

Q3 FY2014 Earnings Call

GAAP to non-GAAP Reconciliations

August 14, 2014



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

	Three Months Ended			Nine Months Ended	
	July 27, 2014	April 27, 2014	July 28, 2013	July 27, 2014	July 28, 2013
<i>(In millions, except percentages)</i>					
Non-GAAP Adjusted Gross Margin					
Reported gross margin - GAAP basis	\$ 992	\$ 1,001	\$ 806	\$ 2,884	\$ 2,196
Certain items associated with acquisitions ¹	38	39	40	116	126
Acquisition integration costs	-	1	1	1	3
Non-GAAP adjusted gross margin	<u>\$ 1,030</u>	<u>\$ 1,041</u>	<u>\$ 847</u>	<u>\$ 3,001</u>	<u>\$ 2,325</u>
Non-GAAP adjusted gross margin percent (% of net sales)	45.5%	44.2%	42.9%	44.1%	42.1%
Non-GAAP Adjusted Operating Income					
Reported operating income - GAAP basis	\$ 391	\$ 387	\$ 250	\$ 1,108	\$ 221
Certain items associated with acquisitions ¹	44	46	47	135	154
Acquisition integration costs	9	10	5	30	27
Unrealized loss on derivative associated with announced business combination	10	23	-	9	-
Certain items associated with announced business combination ²	23	16	-	50	-
Impairment of goodwill and intangible assets	-	-	-	-	278
Restructuring charges and asset impairments ^{3, 4, 5}	-	-	14	7	33
Gain on sale of facility	-	-	(4)	-	(4)
Non-GAAP adjusted operating income	<u>\$ 477</u>	<u>\$ 482</u>	<u>\$ 312</u>	<u>\$ 1,339</u>	<u>\$ 709</u>
Non-GAAP adjusted operating margin percent (% of net sales)	21.1%	20.5%	15.8%	19.7%	12.8%
Non-GAAP Adjusted Net Income					
Reported net income - GAAP basis	\$ 301	\$ 262	\$ 168	\$ 816	\$ 73
Certain items associated with acquisitions ¹	44	46	47	135	154
Acquisition integration costs	9	10	5	30	27
Unrealized loss on derivative associated with announced business combination	10	23	-	9	-
Certain items associated with announced business combination ²	23	16	-	50	-
Impairment of goodwill and intangible assets	-	-	-	-	278
Restructuring charges and asset impairments ^{3, 4, 5}	-	-	14	7	33
Impairment (gain on sale) of strategic investments, net	(1)	2	2	(4)	4
Gain on sale of facility	-	-	(4)	-	(4)
Reinstatement of federal R&D tax credit	-	-	-	-	(13)
Resolution of prior years' income tax filings and other tax items	(19)	12	(3)	(22)	(14)
Income tax effect of non-GAAP adjustments	(18)	(23)	(7)	(45)	(48)
Non-GAAP adjusted net income	<u>\$ 349</u>	<u>\$ 348</u>	<u>\$ 222</u>	<u>\$ 976</u>	<u>\$ 490</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 announced business combination agreement with Tokyo Electron Limited, consisting of acquisition-related and integration planning costs.

3 Results for the nine months ended July 27, 2014 included employee-related costs of \$7 million related to the restructuring program announced on October 3, 2012.

4 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 \$10M related to the restructuring program announced on May 10, 2012.

5 Results for the nine months ended July 28, 2013 included \$12 million of employee-related costs, net, related to the restructuring program announced on October 3, 2012, restructuring and asset impairment charges of \$19 million related to the restructuring program announced on May 10, 2012 and severance charges of \$2 million related to the integration of Varian Semiconductor Equipment Associates, Inc.

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

	Three Months Ended			Nine Months Ended	
	July 27, 2014	April 27, 2014	July 28, 2013	July 27, 2014	July 28, 2013
<i>(In millions, except per share amounts)</i>					
Non-GAAP Adjusted Earnings Per Diluted Share					
Reported earnings per diluted share - GAAP basis	\$ 0.24	\$ 0.21	\$ 0.14	\$ 0.66	\$ 0.06
Certain items associated with acquisitions	0.03	0.03	0.03	0.09	0.10
Acquisition integration costs	0.01	0.01	-	0.02	0.02
Unrealized loss on derivative associated with announced business combination	-	0.01	-	-	-
Certain items associated with announced business combination	0.02	0.01	-	0.04	-
Impairment of goodwill and intangible assets	-	-	-	-	0.22
Restructuring charges and asset impairments	-	-	0.01	-	0.02
Reinstatement of federal R&D tax credit and resolution of prior years' income tax filings and other tax items	(0.02)	0.01	-	(0.02)	(0.02)
Non-GAAP adjusted earnings per diluted share	<u>\$ 0.28</u>	<u>\$ 0.28</u>	<u>\$ 0.18</u>	<u>\$ 0.79</u>	<u>\$ 0.40</u>
Weighted average number of diluted shares	1,233	1,229	1,220	1,230	1,218

APPLIED MATERIALS, INC.
UNAUDITED INTEGRATION AND CERTAIN ITEMS ASSOCIATED WITH ACQUISITIONS

	Three Months Ended			Nine Months Ended	
	July 27, 2014	April 27, 2014	July 28, 2013	July 27, 2014	July 28, 2013
<i>(In millions)</i>					
Integration and certain items associated with acquisitions					
Cost of products sold	\$ 38	\$ 40	\$ 41	\$ 117	\$ 129
Research, development and engineering	1	-	2	3	6
Selling, general and administrative	14	16	9	45	46
Total	<u>\$ 53</u>	<u>\$ 56</u>	<u>\$ 52</u>	<u>\$ 165</u>	<u>\$ 181</u>

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

<i>(In millions)</i>	Three Months Ended
	July 27, 2014
Operating expenses (GAAP basis)	\$ 601
Unrealized loss on derivative associated with announced business combination	(10)
Certain items associated with acquisitions	(6)
Acquisition integration costs	(9)
Certain items associated with announced business combination	(23)
Non-GAAP adjusted operating expenses	\$ 553

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

<i>(In millions, except percentages)</i>	Three Months Ended			Nine Months Ended	
	July 27, 2014	April 27, 2014	July 28, 2013	July 27, 2014	July 28, 2013
Net sales (GAAP basis)	\$ 1,476	\$ 1,584	\$ 1,272	\$ 4,544	\$ 3,532
Reported operating income (GAAP basis)	\$ 381	\$ 391	\$ 246	\$ 1,086	\$ 663
Certain items associated with acquisitions	42	42	42	126	131
Acquisition integration costs	-	-	(5)	1	(3)
Restructuring charges and asset impairments	-	-	-	-	1
Non-GAAP adjusted operating income	<u>\$ 423</u>	<u>\$ 433</u>	<u>\$ 283</u>	<u>\$ 1,213</u>	<u>\$ 792</u>
 GAAP operating margin percent (% of net sales)	25.8%	24.7%	19.3%	23.9%	18.8%
 Non-GAAP adjusted operating margin percent (% of net sales)	28.7%	27.3%	22.2%	26.7%	22.4%

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

<i>(In millions, except percentages)</i>	Three Months Ended			Nine Months Ended	
	July 27, 2014	April 27, 2014	July 28, 2013	July 27, 2014	July 28, 2013
Net Sales (GAAP basis)	\$ 567	\$ 534	\$ 497	\$ 1,608	\$ 1,485
Reported operating income (GAAP basis)	\$ 154	\$ 148	\$ 114	\$ 427	\$ 321
Certain items associated with acquisitions	-	2	2	3	4
Restructuring charges and asset impairments	-	-	-	-	2
Non-GAAP adjusted operating income	<u>\$ 154</u>	<u>\$ 150</u>	<u>\$ 116</u>	<u>\$ 430</u>	<u>\$ 327</u>
 GAAP operating margin percent (% of net sales)	27.2%	27.7%	22.9%	26.6%	21.6%
 Non-GAAP adjusted operating margin percent (% of net sales)	27.2%	28.1%	23.3%	26.7%	22.0%

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

<i>(In millions, except percentages)</i>	Three Months Ended			Nine Months Ended	
	July 27, 2014	April 27, 2014	July 28, 2013	July 27, 2014	July 28, 2013
Net Sales (GAAP basis)	\$ 119	\$ 147	\$ 161	\$ 425	\$ 375
Reported operating income (GAAP basis)	\$ 25	\$ 26	\$ 33	\$ 77	\$ 55
Certain items associated with acquisitions	1	-	1	2	5
Non-GAAP adjusted operating income	<u>\$ 26</u>	<u>\$ 26</u>	<u>\$ 34</u>	<u>\$ 79</u>	<u>\$ 60</u>
GAAP operating margin percent (% of net sales)	21.0%	17.7%	20.5%	18.1%	14.7%
Non-GAAP adjusted operating margin percent (% of net sales)	21.8%	17.7%	21.1%	18.6%	16.0%

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

<i>(In millions, except percentages)</i>	Three Months Ended			Nine Months Ended	
	July 27, 2014	April 27, 2014	July 28, 2013	July 27, 2014	July 28, 2013
Net Sales (GAAP basis)	\$ 103	\$ 88	\$ 45	\$ 231	\$ 129
Reported operating income (loss) (GAAP basis)	\$ 24	\$ 5	\$ (27)	\$ 18	\$ (403)
Certain items associated with acquisitions	1	2	2	4	14
Impairment of goodwill and intangible assets	-	-	-	-	278
Restructuring charges and asset impairments	-	-	10	-	18
Non-GAAP adjusted operating income (loss)	<u>\$ 25</u>	<u>\$ 7</u>	<u>\$ (15)</u>	<u>\$ 22</u>	<u>\$ (93)</u>
GAAP operating margin percent (% of net sales)	23.3%	5.7%	-60.0%	7.8%	-312.4%
Non-GAAP adjusted operating margin percent (% of net sales)	24.3%	8.0%	-33.3%	9.5%	-72.1%

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

Three Months Ended

July 27, 2014

(In millions, except percentages)

Provision for income taxes (GAAP basis)	\$69
Income tax effect of non-GAAP adjustments	18
Resolutions of prior years' income tax filings and other tax items	19
Non-GAAP adjusted provision for income taxes	\$ 106
Income before income taxes (GAAP basis)	\$370
Certain items associated with acquisitions	44
Acquisition integration costs	9
Unrealized loss on derivative associated with announced business combination	10
Certain items associated with announced business combination	23
Gain on sale of strategic investments, net	(1)
Non-GAAP adjusted income before income taxes	\$ 455
Effective income tax rate (GAAP basis)	18.6%
Non-GAAP adjusted effective income tax rate	23.3%

APPLIED MATERIALS, INC.
RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK

Non-GAAP outlook for the fourth quarter of fiscal 2014 (including non-GAAP gross margin, operating margin, operating expenses and EPS) excludes known charges related to completed acquisitions and integration costs of approximately \$44 million, or \$0.03 per share, but does not exclude other non-GAAP adjustments that may arise subsequent to August 14, 2014.

Non-GAAP outlook for the full fiscal year 2014 (including non-GAAP gross margin, operating margin and tax rate) excludes the above-described known charges in addition to charges for the first nine months of fiscal 2014 as described in the preceding reconciliations, but does not exclude other non-GAAP adjustments that may arise subsequent to August 14, 2014.