Q4 Fiscal 2026 Earnings Call

PREPARED REMARKS | NOVEMBER 12, 2026

MIKE SULLIVAN | Corporate Vice President, Investor Relations

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-Q 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. In addition, any comments regarding calendar 2026 refer to fiscal Q2 2026 through fiscal Q1 2027.

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

GARY DICKERSON | President and Chief Executive Officer

Thanks, Mike.

With quarterly results toward the top of our guidance range and all-time highs for revenue and profitability, Applied delivered a record fiscal 2026 and our seventh consecutive year of growth. I would like to recognize our employees and supply chain partners around the world for their outstanding execution this year, which enabled us to maintain high levels of customer trust during an unprecedented industry ramp. As this is our year-end call, I'll begin with a brief review of our performance in 2026; I'll provide our perspective on the market environment, as demand continues to strengthen; finally, I'll talk about how Applied has built the most-enabling portfolio to advance the AI-computing roadmap, giving us a strong foundation for multi-year revenue and profit growth.

2026 REVIEW

In fiscal 2026, we grew revenue more than 21% and earnings nearly twice as fast, reflecting the operating leverage in our model. Based on the midpoint of our first-quarter guidance, we expect our semiconductor systems revenue to be up more than 40% in calendar 2026. As AI computing drives strong secular growth in semiconductors and wafer fab equipment, Applied is outgrowing the wafer fab equipment market because we've built leadership positions in the most-enabling, highest-value technologies for AI computing. Our outperformance is driven by addressable market growth and nodal share gains in both advanced foundry-logic and DRAM, our strength in advanced packaging, where we expect revenues to be up around 90% this calendar year, and our growing inspection and metrology business where we're on track to increase revenue more than 50% in calendar 2026.

2027 OUTLOOK

Demand for advanced semiconductors remains much higher than supply, and multi-year investments in new fab capacity are needed for the industry to close this supply-demand gap. We expect 2027 to be another record year for the market and for Applied. Our current view is that wafer fab equipment demand will be up more than 30% year-over-year, and we are in a strong position to outperform the market again.

The rate of industry growth will depend on how quickly the end-to-end semiconductor ecosystem can scale—all the way from cleanroom construction to equipment components and raw materials supply. At Applied, we're taking multiple actions to ensure we have the capacity and resources in place to support our customers' ramps. We are working more closely with customers on demand planning. Our largest customers are giving us rolling eight-quarter forecasts and earlier orders. We are also deepening our collaboration with suppliers. In fact, I recently met with more than 250 senior executives from our key suppliers to align on capacity ramp expectations and readiness to serve a range of growth scenarios.

In an AI datacenter, approximately 60% of the capital cost is silicon, and more than 85% of this silicon content is leading-edge foundry-logic, DRAM, and advanced packaging. These three areas have the greatest impact on the AI-computing roadmap, are expected to be the fastest growing parts of wafer fab equipment in 2027 and together drive approximately 75% of WFE growth through 2030. This is exactly where Applied has invested over the past several years to build the industry's most-enabling portfolio, positioning us to outperform the market again in 2027 and beyond as we gain share at major device inflections.

OPPORTUNITIES, ADVANTAGES, VALUE CREATION

In mid-October, we unveiled the EPIC Center in Silicon Valley and hosted an Investor Breakfast in San Francisco. Thanks to all of you who attended in person or online. At the investor event, we shared three main themes: the unprecedented opportunities created by the AI era, the unique advantages in Applied's capabilities and portfolio to address these opportunities, and how we are creating more value for customers and capturing more value for Applied.

As the pace of the global AI deployment increases and the adoption of AI rapidly broadens, there is an intense battle for AI-computing leadership that comes down to two interconnected races—and Applied is central to both. The first is a race for technology leadership which is enabled by accelerating the chip and packaging roadmaps that drive improvements in datacenter tokens-per-second-per-watt. The second is a race to add new chip manufacturing capacity by rapidly ramping new fabs while also optimizing the output and yield of existing factories.

At Applied, we have created the industry's leading portfolio of materials innovation, integration innovation and yield innovation technologies. The foundation for our leadership in materials innovation is our comprehensive and connected technology portfolio. We serve around 55% of total wafer fab equipment with number one positions in CVD, PVD, epitaxy, CMP, implant, thermal processing, eBeam, and conductor etch for advanced foundry-logic and DRAM.

At advanced nodes, smaller feature sizes, three-dimensional structures, and the introduction of novel materials all drive immense process complexity. The interaction between process steps is critical, especially when it comes to engineering interfaces where the layers of materials are now just one to two nanometers thick. That's why co-developing deposition, etch, treatment, inspection, and measurement technologies, and solving integration challenges from the very start of development, is such a powerful advantage and one that Applied is uniquely positioned to deliver.

Applied has also built world-class integration, modeling and simulation teams as well as comprehensive lab infrastructure to accelerate transistor, wiring, memory, and advanced packaging innovations. As yield and output become increasingly critical for customers, Applied is bringing new yield innovations to market. We have the highest resolution and fastest eBeam imaging, combined with industry-leading AI-enabled services that we call AI^x. EBeam and AI^x enable faster learning cycles in R&D, faster transfer and qualification of new technologies in pilot production and more good chips out in high-volume manufacturing. Applied has by far the largest number of connected systems in the field, with more than 37,000 chambers connected to AI^x today, growing at more than 20% annually.

Materials innovation, integration innovation and yield innovation are all accelerated by our EPIC platform. EPIC enables Applied to develop technology side-by-side with customers and partners, providing them with much earlier access to next-generation Applied technology, accelerated cycles of learning, and faster transfer and ramp to high yield and output. For Applied, EPIC means we are "designed in" earlier at new chip and packaging architectures, gain better visibility into multiple generations of customer roadmaps, and increase our R&D productivity. Since our last earnings call, we have added four more EPIC partners—Intel, Kioxia, BESI, and UCLA—bringing our total number of announced EPIC partnerships to 15—clear validation of the value of co-innovating with Applied.

At our investor event, we also outlined our 2025 to 2030 value creation targets to gain more than two points of wafer fab equipment share, increase service revenue per installed base tool by 20% or more, and increase gross margin and operating margin by 5 and 10 points, respectively. I'm confident we will make meaningful progress toward these targets in 2027, and all our teams are driving to higher targets.

SUMMARY

Before I hand over to Brice, I'll quickly summarize. Fiscal 2026 was a record year for Applied Materials, and we're on track to grow our semiconductor systems business more than 40% this calendar year. We are growing faster than the wafer fab equipment market because of the strong leadership position we've built in leading-edge foundry-logic, DRAM, and advanced packaging. These are the most enabling areas for AI computing, the fastest growing parts of wafer fab equipment in 2027, and where Applied has invested strategically to build the industry's most-enabling portfolio. We see 2027 as another record year for the industry and another year of outperformance for Applied, in which we expect to make significant progress toward our long-term targets. In short, AI is driving a multi-year expansion in semiconductor demand, and Applied has never been better positioned to lead and outgrow the market.

Brice, over to you.

BRICE HILL | Senior Vice President and Chief Financial Officer

Thanks, Gary.

I'm pleased to share that Applied delivered a third consecutive quarter of double-digit sequential and year-over-year growth in revenue, operating profit and non-GAAP earnings per share. Fiscal Q4 also marks our 14th consecutive quarter of year-over-year gross margin expansion, which demonstrates the customer value of our highly enabling product and services portfolio. We expect to outperform the market this calendar year with strong growth in DRAM, leading-edge foundry-logic and advanced packaging, which is precisely where we've been investing to lead. I'd like to thank our manufacturing and operations teams, and our partners, for responding to further increases in customer demand and helping make these strong results possible. On today's call, I'll update you on the demand environment, summarize our fiscal 2026 and Q4 results, and provide our Q1 business outlook.

DEMAND ENVIRONMENT

All the leading indicators we track continue to point upwards. Cloud capex is expected to increase more than 50% in 2027 to well over a trillion dollars. AI token usage is growing exponentially. The increasing variety of AI models is enabling more applications and generating positive economics both for service providers and for early adopters like Applied Materials.

AI is now a core part of everyday work at Applied. Over 80% of our employees use tools like Microsoft Copilot and Anthropic's Claude, along with newer, domain-specific tools for materials discovery and engineering. Inferencing is driving positive results throughout the company, from equipment and software development to field service, operations and back-office functions. All our software developers use AI, with an average productivity gain of over 40%. As a result, our monthly token consumption grew by more than 50 times this year, and we expect our token and task usage to increase substantially in 2027 as we find more ways to use AI to accelerate revenue, improve customer service and operate more efficiently.

AI continues to drive strong, incremental growth in wafer demand, with leading-edge logic and DRAM fabs running at full utilization. NAND is not far behind, and ICAPS is now in a healthy zone.

SCALING FOR GROWTH

In the near term, a major focus is expanding our supply chain capacity to further increase the number of systems we can produce. We've raised our demand forecasts to our suppliers every quarter this year, and they are partnering with us as the 2027 demand outlook continues to increase. We've mapped our supply chain, and our teams and partners are executing to manage pinch points and deliver another very strong growth year.

Over the medium term, cleanroom capacity remains a gating factor for how much equipment the industry can consume. Fortunately, we're tracking more than 20 fab ramps and line expansions in 2027

alone. We've created new teams and AI[x] technologies that will help our customers accelerate these ramps and maximize wafer output and yields. Longer term, demand signals from our customers remain very positive, with more than 10 major fabs and expansion projects added to our tracker for the third quarter in a row. Many of these new projects are not expected to come online until 2029 and 2030, which indicates a much higher level of demand across the five and ten year horizon than previously planned in both logic and memory.

At Applied, we're already working with customers to forecast their needs through 2030. To support our customers' growth, we're investing to be able to double our systems output from Q4'26 levels by 2028 and more than double our manufacturing and lab capacity by 2030.

FISCAL 2026 RESULTS

Next I'll briefly summarize fiscal 2026 during which we grew revenue by over 21% to $34.4 billion, expanded non-GAAP gross margin by 130 basis points to 50.1%, and increased non-GAAP EPS by 37% to $12.89. We generated double-digit revenue growth in Semi Systems and AGS, and increased gross margins in both segments by around 150 basis points. Operating cash flow was $8.9 billion, up 11%, and after $2.7 billion in capital expenditures, free cash flow was $6.2 billion, up 9%. We distributed over $4.7 billion to shareholders, including nearly $3.2 billion in stock buybacks and $1.6 billion in cash dividends.

Q4 RESULTS

Turning to our Q4 results, we delivered the highest dollar-growth in our history, generating record revenue of $10.4 billion, which was up 14% sequentially and 53% year-over-year. Non-GAAP gross margin increased to 50.6%, up 20 basis points sequentially and 250 basis points year-over-year driven by favorable mix effects and higher pricing. Non-GAAP operating margin expanded to a record 35.3%, up 130 basis points sequentially and 670 basis points year-over-year. We delivered strong operating leverage with non-GAAP opex as a percent of revenue declining by 430 basis points year-over-year to 15.2%, and we increased non-GAAP earnings per share to a record $4.16, up 19% sequentially and 92% year-over-year.

We plan to drive further gross margin expansion by introducing more enabling products and sharing in the value they create for our customers. We also plan to further increase operating leverage and margins as our AI and automation strategies enable us to scale our support function capabilities with minimal increases in headcount.

SEMICONDUCTOR SYSTEMS

Turning to segment performance in Q4, Semiconductor Systems delivered record revenue of $8 billion, up 14% sequentially and 64% year-over-year, including record sales in Korea and Taiwan. DRAM grew strongly as we expected it would, and we posted record revenue in both DRAM and advanced packaging. From a product perspective in Q4, we had record revenue in deposition across PVD, CVD, ALD and epitaxy. We also had record revenue in etch, CMP and process control. Segment non-GAAP gross margin increased 240 basis points year-over-year to 55.2% and non-GAAP operating margin increased over 940 basis points year-over-year to 39%.

APPLIED GLOBAL SERVICES / OTHER

Applied Global Services delivered record revenue of $1.9 billion, up 26% year-over-year, reflecting record revenue in both services and spares. AGS gross margin grew 100 basis points year-over-year to 35.1% and non-GAAP operating margin increased nearly 170 basis points to 30.5%.

Other revenue of $517 million was in line with our expectations for the quarter.

CASH FLOW AND SHAREHOLDER RETURNS

We generated record operating cash flow of $3.3 billion in Q4. Capital expenditures declined sequentially to $684 million, resulting in record free cash flow of $2.6 billion. We distributed over $2.4 billion to shareholders including $2 billion in stock buybacks and $421 million in cash dividends. We have $10.8 billion remaining in our share buyback authorization and continue to expect to distribute 80% to 100% of free cash flow to shareholders over time.

Q1 BUSINESS OUTLOOK

Now, I'll share our business outlook for Q1 which, as a reminder, is a 14-week quarter which benefits AGS revenue growth in the period. We expect company revenue of $11.1 billion ± $500 million, which is up 58% year-over-year at the midpoint. We expect non-GAAP EPS of $4.35 ± $0.20, which is up 83% year-over-year. Within this outlook, we expect Semiconductor Systems revenue of around $8.7 billion, up 69% year-over-year, our first AGS quarter of $2 billion, up 28% year-over-year, and other revenue of around $400 million. We expect non-GAAP gross margin to increase to approximately 50.8%, up 170 basis points year-over-year. And we expect non-GAAP operating expenses of around $1.7 billion. We are modeling a non-GAAP tax rate of around 13%. Finally, to help with your modeling after the 14-week quarter, we expect AGS revenue to remain close to Q1 levels in Q2, and opex in Q2 to be around 15% of revenue.

SUMMARY

In summary, AI continues to add a fast-growing and incremental layer of demand to the industry. The investments we've made to help enable this new wave have given us a rich and growing portfolio of highly enabling products and services. Our technology leadership in the most critical markets is now evident in our strong revenue growth and gross margin expansion. Our focus on operating leverage is

producing record operating margins and contributing to strong cash flow and shareholder distributions, including the largest quarterly share buyback in over 8 years.

We continue to have long visibility from our customers, expect another strong, record year in 2027 and are making substantial investments to be able to ramp to higher levels beyond next year. We have high confidence in our strategy and that we will demonstrate continuous progress on share gains, gross margin expansion and operating leverage.

Now Mike, let's start the Q&A.