



# Q4 FY2016 Earnings Call

## GAAP to non-GAAP Reconciliations

November 17, 2016

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

	Three Months Ended			Twelve Months Ended	
	October 30, 2016	July 31, 2016	October 25, 2015	October 30, 2016	October 25, 2015
<i>(In millions, except percentages)</i>					
<b>Non-GAAP Adjusted Gross Profit</b>					
Reported gross profit - GAAP basis	\$ 1,399	\$ 1,192	\$ 959	\$ 4,511	\$ 3,952
Certain items associated with acquisitions <sup>1</sup>	42	42	42	167	162
Inventory charges (reversals) related to restructuring <sup>3, 4</sup>	-	(1)	1	(2)	35
Other significant gains, losses or charges, net <sup>6</sup>	-	-	(2)	-	(2)
Non-GAAP adjusted gross profit	<u>\$ 1,441</u>	<u>\$ 1,233</u>	<u>\$ 1,000</u>	<u>\$ 4,676</u>	<u>\$ 4,147</u>
Non-GAAP adjusted gross margin	43.7%	43.7%	42.2%	43.2%	42.9%
<b>Non-GAAP Adjusted Operating Income</b>					
Reported operating income - GAAP basis	\$777	\$596	\$423	\$2,152	\$1,693
Certain items associated with acquisitions <sup>1</sup>	47	47	47	188	185
Acquisition integration and deal costs	-	2	-	2	2
Gain on derivatives associated with terminated business combination, net	-	-	-	-	(89)
Certain items associated with terminated business combination <sup>2</sup>	-	-	-	-	50
Inventory charges (reversals) related to restructuring and asset impairments, net <sup>3, 4</sup>	-	(1)	(1)	(3)	49
Other significant gains, losses or charges, net <sup>5, 6</sup>	8	-	(13)	8	6
Non-GAAP adjusted operating income	<u>\$ 832</u>	<u>\$ 644</u>	<u>\$ 456</u>	<u>\$ 2,347</u>	<u>\$ 1,896</u>
Non-GAAP adjusted operating margin	25.2%	22.8%	19.3%	21.7%	19.6%
<b>Non-GAAP Adjusted Net Income</b>					
Reported net income - GAAP basis <sup>7</sup>	\$ 610	\$ 505	\$ 336	\$ 1,721	\$1,377
Certain items associated with acquisitions <sup>1</sup>	47	47	47	188	185
Acquisition integration and deal costs	-	2	-	2	2
Gain on derivatives associated with terminated business combination, net	-	-	-	-	(89)
Certain items associated with terminated business combination <sup>2</sup>	-	-	-	-	50
Inventory charges (reversals) related to restructuring and asset impairments, net <sup>3, 4</sup>	-	(1)	(1)	(3)	49
Impairment (gain on sale) of strategic investments, net	6	-	(2)	3	4
Loss on early extinguishment of debt	-	-	-	5	-
Other significant gains, losses or charges, net <sup>5, 6</sup>	8	-	(13)	8	6
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items <sup>7</sup>	57	1	(18)	45	(110)
Income tax effect of non-GAAP adjustments <sup>8</sup>	<u>(6)</u>	<u>(4)</u>	<u>(2)</u>	<u>(19)</u>	<u>(17)</u>
Non-GAAP adjusted net income	<u>\$ 722</u>	<u>\$ 550</u>	<u>\$ 347</u>	<u>\$ 1,950</u>	<u>\$1,457</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 terminated business combination agreement with Tokyo Electron Limited, consisting of acquisition-related and integration planning costs.

3 Results for the three months ended July 31, 2016 and twelve months ended October 30, 2016 primarily included benefit from sales of solar equipment tools for which inventory had been previously reserved related to the cost reductions in the solar business.

4 Results for the three months ended October 25, 2015 included a \$2 million favorable adjustment of restructuring reserves related to prior restructuring plans and \$1 million of inventory charges related to cost reductions in the solar business. Results for fiscal 2015 primarily included \$35 million of inventory charges and \$17 million of restructuring charges and asset impairments related to cost reductions in the solar business, and a \$2 million favorable adjustment of restructuring reserves related to prior restructuring plans.

5 Results for the three and twelve months ended October 30, 2016 included a loss of \$8 million due to discontinuance of cash flow hedges that were probable not to occur by the end of the originally specified time period.

6 Results for the three and twelve months ended October 25, 2015 included immaterial correction of errors related to prior periods, partially offset by costs related to executive termination.

7 Amounts for fiscal 2016 and 2015 included resolution of prior years' income tax filings and other tax items. Amounts for fiscal 2015 included an adjustment to decrease the provision for income taxes by \$28 million with a corresponding increase in net income, resulting in an increase in diluted earnings per share of \$0.02. The adjustment was excluded in Applied's non-GAAP adjusted results and was made primarily to correct an error in the recognition of cost of sales in the U.S. related to intercompany sales, which resulted in overstating profitability in the U.S. and the provision for income taxes in immaterial amounts in each year since fiscal 2010.

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

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

	Three Months Ended			Twelve Months Ended	
	October 30, 2016	July 31, 2016	October 25, 2015	October 30, 2016	October 25, 2015
<i>(In millions, except per share amounts)</i>					
<b>Non-GAAP Adjusted Earnings Per Diluted Share</b>					
Reported earnings per diluted share - GAAP basis <sup>1</sup>	\$0.56	\$0.46	\$0.28	\$1.54	\$1.12
Certain items associated with acquisitions	0.04	0.04	0.04	0.16	0.14
Certain items associated with terminated business combination	-	-	-	-	0.03
Gain on derivatives associated with terminated business combination, net	-	-	-	-	(0.05)
Restructuring, inventory charges and asset impairments	-	-	-	-	0.03
Other significant gains, losses or charges, net	0.01	-	(0.01)	0.01	0.01
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items <sup>1</sup>	0.05	-	(0.02)	0.04	(0.09)
Non-GAAP adjusted earnings per diluted share	<u>\$0.66</u>	<u>\$0.50</u>	<u>\$0.29</u>	<u>\$1.75</u>	<u>\$1.19</u>
Weighted average number of diluted shares	1,093	1,093	1,190	1,116	1,226

<sup>1</sup> Amounts for fiscal 2016 and 2015 included resolution of prior years' income tax filings and other tax items. Amounts for fiscal 2015 included an adjustment to decrease the provision for income taxes by \$28 million with a corresponding increase in net income, resulting in an increase in diluted earnings per share of \$0.02. The adjustment was excluded in Applied's non-GAAP adjusted results and was made primarily to correct an error in the recognition of cost of sales in the U.S. related to intercompany sales, which resulted in overstating profitability in the U.S. and the provision for income taxes in immaterial amounts in each year since fiscal 2010.

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

<i>(In millions, except percentages)</i>	Three Months Ended			Twelve Months Ended	
	October 30, 2016	July 31, 2016	October 25, 2015	October 30, 2016	October 25, 2015
<b>Reported operating income (GAAP basis)</b>	\$ 667	\$ 511	\$ 318	\$ 1,807	\$ 1,410
Certain items associated with acquisitions	46	45	47	184	178
<b>Non-GAAP adjusted operating income</b>	<b>\$ 713</b>	<b>\$ 556</b>	<b>\$ 365</b>	<b>\$ 1,991</b>	<b>\$ 1,588</b>
<b>Non-GAAP adjusted operating margin (% of net sales)</b>	33.5%	31.1%	24.4%	29.0%	25.9%

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

<i>(In millions, except percentages)</i>	Three Months Ended			Twelve Months Ended	
	October 30, 2016	July 31, 2016	October 25, 2015	October 30, 2016	October 25, 2015
<b>Reported operating income (GAAP basis)</b>	\$ 193	\$ 175	\$ 160	\$ 682	\$ 630
Certain items associated with acquisitions	-	1	-	1	1
Inventory charges related to restructuring	-	-	-	-	3
Other significant gains, losses or charges, net	-	-	(1)	-	(1)
<b>Non-GAAP adjusted operating income</b>	<b>\$ 193</b>	<b>\$ 176</b>	<b>\$ 159</b>	<b>\$ 683</b>	<b>\$ 633</b>
<b>Non-GAAP adjusted operating margin (% of net sales)</b>	27.8%	26.8%	26.0%	26.4%	25.9%

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

<i>(In millions, except percentages)</i>	Three Months Ended			Twelve Months Ended	
	October 30, 2016	July 31, 2016	October 25, 2015	October 30, 2016	October 25, 2015
<b>Reported operating income (GAAP basis)</b>	\$ 103	\$ 63	\$ 28	\$ 245	\$ 191
Certain items associated with acquisitions	-	-	-	-	3
<b>Non-GAAP adjusted operating income</b>	<b>\$ 103</b>	<b>\$ 63</b>	<b>\$ 28</b>	<b>\$ 245</b>	<b>\$ 194</b>
<b>Non-GAAP adjusted operating margin (% of net sales)</b>	22.8%	20.1%	11.9%	20.3%	20.6%

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

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<i>(In millions)</i>	Three Months Ended	
	October 30, 2016	July 31, 2016
<b>Operating expenses (GAAP basis)</b>	\$ 622	\$ 596
Certain items associated with acquisitions	(5)	(5)
Acquisition integration and deal costs	-	(2)
Other significant gains, losses or charges, net	(8)	-
<b>Non-GAAP adjusted operating expenses</b>	<b>\$ 609</b>	<b>\$ 589</b>

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

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	<b>Three Months Ended</b>
	<b>October 30, 2016</b>
<i>(In millions, except percentages)</i>	
<b>Provision for income taxes (GAAP basis)</b>	\$ 130
Reinstatement of federal R&D tax credit, resolutions of prior years' income tax filings and other tax items	(57)
Income tax effect of non-GAAP adjustments	6
<b>Non-GAAP adjusted provision for income taxes</b>	<b>\$ 79</b>
	<b>Three Months Ended</b>
	<b>October 30, 2016</b>
<b>Income before income taxes (GAAP basis)</b>	\$ 740
Certain items associated with acquisitions	47
Impairment of strategic investments, net	6
Other significant gains, losses or charges, net	8
<b>Non-GAAP adjusted income before income taxes</b>	<b>\$ 801</b>
<b>Effective income tax rate (GAAP basis)</b>	17.6%
<b>Non-GAAP adjusted effective income tax rate</b>	9.9%

**APPLIED MATERIALS, INC.**  
**UNAUDITED RECONCILIATION OF FREE CASH FLOW**

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	<u>Twelve Months Ended</u> <u>October 30, 2016</u>
<i>(In millions)</i>	
<b>Free Cash Flow</b>	
Cash provided by operating activities	2,466
Capital expenditures	<u>(253)</u>
<b>Free Cash Flow</b>	<u>\$ 2,213</u>

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

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Non-GAAP outlook for the first quarter of fiscal 2017 (including non-GAAP gross margin, operating margin, operating expenses and EPS) excludes known charges related to completed acquisitions of approximately \$47 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.