

# Q1 FY2022 Earnings Call

## GAAP to non-GAAP Reconciliations

February 16, 2022



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

	Three Months Ended	
	January 30, 2022	January 31, 2021
<i>(In millions, except percentages)</i>		
<b>Non-GAAP Adjusted Gross Profit</b>		
Reported gross profit - GAAP basis	\$ 2,959	\$ 2,349
Certain items associated with acquisitions <sup>1</sup>	6	8
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	12
Non-GAAP adjusted gross profit	<u>\$ 2,965</u>	<u>\$ 2,369</u>
Non-GAAP adjusted gross margin	47.3%	45.9%
<b>Non-GAAP Adjusted Operating Income</b>		
Reported operating income - GAAP basis	\$ 1,976	\$ 1,283
Certain items associated with acquisitions <sup>1</sup>	9	13
Acquisition integration and deal costs	4	24
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	24
Severance and related charges <sup>3</sup>	(4)	152
Non-GAAP adjusted operating income	<u>\$ 1,985</u>	<u>\$ 1,496</u>
Non-GAAP adjusted operating margin	31.7%	29.0%
<b>Non-GAAP Adjusted Net Income</b>		
Reported net income - GAAP basis	\$ 1,792	\$ 1,130
Certain items associated with acquisitions <sup>1</sup>	9	13
Acquisition integration and deal costs	4	24
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	24
Severance and related charges <sup>3</sup>	(4)	152
Realized loss (gain) on strategic investments, net	2	(2)
Unrealized loss (gain) on strategic investments, net	(5)	(6)
Income tax effect of share-based compensation <sup>4</sup>	(58)	(29)
Income tax effects related to intra-entity intangible asset transfers	18	20
Resolution of prior years' income tax filings and other tax items	(62)	(3)
Income tax effect of non-GAAP adjustments <sup>5</sup>	—	(41)
Non-GAAP adjusted net income	<u>\$ 1,696</u>	<u>\$ 1,282</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	
	January 30, 2022	January 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	\$ 2.00	\$ 1.22
Certain items associated with acquisitions	0.01	0.01
Acquisition integration and deal costs	—	0.02
Certain incremental expenses related to COVID-19	—	0.02
Severance and related charges	—	0.13
Unrealized loss (gain) on strategic investments, net	(0.01)	—
Income tax effect of share-based compensation	(0.06)	(0.03)
Income tax effects related to amortization of intra-entity intangible asset transfers	0.02	0.02
Resolution of prior year's income tax filings and other tax items	(0.07)	—
Non-GAAP adjusted earnings per diluted share	<u>\$ 1.89</u>	<u>\$ 1.39</u>
Weighted average number of diluted shares	897	925

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

	Three Months Ended	
	January 30, 2022	January 31, 2021
<i>(In millions, except percentages)</i>		
<b>Reported operating income (GAAP basis)</b>	\$ 1,771	\$ 1,261
Certain items associated with acquisitions <sup>1</sup>	7	10
Acquisition integration costs	—	(2)
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	12
<b>Non-GAAP adjusted operating income</b>	<b>\$ 1,778</b>	<b>\$ 1,281</b>
<b>Non-GAAP adjusted operating margin (% of net sales)</b>	38.9%	36.1%

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

	Three Months Ended	
	January 30, 2022	January 31, 2021
<i>(In millions, except percentages)</i>		
<b>Reported operating income (GAAP basis)</b>	\$ 403	\$ 332
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	8
<b>Non-GAAP adjusted operating income</b>	<b>\$ 403</b>	<b>\$ 340</b>
<b>Non-GAAP adjusted operating margin (% of net sales)</b>	30.5%	29.4%

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

	Three Months Ended	
	January 30, 2022	January 31, 2021
<i>(In millions, except percentages)</i>		
<b>Reported operating income (GAAP basis)</b>	\$ 76	\$ 65
Certain items associated with acquisitions <sup>1</sup>	1	1
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>	<b>\$ 77</b>	<b>\$ 75</b>
<b>Non-GAAP adjusted operating margin (% of net sales)</b>	21.0%	18.2%

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**

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	<b>Three Months Ended</b>	
	<b>January 30, 2022</b>	<b>January 31, 2021</b>
<i>(In millions)</i>		
<b>Operating expenses (GAAP basis)</b>	\$ 983	\$ 1,066
Certain items associated with acquisitions	(3)	(5)
Acquisition integration and deal costs	(4)	(24)
Certain incremental expenses related to COVID-19	—	(12)
Severance and related charges	4	(152)
<b>Non-GAAP adjusted operating expenses</b>	<b>\$ 980</b>	<b>\$ 873</b>

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

	Three Months Ended	
	January 30, 2022	January 31, 2021
<i>(In millions)</i>		
<b>Provision for income taxes (GAAP basis) (a)</b>	\$ 133	\$ 110
Income tax effect of share-based compensation	58	29
Income tax effects related to intra-entity intangible asset transfers	(18)	(20)
Resolution of prior years' income tax filings and other tax items	62	3
Income tax effect of non-GAAP adjustments	—	41
<b>Non-GAAP adjusted provision for income taxes (b)</b>	<u>\$ 235</u>	<u>\$ 163</u>

	Three Months Ended	
	January 30, 2022	January 31, 2021
<i>(In millions, except percentages)</i>		
<b>Income before income taxes (GAAP basis) (c)</b>	\$ 1,925	\$ 1,240
Certain items associated with acquisitions	9	13
Acquisition integration and deal costs	4	24
Certain incremental expenses related to COVID-19	—	24
Severance and related charges	(4)	152
Realized loss (gain) on strategic investments, net	2	(2)
Unrealized loss (gain) on strategic investments, net	(5)	(6)
<b>Non-GAAP adjusted income before income taxes (d)</b>	<u>\$ 1,931</u>	<u>\$ 1,445</u>
<b>Effective income tax rate (GAAP basis) (a/c)</b>	6.9%	8.9%
<b>Non-GAAP adjusted effective income tax rate (b/d)</b>	12.2%	11.3%

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

	Three Months Ended				
	January 30, 2022	October 31, 2021	August 1, 2021	May 2, 2021	January 31, 2021
<i>(In millions)</i>					
<b>Free Cash Flow<sup>1</sup></b>					
Cash provided by operating activities	\$ 2,658	\$ 1,148	\$ 1,686	\$ 1,187	\$ 1,421
Capital expenditures	(144)	(206)	(137)	(204)	(121)
Free cash flow	<u>\$ 2,514</u>	<u>\$ 942</u>	<u>\$ 1,549</u>	<u>\$ 983</u>	<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**

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	<u>January 30, 2022</u>	<u>October 31, 2021</u>
<i>(In millions)</i>		
<b>Cash, cash equivalents and investments</b>		
Cash and cash equivalents	\$ 5,264	\$ 4,995
Short-term investments	473	464
Long-term investments	2,026	2,055
<b>Cash, cash equivalents, and investments</b>	<u>\$ 7,763</u>	<u>\$ 7,514</u>



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

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Non-GAAP outlook for the second quarter of fiscal 2022 (including non-GAAP gross margin, operating margin, operating expenses and EPS) excludes known charges related to completed acquisitions of approximately \$9 million, or \$0.01 per share, includes the normalized tax benefit of share-based compensation of approximately \$15 million, or \$0.01 per share, and includes a net income tax benefit related to intra-entity intangible asset transfers of \$16 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.