

Q1 FY2016 Earnings Call

GAAP to non-GAAP Reconciliations

February 18, 2016



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

	Three Months Ended		
	Jan 31, 2016	Oct 25, 2015	Jan 25, 2015
<i>(In millions, except percentages)</i>			
Non-GAAP Adjusted Gross Profit			
Reported gross profit - GAAP basis	\$ 916	\$ 959	\$ 959
Certain items associated with acquisitions ¹	42	42	40
Inventory charges (reversals) related to restructuring ^{3, 4}	(1)	1	-
Other significant gains, losses or charges, net ⁵	-	(2)	-
Non-GAAP adjusted gross profit	<u>\$ 957</u>	<u>\$ 1,000</u>	<u>\$ 999</u>
Non-GAAP adjusted gross margin	42.4%	42.2%	42.3%
Non-GAAP Adjusted Operating Income			
Reported operating income - GAAP basis	\$354	\$423	\$458
Certain items associated with acquisitions ¹	48	47	46
Acquisition integration costs	-	-	1
Gain on derivatives associated with terminated business combination, net	-	-	(78)
Certain items associated with terminated business combination ²	-	-	20
Reversals related to restructuring, net ^{3, 4}	(1)	(1)	-
Other significant gains, losses or charges, net ⁵	-	(13)	-
Non-GAAP adjusted operating income	<u>\$ 401</u>	<u>\$ 456</u>	<u>\$ 447</u>
Non-GAAP adjusted operating margin	17.8%	19.3%	18.9%
Non-GAAP Adjusted Net Income			
Reported net income - GAAP basis	\$ 286	\$ 336	\$ 348
Certain items associated with acquisitions ¹	48	47	46
Acquisition integration costs	-	-	1
Gain on derivatives associated with terminated business combination, net	-	-	(78)
Certain items associated with terminated business combination ²	-	-	20
Reversals related to restructuring, net ^{3, 4}	(1)	(1)	-
Impairment (gain on sale) of strategic investments, net	(2)	(2)	1
Loss on early extinguishment of debt	5	-	-
Other significant gains, losses or charges, net ⁵	-	(13)	-
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items	(29)	(18)	(17)
Income tax effect of non-GAAP adjustments	<u>(5)</u>	<u>(2)</u>	<u>17</u>
Non-GAAP adjusted net income	<u>\$ 302</u>	<u>\$ 347</u>	<u>\$ 338</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 terminated business combination agreement with Tokyo Electron Limited, consisting of acquisition-related and integration planning costs.

3 Results for three months ended January 31, 2016 included a \$1 million reversal of inventory charges related to cost reductions in the solar business.

4 Results for the three months ended October 25, 2015 included a \$2 million favorable adjustment of restructuring reserves related to prior restructuring plans and \$1 million of inventory charges related to cost reductions in the solar business.

5 These items are significant gains, losses, or charges during a period that are the result of isolated events or transactions which have not occurred frequently in the past and are not expected to occur regularly or be repeated in the future.

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

	Three Months Ended		
	Jan 31, 2016	Oct 25, 2015	Jan 25, 2015
<i>(In millions, except per share amounts)</i>			
Non-GAAP Adjusted Earnings Per Diluted Share			
Reported earnings per diluted share - GAAP basis	\$0.25	\$0.28	\$0.28
Certain items associated with acquisitions	0.04	0.04	0.03
Certain items associated with terminated business combination	-	-	0.01
Gain on derivatives associated with terminated business combination, net	-	-	(0.04)
Other significant gains, losses or charges, net	-	(0.01)	-
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items	(0.03)	(0.02)	(0.01)
Non-GAAP adjusted earnings per diluted share	<u>\$0.26</u>	<u>\$0.29</u>	<u>\$0.27</u>
Weighted average number of diluted shares	1,154	1,190	1,240

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

	Three Months Ended		
	Jan 31, 2016	Oct 25, 2015	Jan 25, 2015
<i>(In millions, except percentages)</i>			
Reported operating income (GAAP basis)	\$ 265	\$ 318	\$ 307
Certain items associated with acquisitions	47	47	43
Non-GAAP adjusted operating income	<u>\$ 312</u>	<u>\$ 365</u>	<u>\$ 350</u>
Non-GAAP adjusted operating margin (% of net sales)	22.7%	24.4%	24.2%

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

	Three Months Ended		
	Jan 31, 2016	Oct 25, 2015	Jan 25, 2015
<i>(In millions, except percentages)</i>			
Reported operating income (GAAP basis)	\$ 156	\$ 171	\$ 153
Certain items associated with acquisitions	-	-	1
Other significant gains, losses or charges, net	-	(1)	-
Non-GAAP adjusted operating income	<u>\$ 156</u>	<u>\$ 170</u>	<u>\$ 154</u>
Non-GAAP adjusted operating margin (% of net sales)	24.9%	26.7%	26.4%

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

<i>(In millions, except percentages)</i>	Three Months Ended		
	Jan 31, 2016	Oct 25, 2015	Jan 25, 2015
Reported operating income (GAAP basis)	\$ 38	\$ 19	\$ 72
Certain items associated with acquisitions	-	-	1
Non-GAAP adjusted operating income	\$ 38	\$ 19	\$ 73
 Non-GAAP adjusted operating margin (% of net sales)	 17.8%	 9.9%	 26.5%

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

<i>(In millions, except percentages)</i>	Three Months Ended		
	Jan 31, 2016	Oct 25, 2015	Jan 25, 2015
Reported operating income (loss) (GAAP basis)	\$ 6	\$ -	\$ (4)
Certain items associated with acquisitions	1	-	1
Reversals related to restructuring charges, net	(3)	(1)	-
Non-GAAP adjusted operating income (loss)	\$ 4	\$ (1)	\$ (3)
 Non-GAAP adjusted operating margin (% of net sales)	 8.9%	 (2.2)%	 (5.5)%

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

<i>(In millions)</i>	Three Months Ended	
	Jan 31, 2016	Oct 25, 2015
Operating expenses (GAAP basis)	\$ 562	\$ 536
Reversals related to restructuring, net	-	2
Certain items associated with acquisitions	(6)	(5)
Other significant gains, losses or charges, net	-	11
Non-GAAP adjusted operating expenses	\$ 556	\$ 544

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

	Three Months Ended
	Jan 31, 2016
<i>(In millions, except percentages)</i>	
Provision for income taxes (GAAP basis)	\$ 28
Reinstatement of federal R&D tax credit, resolutions of prior years' income tax filings and other tax items	29
Income tax effect of non-GAAP adjustments	5
Non-GAAP adjusted provision for income taxes	\$ 62
Income before income taxes (GAAP basis)	\$ 314
Certain items associated with acquisitions	48
Reversals related to restructuring, net	(1)
Gain on sale of strategic investments, net	(2)
Loss on early extinguishment of debt	5
Non-GAAP adjusted income before income taxes	\$ 364
Effective income tax rate (GAAP basis)	8.9%
Non-GAAP adjusted effective income tax rate	17.0%

APPLIED MATERIALS, INC.
RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK

Non-GAAP outlook for the second quarter of fiscal 2016 excludes known charges related to completed acquisitions of \$0.04 per share and does not exclude other non-GAAP adjustments that may arise subsequent to February 18, 2016.