

Q4 FY2015 Earnings Call

GAAP to non-GAAP Reconciliations

November 12, 2015



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

	Three Months Ended			Twelve Months Ended	
	Oct 25, 2015	Jul 26, 2015	Oct 26, 2014	Oct 25, 2015	Oct 26, 2014
<i>(In millions, except percentages)</i>					
Non-GAAP Adjusted Gross Profit					
Reported gross profit - GAAP basis	\$ 959	\$ 1,018	\$ 959	\$ 3,952	\$ 3,843
Certain items associated with acquisitions ¹	42	41	42	162	158
Inventory charges related to restructuring ^{3, 4}	1	34	-	35	-
Acquisition integration costs	-	-	-	-	1
Other significant gains, losses or charges, net ⁷	(2)	-	-	(2)	-
Non-GAAP adjusted gross profit	<u>\$ 1,000</u>	<u>\$ 1,093</u>	<u>\$ 1,001</u>	<u>\$ 4,147</u>	<u>\$ 4,002</u>
Non-GAAP adjusted gross margin	42.2%	43.9%	44.2%	42.9%	44.1%
Non-GAAP Adjusted Operating Income					
Reported operating income - GAAP basis	\$ 423	\$ 396	\$ 412	\$ 1,693	\$ 1,520
Certain items associated with acquisitions ¹	47	47	48	185	183
Acquisition integration costs	-	1	4	2	34
Loss (gain) on derivatives associated with terminated business combination, net	-	3	(39)	(89)	(30)
Certain items associated with terminated business combination ²	-	1	23	50	73
Restructuring, inventory charges and asset impairments ^{3, 4, 5}	(1)	50	(2)	49	5
Foreign exchange loss due to functional currency change ⁶	-	19	-	19	-
Other significant gains, losses or charges, net ⁷	(13)	-	(4)	(13)	(4)
Non-GAAP adjusted operating income	<u>\$ 456</u>	<u>\$ 517</u>	<u>\$ 442</u>	<u>\$ 1,896</u>	<u>\$ 1,781</u>
Non-GAAP adjusted operating margin	19.3%	20.8%	19.5%	19.6%	19.6%
Non-GAAP Adjusted Net Income					
Reported net income - GAAP basis ⁸	\$ 336	\$ 329	\$ 256	\$ 1,377	\$ 1,072
Certain items associated with acquisitions ¹	47	47	48	185	183
Acquisition integration costs	-	1	4	2	34
Loss (gain) on derivatives associated with terminated business combination, net	-	3	(39)	(89)	(30)
Certain items associated with terminated business combination ²	-	1	23	50	73
Restructuring, inventory charges and asset impairments ^{3, 4, 5}	(1)	50	(2)	49	5
Gain on sale of facility	(2)	(1)	(5)	4	(9)
Foreign exchange loss due to functional currency change ⁶	-	19	-	19	-
Other significant gains, losses or charges, net ⁷	(13)	-	(4)	(13)	(4)
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items ⁸	(18)	(21)	50	(110)	28
Income tax effect of non-GAAP adjustments	(2)	(18)	7	(17)	(38)
Non-GAAP adjusted net income	<u>\$ 347</u>	<u>\$ 410</u>	<u>\$ 338</u>	<u>\$ 1,457</u>	<u>\$ 1,314</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 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 the three months ended July 26, 2015 primarily included \$34 million of inventory charges and \$17 million of restructuring charges and asset impairments related to the solar business.

4 Results for fiscal 2015 primarily included \$35 million of inventory charges, \$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 months ended October 26, 2014 included a \$2 million favorable adjustment of restructuring reserve, and results for the twelve months ended October 26, 2014 included \$5 million of employee-related costs related to the restructuring program announced on October 3, 2012.

6 Results for the three months ended July 26, 2015 and fiscal 2015 included a \$19 million foreign exchange loss due to an immaterial correction of an error related to functional currency change.

7 These items are significant gains, losses, or charges during a period that are the result of isolated events or transactions which have not occurred frequently in the past and are not expected to occur regularly or be repeated in the future.

8 Amounts for fiscal 2015 included an adjustment to decrease the provision for income taxes by \$35 million with a corresponding increase in net income, resulting in an increase in diluted earnings per share of \$0.03. 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 RESULTS

	Three Months Ended			Twelve Months Ended	
	Oct 25, 2015	Jul 26, 2015	Oct 26, 2014	Oct 25, 2015	Oct 26, 2014
<i>(In millions, except per share amounts)</i>					
Non-GAAP Adjusted Earnings Per Diluted Share					
Reported earnings per diluted share - GAAP basis ¹	\$0.28	\$0.27	\$0.21	\$1.12	\$0.87
Certain items associated with acquisitions	0.04	0.03	0.04	0.14	0.13
Acquisition integration costs	-	-	-	-	0.02
Certain items associated with terminated business combination	-	-	0.01	0.03	0.05
Gain on derivatives associated with terminated business combination, net	-	-	(0.02)	(0.05)	(0.02)
Restructuring, inventory charges and asset impairments	-	0.03	-	0.03	-
Other significant gains, losses or charges, net	(0.01)	-	-	(0.01)	-
Foreign exchange loss due to functional currency change	-	0.02	-	0.02	-
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items ¹	(0.02)	(0.02)	0.03	(0.09)	0.02
Non-GAAP adjusted earnings per diluted share	<u>\$0.29</u>	<u>\$0.33</u>	<u>\$0.27</u>	<u>\$1.19</u>	<u>\$1.07</u>
Weighted average number of diluted shares	1,190	1,231	1,236	1,226	1,231

- ¹ Amounts for fiscal 2015 included an adjustment to decrease the provision for income taxes by \$35 million with a corresponding increase in net income, resulting in an increase in diluted earnings per share of \$0.03. 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 SILICON SYSTEMS OPERATING MARGIN

<i>(In millions, except percentages)</i>	Three Months Ended			Twelve Months Ended	
	Oct 25, 2015	Jul 26, 2015	Oct 26, 2014	Oct 25, 2015	Oct 26, 2014
Reported operating income (GAAP basis)	\$ 318	\$ 411	\$ 305	\$ 1,410	\$ 1,391
Certain items associated with acquisitions	47	44	46	178	172
Acquisition integration costs	-	-	1	-	2
Non-GAAP adjusted operating income	\$ 365	\$ 455	\$ 352	\$ 1,588	\$ 1,565
Non-GAAP adjusted operating margin (% of net sales)	24.4%	27.8%	24.5%	25.9%	26.2%

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	
	Oct 25, 2015	Jul 26, 2015	Oct 26, 2014	Oct 25, 2015	Oct 26, 2014
Reported operating income (GAAP basis)	\$ 171	\$ 170	\$ 146	\$ 664	\$ 573
Certain items associated with acquisitions	-	-	-	1	3
Inventory charges related to restructuring	-	3	-	3	-
Other significant gains, losses or charges, net	(1)	-	-	(1)	-
Non-GAAP adjusted operating income	\$ 170	\$ 173	\$ 146	\$ 667	\$ 576
Non-GAAP adjusted operating margin (% of net sales)	26.7%	26.0%	24.7%	26.4%	26.2%

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

<i>(In millions, except percentages)</i>	Three Months Ended			Twelve Months Ended	
	Oct 25, 2015	Jul 26, 2015	Oct 26, 2014	Oct 25, 2015	Oct 26, 2014
Reported operating income (GAAP basis)	\$ 19	\$ 25	\$ 52	\$ 156	\$ 129
Certain items associated with acquisitions	-	1	-	2	2
Non-GAAP adjusted operating income	\$ 19	\$ 26	\$ 52	\$ 158	\$ 131
Non-GAAP adjusted operating margin (% of net sales)	9.9%	17.2%	27.4%	20.3%	21.3%

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

<i>(In millions, except percentages)</i>	Three Months Ended			Twelve Months Ended	
	Oct 25, 2015	Jul 26, 2015	Oct 26, 2014	Oct 25, 2015	Oct 26, 2014
Reported operating income (loss) (GAAP basis)	\$ -	\$ (52)	\$ (3)	\$ (61)	\$ 15
Certain items associated with acquisitions	-	2	2	4	6
Impairment of goodwill and intangible assets	(1)	48	-	47	-
Non-GAAP adjusted operating income (loss)	\$ (1)	\$ (2)	\$ (1)	\$ (10)	\$ 21
Non-GAAP adjusted operating margin (% of net sales)	(2.2)%	(5.1)%	(2.1)%	(4.7)%	7.5%

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

<i>(In millions)</i>	Three Months Ended	
	Oct 25, 2015	Jul 26, 2015
Operating expenses (GAAP basis)	\$ 536	\$ 622
Loss on derivatives associated with terminated business combination	-	(3)
Restructuring charges and asset impairments	2	(16)
Certain items associated with acquisitions	(5)	(6)
Acquisition integration costs	-	(1)
Certain items associated with terminated business combination	-	(1)
Foreign exchange loss due to functional currency change	-	(19)
Other significant gains, losses or charges, net	11	-
Non-GAAP adjusted operating expenses	\$ 544	\$ 576

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

	Three Months Ended Oct 25, 2015	Twelve Months Ended Oct 25, 2015
<i>(In millions, except percentages)</i>		
Provision for income taxes (GAAP basis)	\$ 61	\$ 221
Reinstatement of federal R&D tax credit, resolutions of prior years' income tax filings and other tax items	18	17
Income tax effect of non-GAAP adjustments	2	110
Non-GAAP adjusted provision for income taxes	\$ 81	\$ 348
	Three Months Ended	Twelve Months Ended
Income before income taxes (GAAP basis)	\$ 397	\$ 1,598
Certain items associated with acquisitions	47	185
Restructuring, inventory charges and asset impairments	(1)	49
Acquisition integration costs	-	2
Gain on derivatives associated with terminated business combination	-	(89)
Certain items associated with terminated business combination	-	50
Impairment of goodwill and intangible assets	-	-
Impairment (gain on sale) of strategic investments, net	(2)	4
Foreign exchange loss due to functional currency change	-	19
Other significant gains, losses or charges, net	(13)	(13)
Non-GAAP adjusted income before income taxes	\$ 428	\$ 1,805
Effective income tax rate (GAAP basis)	15.4%	13.8%
Non-GAAP adjusted effective income tax rate	18.9%	19.3%

APPLIED MATERIALS, INC.
RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK

Non-GAAP outlook for the first quarter of fiscal 2016 excludes known charges related to completed acquisitions of \$0.04 per share and does not exclude other non-GAAP adjustments that may arise subsequent to November 12, 2015.