

<b>Company: Applied Materials</b>	<b>Ticker: AMAT</b> <b>Current Price: \$ 53.07</b>	<b>Sector: Technology</b>	<b>Industry: Semiconductor Equipment &amp; Materials</b>
Target Price: \$67.79 Stop Loss: \$58 52 Week High/ Low: \$60.89/32.60	Trailing 12M P/E: 16.32 Forward 12M P/E: 13.03 Actual EPS: 3.25	Beta vs SPX: 1.46 Credit Rating (Moody's): A3 Rating Outlook: STABLE	Market Cap: \$56.11 B Avg. Vol: 10.6 M Dividend Yield: .75

#### Company Background:

Applied Materials provides manufacturing equipment, services and software to the semiconductor and related industries. There are three main segments to their business including; 1. Semiconductor systems (65% of net sales), which manufactures and sells a wide range of manufacturing equipment used to fabricate semiconductor chips. 2. Applied global services (21% of net sales), which Provides integrated solutions to optimize equipment and fab performance and productivity, including spares, upgrades, services, remanufactured earlier generation equipment and factory automation software for semiconductor, display and other products. 3. Display and adjacent markets (13% of net sales), which is comprised products for manufacturing liquid crystal displays, organic light-emitting diodes (OLEDs) and other display technologies for TVs, personal computers, electronic tablets, smart phones, and other consumer-oriented devices as well as equipment for processing flexible substrates. All of their products are sold globally. During 2017 84% of their sales were in the Asia Pacific, 10% in the United States and 6% in Europe.

#### Industry Outlook:

Applied Materials business model performance relies heavily on the global semiconductor industry. Over the past year the semiconductor industry saw 47% gains in stock value during 2017. The fundamentals of the industry are strong as chips are being introduced more and more into everyday life with smart technology. Capital flows will continue into semiconductor and display technology as new technology develops, this will create demand for new manufacturing equipment. For example, display technology is currently transitioning from silicon LCD monitors, to LTPS, to organic LED. AMAT's is a key part of driving innovation and putting the new technologies into production.

#### Investment Thesis:

Applied Materials is a leader in the semiconductor industry with the largest market cap among its competitors. The back log on October 29<sup>th</sup> and 30<sup>th</sup> for the following twelve months were up 49% for Semiconductor systems, 19% for Applied Global Services, and 31% for Display and Adjacent Markets. This suggests the company will continue to increase revenues. Applied has also increased its margins allowing it to continually grow its EPS and produce strong returns for its shareholders through dividend payments and stock repurchases.

#### Investment Risks:

Risks include; 1.) The industries serviced can be volatile 2.)Uncertain global economy 3.)Ongoing changes in the various industries in which it operates 4.)Changes in the semiconductor industry 5.)Changes in the display industry 6.)The industries it operates in are highly competitive 7.) There is a highly concentrated customer base 8.)Global business risks 9.) Applied is expose to risks associated with business, acquisitions and strategic investments 10.) Debt levels - applied has \$5.4 billion in aggregate principal amount of senior unsecured notes outstanding 11.) Risks associated with expanding into new related markets and industries, ability to meet customer demands because of manufacturing interruptions or delays 12.) Being able to protect intellectual property rights 13.) Cybersecurity threats and incidents 14.) Impairment charges 15.) Operating in jurisdictions with complex and changing tax laws

#### Most Recent Quarters Performance Highlights:

Revenues and profits reached all-time highs with strong momentum looking into the future; Record revenue of \$3.74 Billion, an increase of 33% year over year. Record EPS of \$.85, up 85% year over year, and non-GAAP EPS of \$.86 up 72% year over year. Last quarter AMAT increased gross margin by 3.1 points to 45.4%; grew operating margin by 6.2 points to 27.3% and increased EPS by 85% to \$.85.

#### Financial Performance:

	2013	2014	2015	2016	2017	2018(est.)	2019(est.)
Revenue	\$7,509.0	\$9,072.0	\$9,659.0	\$10,825.0	\$14,537.0	\$16,854.9	\$17,991.4
Operating Income	\$432	\$1,520	\$1,693	\$2,152	\$3,868	\$5,343	\$5,703.27
Net Income	\$256	\$1,072	\$1,377	\$1,721	\$3,434	\$4,150	\$4,475
Rev. Growth %	-13.88	20.82	6.47	12.07	34.29	16%	16%
EBITDA%	11.2%	20.9%	21.4%	23.5%	29.4%	31.7%	31.7%
Oper. Margin %	5.8%	16.8%	17.5%	19.9%	26.6%	29.7%	29.8%
Net Inc. Margin	3.4%	11.8%	14.3%	15.9%	23.6%	23.5%	24.1%
D/E	27.45%	24.75%	43.90%	43.30%	56.73%	50%	50%
EPS (GAAP)	\$0.21	\$0.88	\$1.13	\$1.56	\$3.20	\$3.9	\$4.3
PE Ratio	84.19	28.64	16.67	20.95	16.13		
Current Ratio	2.31	2.47	2.44	2.30	3.14		
ROE	3.57%	14.34%	17.79%	23.21%	41.46%	39%	25%
ROA	2.12%	8.5%	9.67%	11.51%	20.2%	19.75%	19.76%
Div. Per Share	.39	.4	.4	.4	.4	.40	.41
FCF	\$426	\$1,559	\$948	\$2,213	\$3,264	\$3,934.8	\$4,277.9

#### Discounted Cash Flow

	2013-17	2017-2021
Avg Revenue growth	10.76%	10.15%
Avg EBITDA Margin	21.28%	30.68%
Avg Net Income Margin	13.8%	23.8%
Avg Debt/Equity	39.22%	30%
Avg FCF / Margin	15.11%	22%
Cost of Debt		2.95%
Tax Rate		7.96%
Cost of Equity		12.26%
WACC		11.5%
Perpetuity growth rate		3%

#### Analyst Opinion

Buy: 87%	Hold: 13%	Sell: 0%
	Rating	Target
RBC Capital Markets	Outperform	\$64
Needham & Co	Strong Buy	\$72
Stifel	Buy	\$66

#### Relative Valuation

	LAM Research	KLA-Tencor Corp	MKS Instruments	Entegris Inc	Industry Median
P/E	17.62	16.05	20.13	30.99	20.13
P/B	4.22	11.37	3.46	4.51	4.22
Dividend Yield	.98%	2.13%	.73%	.22%	.81%
EPS	\$10.47	\$5.92	\$1.96	\$.69	\$3.2
Revn Grth	36.15%	16.6%	59.23%	8.71%	16.6%
NI Grth	123.89%	57.74%	133.48%	86.37%	57.74%
Operating Margin	26.8%	38.03%	20.5%	17.8%	21.83%
Debt / Equity	35.35%	189.54%	29.17%	50.22%	29.17%
Market Cap	\$30.63 B	\$16.65 B	\$5.21 B	\$4.6 B	\$5.21 B
Revenue TTM	\$8.01 B	\$3.48 B	\$1.3 B	\$1.18 B	\$1.75 B
Net Income TTM	\$2.02 B	\$1.03 B	\$306.98 M	\$139.51 M	\$306.98 M
FCF TTM	\$2.24 B	\$1.24 B	\$302.1 M	\$176.78 M	\$362.65 M

#### Total Return

	AMAT	S5INFT	SPX Index
YTD	4.07%	5.18%	3.58%
2017	60.39%	38.83%	24.08%
Last 3 Years	129.78%	81.99%	44.12%
Last 5 Years	379.47%	167.2%	108.65%

#### CSR Characteristics

	AMAT	Industry
Governance Disclosure Score	62.5	
ESG Disclosure:	38.84	13.22
Social Disclosure Score	22.81	
Environmental Disclosure Score	35.66	

Prepared by: John Lundeen (1/11/2018)

Source: Bloomberg & Value Line