

Q3 FY2022 Earnings Call

GAAP to non-GAAP Reconciliations

August 18, 2022



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

	Three Months Ended		Nine Months Ended	
	July 31, 2022	August 1, 2021	July 31, 2022	August 1, 2021
<i>(In millions, except percentages)</i>				
Non-GAAP Adjusted Gross Profit				
Reported gross profit - GAAP basis	\$ 3,006	\$ 2,967	\$ 8,892	\$ 7,969
Certain items associated with acquisitions ¹	7	6	20	21
Certain incremental expenses related to COVID-19 ²	—	—	—	12
Other charges	—	—	—	2
Non-GAAP adjusted gross profit	<u>\$ 3,013</u>	<u>\$ 2,973</u>	<u>\$ 8,912</u>	<u>\$ 8,004</u>
Non-GAAP adjusted gross margin	46.2%	48.0%	46.8%	47.2%
Non-GAAP Adjusted Operating Income				
Reported operating income - GAAP basis	\$ 1,924	\$ 2,013	\$ 5,794	\$ 4,875
Certain items associated with acquisitions ¹	10	11	29	36
Acquisition integration and deal costs	19	5	32	40
Certain incremental expenses related to COVID-19 ²	—	—	—	24
Severance and related charges ³	—	—	(4)	158
Deal termination fee	—	—	—	154
Other charges	—	—	—	6
Non-GAAP adjusted operating income	<u>\$ 1,953</u>	<u>\$ 2,029</u>	<u>\$ 5,851</u>	<u>\$ 5,293</u>
Non-GAAP adjusted operating margin	30.0%	32.7%	30.7%	31.2%
Non-GAAP Adjusted Net Income				
Reported net income - GAAP basis	\$ 1,606	\$ 1,716	\$ 4,934	\$ 4,176
Certain items associated with acquisitions ¹	10	11	29	36
Acquisition integration and deal costs	12	5	28	41
Certain incremental expenses related to COVID-19 ²	—	—	—	24
Severance and related charges ³	—	—	(4)	158
Deal termination fee	—	—	—	154
Realized loss (gain) on strategic investments, net	(1)	(6)	(1)	(2)
Unrealized loss (gain) on strategic investments, net	18	(13)	(15)	(45)
Other charges	—	—	—	6
Income tax effect of share-based compensation ⁴	22	11	(22)	(12)
Income tax effects related to intra-entity intangible asset transfers	21	23	120	60
Resolution of prior years' income tax filings and other tax items	1	(9)	(54)	(22)
Income tax effect of non-GAAP adjustments ⁵	(6)	2	—	(43)
Non-GAAP adjusted net income	<u>\$ 1,683</u>	<u>\$ 1,740</u>	<u>\$ 5,015</u>	<u>\$ 4,531</u>

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

2 Temporary incremental employee compensation during the COVID-19 pandemic.

3 The severance and related charges primarily related to a one-time voluntary retirement program offered to certain eligible employees.

4 GAAP basis tax benefit related to share-based compensation is recognized ratably over the fiscal year on a non-GAAP basis.

5 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

	Three Months Ended		Nine Months Ended	
	July 31, 2022	August 1, 2021	July 31, 2022	August 1, 2021
<i>(In millions, except per share amounts)</i>				
Non-GAAP Adjusted Earnings Per Diluted Share				
Reported earnings per diluted share - GAAP basis	\$ 1.85	\$ 1.87	\$ 5.59	\$ 4.52
Certain items associated with acquisitions	0.01	0.01	0.03	0.03
Acquisition integration and deal costs	0.01	0.01	0.03	0.04
Certain incremental expenses related to COVID-19	—	—	—	0.02
Severance and related charges	—	—	—	0.13
Deal termination fee	—	—	—	0.17
Realized loss (gain) on strategic investments, net	—	(0.01)	—	0.01
Unrealized loss (gain) on strategic investments, net	0.02	(0.01)	(0.02)	(0.05)
Other charges	—	—	—	0.01
Income tax effect of share-based compensation	0.03	0.01	(0.03)	(0.01)
Income tax effects related to intra-entity intangible asset transfers	0.02	0.03	0.14	0.06
Resolution of prior year's income tax filings and other tax items	—	(0.01)	(0.06)	(0.02)
Non-GAAP adjusted earnings per diluted share	\$ 1.94	\$ 1.90	\$ 5.68	\$ 4.91
Weighted average number of diluted shares	869	918	883	923

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

	Three Months Ended		Nine Months Ended	
	July 31, 2022	August 1, 2021	July 31, 2022	August 1, 2021
<i>(In millions, except percentages)</i>				
Reported operating income (GAAP basis)	\$ 1,701	\$ 1,785	\$ 5,120	\$ 4,588
Certain items associated with acquisitions ¹	7	9	22	29
Acquisition integration costs	—	—	—	(2)
Certain incremental expenses related to COVID-19 ²	—	—	—	12
Other charges	—	—	—	3
Non-GAAP adjusted operating income	<u>\$ 1,708</u>	<u>\$ 1,794</u>	<u>\$ 5,142</u>	<u>\$ 4,630</u>
Non-GAAP adjusted operating margin (% of net sales)	36.1%	40.3%	37.4%	38.7%

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

	Three Months Ended		Nine Months Ended	
	July 31, 2022	August 1, 2021	July 31, 2022	August 1, 2021
<i>(In millions, except percentages)</i>				
Reported operating income (GAAP basis)	\$ 434	\$ 393	\$ 1,259	\$ 1,083
Certain incremental expenses related to COVID-19 ²	—	—	—	8
Other charges	—	—	—	1
Non-GAAP adjusted operating income	<u>\$ 434</u>	<u>\$ 393</u>	<u>\$ 1,259</u>	<u>\$ 1,092</u>
Non-GAAP adjusted operating margin (% of net sales)	30.6%	30.6%	30.5%	30.0%

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

	Three Months Ended		Nine Months Ended	
	July 31, 2022	August 1, 2021	July 31, 2022	August 1, 2021
<i>(In millions, except percentages)</i>				
Reported operating income (GAAP basis)	\$ 69	\$ 99	\$ 226	\$ 229
Certain items associated with acquisitions ¹	1	1	3	3
Certain incremental expenses related to COVID-19 ²	—	—	—	1
Severance and related charges ³	—	—	—	8
Non-GAAP adjusted operating income	<u>\$ 70</u>	<u>\$ 100</u>	<u>\$ 229</u>	<u>\$ 241</u>
Non-GAAP adjusted operating margin (% of net sales)	21.0%	23.2%	21.2%	19.8%

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

2 Temporary incremental employee compensation during the COVID-19 pandemic.

3 The severance and related charges related to workforce reduction actions globally across the Display and Adjacent Markets business.

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

	Three Months Ended		Nine Months Ended	
	July 31, 2022	August 1, 2021	July 31, 2022	August 1, 2021
<i>(In millions)</i>				
Operating expenses (GAAP basis)	\$ 1,082	\$ 954	\$ 3,098	\$ 3,094
Certain items associated with acquisitions	(3)	(5)	(9)	(15)
Acquisition integration and deal costs	(19)	(5)	(32)	(40)
Certain incremental expenses related to COVID-19	—	—	—	(12)
Severance and related charges	—	—	4	(158)
Deal termination fee	—	—	—	(154)
Other charges	—	—	—	(4)
Non-GAAP adjusted operating expenses	<u>\$ 1,060</u>	<u>\$ 944</u>	<u>\$ 3,061</u>	<u>\$ 2,711</u>

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

	Three Months Ended	
	July 31, 2022	August 1, 2021
<i>(In millions)</i>		
Provision for income taxes (GAAP basis) (a)	\$ 255	\$ 264
Income tax effect of share-based compensation	(22)	(11)
Income tax effects related to intra-entity intangible asset transfers	(21)	(23)
Resolution of prior years' income tax filings and other tax items	(1)	9
Income tax effect of non-GAAP adjustments	6	(2)
Non-GAAP adjusted provision for income taxes (b)	<u>\$ 217</u>	<u>\$ 237</u>

	Three Months Ended	
	July 31, 2022	August 1, 2021
<i>(In millions, except percentages)</i>		
Income before income taxes (GAAP basis) (c)	\$ 1,861	\$ 1,980
Certain items associated with acquisitions	10	11
Acquisition integration and deal costs	12	5
Realized loss (gain) on strategic investments, net	(1)	(6)
Unrealized loss (gain) on strategic investments, net	18	(13)
Non-GAAP adjusted income before income taxes (d)	<u>\$ 1,900</u>	<u>\$ 1,977</u>
Effective income tax rate (GAAP basis) (a/c)	13.7%	13.3%
Non-GAAP adjusted effective income tax rate (b/d)	11.4%	12.0%

APPLIED MATERIALS, INC.
UNAUDITED CALCULATION OF NON-GAAP MEASURES

	Three Months Ended				
	July 31, 2022	May 1, 2022	January 30, 2022	October 31, 2021	August 1, 2021
<i>(In millions)</i>					
Free Cash Flow¹					
Cash provided by operating activities	\$ 1,469	\$ 415	\$ 2,658	\$ 1,148	\$ 1,686
Capital expenditures	(210)	(210)	(144)	(206)	(137)
Free cash flow	<u>\$ 1,259</u>	<u>\$ 205</u>	<u>\$ 2,514</u>	<u>\$ 942</u>	<u>\$ 1,549</u>

1 Free cash flow is a non-GAAP measure and is defined as net cash provided by operating activities less capital expenditures.

APPLIED MATERIALS, INC.
UNAUDITED CALCULATION OF NON-GAAP MEASURES

(In millions)

Cash, cash equivalents and investments

	<u>July 31,</u> <u>2022</u>	<u>October 31,</u> <u>2021</u>
Cash and cash equivalents	\$ 2,956	\$ 4,995
Short-term investments	592	464
Long-term investments	2,047	2,055
Cash, cash equivalents, and investments	<u><u>\$ 5,595</u></u>	<u><u>\$ 7,514</u></u>

APPLIED MATERIALS, INC.
RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK

Non-GAAP outlook for the fourth quarter of fiscal 2022 (including non-GAAP gross margin, operating margin, operating expenses and EPS) excludes known charges related to completed acquisitions of approximately \$10 million, or \$0.01 per share, includes the normalized tax benefit of share-based compensation of approximately \$21 million, or \$0.02 per share, and includes a net income tax benefit related to intra-entity intangible asset transfers of \$22 million, or \$0.03 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.