



# Q1 FY2018 Earnings Call

## GAAP to non-GAAP Reconciliations

February 14, 2018

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

	<b>Three Months Ended</b>	
	<b>January 28, 2018</b>	<b>January 29, 2017</b>
<i>(In millions, except percentages)</i>		
<b><u>Non-GAAP Adjusted Gross Profit</u></b>		
Reported gross profit - GAAP basis	\$ 1,920	\$ 1,445
Certain items associated with acquisitions <sup>1</sup>	45	42
Non-GAAP adjusted gross profit	<u>\$ 1,965</u>	<u>\$ 1,487</u>
Non-GAAP adjusted gross margin	46.7%	45.4%
<b><u>Non-GAAP Adjusted Operating Income</u></b>		
Reported operating income - GAAP basis	\$ 1,196	\$ 807
Certain items associated with acquisitions <sup>1</sup>	49	47
Acquisition integration costs	1	1
Other gains, losses or charges, net	-	(3)
Non-GAAP adjusted operating income	<u>\$ 1,246</u>	<u>\$ 852</u>
Non-GAAP adjusted operating margin	29.6%	26.0%
<b><u>Non-GAAP Adjusted Net Income</u></b>		
Reported net income - GAAP basis	\$ 135	\$ 703
Certain items associated with acquisitions <sup>1</sup>	49	47
Acquisition integration costs	1	1
Impairment (gain on sale) of strategic investments, net	(1)	5
Other gains, losses or charges, net	-	(3)
Income tax effect of share-based compensation <sup>2</sup>	(39)	-
Income tax effect of changes in applicable U.S. tax laws <sup>3</sup>	1,006	-
Resolution of prior years' income tax filings and other tax items	(13)	(16)
Income tax effect of non-GAAP adjustments <sup>4</sup>	(3)	(5)
Non-GAAP adjusted net income	<u>\$ 1,135</u>	<u>\$ 732</u>

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

2 In the first quarter of fiscal 2018, Applied adopted the accounting standard related to share-based compensation (ASU 2016-09), which resulted in a \$51 million tax benefit on a GAAP basis; this benefit is being recognized ratably over the fiscal year on a non-GAAP basis.

3 Charges to income tax provision related to a one-time transition tax and a decrease in U.S. deferred tax assets as a result of the recent U.S. tax legislation.

4 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**

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	<b>Three Months Ended</b>	
	<b>January 28, 2018</b>	<b>January 29, 2017</b>
<i>(In millions, except percentages)</i>		
<b>Non-GAAP Adjusted Earnings Per Diluted Share</b>		
Reported earnings per diluted share - GAAP basis	\$ 0.13	\$ 0.65
Certain items associated with acquisitions	0.04	0.04
Income tax effect of share-based compensation	(0.04)	-
Income tax effect of changes in applicable U.S. tax laws	0.94	-
Resolution of prior year's income tax filings and other tax items	(0.01)	(0.02)
Non-GAAP adjusted earnings per diluted share	\$ 1.06	\$ 0.67
Weighted average number of diluted shares	1,071	1,089

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

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	<b>Three Months Ended</b>	
	<b>January 28, 2018</b>	<b>January 29, 2017</b>
<i>(In millions, except percentages)</i>		
<b>Reported operating income (GAAP basis)</b>	\$ 995	\$ 690
Certain items associated with acquisitions <sup>1</sup>	46	46
<b>Non-GAAP adjusted operating income</b>	<b>\$ 1,041</b>	<b>\$ 736</b>
 <b>Non-GAAP adjusted operating margin</b> (% of net sales)	36.6%	34.2%

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

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	<b>Three Months Ended</b>	
	<b>January 28, 2018</b>	<b>January 29, 2017</b>
<i>(In millions, except percentages)</i>		
<b>Reported operating income (GAAP basis)</b>	\$ 254	\$ 178
Acquisition integration costs	1	1
<b>Non-GAAP adjusted operating income</b>	<b>\$ 255</b>	<b>\$ 179</b>
 <b>Non-GAAP adjusted operating margin</b> (% of net sales)	29.0%	26.5%

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

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	<b>Three Months Ended</b>	
	<b>January 28, 2018</b>	<b>January 29, 2017</b>
<i>(In millions, except percentages)</i>		
<b>Reported operating income (GAAP basis)</b>	\$ 101	\$ 115
Certain items associated with acquisitions <sup>1</sup>	3	-
<b>Non-GAAP adjusted operating income</b>	<b>\$ 104</b>	<b>\$ 115</b>
 <b>Non-GAAP adjusted operating margin</b> (% of net sales)	22.9%	27.3%

<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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	<b>Three Months Ended</b>	
	<b>January 28, 2018</b>	<b>January 29, 2017</b>
<i>(In millions)</i>		
<b>Operating expenses (GAAP basis)</b>	\$ 724	\$ 638
Certain items associated with acquisitions	(4)	(5)
Acquisition integration costs	(1)	(1)
Other gains, losses or charges, net	-	3
<b>Non-GAAP adjusted operating expenses</b>	<u>\$ 719</u>	<u>\$ 635</u>

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

	<b>Three Months Ended</b>	
	<b>January 28, 2018</b>	<b>January 29, 2017</b>
<i>(In millions)</i>		
<b>Provision for income taxes (GAAP basis)</b>	\$ 1,027	\$ 68
Income tax effect of share-based compensation	39	-
Income tax effect of changes in applicable U.S. tax laws	(1,006)	-
Resolution of prior years' income tax filings and other tax items	13	16
Income tax effect of non-GAAP adjustments	3	5
<b>Non-GAAP adjusted provision for income taxes</b>	<b>\$ 76</b>	<b>\$ 89</b>

	<b>Three Months Ended</b>	
	<b>January 28, 2018</b>	<b>January 29, 2017</b>
<i>(In millions, except percentages)</i>		
<b>Income before income taxes (GAAP basis)</b>	\$ 1,162	\$ 771
Certain items associated with acquisitions	49	47
Acquisition integration costs	1	1
Impairment (gain on sale) of strategic investments, net	(1)	5
Other gains, losses or charges, net	-	(3)
<b>Non-GAAP adjusted income before income taxes</b>	<b>\$ 1,211</b>	<b>\$ 821</b>
<b>Effective income tax rate (GAAP basis)</b>	88.4%	8.8%
<b>Non-GAAP adjusted effective income tax rate</b>	6.3%	10.8%

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

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Non-GAAP outlook for the second quarter of fiscal 2018 (including non-GAAP gross margin, operating margin, operating expenses and EPS) excludes known charges related to completed acquisitions of approximately \$49 million, or \$0.04 per share and includes the normalized tax benefit of share-based compensation of approximately \$13 million, or \$0.01 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.