Q3 Fiscal 2025 Earnings Call

PREPARED REMARKS | AUGUST 14, 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 third fiscal quarter of 2025, Applied Materials delivered record performance fueled by strong, broad-based demand for semiconductor systems and services. However—as you will see in our guidance—we expect revenue and earnings to be sequentially lower in our fourth quarter primarily due to uncertainties in our China business. Even with this Q4 forecast, we remain on track to achieve a mid-single-digit growth rate in fiscal 2025, which will be our sixth consecutive year of revenue growth.

In my prepared remarks today, I'll give some additional color on our near-term outlook, provide an update on the longer-term secular industry growth drivers, and describe Applied's leadership position at the major device inflections that enable our customers' roadmaps.

NEAR-TERM OUTLOOK

The dynamic macro-economic and policy environment, including trade and tariffs, has wide-ranging implications for the semiconductor industry, increasing uncertainty and lowering visibility in the near-term. For Applied's business, there are three main factors that mute our outlook for the quarter ahead. First is digestion of capacity in China; second is our large backlog of pending export license applications, where we have taken a conservative position and assumed none of these licenses will be issued in the next quarter; and third is non-linear demand from leading-edge customers, which is primarily linked to market concentration and fab timing.

LONG-TERM GROWTH THESIS

None of these near-term considerations change our perspective on the longer-term opportunities for the industry and Applied Materials. Leadership in AI remains a major focus for both companies and countries, driving large investments in infrastructure and R&D. Governments around the world—especially the United States government—are taking major steps to incentivize companies to build advanced manufacturing capacity on shore. One example of this is Apple's American Manufacturing Program which was announced last week. We are excited to be a partner in this initiative that is designed to strengthen the end-to-end silicon supply chain in the U.S. As part of this endeavor, we plan to invest more than $200 million in Arizona to establish a state-of-the-art facility for manufacturing specialized components for our equipment. This builds on the more than $400 million we have invested in our U.S. manufacturing infrastructure over the past five years to provide the needed capacity and agility to support growing customer demand. Globally, we are now tracking more than 100 new fabs or major fab expansion projects, an increase of about 10% in the past year.

In addition to robust supply-chains, deploying AI at large scale requires significant innovation at every level of the technology stack, from models, software and data-center design to chip architectures and materials. AI's need for abundant, high-performance and energy-efficient computing is reshaping the semiconductor roadmap and changing the way chips are designed and manufactured. This next wave of AI semiconductor innovation will be concentrated around five key areas: leading-edge logic, next-generation high-performance DRAM, high-bandwidth memory or DRAM stacking, advanced packaging to connect logic and memory chips together, and innovations in power electronics to address energy consumption within the datacenter and more efficient grid-to-datacenter power delivery.

APPLIED'S POSITION

In each of these critical areas, major device architecture inflections are shifting value towards material science and materials engineering, growing Applied's addressable market and driving closer collaboration with customers. On top of this, these inflections create opportunities for us to grow faster than the underlying market. Based on our deep customer engagements, we have focused our investments and product portfolio on the most-enabling applications, and we expect healthy market share gains as these new technologies ramp in volume production.

Let me walk you through some examples:

In leading-edge foundry-logic, the transition from FinFET to gate-all-around transistors with backside power delivery grows our revenue opportunity by 30% for the equivalent fab capacity, and we are on track to gain multiple points of market share, when these nodes ramp in the second half of 2026 and 2027. In this past quarter, our strength in leading-edge foundry supported revenue of almost $1.2 billion for our metal deposition business and we also secured our first wins in Moly deposition for the most critical device performance applications.

In DRAM, we also have strong market share, and we expect our revenue from leading-edge DRAM customers to be up around 50% in fiscal 2025. In the quarter, our strength in DRAM supported record results for our etch business, which surpassed $1 billion of quarterly revenue for the first time. In addition, we see customers adopting our new solutions to address the stringent needs of high-performance compute-memory. We have recently secured new volume production positions at leading DRAM manufacturers for our next-generation gapfill system—our most advanced chemical vapor deposition product—as well as our new Pioneer dielectric patterning system. Looking further ahead, when customers adopt vertical transistor or $4F^2$ architectures—a transition we expect starting in 2027 and 2028—we see opportunities to win more than five points of incremental DRAM share.

In advanced packaging, we have built a broad portfolio of solutions to enable both high-bandwidth memory and heterogenous integration. We have high share in the packaging market—well above the Company's overall wafer fab equipment share. We are well-positioned for future architecture inflections, and our packaging business is on track to more than double to greater than $3 billion over the next few years.

In power electronics, we believe the market for datacenter power semiconductors could grow to $9 billion by the end of the decade. We are on track to grow our share of this market with highly differentiated solutions that position us well for the future.

As our customers race to bring these complex device architecture inflections to market, we are providing advanced service solutions that support them all the way from technology transfer into their pilot lines to optimization of device performance, yield, and cost in volume production. On a year-over-year basis, our service business has now grown for 24 consecutive quarters. In addition, more than two-thirds of our service revenue comes from subscriptions and we expect this percentage to further increase in the coming years.

In the global race for AI leadership, having first access to new technologies has incredible value. To accelerate time-to-market for disruptive architectures in logic, memory and packaging, we are changing the way we work with our customers and partners to increase the development and commercialization speed of next-generation technologies. This 'high-velocity co-innovation' strategy that we established with our leading customers is supported by Applied's global EPIC platform, which provides unique physical and digital infrastructure to accelerate AI chip architecture inflections and improve R&D spending efficiency. Our new flagship R&D facility—the EPIC Center in Silicon Valley—remains on track to begin operations in Spring 2026.

SUMMARY

Before I hand it over to Brice, I'll briefly summarize.

Applied delivered record performance in our third fiscal quarter and we remain on track for a sixth consecutive year of growth in fiscal 2025. We expect revenues and earnings to be sequentially lower in our fourth quarter primarily due to uncertainties in our China business. Our long-term growth thesis for the semiconductor industry and Applied Materials remains unchanged as companies and countries compete to win the race for AI leadership, and Applied is best positioned at the major device inflections that enable the AI-roadmap. These inflections will grow our total market opportunity and support market share gains in the years to come. Now, I'll turn the call over to Brice.

BRICE HILL | Senior Vice President, Chief Financial Officer

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

In fiscal Q3, we delivered a record quarter with growth across all three segments and with a robust gross margin of nearly 49%. We also achieved record non-GAAP earnings per share. In Semiconductor Systems, the overall demand environment for equipment was largely in line with our expectations, with broad-based customer investments across foundry-logic, DRAM and NAND. In Applied Global Services, we achieved record core services revenue, with positive trends across our key performance indicators. And, in Display, we recorded our second consecutive quarter of revenue growth, as the industry invests in equipment to support the further adoption of OLED technology in consumer devices.

Let me now turn to the financial details for Q3. Total net revenue was ~$7.3 billion, up 8% year-over-year, and about $100 million above the midpoint of our guidance range. Non-GAAP gross margin was 48.9%, up 150 basis points year-over-year. The strong margin in Q3 was driven by the combination of product and segment mix and pricing, as we worked to offset tariff-related headwinds. Non-GAAP operating expenses were $1.3 billion, down slightly as a percentage of revenue, as we optimized our G&A spending to help offset investments in R&D to support leading-edge technology inflections for our customers' roadmaps. Non-GAAP earnings per share was a record $2.48, up 17% year-over-year, given the revenue growth, better profitability and share repurchases.

SEGMENT RESULTS

Moving to the segments, Semiconductor Systems revenue was $5.43 billion for Q3, up 10% year-over-year, with growth in foundry-logic, driven by customer investments to support the ramp of gate-all-around nodes, partially offset by decreases in the ICAPS nodes, which we define as those greater than 7 nanometers. Compared to our expectations at our last earnings call, we saw slightly less than anticipated growth in leading-edge spending due to a slower fab buildout schedule and stronger than expected spending in ICAPS. DRAM was better than expected, up year-over-year, as customers focused on investments for AI-enabling advanced DRAM. We saw a significant increase in NAND, primarily driven by sales to multi-national customers in China. Non-GAAP operating margin of 36.4% was up 140 basis points year-over-year.

Moving to Applied Global Services, AGS delivered revenue of $1.6 billion in Q3, up 1% year-over-year, with growth in core services and a decline in 200-millimeter equipment sales. Core services grew approximately 10% year-over-year, bolstered by healthy utilization rates in leading-edge foundry-logic and high-bandwidth memory, along with expansion of our tools under comprehensive agreements, which represent our most advanced service levels. Non-GAAP operating margin of 27.8% was down 180 basis points year-over-year, primarily due to customer mix.

Lastly, our Display business delivered revenue of $263 million, with non-GAAP operating margin of 23.6%.

BALANCE SHEET AND CASH FLOWS

Moving to the balance sheet and cash flows. we ended the quarter with cash and cash equivalents of $5.4 billion and debt of $6.3 billion and generated our second highest level of cash from operations in company history at ~$2.6 billion, or 36% of revenue. Capital expenditures were $584 million, including significant investments in the United States, driven by the buildout of Applied Materials' equipment and process innovation and commercialization center, or EPIC, which will be the largest and most advanced facility of its type globally. Free cash flow for Q3 was ~$2 billion. We distributed ~$1.4 billion to shareholders in the quarter, with dividends paid of $368 million and share repurchases of ~$1 billion. As of the end of the quarter, ~$14.8 billion remains available to us on our share repurchase authorization.

OUTLOOK

Turning to our outlook, as Gary mentioned, there are a couple of key factors contributing to our sequentially lower Q4 outlook. First, our customers in China are moderating spending following several periods of increased investments in equipment, and we expect China as a percentage of our revenue in Q4 to decrease to approximately 29%, including Display. This assumes that we do not receive any approvals of our pending export license applications. Second, we expect demand from leading-edge customers to be down, given the non-linear pattern that Gary talked about earlier, resulting from market concentration and fab timing. As a result, we are seeing customers take longer to commit to orders, leading to a shorter visibility window.

With these shifts in mind, for fiscal Q4, we expect total revenue of $6.7 billion, ± $500 million, representing a 4.9% decrease year-over-year at the midpoint and non-GAAP EPS of $2.11, ± $0.20 cents, representing a 9% decrease year-over-year at the midpoint.

We expect Semiconductor Systems revenue of ~$4.7 billion, down ~9% year-over-year and AGS revenue of ~$1.6 billion, down 2% year-over-year, with growth in core services and a decline in sales of 200-millimeter equipment. In Display, we expect revenue of ~$350 million, a significant increase year-over-year, driven by the expansion of OLED screens in consumer devices. This does not yet include revenue from our new MAX OLED system, which we announced last year, and which represents a dramatically different manufacturing approach to mass producing superior OLED displays.

Lastly, given the lower expected build volumes and our projected business mix in Q4, we expect non-GAAP gross margin of ~48.1% and non-GAAP operating expenses of ~$1.31 billion, and we are modeling a tax rate of 12.6%.

SUMMARY

In closing, we are leveraging our robust supply chain, global manufacturing footprint, leading technology and deep customer relationships to navigate and adapt to the near-term uncertainties. Our long-term growth thesis remains intact, and we remain laser-focused on positioning our investments and portfolio to focus on the most-enabling and critical applications for our customers. Thank you for listening and we are now ready to begin the Q&A session … Liz?

