



Q4 FY2020 Earnings Call

GAAP to non-GAAP Reconciliations

November 12, 2020

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

	Three Months Ended		Twelve Months Ended	
	October 25, 2020	October 27, 2019	October 25, 2020	October 27, 2019
<i>(In millions, except percentages and per share amounts)</i>				
Non-GAAP Adjusted Gross Profit				
Reported gross profit - GAAP basis	\$ 2,130	\$ 1,634	\$ 7,692	\$ 6,386
Certain items associated with acquisitions ¹	12	9	37	37
Certain incremental expenses related to COVID-19 ²	—	—	23	—
Non-GAAP adjusted gross profit	<u>\$ 2,142</u>	<u>\$ 1,643</u>	<u>\$ 7,752</u>	<u>\$ 6,423</u>
Non-GAAP adjusted gross margin	45.7%	43.8%	45.1%	44.0%
Non-GAAP Adjusted Operating Income				
Reported operating income - GAAP basis	\$ 1,283	\$ 864	\$ 4,365	\$ 3,350
Certain items associated with acquisitions ¹	16	14	54	55
Acquisition integration and deal costs	26	10	80	22
Certain incremental expenses related to COVID-19 ²	—	—	30	—
Non-GAAP adjusted operating income	<u>\$ 1,325</u>	<u>\$ 888</u>	<u>\$ 4,529</u>	<u>\$ 3,427</u>
Non-GAAP adjusted operating margin	28.3%	23.7%	26.3%	23.5%
Non-GAAP Adjusted Net Income				
Reported net income - GAAP basis	\$ 1,131	\$ 698	\$ 3,619	\$ 2,706
Certain items associated with acquisitions ¹	16	14	54	55
Acquisition integration and deal costs	26	10	80	22
Certain incremental expenses related to COVID-19 ²	—	—	30	—
Realized loss (gain) on strategic investments, net	—	—	(1)	(6)
Unrealized loss (gain) on strategic investments, net	(7)	(5)	(8)	(30)
Loss on early extinguishment of debt	—	—	33	—
Income tax effect of share-based compensation ³	13	4	—	—
Income tax effect of changes in applicable U.S. tax laws ⁴	—	—	—	(24)
Income tax effects related to intra-entity intangible asset transfers	10	6	114	62
Resolution of prior years' income tax filings and other tax items	(36)	20	(41)	95
Income tax effect of non-GAAP adjustments ⁵	(5)	(3)	(35)	(5)
Non-GAAP adjusted net income	<u>\$ 1,148</u>	<u>\$ 744</u>	<u>\$ 3,845</u>	<u>\$ 2,875</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 GAAP basis tax benefit related to share-based compensation is recognized ratably over the fiscal year on a non-GAAP basis.

4 Charges to income tax provision related to a one-time transition tax as a result of U.S. tax legislation.

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		Twelve Months Ended	
	October 25, 2020	October 27, 2019	October 25, 2020	October 27, 2019
<i>(In millions, except percentages and per share amounts)</i>				
Non-GAAP Adjusted Earnings Per Diluted Share				
Reported earnings per diluted share - GAAP basis	\$ 1.23	\$ 0.75	\$ 3.92	\$ 2.86
Certain items associated with acquisitions	0.02	0.01	0.05	0.05
Acquisition integration and deal costs	0.02	0.01	0.07	0.02
Certain incremental expenses related to COVID-19	—	—	0.03	—
Realized loss (gain) on strategic investments, net	—	—	—	—
Unrealized loss (gain) on strategic investments, net	(0.01)	—	(0.01)	(0.03)
Loss on early extinguishment of debt	—	—	0.03	—
Income tax effect of share-based compensation	0.02	—	—	—
Income tax effect of changes in applicable U.S. tax laws	—	—	—	(0.03)
Income tax effects related to amortization of intra-entity intangible asset transfers	0.01	0.01	0.12	0.07
Resolution of prior year's income tax filings and other tax items	(0.04)	0.02	(0.04)	0.10
Non-GAAP adjusted earnings per diluted share	<u>\$ 1.25</u>	<u>\$ 0.80</u>	<u>\$ 4.17</u>	<u>\$ 3.04</u>
Weighted average number of diluted shares	<u>921</u>	<u>931</u>	<u>923</u>	<u>945</u>

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

	Three Months Ended		Twelve Months Ended	
	October 25, 2020	October 27, 2019	October 25, 2020	October 27, 2019
<i>(In millions, except percentages)</i>				
Reported operating income (GAAP basis)	\$ 1,059	\$ 641	\$ 3,714	\$ 2,464
Certain items associated with acquisitions ¹	12	11	41	43
Acquisition integration costs	2	—	3	—
Certain incremental expenses related to COVID-19 ²	—	—	20	—
Non-GAAP adjusted operating income	\$ 1,073	\$ 652	\$ 3,778	\$ 2,507
Non-GAAP adjusted operating margin (% of net sales)	35.0%	28.3%	33.2%	27.8%

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

	Three Months Ended		Twelve Months Ended	
	October 25, 2020	October 27, 2019	October 25, 2020	October 27, 2019
<i>(In millions, except percentages)</i>				
Reported operating income (GAAP basis)	\$ 320	\$ 274	\$ 1,127	\$ 1,101
Certain incremental expenses related to COVID-19 ²	—	—	8	—
Non-GAAP adjusted operating income	\$ 320	\$ 274	\$ 1,135	\$ 1,101
Non-GAAP adjusted operating margin (% of net sales)	28.9%	28.0%	27.3%	28.6%

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

	Three Months Ended		Twelve Months Ended	
	October 25, 2020	October 27, 2019	October 25, 2020	October 27, 2019
<i>(In millions, except percentages)</i>				
Reported operating income (GAAP basis)	\$ 95	\$ 96	\$ 291	\$ 294
Certain items associated with acquisitions ¹	3	3	12	12
Acquisition integration costs	—	—	—	1
Certain incremental expenses related to COVID-19 ²	—	—	1	—
Non-GAAP adjusted operating income	\$ 98	\$ 99	\$ 304	\$ 307
Non-GAAP adjusted operating margin (% of net sales)	20.2%	21.7%	18.9%	18.6%

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.

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

	Three Months Ended		Twelve Months Ended	
	October 25, 2020	October 27, 2019	October 25, 2020	October 27, 2019
<i>(In millions)</i>				
Operating expenses (GAAP basis)	\$ 847	\$ 770	\$ 3,327	\$ 3,036
Certain items associated with acquisitions	(4)	(5)	(17)	(18)
Acquisition integration and deal costs	(26)	(10)	(80)	(22)
Certain incremental expenses related to COVID-19	—	—	(7)	—
Non-GAAP adjusted operating expenses	\$ 817	\$ 755	\$ 3,223	\$ 2,996

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

	Three Months Ended	
	October 25, 2020	October 27, 2019
<i>(In millions)</i>		
Provision for income taxes (GAAP basis) (a)	\$ 112	\$ 142
Income tax effect of share-based compensation	(13)	(4)
Income tax effects related to intra-entity intangible asset transfers	(10)	(6)
Resolution of prior years' income tax filings and other tax items	36	(20)
Income tax effect of non-GAAP adjustments	5	3
Non-GAAP adjusted provision for income taxes (b)	<u>\$ 130</u>	<u>\$ 115</u>

	Three Months Ended	
	October 25, 2020	October 27, 2019
<i>(In millions, except percentages)</i>		
Income before income taxes (GAAP basis) (c)	\$ 1,243	\$ 840
Certain items associated with acquisitions	16	14
Acquisition integration and deal costs	26	10
Unrealized loss (gain) on strategic investments, net	(7)	(5)
Non-GAAP adjusted income before income taxes (d)	<u>\$ 1,278</u>	<u>\$ 859</u>
Effective income tax rate (GAAP basis) (a/c)	9.0%	16.9%
Non-GAAP adjusted effective income tax rate (b/d)	10.2%	13.4%

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

	<u>Three Months Ended</u> <u>October 25,</u> <u>2020</u>
<i>(In millions)</i>	
Free Cash Flow¹	
Cash provided by operating activities	\$ 1,315
Capital expenditures	(162)
Free cash flow	<u>\$ 1,153</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

	<u>October 25,</u> <u>2020</u>	<u>July 26,</u> <u>2020</u>
<i>(In millions)</i>		
Cash, cash equivalents and investments		
Cash and cash equivalents	\$ 5,351	\$ 4,350
Short-term investments	387	406
Long-term investments	1,538	1,538
Cash, cash equivalents, and investments	<u>\$ 7,276</u>	<u>\$ 6,294</u>

APPLIED MATERIALS, INC.
RECONCILIATION INFORMATION FOR BUSINESS OUTLOOK

Non-GAAP outlook for the first quarter of fiscal 2021 (including non-GAAP gross margin, operating margin, operating expenses and EPS) excludes known charges related to completed acquisitions of approximately \$13 million, or \$0.01 per share and includes a net income tax benefit related to intra-entity intangible asset transfers of \$23 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.