



Q3 FY2020 Earnings Call

GAAP to non-GAAP Reconciliations

August 13, 2020

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

	Three Months Ended		Nine Months Ended	
	July 26, 2020	July 28, 2019	July 26, 2020	July 28, 2019
<i>(In millions, except percentages and per share amounts)</i>				
Non-GAAP Adjusted Gross Profit				
Reported gross profit - GAAP basis	\$ 1,955	\$ 1,557	\$ 5,562	\$ 4,752
Certain items associated with acquisitions ¹	8	9	25	28
Certain incremental expenses related to COVID-19 ⁵	15	—	23	—
Non-GAAP adjusted gross profit	<u>\$ 1,978</u>	<u>\$ 1,566</u>	<u>\$ 5,610</u>	<u>\$ 4,780</u>
Non-GAAP adjusted gross margin	45.0%	44.0%	44.8%	44.0%
Non-GAAP Adjusted Operating Income				
Reported operating income - GAAP basis	\$ 1,108	\$ 802	\$ 3,082	\$ 2,486
Certain items associated with acquisitions ¹	12	13	38	41
Acquisition integration and deal costs	20	5	54	12
Certain incremental expenses related to COVID-19 ⁵	20	—	30	—
Non-GAAP adjusted operating income	<u>\$ 1,160</u>	<u>\$ 820</u>	<u>\$ 3,204</u>	<u>\$ 2,539</u>
Non-GAAP adjusted operating margin	26.4%	23.0%	25.6%	23.4%
Non-GAAP Adjusted Net Income				
Reported net income - GAAP basis	\$ 841	\$ 571	\$ 2,488	\$ 2,008
Certain items associated with acquisitions ¹	12	13	38	41
Acquisition integration and deal costs	20	5	54	12
Certain incremental expenses related to COVID-19 ⁵	20	—	30	—
Realized loss (gain) on strategic investments, net	(8)	1	(1)	(6)
Unrealized loss (gain) on strategic investments, net	(5)	(9)	(1)	(25)
Loss on early extinguishment of debt	33	—	33	—
Income tax effect of share-based compensation ²	12	—	(13)	(4)
Income tax effect of changes in applicable U.S. tax laws ³	—	—	—	(24)
Income tax effects related to intra-entity intangible asset transfers	67	115	104	56
Resolution of prior years' income tax filings and other tax items	(1)	(1)	(5)	75
Income tax effect of non-GAAP adjustments ⁴	(15)	(3)	(30)	(2)
Non-GAAP adjusted net income	<u>\$ 976</u>	<u>\$ 692</u>	<u>\$ 2,697</u>	<u>\$ 2,131</u>

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		Nine Months Ended	
	July 26, 2020	July 28, 2019	July 26, 2020	July 28, 2019
<i>(In millions, except percentages and per share amounts)</i>				
Non-GAAP Adjusted Earnings Per Diluted Share				
Reported earnings per diluted share - GAAP basis	\$ 0.91	\$ 0.61	\$ 2.69	\$ 2.11
Certain items associated with acquisitions	0.01	0.01	0.04	0.04
Acquisition integration and deal costs	0.02	0.01	0.05	0.01
Certain incremental expenses related to COVID-19	0.02	—	0.03	—
Loss on early extinguishment of debt	0.03	—	0.03	—
Realized loss (gain) on strategic investments, net	(0.01)	—	—	—
Unrealized loss (gain) on strategic investments, net	—	(0.01)	—	(0.03)
Income tax effect of share-based compensation	0.01	—	(0.02)	—
Income tax effect of changes in applicable U.S. tax laws	—	—	—	(0.03)
Income tax effects related to amortization of intra-entity intangible asset transfers	0.07	0.12	0.11	0.06
Resolution of prior year's income tax filings and other tax items	—	—	(0.01)	0.08
Non-GAAP adjusted earnings per diluted share	<u>\$ 1.06</u>	<u>\$ 0.74</u>	<u>\$ 2.92</u>	<u>\$ 2.24</u>
Weighted average number of diluted shares	<u>922</u>	<u>937</u>	<u>924</u>	<u>950</u>

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

	Three Months Ended		Nine Months Ended	
	July 26, 2020	July 28, 2019	July 26, 2020	July 28, 2019
<i>(In millions, except percentages)</i>				
Reported operating income (GAAP basis)	\$ 958	\$ 613	\$ 2,655	\$ 1,823
Certain items associated with acquisitions ¹	9	11	29	32
Acquisition integration costs	1	—	1	—
Certain incremental expenses related to COVID-19 ²	14	—	20	—
Non-GAAP adjusted operating income	\$ 982	\$ 624	\$ 2,705	\$ 1,855
Non-GAAP adjusted operating margin (% of net sales)	33.7%	27.5%	32.6%	27.6%

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

	Three Months Ended		Nine Months Ended	
	July 26, 2020	July 28, 2019	July 26, 2020	July 28, 2019
<i>(In millions, except percentages)</i>				
Reported operating income (GAAP basis)	\$ 273	\$ 259	\$ 807	\$ 827
Certain incremental expenses related to COVID-19 ²	4	—	8	—
Non-GAAP adjusted operating income	\$ 277	\$ 259	\$ 815	\$ 827
Non-GAAP adjusted operating margin (% of net sales)	26.8%	27.8%	26.7%	28.7%

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

	Three Months Ended		Nine Months Ended	
	July 26, 2020	July 28, 2019	July 26, 2020	July 28, 2019
<i>(In millions, except percentages)</i>				
Reported operating income (GAAP basis)	\$ 83	\$ 41	\$ 196	\$ 198
Certain items associated with acquisitions ¹	3	2	9	9
Acquisition integration costs	—	1	—	1
Certain incremental expenses related to COVID-19 ²	1	—	1	—
Non-GAAP adjusted operating income	\$ 87	\$ 44	\$ 206	\$ 208
Non-GAAP adjusted operating margin (% of net sales)	20.5%	13.0%	18.4%	17.4%

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

² Temporary incremental employee compensation during the COVID-19 pandemic.

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

	Three Months Ended		Nine Months Ended	
	July 26, 2020	July 28, 2019	July 26, 2020	July 28, 2019
<i>(In millions)</i>				
Operating expenses (GAAP basis)	\$ 847	\$ 755	\$ 2,480	\$ 2,266
Certain items associated with acquisitions	(4)	(4)	(13)	(13)
Acquisition integration and deal costs	(20)	(5)	(54)	(12)
Certain incremental expenses related to COVID-19	(5)	—	(7)	—
Non-GAAP adjusted operating expenses	\$ 818	\$ 746	\$ 2,406	\$ 2,241

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

	Three Months Ended	
	July 26, 2020	July 28, 2019
<i>(In millions)</i>		
Provision for income taxes (GAAP basis) (a)	\$ 199	\$ 211
Income tax effect of share-based compensation	(12)	—
Income tax effects related to intra-entity intangible asset transfers	(67)	(115)
Resolution of prior years' income tax filings and other tax items	1	1
Income tax effect of non-GAAP adjustments	15	3
Non-GAAP adjusted provision for income taxes (b)	<u>\$ 136</u>	<u>\$ 100</u>

	Three Months Ended	
	July 26, 2020	July 28, 2019
<i>(In millions, except percentages)</i>		
Income before income taxes (GAAP basis) (c)	\$ 1,040	\$ 782
Certain items associated with acquisitions	12	13
Acquisition integration and deal costs	20	5
Certain incremental expenses related to COVID-19	20	—
Realized loss (gain) on strategic investments, net	(8)	(9)
Unrealized loss (gain) on strategic investments, net	(5)	1
Loss on early extinguishment of debt	33	—
Non-GAAP adjusted income before income taxes (d)	<u>\$ 1,112</u>	<u>\$ 792</u>
Effective income tax rate (GAAP basis) (a/c)	19.1%	27.0%
Non-GAAP adjusted effective income tax rate (b/d)	12.2%	12.6%

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

	<u>Three Months Ended</u> <u>July 26,</u> <u>2020</u>
<i>(In millions)</i>	
Free Cash Flow¹	
Cash provided by operating activities	\$ 867
Capital expenditures	(87)
Free cash flow	<u>\$ 780</u>

1 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

	<u>July 26,</u> <u>2020</u>	<u>April 26,</u> <u>2020</u>
<i>(In millions)</i>		
Cash, cash equivalents and investments		
Cash and cash equivalents	\$ 4,350	\$ 5,281
Short-term investments	406	423
Long-term investments	1,538	1,678
Cash, cash equivalents and investments	<u>\$ 6,294</u>	<u>\$ 7,382</u>
Less: cash drawn from Revolving Credit Agreement (included in "Cash and cash equivalents")	<u>-</u>	<u>(1,500)</u>
Cash, cash equivalents, and investments excluding cash drawn from Revolving Credit Agreement	<u><u>\$ 6,294</u></u>	<u><u>\$ 5,882</u></u>

APPLIED MATERIALS, INC.
RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK

Non-GAAP outlook for the fourth 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 \$0.02 per share and a net income tax benefit related to intra-entity intangible asset transfers of \$17 million or \$0.02 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.