



# First Quarter 2011 Earnings Call Highlights



**The Applied Centris AdvantEdge Mesa is Applied's most advanced silicon etch system, delivering the precision, intelligence, and productivity needed for the successful fabrication of advanced logic and memory chips at 22nm and below.**

Date: February 24, 2011

# Safe Harbor Statement

This presentation contains forward-looking statements, including those regarding Applied's performance, opportunities, industry outlooks, and financial expectations. These statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements, including but not limited to: the level of demand for Applied's products, which is subject to many factors, including uncertain global economic and industry conditions, end demand for electronic products and semiconductors, government renewable energy policies and incentives, and customers' new technology and capacity requirements; Applied's ability to (i) develop, deliver and support a broad range of products and expand its markets, (ii) align its cost structure with business conditions, (iii) plan and manage its resources and production capability, (iv) implement initiatives that enhance global operations and efficiencies, and (v) attract, motivate and retain key employees and other risks described in Applied's SEC filings. All forward-looking statements are based on management's estimates, projections and assumptions as of February 24, 2011, and Applied undertakes no obligation to update any forward-looking statements.

This presentation also includes financial measures not in accordance with U.S. GAAP, along with reconciliations of GAAP results to non-GAAP results.

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# Q1'11 Highlights

- First Quarter results exceeded expectations
- Applied raised 2011 wafer fab equipment forecast to \$34 to \$36 billion, up 10 to 15 percent over CY2010
- Strong solar equipment sales drive record EES operating profit
- Q1 orders of \$2.97B were down 2 percent compared to the prior quarter
  - Consecutive record orders in EES (up 22% in Q1)
- Net sales of \$2.69 billion were down 7 percent compared to prior quarter
  - Better than target range of down 8% to 15%
  - Stronger than expected results in EES and AGS
- Q1 EPS of \$0.38; non-GAAP EPS of \$0.36 exceeded high end of the company's outlook by \$0.02

# Q1'11 Financial Summary: Income Statement

## (consolidated)

- New orders: \$2.97 billion – down 2% from Q4'10
- Backlog: \$3.54 billion – up 9% from Q4'10
- Net sales: \$2.69 billion – down 7% from Q4'10
- Gross margin: 42.3% – up 0.1% from Q4'10
  - Excluding acquisition costs Q1'11 gross margin would have been 42.6%\*
- Operating expenses: \$462M – down 11% from Q4'10
  - Q1'11 non-GAAP = \$486M (excludes \$4M in acquisition costs, a credit of \$29M in restructuring and asset impairment charges and a loss on facility sale of \$1M)
  - Q4'10 non-GAAP = \$516M (excludes \$4M in acquisition costs and a credit of \$2M in restructuring and asset impairment charges)
- Operating income/margin: \$674M or 25.1% of net sales
  - Compared to \$699M or 24.2% of net sales in Q4'10
- Tax rate: 25.5% – down from 33.5% in Q4'10
  - Application of the R&D tax credit lowered our Q1 effective tax rate by 1.9 points
- GAAP net income of \$506M or \$0.38 per diluted share
- Non-GAAP net income of \$484M or \$0.36 per diluted share\*\*

\* See slide 22 for reconciliation of GAAP to non-GAAP measures

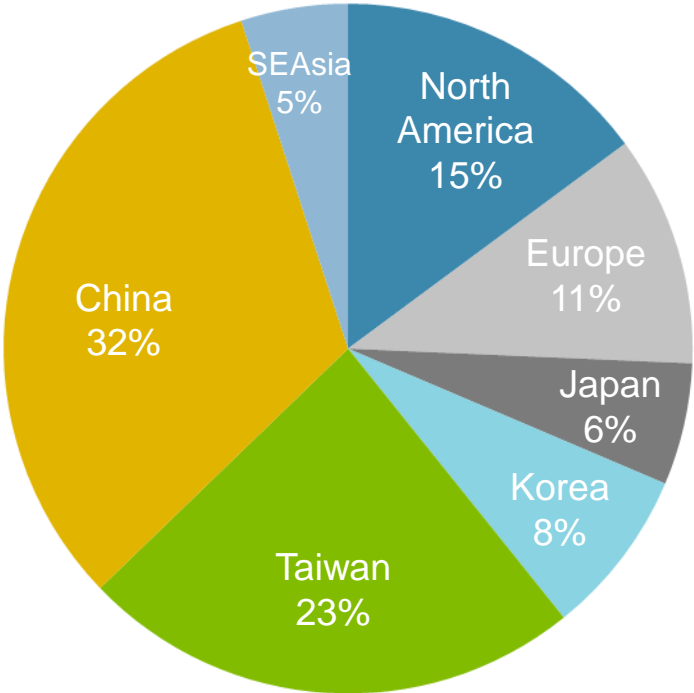
\*\* See slide 19 for reconciliation of GAAP to non-GAAP measures

# Summary Income Statement (consolidated)

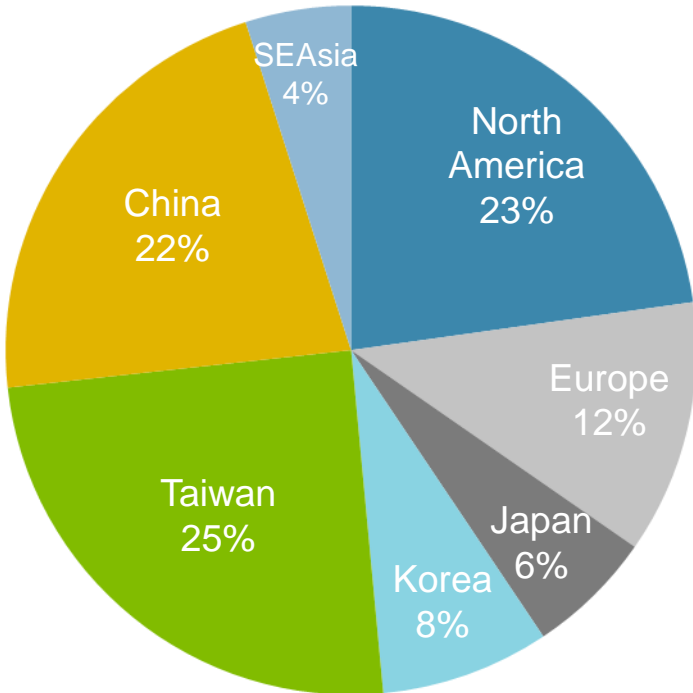
(Unaudited) (\$ Millions Except EPS)	Q1'11	Q4'10	Q1'10
New Orders	<b>\$2,971</b>	\$3,026	\$1,965
Net Sales	<b>\$2,686</b>	\$2,886	\$1,849
Gross Margin	<b>42.3%</b>	42.2%	38.5%
RD&E	<b>10.0%</b>	9.6%	14.5%
SG&A	<b>8.2%</b>	8.4%	12.0%
Operating Margin	<b>25.1%</b>	24.2%	6.3%
Net Income	<b>\$506</b>	\$468	\$83
Net Income %	<b>18.9%</b>	16.2%	4.5%
EPS	<b>\$0.38</b>	\$0.35	\$0.06

# New Orders Regional Distribution

(consolidated)



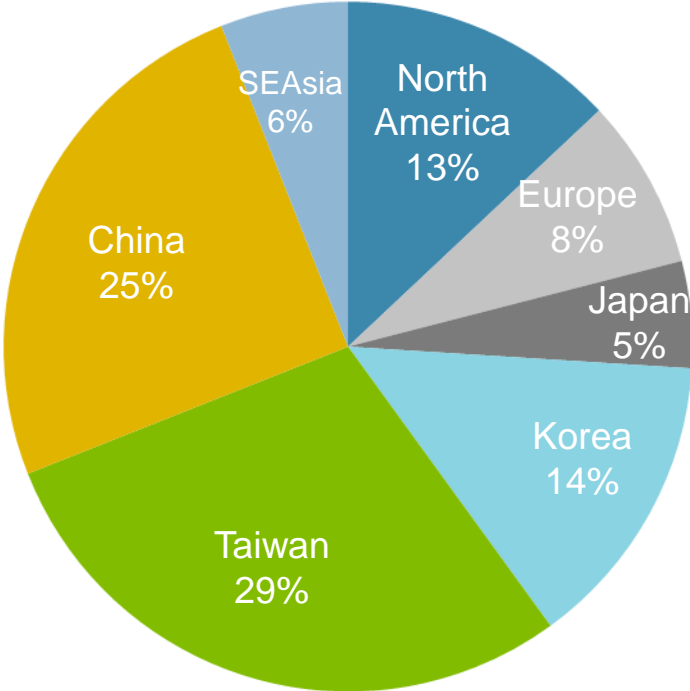
**Q4 FY'10**  
**\$3.03 Billion**



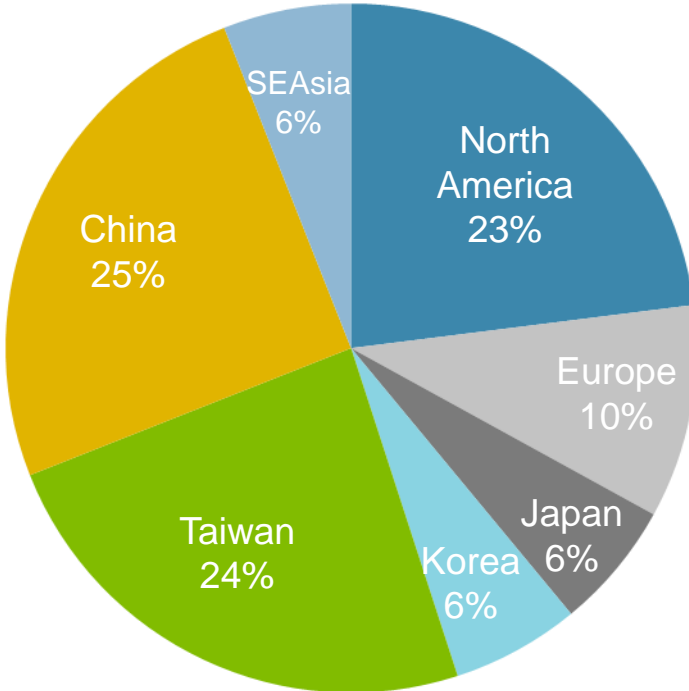
**Q1 FY'11**  
**\$2.97 Billion**

# Net Sales Regional Distribution

(consolidated)



**Q4 FY'10**  
**\$2.89 Billion**



**Q1 FY'11**  
**\$2.69 Billion**



# Q1'11 Financial Summary: Balance Sheet

(consolidated)

- Cash/cash equivalents and investments increased \$205M to \$4.1B
- Operating cash flow: \$425M or 16% of revenue
- Free cash flow\*: \$402M or 15% of revenue
- Inventory: \$1.65B – up \$100 million from Q4'10
- DSO\*\*: 66 days, compared to 58 days in Q4'10
- Capital spending: \$24M
- Depreciation and amortization: \$63M
- Cash returned to stockholders
  - \$93M paid in dividends
  - \$150M in stock repurchases
  - Declared quarterly cash dividend of \$0.07 per share, payable on March 23, 2011 to stockholders of record as of March 2, 2011
- Headcount: approximately 13,000 regular employees (excluding temporary and interns)

\* Defined as cash provided by operating activities less capital expenditures. See slide 20 for reconciliation of GAAP to non-GAAP measures

\*\* Days Sales Outstanding

# Summary Balance Sheet (Consolidated)

(Unaudited) (\$ Millions)	Q1'11	Q4'10	Q1'10
Cash, Cash Equivalents and Investments	<b>\$4,097</b>	\$3,892	\$3,200
Accounts Receivable, Net	<b>\$1,946</b>	\$1,831	\$1,267
Inventories	<b>\$1,647</b>	\$1,547	\$1,664
Property, Plant & Equipment, Net	<b>\$893</b>	\$963	\$1,129
<b>Total Assets</b>	<b>\$11,274</b>	\$10,943	\$10,004
Long-Term Debt	<b>\$204</b>	\$204	\$211
<b>Total Stockholders' Equity</b>	<b>\$7,839</b>	\$7,536	\$7,148
Current Ratio	<b>2.5</b>	2.3	2.6
<b>Total Debt/Capital Ratio</b>	<b>2.6%</b>	2.7%	2.9%

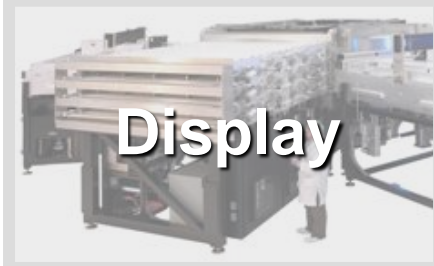
# Reporting Segments



Designs, manufactures and sells equipment used to fabricate semiconductor chips



Broad range of products<sup>1</sup> to maintain, service and optimize customers' semiconductor, display and solar fabs



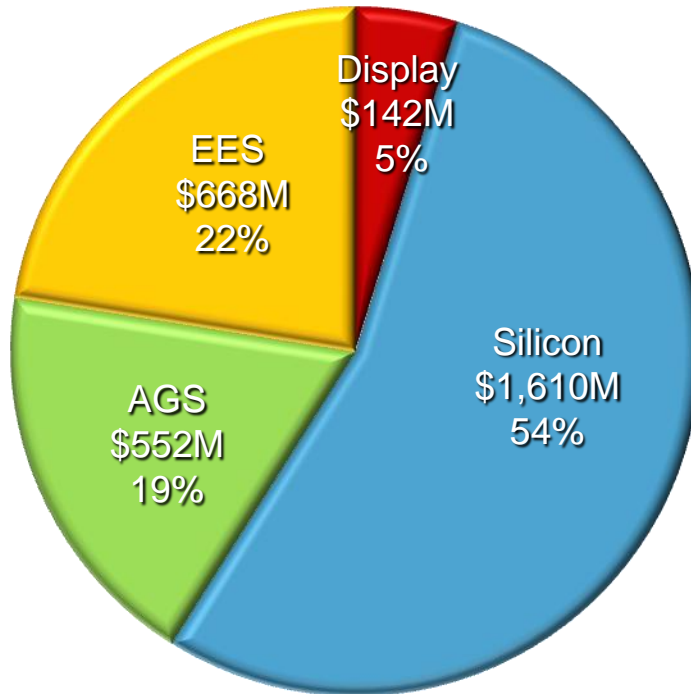
Designs, manufactures and sells equipment used to make flat panel displays



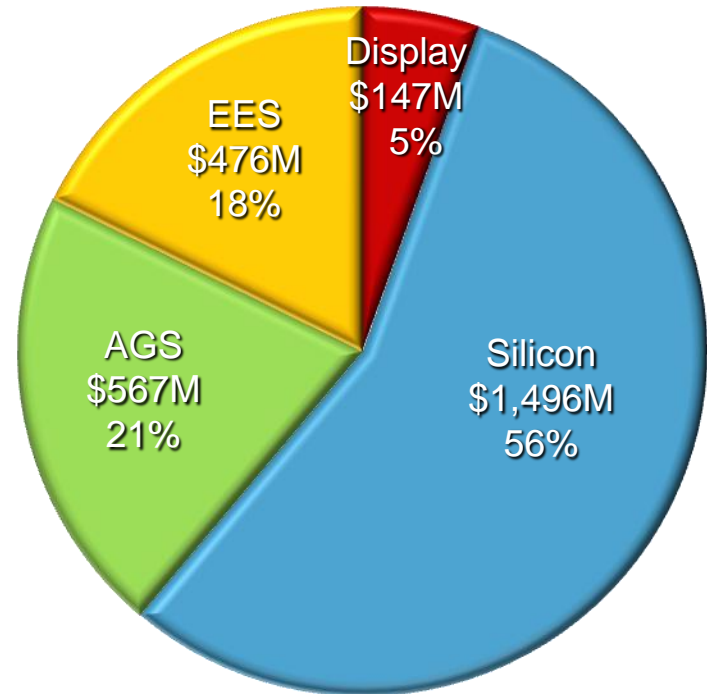
Designs, manufactures and sells equipment used to fabricate solar cells, modules and flexible electronics

<sup>1</sup> Include total parts management, spare parts, remanufactured equipment, maintenance agreements, total support programs and environmental and software solutions

# Q1'11 New Orders and Net Sales by Segment

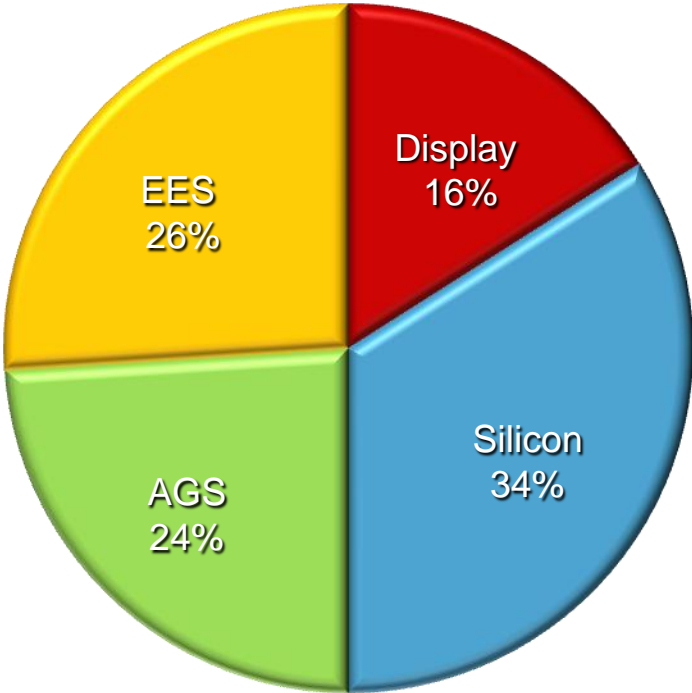


**New Orders**  
**\$2.97 Billion**

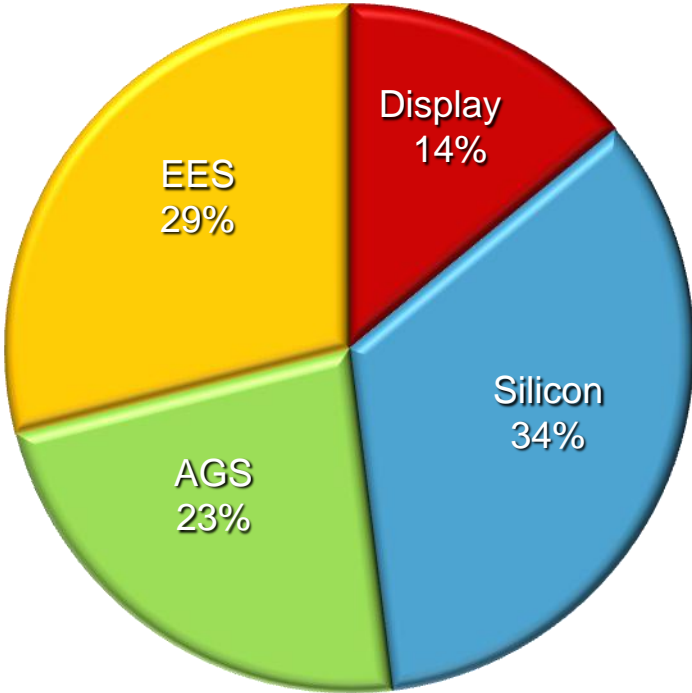


**Net Sales**  
**\$2.69 Billion**

# Backlog by Segment

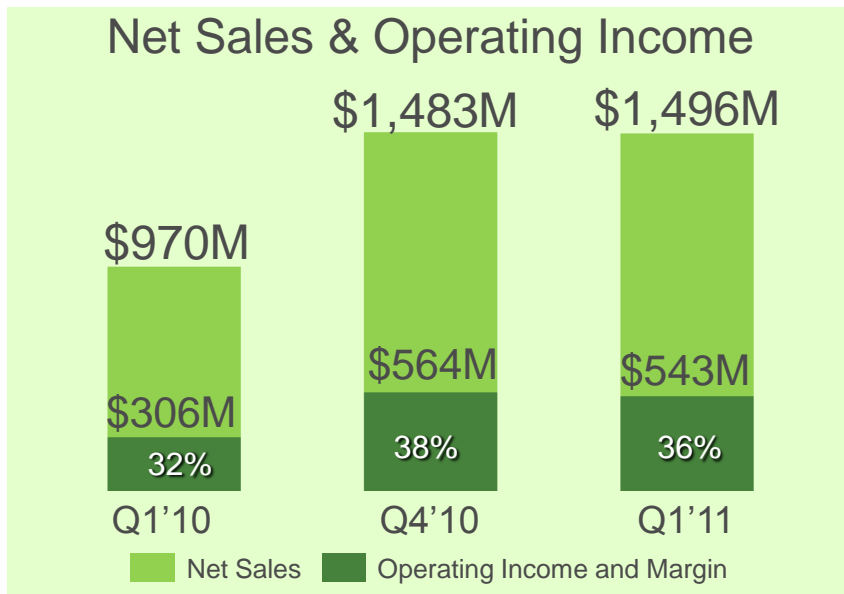
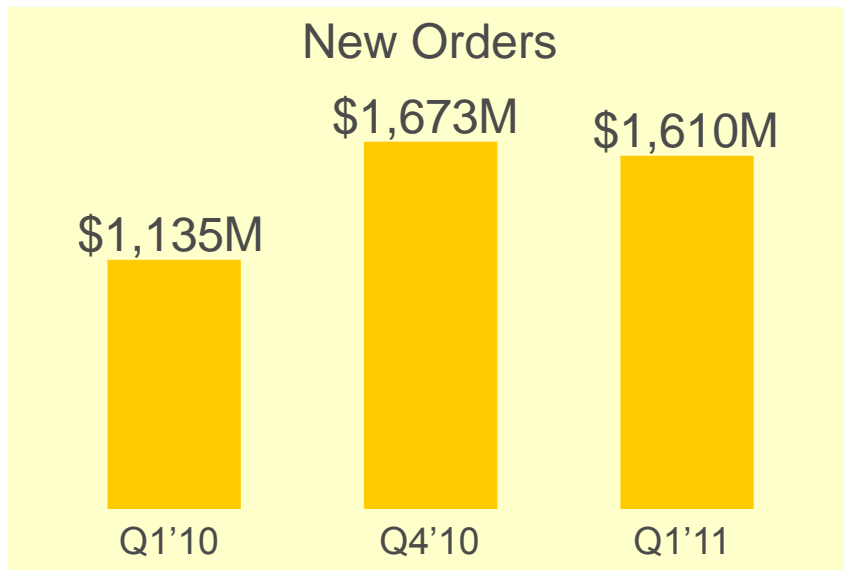


**Q4 FY'10**  
**\$3.24 Billion**



**Q1 FY'11**  
**\$3.54 Billion**

# Silicon Systems Group Segment Summary

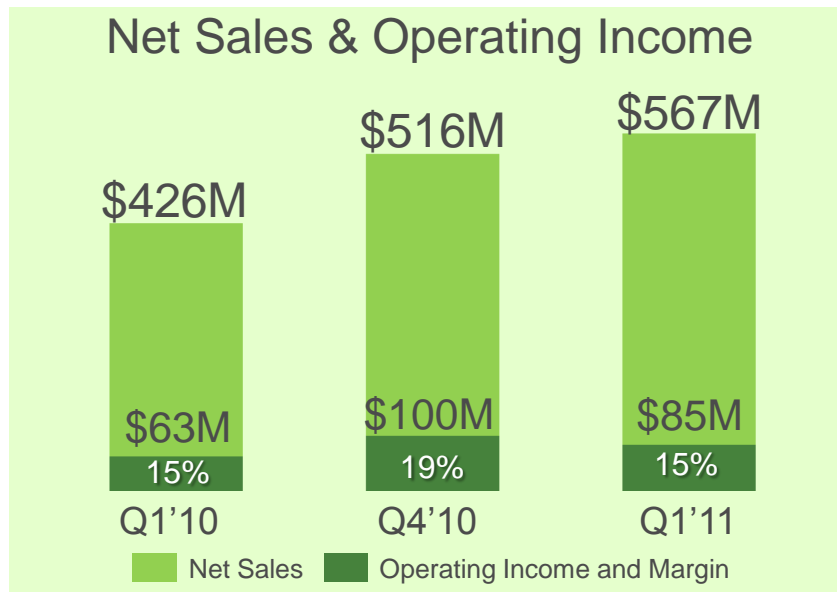
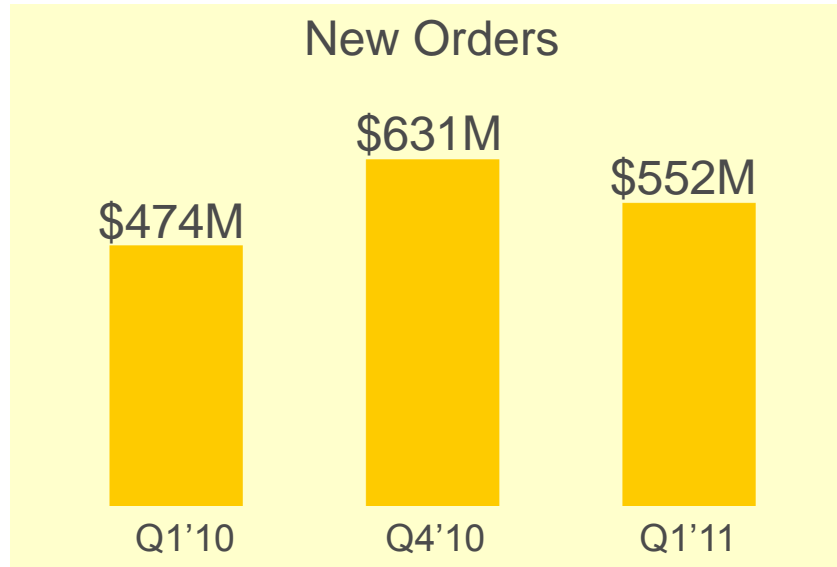


- **Orders down 4% QoQ**
  - DRAM declined ~40% partially offset by Foundry and Flash demand
  - 3 customers accounted for over 60% of SSG bookings
  
- **Net sales up 1% QoQ**
  
- **Operating income of \$543M or 36% of net sales**
  - Operating margin declined by less than 2 points due to mix and the impact of a customer settlement

Q1'11 Orders by Customer Segment

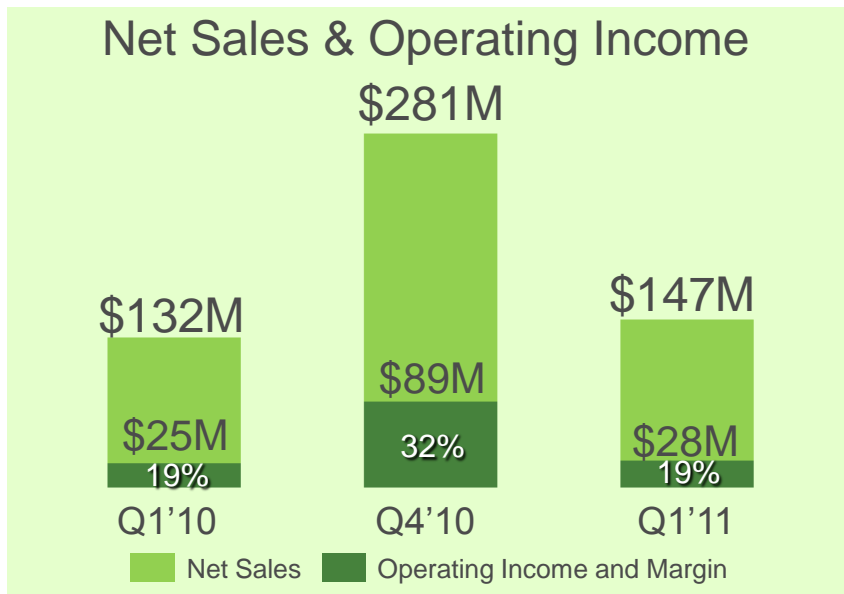
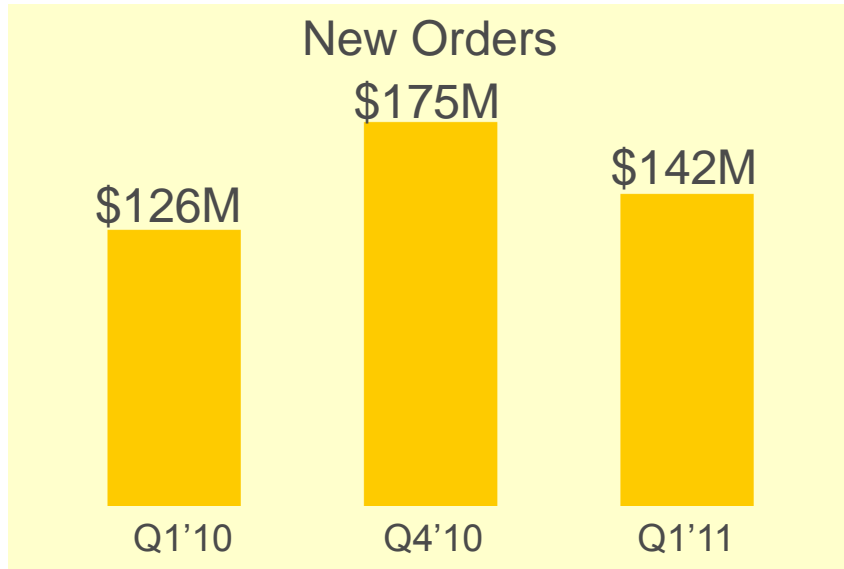
Foundry	DRAM	Flash	Logic & Others
54%	13%	10%	23%

# Applied Global Services Segment Summary



- Orders down 13% QoQ
- Net sales up 10% QoQ
  - Exceeding expectations
  - led by higher 200mm shipments
- Operating income of \$85M or 15% of net sales
  - Negatively impacted by 200mm supply chain constraints

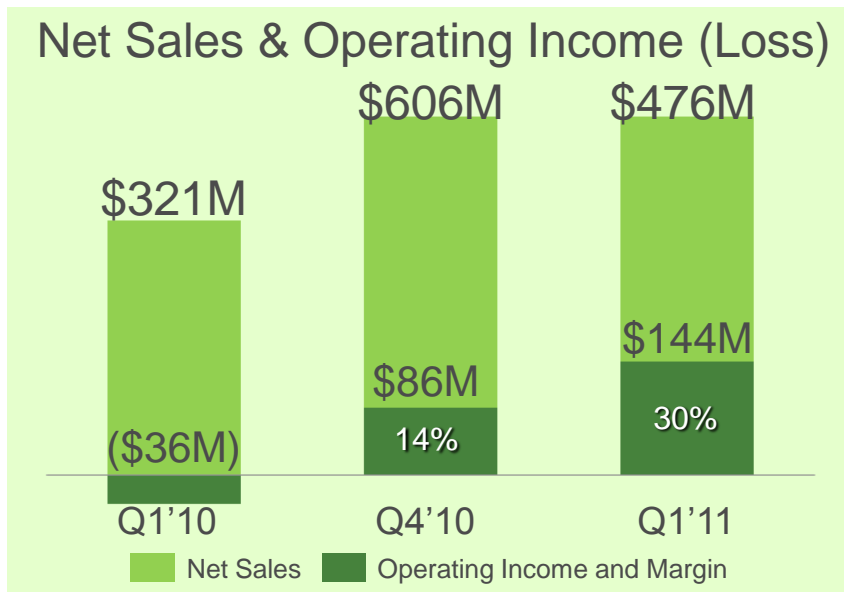
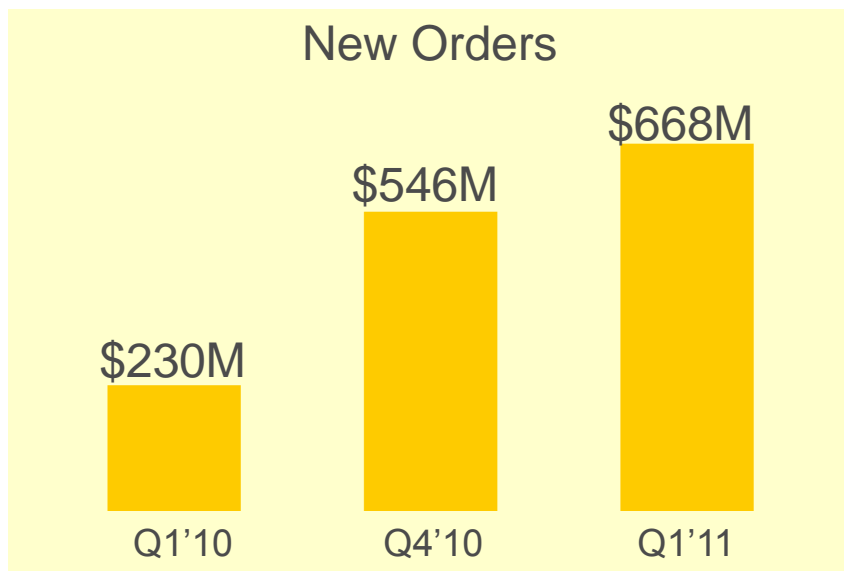
# Display Segment Summary



- Orders down 19% QoQ
- Net sales down 48% QoQ
  - Due to cyclical decline in LCD equipment demand
- Operating income of \$28M or 19% of net sales



# Energy & Environmental Solutions Segment



- Orders up 22% QoQ
  - Record orders, strong demand for c-Si solar equipment
- Net sales down 22% QoQ
  - Excluding \$230M in 4<sup>th</sup> quarter thin film equipment sales, net sales were up 25% QoQ
- Operating profit of \$144M or 30% of net sales
  - Non-GAAP operating margin was 26%\*

\* See slide 23 for reconciliation of GAAP to non-GAAP measures

# Q2'11 Expectations

(As of February 24, 2011)

<b>Net Sales</b>	Flat to Up 5% from Q1'11
<b>Non-GAAP EPS*</b>	\$0.34 to \$0.38

\* Excludes known charges related to completed acquisitions of approximately \$0.01 per share; outlook does not take into account other non-GAAP adjustments that may arise subsequent to Q1'11 earnings release.

**We now expect FY non-GAAP earnings per share to exceed \$1.50 at the \$11B revenue level\***

\* See slide 25 and slide 26 for non-GAAP EPS reconciliations

# Reconciliation of GAAP to Non-GAAP Results

	Three Months Ended		
	January 30, 2011	October 31, 2010	January 31, 2010
<i>(In millions, except per share amounts)</i>			
<u>Non-GAAP Operating Income</u>			
Reported operating income (GAAP basis)	\$ 674	\$ 699	\$ 116
Certain items associated with acquisitions <sup>1</sup>	13	14	26
Semitool deal cost	-	-	10
Restructuring and asset impairments <sup>2,3,4</sup>	(29)	(2)	104
Loss on sale of facility	1	-	-
Non-GAAP operating income	<u>\$ 659</u>	<u>\$ 710</u>	<u>\$ 256</u>
<u>Non-GAAP Net Income</u>			
Reported net income (GAAP basis)	\$ 506	\$ 468	\$ 83
Certain items associated with acquisitions <sup>1</sup>	13	14	26
Semitool deal cost	-	-	10
Restructuring and asset impairments <sup>2,3,4</sup>	(29)	(2)	104
Impairment of strategic investments	-	-	1
Loss on sale of facility	1	-	-
Reinstatement of federal R&D tax credit	(13)	-	-
Income tax effect of non-GAAP adjustments	6	(4)	(45)
Non-GAAP net income	<u>\$ 484</u>	<u>\$ 476</u>	<u>\$ 179</u>
<u>Non-GAAP Net Income Per Diluted Share</u>			
Reported net income per diluted share (GAAP basis)	\$ 0.38	\$ 0.35	\$ 0.06
Certain items associated with acquisitions	0.01	0.01	0.01
Semitool deal cost	-	-	0.01
Restructuring and asset impairments	(0.01)	-	0.05
Impairment of strategic investments	-	-	-
Loss on sale of facility	-	-	-
Reinstatement of federal R&D tax credit	(0.01)	-	-
Non-GAAP net income – per diluted share	\$ 0.36	\$ 0.36	\$ 0.13
Shares used in diluted shares calculation	1,335	1,340	1,350

<sup>1</sup>These items are incremental charges attributable to acquisitions consisting of inventory fair value adjustments on products sold and amortization of purchased intangible assets.

<sup>2</sup> Results for the three months ended January 30, 2011 included asset impairment charges of \$3 million related to a facility held-for-sale, offset by favorable adjustments of \$28 million related to a restructuring program announced on July 21, 2010, and \$4 million related to a restructuring program announced on November 12, 2008.

<sup>3</sup> Results for the three months ended October 31, 2010 included a \$2 million reinstatement of certain fixed assets that were previously impaired in the EES restructuring plan announced on July 21, 2010.

<sup>4</sup> Results for the three months ended January 31, 2010 included restructuring charges of \$104 million associated with a restructuring program announced on November 11, 2009.

# Reconciliation of GAAP to Non-GAAP Measures – Free Cash Flow

(Dollars in Millions)

<b>Free Cash Flow</b>	<b>Three months ended January 30, 2011</b>
Cash from Operations	\$425
Capital Expenditures	\$(24)
<b>Free cash flow</b>	<b>\$402</b>
Revenue	\$2,686
<b>Free cash flow margin</b>	<b>15%</b>

# Detail of Certain Items Associated with Acquisitions\*

	<b>Three Months Ended</b>		
	<b>January 30, 2011</b>	<b>October 31, 2010</b>	<b>January 31, 2010</b>
<b>Certain items associated with acquisitions</b>		<b>(in thousands)</b>	
Cost of products sold	\$ 9,198	\$ 10,143	\$ 22,145
Marketing and selling	3,611	3,622	3,817
<b>Total</b>	<b>\$ 12,809</b>	<b>\$ 13,765</b>	<b>\$ 25,962</b>

\* Details to amounts shown on slide 19 for certain items associated with acquisitions

# Reconciliation of GAAP to Non-GAAP Gross Margin

	<b>Three Months Ended</b>	
	<b>January 30, 2011</b>	<b>October 31, 2010</b>
	(in millions)	
<b>Net sales (GAAP basis)</b>	<u>\$ 2,686</u>	<u>\$ 2,886</u>
<b>Reported gross profit (GAAP basis)</b>	\$ 1,136	\$ 1,217
Certain items associated with acquisitions	<u>9</u>	<u>10</u>
<b>Non-GAAP gross profit</b>	<u>\$ 1,145</u>	<u>\$ 1,227</u>
 <b>Non-GAAP gross margin (% of net sales)</b>	 42.6%	 42.5%

# Reconciliation of GAAP to Non-GAAP EES Operating Margin

	<b>Three Months Ended</b>	
	<b>January 30, 2011</b>	
	<b>(in millions)</b>	
<b>Net sales (GAAP basis)</b>	\$	476
<b>Operating income (GAAP basis)</b>	\$	144
Certain items associated with acquisitions	\$	6
Favorable adjustment to restructuring		(28)
<b>Non-GAAP operating income</b>	\$	122
<b>Non-GAAP operating margin (% of net sales)</b>		25.6%

# Reconciliation of GAAP to Non-GAAP Operating Expenses

	<b>Three Months Ended</b>	
	<b>January 30, 2011</b>	<b>May 1, 2011</b>
	<b>Reported</b>	<b>Forecasted</b>
	(in millions)	
<b>Reported and forecasted operating expenses (GAAP basis)</b>	\$ 462	\$513 - \$533
Certain items associated with acquisitions	(4)	(3)
Loss on sale of facility	(1)	-
Restructuring and asset impairment	29	-
<b>Non-GAAP operating expenses</b>	<b>\$ 486</b>	<b>\$510 - \$530</b>

*The forecast does not take into account other non-GAAP adjustments that may arise subsequent to Q1'11 earnings release*



# Reconciliation of Forecasted Non-GAAP EPS

	<u>Three Months Ended</u> <u>May 1, 2011</u>
Forecasted EPS (GAAP basis)	<u>Forecasted</u> \$0.33 - \$0.37
Known charges related to completed acquisitions	\$0.01
Forecasted non-GAAP EPS three months ended May 1, 2011	<u><u>\$0.34 - \$0.38</u></u>

*The forecast does not take into account other adjustments that may arise subsequent to Q1'11 earnings release*

# Reconciliation of Non-GAAP EPS for Fiscal 2011

	<b>Fiscal 2011</b>
	<b>Forecasted</b>
Non-GAAP EPS three months ended January 30, 2011	\$ 0.36
Forecasted non-GAAP EPS three months ended May 1, 2011	\$0.34 - \$0.38
Forecasted EPS (GAAP basis) May 2, 2011 - October 30, 2011	\$0.74 - \$0.78
Known charges related to completed acquisitions May 2, 2011 - October 30, 2011	\$ 0.02
Forecasted non-GAAP EPS fiscal year ending October 30, 2011	<u>\$ 1.50</u>

*The forecast does not take into account other adjustments that may arise subsequent to Q1'11 earnings release*



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