



## Applied Materials Announces First Quarter Results

February 12, 2014

- Net sales and non-GAAP EPS up sequentially and in high end of guidance
- Silicon systems net sales up 19% sequentially reflecting strong customer demand for the company's latest technologies for advanced transistors and NAND memory
- Prepares for planned merger with Tokyo Electron

SANTA CLARA, Calif., February 12, 2014 - Applied Materials, Inc. (NASDAQ:AMAT), the global leader in manufacturing solutions for the semiconductor, display and solar industries, today reported results for its first quarter of fiscal 2014 ended January 26, 2014.

Applied generated orders of \$2.29 billion, up 9 percent from the prior quarter led by demand for Silicon Systems Group products. Net sales were \$2.19 billion, up 10 percent sequentially. Non-GAAP adjusted gross margin increased to 42.5 percent while non-GAAP adjusted operating income grew 18 percent sequentially to \$380 million or 17.4 percent of net sales. Non-GAAP adjusted net income grew 22 percent sequentially to \$279 million or 23 cents per diluted share. The company recorded GAAP gross margin of 40.7 percent, operating income of \$330 million or 15.1 percent of net sales, and net income of \$253 million or 21 cents per diluted share.

"In our first fiscal quarter, Applied Materials delivered earnings near the high end of our guidance range, while demonstrating momentum in revenue, orders and market share," said Gary Dickerson, Chief Executive Officer. "This performance reflects healthy investment by our semiconductor and display customers and major technology trends that are playing to our strengths in precision materials engineering."

### Quarterly Results Summary

<u>GAAP Results</u>	<u>Q1 FY2014</u>	<u>Q4 FY2013</u>	<u>Q1 FY2013</u>
Net sales	\$2.19 billion	\$1.99 billion	\$1.57 billion
Operating income	\$330 million	\$211 million	\$39 million
Net income	\$253 million	\$183 million	\$34 million
Diluted earnings per share (EPS)	\$0.21	\$0.15	\$0.03
<u>Non-GAAP Adjusted Results</u>			
Non-GAAP adjusted operating income	\$380 million	\$323 million	\$112 million
Non-GAAP adjusted net income	\$279 million	\$228 million	\$69 million
Non-GAAP adjusted diluted EPS	\$0.23	\$0.19	\$0.06

Applied's non-GAAP adjusted results exclude the impact of the following, where applicable: certain acquisition-related costs; restructuring charges and any associated adjustments; impairments of assets, goodwill, or investments; gain or loss on sale of facilities and strategic investments; and certain tax items. A reconciliation of the GAAP and non-GAAP adjusted results is provided in the financial tables included in this release. See also "Use of Non-GAAP Adjusted Financial Measures" section.

### First Quarter Reportable Segment Results and Comparisons to the Prior Quarter

Silicon Systems Group (SSG) orders were \$1.57 billion, up 13 percent, with growth in foundry and flash partially offset by decreases in logic/other and DRAM. Net sales increased 19 percent to \$1.48 billion. Non-GAAP adjusted operating income increased to \$357 million or 24.1 percent of net sales. GAAP operating income increased to \$314 million or 21.2 percent of net sales. New order composition was: foundry 60 percent; flash 27 percent; logic/other 8 percent; and DRAM 5 percent.

Applied Global Services (AGS) orders were \$597 million, up 9 percent, primarily due to growth in 200mm equipment and services. Net sales of \$507 million were down 6 percent. Non-GAAP adjusted operating income increased to \$126 million or 24.9 percent of net sales. GAAP operating income increased to \$125 million or 24.7 percent of net sales.

Display orders of \$79 million were down 31 percent, while net sales declined slightly to \$159 million. Non-GAAP adjusted operating income increased to \$27 million or 17.0 percent of net sales. GAAP operating income increased to \$26 million or 16.4 percent of net sales.

Energy and Environmental Solutions (EES) orders of \$40 million were flat. Net sales declined 9 percent to \$40 million. EES had a non-GAAP adjusted operating loss of \$10 million and a GAAP operating loss of \$11 million.

Backlog grew 3 percent to \$2.44 billion including negative adjustments of \$32 million, primarily related to currency adjustments. Backlog composition by segment was: SSG 56 percent; AGS 27 percent; Display 12 percent; and EES 5 percent.

### Business Outlook

For the second quarter of fiscal 2014, Applied expects net sales to be up 3 percent to 10 percent from the previous quarter. Non-GAAP adjusted diluted EPS is expected to be in the range of 25 cents to 29 cents.

Applied's second quarter non-GAAP adjusted diluted EPS outlook excludes known charges related to completed acquisitions and integration costs of 3 cents. The company's second quarter business outlook does not exclude other non-GAAP adjustments that may arise subsequent to this release.

### Use of Non-GAAP Adjusted Financial Measures

Management uses non-GAAP adjusted results to evaluate the company's operating and financial performance in light of business objectives and for planning purposes. These measures are not in accordance with GAAP and may differ from non-GAAP methods of accounting and reporting used by other companies. Applied believes these measures enhance investors' ability to review the company's business from the same perspective as the company's management and facilitate comparisons of this period's results with prior periods. The presentation of this additional information should not be considered a substitute for results prepared in accordance with GAAP.

### Webcast Information

Applied Materials will discuss these results during an earnings call that begins at 1:30 p.m. Pacific Time today. A live webcast will be available at [www.appliedmaterials.com](http://www.appliedmaterials.com). A replay will be available on the website beginning at 5:00 p.m. Pacific Time today.

### Forward-Looking Statements

This press release contains forward-looking statements, including those regarding Applied's performance, momentum and opportunities; industry trends; and its business outlook for the second quarter of fiscal 2014. These statements and their underlying assumptions are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements, including but not limited to: the level of demand for Applied's products, which is subject to many factors, including uncertain global economic and industry conditions, end-demand for electronic products and semiconductors, and customers' new technology and capacity requirements; the timing and nature of technology transitions; the concentrated nature of Applied's customer base; Applied's ability to (i) develop, deliver and support a broad range of products and expand its markets, (ii) achieve the objectives of operational and strategic initiatives, (iii) obtain and protect intellectual property rights in key technologies, (iv) attract, motivate and retain key employees, (v) successfully complete the announced business combination and realize expected benefits and synergies, and (vi) accurately forecast future results, which depends on multiple assumptions related to, without limitation, market conditions, customer requirements and business needs; and other risks described in Applied's SEC filings, including its most recent Forms 10-K and 8-K. All forward-looking statements are based on management's estimates, projections and assumptions as of the date hereof. The company undertakes no obligation to update any forward-looking statements.

### About Applied Materials

Applied Materials, Inc. (Nasdaq:AMAT) is the global leader in providing innovative equipment, services and software to enable the manufacture of advanced semiconductor, flat panel display and solar photovoltaic products. Our technologies help make innovations like smartphones, flat screen TVs and solar panels more affordable and accessible to consumers and businesses around the world. Learn more at [www.appliedmaterials.com](http://www.appliedmaterials.com).

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## APPLIED MATERIALS, INC. UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	Three Months Ended		
	January 26, 2014	October 27, 2013	January 27, 2013
<i>(In millions, except per share amounts)</i>			
Net sales	\$ 2,190	\$ 1,988	\$ 1,573
Cost of products sold	1,299	1,193	991
Gross margin	891	795	582
Operating expenses:			
Research, development and engineering	356	338	304
Marketing and selling	109	99	105
General and administrative	89	117	125
Restructuring charges and asset impairments	7	30	9
Total operating expenses	561	584	543
Income from operations	330	211	39
Impairment of strategic investments	3	1	-
Interest expense	25	24	24
Interest and other income, net	13	8	3
Income before income taxes	315	194	18
Provision (benefit) for income taxes	62	11	(16)
Net income	<u>\$ 253</u>	<u>\$ 183</u>	<u>\$ 34</u>
Earnings per share:			
Basic and diluted	\$ 0.21	\$ 0.15	\$ 0.03
Weighted average number of shares:			
Basic	1,206	1,204	1,198
Diluted	1,225	1,222	1,212

## APPLIED MATERIALS, INC. UNAUDITED CONSOLIDATED CONDENSED BALANCE SHEETS

*(In millions)*

January 26, October 27,

	2014	2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,144	\$ 1,711
Short-term investments	145	180
Accounts receivable, net	1,510	1,633
Inventories	1,533	1,413
Other current assets	682	705
Total current assets	6,014	5,642
Long-term investments	833	1,005
Property, plant and equipment, net	846	850
Goodwill	3,294	3,294
Purchased technology and other intangible assets, net	1,057	1,103
Deferred income taxes and other assets	155	149
Total assets	<u>\$ 12,199</u>	<u>\$ 12,043</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,576	\$ 1,649
Customer deposits and deferred revenue	901	794
Total current liabilities	2,477	2,443
Long-term debt	1,946	1,946
Other liabilities	535	566
Total liabilities	4,958	4,955
Total stockholders' equity	7,241	7,088
Total liabilities and stockholders' equity	<u>\$ 12,199</u>	<u>\$ 12,043</u>

APPLIED MATERIALS, INC.  
UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

<i>(In millions)</i>	Three Months Ended		
	January 26, 2014	October 27, 2013	January 27, 2013
Cash flows from operating activities:			
Net income	\$ 253	\$ 183	\$ 34
Adjustments required to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	94	98	106
Restructuring charges and asset impairments	7	30	9
Unrealized loss (gain) on derivative associated with announced business combination	(24)	7	-
Share-based compensation	46	41	42
Other	(16)	11	(78)
Net change in operating assets and liabilities	12	(351)	(97)
Cash provided by operating activities	372	19	16
Cash flows from investing activities:			
Capital expenditures	(48)	(50)	(49)
Proceeds from sales and maturities of investments	364	276	445
Purchases of investments	(163)	(169)	(143)
Cash provided by investing activities	153	57	253
Cash flows from financing activities:			
Proceeds from common stock issuances and others	28	57	18
Common stock repurchases	-	(47)	(48)
Payments of dividends to stockholders	(120)	(120)	(108)
Cash used in financing activities	(92)	(110)	(138)
Increase (decrease) in cash and cash equivalents	433	(34)	131
Cash and cash equivalents - beginning of period	1,711	1,745	1,392
Cash and cash equivalents - end of period	<u>\$ 2,144</u>	<u>\$ 1,711</u>	<u>\$ 1,523</u>
Supplemental cash flow information:			
Cash payments for income taxes	\$ 26	\$ 12	\$ 32
Cash refunds from income taxes	\$ 9	\$ 35	\$ 65
Cash payments for interest	\$ 39	\$ 7	\$ 39

APPLIED MATERIALS, INC.  
UNAUDITED SUPPLEMENTAL INFORMATION

**Reportable Segment Results**

	Q1 FY2014			Q4 FY2013			Q1 FY2013		
	New Orders	Net Sales	Operating Income (Loss)	New Orders	Net Sales	Operating Income (Loss)	New Orders	Net Sales	Operating Income (Loss)
<i>(In millions)</i>									
SSG	\$1,569	\$1,484	\$ 314	\$1,390	\$1,243	\$ 213	\$1,363	\$ 969	\$ 134
AGS	597	507	125	548	538	115	544	471	89

Display	79	159	26	114	163	19	138	87	3
EES	40	40	(11)	40	44	(30)	68	46	(54)
Corporate	-	-	(124)	-	-	(106)	-	-	(133)
Consolidated	\$2,285	\$2,190	\$330	\$2,092	\$1,988	\$211	\$2,113	\$1,573	\$39

### Corporate Unallocated Expenses

<i>(In millions)</i>		Q1 FY2014	Q4 FY2013	Q1 FY2013
Restructuring charges and asset impairments	\$	7	23	4
Share-based compensation		46	41	42
Other unallocated expenses		71	42	87
Corporate	\$	124	106	133

APPLIED MATERIALS, INC.  
UNAUDITED SUPPLEMENTAL INFORMATION

### Additional Information

		Q1 FY2014	Q4 FY2013	Q1 FY2013
New Orders and Net Sales by Geography				
<i>(In \$ millions)</i>				
United States	New Orders	403	280	261
	Net Sales	391	401	401
% of Total		18%	13%	12%
Europe	New Orders	119	164	203
	Net Sales	134	119	119
% of Total		5%	7%	10%
Japan	New Orders	163	164	117
	Net Sales	181	98	98
% of Total		7%	8%	6%
Korea	New Orders	240	201	209
	Net Sales	198	205	205
% of Total		11%	9%	10%
Taiwan	New Orders	984	705	721
	Net Sales	906	565	565
% of Total		43%	32%	34%
Southeast Asia	New Orders	50	87	95
	Net Sales	65	58	58
% of Total		2%	4%	5%
China	New Orders	326	589	486
	Net Sales	238	127	127
% of Total		14%	27%	23%

### Employees (In thousands)

Regular Full Time	13.6	13.7	13.7
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APPLIED MATERIALS, INC.  
UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED RESULTS

		Three Months Ended		
<i>(In millions, except percentages and per share amounts)</i>		January 26, 2014	October 27, 2013	January 27, 2013
<b>Non-GAAP Adjusted Gross Margin</b>				
Reported gross margin - GAAP basis	\$	891	\$ 795	\$ 582
Certain items associated with acquisitions(1)		39	40	43
Acquisition integration and deal costs		-	-	1
Non-GAAP adjusted gross margin	\$	930	\$ 835	\$ 626
Non-GAAP adjusted gross margin percent (% of net sales)		42.5 %	42.0 %	39.8 %
<b>Non-GAAP Adjusted Operating Income</b>				
Reported operating income - GAAP basis	\$	330	\$ 211	\$ 39
Certain items associated with acquisitions(1)		45	47	54
Acquisition integration and deal costs		11	11	10
Unrealized loss (gain) on derivative associated with announced business combination		(24)	7	-
Certain items associated with announced business combination(2)		11	17	-
Restructuring charges and asset impairments(3), (4), (5)		7	30	9
Non-GAAP adjusted operating income	\$	380	\$ 323	\$ 112
Non-GAAP adjusted operating margin percent (% of net sales)		17.4 %	16.2 %	7.1 %
<b>Non-GAAP Adjusted Net Income</b>				
Reported net income - GAAP basis	\$	253	\$ 183	\$ 34
Certain items associated with acquisitions(1)		45	47	54
Acquisition integration and deal costs		11	11	10
Unrealized loss (gain) on derivative associated with announced business combination		(24)	7	-
Certain items associated with announced business combination(2)		11	17	-
Restructuring charges and asset impairments(3), (4), (5)		7	30	9
Impairment (gain on sale) of strategic investments, net		(5)	(3)	-
Reinstatement of federal R&D tax credit		-	-	(10)
Resolution of prior years' income tax filings and other tax items		(15)	(10)	(11)
Income tax effect of non-GAAP adjustments		(4)	(54)	(17)

Non-GAAP adjusted net income

\$ 279 \$ 228 \$ 69

- 1These items are incremental charges attributable to completed acquisitions, consisting of inventory fair value adjustments on products sold, and amortization of purchased intangible assets.  
 2These items are incremental charges related to the announced business combination agreement with Tokyo Electron Limited, consisting of acquisition-related and integration costs.  
 3Results for the three months ended January 26, 2014 included employee-related costs of \$7 million related to the restructuring program announced on October 3, 2012.  
 4Results for the three months ended October 27, 2013 included \$27 million of employee-related costs related to the restructuring program announced on October 3, 2012, and restructuring and asset impairment charges of \$7 million related to the restructuring program announced on May 10, 2012, partially offset by a favorable adjustment of \$4 million in restructuring charges related to other restructuring plans.  
 5Results for the three months ended January 27, 2013 included \$4 million of employee-related costs related to the restructuring program announced on October 3, 2012, asset impairment charges of \$3 million related to the restructuring program announced on May 10, 2012 and severance charges of \$2 million related to the integration of Varian.

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

	Three Months Ended		
	January 26, 2014	October 27, 2013	January 27, 2013
<i>(In millions except per share amounts)</i>			
<b>Non-GAAP Adjusted Earnings Per Diluted Share</b>			
Reported earnings per diluted share - GAAP basis	\$ 0.21	\$ 0.15	\$ 0.03
Certain items associated with acquisitions	0.03	0.03	0.03
Acquisition integration and deal costs	0.01	-	0.01
Unrealized gain on derivative associated with announced business combination	(0.01)	-	-
Certain items associated with announced business combination	-	0.01	-
Restructuring charges and asset impairments	-	0.01	0.01
Reinstatement of federal R&D tax credit and resolution of prior years' income tax filings and other tax items	(0.01)	(0.01)	(0.02)
Non-GAAP adjusted earnings per diluted share	\$ 0.23	\$ 0.19	\$ 0.06
Weighted average number of diluted shares	1,225	1,222	1,212

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

	Three Months Ended		
	January 26, 2014	October 27, 2013	January 27, 2013
<i>(In millions, except percentages)</i>			
<b>SSG Non-GAAP Adjusted Operating Income</b>			
Reported operating income - GAAP basis	\$ 314	\$ 213	\$ 134
Certain items associated with acquisitions(1)	42	44	44
Acquisition integration and deal costs, net	1	1	1
Restructuring charges and asset impairments(3)	-	-	1
Non-GAAP adjusted operating income	\$ 357	\$ 258	\$ 180
Non-GAAP adjusted operating margin percent (% of net sales)	24.1 %	20.8 %	18.6 %
<b>AGS Non-GAAP Adjusted Operating Income</b>			
Reported operating income - GAAP basis	\$ 125	\$ 115	\$ 89
Certain items associated with acquisitions(1)	1	1	1
Restructuring charges and asset impairments(3)	-	-	1
Non-GAAP adjusted operating income	\$ 126	\$ 116	\$ 91
Non-GAAP adjusted operating margin percent (% of net sales)	24.9 %	21.6 %	19.3 %
<b>Display Non-GAAP Adjusted Operating Income</b>			
Reported operating income - GAAP basis	\$ 26	\$ 19	\$ 3
Certain items associated with acquisitions(1)	1	1	2
Non-GAAP adjusted operating income	\$ 27	\$ 20	\$ 5
Non-GAAP adjusted operating margin percent (% of net sales)	17.0 %	12.3 %	5.7 %
<b>EES Non-GAAP Adjusted Operating Loss</b>			
Reported operating loss - GAAP basis	\$ (11)	\$ (30)	\$ (54)
Certain items associated with acquisitions(1)	1	1	7
Restructuring charges and asset impairments(2), (3)	-	7	3
Non-GAAP adjusted operating loss	\$ (10)	\$ (22)	\$ (44)
Non-GAAP adjusted operating margin percent (% of net sales)	(25.0) %	(50.0) %	(95.7) %

- 1These items are incremental charges attributable to completed acquisitions, consisting of inventory fair value adjustments on products sold, and amortization of purchased intangible assets.  
 2Results for the three months ended October 27, 2013 included restructuring and asset impairment charges of \$7 million related to the restructuring program announced on May 10, 2012.  
 3Results for the three months ended January 27, 2013 included asset impairment charges of \$3 million related to the restructuring program announced on May 10, 2012 and severance charges of \$2 million related to the integration of Varian.

UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED OPERATING EXPENSES

<i>(In millions)</i>	Three Months Ended	
	January 26, 2014	October 27, 2013
Operating expenses - GAAP basis	\$ 561	\$ 584
Unrealized gain (loss) on derivative associated with announced business combination	24	(7)
Restructuring charges and asset impairments	(7)	(30)
Certain items associated with acquisitions	(6)	(7)
Acquisition integration costs	(11)	(11)
Certain items associated with announced business combination	(11)	(17)
Non-GAAP adjusted operating expenses	<u>\$ 550</u>	<u>\$ 512</u>

UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED EFFECTIVE INCOME TAX RATE

<i>(In millions, except percentages)</i>	Three Months Ended	
	January 26, 2014	
Provision for income taxes - GAAP basis (a)	\$ 62	
Resolutions of prior years' income tax filings and other tax items	15	
Income tax effect of non-GAAP adjustments	4	
Non-GAAP adjusted provision for income taxes (b)	<u>\$ 81</u>	
Income before income taxes - GAAP basis (c)	\$ 315	
Certain items associated with acquisitions	45	
Restructuring charges and asset impairments	7	
Acquisition integration costs	11	
Unrealized gain on derivative associated with announced business combination	(24)	
Certain items associated with announced business combination	11	
Gain on sale strategic investments, net	(5)	
Non-GAAP adjusted income before income taxes (d)	<u>\$ 360</u>	
Effective income tax rate - GAAP basis (a/c)	<u>19.7</u>	%
Non-GAAP adjusted effective income tax rate (b/d)	<u>22.5</u>	%