

Q2 FY2014 Earnings Call

GAAP to non-GAAP Reconciliations

May 15, 2014



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

	Three Months Ended			Six Months Ended	
	April 27, 2014	January 26, 2014	April 28, 2013	April 27, 2014	April 28, 2013
<i>(In millions, except percentages)</i>					
Non-GAAP Adjusted Gross Margin					
Reported gross margin - GAAP basis	\$ 1,001	\$ 891	\$ 808	\$ 1,892	\$ 1,390
Certain items associated with acquisitions ¹	39	39	43	78	86
Acquisition integration costs	1	-	1	1	2
Non-GAAP adjusted gross margin	<u>\$ 1,041</u>	<u>\$ 930</u>	<u>\$ 852</u>	<u>\$ 1,971</u>	<u>\$ 1,478</u>
Non-GAAP adjusted gross margin percent (% of net sales)	44.2%	42.5%	43.2%	43.4%	41.7%
Non-GAAP Adjusted Operating Income					
Reported operating income (loss) - GAAP basis	\$ 387	\$ 330	\$ (68)	\$ 717	\$ (29)
Impairment of goodwill and intangible assets	-	-	278	-	278
Certain items associated with acquisitions ¹	46	45	53	91	107
Acquisition integration costs	10	11	12	21	22
Unrealized loss (gain) on derivative associated with announced business combination	23	(24)	-	(1)	-
Certain items associated with announced business combination ²	16	11	-	27	-
Restructuring charges and asset impairments ^{3, 4, 5}	-	7	10	7	19
Non-GAAP adjusted operating income	<u>\$ 482</u>	<u>\$ 380</u>	<u>\$ 285</u>	<u>\$ 862</u>	<u>\$ 397</u>
Non-GAAP adjusted operating margin percent (% of net sales)	20.5%	17.4%	14.4%	19.0%	11.2%
Non-GAAP Adjusted Net Income					
Reported net income (loss) - GAAP basis	\$ 262	\$ 253	\$ (129)	\$ 515	\$ (95)
Certain items associated with acquisitions ¹	46	45	53	91	107
Acquisition integration costs	10	11	12	21	22
Unrealized loss (gain) on derivative associated with announced business combination	23	(24)	-	(1)	-
Certain items associated with announced business combination ²	16	11	-	27	-
Impairment of goodwill and intangible assets	-	-	278	-	278
Restructuring charges and asset impairments ^{3, 4, 5}	-	7	10	7	19
Impairment (gain on sale) of strategic investments, net	2	(5)	2	(3)	2
Reinstatement of federal R&D tax credit	-	-	(3)	-	(13)
Resolution of prior years' income tax filings and other tax items	12	(15)	-	(3)	(11)
Income tax effect of non-GAAP adjustments	(23)	(4)	(24)	(27)	(41)
Non-GAAP adjusted net income	<u>\$ 348</u>	<u>\$ 279</u>	<u>\$ 199</u>	<u>\$ 627</u>	<u>\$ 268</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 three months ended January 26, 2014 and six months ended April 27, 2014 included employee-related costs of \$7 million related to the restructuring program announced on October 3, 2012.
- 4 Results for three months ended April 28, 2013 included \$4 million of employee-related costs related to the restructuring program announced on October 3, 2012 and restructuring and asset impairment charges of \$6 million related to the restructuring program announced on May 10, 2012.
- 5 Results for six months ended April 28, 2013 included \$8 million of employee-related costs, net, related to the restructuring program announced on October 3, 2012, restructuring and asset impairment charges of \$9 million related to the restructuring program announced on May 10, 2012 and employee-related costs of \$2 million related to the integration of Varian Semiconductor Equipment Associates, Inc.

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

	Three Months Ended			Six Months Ended	
	April 27, 2014	January 26, 2014	April 28, 2013	April 27, 2014	April 28, 2013
<i>(In millions, except per share amounts)</i>					
Non-GAAP Adjusted Earnings Per Diluted Share					
Reported earnings (loss) per diluted share - GAAP basis	\$ 0.21	\$ 0.21	\$ (0.11)	\$ 0.42	\$ (0.08)
Impairment of goodwill and intangible assets	-	-	0.22	-	0.22
Certain items associated with acquisitions	0.03	0.03	0.04	0.06	0.07
Acquisition integration costs	0.01	0.01	0.01	0.01	0.02
Unrealized loss (gain) on derivative associated with announced business combination	0.01	(0.01)	-	-	-
Certain items associated with announced business combination	0.01	-	-	0.02	-
Restructuring charges and asset impairments	-	-	-	-	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>\$ 0.28</u>	<u>\$ 0.23</u>	<u>\$ 0.16</u>	<u>\$ 0.51</u>	<u>\$ 0.22</u>
Weighted average number of diluted shares	1,229	1,225	1,217	1,227	1,216

APPLIED MATERIALS, INC.

UNAUDITED INTEGRATION AND DEAL COSTS AND CERTAIN ITEMS ASSOCIATED WITH ACQUISITIONS

	Three Months Ended			Six Months Ended	
	April 27, 2014	January 26, 2014	April 28, 2013	April 27, 2014	April 28, 2013
<i>(In millions)</i>					
Integration and deal costs and certain items associated with acquisitions					
Cost of products sold	\$ 40	\$ 39	\$ 44	\$ 79	\$ 88
Research, development and engineering	-	2	2	2	4
Selling, general and administrative	16	15	19	31	37
Total	<u>\$ 56</u>	<u>\$ 56</u>	<u>\$ 65</u>	<u>\$ 112</u>	<u>\$ 129</u>

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

<i>(In millions)</i>	Three Months Ended
	April 27, 2014
Operating expenses (GAAP basis)	\$ 614
Unrealized loss on derivative associated with announced business combination	(23)
Restructuring charges and asset impairments	-
Certain items associated with acquisitions	(7)
Acquisition integration costs	(9)
Certain items associated with announced business combination	(16)
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			Six Months Ended	
	April 27, 2014	January 26, 2014	April 28, 2013	April 27, 2014	April 28, 2013
Net sales (GAAP basis)	\$ 1,584	\$ 1,484	\$ 1,291	\$ 3,068	\$ 2,260
Reported operating income (GAAP basis)	\$ 391	\$ 314	\$ 283	\$ 705	\$ 417
Certain items associated with acquisitions	42	42	45	84	89
Acquisition integration costs	-	1	1	1	2
Restructuring charges and asset impairments	-	-	-	-	1
Non-GAAP adjusted operating income	<u>\$ 433</u>	<u>\$ 357</u>	<u>\$ 329</u>	<u>\$ 790</u>	<u>\$ 509</u>
GAAP operating margin percent (% of net sales)	24.7%	21.2%	21.9%	23.0%	18.5%
Non-GAAP adjusted operating margin percent (% of net sales)	27.3%	24.1%	25.5%	25.7%	22.5%

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

<i>(In millions, except percentages)</i>	Three Months Ended			Six Months Ended	
	April 27, 2014	January 26, 2014	April 28, 2013	April 27, 2014	April 28, 2013
Net Sales (GAAP basis)	\$ 534	\$ 507	\$ 517	\$ 1,041	\$ 988
Reported operating income (GAAP basis)	\$ 148	\$ 125	\$ 118	\$ 273	\$ 207
Certain items associated with acquisitions	2	1	1	3	2
Restructuring charges and asset impairments	-	-	1	-	2
Non-GAAP adjusted operating income	<u>\$ 150</u>	<u>\$ 126</u>	<u>\$ 120</u>	<u>\$ 276</u>	<u>\$ 211</u>
GAAP operating margin percent (% of net sales)	27.7%	24.7%	22.8%	26.2%	21.0%
Non-GAAP adjusted operating margin percent (% of net sales)	28.1%	24.9%	23.2%	26.5%	21.4%

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

<i>(In millions, except percentages)</i>	Three Months Ended			Six Months Ended	
	April 27, 2014	January 26, 2014	April 28, 2013	April 27, 2014	April 28, 2013
Net Sales (GAAP basis)	\$ 147	\$ 159	\$ 127	\$ 306	\$ 214
Reported operating income (GAAP basis)	\$ 26	\$ 26	\$ 19	\$ 52	\$ 22
Certain items associated with acquisitions	-	1	2	1	4
Non-GAAP adjusted operating income	<u>\$ 26</u>	<u>\$ 27</u>	<u>\$ 21</u>	<u>\$ 53</u>	<u>\$ 26</u>
GAAP operating margin percent (% of net sales)	17.7%	16.4%	15.0%	17.0%	10.3%
Non-GAAP adjusted operating margin percent (% of net sales)	17.7%	17.0%	16.5%	17.3%	12.1%

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

<i>(In millions, except percentages)</i>	Three Months Ended			Six Months Ended	
	April 27, 2014	January 26, 2014	April 28, 2013	April 27, 2014	April 28, 2013
Net Sales (GAAP basis)	\$ 88	\$ 40	\$ 38	\$ 128	\$ 84
Reported operating income (loss) (GAAP basis)	\$ 5	\$ (11)	\$ (322)	\$ (6)	\$ (376)
Impairment of goodwill and intangible assets	-	-	278	-	278
Certain items associated with acquisitions	2	1	5	3	12
Restructuring charges and asset impairments	-	-	5	-	8
Non-GAAP adjusted operating income (loss)	<u>\$ 7</u>	<u>\$ (10)</u>	<u>\$ (34)</u>	<u>\$ (3)</u>	<u>\$ (78)</u>
GAAP operating margin percent (% of net sales)	5.7%	-27.5%	-847.4%	-4.7%	-447.6%
Non-GAAP adjusted operating margin percent (% of net sales)	8.0%	-25.0%	-89.5%	-2.3%	-92.9%

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

Three Months Ended

April 27, 2014

(In millions, except percentages)

Provision for income taxes (GAAP basis)	\$103
Resolutions of prior years' income tax filings and other tax items	(12)
Income tax effect of non-GAAP adjustments	23
Non-GAAP adjusted provision for income taxes	\$ 114
Income before income taxes (GAAP basis)	\$365
Certain items associated with acquisitions	46
Acquisition integration costs	10
Unrealized loss on derivative associated with announced business combination	23
Certain items associated with announced business combination	16
Impairment of strategic investments, net	2
Non-GAAP adjusted income before income taxes	\$ 462
Effective income tax rate (GAAP basis)	28.2%
Non-GAAP adjusted effective income tax rate	24.7%