



Q2 FY2018 Earnings Call

GAAP to non-GAAP Reconciliations

May 17, 2018

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

	Three Months Ended		Six Months Ended	
	April 29, 2018	April 30, 2017	April 29, 2018	April 30, 2017
<i>(In millions, except percentages)</i>				
Non-GAAP Adjusted Gross Profit				
Reported gross profit - GAAP basis	\$ 2,090	\$ 1,600	\$ 4,010	\$ 3,045
Certain items associated with acquisitions ¹	44	41	89	83
Non-GAAP adjusted gross profit	<u>\$ 2,134</u>	<u>\$ 1,641</u>	<u>\$ 4,099</u>	<u>\$ 3,128</u>
Non-GAAP adjusted gross margin	46.7%	46.3%	46.7%	45.8%
Non-GAAP Adjusted Operating Income				
Reported operating income - GAAP basis	\$ 1,327	\$ 940	\$ 2,523	\$ 1,747
Certain items associated with acquisitions ¹	49	46	98	93
Acquisition integration costs	1	1	2	2
Other gains, losses or charges, net	-	-	-	(3)
Non-GAAP adjusted operating income	<u>\$ 1,377</u>	<u>\$ 987</u>	<u>\$ 2,623</u>	<u>\$ 1,839</u>
Non-GAAP adjusted operating margin	30.2%	27.8%	29.9%	26.9%
Non-GAAP Adjusted Net Income				
Reported net income - GAAP basis	\$ 1,129	\$ 824	\$ 1,264	\$ 1,527
Certain items associated with acquisitions ¹	49	46	98	93
Acquisition integration costs	1	1	2	2
Impairment (gain on sale) of strategic investments, net	5	-	4	5
Other gains, losses or charges, net	-	-	-	(3)
Income tax effect of share-based compensation ²	13	-	(26)	-
Income tax effect of changes in applicable U.S. tax laws ³	71	-	1,077	-
Resolution of prior years' income tax filings and other tax items	10	(6)	(3)	(22)
Income tax effect of non-GAAP adjustments ⁴	(5)	(4)	(8)	(9)
Non-GAAP adjusted net income	<u>\$ 1,273</u>	<u>\$ 861</u>	<u>\$ 2,408</u>	<u>\$ 1,593</u>
Non-GAAP Adjusted Earnings Per Diluted Share				
Reported earnings per diluted share - GAAP basis	\$ 1.09	\$ 0.76	\$ 1.20	\$ 1.40
Certain items associated with acquisitions	0.04	0.04	0.09	0.08
Income tax effect of share-based compensation	0.01	-	(0.03)	-
Income tax effect of changes in applicable U.S. tax laws	0.07	-	1.02	-
Resolution of prior year's income tax filings and other tax items	0.01	(0.01)	-	(0.02)
Non-GAAP adjusted earnings per diluted share	<u>\$ 1.22</u>	<u>\$ 0.79</u>	<u>\$ 2.28</u>	<u>\$ 1.46</u>
Weighted average number of diluted shares	1,040	1,087	1,056	1,088

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

2 Applied adopted the accounting standard related to share-based compensation (ASU 2016-09) in the first quarter of fiscal 2018, which resulted in \$53 million tax benefit on a GAAP basis for the six months ended April 29, 2018; 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
SEMICONDUCTOR SYSTEMS OPERATING RESULTS

	Three Months Ended		Six Months Ended	
	April 29, 2018	April 30, 2017	April 29, 2018	April 30, 2017
<i>(In millions, except percentages)</i>				
Reported operating income (GAAP basis)	\$ 1,071	\$ 808	\$ 2,066	\$ 1,498
Certain items associated with acquisitions ¹	46	46	92	92
Non-GAAP adjusted operating income	\$ 1,117	\$ 854	\$ 2,158	\$ 1,590
Non-GAAP adjusted operating margin (% of net sales)	37.2%	35.5%	36.9%	34.9%

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

	Three Months Ended		Six Months Ended	
	April 29, 2018	April 30, 2017	April 29, 2018	April 30, 2017
<i>(In millions, except percentages)</i>				
Reported operating income (GAAP basis)	\$ 278	\$ 194	\$ 532	\$ 372
Acquisition integration costs	-	1	1	2
Non-GAAP adjusted operating income	\$ 278	\$ 195	\$ 533	\$ 374
Non-GAAP adjusted operating margin (% of net sales)	29.5%	26.9%	29.2%	26.7%

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

	Three Months Ended		Six Months Ended	
	April 29, 2018	April 30, 2017	April 29, 2018	April 30, 2017
<i>(In millions, except percentages)</i>				
Reported operating income (GAAP basis)	\$ 162	\$ 84	\$ 263	\$ 199
Certain items associated with acquisitions ¹	3	-	6	-
Acquisition integration costs	1	-	1	-
Non-GAAP adjusted operating income	\$ 166	\$ 84	\$ 270	\$ 199
Non-GAAP adjusted operating margin (% of net sales)	27.7%	21.5%	25.6%	24.5%

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

	Three Months Ended		Six Months Ended	
	April 29, 2018	April 30, 2017	April 29, 2018	April 30, 2017
<i>(In millions)</i>				
Operating expenses (GAAP basis)	\$ 763	\$ 660	\$ 1,487	\$ 1,298
Certain items associated with acquisitions	(5)	(5)	(9)	(10)
Acquisition integration costs	(1)	(1)	(2)	(2)
Other gains, losses or charges, net	-	-	-	3
Non-GAAP adjusted operating expenses	<u>\$ 757</u>	<u>\$ 654</u>	<u>\$ 1,476</u>	<u>\$ 1,289</u>

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

	Three Months Ended	
	April 29, 2018	April 30, 2017
<i>(In millions)</i>		
Provision for income taxes (GAAP basis)	\$ 166	\$ 84
Income tax effect of share-based compensation	(13)	-
Income tax effect of changes in applicable U.S. tax laws	(71)	-
Resolution of prior years' income tax filings and other tax items	(10)	6
Income tax effect of non-GAAP adjustments	5	4
Non-GAAP adjusted provision for income taxes	\$ 77	\$ 94

	Three Months Ended	
	April 29, 2018	April 30, 2017
<i>(In millions, except percentages)</i>		
Income before income taxes (GAAP basis)	\$ 1,295	\$ 908
Certain items associated with acquisitions	49	46
Acquisition integration costs	1	1
Impairment (gain on sale) of strategic investments, net	5	-
Other gains, losses or charges, net	-	-
Non-GAAP adjusted income before income taxes	\$ 1,350	\$ 955
Effective income tax rate (GAAP basis)	12.8%	9.3%
Non-GAAP adjusted effective income tax rate	5.7%	9.8%

APPLIED MATERIALS, INC.
RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK

Non-GAAP outlook for the third 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 \$0.05 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.