



# Fourth Quarter & Fiscal Year 2013 Earnings Summary

November 14, 2013

The Applied SEMVision® G6 defect analysis system combines unprecedented high-resolution, multi-dimensional imaging capabilities with revolutionary machine learning intelligence.



# Safe Harbor Statement

This presentation contains forward-looking statements, including those regarding Applied's performance, and Q1'14 outlook. These statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements, including but not limited to: the level of demand for Applied's products, which is subject to many factors, including uncertain global economic and industry conditions, end-demand for electronic products and semiconductors, and customers' new technology and capacity requirements; the concentrated nature of Applied's customer base; Applied's ability to (i) develop, deliver and support a broad range of products and expand its markets, (ii) achieve the objectives of operational and strategic initiatives, (iii) obtain and protect intellectual property rights in key technologies, (iv) attract, motivate and retain key employees, and (v) accurately forecast future results, which depends on multiple assumptions related to, without limitation, market conditions, customer requirements and business needs; and other risks described in Applied's most recent SEC Forms 10-Q and 8-K. All forward-looking statements are based on management's estimates, projections and assumptions as of November 14, 2013, and Applied undertakes no obligation to update any forward-looking statements.

This presentation also contains non-GAAP adjusted financial measures, along with reconciliations to GAAP.

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- Q4 FY'13 & FY'13 results summary
- Q4 FY'13 financial summary (consolidated)
- Reporting segments
- Q1 FY'14 expectations
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# Quarter & Fiscal Year Summary

Q4 FY'13

- New orders of \$2.1 billion, up 5% sequentially, led by 16% growth in silicon systems orders
- Non-GAAP adjusted EPS\* of 19 cents in upper end of guidance range
- GAAP EPS of 15 cents

FY 2013

- New orders of \$8.5B, net sales of \$7.5B
- Non-GAAP adjusted EPS\* of \$0.59 and GAAP EPS of \$0.21
- Returned \$701 million to stockholders including \$456 million in dividends paid and \$245 million in stock repurchases

\* See slide 19 for reconciliation of GAAP to non-GAAP adjusted measures

# Q4'13 Income Statement Summary (consolidated)

**New orders**

\$2.1B – up 5% from Q3'13

**Backlog**

\$2.4B – up 4% from Q3'13

**Net sales**

\$2.0B – up 1% from Q3'13

**Non-GAAP adjusted gross margin\***

42.0% – down 0.9% points from Q3'13

**Non-GAAP adjusted operating income/margin\***

\$323M or 16.2% of net sales

**Non-GAAP adjusted tax rate\***

24.8%

**Non-GAAP adjusted net income\***

\$228M or \$0.19 per diluted share

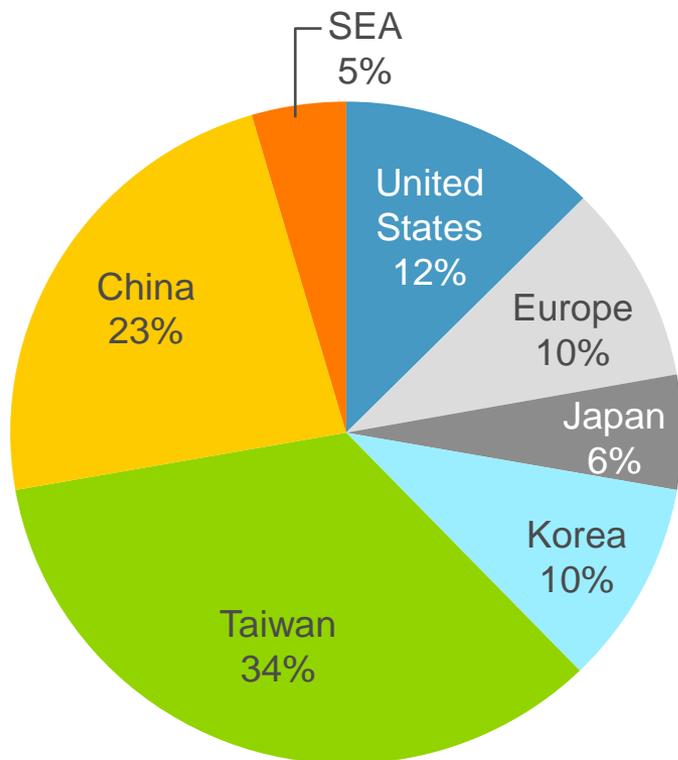
\* See slides 19, 21, and 27 for reconciliation of GAAP to non-GAAP adjusted measures

# Summary Income Statement (consolidated)

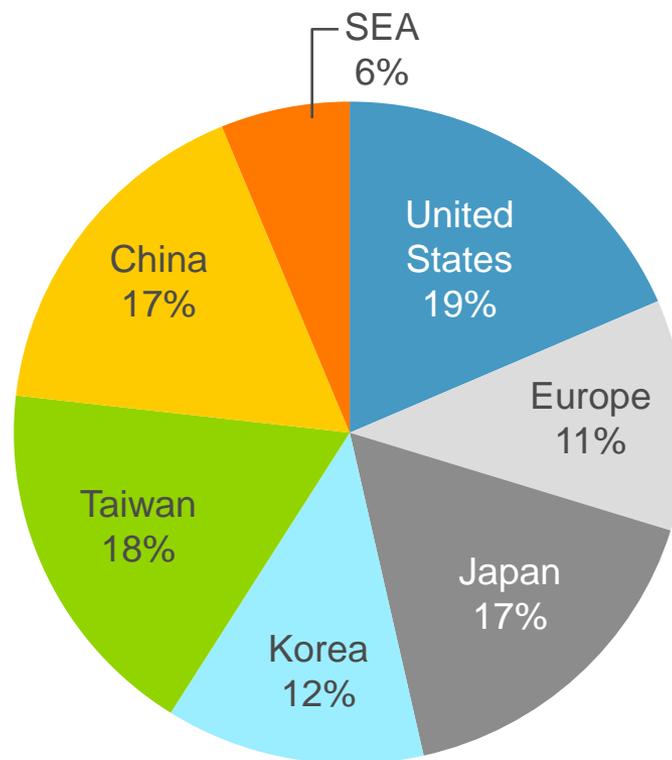
Unaudited \$ Amounts in Millions Except EPS	Q4'13	Q3'13	Q4'12
New orders	\$2,092	\$1,995	\$1,465
Net sales	\$1,988	\$1,975	\$1,646
Gross margin (Non-GAAP adjusted)*	42.0%	42.9%	38.4%
RD&E	17.0%	16.9%	18.4%
Marketing and selling	5.0%	5.6%	6.5%
General and administrative	5.9%	4.9%	7.9%
Operating margin (Non-GAAP adjusted)*	16.2%	15.8%	6.9%
Net income (Non-GAAP adjusted)*	\$228	\$222	\$70
Net income % (Non-GAAP adjusted)*	11.5%	11.2%	4.3%
EPS (Non-GAAP adjusted)*	\$0.19	\$0.18	\$0.06

\* See slides 19 and 21 for reconciliation of GAAP to non-GAAP adjusted measures

# New Orders Regional Distribution (consolidated)

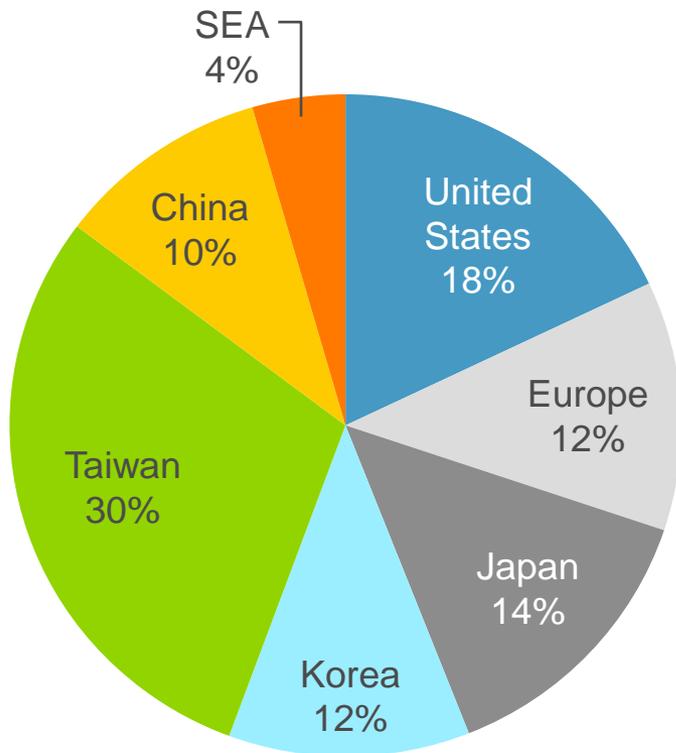


**Q4 FY'13**  
**\$2.1 Billion**

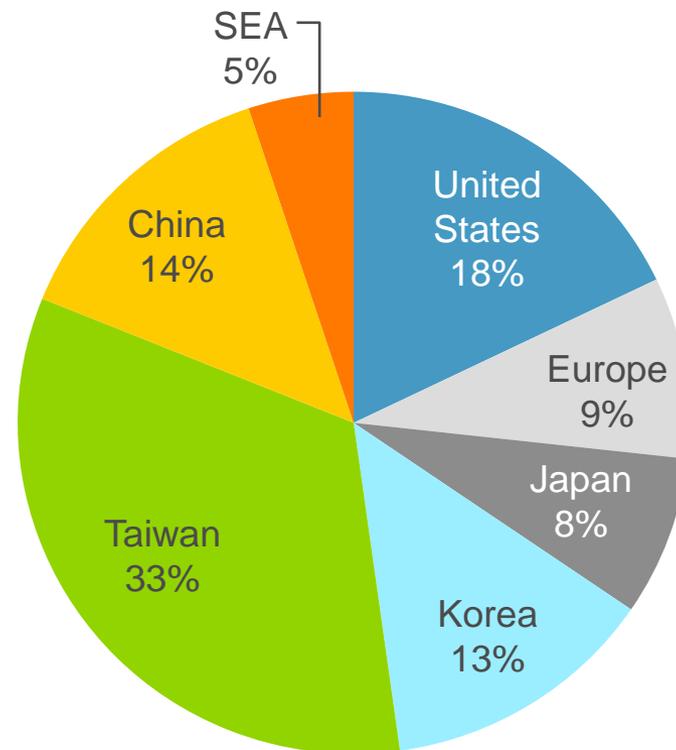


**Q3 FY'13**  
**\$2.0 Billion**

# Net Sales Regional Distribution (consolidated)



**Q4 FY'13**  
**\$2.0 Billion**



**Q3 FY'13**  
**\$2.0 Billion**

# Q4'13 Other Financials Summary

**Cash, cash equivalents  
and investments**

Decreased \$134M to \$2.9B

**Inventory**

\$1.4B, up \$55M from Q3'13

**Days sales  
outstanding**

75 days vs. 54 days in Q3'13

**Capital spending**

\$50M

**Depreciation and  
amortization**

\$98M

**Headcount**

~13,700 regular employees\*

\* Excluding temporary and interns

# Summary Balance Sheet

Unaudited \$ Amounts in Millions	Q4'13	Q3'13	Q4'12
Cash, cash equivalents & investments	\$2,896	\$3,030	\$2,992
Accounts receivables, net	\$1,633	\$1,170	\$1,220
Inventories	\$1,413	\$1,358	\$1,272
Property, plant & equip., net	\$850	\$872	\$910
Total assets	\$12,043	\$11,751	\$12,102
Long-term debt	\$1,946	\$1,946	\$1,946
Total stockholders' equity	\$7,088	\$6,954	\$7,235
Current ratio	2.3	2.4	2.3
Total debt / capital ratio	21.5%	21.9%	21.2%

# Reporting Segments



## SILICON SYSTEMS GROUP

Designs, manufactures and sells equipment used to fabricate semiconductor chips



## APPLIED GLOBAL SERVICES

Broad range of products\* to maintain, service and optimize customers' semiconductor, display and solar fabs



## DISPLAY

Designs, manufactures and sells equipment used to make flat panel displays

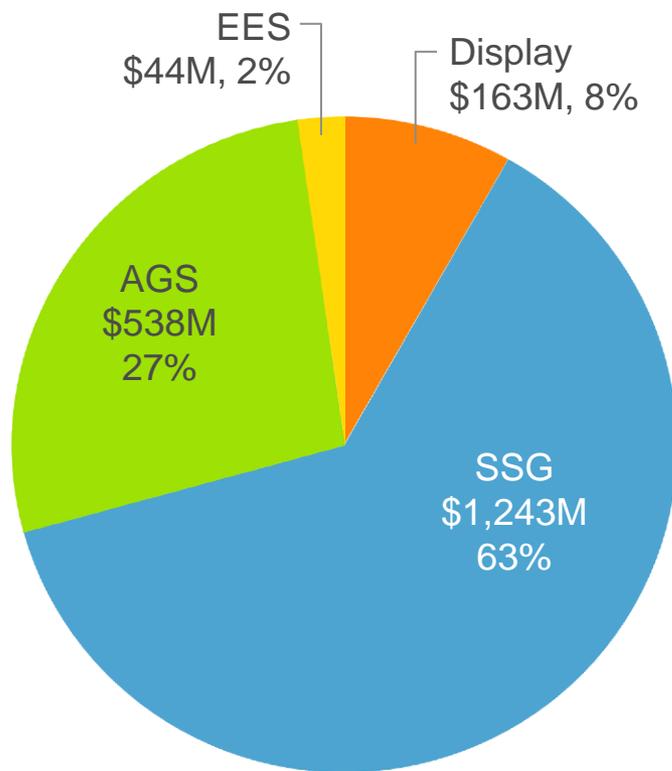


## ENERGY & ENVIRONMENTAL SOLUTIONS

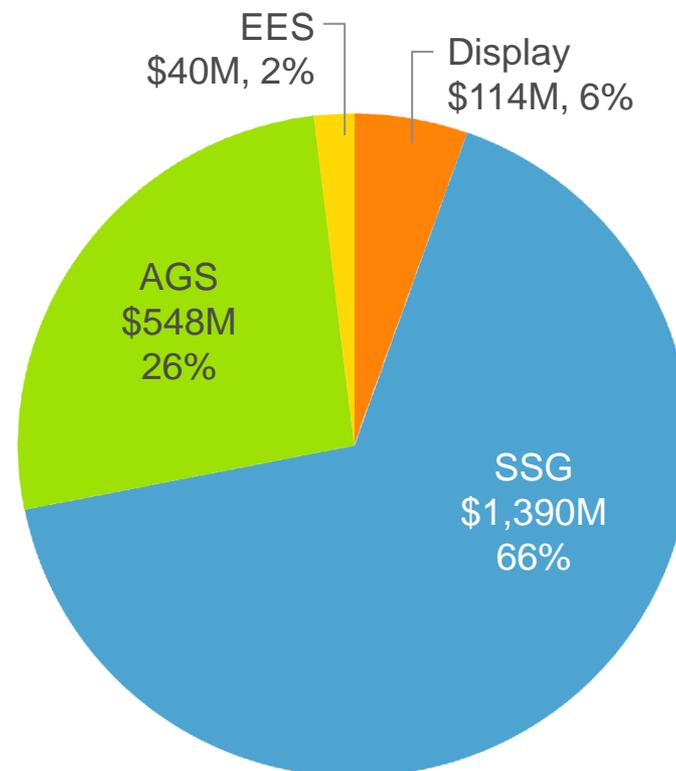
Designs, manufactures and sells equipment used to fabricate solar cells, modules and flexible electronics

\* Include total parts management, spare parts, remanufactured equipment, maintenance agreements, total support programs, environmental and software solutions and thin film solar lines

# Q4'13 Net Sales & New Orders by Segment

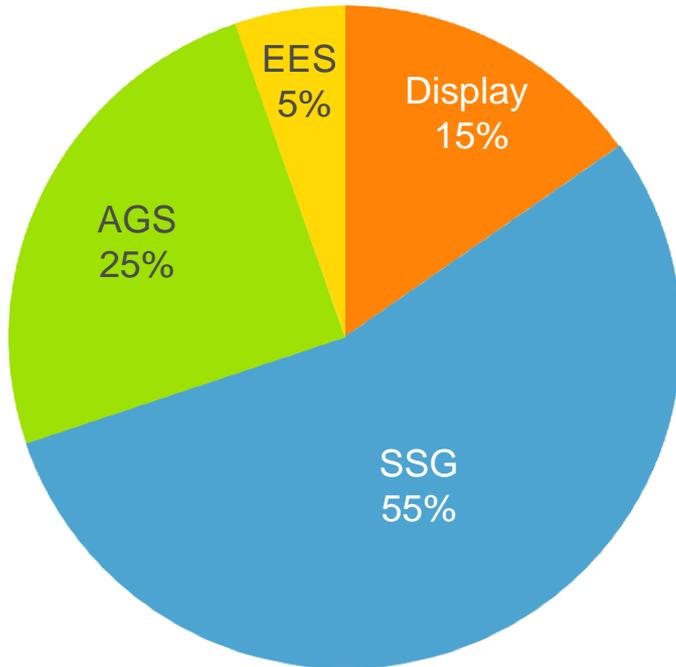


**Net Sales**  
**\$2.0 Billion**

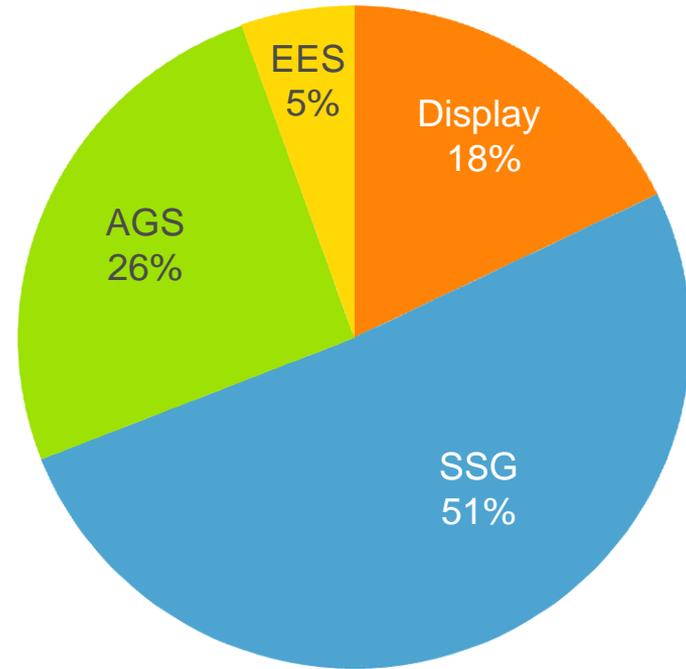


**New Orders**  
**\$2.1 Billion**

# Backlog by Segment

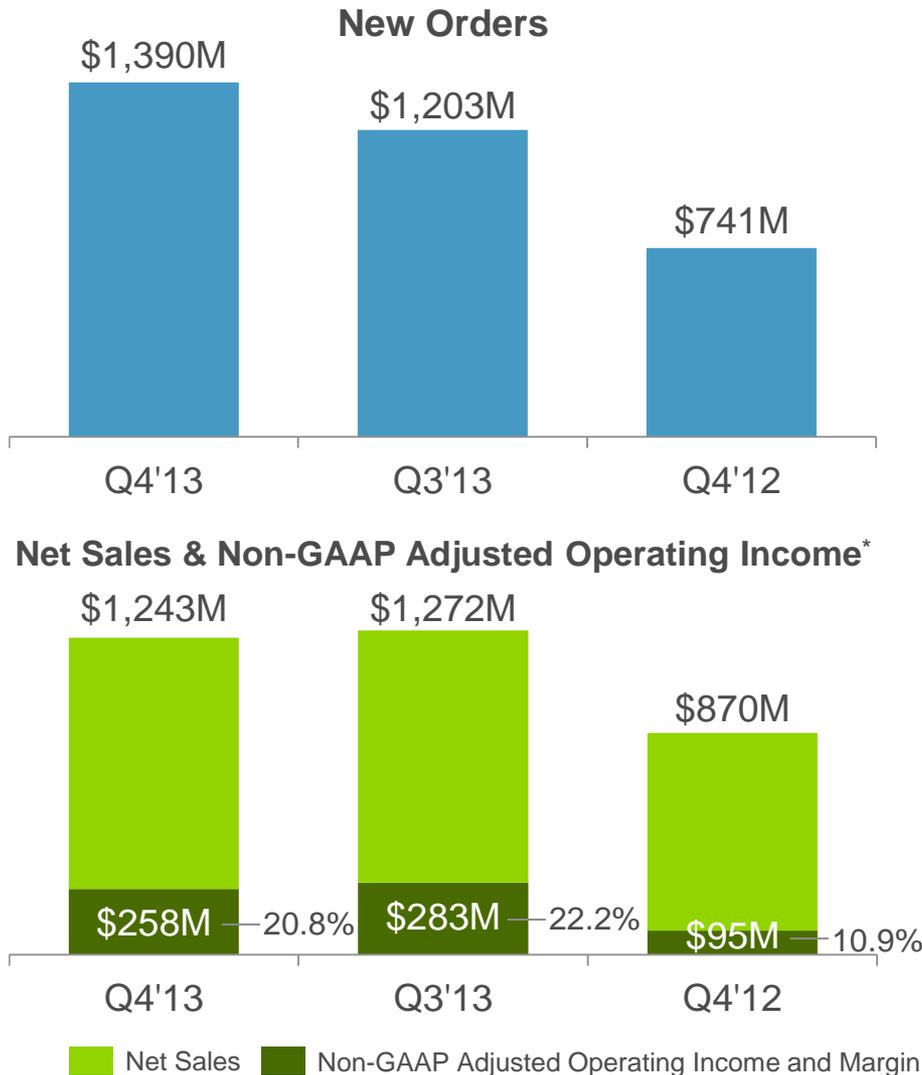


**Q4 FY'13**  
**\$2.4 Billion**



**Q3 FY'13**  
**\$2.3 Billion**

# Silicon Systems Group Segment



- Orders were \$1.39B, up 16% QoQ
  - Higher orders in foundry, flash and logic, partially offset by decreases in DRAM
- Net sales were \$1.24B, down 2% QoQ
- Non-GAAP adjusted operating income of \$258M or 20.8% of net sales\*

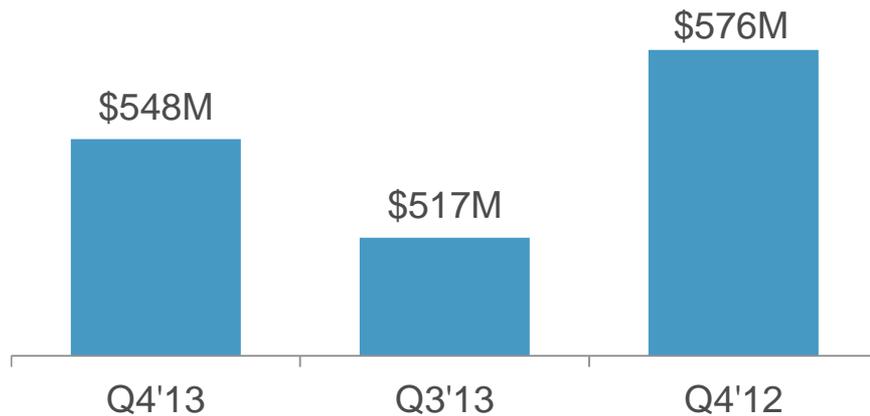
**Q4'13 ORDERS BY CUSTOMER SEGMENT**

Foundry	DRAM	Flash	Logic & Others
47%	11%	25%	17%

\* See slide 23 for reconciliation of GAAP to non-GAAP adjusted measures

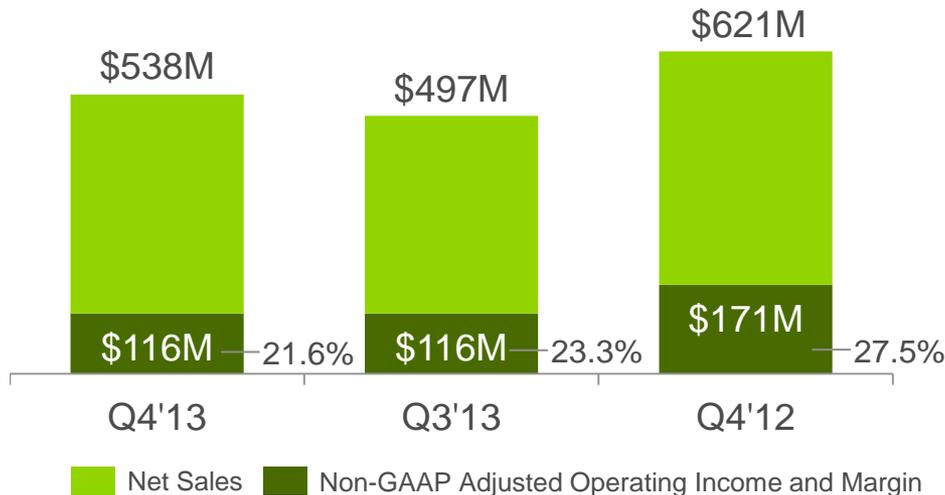
# Applied Global Services Segment

## New Orders



- Orders were \$548M, up 6% QoQ
- Net sales were \$538M, up 8% QoQ
- Non-GAAP adjusted operating income of \$116M or 21.6% of net sales\*

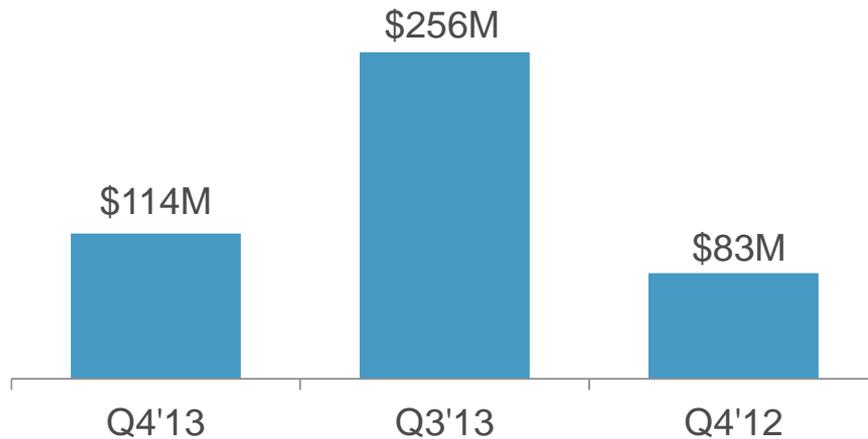
## Net Sales & Non-GAAP Adjusted Operating Income\*



\* See slide 24 for reconciliation of GAAP to non-GAAP adjusted measures

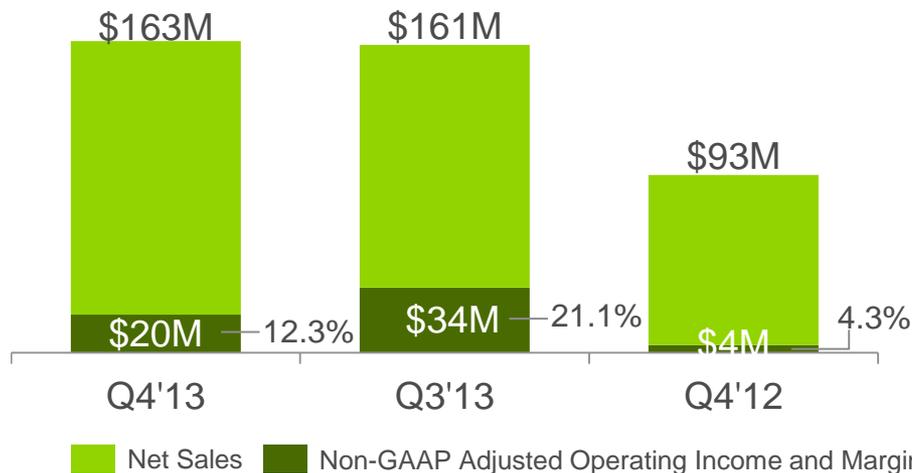
# Display Segment

## New Orders



- Orders were \$114M, down 55% from prior quarter
  - High levels in prior quarter
- Net sales were \$163M, up 1% QoQ
- Non-GAAP adjusted operating income of \$20M or 12.3% of net sales\*

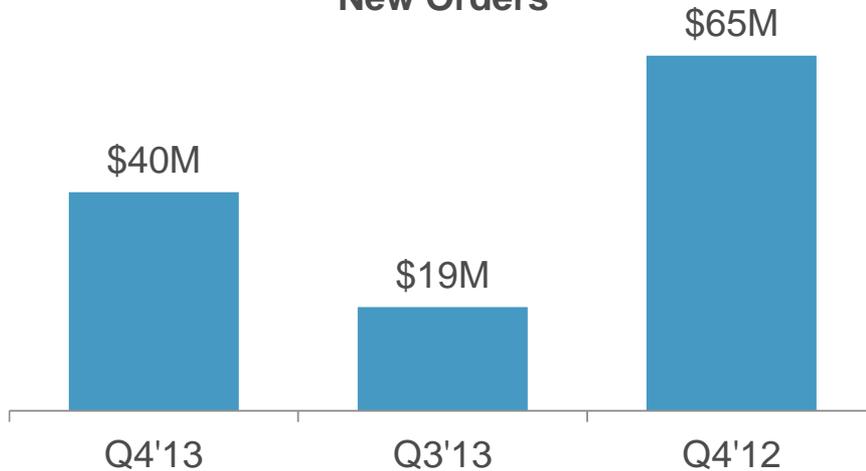
## Net Sales & Non-GAAP Adjusted Operating Income\*



\* See slide 25 for reconciliation of GAAP to non-GAAP adjusted measures

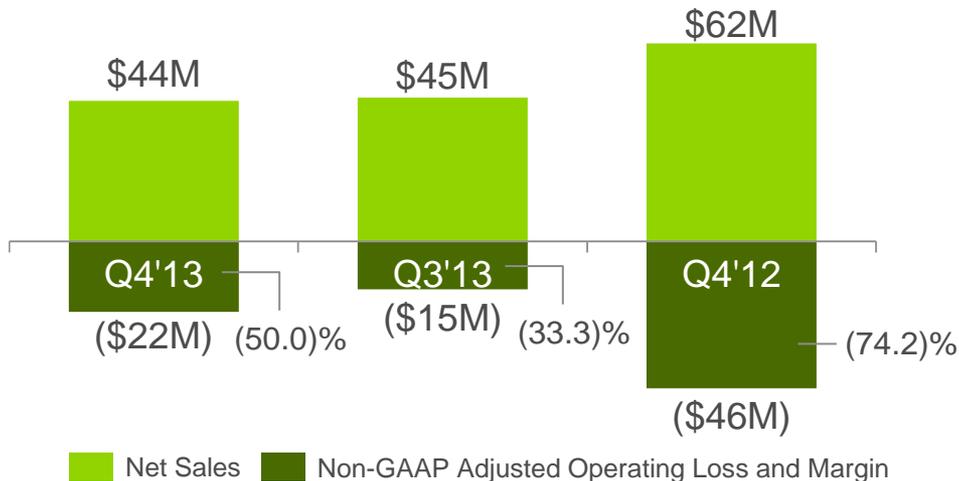
# Energy & Environmental Solutions Segment

## New Orders



- Orders were \$40M
- Net sales were \$44M, down 2% QoQ
- Non-GAAP adjusted operating loss of \$22M\*

## Net Sales & Non-GAAP Adjusted Operating Loss\*



\* See slide 26 for reconciliation of GAAP to non-GAAP adjusted measures

# Q1'14 Expectations (as of November 14, 2013)

<b>Net Sales</b>	Up 3% to 10% from Q4'13
<b>Non-GAAP Adjusted Operating Expenses*</b>	\$540 million $\pm$ \$10 million
<b>Non-GAAP Adjusted diluted EPS*</b>	\$0.20 to \$0.24

\* The non-GAAP adjusted operating expenses and EPS outlooks exclude known charges related to completed acquisitions, integration and deal costs of approximately \$28 million and \$0.04 per share, respectively, but does not exclude other non-GAAP adjustments that may arise subsequent to this release.

# Reconciliation of GAAP to Non-GAAP Results (unaudited)

	Three Months Ended			Twelve Months Ended	
	October 27, 2013	July 28, 2013	October 28, 2012	October 27, 2013	October 28, 2012
<i>(In millions, except percentages)</i>					
<b>Non-GAAP Adjusted Gross Margin</b>					
Reported gross margin - GAAP basis	\$ 795	\$ 806	\$ 586	\$ 2,991	\$ 3,313
Certain items associated with acquisitions <sup>1</sup>	40	40	46	166	253
Acquisition integration and deal costs	—	1	—	3	—
Non-GAAP adjusted gross margin	\$ 835	\$ 847	\$ 632	\$ 3,160	\$ 3,566
Non-GAAP adjusted gross margin percent (% of net sales)	42.0%	42.9%	38.4%	42.1%	40.9%
<b>Non-GAAP Adjusted Operating Income</b>					
Reported operating income (loss) - GAAP basis	\$ 211	\$ 250	\$ (499)	\$ 432	\$ 411
Impairment of goodwill and intangible assets	—	—	421	278	421
Certain items associated with acquisitions <sup>1</sup>	47	47	55	201	298
Acquisition integration and deal costs	11	5	13	38	81
Certain items associated with announced business combination <sup>7</sup>	24	—	—	24	—
Restructuring charges and asset impairments <sup>2,3,4,5,6</sup>	30	14	124	63	168
Gain on sale of facility	—	(4)	—	(4)	—
Non-GAAP adjusted operating income	\$ 323	\$ 312	\$ 114	\$ 1,032	\$ 1,379
Non-GAAP adjusted operating margin percent (% of net sales)	16.2%	15.8%	6.9%	13.7%	15.8%
<b>Non-GAAP Adjusted Net Income</b>					
Reported net income (loss) - GAAP basis	\$ 183	\$ 168	\$ (515)	\$ 256	\$ 109
Impairment of goodwill and intangible assets	—	—	421	278	421
Certain items associated with acquisitions <sup>1</sup>	47	47	55	201	298
Acquisition integration and deal costs	11	5	13	38	81
Certain items associated with announced business combination <sup>7</sup>	24	—	—	24	—
Restructuring charges and asset impairments <sup>2,3,4,5,6</sup>	30	14	124	63	168
Gain on sale of facility	—	(4)	—	(4)	—
Impairment (gain on sale) of strategic investments	(3)	2	14	1	17
Reinstatement of federal R&D tax credit	—	—	—	(13)	—
Resolution of prior years' income tax filings and other tax items	(10)	(3)	(5)	(24)	(22)
Income tax effect of non-GAAP adjustments	(54)	(7)	(37)	(102)	(112)
Non-GAAP adjusted net income	\$ 228	\$ 222	\$ 70	\$ 718	\$ 960
<b>Non-GAAP Adjusted Earnings Per Diluted Share</b>					
Reported earnings (loss) per diluted share - GAAP basis	\$ 0.15	\$ 0.14	\$ (0.42)	\$ 0.21	\$ 0.09
Impairment of goodwill and intangible assets	—	—	0.34	0.21	0.33
Certain items associated with acquisitions	0.03	0.03	0.04	0.14	0.19
Acquisition integration and deal costs	—	—	0.01	0.02	0.05
Certain items associated with announced business combination	0.01	—	—	0.01	—
Restructuring charges and asset impairments	0.01	0.01	0.08	0.03	0.10
Impairment of strategic investments	—	—	0.01	—	0.01
Reinstatement of federal R&D tax credit and resolution of prior years' income tax filings and other tax items	(0.01)	—	—	(0.03)	(0.02)
Non-GAAP adjusted earnings per diluted share	\$ 0.19	\$ 0.18	\$ 0.06	\$ 0.59	\$ 0.75
Weighted average number of diluted shares	1,222	1,220	1,234	1,219	1,277

- 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 Results for the three months ended October 27, 2013 included \$27 million of employee-related costs related to the restructuring program announced on October 3, 2012, and restructuring and asset impairment charges of \$7 million related to the restructuring program announced on May 10, 2012, partially offset by a favorable adjustment of \$4 million in restructuring charges related to other restructuring plans.
- 3 Results for the three months ended July 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 \$10 million related to the restructuring program announced on May 10, 2012.
- 4 Results for the three months ended October 28, 2012 included employee-related costs of \$106 million related to the restructuring program announced on October 3, 2012; restructuring and asset impairment charges of \$12 million related to the restructuring program announced on May 10, 2012; and severance charges of \$6 million related to the integration of Varian.
- 5 Results for the twelve months ended October 27, 2013 included \$39 million of employee-related costs, net, related to the restructuring program announced on October 3, 2012, and restructuring and asset impairment charges of \$26 million related to the restructuring program announced on May 10, 2012, partially offset by a favorable adjustment of \$2 million related to other restructuring plans.
- 6 Results for the twelve months ended October 28, 2012 included employee-related costs of \$106 million related to the restructuring program announced on October 3, 2012, restructuring and asset impairment charges of \$48 million related to the restructuring program announced on May 10, 2012, and severance charges of \$14 million related to the integration of Varian.
- 7 These items are incremental charges related to the announced business combination agreement with Tokyo Electron Limited, consisting of acquisition-related costs and other charges.

# Integration, Deal Costs and Costs Associated with Acquisitions and Announced Business Combination

<i>(In millions)</i>	Three Months Ended		
	<u>October 27, 2013</u>	<u>July 28, 2013</u>	<u>October 28, 2012</u>
<b>Integration and deal costs and certain items associated with acquisitions</b>			
Cost of products sold	\$ 40	\$ 41	\$ 46
Research, development and engineering	2	2	3
Selling, general and administrative	40	9	19
<b>Total</b>	<u>\$ 82</u>	<u>\$ 52</u>	<u>\$ 68</u>

# Reconciliation of GAAP to Non-GAAP Adjusted Gross Margin

	Three Months Ended			Twelve Months Ended	
	October 27, 2013	July 28, 2013	October 28, 2012	October 27, 2013	October 28, 2012
<i>(In millions, except percentages)</i>					
<b>Net Sales (GAAP basis)</b>	\$ 1,988	\$ 1,975	\$ 1,646	\$ 7,509	\$ 8,719
<b>Reported gross margin (GAAP basis)</b>	\$ 795	\$ 806	\$ 586	\$ 2,991	\$ 3,313
Certain items associated with acquisitions	40	40	46	166	253
Acquisition integration and deal costs	-	1	-	3	-
<b>Non-GAAP adjusted gross margin</b>	\$ 835	\$ 847	\$ 632	\$ 3,160	\$ 3,566
<b>GAAP gross margin percent (% of net sales)</b>	40.0%	40.8%	35.6%	39.8%	38.0%
<b>Non-GAAP adjusted gross margin percent (% of net sales)</b>	42.0%	42.9%	38.4%	42.1%	40.9%

# Reconciliation of GAAP to Non-GAAP Adjusted Operating Expenses

Three Months Ended

October 27, 2013

*(In millions)*

<b>Operating expenses (GAAP basis)</b>	\$	584
Restructuring charges and asset impairments		(30)
Certain items associated with acquisitions		(31)
Acquisition integration costs		(11)
<b>Non-GAAP adjusted operating expenses</b>	\$	<b>512</b>

# Reconciliation of GAAP to Non-GAAP Adjusted SSG Operating Margin

	Three Months Ended			Twelve Months Ended	
	October 27, 2013	July 28, 2013	October 28, 2012	October 27, 2013	October 28, 2012
<i>(In millions, except percentages)</i>					
<b>Net sales (GAAP basis)</b>	\$ 1,243	\$ 1,272	\$ 870	\$ 4,775	\$ 5,536
<b>Reported operating income (GAAP basis)</b>	\$ 213	\$ 246	\$ 41	\$ 876	\$ 1,243
Certain items associated with acquisitions	44	42	45	175	253
Acquisition integration and deal costs, net	1	(5)	6	(2)	37
Restructuring charges and asset impairments	-	-	3	1	4
<b>Non-GAAP adjusted operating income</b>	\$ 258	\$ 283	\$ 95	\$ 1,050	\$ 1,537
<b>GAAP operating margin percent (% of net sales)</b>	17.1%	19.3%	4.7%	18.3%	22.5%
<b>Non-GAAP adjusted operating margin percent (% of net sales)</b>	20.8%	22.2%	10.9%	22.0%	27.8%

# Reconciliation of GAAP to Non-GAAP Adjusted AGS Operating Margin

	Three Months Ended			Twelve Months Ended	
	October 27, 2013	July 28, 2013	October 28, 2012	October 27, 2013	October 28, 2012
<i>(In millions, except percentages)</i>					
<b>Net Sales (GAAP basis)</b>	\$ 538	\$ 497	\$ 621	\$ 2,023	\$ 2,285
<b>Reported operating income (GAAP basis)</b>	\$ 115	\$ 114	\$ 164	\$ 436	\$ 502
Certain items associated with acquisitions	1	2	3	5	13
Restructuring charges and asset impairments	-	-	4	2	15
<b>Non-GAAP adjusted operating income</b>	\$ 116	\$ 116	\$ 171	\$ 443	\$ 530
<b>GAAP operating margin percent (% of net sales)</b>	21.4%	22.9%	26.4%	21.6%	22.0%
<b>Non-GAAP adjusted operating margin percent (% of net sales)</b>	21.6%	23.3%	27.5%	21.9%	23.2%

# Reconciliation of GAAP to Non-GAAP Adjusted Display Operating Margin

	Three Months Ended			Twelve Months Ended	
	October 27, 2013	July 28, 2013	October 28, 2012	October 27, 2013	October 28, 2012
<i>(In millions, except percentages)</i>					
<b>Net Sales (GAAP basis)</b>	\$ 163	\$ 161	\$ 93	\$ 538	\$ 473
<b>Reported operating income (GAAP basis)</b>	\$ 19	\$ 33	\$ 3	\$ 74	\$ 25
Certain items associated with acquisitions	1	1	1	6	7
<b>Non-GAAP adjusted operating income</b>	\$ 20	\$ 34	\$ 4	\$ 80	\$ 32
<b>GAAP operating margin percent (% of net sales)</b>	11.7%	20.5%	3.2%	13.8%	5.3%
<b>Non-GAAP adjusted operating margin percent (% of net sales)</b>	12.3%	21.1%	4.3%	14.9%	6.8%

# Reconciliation of GAAP to Non-GAAP Adjusted EES Operating Margin

	Three Months Ended			Twelve Months Ended	
	October 27, 2013	July 28, 2013	October 28, 2012	October 27, 2013	October 28, 2012
<i>(In millions, except percentages)</i>					
<b>Net Sales (GAAP basis)</b>	\$ 44	\$ 45	\$ 62	\$ 173	\$ 425
<b>Reported operating loss (GAAP basis)</b>	\$ (30)	\$ (27)	\$ (480)	\$ (433)	\$ (668)
Certain items associated with acquisitions	1	2	7	15	25
Impairment of goodwill and intangible assets	-	-	421	278	421
Restructuring charges and asset impairments	7	10	6	25	38
<b>Non-GAAP adjusted operating loss</b>	\$ (22)	\$ (15)	\$ (46)	\$ (115)	\$ (184)
<b>GAAP operating margin percent (% of net sales)</b>	-68.2%	-60.0%	-774.2%	-250.3%	-157.2%
<b>Non-GAAP adjusted operating margin percent (% of net sales)</b>	-50.0%	-33.3%	-74.2%	-66.5%	-43.3%

# Reconciliation of GAAP to Non-GAAP Adjusted Effective Income Tax Rate

	<u>Three Months Ended</u> <u>October 27, 2013</u>	<u>Twelve Months Ended</u> <u>October 27, 2013</u>
<i>(In millions, except percentages)</i>		
<b>Provision for income taxes (GAAP basis)</b>	\$ 11	\$ 94
Income tax effect of non-GAAP adjustments	54	102
Reinstatement of federal R&D tax credit	-	13
Resolutions of prior years' income tax filings and other tax items	10	24
<b>Non-GAAP adjusted provision for income taxes</b>	<u>\$ 75</u>	<u>\$ 233</u>
<b>Income before income taxes (GAAP basis)</b>	194	350
Certain items associated with acquisitions	47	201
Restructuring charges and asset impairments	30	63
Acquisition integration and deal costs	11	38
Certain items associated with announced business combination	24	24
Impairment of goodwill and intangible assets	-	278
Gain on sale strategic investments, net	(3)	1
Gain on sale of facility	-	(4)
<b>Non-GAAP adjusted income before income taxes</b>	<u>\$ 303</u>	<u>\$ 951</u>
<b>Effective income tax rate (GAAP basis)</b>	5.7%	26.9%
<b>Non-GAAP adjusted effective income tax rate</b>	24.8%	24.5%

