



APPLIED MATERIALS ANNOUNCES RESULTS FOR FIRST FISCAL QUARTER 1997

February 11, 1997

Contact:

Shannon Fryhoff
editorial/media
(408) 986-7229

Jerry Taylor
investment community
(408) 748-5227

Orders of \$904.7 Million, Sales of \$835.8 Million, Income of \$29.6 Million (After Special Acquisition Charge)

SANTA CLARA, Calif., February 11, 1997 -- Applied Materials, Inc. reported results for the first fiscal quarter ended January 26, 1997, with net sales of \$835.8 million, a decrease of 19.7 percent from \$1.0 billion for the first fiscal quarter of 1996. Net income decreased to \$29.6 million, or \$0.16 per share, for the first fiscal quarter of 1997, from \$171.6 million, or \$0.93 per share, for the first fiscal quarter of 1996. Net income for the first fiscal quarter of 1997 includes a one-time, pre-tax charge of \$59.5 million, or \$0.32 per share after tax, for acquired in-process research and development related to the acquisitions of Opal, Inc. ("Opal") and Orbot Instruments, Ltd. ("Orbot"). New orders of \$904.7 million in the first fiscal quarter of 1997 decreased 31.9 percent from \$1.3 billion in the first fiscal quarter of 1996. Backlog of \$1.4 billion at the end of the first fiscal quarter of 1997 was consistent with the level at the end of fiscal 1996.

New orders of \$904.7 million for the first fiscal quarter of 1997 increased 32.4 percent when compared to orders of \$683.2 million for the fourth fiscal quarter of 1996. The significant increase in new orders resulted from selected strategic purchases by customers in Japan, Korea and Taiwan of the Company's leading-edge technology in multi-level interconnect capabilities. Geographically, North America new orders for the first fiscal quarter were 28 percent of the Company's total, Japan 24 percent, Asia-Pacific 23 percent, Korea 15 percent, and Europe 10 percent. "Capital investment in advanced semiconductor manufacturing equipment for circuit geometries of 0.35 micron and below has strengthened over this past quarter," said James C. Morgan, chairman and chief executive officer. "With our broad offering of leading-edge products and our global installed base support services infrastructure, we believe that Applied Materials is ideally positioned to meet the needs of our customers' advanced technology requirements."

Excluding the \$59.5 million one-time acquisition related charge, net income for the first fiscal quarter of 1997 was \$89.1 million, or 10.7 percent of net sales. This compares favorably to net income, excluding a \$25.1 million restructuring charge for a reduction in workforce and consolidation of facilities, of 10.4 percent of net sales for the fourth fiscal quarter of 1996. Gross margin for the first fiscal quarter of 1997 improved to 44.5 percent, from 44.1 percent in the fourth fiscal quarter of 1996, despite a 2.9 percent decline in net sales. "Our continued focus on cost reductions and manufacturing cycle-time improvements have enabled us to improve gross margin in a challenging business climate," Morgan noted. Decreased gross margin and profitability in the first fiscal quarter of 1997, when compared to the first fiscal quarter of 1996, is primarily attributable to reduced business volume.

The Company's financial condition remained strong as of January 26, 1997, with total assets of \$3.8 billion. The Company ended the quarter with cash and short-term investments of \$1.1 billion, slightly above the amount at the end of fiscal 1996, despite significant outflows related to the aforementioned acquisitions and retirement of certain long-term debt. This can be attributed primarily to the Company's continued focus on asset management, which, excluding assets acquired in connection with the acquisitions, resulted in decreases in accounts receivable and inventories of 9.8 percent and 12.6 percent, respectively.

During the first fiscal quarter of 1997, the Company entered the rapidly growing market for metrology and inspection equipment through the acquisitions of Opal and Orbot. The acquisitions were completed by the early part of January 1997 and have been accounted for using the purchase method of accounting; accordingly, the Company's consolidated results of operations for the quarter include the operating results of the acquired companies subsequent to their acquisition dates. The acquisition related pre-tax charge of \$59.5 million is not tax deductible, and therefore the Company's effective income tax rate for the quarter was higher than the pre-acquisition expected rate of 35 percent. The Company expects to have a 35 percent effective tax rate in the remaining quarters of fiscal 1997. With the exception of the charge discussed above, the acquisitions did not materially impact the Company's results of operations for the first fiscal quarter of 1997.

"Looking forward, we see a growing long-term demand for semiconductor manufacturing equipment as semiconductor devices become more complex and their applications expand," Morgan said. "For the remainder of fiscal 1997, we expect demand for production equipment from logic and microprocessor manufacturers to continue to strengthen, and memory capacity investment to remain selective until later in this cycle as excess capacity is absorbed."

Applied Materials is aggressively developing new products, including a complete set of 300mm systems, throughout its diverse line of technologies. "We are entering this cycle with an extensive array of new products that address 0.35 and 0.25 micron production requirements. In the past six months, we have introduced important new systems in each of our major product lines. These products and technologies include the Silicon Etch DPS (decoupled plasma source) Centura, a next-generation etch system featuring breakthrough source and chamber technology, and the Silicon Etch MxP+ Centura, a high volume solution for less critical etch applications; the Ultima HDP (high density plasma)-CVD (chemical vapor deposition) Centura, for high speed, 0.25 micron and below devices; the DxZ Optima, a new high throughput platform for CVD applications; the Liner TxZ Centura, a fully integrated CVD-PVD (physical vapor deposition) system for advanced multi-level metallization schemes; two Endura HP Liner/Barrier systems for depositing critical titanium and titanium nitride films; the High Temperature Silicon Nitride Centura, which uses single wafer technology for superior

control of the thin nitride layers found in structures of 64Mb and 256Mb DRAM devices; and the Implant xR120 for high productivity ion implantation.

"Also, the Company is gaining position in two high growth markets, RTP (rapid thermal processing) and CMP (chemical mechanical polishing). Our highly successful RTP Centura has gained rapid acceptance by our customers. In addition, we believe that the Company's recent acquisitions of Opal and Orbot position us for significant revenue growth by our new Process Diagnostic and Control Group," Morgan concluded.

Certain matters discussed in this news release contain forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, but are not limited to: delays (especially in the personal computer market) in increased demand for semiconductors, which could result in delayed or reduced equipment purchases by the Company's customers; continuation of semiconductor device price declines; the successful development of new products (including 300mm and 0.25 micron and below), services and markets; product pricing pressures and other challenges from the Company's competition; insufficient Company cost reduction programs; and the ability of the Company's Process Diagnostic and Control Group to achieve significant revenue growth.

Applied Materials, Inc. is a Fortune 500 global growth company and the world's largest supplier of wafer fabrication systems and services to the global semiconductor industry. Applied Materials is traded on the Nasdaq National Market under the symbol, "AMAT". Applied Materials' website is <http://www.AppliedMaterials.com>.

#

