

Q3 Fiscal 2026 Earnings Call



PREPARED REMARKS | AUGUST 13, 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'd like to remind you about our two special events during SEMICON West. On Monday afternoon, October 12th, we will host an unveiling of the new EPIC Center in Silicon Valley, 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 third fiscal quarter of 2026, Applied Materials delivered another set of record-breaking results, including the highest quarter-on-quarter revenue growth in the company's history. The rapid global build out of AI infrastructure, combined with Applied's leadership positions in the most enabling and highest-value technologies for AI computing, provide the company with an exceptionally strong foundation for multi-year revenue and profit growth. As 2026 has progressed, customers have found new ways to address cleanroom space constraints and significantly increased their demand for tool deliveries. In the past three months, we have again made upward revisions to our revenue growth forecast for the year, and we are confident we will grow faster than the overall market.

As AI computing drives unprecedented demand for semiconductors, there is a large gap between demand and supply for advanced chips. To ensure our supply chain and field teams can support their ramps, our largest customers are giving us longer-term commitments and rolling eight-quarter forecasts. This increased demand visibility, gives us high confidence that 2027 will be another strong growth year for Applied Materials. As customers move quickly to bring new fab capacity online, while simultaneously optimizing yield and output of their existing production facilities, we also see strong incremental demand for our advanced service solutions.

In my prepared remarks, I will share my views on how AI is resizing and reshaping the semiconductor industry and its ability to realize the value of advanced technology. I will describe the increasing value

Q3 Fiscal 2026 Earnings Call



PREPARED REMARKS | AUGUST 13, 2026

Applied is delivering to our customers by accelerating their technology roadmaps, optimizing existing production capacity, and helping ramp new fabs faster. And, I'll provide a brief update on our EPIC strategy as we prepare to start operations in our new EPIC Center in Silicon Valley.

AI-DRIVEN MARKET GROWTH

As I have said before, I strongly believe that AI is the biggest and most consequential technology inflection of our lifetimes. While we are still in the early innings of deployment, AI is reshaping the global economy and becoming fundamental to the relative competitiveness of companies. What I am seeing at Applied Materials is a great case study in AI's real-world impact. Our investments in AI are on track to deliver compelling returns by accelerating our revenue growth and operating profit margins. In R&D and services, we are using AI to create new highly differentiated products, significantly speed up product development timelines, and create valuable new service solutions for customers. In operations, supply chain, and our corporate functions, AI is helping us ramp faster, drive meaningful improvements in productivity, and scale our revenue significantly faster than our headcount.

Beyond Applied, we see similar trends playing out across a wide variety of industries. As the performance and cost of AI-computing improves, many new applications will become technically viable and economically attractive. These expansive opportunities for value creation are fueling an intense global competition for AI leadership which can be described as two concurrent races. The first race is for technology leadership. AI datacenter returns are determined by the number of tokens generated per second and the total cost of ownership—which is dominated by energy consumption. Improvements in 'Tokens per second per watt' are primarily driven by innovations in semiconductor devices and systems. This can be seen in the value the semiconductor and semiconductor equipment industries are generating from their most advanced technologies. The second race is for capacity, as demand for advanced semiconductors to support AI infrastructure scaling far exceeds supply. As a result, chipmakers are intensely focused on increasing output and yields of their existing factories, while rapidly building new ones. For Applied, the technology race and the capacity race are fueling new opportunities to create and capture value.

HOW APPLIED ENABLES THE TECHNOLOGY RACE

In the race for technology leadership, leading-edge foundry-logic, DRAM, and advanced packaging have the greatest impact on AI computing performance, power efficiency and cost. Together, we expect these areas to represent around 80% of wafer fab equipment growth in 2026 and 2027. These three areas are also where Applied has strong leadership positions, where we identified key AI inflections early, and where we've shifted our investments to build an innovative pipeline of next-generation solutions.

In the past quarter alone, we have announced six new products including our Centura™ Prime™ epitaxy system designed specifically for high-performance DRAM, Producer™ Avila™ that enables higher performance and higher layer count high-bandwidth memory, Nokota™ VMax™, our next-generation plating system, and Opta™ Quad CMP for advanced packaging, and two new eBeam systems, also for advanced packaging, that expand on our eBeam leadership in the front-end.

Q3 Fiscal 2026 Earnings Call



PREPARED REMARKS | AUGUST 13, 2026

Advanced packaging is one of the most important areas for AI compute innovation and we see very strong multi-year growth for Applied. Applied is the overall leader in this market, with strong positions in high-bandwidth memory and 3D chiplet-stacking, and we now expect our overall packaging revenues to grow more than 70% in calendar 2026.

We are also well positioned for future packaging inflections, as the industry moves to new architectures and larger-size panel formats. We have built a broad portfolio of next-generation technologies for panel, including digital lithography, deposition, etch, and eBeam review.

HOW APPLIED ENABLES THE CAPACITY RACE

In the global race to add semiconductor manufacturing capacity, our customers' ability to increase yield and output in their existing production fabs is incredibly valuable. This creates expanded opportunities for Applied to deliver new innovations in three key areas: services, process diagnostics and control, and new products that increase wafer output per area of fab space.

Our advanced service solutions enable customers to better optimize performance of their high-volume manufacturing operations. We already have more than 37,000 chambers in the field connected to our proprietary AI^x software capabilities and use AI-powered monitoring, diagnostics and predictive analytics. Our advanced services are delivering yield improvements for customers and helping us drive higher growth rates in Applied Global Services. We now expect AGS to grow more than 20% in calendar 2026 and to deliver a sustainable, long-term annual growth rate in the mid-teens.

Our metrology and inspection product portfolio is also enabling customers to accelerate fab yields and output improvements. The most advanced logic and DRAM devices require more eBeam steps that can provide sub-nanometer resolution for high-aspect-ratio structures. Applied has unique eBeam technology and is the leader in this growing market. In parallel, we are introducing new optical inspection products which enable us to increase applications share in these markets as well. As a result, we expect to grow our process diagnostics and control business more than 50% in calendar 2026, and we have a strong pipeline of new products that will fuel growth in 2027 and beyond.

Finally, we are developing a new portfolio of 'output innovation products' that increase the wafers that can be processed per square foot of cleanroom space. One example is our new epitaxy system for DRAM, that not only increases device performance but also uses 20% less cleanroom space than our earlier products. We have multiple output innovation products in qualification at customer sites that will provide significant increases in output per unit area.

EPIC

With incredibly strong customer pull for next-generation technology and unprecedented demand for semiconductor manufacturing capacity, the value of time to market has never been greater. Our EPIC strategy is designed to increase innovation and commercialization velocity by creating earlier and deeper engagements with our customers and partners, and co-locating key innovators. For chipmakers, EPIC provides much earlier access to Applied's new product innovations that are at the foundation of future AI compute architectures. The output from EPIC will be more mature technology, that can deliver

Q3 Fiscal 2026 Earnings Call



PREPARED REMARKS | AUGUST 13, 2026

high yields faster in high-volume manufacturing. For Applied, EPIC co-innovation programs will enable us to be designed-in to new chip and packaging architecture inflections, increase R&D productivity and value sharing, and provide better multi-node visibility to guide our investments and resource allocation.

Since our last earnings call, we announced that Broadcom will join EPIC as an innovation partner to accelerate development of advanced chip packaging technologies for next-generation AI systems. We also signed EPIC partnership agreements with Screen and UC Berkeley. This brings our total number of announced EPIC engagements to 11, spanning systems companies, leading chipmakers, top research universities, and innovation partners.

The centerpiece of our EPIC platform is our brand-new EPIC Center in Silicon Valley. We will move the first R&D tool into the cleanroom next week, and we are on track to start operations in the coming months.

SUMMARY

Before I hand over to Brice, let me briefly summarize. Demand for advanced semiconductors and semiconductor equipment continues to strengthen, and as customers find new ways to address cleanroom space constraints, we see higher demand for 2026 tool deliveries. With support from our supply chain, we have again increased our expectations for 2026 revenue, and we are confident we will grow faster than the overall market this calendar year. In the race for AI technology leadership, leading-edge foundry-logic, DRAM, and advanced packaging have the greatest impact on AI computing performance, power efficiency and cost. These are areas where Applied has strong leadership positions and an innovative pipeline of next-generation solutions, supporting strong revenue and margin growth in 2027 and beyond. And we are working closely with our customers to optimize yield, outputs, and fab ramp times with valuable new innovations in services, process diagnostics and control, and output innovation products.

Brice, over to you.

BRICE HILL | Senior Vice President and Chief Financial Officer

Thanks Gary.

I'm pleased to share that Applied delivered another quarter of double-digit sequential and year-over-year growth in revenue, operating profit and non-GAAP earnings per share. Fiscal Q3 also marks our 13th consecutive quarter of year-over-year gross margin expansion, which demonstrates how we are benefiting from the tremendous value our products and services bring to our customers and the entire AI ecosystem. Our fiscal Q4 guidance demonstrates continued strong year-over-year momentum, and in the second half of the calendar year, we expect particularly strong growth in DRAM as well as leading-edge foundry-logic, and the advanced packaging for both. On today's call, I'll update you on the demand environment, discuss how we're scaling our operations for continued growth, demonstrate how value creation is expanding our gross margins, summarize our Q3 results, and provide our Q4 guidance.

Q3 Fiscal 2026 Earnings Call



PREPARED REMARKS | AUGUST 13, 2026

DEMAND OUTLOOK STRENGTHENING

Over the past quarter, the demand outlook has strengthened across all the leading indicators we track. Cloud service providers continue to increase their investments in AI infrastructure. Importantly, many of these companies are already generating positive returns on their investments and so are their enterprise customers, including Applied. As Gary described, we're accelerating the pace of new product development, increasing revenue, and generating new efficiencies in our support functions. In fact, G&A as a percentage of operating expenses has declined to the lowest level in our history.

Turning to our direct customers, most leading-edge logic and DRAM fabs are running at full capacity. Utilization levels are rising across the board, including in ICAPS where we see strong demand in AI-related markets like power and optical chips. As a result, our customers have announced more than 10 new fab projects just this quarter. Customers continue to give us longer visibility than we've ever had, with some conversations now extending to 2030. These communications are valuable to our company and our own supply chain partners who are scaling with us to support our customers' growth forecasts.

SCALING FOR FUTURE GROWTH

During the quarter, we officially opened our newest manufacturing center in Singapore, and combined with other expansions worldwide, have nearly doubled our manufacturing space over the past several years. Based on the longer-term demand signals from our customers, we are now taking this further, hiring and training new manufacturing and customer support teams so that we have the capacity to double our quarterly system output from current levels by 2028. In fact, we added more than 1,500 people this quarter in worldwide manufacturing and AGS customer support. We are also planning our next manufacturing capacity expansion, ensuring we have the option to support further increases in demand by 2030.

VALUE CREATION AND SHARING

Next, I'll discuss value creation and sharing. Applied is delivering value to our customers and the AI ecosystem in more ways than ever before. We've increased R&D in every year since Gary joined the company in 2012, and the investments have broadened from equipment innovations to materials engineering solutions that result in better chips. More recently, we've significantly increased R&D in advanced packaging innovations that enable better systems, supplementing our R&D with two small acquisitions, and today we're increasing investments in technologies that enable better fab economics as we accelerate ramps and boost output and yields. All of these technologies will be put to work at the EPIC Center, where we will co-innovate with our customers and partners to accelerate the AI roadmap. In short, we've broadened our focus from making better equipment to enabling better chips and systems for AI, and better fab returns for our customers. These investments have made us a more valuable partner to our customers and enabled us to share in the value we create.

Three years ago, we implemented a systematic approach to value-based pricing, and today you can see the benefits reflected in our strong revenue growth and gross margins which have increased to over 50% for the company and over 55% in Semiconductor Systems. We have higher pricing and

Q3 Fiscal 2026 Earnings Call



PREPARED REMARKS | AUGUST 13, 2026

margins in both new and existing products. At the same time, we remain focused on cost improvements and use them aggressively to help offset higher input costs. As we look at the many opportunities we have to further increase the value of chips, systems and fabs, we are confident we will continue to expand gross margins.

Q3 REVIEW

Next, I'll summarize our Q3 results. We generated record revenue of \$9.1 billion, up 15% sequentially and 25% year-over-year. Non-GAAP gross margin increased to 50.4%, up 40 basis points sequentially and 150 basis points year-over-year. Non-GAAP operating margin expanded to a record 34%, up 190 basis points sequentially and 330 basis points year-over-year, and we delivered record non-GAAP earnings per share of \$3.50, which was up 22% sequentially and 41% year-over-year. Last quarter I discussed our focus on increasing operating leverage. We grew revenue much faster than spending in Q3 on both a sequential and year-over-year basis and drove opex as a percentage of revenue to the lowest level in nearly 4 years.

SEMICONDUCTOR SYSTEMS

Turning to the segments, Semiconductor Systems delivered record revenue of \$7 billion which was up 18% sequentially and 27% year-over-year. The revenue mix was similar to last quarter as capacity additions in gate-all-around and FinFET drove record foundry-logic revenue. DRAM revenue, which includes HBM packaging, grew by 52% year-over-year to record levels. As we look ahead to the second half of the calendar year, we expect a very significant increase in DRAM revenues as our customers begin to expand cleanroom capacity.

Looking to our individual materials engineering business units, we had record revenues in deposition in Q3, including in PVD, CVD and epitaxy, which is one of our fastest-growing businesses this year. In materials modification, we had record sales in thermals and treatments. In materials removal, we had record revenue in both etch and CMP. We also had records in process diagnostics and control which is growing faster than our overall systems business this year.

Segment non-GAAP gross margin increased 190 basis points year over year to 55.4%. Non-GAAP operating profit increased 45% year-over-year to a record \$2.7 billion.

APPLIED GLOBAL SERVICES

Applied Global Services delivered record revenue of \$1.8 billion which was up 22% year-over-year, reflecting both subscription services growth and high transactional parts demand. Ramp readiness is a major priority, and the team added more than 1,000 customer support engineers. AGS is using AI and warehouse automation to grow as efficiently as possible, which is reflected in strong gross margin of 35.6%, up 180 basis points year-over-year, and operating margin of 30.1%, up 280 basis points year-over-year.

Q3 Fiscal 2026 Earnings Call



PREPARED REMARKS | AUGUST 13, 2026

OTHER Q3 COMMENTARY

From a regional perspective, China represented 26% of our Semiconductor Systems plus AGS revenue. We now expect our China revenue to increase this calendar year led by investments in 28-nanometer foundry-logic where Applied has strong technology differentiation and share. Other revenue of \$294 million was in line with our expectations. We generated record operating cash flow of over \$3 billion. Capital expenditures were \$707 million, resulting in free cash flow of \$2.3 billion. We distributed \$860 million to shareholders including \$420 million in dividends and \$440 million in stock repurchases. We have \$12.8 billion remaining in our share buyback authorization and continue to expect to distribute 80 to 100% of free cash flow to shareholders.

Q4 GUIDANCE

Now, I'll share our guidance for Q4. We expect company revenue of \$10.25 billion $\pm$ \$500 million which is up 51% year-over-year. We expect non-GAAP EPS of \$4.02 $\pm$ \$0.20, which is up 85% year-over-year. Within this outlook, we expect Semiconductor Systems revenue of around \$7.9 billion, up 62% year-over-year; AGS revenue of about \$1.84 billion, up 22% year-over-year; and Other revenue of around \$510 million, composed primarily of Display revenue. I've said previously that our Display business includes new products that could help us drive higher quarterly revenue in future periods. For modeling purposes, we now expect Other revenue to be approximately \$400 million per quarter on average through 2027. We expect non-GAAP gross margin to be ~50.4% in Q4, up 230 basis points year-over-year, and we expect non-GAAP operating expenses of around \$1.58 billion. As a reminder, Q1 of fiscal 2027 will be a 14-week quarter, which will result in a higher-than-average step-up in our Q1 operating expenses. Finally, we are modeling a non-GAAP tax rate of around 11%, and a tax rate of around 13% in 2027, as we absorb the effect of the global minimum tax.

SUMMARY

In summary, the rapid adoption of AI that we've been investing for is driving strong growth and record revenue and profitability for Applied Materials. We are enabling better chips, systems and fab returns, and systematically sharing in the value we create. We see continued record performance in the second half of the calendar year, with a sizeable increase in DRAM and leading-edge foundry-logic revenue. Based on the unprecedented visibility we're receiving from our customers, we expect another strong, record year in 2027 and are making substantial investments to be able to ramp to higher levels beyond next year.

Now Mike, let's begin the Q&A session.