



Q1 FY2017 Earnings Call

GAAP to non-GAAP Reconciliations

February 15, 2017

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

	Three Months Ended		
	January 29, 2017	October 30, 2016	January 31, 2016
<i>(In millions, except percentages)</i>			
Non-GAAP Adjusted Gross Profit			
Reported gross profit - GAAP basis	\$ 1,445	\$ 1,399	\$ 916
Certain items associated with acquisitions ¹	42	42	42
Inventory reversals related to restructuring ²	-	-	(1)
Non-GAAP adjusted gross profit	<u>\$ 1,487</u>	<u>\$ 1,441</u>	<u>\$ 957</u>
Non-GAAP adjusted gross margin	45.4%	43.7%	42.4%
Non-GAAP Adjusted Operating Income			
Reported operating income - GAAP basis	\$807	\$777	\$354
Certain items associated with acquisitions ¹	47	47	48
Acquisition integration costs	1	-	-
Inventory reversals related to restructuring ²	-	-	(1)
Other gains, losses or charges, net ³	(3)	8	-
Non-GAAP adjusted operating income	<u>\$ 852</u>	<u>\$ 832</u>	<u>\$ 401</u>
Non-GAAP adjusted operating margin	26.0%	25.2%	17.8%
Non-GAAP Adjusted Net Income			
Reported net income - GAAP basis	\$ 703	\$ 610	\$ 286
Certain items associated with acquisitions ¹	47	47	48
Acquisition integration costs	1	-	-
Inventory reversals related to restructuring ²	-	-	(1)
Impairment (gain on sale) of strategic investments, net	5	6	(2)
Loss on early extinguishment of debt	-	-	5
Other gains, losses or charges, net ³	(3)	8	-
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items	(16)	57	(29)
Income tax effect of non-GAAP adjustments ⁴	(5)	(6)	(5)
Non-GAAP adjusted net income	<u>\$ 732</u>	<u>\$ 722</u>	<u>\$ 302</u>

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

2 Results for the three months ended January 31, 2016 included a benefit from sales of solar equipment tools for which inventory had been previously reserved.

3 Results for the three 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.

4 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		
	January 29, 2017	October 30, 2016	January 31, 2016
<i>(In millions, except per share amounts)</i>			
Non-GAAP Adjusted Earnings Per Diluted Share			
Reported earnings per diluted share - GAAP basis	\$0.65	\$0.56	\$0.25
Certain items associated with acquisitions	0.04	0.04	0.04
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items	(0.02)	0.05	(0.03)
Other gains, losses or charges, net	-	0.01	-
Non-GAAP adjusted earnings per diluted share	<u>\$0.67</u>	<u>\$0.66</u>	<u>\$0.26</u>
Weighted average number of diluted shares	<u>1,089</u>	<u>1,093</u>	<u>1,154</u>

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

	Three Months Ended		
	January 29, 2017	October 30, 2016	January 31, 2016
<i>(In millions, except percentages)</i>			
Reported operating income (GAAP basis)	\$ 690	\$ 667	\$ 265
Certain items associated with acquisitions ¹	46	46	47
Non-GAAP adjusted operating income	<u>\$ 736</u>	<u>\$ 713</u>	<u>\$ 312</u>
Non-GAAP adjusted operating margin (% of net sales)	34.2%	33.5%	22.7%

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

	Three Months Ended		
	January 29, 2017	October 30, 2016	January 31, 2016
<i>(In millions, except percentages)</i>			
Reported operating income (GAAP basis)	\$ 178	\$ 193	\$ 149
Acquisition integration costs	1	-	-
Non-GAAP adjusted operating income	<u>\$ 179</u>	<u>\$ 193</u>	<u>\$ 149</u>
Non-GAAP adjusted operating margin (% of net sales)	26.5%	27.8%	24.6%

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

	Three Months Ended		
	January 29, 2017	October 30, 2016	January 31, 2016
<i>(In millions, except percentages)</i>			
Reported operating income (GAAP basis)	\$ 115	\$ 103	\$ 480
Certain items associated with acquisitions ¹	-	-	-
Non-GAAP adjusted operating income	<u>\$ 115</u>	<u>\$ 103</u>	<u>\$ 480</u>
Non-GAAP adjusted operating margin (% of net sales)	27.3%	22.8%	18.9%

¹ 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

<i>(In millions)</i>	Three Months Ended		
	January 29, 2017	October 30, 2016	January 31, 2016
Operating expenses (GAAP basis)	\$ 638	\$ 622	\$ 562
Certain items associated with acquisitions	(5)	(5)	(6)
Acquisition integration costs	(1)	-	-
Other gains, losses or charges, net	3	(8)	-
Non-GAAP adjusted operating expenses	\$ 635	\$ 609	\$ 556

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

	Three Months Ended		
	January 29, 2017	October 30, 2016	January 31, 2016
<i>(In millions, except percentages)</i>			
Provision for income taxes (GAAP basis)	\$ 68	\$ 130	\$ 28
Reinstatement of federal R&D tax credit, resolutions of prior years' income tax filings and other tax items	16	(57)	29
Income tax effect of non-GAAP adjustments	5	6	5
Non-GAAP adjusted provision for income taxes	\$ 89	\$ 79	\$ 62

	Three Months Ended		
	January 29, 2017	October 30, 2016	January 31, 2016
Income before income taxes (GAAP basis)	\$ 771	\$ 740	\$ 314
Certain items associated with acquisitions	47	47	48
Inventory reversals related to restructuring	-	-	(1)
Acquisition integration costs	1	-	-
Impairment of strategic investments, net	5	6	-
Gain on sale of strategic investments, net	-	-	(2)
Other gains, losses or charges, net	(3)	8	-
Non-GAAP adjusted income before income taxes	\$ 821	\$ 801	\$ 364

Effective income tax rate (GAAP basis)	8.8%	17.6%	8.9%
Non-GAAP adjusted effective income tax rate	10.8%	9.9%	17.0%

APPLIED MATERIALS, INC.
UNAUDITED RECONCILIATION OF FREE CASH FLOW

	Three Months Ended		
	January 29, 2017	October 30, 2016	January 31, 2016
<i>(In millions)</i>			
Free Cash Flow			
Cash provided by operating activities	\$ 646	\$ 2,466	\$ 207
Capital expenditures	(64)	(253)	(68)
Free Cash Flow	<u>\$ 582</u>	<u>\$ 2,213</u>	<u>\$ 139</u>

APPLIED MATERIALS, INC.
RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK

Non-GAAP outlook for the second quarter of fiscal 2017 (including non-GAAP gross margin, operating margin, operating expenses and EPS) excludes known charges related to completed acquisitions of approximately \$46 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.