

# Q4 FY2022 Earnings Call

## GAAP to non-GAAP Reconciliations

November 17, 2022



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

	Three Months Ended		Twelve Months Ended	
	October 30, 2022	October 31, 2021	October 30, 2022	October 31, 2021
<i>(In millions, except percentages)</i>				
<b>Non-GAAP Adjusted Gross Profit</b>				
Reported gross profit - GAAP basis	\$ 3,101	\$ 2,945	\$ 11,993	\$ 10,914
Certain items associated with acquisitions <sup>1</sup>	6	6	26	27
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	—	—	12
Other charges	—	—	—	2
Non-GAAP adjusted gross profit	<u>\$ 3,107</u>	<u>\$ 2,951</u>	<u>\$ 12,019</u>	<u>\$ 10,955</u>
Non-GAAP adjusted gross margin	46.0%	48.2%	46.6%	47.5%
<b>Non-GAAP Adjusted Operating Income</b>				
Reported operating income - GAAP basis	\$ 1,994	\$ 2,014	\$ 7,788	\$ 6,889
Certain items associated with acquisitions <sup>1</sup>	10	11	39	47
Acquisition integration and deal costs	6	5	38	45
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	—	—	24
Severance and related charges <sup>3</sup>	—	(1)	(4)	157
Deal termination fee	—	—	—	154
Other charges	—	—	—	6
Non-GAAP adjusted operating income	<u>\$ 2,010</u>	<u>\$ 2,029</u>	<u>\$ 7,861</u>	<u>\$ 7,322</u>
Non-GAAP adjusted operating margin	29.8%	33.1%	30.5%	31.7%
<b>Non-GAAP Adjusted Net Income</b>				
Reported net income - GAAP basis	\$ 1,591	\$ 1,712	\$ 6,525	\$ 5,888
Certain items associated with acquisitions <sup>1</sup>	10	11	39	47
Acquisition integration and deal costs	6	5	34	46
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	—	—	24
Severance and related charges <sup>3</sup>	—	(1)	(4)	157
Deal termination fee	—	—	—	154
Realized loss (gain) on strategic investments, net	(2)	(41)	(3)	(43)
Unrealized loss (gain) on strategic investments, net	11	(11)	(4)	(56)
Other charges	—	—	—	6
Income tax effect of share-based compensation <sup>4</sup>	22	12	—	—
Income tax effects related to intra-entity intangible asset transfers	132	4	252	64
Resolution of prior years' income tax filings and other tax items	(26)	55	(80)	33
Income tax effect of non-GAAP adjustments <sup>5</sup>	(3)	10	(3)	(33)
Non-GAAP adjusted net income	<u>\$ 1,741</u>	<u>\$ 1,756</u>	<u>\$ 6,756</u>	<u>\$ 6,287</u>

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.

3 The severance and related charges primarily related to a one-time voluntary retirement program offered to certain eligible employees.

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

5 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 RESULTS**

	Three Months Ended		Twelve Months Ended	
	October 30, 2022	October 31, 2021	October 30, 2022	October 31, 2021
<i>(In millions, except per share amounts)</i>				
<b>Non-GAAP Adjusted Earnings Per Diluted Share</b>				
Reported earnings per diluted share - GAAP basis	\$ 1.85	\$ 1.89	\$ 7.44	\$ 6.40
Certain items associated with acquisitions	0.01	0.01	0.04	0.04
Acquisition integration and deal costs	0.01	0.01	0.03	0.04
Certain incremental expenses related to COVID-19	—	—	—	0.02
Severance and related charges	—	—	—	0.13
Deal termination fee	—	—	—	0.17
Realized loss (gain) on strategic investments, net	—	(0.03)	—	(0.03)
Unrealized loss (gain) on strategic investments, net	0.01	(0.01)	(0.01)	(0.05)
Other charges	—	—	—	0.01
Income tax effect of share-based compensation	0.03	0.01	—	—
Income tax effects related to intra-entity intangible asset transfers	0.15	—	0.29	0.07
Resolution of prior year's income tax filings and other tax items	(0.03)	0.06	(0.09)	0.04
Non-GAAP adjusted earnings per diluted share	\$ 2.03	\$ 1.94	\$ 7.70	\$ 6.84
Weighted average number of diluted shares	859	907	877	919

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

	Three Months Ended		Twelve Months Ended	
	October 30, 2022	October 31, 2021	October 30, 2022	October 31, 2021
<i>(In millions, except percentages)</i>				
<b>Reported operating income (GAAP basis)</b>	\$ 1,849	\$ 1,723	\$ 6,969	\$ 6,311
Certain items associated with acquisitions <sup>1</sup>	9	9	31	38
Acquisition integration costs	—	—	—	(2)
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	—	—	12
Other charges	—	—	—	3
<b>Non-GAAP adjusted operating income</b>	<u>\$ 1,858</u>	<u>\$ 1,732</u>	<u>\$ 7,000</u>	<u>\$ 6,362</u>
<b>Non-GAAP adjusted operating margin (% of net sales)</b>	36.9%	40.2%	37.2%	39.1%

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

	Three Months Ended		Twelve Months Ended	
	October 30, 2022	October 31, 2021	October 30, 2022	October 31, 2021
<i>(In millions, except percentages)</i>				
<b>Reported operating income (GAAP basis)</b>	\$ 402	\$ 425	\$ 1,661	\$ 1,508
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	—	—	8
Other charges	—	—	—	1
<b>Non-GAAP adjusted operating income</b>	<u>\$ 402</u>	<u>\$ 425</u>	<u>\$ 1,661</u>	<u>\$ 1,517</u>
<b>Non-GAAP adjusted operating margin (% of net sales)</b>	28.3%	31.0%	30.0%	30.3%

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

	Three Months Ended		Twelve Months Ended	
	October 30, 2022	October 31, 2021	October 30, 2022	October 31, 2021
<i>(In millions, except percentages)</i>				
<b>Reported operating income (GAAP basis)</b>	\$ 34	\$ 85	\$ 260	\$ 314
Certain items associated with acquisitions <sup>1</sup>	—	1	3	4
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	—	—	1
Severance and related charges <sup>3</sup>	—	—	—	8
<b>Non-GAAP adjusted operating income</b>	<u>\$ 34</u>	<u>\$ 86</u>	<u>\$ 263</u>	<u>\$ 327</u>
<b>Non-GAAP adjusted operating margin (% of net sales)</b>	13.5%	20.6%	19.8%	20.0%

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.

3 The severance and related charges related to workforce reduction actions globally across the Display and Adjacent Markets business.

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

	Three Months Ended		Twelve Months Ended	
	October 30, 2022	October 31, 2021	October 30, 2022	October 31, 2021
<i>(In millions)</i>				
<b>Operating expenses (GAAP basis)</b>	\$ 1,107	\$ 931	\$ 4,205	\$ 4,025
Certain items associated with acquisitions	(4)	(5)	(13)	(20)
Acquisition integration and deal costs	(6)	(5)	(38)	(45)
Certain incremental expenses related to COVID-19	—	—	—	(12)
Severance and related charges	—	1	4	(157)
Deal termination fee	—	—	—	(154)
Other charges	—	—	—	(4)
<b>Non-GAAP adjusted operating expenses</b>	<u>\$ 1,097</u>	<u>\$ 922</u>	<u>\$ 4,158</u>	<u>\$ 3,633</u>

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

	Three Months Ended	
	October 30, 2022	October 31, 2021
<i>(In millions)</i>		
<b>Provision for income taxes (GAAP basis) (a)</b>	\$ 358	\$ 294
Income tax effect of share-based compensation	(22)	(12)
Income tax effects related to intra-entity intangible asset transfers	(132)	(4)
Resolution of prior years' income tax filings and other tax items	26	(55)
Income tax effect of non-GAAP adjustments	3	(10)
<b>Non-GAAP adjusted provision for income taxes (b)</b>	<u>\$ 233</u>	<u>\$ 213</u>

	Three Months Ended	
	October 30, 2022	October 31, 2021
<i>(In millions, except percentages)</i>		
<b>Income before income taxes (GAAP basis) (c)</b>	\$ 1,949	\$ 2,006
Certain items associated with acquisitions	10	11
Acquisition integration and deal costs	6	5
Severance and related charges	—	(1)
Realized loss (gain) on strategic investments, net	(2)	(41)
Unrealized loss (gain) on strategic investments, net	11	(11)
<b>Non-GAAP adjusted income before income taxes (d)</b>	<u>\$ 1,974</u>	<u>\$ 1,969</u>

<b>Effective income tax rate (GAAP basis) (a/c)</b>	18.4%	14.7%
<b>Non-GAAP adjusted effective income tax rate (b/d)</b>	11.8%	10.8%

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

	Three Months Ended				
	October 30, 2022	July 31, 2022	May 1, 2022	January 30, 2022	October 31, 2021
<i>(In millions)</i>					
<b>Free Cash Flow<sup>1</sup></b>					
Cash provided by operating activities	\$ 857	\$ 1,469	\$ 415	\$ 2,658	\$ 1,148
Capital expenditures	(223)	(210)	(210)	(144)	(206)
Free cash flow	<u>\$ 634</u>	<u>\$ 1,259</u>	<u>\$ 205</u>	<u>\$ 2,514</u>	<u>\$ 942</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.**  
**RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK**

---

Non-GAAP outlook for the first quarter of fiscal 2023 (including non-GAAP gross margin, operating margin, operating expenses and EPS) excludes known charges related to completed acquisitions of approximately \$10 million, or \$0.01 per share and includes a net income tax benefit related to intra-entity intangible asset transfers of \$19 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.