



# Q2 FY2019 Earnings Call

## GAAP to non-GAAP Reconciliations

May 16, 2019

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

	Three Months Ended		Six Months Ended	
	April 28, 2019	April 29, 2018	April 28, 2019	April 29, 2018
<i>(In millions, except percentages and per share amounts)</i>				
<b>Non-GAAP Adjusted Gross Profit</b>				
Reported gross profit - GAAP basis	\$ 1,530	\$ 2,056	\$ 3,195	\$ 3,996
Certain items associated with acquisitions <sup>1</sup>	9	44	19	89
Non-GAAP adjusted gross profit	<u>\$ 1,539</u>	<u>\$ 2,100</u>	<u>\$ 3,214</u>	<u>\$ 4,085</u>
Non-GAAP adjusted gross margin	43.5%	45.9%	44.1%	46.5%
<b>Non-GAAP Adjusted Operating Income</b>				
Reported operating income - GAAP basis	\$ 776	\$ 1,292	\$ 1,684	\$ 2,507
Certain items associated with acquisitions <sup>1</sup>	14	49	28	98
Acquisition integration and deal costs	4	1	7	2
Non-GAAP adjusted operating income	<u>\$ 794</u>	<u>\$ 1,342</u>	<u>\$ 1,719</u>	<u>\$ 2,607</u>
Non-GAAP adjusted operating margin	22.4%	29.3%	23.6%	29.7%
<b>Non-GAAP Adjusted Net Income</b>				
Reported net income - GAAP basis	\$ 666	\$ 1,100	\$ 1,437	\$ 1,265
Certain items associated with acquisitions <sup>1</sup>	14	49	28	98
Acquisition integration and deal costs	4	1	7	2
Impairment (gain on sale) of strategic investments, net	—	5	—	4
Loss (gain) on strategic investments, net	(11)	—	(23)	—
Income tax effect of share-based compensation <sup>2</sup>	1	13	(4)	(26)
Income tax effect of changes in applicable U.S. tax laws <sup>3</sup>	—	71	(24)	1,077
Income tax effects related to amortization of intra-entity intangible asset transfers	(31)	—	(59)	—
Resolution of prior years' income tax filings and other tax items	17	10	76	(3)
Income tax effect of non-GAAP adjustments <sup>4</sup>	—	(5)	1	(8)
Non-GAAP adjusted net income	<u>\$ 660</u>	<u>\$ 1,244</u>	<u>\$ 1,439</u>	<u>\$ 2,409</u>
<b>Non-GAAP Adjusted Earnings Per Diluted Share</b>				
Reported earnings per diluted share - GAAP basis	\$ 0.70	\$ 1.06	\$ 1.50	\$ 1.20
Certain items associated with acquisitions	0.01	0.04	0.03	0.09
Loss (gain) on strategic investments, net	—	—	(0.02)	—
Income tax effect of share-based compensation	—	0.01	(0.01)	(0.03)
Income tax effect of changes in applicable U.S. tax laws	—	0.07	(0.02)	1.02
Income tax effects related to amortization of intra-entity intangible asset transfers	(0.03)	—	(0.06)	—
Resolution of prior year's income tax filings and other tax items	0.02	0.01	0.08	—
Non-GAAP adjusted earnings per diluted share	<u>\$ 0.70</u>	<u>\$ 1.19</u>	<u>\$ 1.50</u>	<u>\$ 2.28</u>
Weighted average number of diluted shares	948	1,040	957	1,056

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**  
**SEMICONDUCTOR SYSTEMS OPERATING RESULTS**

	Three Months Ended		Six Months Ended	
	April 28, 2019	April 29, 2018	April 28, 2019	April 29, 2018
<i>(In millions, except percentages)</i>				
<b>Reported operating income (GAAP basis)</b>	\$ 579	\$ 992	\$ 1,210	\$ 2,016
Certain items associated with acquisitions <sup>1</sup>	10	46	21	92
<b>Non-GAAP adjusted operating income</b>	<u>\$ 589</u>	<u>\$ 1,038</u>	<u>\$ 1,231</u>	<u>\$ 2,108</u>
<b>Non-GAAP adjusted operating margin</b> (% of net sales)	27.0%	35.8%	27.7%	36.6%

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

	Three Months Ended		Six Months Ended	
	April 28, 2019	April 29, 2018	April 28, 2019	April 29, 2018
<i>(In millions, except percentages)</i>				
<b>Reported operating income (GAAP basis)</b>	\$ 283	\$ 279	\$ 568	\$ 534
Acquisition integration costs	—	—	—	1
<b>Non-GAAP adjusted operating income</b>	<u>\$ 283</u>	<u>\$ 279</u>	<u>\$ 568</u>	<u>\$ 535</u>
<b>Non-GAAP adjusted operating margin</b> (% of net sales)	28.8%	29.5%	29.2%	29.3%

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

	Three Months Ended		Six Months Ended	
	April 28, 2019	April 29, 2018	April 28, 2019	April 29, 2018
<i>(In millions, except percentages)</i>				
<b>Reported operating income (GAAP basis)</b>	\$ 42	\$ 210	\$ 157	\$ 300
Certain items associated with acquisitions <sup>1</sup>	4	3	7	6
Acquisition integration costs	—	1	—	1
<b>Non-GAAP adjusted operating income</b>	<u>\$ 46</u>	<u>\$ 214</u>	<u>\$ 164</u>	<u>\$ 307</u>
<b>Non-GAAP adjusted operating margin</b> (% of net sales)	13.2%	29.8%	19.2%	26.4%

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.

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

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	Three Months Ended		Six Months Ended	
	April 28, 2019	April 29, 2018	April 28, 2019	April 29, 2018
<i>(In millions)</i>				
<b>Operating expenses (GAAP basis)</b>	\$ 754	\$ 764	\$ 1,511	\$ 1,489
Certain items associated with acquisitions	(5)	(5)	(9)	(9)
Acquisition integration and deal costs	(4)	(1)	(7)	(2)
<b>Non-GAAP adjusted operating expenses</b>	<u>\$ 745</u>	<u>\$ 758</u>	<u>\$ 1,495</u>	<u>\$ 1,478</u>

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

	<b>Three Months Ended</b>	
	<b>April 28,</b>	<b>April 29,</b>
	<b>2019</b>	<b>2018</b>
<i>(In millions)</i>		
<b>Provision for income taxes (GAAP basis)</b>	\$ 93	\$ 161
Income tax effect of share-based compensation	(1)	(13)
Income tax effect of changes in applicable U.S. tax laws	—	(71)
Income tax effects related to amortization of intra-entity intangible asset transfers	31	—
Resolution of prior years' income tax filings and other tax items	(17)	(10)
Income tax effect of non-GAAP adjustments	—	5
<b>Non-GAAP adjusted provision for income taxes</b>	<b>\$ 106</b>	<b>\$ 72</b>

	<b>Three Months Ended</b>	
	<b>April 28,</b>	<b>April 29,</b>
	<b>2019</b>	<b>2018</b>
<i>(In millions, except percentages)</i>		
<b>Income before income taxes (GAAP basis)</b>	\$ 759	\$ 1,261
Certain items associated with acquisitions	14	49
Acquisition integration and deal costs	4	1
Impairment (gain on sale) of strategic investments, net	—	5
Loss (gain) on strategic investments, net	(11)	—
<b>Non-GAAP adjusted income before income taxes</b>	<b>\$ 766</b>	<b>\$ 1,316</b>
<b>Effective income tax rate (GAAP basis)</b>	12.3%	12.8%
<b>Non-GAAP adjusted effective income tax rate</b>	13.8%	5.5%

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

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Non-GAAP outlook for the third quarter of fiscal 2019 (including non-GAAP gross margin, operating margin, operating expenses and EPS) excludes known charges related to completed acquisitions of approximately \$14 million, or \$0.01 per share and net income tax benefit related to intra-entity intangible asset transfers of \$31 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.