Q2 Fiscal 2025 Earnings Call

PREPARED REMARKS | MAY 15, 2025

LIZ MORALI | Vice President, Investor Relations

Good afternoon and thank you for joining us for today’s call. With me today are Gary Dickerson, President and CEO; and Brice Hill, CFO. Before we continue, let me remind you that today's discussion contains forward-looking statements within the meaning of the federal securities laws, including predictions, estimates, projections, or other statements about future events. Actual results may differ materially from those mentioned in these forward-looking statements, as a result of risks and uncertainties. Information concerning these risks and uncertainties is discussed in our most recent Form 10-K,10-Q and 8-K filings with the SEC. We do not intend to update any forward-looking statements. During today's call, we will also reference non-GAAP financial measures. Reconciliations of GAAP to non-GAAP results can be found in today's earnings press release and in our quarterly earnings materials, which are available on our Investor Relations website at ir.appliedmaterials.com.

I will now turn the call over to Gary.

GARY DICKERSON | President and Chief Executive Officer

Thanks, Liz.

In our second fiscal quarter of 2025, Applied Materials delivered strong results across the board, including record earnings per share. These results reflect great execution by our teams around the world, as well as the agility and flexibility we have in our global operations and supply chain. While we are paying close attention to a highly dynamic macro environment, we have not seen significant changes in market demand. Our customers remain focused on winning the race to be first-to-market with transformative new technologies. Applied is working closely with our customers and partners to accelerate the industry’s roadmap. We are very well positioned at major technology inflections in fast-growing areas of the market, which supports our multi-year growth trajectory.

In my prepared remarks today, I’ll provide our latest market outlook, I’ll explain how Applied’s innovative products and services are enabling fundamental advances in semiconductor technology, and I’ll describe how we are translating these innovations into sustainable, profitable growth across our business.

MARKET OUTLOOK

Starting with our perspective on the market: the major technology trends reshaping the global economy, including IoT, automation and robotics, electric and autonomous vehicles, and clean energy, are all built on top of advanced semiconductors. Central to our future market outlook is AI, which is the most transformative technology of our lifetimes and has almost limitless potential use cases. While we are seeing remarkable progress in AI capabilities, we are still in the early phases of a multi-decade build out of applications and infrastructure. Large-scale deployment of AI will require major advances in computing performance and energy efficiency that can only be achieved through disruptive innovation across the technology stack. These requirements are reshaping the semiconductor roadmap and changing the way chips are designed and manufactured.

The impact of AI datacenter innovation and investments is apparent in the wafer fab equipment market, where there are significant shifts in the spending mix this year. We see investment in leading-edge foundry-logic growing substantially in 2025, and we also expect spending for leading-edge DRAM to be up significantly. We see lower spending in China with investments in both DRAM and mature logic down for the year. And, finally, we are seeing an uptick in NAND investment, albeit from the very low levels seen over the past several years.

APPLIED'S PERFORMANCE

Against this market backdrop, Applied is well positioned for 2025 and beyond. In 2024, we under-performed the market in China due to the market access restrictions imposed on U.S. companies. At the same time, outside of China, we grew faster than our peer group thanks to our strength in leading-edge foundry and DRAM. Trade restrictions have also had an impact on our service business. Despite these headwinds, we grew our core parts and services revenues in the low double-digit range last year, and we're on track to deliver a similar growth rate in 2025.

On top of our growing installed base, we are successfully increasing the portion of those systems in the field covered by higher-value, advanced services, and comprehensive service agreements. More than two-thirds of our service revenue comes from subscriptions, and we expect this percentage to further increase in the coming years.

At a company-level, through 2024, Applied Materials has grown revenues for five consecutive years. This momentum continues in 2025. If we take our first half results plus our third quarter guide, revenues are up 7% year-to-date.

APPLIED'S POSITION

Looking further ahead, we also believe we are in a great position for the future given the direction of the industry roadmap, our strong leadership positions at key device architecture inflections, and the unique portfolio of solutions and capabilities we provide to our customers.

Customers are racing to be first-to-market to deliver major architecture innovations in logic, compute memory, packaging, and power devices including next generation gate-all-around transistors, backside power delivery, $4F^2$ and 3D DRAM, advanced packaging, compound semiconductors for power electronics, and silicon photonics. These technology inflections grow the market for wafer fab equipment, increase the relative mix of materials engineering technologies, and provide opportunities for Applied to gain market share. Advanced foundry-logic is a great example of this. If we compare an advanced fab using integrated gate-all-around and backside power delivery architecture to the last generation of FinFET technology, Applied's revenue opportunity is ~30% higher for the equivalent fab capacity.

In advanced DRAM, we are focused on addressing the most-critical steps for next-generation technologies and this has enabled us to establish a strong leadership position in this market. In 2025, we expect our revenues from advanced DRAM customers to grow more than 40% as they ramp investments in DDR-5 and high-bandwidth memory.

Across advanced foundry-logic and DRAM, we are introducing innovative new solutions that are being rapidly adopted by the market. One example is our Sym3 Magnum etch system for advanced patterning, which has generated more than $1.2 billion of revenue since we launched the product in February 2024. Another example is our breakthrough Cold Field Emission eBeam technology that has strong momentum in gate-all-around and high-bandwidth memory, and supported record revenues for our Process Diagnostics and Control business this past quarter.

APPLIED'S SUSTAINABLE ADVANTAGES

As we look at how the industry's roadmap is evolving, we see our broad capabilities and connected product portfolio as a major leadership strength. This gives us earlier visibility and a more holistic view of the industry's most valuable technical opportunities, it allows us to develop solutions to address those high-value opportunities faster, and most importantly, it means we can deliver unique solutions by co-optimizing and combining our innovations.

With the pace of technology accelerating, being first to market has incredible value for our customers and Applied Materials. For this reason, another key pillar of our strategy is 'high-velocity co-innovation'. Our goal is to increase the speed of developing and commercializing next-generation technologies through earlier and deeper collaboration with customer and partners. Applied's global EPIC platform is designed to support this strategy by providing unique physical and digital infrastructure to accelerate learning rates and optimize the effectiveness and efficiency of R&D resources. Construction of our new flagship R&D facility—the EPIC Center in Silicon Valley—is progressing on schedule, and we expect the center to start operations in Spring 2026.

SUMMARY

Before I hand over to Brice, I'll quickly summarize.

First, while we recognize that the macro environment is highly dynamic, Applied continues to deliver strong financial performance. We are not currently seeing significant changes in customer demand, and we have agility in our global operations to adapt to a range of scenarios. Second, the race to deliver high-performance, energy-efficient AI computing remains the dominate driver of the semiconductor industry's roadmap. Applied is best positioned at the major device architecture inflections that will enable that roadmap to be realized. And third, we are seeing strong traction with our 'high-velocity co-innovation' strategy where earlier and deeper collaboration with our customers and partners is enabling us to bring next-generation technology to market faster than ever before.

Now, I'll turn the call over to Brice.

BRICE HILL | Senior Vice President, Chief Financial Officer

Thanks, Gary, and thank you to everyone joining us for today's call.

We delivered another strong quarter in fiscal Q2, with robust year-over-year revenue growth, gross margin expansion and record earnings per share. These excellent results were driven by increased leading-edge foundry-logic investments, given the strong end-market demand for AI-enabling semiconductors. This performance was achieved within the rapidly evolving economic and trade policy environment of the past several months, and we leveraged our global supply chain and diversified manufacturing footprint to successfully navigate the dynamic commercial landscape.

With strong profitability and record earnings per share, we increased shareholder capital distributions during Q2, with ~$2 billion in dividends and share repurchases, and bought back ~1.4% of shares outstanding.

Turning to the details for Q2, our results were largely in line with our expectations, with total net revenue of ~$7.1 billion, up 7% year-over-year, with growth across all our business segments. Non-GAAP gross margin was 49.2%, up 170 basis points year-over-year, and our highest quarterly gross margin since fiscal year 2000. The strong margin performance in Q2 was primarily driven by a favorable mix of our products and business segments. Non-GAAP operating expenses were $1.3 billion, down slightly as a percentage of revenue on a year-over-year basis, with growth in R&D partially offset by decreases in G&A, as we focused on funding critical technology inflection-related research. Non-GAAP earnings per share was a record $2.39, up 14% year-over-year, given the revenue growth, better profitability and share repurchases.

SEGMENT RESULTS

Moving to the segments, Semiconductor Systems revenue was $5.26 billion for Q2, up 7% year-over-year, with growth in foundry-logic, as customer investments at the leading edge more than offset declines for the ICAPS nodes that serve the IoT, Communications, Automotive, Power and Sensor markets; and growth in NAND upgrades more than offsetting year-over-year declines in DRAM. Non-GAAP operating margin of 36.4% was up 150 basis points year-over-year.

Moving to Applied Global Services, AGS delivered revenue of $1.57 billion in Q2, up 2% year-over-year, as healthy growth in services more than offset the expected decline in sales of 200-millimeter equipment. Non-GAAP operating margin of 28.5% was flat year-over-year.

Lastly, our Display business delivered revenue of $259 million, with non-GAAP operating margin of 26.3%.

BALANCE SHEET AND CASH FLOWS

We ended the quarter with cash and cash equivalents of $6.2 billion and debt of $6.3 billion, and cash from operations in the quarter was approximately $1.6 billion, or 22% of revenue. Capital expenditures were $510 million, up from the year-ago period, and driven by the buildout of Applied Materials' equipment and process innovation and commercialization center, EPIC, the largest and most advanced facility of its type globally. Free cash flow for Q2 was ~$1.1 billion. As I mentioned earlier, we increased capital allocation in Q2, with total shareholder distributions of ~$2 billion, with dividends paid of $325 million and share repurchases of ~$1.7 billion. As previously announced, during the quarter, our Board of Directors approved a 15% increase to our dividend per share. This marks another year of healthy growth for our dividend, one of our key capital allocation priorities, and as I like to point out, the dividend and its growth are closely correlated with the recurring revenue and profits in our Services business. We also announced that our Board approved an additional $10 billion share repurchase authorization, and as of the end of the quarter, approximately $15.9 billion, in total, remains available to us for future share repurchases.

OUTLOOK

Turning to our outlook, as we contemplate the year-over-year performance we expect in Q3, we are seeing acceleration from our leading-edge foundry logic products, which are key enablers in the ongoing gate-all-around build out, and which will more than offset a lower level of investment in the ICAPS nodes, following two years of strong spending by these customers. We also expect a stable and healthy DRAM market and growth in NAND, driven by upgrades.

Factoring in these views, for fiscal Q3, we expect total revenue of $7.2 billion, ±$500 million, representing a 6% increase year-over-year at the midpoint, and non-GAAP EPS of $2.35, ± $0.20, representing an 11% increase year-over-year at the midpoint.

We expect Semiconductor Systems revenue of ~$5.4 billion, up ~10% year-over-year and AGS revenue of ~$1.55 billion, down 2% year-over-year, with growth in core services impacted by the trade restrictions previously disclosed and declines in demand for 200mm equipment. Rounding out the business segments, we expect Display revenue of ~$250 million.

Lastly, given our business mix in Q3, we expect non-GAAP gross margin of ~48.3% and non-GAAP operating expenses of approximately $1.3 billion, and we are modeling a tax rate of ~13%.

SUMMARY

In closing, while the trade environment continues to evolve, our global supply chain and diversified manufacturing capabilities provide us with significant agility and flexibility to respond to changing conditions. In the near term, we see overall demand and customer investments continuing at the expected rate and pace, even in the current environment, and the long-term secular drivers for growth in our business remain intact. We are positioning ourselves to benefit from the opportunities that will emerge as the equipment industry invests to support a $1 trillion-plus semiconductor market by the end of the decade, and we are investing for the growth that we expect in our business over that time.

Thank you and we are now ready to begin the Q&A session … Liz?