

# Q1 Fiscal 2026 Earnings Call



PREPARED REMARKS | FEBRUARY 12, 2026

**MIKE SULLIVAN** | Corporate Vice President, Investor Relations

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Good afternoon everyone and thank you for joining today's call. With me are Gary Dickerson, our President and CEO, and Brice Hill, our Chief Financial Officer. Before we begin, I'd like to remind you that today's call includes forward-looking statements which are subject to risks and uncertainties that could cause our actual results to differ. Information concerning these risks and uncertainties is discussed in our most recent form 10-K and other filings with the SEC. Today's call also includes non-GAAP financial measures. Reconciliations to GAAP measures can be found in today's earnings press release and in our quarterly earnings materials, which are available on our website at [ir.appliedmaterials.com](http://ir.appliedmaterials.com).

Before we begin, I have several calendar announcements. On Tuesday morning, February 24th, Applied will host new product briefings at the SPIE Lithography and Patterning conference in San Jose, and you are welcome to join us in person. We are also very pleased to announce the first event in our 2026 Master Class series. We plan to cover transistors and wiring on Wednesday, April 8th at 9:00 a.m., Pacific Time, and will host a live Webcast. Finally, we are excited to announce two special events during SEMICON West. On Monday afternoon, October 12th, we plan to host an investor open house event at the new EPIC Center in Silicon Valley, California. We hope you'll join us there. And on Tuesday morning, October 13th, we plan to host an investor breakfast in San Francisco. We hope to see you in person or on the webcast.

And with that introduction, I'd now like to turn the call over to Gary Dickerson.

**GARY DICKERSON** | President and Chief Executive Officer

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Thank you, Mike.

In our first fiscal quarter of 2026, Applied Materials delivered revenue and earnings above the mid-point of our guided range. Our strong performance and outlook for 2026 and beyond are fueled by the acceleration of investments in AI computing. AI is at a tipping point where improvements in performance and cost translate to real-world applications that deliver meaningful productivity gains and return-on-investment for users. The race to build-out AI infrastructure is driving unprecedented spending on semiconductors, semiconductor manufacturing capacity, and research and development.

Today, the most critical and fastest growing markets are leading-edge logic, high bandwidth memory DRAM, and advanced packaging. These are areas where Applied has strong leadership positions as well as an innovative pipeline of solutions to enable next-generation technologies.

In my prepared remarks I will provide my perspective on how our markets are evolving, explain the role we are playing to enable the AI roadmap, and describe how we're turning the opportunities ahead of us into sustainable, profitable growth for Applied.

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## ACCELERATED AI ADOPTION AND MARKET GROWTH

Semiconductors are the heart of the AI technology stack. With the accelerated growth of AI end markets, we believe that global semiconductor industry revenues can potentially reach \$1 trillion in 2026, several years earlier than prior predictions. For Applied, we expect to grow our semiconductor equipment business more than 20% this calendar year. We see the demand profile weighted towards the second half of the calendar year with availability of customer cleanroom space being a key factor pacing the rate of investment. Our largest customers are giving us increased longer-term visibility to ensure we have operational capacity and service support in place for their ramps. Based on this visibility, we expect strong growth momentum to be carried into 2027.

## APPLIED'S POSITION

Improvements in AI datacenter performance and cost directly impact AI adoption rates. By increasing the number of tokens generated per second and lowering the total cost of ownership—which is dominated by energy consumption—more AI applications become economically viable. This need for higher performance and more energy-efficient AI computing is reshaping semiconductor industry investments and driving high growth rates for Applied in leading-edge logic, HBM DRAM, and advanced packaging.

In leading-edge logic, our customers are adding capacity at FinFET nodes while simultaneously ramping gate-all-around nodes. Applied is the clear number one process equipment provider in leading-edge logic with strong leadership positions across materials deposition, modification and treatments, as well as in conductor etch and e-beam technologies.

Gate-all-around nodes grow our available market considerably while also providing a catalyst for multiple points of market share gain. In DRAM, customers are aggressively adding capacity at 6F<sup>2</sup> nodes, while in parallel developing next-generation DRAM device architectures. AI computing is driving significant demand for high-bandwidth memory DRAM which has larger die sizes and requires three to four times more wafer starts per delivered bit than standard DRAM. In addition, the number of dies in the HBM stacks is increasing from 12 today to 16, and then 20 or more in the future. This further grows demand for wafer starts and advanced packaging.

Applied is the number one process equipment provider in memory today, thanks to our very strong position in DRAM where we are the clear leader in materials deposition for both wiring and patterning, as well as conductor etch and e-beam technologies. In advanced packaging, the mix of customer investments is changing. We expect the fastest growing market segments in 2026 to be HBM and 3D chiplet-stacking. Applied has very strong market share in both of these areas, thanks to our leadership in materials deposition and removal technologies, which is enabling us to extend our overall leadership in advanced packaging.

In NAND, we are forecasting modest growth in equipment demand in 2026 and we expect NAND to remain less than 10% of wafer fab equipment spending. In ICAPS—customers who serve the IoT, communications, automotive, power, and sensor markets—we expect wafer fab equipment to be approximately flat year-on year, both globally and in China.

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## INFLECTION-FOCUSED INNOVATION

At Applied Materials our strategy is inflection-focused innovation. By focusing our R&D resources on the development of high-value solutions to enable major device architecture inflections, we are accelerating our customers' roadmaps, and driving sustainable value capture and margin expansion for Applied. Our innovators have generated an expansive pipeline of next-generation products. Products we have released over the past several years are significantly contributing to our growth in 2026.

One example of this is our unique Cold Field Emission e-beam technology where we expect revenues to double this calendar year to more than a billion dollars and support Process Diagnostics and Control being one of our fastest growing businesses in 2026. In addition, our leadership in CFE e-beam imaging accelerates learning rates for next-generation chip architectures and adoption of Applied's process equipment portfolio.

In 2026, we are planning to launch more than a dozen new products, including three for advanced logic and DRAM, which we announced earlier this week. Our Viva™ radical treatment system delivers angstrom-level precision engineering of nanosheet surfaces which enables higher speed next-generation gate-all-around transistors. Sym3™ Z Magnum™—which is the newest variant of our Sym3 etch platform—enables angstrom-level precision for critical etch steps in gate-all-around transistors and advanced DRAM. This extends our conductor etch market leadership in advanced logic and DRAM. And, our Spectral™ ALD system enables selective deposition of monocrystalline Moly, a new material that can reduce contact resistance in advanced logic devices by up to 15%. Applied is leading the transition from ALD Tungsten to ALD Moly in logic contact formation. As transistor counts and wiring layers increase, Copper PVD steps will continue to grow significantly, remaining an order of magnitude larger than ALD Moly.

## INNOVATING THE WAY WE WORK

This week, we also announced our first EPIC co-development agreement with Samsung Electronics. Applied's global EPIC platform is designed to support high-velocity co-innovation with our customers and R&D partners. For chipmakers, EPIC will provide significantly earlier access to Applied's R&D portfolio, enabling faster cycles of learning and accelerated transfer of next-generation technologies into high-volume manufacturing. For Applied, EPIC will give us better multi-node visibility to guide our R&D investments while improving R&D productivity, value-sharing, and our ability to be designed-in with our products and advanced service technologies.

As our customers ramp complex new devices in high-volume manufacturing, we see accelerating demand for our advanced services, supporting a double-digit growth rate for our service business. We have many valuable service innovations that accelerate the transition of new technologies from lab-to-fab and then accelerate ramps to enable increased yield and output in high-volume production.

Several years ago, we launched Applied's proprietary AI<sup>x</sup>™—or Actionable Insight Accelerator—software capabilities. Today, we have more than 30,000 chambers connected to AI<sup>x</sup> servers using AI-powered monitoring, diagnostics and analytics. Across these connected tools we are seeing 30% faster response times enabling increased wafer output for customers and better service engineer productivity

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for Applied. In addition, we now have automated all our major distribution centers with state-of-the-art AI-enabled robotic systems, significantly improving our parts delivery speed and accuracy, as well as inventory optimization.

## SUMMARY

Before I hand over to Brice, let me briefly summarize.

Semiconductors are the heart of the AI technology stack and as AI adoption accelerates, we see industry revenues potentially reaching \$1 trillion in 2026. Our inflection-focused innovation strategy is generating an expansive pipeline of higher value products that are extending Applied's leadership in leading-edge logic, memory and advanced packaging, and enabling us to grow our semiconductor business more than 20% in 2026. And, we are driving deeper co-innovation engagements with our customers to enable energy-efficient AI architecture inflections, and accelerate the transfer of new technologies into high-volume manufacturing. EPIC will come online later this year, bringing together key innovators from our customers and Applied to significantly increase value creation velocity. Brice, over to you.

**BRICE HILL** | Senior Vice President, Chief Financial Officer

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Thank you, Gary, and thanks everyone for joining us today.

I'm pleased that Applied delivered strong first-quarter results and I'd like to thank our global teams and partners for their contributions. Looking ahead to Q2, we anticipate strong growth in our Semiconductor Systems business along with healthy gross margin and increasing profitability for the company.

As Gary described, our business is strengthening, with positive demand indications throughout the ecosystem. We are tracking higher levels of planned capex from cloud service providers. Semiconductor factory utilization is rising across all device types. Leading-edge foundry logic and DRAM capacity is essentially full, and prices have increased. These dynamics are driving significantly longer visibility from our own customers who are increasing the number of new factory projects and fab expansions scheduled to be completed over the next several years.

As the largest supplier of process equipment in leading-edge foundry-logic, DRAM and advanced packaging, a major priority for us is ensuring we have the capacity to support our customers over this period. Over the past several years, we've nearly doubled our system manufacturing capacity and strengthened our supply chain operations. In recent quarters, we've given our direct suppliers longer visibility into our requirements which has allowed them to proliferate the demand signal throughout the supply chain to secure the materials and labor needed to support growth.

At Applied, we've proactively increased our inventory by nearly \$500 million year-over-year to meet the increasing build plans. As a result, we are well positioned to meet the increasing demand we are seeing from our customers.

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## Q1 RESULTS

Next, I'll briefly summarize our Q1 results. Revenue of \$7 billion was in the upper end of our guidance range and down 2% year over year. Revenue in China declined 7% year over year and represented 27% of combined semi equipment and AGS sales, and 30% of overall sales. Non-GAAP gross margin was 70 basis points above the midpoint of our expectation and grew 20 basis points year over year to 49.1%. Non-GAAP opex was in line with our expectation and grew 2% year over year to \$1.34 billion, with an 8% increase in R&D investments largely offset by G&A spending reductions. Non-GAAP operating profit declined 4% year over year to \$2.1 billion. Non-GAAP earnings per share of \$2.38 was at the top of the guidance range and flat year over year.

Included in our GAAP results is an accrual of \$252.5 million related to an export controls compliance matter we disclosed in our 2022 10-K and later filings. The Department of Justice and SEC have closed their inquiries into this matter with no enforcement actions. We issued a press release and filed an 8-K related to the settlement we reached with the U.S. Department of Commerce Bureau of Industry and Security to resolve its inquiry, and you can find all of our comments related to the matter in these documents.

## Q1 SEGMENT RESULTS

Next, I'll summarize our segment results. As a reminder, beginning in Q1, our 200mm systems business has moved from the Applied Global Services segment to the Semiconductor Systems segment; corporate support costs previously reflected in Corporate and Other are now being fully allocated to our businesses; and Display business results are now included in Other. To help with your models, today's earnings press release and slide presentation include tables that provide a recast for these changes.

Semiconductor Systems revenue exceeded our expectation in Q1 and included record DRAM revenue. On a year-over-year basis, revenue declined 8% to \$5.14 billion. Non-GAAP gross margin increased 100 basis points to more than 54% driven by our continued focus on value-based pricing along with manufacturing cost improvements. Non-GAAP operating margin declined 80 basis points to 32.9%.

Applied Global Services delivered record revenue of \$1.56 billion which exceeded our expectations and grew 15% year-over-year. Non-GAAP gross margin increased 210 basis points, and non-GAAP operating margin grew 320 basis points.

## Q1 BALANCE SHEET AND CASH RETURNS

Turning to the balance sheet, we generated \$1.69 billion in cash from operations. Free cash flow of \$1 billion included elevated capital investments as we made continued progress building the EPIC R&D center in Silicon Valley and further expanded our systems manufacturing capacity. Finally, we distributed \$702 million to shareholders in cash dividends and stock buybacks. Over the past year we've distributed over 85% of free cash flow to shareholders.

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## Q2 GUIDANCE

Now, I'll share our guidance for Q2. We expect company revenue of \$7.65 billion  $\pm$  500 million, which would be up around 9% sequentially. We expect non-GAAP EPS of \$2.64  $\pm$  \$0.20. Within this outlook, we expect Semiconductor Systems revenue of around \$5.8 billion, AGS revenue of about \$1.6 billion and Other revenue of around \$250 million. We expect non-GAAP gross margin to increase to ~49.3%. We expect non-GAAP operating expenses of around \$1.415 billion. Given increased visibility and confidence in the industry's growth outlook, we are accelerating R&D co-development projects with our customers and partners. We remain highly focused on growth, productivity and margins. Finally, we are now modeling a non-GAAP tax rate of around 11%.

## SUMMARY

In summary, the investments we've made over the past several years have put us in a terrific position for profitable growth. The global expansion of AI infrastructure is translating to accelerating demand for our most enabling products in leading-edge foundry-logic, DRAM and advanced packaging along with advanced services that help our customers accelerate ramps and yields. Working closely with our customers, we're increasing the energy-efficient performance of logic chips, compute memory, and systems, and we are sharing in the value we create. Applied is the materials engineering leader in the fastest growing segments of the semiconductor market, and we are driving our operations teams and supply chain partners to increase capacity and output as our customers ramp in 2026 and 2027.

Thank you for listening, and now Mike, let's begin the Q&A.