



Q1 FY2021 Earnings Call

GAAP to non-GAAP Reconciliations

February 18, 2021

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

	Three Months Ended	
	January 31, 2021	January 26, 2020
<i>(In millions, except percentages and per share amounts)</i>		
Non-GAAP Adjusted Gross Profit		
Reported gross profit - GAAP basis	\$ 2,349	\$ 1,858
Certain items associated with acquisitions ¹	8	9
Certain incremental expenses related to COVID-19 ²	12	—
Non-GAAP adjusted gross profit	<u>\$ 2,369</u>	<u>\$ 1,867</u>
Non-GAAP adjusted gross margin	45.9%	44.9%
Non-GAAP Adjusted Operating Income		
Reported operating income - GAAP basis	\$ 1,283	\$ 1,042
Certain items associated with acquisitions ¹	13	13
Acquisition integration and deal costs	24	13
Certain incremental expenses related to COVID-19 ²	24	—
Severance and related charges ³	152	—
Non-GAAP adjusted operating income	<u>\$ 1,496</u>	<u>\$ 1,068</u>
Non-GAAP adjusted operating margin	29.0%	25.7%
Non-GAAP Adjusted Net Income		
Reported net income - GAAP basis	\$ 1,130	\$ 892
Certain items associated with acquisitions ¹	13	13
Acquisition integration and deal costs	24	13
Certain incremental expenses related to COVID-19 ²	24	—
Severance and related charges ³	152	—
Realized loss (gain) on strategic investments, net	(2)	2
Unrealized loss (gain) on strategic investments, net	(6)	2
Income tax effect of share-based compensation ⁴	(29)	(33)
Income tax effects related to intra-entity intangible asset transfers	20	21
Resolution of prior years' income tax filings and other tax items	(3)	(1)
Income tax effect of non-GAAP adjustments ⁵	(41)	(5)
Non-GAAP adjusted net income	<u>\$ 1,282</u>	<u>\$ 904</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 Charges to income tax provision related to a one-time transition tax as a result of U.S. tax legislation.

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

	Three Months Ended	
	January 31, 2021	January 26, 2020
<i>(In millions, except percentages and per share amounts)</i>		
Non-GAAP Adjusted Earnings Per Diluted Share		
Reported earnings per diluted share - GAAP basis	\$ 1.22	\$ 0.96
Certain items associated with acquisitions	0.01	0.01
Acquisition integration and deal costs	0.02	0.01
Certain incremental expenses related to COVID-19	0.02	—
Severance and related charges	0.13	—
Income tax effect of share-based compensation	(0.03)	(0.03)
Income tax effects related to amortization of intra-entity intangible asset transfers	0.02	0.03
Non-GAAP adjusted earnings per diluted share	<u>\$ 1.39</u>	<u>\$ 0.98</u>
Weighted average number of diluted shares	925	927

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

	Three Months Ended	
	January 31, 2021	January 26, 2020
<i>(In millions, except percentages)</i>		
Reported operating income (GAAP basis)	\$ 1,261	\$ 915
Certain items associated with acquisitions ¹	10	10
Acquisition integration costs	(2)	—
Certain incremental expenses related to COVID-19 ²	12	—
Non-GAAP adjusted operating income	<u>\$ 1,281</u>	<u>\$ 925</u>
Non-GAAP adjusted operating margin (% of net sales)	36.1%	32.9%

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

	Three Months Ended	
	January 31, 2021	January 26, 2020
<i>(In millions, except percentages)</i>		
Reported operating income (GAAP basis)	\$ 332	\$ 278
Certain incremental expenses related to COVID-19 ²	8	—
Non-GAAP adjusted operating income	<u>\$ 340</u>	<u>\$ 278</u>
Non-GAAP adjusted operating margin (% of net sales)	29.4%	27.9%

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

	Three Months Ended	
	January 31, 2021	January 26, 2020
<i>(In millions, except percentages)</i>		
Reported operating income (GAAP basis)	\$ 65	\$ 38
Certain items associated with acquisitions ¹	1	3
Certain incremental expenses related to COVID-19 ²	1	—
Severance and related charges ³	8	—
Non-GAAP adjusted operating income	<u>\$ 75</u>	<u>\$ 41</u>
Non-GAAP adjusted operating margin (% of net sales)	18.2%	12.3%

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	
	January 31, 2021	January 26, 2020
<i>(In millions)</i>		
Operating expenses (GAAP basis)	\$ 1,066	\$ 816
Certain items associated with acquisitions	(5)	(4)
Acquisition integration and deal costs	(24)	(13)
Certain incremental expenses related to COVID-19	(12)	—
Severance and related charges	(152)	—
Non-GAAP adjusted operating expenses	\$ 873	\$ 799

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

	Three Months Ended	
	January 31, 2021	January 26, 2020
<i>(In millions)</i>		
Provision for income taxes (GAAP basis) (a)	\$ 110	\$ 113
Income tax effect of share-based compensation	29	33
Income tax effects related to intra-entity intangible asset transfers	(20)	(21)
Resolution of prior years' income tax filings and other tax items	3	1
Income tax effect of non-GAAP adjustments	41	5
Non-GAAP adjusted provision for income taxes (b)	<u>\$ 163</u>	<u>\$ 131</u>

	Three Months Ended	
	January 31, 2021	January 26, 2020
<i>(In millions, except percentages)</i>		
Income before income taxes (GAAP basis) (c)	\$ 1,240	\$ 1,005
Certain items associated with acquisitions	13	13
Acquisition integration and deal costs	24	13
Certain incremental expenses related to COVID-19	24	—
Severance and related charges	152	—
Realized loss (gain) on strategic investments, net	(2)	2
Unrealized loss (gain) on strategic investments, net	(6)	2
Non-GAAP adjusted income before income taxes (d)	<u>\$ 1,445</u>	<u>\$ 1,035</u>

Effective income tax rate (GAAP basis) (a/c)	8.9%	11.2%
Non-GAAP adjusted effective income tax rate (b/d)	11.3%	12.7%

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

	<u>Three Months Ended</u> <u>January 31,</u> <u>2021</u>
<i>(In millions)</i>	
Free Cash Flow¹	
Cash provided by operating activities	\$ 1,421
Capital expenditures	(121)
Free cash flow	<u>\$ 1,300</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>January 31,</u> <u>2021</u>	<u>October 25,</u> <u>2020</u>
<i>(In millions)</i>		
Cash, cash equivalents and investments		
Cash and cash equivalents	\$ 6,213	\$ 5,351
Short-term investments	410	387
Long-term investments	1,601	1,538
Cash, cash equivalents, and investments	<u>\$ 8,224</u>	<u>\$ 7,276</u>

APPLIED MATERIALS, INC.
RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK

Non-GAAP outlook for the second quarter of fiscal 2021 (including non-GAAP gross margin, operating margin, operating expenses and EPS) excludes known charges related to completed acquisitions of approximately \$12 million, or \$0.01 per share, includes the normalized tax benefit of share-based compensation of approximately \$10 million, or \$0.01 per share, and a net income tax benefit related to intra-entity intangible asset transfers of \$23 million, or \$0.03 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.