

Q1 Fiscal 2025 Earnings Call

PREPARED REMARKS | FEBRUARY 13, 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 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 first fiscal quarter of 2025, Applied Materials delivered record revenue, surpassing the prior high we set last quarter. The major technology trends reshaping the global economy are made possible by advanced semiconductors underpinning long-term, secular growth for the industry and especially Applied Materials. We are providing our customers a unique and connected portfolio of solutions to accelerate the technology roadmap, positioning us for continued growth and outperformance in the years to come.

In my prepared remarks, I'll share our latest market insight, I'll describe how our innovations are enabling the major device architecture inflections that are critical to advancing energy-efficient AI, and I'll talk about why 'high-velocity co-innovation' is more important than ever, as the industry races to bring next-generation technology to consumers faster and at lower cost.

MARKET DRIVERS

Starting with the market, AI remains central to our outlook. With almost infinite possible uses, AI is the most transformative technology change of our lifetimes and a major catalyst for innovation and growth across the technology sector. Early deployment of AI supported approximately 20% year-on-year growth of global semiconductor sales in 2024, and the market remains on track to exceed \$1 trillion of annual revenues by 2030. We are only at the beginning of what's possible and, as we look ahead, we expect disruptive innovations to significantly improve the energy-efficiency and cost of AI, opening up new applications and growing the overall market opportunity. To unlock this potential, innovation is required across the technology stack from the models and software—as we've seen in recent weeks with DeepSeek—to datacenter architecture, chip design and how those chips are made.

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Advancements in foundational semiconductor technologies will have a dramatic impact on system-level energy and cost reduction in the AI datacenter. I have previously described four critical areas the industry is currently focusing on: Leading-edge logic, high-performance DRAM, DRAM stacking, referred to as high-bandwidth memory or HBM, and advanced packaging to connect the logic and memory chips together in an integrated package. There is also a fifth theme emerging, as we are seeing major innovations in power electronics. These innovations can address data transfer energy consumption within the datacenter, as well as significantly reduce grid-to-datacenter power losses.

Applied has strong leadership in all these areas, and we're best positioned at future device architecture inflections—including next-generation gate-all-around transistors, backside power delivery, 4F² and 3D DRAM, advanced packaging, compound semiconductors for power electronics, and silicon photonics. These device architecture inflections in logic, compute memory, packaging, and power devices grow the market for wafer fabrication equipment, increase the relative mix of materials engineering technologies, and provide opportunities for Applied to gain market share.

Taking leading-edge foundry logic as an example, the transition from the most advanced generation of FinFET to the first nodes with integrated gate-all-around and backside power delivery, grows our total available market by more than 15% to around \$14 billion for every 100,000 wafer starts-per-month of capacity. At the same time, we expect related Applied revenues to grow in the 30% range for the equivalent wafer fab capacity. While the bulk of spending for these inflections is ahead of us, we are already seeing a positive impact on our business. In 2024, we believe we outperformed the market—in aggregate—across leading-edge foundry-logic, DRAM, advanced packaging, and the 'ICAPS' markets outside of China.

The ability of U.S. companies to serve the China market is constrained and has been further limited by updated trade rules announced in December and January. We estimate the incremental impact of these new rules will be around \$400 million of revenue in fiscal 2025, approximately half of which is service revenue. We also see China being a smaller portion of global wafer fab equipment spending in 2025.

STRATEGIC FOCUS

At Applied Materials, our strategy is to develop and commercialize the most enabling technologies for the industry across leading-edge logic, memory, advanced packaging and ICAPS. We have focused our investments on these high-growth inflections that allow us to create and capture more value. One of the ways we are implementing our strategy is to provide our customers unique and connected solutions that take advantage of our broad portfolio of technologies, capabilities, and partnerships. Our co-optimized and integrated solutions address higher-value device challenges for customers and are difficult for competitors to replicate.

A good example is our integrated hybrid-bonding interconnect solution that combines six technologies, including one module from a partner, into a single integrated system. In the past quarter, we successfully completed important qualification milestones and received volume orders from multiple leading-edge customers. Our integrated hybrid bonding system is one of our next-generation solutions that is allowing us to extend our leadership in advanced packaging. In 2024, our packaging business

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captured more than half of the market we serve, and we remain on track to double our revenues over the next several years.

HIGH-VELOCITY CO-INNOVATION

Another key pillar of our strategy is high-velocity co-innovation. We believe this is key for Applied and our customers to bring next-generation technology to market faster and at lower cost. By speeding up cycles of learning through tighter eco-system collaborations, we are accelerating new chip architectures, driving higher mutual success rates, and optimizing R&D efficiencies.

Among our accomplishments in the past quarter, we launched our EPIC Advanced Packaging strategy at a technical summit we hosted in Singapore that brought together R&D leaders representing more than 20 global companies. We were part of two teams that received CHIPS Act grants to develop advanced packaging substrates for 3D integration. We are leading the team for silicon substrates, and we have a long-term partnership and investment in the company that won the grant for glass-core packaging. We made significant progress with the construction of the EPIC Center in Silicon Valley, which is on track to come online in 2026 and will become the centerpiece of our global EPIC collaboration platform. And, we partnered with TPG to transition Applied's thin-film battery business into an independent company.

SERVICE GROWTH

We are also evolving our collaborative model in services where we are helping customers manage increasing complexity in their business as they ramp next-generation technology into high-volume manufacturing. We are deploying our advanced service products, including our Actionable Insight Accelerator data platform—or AI^x—to help accelerate customers' R&D programs, reduce technology transfer times, and optimize device performance, yield, output, and cost in their fabs. Through these closer working relationships, a high percentage of our service revenues is generated from subscriptions in the form of multi-year agreements. While our near-term service growth is negatively impacted by trade restrictions, we remain confident that we will still grow AGS at a low double-digit annualized growth rate over the long-term.

SUMMARY

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

As major technology trends reshape the global economy and the semiconductor industry, Applied continues to deliver strong financial performance in the near-term. We are best positioned at major device architecture inflections in fast growing areas of the market that are critical to energy-efficient AI. And, we are focused on high-velocity co-innovation with our customers and partners to bring breakthrough technology to market faster than ever before.

Brice.

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BRICE HILL | Senior Vice President, Chief Financial Officer

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

We had a strong start to the fiscal year, with healthy revenue growth and meaningful margin expansion which helped drive a 12% year-over-year increase in non-GAAP earnings per share. In addition, we distributed \$1.6 billion to shareholders with \$1.3 billion of share repurchases and \$326 million of dividends.

For fiscal Q1, our results were largely in line with our expectations, with total net sales of approximately \$7.2 billion, up 7% year-over-year, with growth in both Semiconductor Systems and Applied Global Services. Non-GAAP gross margin was 48.9%, up 100 basis points year-over-year, and our highest quarterly gross margin since fiscal year 2000. The strong margin performance in Q1 was the result of a very favorable mix and increasing adoption of our leading-edge technologies and advanced integrated systems. In addition, we progressed on our value-based pricing initiatives and cost reductions. Non-GAAP operating expenses were \$1.31 billion, with increased R&D investments to support our technology growth areas. Non-GAAP EPS was a record \$2.38, up 12% year-over-year, given the revenue growth, better profitability and share repurchases.

SEGMENT RESULTS

Moving to the segments, Semiconductor Systems sales were \$5.36 billion for Q1, up 9% year-over-year, driven by 20% growth in foundry-logic, partially offset by an expected decline in DRAM sales as prior year sales to customers in China did not repeat. Non-GAAP operating margin of 37.3% was up 160 basis points year-over-year. Sales for the ICAPS nodes, which serve customers across the IoT, Communications, Automotive, Power and Sensor markets, were down slightly year-over-year, and flat quarter-over-quarter.

Moving to Applied Global Services, AGS delivered revenue of \$1.59 billion in Q1, up 8% year-over-year, with healthy growth in services partially offset by a decline in sales of 200mm equipment. Non-GAAP operating margin of 28% was down 30 basis points year-over-year.

Lastly, our Display business delivered revenue of \$183 million.

BALANCE SHEET AND CASH FLOWS

Moving to the balance sheet and cash flows, we ended the quarter with cash and cash equivalents of \$6.3 billion and debt of \$6.3 billion. Cash from operations in the quarter was \$925 million, capital expenditures were \$381 million and free-cash flow was \$544 million. We distributed \$1.6 billion to shareholders in the quarter, including \$1.3 billion in share repurchases and \$326 million in dividends. As of the end of the quarter, approximately \$7.6 billion remains available under our share repurchase authorization.

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OUTLOOK

Turning to our outlook, we are seeing strong momentum for leading-edge foundry-logic, where we are particularly well-positioned as our customers ramp the most advanced technology nodes with gate-all-around transistors into high-volume manufacturing; offsetting leading edge is a more measured level of investment in the ICAPS nodes, following strong spending in 2023 and 2024. In DRAM, we are seeing healthy demand, but face tough year-over-year compares given the purchases from Chinese customers in 2024 that do not repeat this year. We are also seeing growth in NAND, albeit from historically low levels.

As Gary mentioned, as a result of the expanded export controls announced in December and January, we expect to face a headwind to revenue of approximately \$400 million in fiscal 2025. Nearly half of that impact will be in Q2. The impacts in the second half of the fiscal year will be more weighted to AGS, as we are no longer able to service certain customers, and following the step down in revenue in Q2, we would anticipate a return to growth in Q3 for AGS.

Based on these trade restrictions and our view of our business, for Q2 we expect that China as a percentage of total revenue will be about 5 percentage points lower than in Q1. This is below the normalized level of approximately 30%.

Taking all of these factors into account, for fiscal Q2, we expect total revenue of \$7.1 billion, \pm \$400 million, which represents a 7% increase year-over-year and non-GAAP EPS of \$2.30, \pm \$0.18, which represents a 10% increase year-over-year.

We expect Semiconductor Systems revenue of approximately \$5.3 billion, up 8% year-over-year, AGS revenue of approximately \$1.55 billion, up 1% year-over-year, and Display revenue of approximately \$250 million. We expect non-GAAP gross margin of approximately 48.4%, and non-GAAP operating expenses to be approximately \$1.3 billion. We are modeling a tax rate of approximately 13%.

SUMMARY

In closing, our business is strong, and we remain confident in our growth opportunities across all of our business segments. We are making significant investments in R&D to grow our share at the leading-edge and we are increasing our capital investments to be the leader in high-velocity co-innovation with our customers. This is an important indicator of the confidence we have in the growth trajectory of our business, and with our differentiated technology, unique insights and deep industry relationships, we are poised to benefit from the technology transitions and semiconductor growth that is expected over the coming years.

Liz, we are now ready to begin the Q&A.