

Q3 Fiscal 2024 Earnings Call

PREPARED REMARKS | AUGUST 15, 2024



MICHAEL SULLIVAN | Corporate Vice President, Investor Relations

Good afternoon everyone, and thank you for joining Applied's third quarter of fiscal 2024 earnings call. Joining 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 contains forward-looking statements which are subject to risks and uncertainties that could cause our actual results to differ. Information concerning the risks and uncertainties is contained in Applied's most recent Form 10-Q filing with the SEC. Today's call also includes non-GAAP financial measures. Reconciliations to GAAP measures are found in today's earnings press release and in our quarterly earnings materials, which are available on our website at ir.appliedmaterials.com.

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

GARY DICKERSON | President and Chief Executive Officer

Thanks Mike.

With record revenues in our third quarter, and earnings towards the high-end of our guided range, Applied Materials continues to deliver strong results in 2024. Secular trends are growing our available market, and our unique and connected portfolio of capabilities, products and services, positions us to outperform the industry over the longer term. At our recent investor event at SEMICON West, leaders from our semiconductor business shared their perspective on the powerful, multi-decade technology trends driving the industry forward, and explained the role Applied is playing to enable the next generations of semiconductor technology.

In today's call, I will summarize some of the key themes we talked about at that event including: how advancing energy-efficient computing performance is critical to deploying AI at scale, why the energy-efficient computing roadmap is increasingly enabled by materials engineering and Applied Materials, and how we are working in new ways to accelerate this complex roadmap and create new growth opportunities for Applied.

AI DRIVING NEED FOR ENERGY-EFFICIENT COMPUTING

Semiconductors provide the foundation for tectonic shifts in technology that will reshape the global economy over the next several decades, including AI, IoT, robotics, electric and autonomous vehicles, and clean energy. These multi-trillion-dollar global inflections are increasing demand for chips and driving the need for significant advances in semiconductor technology. The biggest tectonic shift of all is AI, and the race for AI leadership will—in large part—be determined by which companies in the semiconductor industry are first to deliver substantial improvements in energy-efficient compute performance.

In our discussions with leading AI companies, they are telling us that reducing power-per-operation is now more important than increasing operations-per-second. They are also talking about the need to

Q3 Fiscal 2024 Earnings Call

PREPARED REMARKS | AUGUST 15, 2024



drive a 10,000 times improvement in performance-per-watt over the next 15 years. Evolutionary innovation is insufficient to deliver improvements of this magnitude, and we are seeing the emergence of a new industry playbook made up of major device architecture inflections in logic, memory and advanced packaging.

DEVICE ARCHITECTURE INFLECTIONS ENABLED BY MATERIALS ENGINEERING

These device architecture inflections are increasingly enabled by materials science and materials engineering where Applied is the clear market and technology leader. For AI, the advanced chips in the datacenter, used for training AI models, are built upon four critical categories of semiconductor technology: leading-edge logic, high-performance DRAM, High-Bandwidth Memory enabled by die-stacking technology and advanced packaging to connect the logic and memory chips together in a single integrated package.

In leading-edge logic, key device inflections—in both transistor and interconnect—are currently moving from chipmakers' R&D pilot lines to high-volume production. The transition from FinFET to Gate-All-Around transistors grows Applied's available market for the transistor module from around \$6B to approximately \$7B for every 100 thousand wafer-starts-per-month of capacity. We also expect to gain share through the Gate-All-Around transition and we're on track to capture more than 50% of the process equipment spending for the transistor fabrication steps.

For the interconnect module, our available market is also about \$6B for every 100 thousand wafer-starts-per-month. We forecast this will also grow by about \$1B with the implementation of Backside Power Delivery, and we expect to win more than 50% of the applications we address in interconnect when Backside Power ramps in volume manufacturing.

In DRAM, we have also established clear leadership in process equipment, and are in a great position for future growth. Over the past decade, we have grown our market share in DRAM by around 10 points. As DRAM plays a critical role in energy-efficient computing performance, there is a huge focus on advancing the roadmap. The next major DRAM inflection, from 6F² to 4F² (or vertical transistor architectures) is materials-enabled, and we expect our market opportunity to grow by approximately 10% to around \$6.5B for each 100 thousand wafer-starts-per-month of capacity. We also expect to increase our share based on our position to enable the 4F² inflection. In addition, we believe the subsequent transition to 3D DRAM will grow our addressable market by an incremental 15%, further compounding Applied's opportunity.

In the die-stacking technologies that enable High-Bandwidth Memory, we also have strong leadership positions, both in micro-bump and Through-Silicon Via. We have seen demand for High-Bandwidth Memory accelerating in 2024 and expect to generate more than \$600M of HBM packaging revenue this year, which is approximately six times 2023. Overall, including HBM, we expect revenue from our advanced packaging product portfolio to grow to approximately \$1.7B in 2024. We believe this business can double in size over the next several years, as heterogenous integration is more widely adopted and we introduce new solutions that grow our addressable market.

Q3 Fiscal 2024 Earnings Call

PREPARED REMARKS | AUGUST 15, 2024



Advanced logic, high-performance DRAM, High-Bandwidth Memory, and advanced packaging are all great examples of how future device architecture inflections are increasingly enabled by materials engineering. As a result, we expect materials engineering, as a percentage of total wafer fab equipment, to grow in both logic and memory through the coming node transitions. At the same time, thanks to our inflection-focused approach to R&D, and the strong positions we've established at these future device architecture inflections, we expect to capture more of the expanded opportunities we serve.

WORKING IN NEW WAYS TO ACCELERATE ROADMAP

The value of bringing next-generation semiconductor technology to market faster has never been greater. At Applied, our strategy and investments are focused on accelerating the industry's roadmap to support the highest growth-rate global inflections spanning: AI datacenters, edge-AI and IoT, robotics, electric vehicles and clean energy. This strategy is enabled by three pillars:

First, we have built a broad, unique and connected portfolio of highly enabling technologies. As well as providing traditional, best-in-class unit processes, we can co-optimize, combine, and integrate our technologies to deliver more comprehensive solutions that address higher-value challenges for our customers. These integrated 'fab-in-a-fab' solutions have grown from approximately 20% of our semiconductor products revenue in 2019 to around 30% today. We expect demand for our integrated products to continue growing, both at the leading-edge and from our ICAPS customers who are serving specialty markets.

Second, we are changing the way we work inside and outside the company. Over the past five years, we have built new capabilities and dedicated teams focused on module integration, device design and simulation, data analytics and AI, advanced packaging, and ICAPS. At the same time, we are driving earlier, deeper and more extensive collaboration with our customers and partners to win the device architecture inflection races, accelerate mutual success rates, and increase investment efficiencies. To further support these collaborative partnerships, we will build out our global EPIC platform over the next several years, which is specifically designed for high-velocity innovation and commercialization of next-generation technologies.

And third, we are helping customers transfer new technology into high-volume manufacturing faster and then optimize performance, yield, output, and cost in their factory operations. This is supporting double-digit growth in services, with a high percentage of our service revenue coming from subscriptions in the form of long-term agreements. Overall, AGS delivered another record quarter, which is their 20th consecutive quarter of year-on-year growth.

SUMMARY

Before I hand over to Brice, I will quickly summarize:

Applied Materials is delivering record results in 2024, and we are in a great position to benefit from secular growth trends over the longer-term. Semiconductors are the foundation for tectonic shifts in technology which will reshape the global economy over the next several decades. This is driving

Q3 Fiscal 2024 Earnings Call

PREPARED REMARKS | AUGUST 15, 2024



increasing demand for chips as well as the need for significant advances in semiconductor innovation. The race for AI leadership depends on delivering significant improvements in energy-efficient compute performance in the range of 10,000 times over the next 15 years. The need for more energy-efficient compute is driving major device architecture inflections within the semiconductor roadmap that are enabled by materials engineering and Applied Materials' innovations. This expands our served market and is accretive to our share, and the increasingly complex industry roadmap creates new collaboration and growth opportunities for Applied, enabled by our broad, unique and connected portfolio of capabilities, products and services.

Finally, as you may be aware, Mike Sullivan will be retiring at the end of this calendar year and handing the reins to Liz Morali, who recently joined Applied as our new head of Investor Relations. I would like to say a huge thank you to Mike for his many contributions to the success of our company and congratulate him on an outstanding career.

Now, over to Brice.

BRICE HILL | Senior Vice President, Chief Financial Officer

Thank you, Gary. And I'd like to thank our teams for their strong execution this quarter which enabled us to deliver record revenue, improved operational performance, and healthy gross margin. Today, I'll summarize the market environment, discuss our Q3 performance, and share our Q4 outlook.

As Gary mentioned, Mike Sullivan plans to retire from Applied at the end of this calendar year. Liz Morali has joined Applied as our new Vice President of Investor Relations. Mike and Liz are working on a smooth handoff of the IR function beginning with our November earnings call. I hope you'll join Gary and me in congratulating Mike on his extraordinary career and leadership, and welcoming Liz to Applied Materials.

BUSINESS ENVIRONMENT

Beginning with the business environment, our revenue in Q3 as well as our outlook for Q4 reflect the industry's focus on the major inflections Gary highlighted earlier. We are seeing particularly strong pull related to AI and data center computing. Specifically, our DRAM system shipments remained strong even as DRAM sales in China decline as anticipated. Adoption of high-bandwidth memory and other forms of advanced packaging continues to grow.

And in foundry-logic, leading-edge investment is growing each quarter and becoming a larger percentage of our mix while ICAPS demand remains strong overall.

Q3 COMPANY RESULTS AND PROGRESS

Turning to our Q3 performance, we delivered record revenue of \$6.78B which was up 5% year-over-year, with growth in all three segments. Operationally, we saw improvements in a number of key metrics such as manufacturing cycle times, linearity and on-time delivery. These improvements give me

Q3 Fiscal 2024 Earnings Call

PREPARED REMARKS | AUGUST 15, 2024



confidence that we are preparing the company to more efficiently support the growth we are forecasting in the years ahead. The strong operational performance helped us deliver non-GAAP gross margin of 47.4% which was up 100 basis points year-over-year. Non-GAAP operating expenses of \$1.26B were up 8% year-over-year, and over 70% of the increase was driven by R&D programs aimed at the technology inflections Gary described. Non-GAAP EPS of \$2.12 was up 12% year-over-year and \$0.01 below our highest EPS quarter ever.

Q3 CASH FLOWS AND DISTRIBUTIONS

Turning to cash flows and profit distributions in Q3, we generated nearly \$2.4B in operating cash flow and over \$2B in free cash flow. We distributed nearly \$1.2B to shareholders including the first \$0.40 per-share dividend and \$861M in stock buybacks.

Q3 SEGMENT RESULTS

Turning to the segments, Semiconductor Systems sales were \$4.92B in Q3, up 5% year-over-year. Segment non-GAAP operating margin was 35%, up 130 basis points year-over-year. From a device perspective, our DRAM sales grew nearly 50% year-over-year to \$1.16B. Our DRAM sales in China declined sequentially as we anticipated, and this contributed to our company revenue in China declining by 11 percentage points sequentially to 32% which is in line with our longer-term average inclusive of Semi Systems, AGS and Display. Our NAND memory sales grew 10% year-over-year to \$203M.

Our foundry-logic sales were down 4% year-over-year to \$3.56B. Leading-edge foundry-logic demand was lower year-over-year but continued to strengthen on a sequential basis. We continue to expect to generate more than \$2.5B in system revenue from Gate-All-Around nodes this calendar year, with the potential to more than double next year.

Our ICAPS business remained strong overall, with pockets of weakness in the auto and industrial end markets. Longer term, we expect the ICAPS market to remain around half the foundry-logic market as major inflections in IoT, autonomous and electric vehicles, and the global energy transformation are expected to drive mid- to high-single-digit, through-cycle growth in ICAPS semiconductors well into the future. We are investing in new products to compete in more areas of the ICAPS semiconductor and packaging ecosystem. We are also working with our customers to enable new power and sensor device architecture inflections using our co-optimized and integrated materials systems.

Next, Applied Global Services delivered record revenue of \$1.58B in Q3 which was up 8% year-over-year. AGS recurring parts, services and software revenue grew more than twice as fast as overall segment revenue during the quarter. AGS non-GAAP operating margin of 29.6% was up 230 basis points year-over-year, and non-GAAP operating profit was a record \$467M. From a business perspective, customer factory utilization continued to strengthen during the quarter across memory, foundry-logic and advanced packaging. Our leading indicators of future AGS growth remain positive. Our installed base of systems and chambers increased 7% year-over-year, and our average revenue-per-unit increased even more. Our average subscription agreement length increased to 2.8 years, and the renewal rate was above 90%. We continue to expect AGS to grow at a low double-digit rate over the long term. As a reminder, the consistency of our profitable growth in services gives us confidence in

Q3 Fiscal 2024 Earnings Call

PREPARED REMARKS | AUGUST 15, 2024



our ability to continue to increase our dividend-per-share. In fact, over the past 10 years, we have increased the dividend-per-share at a compound annual growth rate of approximately 15%.

Moving to Display, Q3 revenue of \$251M was up 7% year-over-year, and segment non-GAAP operating margin was 6.4%. While LCD equipment spending remains low, we are becoming more confident that the OLED technology found in smartphones will be adopted in notebook PCs and tablets whose larger screen sizes will require a significant increase in capital investments. Applied has built a leadership position in deposition and e-Beam metrology technologies for the display industry and we are well positioned to enable our customers to convert the notebook PC and tablet markets to OLED technology over the coming years.

Q4 GUIDANCE

Now, I'll share our guidance for Q4.

We expect company revenue of \$6.93B \pm \$400M and non-GAAP EPS of \$2.18 \pm \$0.18 both up 3% year-over-year at the midpoint. Within this outlook, we expect Semi Systems revenue of around \$5.1B, which is up 4% year-over-year, AGS revenue of about \$1.61B, which is up 9% year-over-year, and Display revenue of around \$200M. We expect non-GAAP gross margin to be approximately 47.4% and non-GAAP operating expenses to be around \$1.275B. Finally, we are modeling a tax rate of 12.5%.

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