

# Q3 FY2015 Earnings Call

## GAAP to non-GAAP Reconciliations

August 13, 2015



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

	Three Months Ended			Nine Months Ended	
	Jul 26, 2015	Apr 26, 2015	Jul 27, 2014	Jul 26, 2015	Jul 27, 2014
<i>(In millions, except percentages)</i>					
<b>Non-GAAP Adjusted Gross Profit</b>					
Reported gross profit - GAAP basis	\$ 1,018	\$ 1,016	\$ 992	\$ 2,993	\$ 2,884
Certain items associated with acquisitions <sup>1</sup>	41	39	38	120	116
Inventory charges related to restructuring <sup>3</sup>	34	-	-	34	-
Acquisition integration costs	-	-	-	-	1
Non-GAAP adjusted gross profit	<u>\$ 1,093</u>	<u>\$ 1,055</u>	<u>\$ 1,030</u>	<u>\$ 3,147</u>	<u>\$ 3,001</u>
Non-GAAP adjusted gross margin	43.9%	43.2%	45.5%	43.2%	44.1%
<b>Non-GAAP Adjusted Operating Income</b>					
Reported operating income - GAAP basis	\$ 396	\$ 416	\$ 391	\$ 1,270	\$ 1,108
Certain items associated with acquisitions <sup>1</sup>	47	45	44	138	135
Acquisition integration costs	1	-	9	2	30
Loss (gain) on derivative associated with terminated business combination, net	3	(14)	10	(89)	9
Certain items associated with terminated business combination <sup>2</sup>	1	29	23	50	50
Restructuring, inventory charges and asset impairments <sup>3,4</sup>	50	-	-	50	7
Foreign exchange loss due to functional currency change <sup>5</sup>	19	-	-	19	-
Non-GAAP adjusted operating income	<u>\$ 517</u>	<u>\$ 476</u>	<u>\$ 477</u>	<u>\$ 1,440</u>	<u>\$ 1,339</u>
Non-GAAP adjusted operating margin	20.8%	19.5%	21.1%	19.8%	19.7%
<b>Non-GAAP Adjusted Net Income</b>					
Reported net income - GAAP basis <sup>6</sup>	\$ 329	\$ 364	\$ 301	\$ 1,041	\$ 816
Certain items associated with acquisitions <sup>1</sup>	47	45	44	138	135
Acquisition integration costs	1	-	9	2	30
Loss (gain) on derivative associated with terminated business combination, net	3	(14)	10	(89)	9
Certain items associated with terminated business combination <sup>2</sup>	1	29	23	50	50
Restructuring, inventory charges and asset impairments <sup>3,4</sup>	50	-	-	50	7
Impairment (gain on sale) of strategic investments, net	(1)	6	(1)	6	(4)
Foreign exchange loss due to functional currency change <sup>5</sup>	19	-	-	19	-
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items <sup>6</sup>	(21)	(54)	(19)	(92)	(22)
Income tax effect of non-GAAP adjustments	(18)	(14)	(18)	(15)	(45)
Non-GAAP adjusted net income	<u>\$ 410</u>	<u>\$ 362</u>	<u>\$ 349</u>	<u>\$ 1,110</u>	<u>\$ 976</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 and nine months ended July 26, 2015 primarily included \$34 million of inventory charges and \$17 million of restructuring charges and asset impairments related to cost reductions in the solar business.

4 Results for the nine months ended July 27, 2014 included a \$7 million of employee-related costs related to the restructuring program announced on October 3, 2012.

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

6 Amounts for the three months ended April 26, 2015 and nine months ended July 26, 2015 included an adjustment to decrease the provision for income taxes by \$39 million and \$35 million, respectively, 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			Nine Months Ended	
	Jul 26, 2015	Apr 26, 2015	Jul 27, 2014	Jul 26, 2015	Jul 27, 2014
<i>(In millions, except per share amounts)</i>					
<b>Non-GAAP Adjusted Earnings Per Diluted Share</b>					
Reported earnings per diluted share - GAAP basis <sup>1</sup>	\$0.27	\$0.29	\$0.24	\$0.84	\$0.66
Certain items associated with acquisitions	0.03	0.03	0.03	0.10	0.09
Acquisition integration costs	-	-	0.01	-	0.02
Certain items associated with terminated business combination	-	0.02	0.02	0.03	0.04
Gain on derivative associated with terminated business combination, net	-	(0.01)	-	(0.05)	-
Restructuring, inventory charges and asset impairments	0.03	-	-	0.03	-
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items <sup>1</sup>	(0.02)	(0.04)	(0.02)	(0.07)	(0.02)
Foreign exchange loss due to functional currency change	0.02	-	-	0.02	-
Non-GAAP adjusted earnings per diluted share	<u>\$0.33</u>	<u>\$0.29</u>	<u>\$0.28</u>	<u>\$0.90</u>	<u>\$0.79</u>
Weighted average number of diluted shares	1,231	1,241	1,233	1,238	1,230

1 Amounts for the three months ended April 26, 2015 and nine months ended July 26, 2015 included an adjustment to decrease the provision for income taxes by \$39 million and \$35 million, respectively, 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 OPERATING EXPENSES**

---

<i>(In millions)</i>	<b>Three Months Ended</b>	
	<b>Jul 26, 2015</b>	<b>Apr 26, 2015</b>
<b>Operating expenses (GAAP basis)</b>	\$ 622	\$ 600
Gain (loss) on derivative associated with terminated business combination	(3)	14
Restructuring charges and asset impairments	(16)	-
Certain items associated with acquisitions	(6)	(6)
Acquisition integration costs	(1)	-
Certain items associated with terminated business combination	(1)	(29)
Foreign exchange loss due to functional currency change	(19)	-
<b>Non-GAAP adjusted operating expenses</b>	<u>\$ 576</u>	<u>\$ 579</u>

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

<i>(In millions, except percentages)</i>	Three Months Ended			Nine Months Ended	
	Jul 26, 2015	Apr 26, 2015	Jul 27, 2014	Jul 26, 2015	Jul 27, 2014
<b>Reported operating income (GAAP basis)</b>	\$ 411	\$ 374	\$ 381	\$ 1,092	\$ 1,086
Certain items associated with acquisitions	44	44	42	131	126
Acquisition integration costs	-	-	-	-	1
<b>Non-GAAP adjusted operating income</b>	<b>\$ 455</b>	<b>\$ 418</b>	<b>\$ 423</b>	<b>\$ 1,223</b>	<b>\$ 1,213</b>
<b>Non-GAAP adjusted operating margin (% of net sales)</b>	27.8%	26.8%	28.7%	26.4%	26.7%

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

<i>(In millions, except percentages)</i>	Three Months Ended			Nine Months Ended	
	Jul 26, 2015	Apr 26, 2015	Jul 27, 2014	Jul 26, 2015	Jul 27, 2014
<b>Reported operating income (GAAP basis)</b>	\$ 170	\$ 170	\$ 154	\$ 493	\$ 427
Certain items associated with acquisitions	-	-	-	1	3
Inventory charges related to restructuring	3	-	-	3	-
<b>Non-GAAP adjusted operating income</b>	<b>\$ 173</b>	<b>\$ 170</b>	<b>\$ 154</b>	<b>\$ 497</b>	<b>\$ 430</b>
<b>Non-GAAP adjusted operating margin (% of net sales)</b>	26.0%	26.3%	27.2%	26.2%	26.7%

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

<i>(In millions, except percentages)</i>	Three Months Ended			Nine Months Ended	
	Jul 26, 2015	Apr 26, 2015	Jul 27, 2014	Jul 26, 2015	Jul 27, 2014
<b>Reported operating income (GAAP basis)</b>	\$ 25	\$ 40	\$ 25	\$ 137	\$ 77
Certain items associated with acquisitions	1	-	1	2	2
<b>Non-GAAP adjusted operating income</b>	<u>\$ 26</u>	<u>\$ 40</u>	<u>\$ 26</u>	<u>\$ 139</u>	<u>\$ 79</u>
<b>Non-GAAP adjusted operating margin (% of net sales)</b>	17.2%	24.5%	21.8%	23.6%	18.6%

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

<i>(In millions, except percentages)</i>	Three Months Ended			Nine Months Ended	
	Jul 26, 2015	Apr 26, 2015	Jul 27, 2014	Jul 26, 2015	Jul 27, 2014
<b>Reported operating income (loss) (GAAP basis)</b>	\$ (52)	\$ (5)	\$ 24	\$ (61)	\$ 18
Certain items associated with acquisitions	2	1	1	4	4
Impairment of goodwill and intangible assets	48	-	-	48	-
<b>Non-GAAP adjusted operating income (loss)</b>	<u>\$ (2)</u>	<u>\$ (4)</u>	<u>\$ 25</u>	<u>\$ (9)</u>	<u>\$ 22</u>
<b>Non-GAAP adjusted operating margin (% of net sales)</b>	(5.1)%	(5.5)%	24.3%	(5.4)%	9.5%

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

---

	<b>Three Months Ended</b>
	<b>Jul 26, 2015</b>
<i>(In millions, except percentages)</i>	
<b>Provision for income taxes (GAAP basis)</b>	\$ 46
Reinstatement of federal R&D tax credit, resolutions of prior years' income tax filings and other tax items	21
Income tax effect of non-GAAP adjustments	18
<b>Non-GAAP adjusted provision for income taxes</b>	<b>\$ 85</b>
<b>Income before income taxes (GAAP basis)</b>	\$ 375
Certain items associated with acquisitions	47
Restructuring, inventory charges and asset impairments	50
Acquisition integration costs	1
Loss on derivative associated with terminated business combination	3
Certain items associated with terminated business combination	1
Gain on strategic investments, net	(1)
Foreign exchange loss due to functional currency change	19
<b>Non-GAAP adjusted income before income taxes</b>	<b>\$ 495</b>
<b>Effective income tax rate (GAAP basis)</b>	12.3%
<b>Non-GAAP adjusted effective income tax rate</b>	17.2%

**APPLIED MATERIALS, INC.**  
**RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK**

---

Non-GAAP outlook for the fourth quarter of fiscal 2015 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 August 13, 2015.