



# Q3 FY2017 Earnings Call

## GAAP to non-GAAP Reconciliations

August 17, 2017

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

	Three Months Ended		Nine Months Ended	
	July 30, 2017	July 31, 2016	July 30, 2017	July 31, 2016
<i>(In millions, except percentages)</i>				
<b>Non-GAAP Adjusted Gross Profit</b>				
Reported gross profit - GAAP basis	\$ 1,700	\$ 1,192	\$ 4,745	\$ 3,112
Certain items associated with acquisitions <sup>1</sup>	44	42	127	125
Inventory reversals related to restructuring <sup>2</sup>	-	(1)	-	(2)
Non-GAAP adjusted gross profit	<u>\$ 1,744</u>	<u>\$ 1,233</u>	<u>\$ 4,872</u>	<u>\$ 3,235</u>
Non-GAAP adjusted gross margin	46.6%	43.7%	46.1%	43.0%
<b>Non-GAAP Adjusted Operating Income</b>				
Reported operating income - GAAP basis	\$1,023	\$596	\$2,770	\$1,375
Certain items associated with acquisitions <sup>1</sup>	49	47	142	141
Acquisition integration costs	1	2	3	2
Reversals related to restructuring, net <sup>2</sup>	-	(1)	-	(3)
Other gains, losses or charges, net	-	-	(3)	-
Non-GAAP adjusted operating income	<u>\$ 1,073</u>	<u>\$ 644</u>	<u>\$ 2,912</u>	<u>\$ 1,515</u>
Non-GAAP adjusted operating margin	28.7%	22.8%	27.6%	20.1%
<b>Non-GAAP Adjusted Net Income</b>				
Reported net income - GAAP basis	\$ 925	\$ 505	\$ 2,452	\$ 1,111
Certain items associated with acquisitions <sup>1</sup>	49	47	142	141
Acquisition integration costs	1	2	3	2
Reversals related to restructuring, net <sup>2</sup>	-	(1)	-	(3)
Impairment (gain on sale) of strategic investments, net	(1)	-	4	(3)
Loss on early extinguishment of debt	5	-	5	5
Other gains, losses or charges, net	-	-	(3)	-
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items <sup>3</sup>	(46)	1	(68)	(12)
Income tax effect of non-GAAP adjustments <sup>4</sup>	(6)	(4)	(15)	(13)
Non-GAAP adjusted net income	<u>\$ 927</u>	<u>\$ 550</u>	<u>\$ 2,520</u>	<u>\$ 1,228</u>

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

2 Results for the three and nine months ended July 31, 2016 included favorable adjustments associated with the cost reductions in the solar business.

3 Results for the three and nine months ended July 30, 2017 included the recognition of previously unrecognized foreign tax credits.

4 These amounts represent non-GAAP adjustments above multiplied by the effective tax rate within the jurisdictions that the adjustments affect.

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

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	Three Months Ended		Nine Months Ended	
	July 30, 2017	July 31, 2016	July 30, 2017	July 31, 2016
<i>(In millions, except per share amounts)</i>				
<b>Non-GAAP Adjusted Earnings Per Diluted Share</b>				
Reported earnings per diluted share - GAAP basis	\$0.85	\$0.46	\$2.26	\$0.99
Certain items associated with acquisitions	0.04	0.04	0.12	0.11
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items	(0.04)	-	(0.06)	(0.01)
Other gains, losses or charges, net	0.01	-	-	-
Non-GAAP adjusted earnings per diluted share	<b>\$0.86</b>	<b>\$0.50</b>	<b>\$2.32</b>	<b>\$1.09</b>
Weighted average number of diluted shares	1,083	1,093	1,087	1,123

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

<i>(In millions, except percentages)</i>	Three Months Ended		Nine Months Ended	
	July 30, 2017	July 31, 2016	July 30, 2017	July 31, 2016
<b>Reported operating income (GAAP basis)</b>	\$ 874	\$ 511	\$ 2,372	\$ 1,140
Certain items associated with acquisitions <sup>1</sup>	46	45	138	138
<b>Non-GAAP adjusted operating income</b>	<b>\$ 920</b>	<b>\$ 556</b>	<b>\$ 2,510</b>	<b>\$ 1,278</b>
<b>Non-GAAP adjusted operating margin</b> (% of net sales)	36.3%	31.1%	35.4%	26.9%

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

<i>(In millions, except percentages)</i>	Three Months Ended		Nine Months Ended	
	July 30, 2017	July 31, 2016	July 30, 2017	July 31, 2016
<b>Reported operating income (GAAP basis)</b>	\$ 213	\$ 175	\$ 585	\$ 489
Certain items associated with acquisitions	1	1	1	1
Acquisition integration costs	1	-	3	-
<b>Non-GAAP adjusted operating income</b>	<b>\$ 215</b>	<b>\$ 176</b>	<b>\$ 589</b>	<b>\$ 490</b>
<b>Non-GAAP adjusted operating margin</b> (% of net sales)	27.4%	26.8%	26.9%	25.8%

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

<i>(In millions, except percentages)</i>	Three Months Ended		Nine Months Ended	
	July 30, 2017	July 31, 2016	July 30, 2017	July 31, 2016
<b>Reported operating income (GAAP basis)</b>	\$ 91	\$ 63	\$ 290	\$ 142
Certain items associated with acquisitions <sup>1</sup>	2	-	2	-
<b>Non-GAAP adjusted operating income</b>	<b>\$ 93</b>	<b>\$ 63</b>	<b>\$ 292</b>	<b>\$ 142</b>
<b>Non-GAAP adjusted operating margin</b> (% of net sales)	22.7%	20.1%	23.9%	18.8%

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

Note: The reconciliation of GAAP and non-GAAP adjusted segment results above does not include certain revenues, costs of products sold and operating expenses that are reported within corporate and other and included in consolidated operating income.

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

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	Three Months Ended		Nine Months Ended	
	July 30, 2017	July 31, 2016	July 30, 2017	July 31, 2016
<i>(In millions)</i>				
<b>Operating expenses (GAAP basis)</b>	\$ 677	\$ 596	\$ 1,975	\$ 1,737
Certain items associated with acquisitions	(5)	(5)	(15)	(16)
Acquisition integration costs	(1)	(2)	(3)	(2)
Reversals related to restructuring, net	-	-	-	1
Other gains, losses or charges, net	-	-	3	-
<b>Non-GAAP adjusted operating expenses</b>	<u>\$ 671</u>	<u>\$ 589</u>	<u>\$ 1,960</u>	<u>\$ 1,720</u>

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

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	<b>Three Months Ended</b>	
	<b>July 30, 2017</b>	<b>July 31, 2016</b>
<i>(In millions, except percentages)</i>		
<b>Provision for income taxes (GAAP basis)</b>	\$ 53	\$ 59
Reinstatement of federal R&D tax credit, resolutions of prior years' income tax filings and other tax items	46	(1)
Income tax effect of non-GAAP adjustments	6	4
<b>Non-GAAP adjusted provision for income taxes</b>	<b>\$ 105</b>	<b>\$ 62</b>

	<b>Three Months Ended</b>	
	<b>July 30, 2017</b>	<b>July 31, 2016</b>
<b>Income before income taxes (GAAP basis)</b>	\$ 978	\$ 564
Certain items associated with acquisitions	49	47
Acquisition integration costs	1	2
Reversals related to restructuring, net	-	(1)
Impairment (gain on sale) of strategic investments, net	(1)	-
Loss on early extinguishment of debt	5	-
<b>Non-GAAP adjusted income before income taxes</b>	<b>\$ 1,032</b>	<b>\$ 612</b>
<b>Effective income tax rate (GAAP basis)</b>	5.4%	10.5%
<b>Non-GAAP adjusted effective income tax rate</b>	10.2%	10.1%

**APPLIED MATERIALS, INC.**  
**RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK**

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Non-GAAP outlook for the fourth quarter of fiscal 2017 (including non-GAAP gross margin, operating margin, operating expenses and EPS) excludes known charges related to completed acquisitions of approximately \$48 million, or \$0.04 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.