Q2 Fiscal 2026 Earnings Call

PREPARED REMARKS | MAY 14, 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 Q2 of this fiscal year through Q1 of fiscal 2027—which will be a 14-week quarter.

Next, I'll share some calendar items. I'm pleased to announce the second event in our 2026 Master Class series. We will cover DRAM and Advanced Packaging on a live webcast on Thursday, June 25th, at 9AM Pacific Time. Next, I'd like to remind you about our two special events during SEMICON West. On Monday afternoon, October 12th, we invite you to the unveiling of the new EPIC Center in Sunnyvale, California and on Tuesday morning, October 13th, we hope you'll join Gary, Brice and our business unit leaders for our investor breakfast presentation at the Yerba Buena Center in San Francisco. You can join us in person or on a live webcast.

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

GARY DICKERSON | President and Chief Executive Officer

Thank you, Mike.

In our second fiscal quarter, Applied Materials delivered record revenue and earnings, along with our highest gross margin in more than 25 years. With rising demand and increasing long-term visibility from customers, we see an exceptionally strong foundation for sustained, multi-year revenue and profit growth. The momentum in our business is being driven by three key factors: first, the rapid global build out of AI computing infrastructure; second, Applied's leadership positions in the most enabling and highest-value areas of the market—particularly leading-edge foundry-logic, DRAM and advanced packaging; and third, strong execution across our operations and supply chain.

In my prepared remarks I will provide an update on how our markets are evolving, explain how Applied is enabling the AI roadmap with our differentiated technology and exciting pipeline of new products, and outline how we are transforming the way we work with customers, partners, and across the company to drive higher velocity, increase operating leverage, and scale more efficiently.

MARKET GROWTH

Over the past several months, global AI adoption has continued to accelerate as improvements in the performance and cost of AI-computing are translating into real-world applications that deliver

compelling returns for users. If I look at our own company as an example, today we have more than 35,000 AI users across our global workforce. We are deploying AI to drive new scientific breakthroughs, accelerate research and development programs, optimize factory and supply chain operations, increase innovation and productivity in services, and automate workflows across our corporate functions. This enables us to redirect resources towards higher-value work and grow the business significantly faster than our headcount. Similar dynamics are playing out across a broad range of industries and organizations. Publicly available data indicates that global token generation has increased more than three-fold in just the past three months.

Importantly, AI demand is not only growing rapidly—it is also diversifying. Since the beginning of the year, there has been a meaningful increase in agentic applications which layer on top of continued growth in generative AI training and inference workloads. AI computing architectures are workload-specific and optimized for different generative, agentic or physical AI models. Agentic AI models do more than respond to queries—they plan, reason, and execute tasks autonomously. They therefore require a computing architecture that is more CPU-intensive while also increasing demand for DRAM and NAND. As agentic AI applications grow, they provide an additional tailwind for wafer fab equipment.

Last quarter, we said the availability of cleanroom space was a key factor pacing the rate of industry investment. As customers find new ways to reallocate or create space, we are seeing incremental requests for equipment deliveries in 2026, and we now expect our semiconductor equipment business will grow more than 30% this calendar year. Given the unprecedented demand environment, we are working closely with our customers on longer-range planning. Our largest customers are providing rolling eight-quarter forecasts so we can prepare the required manufacturing capacity and service resources for their ramps. With this improved visibility, we see continued growth across this extended planning horizon—into 2027 and beyond—and we are investing to support our customers' expansion plans.

HOW APPLIED IS ENABLING AI

For AI computing, leading-edge foundry-logic, DRAM, and advanced packaging have the greatest impact on overall system performance, power efficiency and cost. As a result, we expect these three areas to account for more than 80% of the year-on-year growth in total wafer fab equipment spending in 2026, and see a similar profile in 2027. These are also the areas where Applied has strong leadership positions and an innovative pipeline of next-generation technologies.

In leading-edge foundry-logic, Applied is the clear number one process equipment provider with highly differentiated solutions in materials deposition, modification and treatments, 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. This quarter, we announced two new products that further strengthen our gate-all-around portfolio.

To meet the requirements of different AI workloads in the datacenter and at the edge, chipmakers provide designers with a range of transistor options, with some tuned for peak performance and others tuned to use the lowest amount of power. This tuning is achieved through precise optimization of the

materials in the metal gate stack. Our new Trillium ALD Integrated Materials Solution precisely deposits metals in the most complex gate-all-around transistor gate stacks. By integrating multiple metal deposition steps in a single platform, Trillium ALD provides angstrom-level thickness control of metal gate stack layers giving chipmakers maximum flexibility to tune threshold voltages across different transistors.

In advanced foundry-logic, shallow trench isolation, or STI, is used to electrically separate neighboring transistors. These narrow isolation trenches are some of the smallest structures in a gate-all-around device. Our new Precision PECVD system uses an industry-first selective bottom-up deposition process to place material exactly where it's needed and protect the STI structure from damage during subsequent processing steps. By preserving the original shape and height of the isolation trench, our new PECVD solution reduces parasitic capacitance and lowers leakage to boost device performance.

In advanced packaging, Applied is also the overall leader with strong positions in high-bandwidth memory and 3D chiplet-stacking. We expect to grow our packaging revenues more than 50% in calendar 2026, and we are very well positioned at upcoming packaging inflections. We recently announced our intent to acquire NEXX to further strengthen Applied's portfolio of panel-level technologies which are designed to enable larger-body packages for AI accelerators.

In DRAM, AI computing is driving incredibly strong demand, and customers are aggressively adding capacity at $6F^2$ nodes, while accelerating their development of next-generation device architectures. Applied is the number one process equipment provider in memory today, thanks to our very strong position in DRAM wiring, patterning, and peripheral logic steps. We expect to gain additional DRAM market share at upcoming transistor and device architecture inflections. We will provide more details at our next Master Class in June which will cover both our DRAM and Advanced Packaging technology roadmaps.

EPIC AND ADVANCED SERVICES ACCELERATE THE ROADMAP

To accelerate the industry's roadmap further, we are changing the way we work with our customers and partners by creating a new model for collaboration and innovation. Applied's global EPIC platform is designed to significantly reduce the time it takes to commercialize breakthrough technologies all the way from early-stage research to full-scale manufacturing. For chipmakers, EPIC provides earlier access to Applied's R&D portfolio and faster cycles of learning through the co-location of key innovators from customers, partners, and Applied. In addition, EPIC co-innovation programs will provide us with greater multi-node visibility to guide R&D investments and resource allocation, increase R&D productivity and value sharing, and accelerate design wins for Applied equipment and services.

The centerpiece of the platform is the new EPIC Center in Silicon Valley which remains on track to begin operations in the Fall. Earlier this week, we announced our EPIC co-development engagement with TSMC, who join as a Founding Partner together with Micron, Samsung and SK Hynix. We are also excited to announce our first three EPIC university partnerships with ASU, RPI, and Stanford, as well as a development partner agreement with Advantest. We are finalizing additional EPIC engagements that we will publicly announce in the coming months.

To accelerate the transfer of new technologies from Applied's labs to customers' fabs we are also driving new innovations in service. Service is another important growth driver for Applied as we increase the revenue we generate per tool on top of a growing installed base. As a result, we expect Applied Global Services to deliver a sustainable annual growth rate in the mid-teens and potentially higher this year. Our advanced service solutions enable customers to accelerate production ramps, and optimize output, yield and cost in their high-volume manufacturing environments. Today, we have more than 35,000 chambers connected to our proprietary AI^{x} software capabilities that use AI-powered monitoring, diagnostics and analytics.

SUMMARY

Before I hand it over to Brice, let me briefly summarize:

AI adoption is accelerating and diversifying, fueling broad and durable demand for semiconductors and semiconductor equipment. Leading-edge foundry-logic, DRAM and advanced packaging are the most critical drivers of performance, power efficiency and cost for AI computing. As a result, we expect these three areas to account for more than 80% of the year-on-year growth in total wafer fab equipment spending in 2026, and see a similar profile in 2027. These are areas where Applied has strong market leadership today and a high-value pipeline of next-generation products providing us with an exceptionally strong foundation for sustained, multi-year revenue and profit growth. Finally, through EPIC, our advanced services portfolio, and rapid AI adoption across our operations, we are transforming how we work with customers, partners and inside Applied Materials—driving higher velocity, improving value capture, and efficiently scaling the company as the industry grows.

Brice, over to you.

BRICE HILL | Senior Vice President, Chief Financial Officer

Thanks Gary.

AI is driving wafer fab equipment spending to the areas where Applied has been investing the most, and we see the positive mix continuing in the second half of the calendar year and well beyond. As the market shifted to our areas of strength in Q2, we delivered double-digit sequential and year-over-year growth across revenue, operating profit and earnings per share. I'd like to thank our teams and partners for making these results possible by meeting strong customer demand for our AI-enabling materials engineering technologies and systems. On today's call, I'll provide an update on the demand environment, discuss several strategic priorities, summarize our Q2 results, and provide our Q3 guidance.

DEMAND ENVIRONMENT

Since we spoke in February, the demand outlook has strengthened across almost every leading indicator we track. Cloud service providers continue to increase capital investments. Most leading-edge

logic and DRAM fabs are running at full capacity. Our customers have announced more fab projects and are giving us the clearest and longest visibility we've ever had. Customers have been using a variety of techniques to increase cleanroom capacity this year, which is growing the market and our revenue expectations and based on our latest discussions with them, we expect 2027 will be another strong, record year for the industry.

STRATEGIC FOCUS AREAS

Next, I'll summarize several of our strategic priorities. Our top priority is increasing output to serve our customers' growing demand. We've nearly doubled our manufacturing capacity to support them, with expansions in the U.S. and Europe, and an additional new manufacturing center in Singapore. We've increased our build plan, inventory positions and logistics capacity. We are systematically translating our eight-quarter customer demand forecast into a consolidated signal to our suppliers, ensuring they have the visibility they need to make their own capacity and resource additions.

Next I'll share how this translates to profitability. Funding our collaborative R&D process helps us identify the highest-value technology challenges and gives us line of sight to the most compelling solutions. As we bring newly developed tools to market, our portfolio becomes more valuable, and our gross margins expand. In fact, our non-GAAP gross margin has increased 800 basis points since Gary became CEO in 2013 and is now crossing 50% at the company level and approaching 55% in Semiconductor Systems. In addition, we are focused on driving higher operating profit and leverage with productivity tools and plans being deployed across the company. While fully investing in the R&D that grows our business and gross margins, we also expect to increase spending more slowly than revenue and deliver increasing operating profit.

Q2 REVIEW

Next, I'll summarize our Q2 results. We generated record revenue of $7.91 billion which was up 13% sequentially and 11% year-over-year. Non-GAAP gross margin reached 50% in the quarter, increasing 80 basis points year-over-year, driven by value-based pricing from our most differentiated products, coupled with ongoing manufacturing cost innovations. Non-GAAP operating margin expanded to 32.1%, up 140 basis points year-over-year, and we delivered record non-GAAP earnings per share of $2.86, which was up 20% year-over-year.

Turning to the segments, Semiconductor Systems delivered record revenue of $5.97 billion which was up 16% sequentially and up 10% year-over-year. The transition to gate-all-around nodes—along with capacity additions at leading-edge FinFET nodes—drove record foundry revenue as well as record revenue across ALD, epitaxy and materials treatments. DRAM revenue of $1.7 billion grew 18% year-over-year. Advanced packaging revenue is accelerating this calendar year within both foundry-logic and DRAM, and investments are shifting toward our leadership positions in 3D stacking. Segment gross margin and operating margin both increased year-over-year.

Applied Global Services delivered record revenue of $1.67 billion which was up 17% year-over-year, reflecting the benefit of higher fab utilizations. Services growth remains strong as our installed base expands and customers choose our most advanced services to boost output and yield. AGS also

generated year-over-year increases in gross margin and operating margin. Other revenue of $280 million was in line with our expectations.

China represented 24% of our Semiconductor Systems plus AGS revenue. We expect our business in China, and our ICAPS business worldwide, to be flat to slightly higher in the calendar year. Cash from operations was $845 million.

Capital expenditures were $635 million, resulting in free cash flow of $210 million. We distributed $765 million to shareholders including $365 million in dividends and $400 million in stock repurchases. In March, we announced a 15% increase to the quarterly cash dividend and achieved a goal we set several years ago to double the dividend per share.

Q3 GUIDANCE

Now, I'll share our guidance for Q3. We expect company revenue of $8.95 billion ± $500 million, which is up nearly 23% year-over-year. We expect non-GAAP EPS of $3.36 ± $0.20, which is up nearly 36% year-over-year. Within this outlook, we expect Semiconductor Systems revenue of around $6.9 billion, AGS revenue of about $1.75 billion and Other revenue of around $300 million. We expect non-GAAP gross margin to increase modestly to ~50.1% and we expect non-GAAP operating expenses of around $1.485 billion. Finally, we are modeling a non-GAAP tax rate of around 11%.

SUMMARY

In summary, the growth in AI, that we have been investing for, is now in full force. As a result, the industry spending mix has shifted to leading-edge foundry-logic, DRAM and advanced packaging where Applied has built the number-one process equipment market positions. We are investing with confidence to support the strong, long-term growth our customers are giving us visibility into, and ensuring our suppliers do the same. Finally, we are using the benefits of the AI technologies we enable to accelerate innovation and revenue generation, and increase operating leverage and shareholder returns.

Now Mike, please begin the Q&A session.