

AMAT Earnings Call Transcript

Date: 2025-08-15

Quarter: 3

Operator: Welcome to the Applied Materials Third Quarter Fiscal 2025 Earnings Conference Call. [Operator Instructions] I would now like to turn the call over to Liz Morali, Vice President of Investor Relations. Liz, you may begin.

Liz Morali: Thank you. 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-K, 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 E. Dickerson: Thanks, Liz. In our third fiscal quarter of 2025, Applied Materials delivered record performance, fueled by strong broad-based demand for semiconductor systems and services. However, as you will see in our guidance, we expect revenue and earnings to be sequentially lower in our fourth quarter, primarily due to uncertainties in our China business. Even with this Q4 forecast, we remain on track to achieve a mid-single-digit growth rate in fiscal 2025, which will be our sixth consecutive year of revenue growth. In my prepared remarks today, I'll give some additional color on our near-term outlook, provide an update on the longer-term secular industry growth drivers and describe Applied's leadership position at the major device inflections that enable our customers' road maps. The dynamic macroeconomic and policy environment, including trade and tariffs, has wide-ranging implications for the semiconductor industry, increasing uncertainty and lowering visibility in the near term. For Applied's business, there are 3 main factors that mute our outlook for the quarter ahead. First is digestion of capacity in China. Second is our large backlog of pending export license applications, where we have taken a conservative position and assumed none of these licenses will be issued in the next quarter. And third is nonlinear demand from leading-edge customers, which is primarily linked to market concentration and fab timing. None of these near-term considerations change our perspective on the longer-term opportunities for the industry and Applied Materials. Leadership in AI remains a major focus for both companies and countries, driving large investments in infrastructure and R&D.; Governments around the world, especially the United States government, are taking major steps to incentivize companies to build advanced manufacturing capacity onshore. One example of this is Apple's American Manufacturing Program, which was announced last week. We are excited to be a partner in this initiative that is designed to strengthen the end-to-end silicon supply chain in the U.S. As part of this endeavor, we plan to invest more than \$200 million in Arizona to establish a state-of-the-art facility for manufacturing specialized components for our equipment. This builds on the more than \$400 million we have invested in our U.S. manufacturing infrastructure over the past 5 years to provide the needed capacity and agility to support growing customer demand. Globally, we are now tracking more than 100 new fabs or major fab expansion projects, an increase of about 10% in the past year. In

addition to robust supply chains, deploying AI at large scale requires significant innovation at every level of the technology stack from models, software and data center design to chip architectures and materials. AI's need for abundant, high-performance and energy-efficient computing is reshaping the semiconductor road map and changing the way chips are designed and manufactured. This next wave of AI semiconductor innovation will be concentrated around 5 key areas: leading-edge logic, next-generation high-performance DRAM, high-bandwidth memory or DRAM stacking, advanced packaging to connect logic and memory chips together, and innovations in power electronics to address energy consumption within the data center and more efficient grid to data center power delivery. In each of these critical areas, major device architecture inflections are shifting value towards material science and materials engineering, growing Applied's addressable market and driving closer collaboration with customers. On top of this, these inflections create opportunities for us to grow faster than the underlying market. Based on our deep customer engagements, we have focused our investments and product portfolio on the most enabling applications, and we expect healthy market share gains as these new technologies ramp in volume production. Let me walk you through some examples. In leading-edge foundry/logic, the transition from FinFET to gate-all-around transistors with backside power delivery grows our revenue opportunity by 30% for the equivalent fab capacity, and we are on track to gain multiple points of market share when these nodes ramp in the second half of 2026 and 2027. In this past quarter, our strength in leading-edge foundry supported revenue of almost \$1.2 billion for our metal deposition business. And we also secured our first wins in moly deposition for the most critical device performance applications. In DRAM, we also have strong market share, and we expect our revenue from leading-edge DRAM customers to be up around 50% in fiscal 2025. In the quarter, our strength in DRAM supported record results for our etch business, which surpassed \$1 billion of quarterly revenue for the first time. In addition, we see customers adopting our new solutions to address the stringent needs of high-performance compute memory. We have recently secured new volume production positions at leading DRAM manufacturers for our next-generation gap fill system, our most advanced chemical vapor deposition product as well as our new Pioneer dielectric patterning system. Looking further ahead, when customers adopt vertical transistor or 4F-squared architectures, a transition we expect starting in 2027 and 2028, we see opportunities to win more than 5 points of incremental DRAM share. In advanced packaging, we have built a broad portfolio of solutions to enable both high-bandwidth memory and heterogeneous integration. We have high share in the packaging market, well above the company's overall wafer fab equipment share. We are well positioned for future architecture inflections and our packaging business is on track to more than double to greater than \$3 billion over the next few years. In power electronics, we believe the market for data center power semiconductors could grow to \$9 billion by the end of the decade. We are on track to grow our share of this market with highly differentiated solutions that position us well for the future. As our customers race to bring these complex device architecture inflections to market, we are providing advanced service solutions that support them all the way from technology transfer into their pilot lines to optimization of device performance, yield and cost in volume production. On a year-over-year basis, our service business has now grown for 24 consecutive quarters. In addition, more than 2/3 of our service revenue comes from subscriptions, and we expect this percentage to further increase in the coming years. In the global race for AI leadership, having first access to new technologies has incredible value. To accelerate time to market for disruptive architectures in logic, memory and packaging, we are changing the way we work with our customers and partners to increase the development and commercialization speed of next-generation technologies. This high-velocity co-innovation strategy that we established with our leading customers is supported by Applied's global EPIC platform, which provides unique physical and digital infrastructure to accelerate AI chip architecture inflections and improve R&D; spending efficiency. Our new flagship R&D; facility, the EPIC Center in Silicon Valley remains on track to begin operations in spring 2026. Before I hand it over to Brice, I'll briefly summarize. Applied delivered record performance in our third fiscal quarter, and we remain on track for a sixth consecutive year of growth in fiscal 2025. We expect revenues and earnings to be sequentially lower in our fourth quarter, primarily due to uncertainties in our China business. Our long-term growth thesis for the semiconductor industry and Applied Materials remains unchanged as companies and countries compete to win the race for AI leadership. And Applied is best positioned at the major device inflections

that enable the AI road map. These inflections will grow our total market opportunity and support market share gains in the years to come. Now I'll turn the call over to Brice.

Brice A. Hill: Thank you, Gary, and thank you to everyone joining us for today's call. In fiscal Q3, we delivered a record quarter with growth across all 3 segments and with a robust gross margin of nearly 49%, we also achieved record non-GAAP earnings per share. In Semiconductor Systems, the overall demand environment for equipment was largely in line with our expectations with broad-based customer investments across foundry/logic, DRAM and NAND. In Applied Global Services, we achieved record core services revenue with positive trends across our key performance indicators. And in Display, we recorded our second consecutive quarter of revenue growth as the industry invests in equipment to support the further adoption of OLED technology in consumer devices. Let me now turn to the financial details for Q3. Total net revenue was approximately \$7.3 billion, up 8% year-over-year and about \$100 million above the midpoint of our guidance range. Non-GAAP gross margin was 48.9%, up 150 basis points year-over-year. The strong margin in Q3 was driven by the combination of product and segment mix and pricing as we work to offset tariff-related headwinds. Non-GAAP operating expenses were \$1.3 billion, down slightly as a percentage of revenue as we optimized our G&A; spending to help offset investments in R&D; to support leading-edge technology inflections for our customers' road maps. Non-GAAP earnings per share was a record \$2.48, up 17% year-over-year, given the revenue growth, better profitability and share repurchases. Moving to the segments. Semiconductor Systems revenue was \$5.43 billion for Q3, up 10% year-over-year, with growth in foundry/ logic driven by customer investments to support the ramp of gate-all-around nodes, partially offset by decreases in the ICAPS nodes, which we define as those greater than 7 nanometers. Compared to our expectations at our last earnings call, we saw slightly less-than- anticipated growth in leading-edge spending due to a slower fab build-out schedule and stronger-than-expected spending in ICAPS. DRAM was better than expected, up year-over-year as customers focused on investments for AI-enabling advanced DRAM. We saw a significant increase in NAND, primarily driven by sales to multinational customers in China. Non-GAAP operating margin of 36.4% was up 140 basis points year-over-year. Moving to Applied Global Services. AGS delivered revenue of \$1.6 billion in Q3, up 1% year-over-year with growth in core services and a decline in 200-millimeter equipment sales. Core services grew approximately 10% year-over-year, bolstered by healthy utilization rates in leading-edge foundry logic and high-bandwidth memory, along with expansion of our tools under comprehensive agreements, which represent our most advanced service levels. Non-GAAP operating margin of 27.8% was down 180 basis points year-over-year, primarily due to customer mix. Lastly, our Display business delivered revenue of \$263 million with non-GAAP operating margin of 23.6%. Moving to the balance sheet and cash flows. We ended the quarter with cash and cash equivalents of \$5.4 billion and debt of \$6.3 billion and generated our second highest level of cash from operations in company history at approximately \$2.6 billion or 36% of revenue. Capital expenditures were \$584 million, including significant investments in the United States, driven by the build-out of Applied Materials Equipment and Process Innovation and Commercialization Center, or EPIC, which will be the largest and most advanced facility of its type globally. Free cash flow for Q3 was approximately \$2 billion. We distributed approximately \$1.4 billion to shareholders in the quarter with dividends paid of \$368 million and share repurchases of approximately \$1 billion. As of the end of the quarter, approximately \$14.8 billion remains available to us on our share repurchase authorization. Turning to our outlook. As Gary mentioned, there are a couple of key factors contributing to our sequentially lower Q4 outlook. First, our customers in China are moderating spending following several periods of increased investments in equipment, and we expect China as a percentage of our revenue in Q4 to decrease to approximately 29%, including display. This assumes that we do not receive any approvals of our pending export license applications. Second, we expect demand from leading-edge customers to be down given the nonlinear pattern that Gary talked about earlier, resulting from market concentration and fab timing. As a result, we are seeing customers take longer to commit to orders, leading to a shorter visibility window. With these shifts in mind for fiscal Q4, we expect total revenue of \$6.7 billion, plus or minus \$500 million, representing a 4.9% decrease year-over-year at the midpoint and non-GAAP EPS of \$2.11, plus or minus \$0.20, representing a 9% decrease year-over-year at the midpoint. We expect Semiconductor Systems revenue of approximately \$4.7 billion, down approximately 9% year-over-year and AGS revenue of

approximately \$1.6 billion, down 2% year-over-year, with growth in core services and a decline in sales of 200-millimeter equipment. In Display, we expect revenue of approximately \$350 million, a significant increase year-over-year, driven by the expansion of OLED screens and consumer devices. This does not yet include revenue from our new MAX OLED system, which we announced last year and which represents a dramatically different manufacturing approach to mass producing superior OLED displays. Lastly, given the lower expected build volumes and our projected business mix in Q4, we expect non-GAAP gross margin of approximately 48.1% and non-GAAP operating expenses of approximately \$1.31 billion, and we are modeling a tax rate of 12.6%. In closing, we are leveraging our robust supply chain, global manufacturing footprint, leading technology and deep customer relationships to navigate and adapt to the near-term uncertainties. Our long-term growth thesis remains intact, and we remain laser-focused on positioning our investments and portfolio to focus on the most enabling and critical applications for our customers. Thank you for listening, and we are now ready to begin the Q&A session. Liz?

Liz Morali: Thanks, Brice. [Operator Instructions]

Operator: [Operator Instructions] And our first question for today comes from the line of Jim Schneider from Goldman Sachs.

James Edward Schneider: I was wondering if you could maybe talk to the incremental source of weakness in the outlook. Specifically in China, do you see the decrease in visibility there being extended well into 2026? Or do you think that is more of a short-term thing? And then secondly, on the leading-edge logic weakness, do you have any sense of whether you expect that to recover in the next couple of quarters? Or is that similarly lower visibility into next year?

Brice A. Hill: Jim, thanks for the question. So on the outlook, 2 factors, as you suggest. One is the lower China, and we've foreshadowed this over the last year. We had very large shipments into China in 2023 and 2024. And we expected lower business in 2025. And we actually expect this to continue for several more quarters as we look forward. It's hard to give a specific guide. As you know, those numbers have changed over time. But with such a large build in China in those 2023 and 2024, we call it digestion. It's not unexpected that we would have lower business, especially given the restrictions in our Q4 guide, much like we experienced in Q2, if you recall. And then turning to leading logic. Here, this was different than our expectations. We have underlying demand that we think is very strong. You've got 100% utilization on the leading edge. You've got reportedly more design wins. You've got CapEx going up at cloud service providers. You've got a lot of pull from AI-related technologies, especially on the leading edge in DRAM, in HBM also. And so we expected and modeled a relatively linear ramp that would accelerate through 2025 and into 2026. And we're not seeing that in the order pattern for Q4. And so at this point, it's just uneven. We attribute some companies have been waiting longer to make capital commits in this environment that we're all going through with tariff and trade and other uncertainties. And also with the concentration on leading edge customer concentration, it's a little bit harder to achieve an even ramp. In past years, you have multiple customers to try to achieve a level load in your factories. Now with one customer being larger than the other customers, it's more attached to their ramp and their loadings. So that's a factor in the unevenness of the ramp going forward. But I'll just say that we're not changing our expectations. We expect gate-all-around nodes to be very large. We think it will grow to be more than 300,000 wafer starts of capacity per month as that ramps. And it's just going to be a little bit uneven going forward. And as far as our visibility into following quarters, we're working on that. I think investors should know we're -- we always have high confidence in the quarter that we guide. In the out quarters, they're typically not completely scheduled. And so we're working on that for the out quarters, and that's one of the reasons why we don't guide the out quarters. So I'll have to take a rain check on answering exactly when we'll know the shape of the ramp, but we're confident that we'll ramp on leading edge going forward.

Operator: And our next question comes from the line of Stacy Rasgon from Bernstein Research.

Stacy Aaron Rasgon: China is 35% of the revenue in the current quarter. I didn't get the impression last quarter that you expected China to be that strong. I think it was 25% the quarter before. So I guess the question is, was China significantly stronger than you expected? And if that's the case, it feels like the non-China business feels weaker than you were sort of alluding to in your comments just because the overall numbers weren't that far off of where you had guided. Just can you give me a little more color on

what your expectations had been for China relative to where it came in, in the quarter relative to the rest of the business?

Brice A. Hill: Yes, absolutely. Thanks, Stacy. I think the quarter played out just pretty much exactly as we expected, the mix across. And I don't know if we gave the 35% number exactly or not, but it's certainly, I think we -- okay, thanks. I think we indicated that it was growing. And yes, from our expectation, you don't know until the end what the percentage will be, but we expected it to be higher. And yes, no real change in the flow from that perspective during the quarter. The only thing that I highlighted in the script was there was a little bit less activity on leading edge in the quarter, which we highlighted. So we had said that we expected acceleration through the year. We expected nearly \$5 billion of gate-all-around related purchases in 2025, and now we're seeing that be lower, probably just over \$4.5 billion. So 80% growth instead of 100% growth. Those are really the dynamics. So the change for us, even in our outlook, we expected China to be lower in Q4. The change for us is just the linearity of the leading edge.

Stacy Aaron Rasgon: Got it. I mean if I dig into that a little bit, so if you're guiding China to like 29% of revenue, versus \$35 million. So that's -- I don't know, it's a \$600 million decline. Display is \$100 million, give or take, stronger. So it's something like a \$500 million decline in China equipment. And then the total equipment guide is down \$700 million plus. So that incremental \$200 million to \$250 million, is that like the lower leading edge? Is it all -- so it's all in like the foundry/logic leading? Like how do I think about like the components of that guide?

Brice A. Hill: I think you got your equation right. So approximately \$500 million China, approximately \$500 million leading edge, which I alluded to with a \$4.5 billion instead of \$5 billion. And then there's some upsides in rest of world ICAPS that explain the difference that you're looking for.

Stacy Aaron Rasgon: Do you think the non-China leading edge is down another \$500 million sequentially? Or that's what you're saying? Or that was an annual number?

Brice A. Hill: That was not. So reconciling the down of \$700 million, I would say it's \$500 million China, \$500 million leading edge and then a plus factor for rest of world ICAPS.

Stacy Aaron Rasgon: Okay. Where is that coming from though?

Brice A. Hill: Well, we're not going to be specific. It would be too indicative of a particular customer, but it's not China.

Operator: And our next question comes from the line of Vivek Arya from Bank of America Securities.

Vivek Arya: Gary, the question is for you. So both kind of near and medium term. So if you look at Q1, if these trends persist, should we be assuming any sequential growth into Q1, right, based on what we know. I know you only guide one quarter at a time. And then if I kind of zoom out, same question for fiscal '26, that if China, right, may not grow and if your one kind of leading-edge customer in the U.S. is going through its issues, do you think memory growth is enough, DRAM growth is enough for Applied to grow overall as a company? Just if you could just give us the contours of how you're thinking about Q1 and fiscal '26, even if it is not in terms of absolute dollars. But just the shape and direction, I think, would be extremely helpful to investors on this call.

Brice A. Hill: Vivek, I'll probably start. On the guide for Q1, as I highlighted earlier, we're sharing that there's more uncertainty and a little bit lower visibility in the current environment. Customers are later in making their commits. And so we're definitely not able yet to give any specific color for our Q1. But having said that, as you're sort of alluding to, the trends underneath for strong DRAM and strong leading logic, we think, are continuing. We're just going to have to wait for more time to go by to understand the linearity of demand, specifically on the leading edge. On DRAM, we almost -- we'll either have a record or we'll almost have a record this year. And what that is, is you recall the prior year, there was a couple of quarters of shipments to China customers. You don't have that this year. So you've got the leading-edge memory players all growing nearly 50%, as Gary said in his script. So DRAM is very strong. leading logic, I sort of clicked off all the factors that we look at. It's a great process for gate-all-around. It's got significant performance advantages. It's got design momentum. You have 100% utilization on leading edge processes. You've got cloud CapEx going up from the cloud CapEx or the cloud service providers. So just a lot of momentum in that space. And we think that's plenty of pull on the leading edge, and we're just going to have to work on the linearity as this build-out occurs over the next couple of years. So on your specific question, will memory growth be strong enough and will

leading edge be strong enough to offset a China year that will be lower than '24. We don't know exactly what it will be, but it will be lower than '24. That's going to be the question. It was much like 2025. We said if we have growth, which we have, it would be strength of leading edge and DRAM that offset any slowness in China. And that's going to be the same question for '26, and we're just going to have to see how it works forward.

Operator: And our next question comes from the line of C.J. Muse from Cantor Fitzgerald.

Christopher James Muse: I guess I was hoping to probe the different areas of weakness that you cited for October. So for the first part, with China, it sounds like for many of your peers that the concentration is the 6 large players who don't require licenses. So I'm curious why your shipments could be so robust through July, but now in October, licenses are now the challenge. And then from a foundry perspective, can you be more specific? Is that just timing of clean room space availability? What's causing the lack of kind of visibility there, particularly given that utilization, like you cited, is at running 100%. And then on the HBM side, can you clarify what you're seeing there? Is that a function of waiting on contract pricing for 2026 before signing for tools or something else?

Brice A. Hill: Okay. C.J., thank you. So first on China, I think that -- as I said earlier, I think China played out as expected. So a good question on why is there more business in Q3 than Q4, I think just the customers, there may have been some strategic placement of having more deliveries in Q3. There were certainly different uncertainties resolving at different speeds as we went through the first half of the year. So I think the delivery schedule for us or the way it played out on the business side was pretty much as expected. And so I would say Q4 is just back to the level that we have been expecting all year long, just something lower than what we saw in 2024. And as I alluded to, we expect that to last a little bit longer, several quarters longer where the business will be less than 2024. But just so investors understand, there's new fabs, there's lots of new investment in China. It's just not quite at that 2024 rate. And then when we shift to leading logic, of course, we model all of the factories of our customers, the amount of capacity they're putting in, the applications that we have. And I'll just say that our model had a more linear assumption than reality. So no significant changes to point to in customer availability. I think there were some, but it's nothing like that. It's just that we assumed a more linear ramp, and we're not seeing that. So we'll work with the customers on that as we look at the coming quarters. And then -- yes, go ahead.

Christopher James Muse: Can I just clarify on China? You talked about waiting on licenses. Could you speak to that?

Brice A. Hill: Yes. We have -- we do have a backlog of licenses, and we're just highlighting we did not include any revenue in our outlook from that backlog. So it's been growing over the past quarters, and it's getting to be a significant backlog in terms of the number of licenses. So I know the government is aware of that, but we're just being conservative and not including any of that in the outlook. And so back to -- just to be clear, the customers we're serving and the outlook that we have, we are not waiting on licenses for that outlook. We're comfortable with what we've guided, and there's no contingency there.

Operator: And our next question comes from the line of Melissa Weathers from Deutsche Bank.

Melissa Weathers: I also wanted to ask on the leading edge, but more specifically on the second-tier players. There's obviously a higher degree of uncertainty around their CapEx outlooks for like the Intels and Samsungs of the world. So can you help us understand what are you baking into your own planning? And what assumptions are you making on what their spending outlook -- where their spending outlook could shake out as it relates to your own outlook?

Brice A. Hill: Yes. Thanks, Melissa. When we take this question, we don't talk about specific customers. But when we take this question, what we do highlight is we're up to date with our customers and their forecast. So we typically update the medium-term forecast with our customers twice a quarter, and that will be the case for those customers. And we highlighted that we do have more concentration in our demand on leading edge than we've experienced before. And that's probably the best we can say, but I think we definitely understand where they are in their plans today.

Operator: And our next question comes from the line of Harlan Sur from JPMorgan.

Harlan L. Sur: Advanced packaging, a lot of good stuff happening there. It was a \$1.7 billion business for the team last fiscal year. I think it's grown at about a 35%, 40% CAGR over the prior 4 years, lots of

inflections, right, HBM3 to HBM4, 2.5D to 3.5D packaging. Can the team just throw us up like what type of growth are you expecting this fiscal year in advanced packaging? And is this segment also being impacted by the weaker advanced logic spending dynamics that you're seeing in the second half?

Brice A. Hill: Thanks, Harlan. I'll start, and I think Gary will add on here. On the advanced packaging, we're seeing about a steady pace relative to last year, minus the burst capacity, initial burst capacity we saw in HBM at the end of last year. So I'd say similar to last year from a pacing perspective for that business. And I -- we don't see any change related to the leading-edge schedules and the purchasing behaviors there. So -- and Gary, on the positioning.

Gary E. Dickerson: Yes, Harlan, packaging is really the highest market share area for Applied Materials. We have a broad portfolio. We're the largest supplier of all the materials innovation inside packaging. We have a unique integrated packaging R&D; center in Singapore, where we have a lot of our leading customers co-innovating with us on next-generation architectures. And we have a strong pipeline of new capabilities coming, including an integrated hybrid bonding system and other technologies that will further strengthen our market share in packaging. And what I talked about earlier on the call is that we're on track to more than double this business going forward to more than \$3 billion per year. And I would say that for me, personally, again, AI, energy-efficient computing, this is really 1 of 4 areas that is really important for power and performance. So I'm personally spending a tremendous amount of time with our customers. We're also working with customers in the ecosystem on new architectures that I think are going to have a big impact on energy efficiency, but also create further opportunities for Applied Materials. So I'm -- again, we have high visibility into this segment of our business. This is the highest share, well positioned. And again, on track to more than double this to more than \$3 billion in the next few years.

Operator: And our next question comes from the line of Krish Sankar from TD Cowen.

Krish Sankar: I had a question for Brice, and sorry for harping on China sales. A clarification on the question. The first one on the clarification, your April quarter China revenues were \$1.8 billion and July was \$2.6 billion. Did the liberation day in the month of April push some of your China sales from April into July quarter? And then on the question on October quarter weakness, you said China is \$500 million. How much is the licensing amount you backed out of that? And if that comes through, how to think about the revenue upside in October from getting the licenses and any implications on gross margin?

Brice A. Hill: Okay. Thanks, Chris, for the question. So on the first one, you're definitely remembering the dynamics correctly. There was a lot of uncertainty towards the end of our Q2 as I think some of the trade and tariff uncertainties were resolved towards the end of our quarter. So it was we were scrambling to ship what we had planned on shipping. But as I articulated last time, we pretty much made the quarter exactly as we expected, even though there was a lot of uncertainty in the last few weeks of that quarter. So as we think about the higher number in our Q3 results here for China, I don't think it was a push from Q2. That's not the dynamic. It was just more business, and I assume there's reasons at each customer for making that quarter larger. But I would also say that the Q2 and Q4 are more indicative of the level of business we've been expecting this year given some digestion in China. And then on the licensing, I wouldn't look for upside to our outlook quarter. I think even if that situation changes, it will take time to plan and build equipment or turn on services. So I don't think there's any immediate upside that anyone should expect from that. We're just highlighting that it is affecting the trajectory of the business, which is unfortunate.

Krish Sankar: Is there a way to quantify that licensing amount dollars or no?

Brice A. Hill: No, we're not going to offer that, but it is a large number of licenses.

Operator: And our next question comes from the line of Charles Shi from Needham & Company.

Yu Shi: I noticed that you actually upsized your leading edge DRAM growth for the fiscal -- current fiscal year from 40%, which was what you said last quarter to 50%. But the fiscal Q3 DRAM number, you said it is slightly better than you expected. That was down, right, sequentially, but that kind of implies October quarter, it may bounce back a little bit. So my question is, is that really just a temporary pop given all the things you talked about timing, uncertainties among your leading customers? Or maybe there's still more of a durability into early part of fiscal '26 for the leading-edge DRAM?

Brice A. Hill: Yes. Thanks for the question, Charles. Yes, I certainly don't want to draw the conclusion

that there's any pop or some unusual increment there. We view DRAM as very strong. We view what's happening in DRAM to be sustainable from a trend perspective without making a specific guide. So like we said, it should be either a record year or a second best year this year. And it's really those leading edge customers growing. And I think our investors know underneath what's happening for DRAM is you have HBM growing at 30% to 40%, depending on which report you look at. About 15% of DRAM capacity is allocated towards HBM. There's a trade-off, as you know, between making high-bandwidth memory and not in terms of the amount of silicon required. So there's a significant demand pull in DRAM. And our forward-looking outlook and our perspective is that it's not a blip.

Operator: And our next question comes from the line of Brian Chin from Stifel.

Brian Edward Chin: Just to be clear then, I guess, relative to that commentary or clarification around leading edge DRAM spending, that timing or fab timing and sort of this linearity sort of impact to next quarter's -- the October quarter revenue, that's really mainly focused in advanced foundry, it sounds like. But more broadly, I also heard something about thinking that at full scale, gate-all-around could be something like 300,000 wafer per month. Are we exiting this year maybe something like around 10% or a little bit higher than that. So basically suggesting that we have a pretty long runway there in terms of that expansion.

Brice A. Hill: Brian, thanks for the question. So you're right. Our comments on concentration are directed towards leading logic, not DRAM. I'm sure there's some of the same factor in DRAM. But in terms of the nonlinearity of builds and the things that we're working on, that's directed towards a foundry comment, leading logic comment. And we just went through DRAM. We think that's strong. It continues to be strong. And then on the gate-all-around nodes, based on our numbers of \$4.5 billion and what we shipped last year, \$2.5 billion, we'd estimate close to 100,000 wafer starts of capacity are in the field or will be in the field as we close the quarter. And so you're in the first 3 innings of the build-out there from a gate-all-around, at least the initial node and then, of course, there'll be subsequent nodes.

Operator: And our next question comes from the line of Chris Caso from Wolfe Research.

Christopher Caso: I guess a 2-part question on China. One is how significant was the multinationals in China? That sound like it was a source of strength last quarter. Was that very significant? And then going forward, you've given China as a percentage of revenue and what you thought in the past, and that's something you talked about for Q2. I guess what I'm hearing now is that the Q2, Q4 China revenue numbers, we should kind of stay at those levels over the next couple of quarters. And it sounds like that happens regardless of whether or not you get incremental licenses. Is that the correct interpretation?

Brice A. Hill: Yes, Chris, thanks for the question. So on the multinationals, we did have multinational, we did have revenue from that in our Q3, and it was noticeable. We wouldn't share the exact number, but it was noticeable and definitely part of our revenues in the quarter. And there is a little bit in Q4, although very small in Q4. And then on the second piece -- sorry, can you repeat the second piece? I can't read my own writing.

Christopher Caso: That's Okay. You had given in the past your expectation as a percentage of revenue. So is it sort of Q2, Q4 levels, we'll just take that and assume that's flat the next couple of quarters regardless of whether or not you get incremental licenses.

Brice A. Hill: Yes, I think in that range. So we were okay to share that with our guide, we're probably 15% to 20% down for China relative to 2024. And that's probably the right level to think about for the next few quarters.

Operator: And our next question comes from the line of Timm Schulze-Melander from Redburn Atlantic.

Timm Nikolaus Schulze-Melander: So I just wanted to build on the question or the response to Jim Schneider's question. So you talked about in China, you have the visibility that lets you kind of guide for a pretty stable reset to revenues for the next few quarters. Just want to come back to the logic/ foundry sort of leading-edge part of your business. You talked about how you update with customers kind of a couple of times a quarter. So just as you see this now, is it that a visibility for the next few quarters isn't possible or the spread is too wide? I just wanted to understand why we have kind of a reasonable shot here in China and maybe why that doesn't exist in logic/foundry leading edge?

Brice A. Hill: Yes. Thanks, Tim. I think I definitely wouldn't want to create the perspective that we have

more visibility in China than we do in the other end markets. That's not the case. I think what's shading our comments on China is just our expectation that it can't run at the same rate in the short term that we saw in 2024. We know there was a lot of incentives to make the level of investment in 2024. So we've been expecting it to be lower than 2024 until utilizations across all those factories become higher. So I guess that's more of intuition matched by, of course, what we're hearing from the customers and the accounts. On the leading edge, it's a good question. And what we're doing is just realizing that we had a lot of effort during COVID put into building good visibility with our customers into multiyear demand and multiyear build plans. And in this uncertain environment, what we're saying is we've kind of fallen off that. Customers have been less certain and that added visibility that we had put in place just isn't there right now. We do have a good perspective of factories and capacity that's being put in place. And so then it comes down to the actual build order and linearity, and that's what we're working on.

Operator: Our next question comes from the line of Shane Brett from Morgan Stanley.

Shane Brett: So sorry for harping on the leading-edge logic piece here. But so on that \$4.5 billion of GAA revenue, how would you characterize your share position kind of 1 year into this GAA ramp? And has this tracked in line with expectations? Or are there things that haven't gone as planned? And I'm asking this because just \$500 million is not nothing. It's a bit of a step down from the \$5 billion that you earlier mentioned. Just want to get assurance that this isn't a share issue.

Gary E. Dickerson: Shane, thanks for the question. So we have very high visibility on the architecture inflections for our leading-edge logic customers. The big inflections that are really crucial for AI, energy-efficient computing are gate-all-around and backside power distribution. And as we've talked about before and as I talked about earlier on the call, we expect revenue for Applied to increase about 30% on the same number of wafer starts as those 2 nodes ramp over the next couple of years. So Applied is in an extremely strong position with all of those leading-edge logic customers. And I would say that our engagements with customers are earlier, deeper and broader than they've ever been. And when you think about gate-all-around or backside power in the transistor and the wiring, those are areas where Applied has tremendously enabling technologies and that -- those are also inflections where there's significant demand for our integrated systems. When you're thinking about these chips, there are over 2,000 steps. Some of those materials are a few atoms thick. And so those interfaces are really difficult and have a big impact on the overall electrical performance. So what we're seeing is an increased adoption of integrated systems, the number of steps, the number of technologies you're integrating into a single platform. And I would say that very high visibility, very high confidence that we are outperforming as gate- all-around is ramping first generation, next generation. And also, we're positioned to outperform on backside power. Again, these are essential for our customers for their design wins for their key AI customers and super high confidence that we are gaining share and positioned for significant revenue growth going forward.

Operator: And our next question comes from the line of Vijay Rakesh from Mizuho.

Vijay Raghavan Rakesh: Just to follow up on the previous question. In terms of the ramps, given your more than 50% share on gate-all-around and backside power, when do you see that start to get more material, if you can give us some more color there?

Brice A. Hill: Yes. I think -- thanks for the question, Vijay. We won't get specific. We do expect it to ramp. So we did expect in the prior quarter that we would see continued acceleration. And so we can't -- right now, we're going to have to work on what the loading plan is for the next couple of quarters. So I think we'll just have to wait for more visibility as we work with the customers across. So just generally, we do expect investment to increase -- when we think across the long term, we have leading-edge logic and DRAM as the 2 fastest-growing end markets. So we think we have double exposure to the 2 fastest end markets with both being exposed to the markets themselves and having technologies that will allow us to gain share. That's the strategy that we're putting in place and we have for the company. But we'll just have to wait as we work with the customers on the next couple of quarters.

Vijay Raghavan Rakesh: Got it. And then quickly on the OpEx side, Brice, just with the revenues being a little challenged there. Any thoughts on where OpEx should trend? I think it's like 16% is your long-term target. Where do you see that trending on OpEx?

Brice A. Hill: Yes. Thanks for the question. We've been closer to 18% for some time. I think 16% was an aged number probably from the model of years ago. But to your point, given the revenue guide, we'll be

very cautious on spending as we go through the next quarter. And so you should see us behave that way.

Operator: And our final question for today comes from the line of Joe Quatrochi from Wells Fargo.

Joseph Michael Quatrochi: I was wondering if you could kind of comment on the ICAPS business. I understand the weakness in China, but as non-China ICAPS, have you started to see that business stabilize? Or should we think about both China and non-China being -- continue a headwind for growth in the coming quarters?

Brice A. Hill: Thanks for the question, Joe. It is -- we do still see lower utilizations across the ICAPS. Having said that, and ICAPS being our mature nodes, IoT, communications, auto, power and sensors for investors listening where that acronym is new. I think what we've said for several quarters is with utilizations low and some of the end markets slower that the investment levels would still be muted. And we did see some green shoots in the quarter. We saw some pickup on the industrial side. And as I highlighted, we do see rest of world investments this quarter in ICAPS picking up. So I think this one will just be a space to watch. Over time, we do expect the ICAPS market to grow. It's just a question of how much digestion we have in China for the overall market going forward. Thanks for the question.

Operator: This does conclude the question-and-answer session of today's program. I'd like to hand the program back to Brice Hill for any further remarks.

Brice A. Hill: Thank you, and thank you, everybody, for attending today. In summary, during this period of lower visibility, we're leveraging our global supply chain and manufacturing footprint to stay flexible and adapt to a dynamic range of scenarios. As I've highlighted in the past, we understand that quarterly growth may be uneven at times, but that doesn't deter us from our strategy to focus on the highest growth areas of the market, which are directly enabling secular trends like AI. Thank you. And Liz, please close the call.

Liz Morali: Thank you, Brice. I'd like to call your attention to some upcoming investor events. On August 28, Brice will attend the Deutsche Bank Technology Conference. And on September 9, Gary will attend the Goldman Sachs Communacopia and Technology Conference. And then lastly, a replay of today's call will be available on the Investor Relations website by 5:00 p.m. Pacific Time today. Thank you for your continued interest in Applied Materials.

Operator: Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.