Stock Report | **August 31, 2019** | NasdaqGS Symbol: **AMAT** | **AMAT** is in the S&P 500

Applied Materials, Inc.

CFRA

Recommendation	Price	12-Mo. Target Price	Report Currency	Investment Style
HOLD ★★★☆☆	USD 48.02 (as of Aug 30, 2019 4:00 PM ET)	USD 48.00	USD	Large-Cap Value

Equity Analyst Angelo Zino, CFA

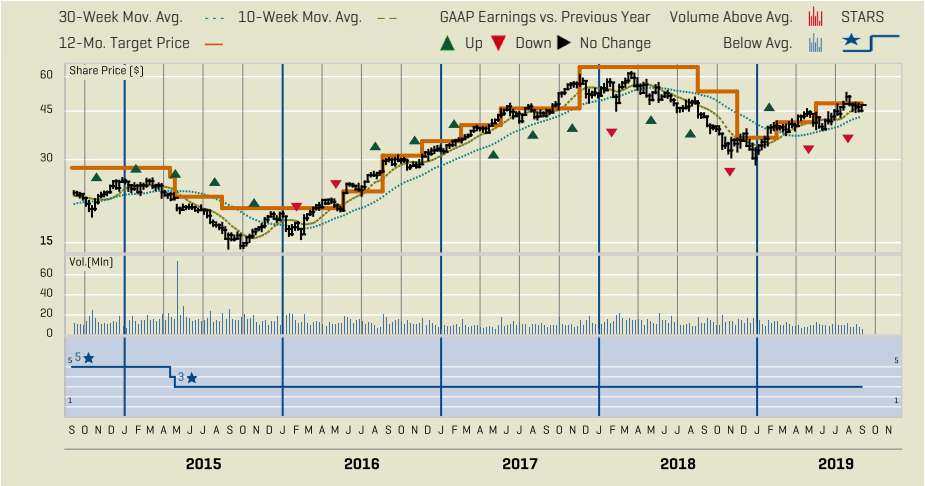
GICS Sector Information Technology
Sub-Industry Semiconductor Equipment

Summary This company is the world's largest manufacturer of wafer fabrication equipment for the semiconductor industry.

Key Stock Statistics (Source: CFRA, S&P Global Market Intelligence (SPGMI), Company Reports)

52-Wk Range	**USD 52.42 - 28.79**	Oper. EPS 2019**E**	**USD 3.01**	Market Capitalization(B)	**USD 44.36**	Beta	**1.65**
Trailing 12-Month EPS	**USD 3.16**	Oper. EPS 2020**E**	**USD 3.43**	Yield (%)	**1.75**	3-Yr Proj. EPS CAGR(%)	**1**
Trailing 12-Month P/E	**15.19**	P/E on Oper. EPS 2019**E**	**15.95**	Dividend Rate/Share	**USD 0.84**	SPGMI's Quality Ranking	**A-**
$10K Invested 5 Yrs Ago	**$22,539**	Common Shares Outstg.(M)	**923.75**	Institutional Ownership (%)	**NA**		

Price Performance



Source: CFRA, S&P Global Market Intelligence
Past performance is not an indication of future performance and should not be relied upon as such.
Analysis prepared by Equity Analyst **Angelo Zino** on Aug 16, 2019 11:48 AM, when the stock traded at **USD 47.16.**

Highlights

- We see sales rising 8% in FY 20 (Oct.) after our view for a 16% decline in FY 19. Despite recent challenges within the memory space, we see a more favorable landscape on the NAND side ahead, which should translate to higher orders in FY 20. While foundry/logic spending appears healthy (up 20% in the July quarter), we believe the shift towards Extreme Ultraviolet (EUV) tools is a slight negative in terms of AMAT's share position. We expect a broader customer base to support a rebound in display revenue while the transition to 96L technology from NAND customers accelerates exiting FY 19. We positively view AMAT's greater exposure to its recurring based revenue within its services business.
- AMAT has the ability to generate a gross margin of 44% in FY 19 and 45% for FY 20 compared to a 46% margin in FY 18. We anticipate lower volume pressuring margins near term but see this partly offset as AMAT keeps tight cost controls. We look for AMAT to invest aggressively on next generation tools.
- We like AMAT's efforts to aggressively repurchase shares (24% reduction over the last 5 years), which helps support significant EPS leverage in future cyclical upturns.

Investment Rationale/Risk

- Our Hold reflects our view of low visibility coupled with a view of trough fundamentals. While we have seen a sharp decline in semiconductor orders, almost entirely due to softness on the memory side, we see a recovery in orders during FY 20. We think demand continues to be driven by the technology transition to 10nm/7nm nodes by foundry/logic companies and believe it is well positioned to take advantage of key technology transitions, specifically within etch and deposition. While AMAT refuses to call a cyclical trough, we believe orders are stabilizing, with risk/reward appearing favorable on the memory as well as display areas. We see higher investments in China long term.
- Risks to our recommendation and target price include greater competitive threats and a slowdown in the global economy, which could weaken demand for chips and increase pricing pressures.
- Our 12-month target price of $48 is based on a near-peers P/E of 13x our calendar year 2020 EPS estimate. We believe AMAT can take share over time and note increasing demand from trailing node geometries. While valuation appears attractive, we think cyclical and geopolitical risks are high.

Analyst's Risk Assessment

LOW	MEDIUM	HIGH

Our risk assessment reflects the historical cyclicality of the semiconductor equipment industry, a lack of visibility in the intermediate term, the dynamic nature of changes in semiconductor technology, and intense competition. This is offset by AMAT's market leadership, size, and its solid balance sheet.

Revenue/Earnings Data

Revenue (Million USD)

	1Q	2Q	3Q	4Q	Year
2019	3,753	3,539	3,562	--	--
2018	4,205	4,579	4,162	4,014	17,253
2017	3,278	3,546	3,744	3,969	14,537
2016	2,257	2,450	2,821	3,297	10,825
2015	2,359	2,442	2,490	2,368	9,659
2014	2,190	2,353	2,265	2,264	9,072

Earnings Per Share (USD)

	1Q	2Q	3Q	4Q	Year
2020	**E** 0.75	**E** 0.81	**E** 0.90	**E** 0.98	**E** 3.43
2019	0.80	0.70	0.61	**E** 0.76	**E** 3.01
2018	0.15	1.06	1.01	0.89	3.23
2017	0.65	0.76	0.85	0.91	3.17
2016	0.25	0.29	0.46	0.56	1.54
2015	0.28	0.29	0.27	0.28	1.12

Fiscal year ended Oct 31. Next earnings report expected: Mid Nov. EPS Estimates based on CFRA's Operating Earnings; historical GAAP earnings are as reported in Company reports.

Dividend Data

Amount (USD)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.21	Jun 07	Aug 21	Aug 22	Sep 12 '19
0.21	Mar 08	May 22	May 23	Jun 13 '19
0.20	Dec 07	Feb 20	Feb 21	Mar 14 '19
0.20	Sep 06	Nov 21	Nov 23	Dec 13 '18

Dividends have been paid since 2005. Source: Company reports.

Past performance is not an indication of future performance and should not be relied upon as such.
Forecasts are not reliable indicator of future performance.

Applied Materials, Inc.

Business Summary May 17, 2019

CORPORATE OVERVIEW. At the end of FY 18 (Oct.), Applied Materials (AMAT) was the worldwide leader in the manufacturing of semiconductor capital equipment. AMAT divides its business into three segments: Silicon Systems Group, Applied Global Services, and Display. The Silicon Systems Group, which accounted for 64% of FY 18 sales, is focused on developing and selling equipment for use in the front end of the semiconductor fabrication process. The silicon segment includes semiconductor capital equipment for etch, rapid thermal processing, deposition, chemical mechanical planarization, ion implantation, and metrology and inspection. AMAT's equipment in the silicon segment addresses most of the primary steps in chip fabrication.

The Applied Global Services segment, which represented 22% of FY 18 sales, provides solutions to optimize and increase productivity at customers' fabs (semiconductor fabrication facilities). The segment includes products and services to improve the efficiency and reduce operating costs at semiconductor, display, and solar customer factories. Applied Global Services products consist of spares, services, certain earlier generation products, and remanufactured equipment.

Display and Adjacent markets, which accounted for 14% of FY 18 sales, develops equipment for the fabrication of flat panel displays. The segment develops equipment for manufacturing liquid crystal displays (LCDs) for TVs, personal computers, and other video-enabled devices. To meet consumer demand for larger, more cost-effective LCD TVs, Applied's latest generation (Gen) 10 systems can process substrates sized at approximately 2.85 x 3.05 meters, with each substrate enabling the production of up to six 65-inch LCD TV screens. Applied is also extending its core LCD equipment technology into new mobility display segments that require smaller, high-performance LCD or organic LED (OLED) screens and touch capability. To increase the conversion efficiency and yields of solar PV devices and help reduce the cost per watt of solar-generated electricity, Applied offers manufacturing solutions for wafer-based crystalline silicon (c-Si) applications.

CORPORATE STRATEGY. AMAT intends to use its economies of scale and worldwide distribution and support capability to fend off competition and grow market share. We think AMAT has been successful in leveraging its size and what we see as its broad expertise across segments, with limited exceptions in certain niche segments. We think AMAT benefits from a strong track record of quality products and reliable service, making it difficult for competitors to take market share. In our view, AMAT will continue to pursue acquisitions that will allow it to leverage its knowledge and expertise into new areas.

IMPACT OF MAJOR DEVELOPMENTS. In September 2013, AMAT announced its intent to acquire semiconductor and flat panel display equipment manufacturer Tokyo Electron in an all-stock transaction. On April 27, 2015, AMAT and Tokyo Electron announced that they have agreed to terminate their pending merger. The parties determined that that transaction was no longer plausible after the U.S. Department of Justice advised both that a proposal submitted to all regulators would not be sufficient to replace the competition lost from the merger.

In November 2011, AMAT completed its acquisition of Varian Semiconductor Equipment Associates (VSEA), a manufacturer of ion implantation semiconductor equipment. We think the acquisition will be a good fit for AMAT given VSEA's dominant position in the ion implantation market, an area in which the company lacks exposure. Moreover, we think Varian's recent plans to expand into other adjacent markets, such as solar and light emitting diodes (LEDs), will fit well with the structure of the company. Varian is to be managed within AMAT's Silicon Systems Group.

FINANCIAL TRENDS. AMAT's business has historically been highly cyclical. In periods of strong growth in demand for semiconductors, the chipmakers optimistically extrapolate growth, leading to over-investment in equipment, which subsequently leads to a period of reduced equipment purchases. We think AMAT is less cyclical than many of its peers due to its size and product diversification.

Return on assets in FY 18 was 16.1%, higher than the 14.2% in FY 17 and 9.0% in FY 16. Return on capital increased to 22.4% in FY 18 compared to 19.2% in FY 17 and 11.8% in FY 16. We note total debt to capital was 43.7% at the end of FY 18, which was above the 36.2% at the end of FY 17 and 31.5% at FY 16 end.

Corporate Information

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G. E. Dickerson

Senior VP & General Counsel
T. F. Larkins

Chairman of the Board
T. J. Iannotti

Corporate VP, Corporate Controller & Chief Accounting Officer
C. W. Read

Board Members

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J. Bruner
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S. A. McGregor
S. R. Forrest
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Domicile
Delaware

Founded
1967

Employees
21,000

Stockholders
2,854

Auditor
KPMG LLP - Klynveld Peat Marwick Goerdeler

Applied Materials, Inc.

CFRA

Quantitative Evaluations

Fair Value Rank 3

1	2	3	4	5
LOWEST				HIGHEST

Based on CFRA's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

Fair Value Calculation USD 44.51

Analysis of the stock's current worth, based on CFRA's proprietary quantitative model suggests that AMAT is slightly overvalued by USD 3.51 or 7.3%.

Volatility

LOW	AVERAGE	HIGH

Technical Evaluation NEUTRAL

Since August, 2019, the technical indicators for AMAT have been NEUTRAL.

Insider Activity NA

UNFAVORABLE	NEUTRAL	FAVORABLE

Expanded Ratio Analysis

	2018	2017	2016	2015
Price/Sales	1.92	4.23	2.95	2.09
Price/EBITDA	6.32	14.37	12.60	9.72
Price/Pretax Income	7.63	15.91	14.46	11.27
P/E Ratio	10.02	17.88	18.61	14.68
Avg. Diluted Shares Outsg.(M)	1026	1084	1116	1226

Figures based on fiscal year-end price

Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years
Sales	18.68	21.33	18.10
Net Income	-3.52	34.00	66.88
Ratio Analysis (Annual Avg.)			
Net Margin (%)	NM	NM	NM
% LT Debt to Capitalization	43.70	NA	NA
Return on Equity (%)	40.93	NA	NA

Company Financials Fiscal year ending Oct. 31

Per Share Data (USD)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Tangible Book Value	3.37	5.25	3.09	3.06	2.96	2.24	1.97	5.55	4.45	4.19
Free Cash Flow	3.12	3.21	2.09	0.78	1.28	0.35	1.33	1.68	1.16	0.06
Earnings	3.23	3.17	1.54	1.12	0.87	0.21	0.09	1.45	0.70	-0.23
Earnings (Normalized)	2.85	2.15	1.13	0.82	0.75	0.36	0.50	1.09	0.92	-0.11
Dividends	0.70	0.40	0.40	0.40	0.40	0.39	0.35	0.31	0.27	0.24
Payout Ratio (%)	18	13	26	35	45	178	398	21	37	NM
Prices: High	62.40	56.82	31.07	25.71	23.46	18.18	13.94	16.93	14.94	14.19
Prices: Low	30.53	28.02	15.44	14.25	16.40	9.95	9.97	9.70	10.27	7.80
P/E Ratio: High	23.2	23.7	25.4	29.2	85.4	NM	14.5	28.9	41.8	NM
P/E Ratio: Low	9.5	15.3	14.0	13.7	23.4	12.4	7.0	6.8	23.1	11.6
Income Statement Analysis (Million USD)										
Revenue	17,253	14,537	10,825	9,659	9,072	7,509	8,719	10,517	9,549	5,014
Operating Income	4,796	3,868	2,150	1,703	1,564	783	1,094	2,360	1,970	-238
Depreciation + Amortization	457	407	389	371	375	410	422	246	305	291
Interest Expense	234	198	155	103	95	95	95	59	21	21
Pretax Income	4,694	3,731	2,013	1,598	1,448	350	316	2,378	1,387	-486
Effective Tax Rate	29.4	8.0	14.5	13.8	26.0	26.9	65.5	19.0	32.4	37.2
Net Income	3,313	3,434	1,721	1,377	1,072	256	109	1,926	938	-305
Net Income (Normalized)	2,921	2,333	1,260	1,007	926	439	635	1,454	1,239	-153
Balance Sheet and Other Financial Data (Million USD)										
Cash	4,030	7,276	3,749	4,965	3,162	1,891	1,937	6,243	2,585	2,215
Current Assets	10,747	12,918	8,353	9,261	6,967	5,642	5,102	10,355	6,765	5,689
Total Assets	17,773	19,419	14,570	15,308	13,174	12,043	12,102	13,861	10,943	9,574
Current Liabilities	4,068	4,115	3,632	3,798	2,823	2,443	2,265	2,794	2,888	1,939
Long Term Debt	5,309	5,304	3,125	3,342	1,947	1,946	1,946	1,947	204	201
Total Capital	12,148	14,653	10,542	12,155	9,815	9,034	9,181	10,747	7,741	7,297
Capital Expenditures	622	345	253	215	241	197	162	209	169	249
Cash from Operations	3,787	3,789	2,566	1,163	1,800	623	1,851	2,429	1,723	333
Current Ratio	2.64	3.14	2.30	2.44	2.47	2.31	2.25	3.71	2.34	2.93
% Long Term Debt of Capitalization	43.7	36.2	29.6	27.5	19.8	21.5	21.2	18.1	2.6	2.8
% Net Income of Revenue	19.2	23.6	15.9	14.3	11.8	3.4	1.3	18.3	9.8	-6.1
% Return on Assets	16.12	14.23	8.99	7.47	7.75	4.05	5.27	11.89	12.00	-1.45
% Return on Equity	40.9	41.5	23.2	17.8	14.3	3.6	1.4	23.6	12.8	-4.2

Source: S&P Global Market Intelligence. Data may be preliminary or restated; before results of discontinued operations/special items. Per share data adjusted for stock dividends; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

Sub-Industry Outlook

Our fundamental outlook for the semiconductor equipment sub-industry for the next 12 months is neutral. We see leading-edge manufacturers investing heavily in next-generation tools and we remain optimistic about growth for the foreseeable future, despite near-term challenges. Memory spending will likely account for about half of overall revenues in 2019, but seeing declines of more the 30% from peak levels in the prior year. We believe customers like Samsung are contending with a more challenging memory pricing landscape, as supply of NAND flash and DRAM both exceed demand, resulting in lower margins and profitability. As a result, we expect leading manufacturers to be more conservative with spending plans, posing downside risk to industry expectations in 2019 and 2020. On a more positive note, we believe consolidation in the memory space will allow customers to better sustain a healthy industry landscape and create a more modest cyclical correction in the space. In addition, we think China's desire to grow its local semiconductor manufacturing industry is supporting demand for equipment.

Foundry spending during 2019 and 2020 will likely be driven by 10m and below investments, as customers add capacity on these advanced technology nodes. We estimate that spending by foundry manufacturers will rise slightly in both 2019 and 2020. Foundries' share in total capital expenditures should be about 35% over the next year, based on our estimates. Logic equipment spending, driven by Intel, will likely represent about 15% of sales. Semiconductor equipment sales are highly concentrated, with Intel, Taiwan Semiconductor, and Samsung expected to comprise almost 60% of total sales in the coming year. We also note that equipment providers exposed to the flat panel display industry should also benefit from greater penetration for Organic LED (OLED) displays in mobile devices.

Despite limited visibility, we anticipate that customers will look to invest in next generation technology, assuming modest global economic growth. In addition, we think customer utilization will remain at healthy levels to support capital investments by leading edge manufacturers. While inventories appear elevated at the moment, largely reflecting marcoeconomic and geopolitical uncertainties, we see levels normalizing in the coming quarters as customers closely monitor production levels to better align supply with slowing demand. In the longer term, we see rising orders supported by the emergence of new products as well as improving demand for devices such as computers and handsets. We think customers are placing orders on advanced machinery at lower technology nodes and we think the release of lower priced/more efficient mobile devices should provide additional growth drivers for end demand.

For the most part, we believe balance sheets from the largest equipment providers are healthy and could sustain pronounced cyclical downturns similar to those seen in the past. Free cash flow has steadily improved, albeit with some lumpiness, since the 2008-2009 economic crises. We see stable generation in 2019 and 2020, which will likely be used toward modest share repurchases and dividend payments ahead, with repurchases being the preferred method by most.

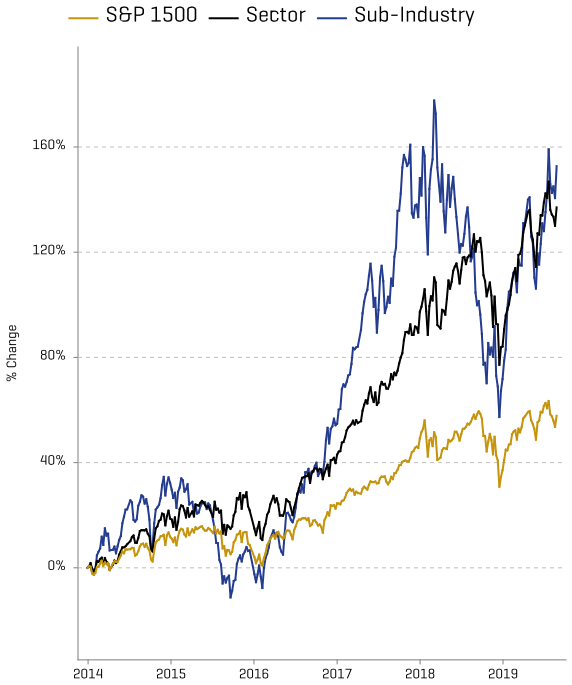
For the year-to-date through June 28, 2019, the S&P Semiconductor Equipment Index rose 36.8% versus an increase of 17.2% for the S&P 1500. The S&P Semiconductor Equipment Index fell 27.6% for full-year 2018 versus a decline of 6.8% for the S&P 1500.

Update

Industry Performance

GICS Sector: Information Technology
Sub-Industry: Semiconductor Equipment

Based on S&P 1500 Indexes
Five-Year market price performance through Aug 31, 2019



NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS).

Past performance is not an indication of future performance and should not be relied upon as such.
Source: S&P Global Market Intelligence

Sub-Industry: Semiconductor Equipment Peer Group*: Semiconductor Equipment

Peer Group	Stock Symbol	Exchange	Currency	Recent Stock Price	Stk. Mkt. Cap. (M)	30-Day Price Chg. (%)	1-Year Price Chg. (%)	P/E Ratio	Fair Value Calc.	Yield (%)	Return on Equity (%)	LTD to Cap (%)
Applied Materials, Inc.	**AMAT**	**NasdaqGS**	**USD**	**48.02**	**44,359**	**-2.7**	**11.3**	**15**	**44.51**	**1.7**	**40.9**	**43.7**
ASM International NV	ASMI.Y	OTCPK	USD	84.18	3,786	2.1	54.8	15	NA	1.3	8.6	NA
Advantest Corporation	ATEY.Y	OTCPK	USD	41.12	863,965	4.6	72.7	16	NA	2.0	35.3	NA
Entegris, Inc.	ENTG	NasdaqGS	USD	42.83	5,789	-1.6	26.9	21	39.98	0.7	24.0	47.9
KLA Corporation	KLAC	NasdaqGS	USD	147.90	23,554	8.5	26.7	20	130.22	2.0	54.7	52.0
Lam Research Corporation	LRCX	NasdaqGS	USD	210.51	30,426	0.9	22.1	15	198.60	2.1	39.2	41.1
MKS Instruments, Inc.	MKSI	NasdaqGS	USD	78.29	4,266	-8.0	-15.3	20	37.55	1.0	22.7	15.5
SolarEdge Technologies, Inc.	SEDG	NasdaqGS	USD	81.92	3,930	25.6	71.0	36	77.44	Nil	26.5	0.6
Teradyne, Inc.	TER	NasdaqGS	USD	52.97	9,002	-5.0	28.8	20	NA	0.7	26.0	20.0
Tokyo Electron Limited	TOEL.Y	OTCPK	USD	44.76	3,023,932	4.0	4.0	15	NA	3.8	29.9	NA
Versum Materials, Inc.	VSM	NYSE	USD	52.00	5,682	0.0	31.1	72	36.95	0.6	NM	81.7

*For Peer Groups with more than 10 companies or stocks, selection of issues is based on market capitalization.
NA-Not Available NM-Not Meaningful.
Note: Peers are selected based on Global Industry Classification Standards and market capitalization. The peer group list includes companies with similar characteristics, but may not include all the companies within the same industry and/or that engage in the same line of business.

Analyst Research Notes and other Company News

August 16, 2019
07:57 am ET... CFRA Maintains Hold Recommendation on Shares of Applied Materials, Inc. (46.2***): We keep our 12-month target at $48, on P/E of 13x our calendar year '20 EPS estimate of $3.69, near peers and its five-year historical forward average of 13.5x. We raise our FY 19 (Oct.) EPS view to $3.01 from $2.98 but reduce FY 20 to $3.43 from $3.73. AMAT posts Apr-Q EPS of $0.74 vs. $1.04, beating the $0.70 consensus. Sales fell 14%, near expectations, as semiconductors declined 12% and display plunged 45% while services fell a modest 2%. Gross margins compressed on lower volume and mix. We believe industry dynamics remain largely unchanged, as growth in foundries/logic (up 20%) partly offset challenges in the memory and display markets. Although we think industry conditions appear to be stabilizing, we remain cautious of the trajectory of a memory recovery over the next year (U-shaped at best), which is also pressuring its transactional parts and services business (half of services revenue). We think China remains a bright spot while the pending Kokusai Electric deal could upside. /Angelo Zino, CFA

May 17, 2019
08:16 am ET... CFRA Maintains Hold Recommendation on Shares of Applied Materials, Inc. (41.66***): We up our 12-month target to $48 from $41, on near-peer P/E of 12.5x our calendar year '20 EPS estimate of $3.85. We raise our FY 19 (Oct.) EPS view to $2.98 from $2.96 and keep FY 20 at $3.73. AMAT posts Apr-Q EPS of $0.70 vs. $1.22, beating the $0.66 consensus. Sales fell 23% (better than expected), hurt by sharp declines in semiconductor systems (down 25%) and display (down 52%), partly offset by growth in services (up 4%). Margins have been hurt by lower volume and mix. While AMAT refused to call a cyclical trough, we believe fundamentals will stabilize, with risk/reward appearing favorable on the memory front (revenue down over 50% from prior year). We expect a broader customer base to support a display rebound while the transition to 96L technology from NAND customers accelerates exiting FY 19. We like efforts to aggressively repurchase shares (8% reduction over the last year and 28% in last the 5 years), which helps support greater EPS leverage in future cyclical upturns. /Angelo Zino, CFA

February 15, 2019
08:30 am ET... CFRA Maintains Hold Recommendation on Shares of Applied Materials, Inc. (40.71***): We up our 12-month target to $41 from $36, on near-peer P/E of 11x our calendar year '20 EPS estimate of $3.80. We cut our FY 19 (Oct.) EPS view to $2.96 from $3.43 and FY 20 to $3.73 from $4.16. AMAT posts Jan-Q EPS of $0.81 vs. $1.06, beating the $0.79 consensus. Sales fell 11% but were near expectations, as sharp declines in semiconductor systems was partly offset by growth in services and display revenue. Although we continue to see challenges within the memory space (both NAND and DRAM), we see a more favorable landscape on the NAND side, which should translate to higher investments in FY 20. While foundry spending appears healthy, we note the shift towards Extreme Ultraviolet (EUV) tools is a negative in terms of AMAT's share position. Not surprisingly, we also now see more pronounced display revenue declines for FY 19, as customers look to refrain from purchases amid a more challenging economic landscape. We positively view AMAT's greater exposure to recurring revenue. /Angelo Zino, CFA

November 16, 2018
09:30 am ET... CFRA MAINTAINS HOLD RECOMMENDATION ON SHARES OF APPLIED MATERIALS, INC. (35.02***): We reduce our 12-month target to $36 from $53, on near-peer P/E of 10X our calendar year '20 EPS estimate. We cut our FY 19 (Oct.) EPS view to $3.43 from $4.42 and start FY 20 at $4.16. AMAT posts Oct-Q EPS of $0.97 vs. $0.93, matching the consensus. Sales rose 1.1%, near expectations, as higher services as well as display revenue was partly offset by a decline in semiconductor systems. While we are encouraged by the order trajectory within the foundry and logic areas, we are wary about memory push-outs given recent pricing declines. We find an expected 20% plus decline in semiconductor sales for the Jan-Q as a negative as well as AMAT's inability to call for a cyclical trough given low visibility. Although China was a bright spot, with sales more than doubling (33% of sales), we are concerned about geopolitical issues and see the inability to sell to DRAM-maker Fujian as a headwind. We think memory orders are unlikely to see a rebound until the second half of FY 19, at the earliest. /Angelo Zino, CFA

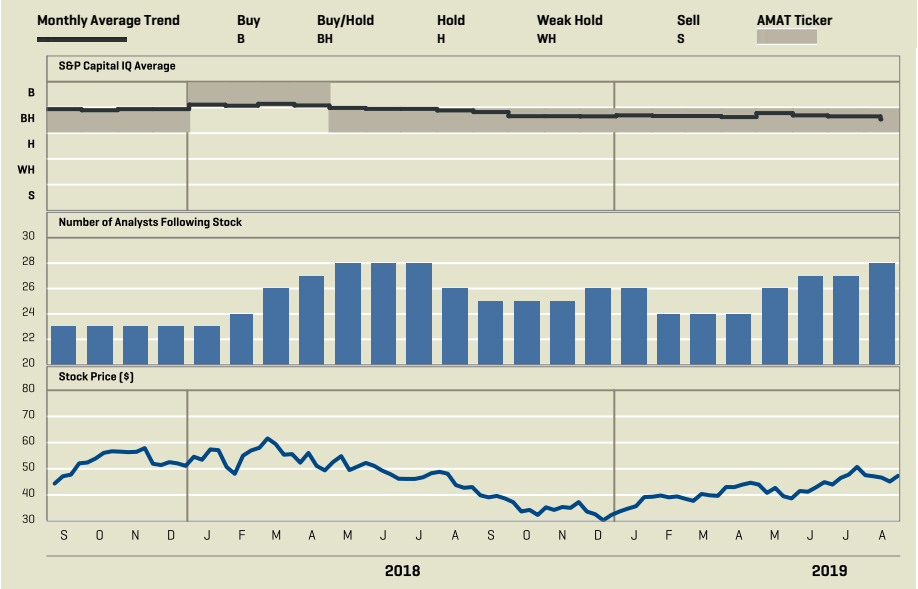
August 17, 2018
07:58 am ET... CFRA MAINTAINS HOLD RECOMMENDATION ON SHARES OF APPLIED MATERIALS, INC. (47.43***): We reduce our 12-month target to $53 from $65, on near-peer P/E of 12X our FY 19 (Oct.) EPS estimate. We cut our FY 18 EPS view to $4.53 from $4.64 and FY 19 to $4.42 from $4.72. AMAT posts Jul-Q EPS of $1.20 vs. $0.86, beating the $1.16 estimate. Sales rose 19%, slightly ahead of expectations, on higher demand from the semiconductor industry (up 8.5%), services (up 21%), and display (up 81%). While we note revenue from the semiconductor industry was driven by higher memory sales, specifically related to DRAM (up 74%) and believe memory customers are being prudent with spending, we see risks related to a potential sharp decline in DRAM prices and anticipate declines of about 15%-20% within display in FY 19. That said, we are encouraged by recent results from China, now 39% of sales, which we believe is a major growth opportunity as that region looks to build its local semiconductor manufacturing industry. We like AMAT's free cash flow usage to aggressively repurchase shares. /Angelo Zino, CFA

May 18, 2018
08:58 am ET... CFRA MAINTAINS HOLD RECOMMENDATION ON SHARES OF APPLIED MATERIALS, INC. (53.96***): We keep our 12-month target of $65, on near-peer P/E of 13.8X our FY 19 (Oct.) EPS estimate. We adjust our FY 18 EPS view to $4.64 from $4.48 and FY 19's to $4.72 from $4.66. AMAT posts Apr-Q EPS of $1.22 vs. $0.79, beating the $1.15 consensus. Sales rose 29%, above expectations, driven by growth within all business segments. While semiconductor revenue rose 25%, we expect memory customers to remain prudent with spending and see tougher comparables given peak 3D NAND investments. We think China may provide upside, although note low visibility, as investments in the region continues to increase. Although display sales grew a robust 53%, we believe a more muted outlook in the high-end smartphone space will hurt OLED mobile demand, driving lower display spending for FY 19. Services revenue rose 30%, led by demand for spare parts and new service agreements/renewals. While valuation appears attractive and AMAT is aggressively returning cash to shareholders, we think cyclical risks are high. /Angelo Zino, CFA

Note: Research notes reflect CFRA's published opinions and analysis on the stock at the time the note was published. The note reflects the views of the equity analyst as of the date and time indicated in the note, and may not reflect CFRA's current view on the company.

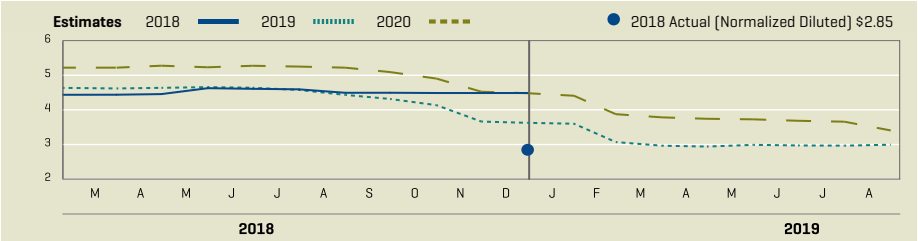
Applied Materials, Inc.

Analysts' Recommendations



	No. of Recommendations	% of Total	1 Mo.Prior	3 Mos.Prior
Buy	11	39	12	13
Buy/Hold	6	21	6	6
Hold	10	36	8	6
Weak Hold	0	0	0	0
Sell	0	0	0	0
No Opinion	1	4	1	1
Total	**28**	**100**	**27**	**26**

Wall Street Consensus Estimates



Fiscal Years	Avg Est.	High Est	Low Est.	# of Est.	Est. P/E
2020	3.41	4.60	3.05	24	14.1
2019	2.99	3.05	2.74	23	16.0
2020 vs. 2019	▲14%	▲51%	▲11%	▲4%	▼-12%
Q4'20	0.95	1.25	0.84	16	50.6
Q4'19	0.76	0.80	0.75	21	63.1
Q4'20 vs. Q4'19	▲25%	▲56%	▲12%	▼-24%	▼-20%

Forecasts are not reliable indicator of future performance.
Note: A company's earnings outlook plays a major part in any investment decision. S&P Global Market Intelligence organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.

Note: For all tables, graphs and charts in this report that do not cite any reference or source, the source is S&P Global Market Intelligence.

Wall Street Consensus Opinion

BUY/HOLD

Wall Street Consensus vs. Performance

For fiscal year 2019, analysts estimate that AMAT will earn USD $2.99. For the 3rd quarter of fiscal year 2019, AMAT announced earnings per share of USD $0.61, representing 20.4% of the total revenue estimate. For fiscal year 2020, analysts estimate that AMAT's earnings per share will grow by 14% to USD $3.41.

Glossary

STARS
Since January 1, 1987, CFRA Equity and Fund Research Services, and its predecessor S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, we have ranked Asian and European equities since June 30, 2002. Under proprietary STARS (Stock Appreciation Ranking System), equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P Global Market Intelligence's Quality Ranking
(also known as **S&P Capital IQ Earnings & Dividend Rankings**) - Growth and stability of earnings and dividends are deemed key elements in establishing S&P Global Market Intelligence's earnings and dividend rankings for common stocks, which are designed to capsulize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+	Highest	B	Below Average
A	High	B-	Lower
A-	Above Average	C	Lowest
B+	Average	D	In Reorganization
NR	Not Ranked		

EPS Estimates
CFRA's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, EPS estimates reflect either forecasts of equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by S&P Global Market Intelligence, a data provider to CFRA. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

12-Month Target Price
The equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including Fair Value.

CFRA Equity Research
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Abbreviations Used in Equity Research Reports
CAGR - Compound Annual Growth Rate
CAPEX - Capital Expenditures
CY - Calendar Year
DCF - Discounted Cash Flow
DDM - Dividend Discount Model
EBIT - Earnings Before Interest and Taxes
EBITDA - Earnings Before Interest, Taxes, Depreciation & Amortization
EPS - Earnings Per Share
EV - Enterprise Value
FCF - Free Cash Flow
FFO - Funds From Operations
FY - Fiscal Year
P/E - Price/Earnings
P/NAV - Price to Net Asset Value PEG Ratio - P/E-to-Growth Ratio PV - Present Value
R&D - Research & Development ROCE - Return on Capital Employed ROE - Return on Equity
ROI - Return on Investment
ROIC - Return on Invested Capital
ROA - Return on Assets
SG&A - Selling, General & Administrative Expenses
SOTP - Sum-of-The-Parts
WACC - Weighted Average Cost of Capital

Dividends on American Depository Receipts (ADRs) and American Depository Shares (ADSs) are net of taxes (paid in the country of origin).

Qualitative Risk Assessment
Reflects an equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

STARS Ranking system and definition:
★★★★★ **5-STARS (Strong Buy):**
Total return is expected to outperform the total return of a relevant benchmark, by a notable margin over the coming 12 months, with shares rising in price on an absolute basis.
★★★★☆ **4-STARS (Buy):**
Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.
★★★☆☆ **3-STARS (Hold):**
Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.
★★☆☆☆ **2-STARS (Sell):**
Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.
★☆☆☆☆ **1-STAR (Strong Sell):**
Total return is expected to underperform the total return of a relevant benchmark by a notable margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks:
In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

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Quantitative Stock Reports:

Quantitative recommendations are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative recommendations refer to the Glossary section of the report for detailed methodology and the definition of Quantitative rankings.

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STARS Stock Reports:

Global STARS Distribution as of March 31, 2019

Ranking	North America	Europe	Asia	Global
Buy	35.5%	32.4%	39.4%	35.4%
Hold	54.8%	54.4%	41.7%	53.2%
Sell	9.7%	13.2%	18.9%	11.3%
Total	100.0%	100.0%	100.0%	100.0%

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