2%	13.2%
Non-GAAP adjusted effective income tax rate (b/d)	12.7%	12.8%

APPLIED MATERIALS, INC.
RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK

Non-GAAP outlook for the second quarter of fiscal 2020 (including non-GAAP gross margin, operating margin, operating expenses and EPS) excludes known charges related to completed acquisitions of approximately \$13 million, or \$0.01 per share; includes the normalized tax benefit of share-based compensation of approximately \$13 million, or \$0.01 per share and net income tax benefit related to intra-entity intangible asset transfers of \$26 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.