

Q4 Fiscal 2024 Earnings Call

PREPARED REMARKS | NOVEMBER 14, 2024



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-Q 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.

With record revenue and earnings in our fourth quarter, Applied Materials delivered a strong finish to fiscal 2024 and our fifth consecutive year of growth. I would like to recognize the hard work and commitment of our global team for delivering these outstanding results. As this is our year-end call, I'll begin by highlighting our key accomplishments over the past 12 months.

A year ago, in our November 2023 call, I said the company's priorities for 2024 were driving R&D programs to further differentiate our unique and connected portfolio to extend our leadership at key inflections that enable future industry growth, making operational and supply chain improvements to better serve customers, and drive productivity across the enterprise, and, ensuring that we scale the company in ways that are sustainable and environmentally responsible.

Over the past year, we made significant progress in all these areas. We strengthened our position at major inflections in logic, DRAM and advanced packaging. We delivered double-digit growth in our parts and services business. We made improvements to our operations and supply chain that supported strong cash flow and margin performance. And, our key strategic initiatives are on track including the build out of our EPIC collaborative R&D platform and the deployment of our Net Zero Playbook.

In my prepared remarks today, I'll talk about three key topics. First, how large-scale, secular trends are driving growth and innovation in semiconductors, and why energy-efficient computing is emerging as a unifying driving force for the industry. Second, how the major device architecture inflections that make up the semiconductor industry's roadmap are increasingly enabled by innovations in Materials Science and Materials Engineering, where Applied has clear leadership. And third, as the industry roadmap becomes increasingly complex, how we are creating incremental growth opportunities for the company

Q4 Fiscal 2024 Earnings Call

PREPARED REMARKS | NOVEMBER 14, 2024



to offer new solutions with our unique and connected portfolio, our high-velocity collaborative R&D platform, and our advanced service products.

GROWTH OPPORTUNITIES

In the coming years, we are going to experience the biggest technology changes of our lifetimes with major advances in automation and robotics, electric and autonomous transportation, clean energy, and artificial intelligence. All of these ‘tectonic shifts’ are made possible by semiconductors, and this provides a catalyst for the semiconductor industry to create and capture more value than ever before. The biggest tectonic shift is AI, which has virtually endless applications and therefore the potential to transform almost every area of the economy.

Deploying AI at large scale will require AI-computing to be significantly more energy-efficient than it is today. To realize the full potential of AI, the leading AI companies are talking about the need to drive a 10,000 times improvement in computing-performance-per-watt over the next 15 years. To deliver energy-efficiency improvements of this magnitude, evolutionary innovation will be insufficient. Instead, we see a new technology roadmap emerging made up of multiple device architecture inflections in logic, memory and advanced packaging. This creates three significant opportunities for Applied to deliver more value to customers and extend our differentiation in the market.

First, we have built a broad, unique and connected portfolio of highly enabling technologies that we can supply to customers as co-optimized and integrated solutions. By combining adjacent process steps such as material deposition, etch, and material modification into an integrated system, we are providing chipmakers innovative and comprehensive solutions to enable their energy-efficient architecture inflections. Integrated solutions account for around 30% of our Semiconductor Systems revenue, and we expect them to become an even larger part of our portfolio in the future.

Second, we are driving earlier and broader collaborations with our customers and partners to bring next-generation technology to market faster. Our global EPIC platform, that we will build out over the next several years, is specifically designed to accelerate cycles of learning, increase mutual success rates, and improve investment efficiencies. In the U.S., construction of the EPIC Center in Silicon Valley is well underway and on-track to come online in 2026, and we will share more details about our EPIC Advanced Packaging strategy at a technical summit we are hosting for R&D leaders next week in Singapore.

And our third key opportunity is in services, where we are focused on helping customers manage increasing complexity in their business as the industry scales. We are deploying our advanced service products to help them accelerate their R&D, speed up transfer of new chip technologies from lab to fab, and then optimize device performance, yield, output, and cost in high-volume manufacturing. This is supporting double-digit growth in our parts and service business, with a high percentage of these revenues coming from subscriptions in the form of long-term agreements. These subscriptions have a high renewal rate, and the average tenure of the agreements is growing. This year, we signed our first five-year service agreements with multiple customers. Overall, AGS delivered a record quarter, a record year, and their 21st consecutive quarter of year-on-year growth.

Q4 Fiscal 2024 Earnings Call

PREPARED REMARKS | NOVEMBER 14, 2024



PERFORMANCE AND POSITIONING

Across the business, we are translating opportunities into results as major device architecture inflections grow our available market and we gain share through the technology transitions. In 2024, the leading-edge logic companies started moving the first Gate-All-Around nodes from their R&D pilot lines into high-volume production. We generated more than \$2.5 billion of revenue from these advanced nodes in the fiscal year and expect those revenues to approximately double in 2025. Overall, the transition from a FinFET-based node to a node with Gate-All-Around transistors and Backside Power Distribution grows Applied's available market from around \$12 billion to approximately \$14 billion for every 100,000 wafer starts per month of capacity. We also expect to capture more than 50% of the process equipment spending for the Gate-All-Around nodes, up from the mid-to-high 40% range for FinFET generation fabs.

In DRAM, our revenues also grew significantly in fiscal 2024, up more than 60% year-on-year. Compute memory is a critical technology for AI datacenters, and DRAM makers are accelerating their capacity plans especially in High-Bandwidth Memory—where high performance DRAM dies are stacked and connected to a logic die with advanced packaging. The dies used in High-Bandwidth Memory are much larger than standard DRAM which means that more than three times the wafer capacity is needed to produce the same volume of chips. On top of this, the packaging steps needed for die-stacking further increase our available market. In fiscal 2024, our HBM packaging revenues grew to more than \$700 million. DRAM is a great example of how our inflection-focused innovation strategy is succeeding. By focusing on the most-enabling steps for next-generation technologies, Applied has increased our share of the DRAM market by around 10 points over the past decade. Future DRAM inflections will further expand our available market as next-generation 4F-squared and 3D DRAM architectures are even more materials engineering intensive.

Advanced packaging is another major device architecture inflection that provides significant improvements in the performance, energy consumption, and cost of next-generation chips. We have been investing in new technology to enable advanced packaging for more than a decade, establishing strong leadership positions in micro-bump and Through-Silicon Via. In fiscal 2024, our overall advanced packaging product portfolio generated close to \$1.7 billion of revenue, up three times in the last four years. We believe this business will double in size in coming years, as heterogeneous integration is more widely adopted and we introduce new solutions that grow our addressable market.

Gate-All-Around transistors, Backside Power Distribution, 4F-squared and 3D-DRAM, advanced packaging and next-generation power semiconductors are all examples of device architecture inflections that are enabled by Materials Engineering. As a result, Materials Engineering—which spans all the technologies needed to deposit materials, remove or shape materials, and modify the properties of materials at an atomic level—is growing as a percentage of overall equipment spending at advanced nodes.

Q4 Fiscal 2024 Earnings Call

PREPARED REMARKS | NOVEMBER 14, 2024



SUMMARY

Before I hand over to Brice, let me summarize.

In fiscal 2024, Applied grew revenue and earnings for the fifth consecutive year, we strengthened our position at the key technology inflections that customers will ramp in volume production over the next several years, we delivered double-digit growth in parts and services, and we drove operational performance improvements across Applied and our supply chain. As we look ahead to 2025 and beyond, we see AI and energy-efficient computing remaining the key driver of innovation in the semiconductor industry, and the industry's roadmap becoming increasingly dependent on Materials Engineering which grows Applied's addressable market and provides a tailwind for us to outperform through the investment cycle.

I strongly believe that Applied Materials has the right capabilities, strategy, and partnerships, at the right time, and this puts us in a great position for the future. We are delivering differentiated solutions to our customers to help them win the key device architecture inflection races, we are strengthening R&D collaboration with customers and partners to drive innovation and commercialization velocity and optimize mutual success rates, and we are growing our service business by helping customers manage increasing complexity as the industry scales.

Now, I'll hand over to Brice.

BRICE HILL | Senior Vice President, Chief Financial Officer

Thanks, Gary and thanks to everyone joining today's call.

We had a strong fiscal 2024, delivering record revenue and earnings per share, generating healthy operating cash flow, and distributing over \$5 billion to shareholders via dividends and share repurchases. I would like to thank the entire Applied Materials team for their hard work and execution, which enabled us to achieve these excellent results. For the full fiscal year, net sales were \$27.2 billion, up 2.5% on a year-over-year basis with growth in all three business segments. Non-GAAP gross margin was 47.6%, up 80 basis points year-over-year and our highest annual gross margin rate since fiscal 2000, as we optimized our operations and made progress on value-based pricing. On a year-over-year basis, non-GAAP operating profit grew 2.7% and non-GAAP operating margin was up 10 basis points. Non-GAAP earnings per share grew 7.5% year-over-year to \$8.65.

For fiscal Q4, net sales were \$7.05 billion, up nearly 5% on a year-over-year basis, driven by solid growth in semiconductor systems and services. China declined to 30% of revenue, in line with our previously communicated expectation and our historical average. Non-GAAP gross margin was 47.5%, up slightly on both a year-over-year and quarter-over-quarter basis, driven by a favorable mix and operational improvements offsetting headwinds related to the lower China revenue. Non-GAAP operating expenses were \$1.28 billion, or 18.2% of revenue, and roughly in line with our expectations as we prioritized funding long-term strategic programs. Non-GAAP earnings per share was a record

Q4 Fiscal 2024 Earnings Call

PREPARED REMARKS | NOVEMBER 14, 2024



\$2.32, up 9% year-over-year and benefiting from higher gross margin, higher interest income, a lower effective tax rate and share repurchases.

SEGMENT RESULTS

Turning to the segments, Semiconductor Systems sales were \$5.18 billion for Q4, up 6% year-over-year, driven by leading-edge foundry-logic demand. Non-GAAP operating margin was 35.4%, down 50 basis points year-over-year given the normalizing China mix. DRAM sales declined 10% year-over-year, given the elevated purchases from China in Q4 of fiscal 2023. NAND sales were flat year-over-year. Foundry-logic sales increased 12% year-over-year, fueled by robust growth at the leading-edge, including increasing investments for Gate-All-Around nodes, as customers invested to enable critical technology inflections. Sales for the ICAPS nodes, which serve customers across the IoT, Communications, Automotive, Power and Sensor markets, were down year-over-year, given high demand in the year-ago period.

Moving to Applied Global Services, AGS delivered record revenue of \$1.64 billion in Q4, up 11% on a year-over-year basis and driven by robust growth in services, partially offset by a decline in 200mm equipment sales. Non-GAAP operating margin of 30% was up 2.7 percentage points year-over-year, and non-GAAP operating income was a record \$492 million. Year-over-year, we saw increases across many operational metrics, including a 7% increase in the installed base and a 10% increase in tools under service agreements. Our average contract length increased to 2.9 years, and we maintained a renewal rate of greater than 90%.

Lastly, our Display business generated revenue of \$211 million, in line with our expectations, as the industry experienced lower investment levels amidst ongoing weakness in end market demand. Over time, we expect there to be an increase in capital investments to support the adoption of OLED technology in IT devices like notebooks, PCs, and tablets. We are well-positioned to enable customers for the coming OLED IT inflection with our technology.

BALANCE SHEET AND CASH FLOWS

Moving to the balance sheet and cash flows, we ended the quarter with cash and cash equivalents of \$8 billion and debt of \$6.3 billion. Cash from operations in the quarter was \$2.6 billion, capital expenditures were \$407 million and free cash flow was \$2.2 billion. In total, we generated \$8.7 billion in operating cash flow and \$7.5 billion in free cash flow in fiscal 2024. We distributed \$1.8 billion to shareholders in the quarter, including \$329 million in dividends and \$1.4 billion in share repurchases. For the full fiscal year, we distributed \$5 billion to shareholders, of which \$3.8 billion was through share repurchases, up 75% from \$2.2 billion in fiscal 2023. As of the end of the quarter, ~\$8.9 billion remains available under our share repurchase authorization.

FISCAL Q1

As we contemplate fiscal Q1, we are seeing strong demand in leading-edge logic and the ICAPS nodes, and sequential growth in Memory. With that in mind, let me share our outlook for fiscal Q1.

Q4 Fiscal 2024 Earnings Call

PREPARED REMARKS | NOVEMBER 14, 2024



We expect total revenue of \$7.15 billion, \pm \$400 million and non-GAAP EPS of \$2.29, \pm \$0.18, both representing an increase of ~7% on a year-over-year basis.

We expect Semiconductor Systems revenue of ~\$5.3 billion, which is up 8% year-over-year, AGS revenue of ~\$1.65 billion, which is up 12% year-over-year, and Display revenue of ~\$175 million. We expect non-GAAP gross margin of ~48.4%, driven by a favorable mix, and cost and pricing improvements, and non-GAAP operating expenses of ~\$1.33 billion. We are modeling a tax rate of ~14%. Our outlook is consistent with trade rules currently in effect.

SUMMARY

In closing, we had a strong fiscal 2024, with momentum across the majority of our markets, fueling record revenue and earnings per share. Our portfolio positions us to uniquely capitalize on the secular megatrends shaping the technology landscape from datacenter and AI to edge computing, the Internet of Things and Display. Underpinning this is our strong investment-grade balance sheet, solid cash generation and healthy shareholder distributions.

Operator, we are now ready to begin the Q&A session please.