



# Q3 FY2021 Earnings Call

## GAAP to non-GAAP Reconciliations

August 19, 2021

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

	Three Months Ended		Nine Months Ended	
	August 1, 2021	July 26, 2020	August 1, 2021	July 26, 2020
<i>(In millions, except percentages)</i>				
<b>Non-GAAP Adjusted Gross Profit</b>				
Reported gross profit - GAAP basis	\$ 2,967	\$ 1,955	\$ 7,969	\$ 5,562
Certain items associated with acquisitions <sup>1</sup>	6	8	21	25
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	15	12	23
Other charges	—	—	2	—
Non-GAAP adjusted gross profit	<u>\$ 2,973</u>	<u>\$ 1,978</u>	<u>\$ 8,004</u>	<u>\$ 5,610</u>
Non-GAAP adjusted gross margin	48.0%	45.0%	47.2%	44.8%
<b>Non-GAAP Adjusted Operating Income</b>				
Reported operating income - GAAP basis	\$ 2,013	\$ 1,108	\$ 4,875	\$ 3,082
Certain items associated with acquisitions <sup>1</sup>	11	12	36	38
Acquisition integration and deal costs	5	20	40	54
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	20	24	30
Severance and related charges <sup>3</sup>	—	—	158	—
Deal termination fee	—	—	154	—
Other charges	—	—	6	—
Non-GAAP adjusted operating income	<u>\$ 2,029</u>	<u>\$ 1,160</u>	<u>\$ 5,293</u>	<u>\$ 3,204</u>
Non-GAAP adjusted operating margin	32.7%	26.4%	31.2%	25.6%
<b>Non-GAAP Adjusted Net Income</b>				
Reported net income - GAAP basis	\$ 1,716	\$ 841	\$ 4,176	\$ 2,488
Certain items associated with acquisitions <sup>1</sup>	11	12	36	38
Acquisition integration and deal costs	5	20	41	54
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	20	24	30
Severance and related charges <sup>3</sup>	—	—	158	—
Deal termination fee	—	—	154	—
Realized loss (gain) on strategic investments, net	(6)	(8)	(2)	(1)
Unrealized loss (gain) on strategic investments, net	(13)	(5)	(45)	(1)
Loss on early extinguishment of debt	—	33	—	33
Other charges	—	—	6	—
Income tax effect of share-based compensation <sup>4</sup>	11	12	(12)	(13)
Income tax effects related to intra-entity intangible asset transfers	23	67	60	104
Resolution of prior years' income tax filings and other tax items	(9)	(1)	(22)	(5)
Income tax effect of non-GAAP adjustments <sup>5</sup>	2	(15)	(43)	(30)
Non-GAAP adjusted net income	<u>\$ 1,740</u>	<u>\$ 976</u>	<u>\$ 4,531</u>	<u>\$ 2,697</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 The severance and related charges primarily related to a one-time voluntary retirement program offered to certain eligible employees.
- 4 GAAP basis tax benefit related to share-based compensation is recognized ratably over the fiscal year on a non-GAAP basis.
- 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		Nine Months Ended	
	August 1, 2021	July 26, 2020	August 1, 2021	July 26, 2020
<i>(In millions, except per share amounts)</i>				
<b>Non-GAAP Adjusted Earnings Per Diluted Share</b>				
Reported earnings per diluted share - GAAP basis	\$ 1.87	\$ 0.91	\$ 4.52	\$ 2.69
Certain items associated with acquisitions	0.01	0.01	0.03	0.04
Acquisition integration and deal costs	0.01	0.02	0.04	0.05
Certain incremental expenses related to COVID-19	—	0.02	0.02	0.03
Loss on early extinguishment of debt	—	0.03	—	0.03
Severance and related charges	—	—	0.13	—
Deal termination fee	—	—	0.17	—
Realized loss (gain) on strategic investments, net	(0.01)	(0.01)	0.01	—
Unrealized loss (gain) on strategic investments, net	(0.01)	—	(0.05)	—
Other charges	—	—	0.01	—
Income tax effect of share-based compensation	0.01	0.01	(0.01)	(0.02)
Income tax effects related to amortization of intra-entity intangible asset transfers	0.03	0.07	0.06	0.11
Resolution of prior year's income tax filings and other tax items	(0.01)	—	(0.02)	(0.01)
Non-GAAP adjusted earnings per diluted share	\$ 1.90	\$ 1.06	\$ 4.91	\$ 2.92
Weighted average number of diluted shares	918	922	923	924

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

	Three Months Ended		Nine Months Ended	
	August 1, 2021	July 26, 2020	August 1, 2021	July 26, 2020
<i>(In millions, except percentages)</i>				
<b>Reported operating income (GAAP basis)</b>	\$ 1,785	\$ 958	\$ 4,588	\$ 2,655
Certain items associated with acquisitions <sup>1</sup>	9	9	29	29
Acquisition integration costs	—	1	(2)	1
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	14	12	20
Other charges	—	—	3	—
<b>Non-GAAP adjusted operating income</b>	<u>\$ 1,794</u>	<u>\$ 982</u>	<u>\$ 4,630</u>	<u>\$ 2,705</u>
<b>Non-GAAP adjusted operating margin (% of net sales)</b>	40.3%	33.7%	38.7%	32.6%

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

	Three Months Ended		Nine Months Ended	
	August 1, 2021	July 26, 2020	August 1, 2021	July 26, 2020
<i>(In millions, except percentages)</i>				
<b>Reported operating income (GAAP basis)</b>	\$ 393	\$ 273	\$ 1,083	\$ 807
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	4	8	8
Other charges	—	—	1	—
<b>Non-GAAP adjusted operating income</b>	<u>\$ 393</u>	<u>\$ 277</u>	<u>\$ 1,092</u>	<u>\$ 815</u>
<b>Non-GAAP adjusted operating margin (% of net sales)</b>	30.6%	26.8%	30.0%	26.7%

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

	Three Months Ended		Nine Months Ended	
	August 1, 2021	July 26, 2020	August 1, 2021	July 26, 2020
<i>(In millions, except percentages)</i>				
<b>Reported operating income (GAAP basis)</b>	\$ 99	\$ 83	\$ 229	\$ 196
Certain items associated with acquisitions <sup>1</sup>	1	3	3	9
Certain incremental expenses related to COVID-19 <sup>2</sup>	—	1	1	1
Severance and related charges <sup>3</sup>	—	—	8	—
<b>Non-GAAP adjusted operating income</b>	<u>\$ 100</u>	<u>\$ 87</u>	<u>\$ 241</u>	<u>\$ 206</u>
<b>Non-GAAP adjusted operating margin (% of net sales)</b>	23.2%	20.5%	19.8%	18.4%

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

<sup>2</sup> Temporary incremental employee compensation during the COVID-19 pandemic.

<sup>3</sup> The severance and related charges related to workforce reduction actions globally across the Display and Adjacent Markets business.

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

	Three Months Ended		Nine Months Ended	
	August 1, 2021	July 26, 2020	August 1, 2021	July 26, 2020
<i>(In millions)</i>				
<b>Operating expenses (GAAP basis)</b>	\$ 954	\$ 847	\$ 3,094	\$ 2,480
Certain items associated with acquisitions	(5)	(4)	(15)	(13)
Acquisition integration and deal costs	(5)	(20)	(40)	(54)
Certain incremental expenses related to COVID-19	—	(5)	(12)	(7)
Severance and related charges	—	—	(158)	—
Deal termination fee	—	—	(154)	—
Other charges	—	—	(4)	—
<b>Non-GAAP adjusted operating expenses</b>	<b>\$ 944</b>	<b>\$ 818</b>	<b>\$ 2,711</b>	<b>\$ 2,406</b>

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

	Three Months Ended	
	August 1, 2021	July 26, 2020
<i>(In millions)</i>		
<b>Provision for income taxes (GAAP basis) (a)</b>	\$ 264	\$ 199
Income tax effect of share-based compensation	(11)	(12)
Income tax effects related to intra-entity intangible asset transfers	(23)	(67)
Resolution of prior years' income tax filings and other tax items	9	1
Income tax effect of non-GAAP adjustments	(2)	15
<b>Non-GAAP adjusted provision for income taxes (b)</b>	<u>\$ 237</u>	<u>\$ 136</u>

	Three Months Ended	
	August 1, 2021	July 26, 2020
<i>(In millions, except percentages)</i>		
<b>Income before income taxes (GAAP basis) (c)</b>	\$ 1,980	\$ 1,040
Certain items associated with acquisitions	11	12
Acquisition integration and deal costs	5	20
Certain incremental expenses related to COVID-19	—	20
Realized loss (gain) on strategic investments, net	(6)	(8)
Unrealized loss (gain) on strategic investments, net	(13)	(5)
Loss on early extinguishment of debt	—	33
<b>Non-GAAP adjusted income before income taxes (d)</b>	<u>\$ 1,977</u>	<u>\$ 1,112</u>

<b>Effective income tax rate (GAAP basis) (a/c)</b>	13.3%	19.1%
<b>Non-GAAP adjusted effective income tax rate (b/d)</b>	12.0%	12.2%

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

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	<b>August 1, 2021</b>	<b>Three Months Ended May 2, 2021</b>	<b>January 31, 2021</b>	<b>October 25, 2020</b>
<i>(In millions)</i>				
<b>Free Cash Flow<sup>1</sup></b>				
Cash provided by operating activities	\$ 1,686	\$ 1,187	\$ 1,421	\$ 1,315
Capital expenditures	(137)	(204)	(121)	(162)
Free cash flow	\$ 1,549	\$ 983	\$ 1,300	\$ 1,153

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**

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	<u>August 1,</u> <u>2021</u>	<u>October 25,</u> <u>2020</u>
<i>(In millions)</i>		
<b>Cash, cash equivalents and investments</b>		
Cash and cash equivalents	\$ 6,066	\$ 5,351
Short-term investments	444	387
Long-term investments	1,658	1,538
<b>Cash, cash equivalents, and investments</b>	<u><u>\$ 8,168</u></u>	<u><u>\$ 7,276</u></u>



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

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Non-GAAP outlook for the fourth quarter of fiscal 2021 (including non-GAAP gross margin, operating margin, operating expenses and EPS) excludes known charges related to completed acquisitions of approximately \$11 million, or \$0.01 per share, includes the normalized tax benefit of share-based compensation of approximately \$12 million, or \$0.01 per share, and 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.