



Applied Materials Announces First Quarter 2019 Results

February 14, 2019

- Quarterly revenue of \$3.75 billion
- GAAP EPS of \$0.80 and non-GAAP EPS of \$0.81
- Returns \$942 million to shareholders

SANTA CLARA, Calif., Feb. 14, 2019 (GLOBE NEWSWIRE) -- Applied Materials, Inc. (NASDAQ:AMAT) today reported results for its first quarter ended Jan. 27, 2019.

First Quarter Results

Applied generated revenue of \$3.75 billion. On a GAAP basis, the company recorded gross margin of 44.4 percent, operating income of \$908 million or 24.2 percent of net sales, and earnings per share (EPS) of \$0.80.

On a non-GAAP adjusted basis, the company reported gross margin of 44.6 percent, operating income of \$925 million or 24.6 percent of net sales, and EPS of \$0.81.

The company returned \$942 million to shareholders including \$750 million in share repurchases and dividends of \$192 million.

"Applied Materials delivered solid first quarter results in a challenging business environment," said Gary Dickerson, president and CEO. "As we navigate the current market dynamics, we remain highly optimistic about the long term and are investing in new technology, products and capabilities that position the company to play a bigger and broader role in the industry's future."

Quarterly Results Summary

	Q1 FY2019	Q1 FY2018	Change
	<i>(In millions, except per share amounts and percentages)</i>		
Net sales	\$ 3,753	\$ 4,205	(11)%
Gross margin	44.4	% 46.1	% (1.7) points
Operating margin	24.2	% 28.9	% (4.7) points
Net income	\$ 771	\$ 165	367 %
Diluted earnings per share	\$ 0.80	\$ 0.15	433 %
Non-GAAP Adjusted Results			
Non-GAAP adjusted gross margin	44.6	% 47.2	% (2.6) points
Non-GAAP adjusted operating margin	24.6	% 30.1	% (5.5) points
Non-GAAP adjusted net income	\$ 779	\$ 1,165	(33)%
Non-GAAP adjusted diluted EPS	\$ 0.81	\$ 1.08	(25)%

Applied adopted Accounting Standards Update 2014-09, Revenue from Contracts with Customers (ASC 606), as of the first day of fiscal 2019 using the full retrospective method. Applied also adopted Accounting Standards Update 2017-07, Compensation—Retirement Benefits, as of the first day of fiscal 2019 using the retrospective method. All prior periods included in the unaudited consolidated condensed balance sheet as of Oct. 28, 2018, and the unaudited consolidated condensed statements of operations and cash flows for the three months ended Jan. 28, 2018, were restated under the new standards. The cumulative impact of the adoption was an increase of approximately \$6 million to beginning retained earnings of the first quarter of fiscal 2019.

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.

Business Outlook

In the second quarter of fiscal 2019, Applied expects net sales to be in the range of \$3.33 billion to \$3.63 billion. Non-GAAP adjusted diluted EPS is expected to be in the range of \$0.62 to \$0.70.

This outlook for non-GAAP adjusted diluted EPS excludes known charges related to completed acquisitions of \$0.01 per share and net income tax benefit related to intra-entity intangible asset transfers of \$0.02 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.

First Quarter Reportable Segment Information

Semiconductor Systems	Q1 FY2019	Q1 FY2018	
	<i>(In millions, except percentages)</i>		
Net sales	\$ 2,268	\$ 2,852	
Foundry, logic and other	44	% 37	%
DRAM	21	% 26	%
Flash	35	% 37	%
Operating income	631	1,024	
Operating margin	27.8	% 35.9	%
Non-GAAP Adjusted Results			
Non-GAAP adjusted operating income	\$ 642	\$ 1,070	
Non-GAAP adjusted operating margin	28.3	% 37.5	%
 Applied Global Services	 Q1 FY2019	 Q1 FY2018	
	<i>(In millions, except percentages)</i>		
Net sales	\$ 962	\$ 881	
Operating income	285	255	
Operating margin	29.6	% 28.9	%
Non-GAAP Adjusted Results			
Non-GAAP adjusted operating income	\$ 285	\$ 256	
Non-GAAP adjusted operating margin	29.6	% 29.1	%
 Display and Adjacent Markets	 Q1 FY2019	 Q1 FY2018	
	<i>(In millions, except percentages)</i>		
Net sales	\$ 507	\$ 443	
Operating income	115	90	
Operating margin	22.7	% 20.3	%
Non-GAAP Adjusted Results			
Non-GAAP adjusted operating income	\$ 118	\$ 93	
Non-GAAP adjusted operating margin	23.3	% 21.0	%

Use of Non-GAAP Adjusted Financial Measures

Applied provides investors with certain non-GAAP adjusted financial measures, which are adjusted for the impact of certain costs, expenses, gains and losses, including certain items related to mergers and acquisitions; restructuring charges and any associated adjustments; impairments of assets, or investments; gain or loss on sale of strategic investments; tax effect of share-based compensation; certain income tax items and other discrete adjustments. Additionally, non-GAAP results exclude estimated discrete income tax expense items associated with changes to recent U.S. tax legislation. Reconciliations of these non-GAAP measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are provided in the financial tables included in this release.

Management uses these non-GAAP adjusted financial measures to evaluate the company's operating and financial performance and for planning purposes, and as performance measures in its executive compensation program. Applied believes these measures enhance an overall understanding of its performance and 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 on a consistent basis by excluding items that management does not believe are indicative of Applied's ongoing operating performance. There are limitations in using non-GAAP financial measures because the non-GAAP financial measures are not prepared in accordance with generally accepted accounting principles, may be different from non-GAAP financial measures used by other companies, and may exclude certain items that may have a material impact upon our reported financial results. The presentation of this additional information is not meant to be considered in isolation or as a substitute for the directly comparable financial measures 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. 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 anticipated growth and trends in our businesses and markets, industry outlooks and demand drivers, technology transitions, our business and financial performance and market share positions, our capital allocation, our investment and growth strategies, our development of new products and technologies, our business outlook for the second quarter of fiscal 2019, and other statements that are not historical facts. These statements and their underlying assumptions are subject to risks and uncertainties and are not guarantees of future performance. Factors that could cause actual results to differ materially from those expressed or implied

by such statements include, without limitation: the level of demand for our products; global economic and industry conditions; global trade issues and changes in trade policies; consumer demand for electronic products; the demand for semiconductors; customers' technology and capacity requirements; the introduction of new and innovative technologies, and the timing of technology transitions; our ability to develop, deliver and support new products and technologies; the concentrated nature of our customer base; our ability to expand our current markets, increase market share and develop new markets; market acceptance of existing and newly developed products; our ability to obtain and protect intellectual property rights in key technologies; our ability to achieve the objectives of operational and strategic initiatives, align our resources and cost structure with business conditions, and attract, motivate and retain key employees; the variability of operating expenses and results among products and segments, and our ability to accurately forecast future results, market conditions, customer requirements and business needs; changes in U.S. tax laws and regulation, and our interpretations of them; and other risks and uncertainties described in our SEC filings, including our most recent Forms 10-K and 8-K. All forward-looking statements are based on management's current estimates, projections and assumptions, and we assume no obligation to update them.

About Applied Materials

Applied Materials, Inc. (Nasdaq: AMAT) is the leader in materials engineering solutions used to produce virtually every new chip and advanced display in the world. Our expertise in modifying materials at atomic levels and on an industrial scale enables customers to transform possibilities into reality. At Applied Materials, our innovations make possible the technology shaping the future. Learn more at www.appliedmaterials.com.

Contact:

Ricky Gradwohl (editorial/media) 408.235.4676
Michael Sullivan (financial community) 408.986.7977

APPLIED MATERIALS, INC. UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

<i>(In millions, except per share amounts)</i>	Three Months Ended	
	January 27, 2019	January 28, 2018
Net sales	\$ 3,753	\$ 4,205
Cost of products sold	2,088	2,265
Gross profit	1,665	1,940
Operating expenses:		
Research, development and engineering	516	489
Marketing and selling	131	126
General and administrative	110	110
Total operating expenses	757	725
Income from operations	908	1,215
Interest expense	60	59
Interest and other income, net	40	27
Income before income taxes	888	1,183
Provision for income taxes	117	1,018
Net income	\$ 771	\$ 165
Earnings per share:		
Basic	\$ 0.81	\$ 0.16
Diluted	\$ 0.80	\$ 0.15
Weighted average number of shares:		
Basic	957	1,056
Diluted	965	1,071

APPLIED MATERIALS, INC. UNAUDITED CONSOLIDATED CONDENSED BALANCE SHEETS

<i>(In millions)</i>	January 27, 2019	October 28, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,192	\$ 3,440
Short-term investments	520	590
Accounts receivable, net	2,444	2,323
Inventories	3,703	3,721
Other current assets	426	530
Total current assets	10,285	10,604
Long-term investments	1,588	1,568
Property, plant and equipment, net	1,456	1,407
Goodwill	3,368	3,368
Purchased technology and other intangible assets, net	199	213

Deferred income taxes and other assets	2,026	473
Total assets	\$ 18,922	\$ 17,633
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,420	\$ 2,721
Contract liabilities	1,356	1,201
Total current liabilities	3,776	3,922
Income taxes payable	1,303	1,254
Long-term debt	5,310	5,309
Other liabilities	324	303
Total liabilities	10,713	10,788
Total stockholders' equity	8,209	6,845
Total liabilities and stockholders' equity	\$ 18,922	\$ 17,633

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

<i>(In millions)</i>	Three Months Ended	
	January 27, 2019	January 28, 2018
Cash flows from operating activities:		
Net income	\$ 771	\$ 165
Adjustments required to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	88	119
Share-based compensation	65	65
Deferred income taxes	41	32
Other	1	—
Net change in operating assets and liabilities	(132)	) 1,085
Cash provided by operating activities	834	1,466
Cash flows from investing activities:		
Capital expenditures	(133)	) (203)
Cash paid for acquisitions, net of cash acquired	—	(5)
Proceeds from sales and maturities of investments	464	1,944
Purchases of investments	(397)	) (384)
Cash provided by (used in) investing activities	(66)	) 1,352
Cash flows from financing activities:		
Common stock repurchases	(750)	) (782)
Tax withholding payments for vested equity awards	(74)	) (141)
Payments of dividends to stockholders	(192)	) (106)
Cash used in financing activities	(1,016)	) (1,029)
Increase (decrease) in cash and cash equivalents	(248)	) 1,789
Cash and cash equivalents — beginning of period	3,440	5,010
Cash and cash equivalents — end of period	\$ 3,192	\$ 6,799
Supplemental cash flow information:		
Cash payments for income taxes	\$ 34	\$ 78
Cash refunds from income taxes	\$ 8	\$ 40
Cash payments for interest	\$ 34	\$ 34

APPLIED MATERIALS, INC.
UNAUDITED SUPPLEMENTAL INFORMATION

Corporate and Other

<i>(In millions)</i>	Q1 FY2019	Q1 FY2018
Unallocated net sales	\$ 16	\$ 29
Unallocated cost of products sold and expenses	(74)	) (118)
Share-based compensation	(65)	) (65)
Total	\$ (123)	) \$ (154)

Additional Information

	Q1 FY2019	Q1 FY2018
Net Sales by Geography <i>(In millions)</i>		

United States	450	370	
% of Total	12	% 9	%
Europe	296	252	
% of Total	8	% 6	%
Japan	651	482	
% of Total	17	% 11	%
Korea	572	1,203	
% of Total	15	% 29	%
Taiwan	656	741	
% of Total	18	% 18	%
Southeast Asia	160	193	
% of Total	4	% 4	%
China	968	964	
% of Total	26	% 23	%
Employees (<i>In thousands</i>)			
Regular Full Time	21.2	19.0	

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

<i>(In millions, except percentages)</i>	Three Months Ended		
	January 27, 2019	January 28, 2018	
Non-GAAP Adjusted Gross Profit			
Reported gross profit - GAAP basis	\$ 1,665	\$ 1,940	
Certain items associated with acquisitions ¹	10	45	
Non-GAAP adjusted gross profit	\$ 1,675	\$ 1,985	
Non-GAAP adjusted gross margin	44.6	% 47.2	%
Non-GAAP Adjusted Operating Income			
Reported operating income - GAAP basis	\$ 908	\$ 1,215	
Certain items associated with acquisitions ¹	14	49	
Acquisition integration and deal costs	3	1	
Non-GAAP adjusted operating income	\$ 925	\$ 1,265	
Non-GAAP adjusted operating margin	24.6	% 30.1	%
Non-GAAP Adjusted Net Income			
Reported net income - GAAP basis	\$ 771	\$ 165	
Certain items associated with acquisitions ¹	14	49	
Acquisition integration and deal costs	3	1	
Impairment (gain on sale) of strategic investments, net	—	(1)
Loss (gain) on strategic investments, net	(12) —	
Income tax effect of share-based compensation ²	(5	) (39)
Income tax effect of changes in applicable U.S. tax laws ³	(24	) 1,006	
Income tax effects related to amortization of intra-entity intangible asset transfers	(28) —	
Resolution of prior years' income tax filings and other tax items	59	(13)
Income tax effect of non-GAAP adjustments ⁴	1	(3)
Non-GAAP adjusted net income	\$ 779	\$ 1,165	

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

2 GAAP basis tax benefit related to share-based compensation 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 RESULTS

<i>(In millions, except per share amounts)</i>	Three Months Ended	
	January 27, 2019	January 28, 2018

Non-GAAP Adjusted Earnings Per Diluted Share		
Reported earnings per diluted share - GAAP basis	\$ 0.80	\$ 0.15
Certain items associated with acquisitions	0.01	0.04
Loss (gain) on strategic investments, net	(0.01)) —
Income tax effect of share-based compensation	—	(0.04)
Income tax effect of changes in applicable U.S. tax laws	(0.02)	) 0.94
Income tax effects related to amortization of intra-entity intangible asset transfers	(0.03)) —
Resolution of prior years' income tax filings and other tax items	0.06	(0.01)
Non-GAAP adjusted earnings per diluted share	\$ 0.81	\$ 1.08
Weighted average number of diluted shares	965	1,071

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

<i>(In millions, except percentages)</i>	Three Months Ended		
	January 27, 2019	January 28, 2018	
Semiconductor Systems Non-GAAP Adjusted Operating Income			
Reported operating income - GAAP basis	\$ 631	\$ 1,024	
Certain items associated with acquisitions ¹	11	46	
Non-GAAP adjusted operating income	\$ 642	\$ 1,070	
Non-GAAP adjusted operating margin	28.3	% 37.5	%
AGS Non-GAAP Adjusted Operating Income			
Reported operating income - GAAP basis	\$ 285	\$ 255	
Acquisition integration costs	—	1	
Non-GAAP adjusted operating income	\$ 285	\$ 256	
Non-GAAP adjusted operating margin	29.6	% 29.1	%
Display and Adjacent Markets Non-GAAP Adjusted Operating Income			
Reported operating income - GAAP basis	\$ 115	\$ 90	
Certain items associated with acquisitions ¹	3	3	
Non-GAAP adjusted operating income	\$ 118	\$ 93	
Non-GAAP adjusted operating margin	23.3	% 21.0	%

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.

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

<i>(In millions, except percentages)</i>	Three Months Ended		
	January 27, 2019		
Provision for income taxes - GAAP basis (a)	\$ 117		
Income tax effect of share-based compensation	5		
Income tax effect of changes in applicable U.S. tax laws	24		
Income tax effects related to amortization of intra-entity intangible asset transfers	28		
Resolutions of prior years' income tax filings and other tax items	(59)		
Income tax effect of non-GAAP adjustments	(1)		
Non-GAAP adjusted provision for income taxes (b)	\$ 114		
Income before income taxes - GAAP basis (c)	\$ 888		
Certain items associated with acquisitions	14		
Acquisition integration and deal costs	3		
Loss (gain) on strategic investments, net	(12)		
Non-GAAP adjusted income before income taxes (d)	\$ 893		
Effective income tax rate - GAAP basis (a/c)	13.2		%
Non-GAAP adjusted effective income tax rate (b/d)	12.8		%



Applied Materials, Inc.