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Morgan Stanley | RESEARCH

IDEA

October 19, 2026 10:25 PM GMT

Applied Materials Inc. | North America

Thoughts post Investor Breakfast

We came away more constructive on DRAM and front-end PC, while questions remain on logic and back-end PC.

We came out of AMAT's Investor Breakfast thinking "these are attainable targets that could be revised up if the market goes the way they say". Setting long-term targets in an upcycle is never easy, and we commend AMAT for putting out targets in this manner. **Our takes were as follows: (+) DRAM Share:** We had expected greater share losses in DRAM given the magnitude of EUV adoption, but were pleasantly surprised by AMAT's resilience, implying stronger underlying share gains within its addressable market. **(+) Front-End Process Control:** AMAT is the clear process control winner in 2026. If the company delivers another year of meaningful share gains in 2027, we could reassess our thesis on peers. **(?) Logic Share:** While we had anticipated share losses in the transition from 3nm to 2nm, the implied decline appears somewhat greater than expected, assuming our WFE per 100kwpm estimates are accurate. **(?) Back-End Process Control:** We are surprised by AMAT's increased focus on back-end process control, given the relatively limited TAM and more fragmented competitive landscape, which could constrain meaningful share gains. **On the EPIC Center,** Dr. Prabu Raja's commentary reinforced our view that AMAT is better positioned with the investment than without it, particularly as customers recognize and appreciate the significant capex commitment. However, AMAT lacks a demonstrated track record of translating such investments into sustained share gains, leaving the potential upside largely a show-me story.

Thoughts on the stock. The market is increasingly questioning the sustainability of WFE demand into 2028, with certain names in our coverage already trading at cycle-trough multiples on CY27 estimates. AMAT is receiving some credit, albeit limited, trading at 16x CY28 MSe versus its prior cycle low of 13x in April 2025. We believe the trough multiple should be higher this cycle, reflecting the company's GM% expansion. **Does this make AMAT attractive? Yes, but less so than its suppliers.** If AMAT achieves our CY28 bull case, the stock would be trading at 13x earnings, a multiple we view as unwarranted given the company's margin expansion relative to prior cycles. However, we believe the market is pricing in an even more pessimistic outlook for suppliers, where we see greater upside potential and prefer AEIS and MKS. Nonetheless, we came away from AMAT's EPIC Center Opening and Investor Breakfast with greater confidence in the company's long-term vision and strategic direction. **Note:** Please see the next section for 3 Questions on DRAM & FL Share, Process Control, and EPIC Center ROI.

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Applied Materials Inc. (AMAT.O, AMAT US)

Semiconductor Capital Equipment | United States of America

Stock Rating	**Equal-weight**
Industry View	**In-Line**
Price target	**$563.00**
Shr price, close (Oct 19, 2026)	$413.11
Mkt cap, curr (mm)	$332,985
52-Week Range	$739.67-203.40

Fiscal Year Ending	10/25	10/26e	10/27e	10/28e
EPS ($)**	9.42	12.76	19.60	24.68
Prior EPS ($)**	-	-	-	-
P/E	24.8	32.4	21.1	16.7
EPS ($)§	9.32	12.80	18.72	23.86
Div yld (%)	0.7	0.5	0.6	0.7

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
** = Based on consensus methodology
§ = Consensus data is provided by Refinitiv Estimates
e = Morgan Stanley Research estimates

QUARTERLY EPS ($)

Quarter	2025	2026e Prior	2026e Current	2027e Prior	2027e Current
Q1	2.38	-	2.38a	-	4.40
Q2	2.39	-	2.86a	-	4.74
Q3	2.48	-	3.49a	-	5.12
Q4	2.17	-	4.02	-	5.35

e = Morgan Stanley Research estimates, a = Actual Company reported data

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3 Questions

Question #1: DRAM & FL Share

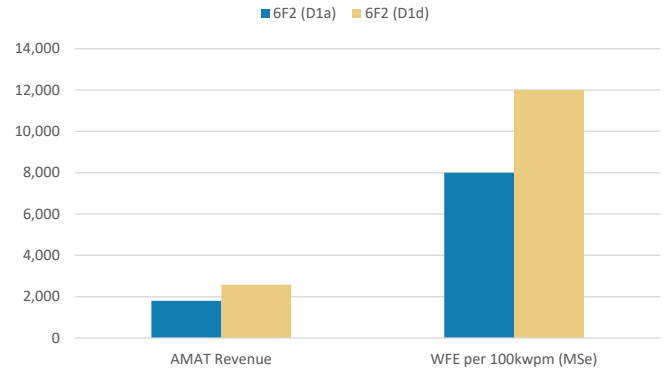
AMAT's View: AMAT believes its SAM (WFE per wafer start) is expanding in both DRAM and Logic, alongside continued share gains within its addressable market.

Our View: If our WFE per 100kwpm numbers are correct, AMAT's implied SAM is declining in both DRAM and Logic. This implies meaningful wins in DRAM (due to SAM shrink from EUV adoption) vs losses in logic.

- **DRAM (+ve):** Given the adoption of EUV across various customers between D1d and D1a, a ~600bp contraction in AMAT's SAM is understandable. If anything, we were positively surprised that AMAT is losing only ~100bp of overall WFE share, given the magnitude of EUV investments by DRAM customers. This implies meaningful share gains within its addressable market.
- **Logic (-ve):** While we had anticipated some share losses for AMAT in the transition from 3nm to 2nm, the implied decline appears somewhat greater than we had expected, assuming our WFE per 100kwpm estimates are accurate.

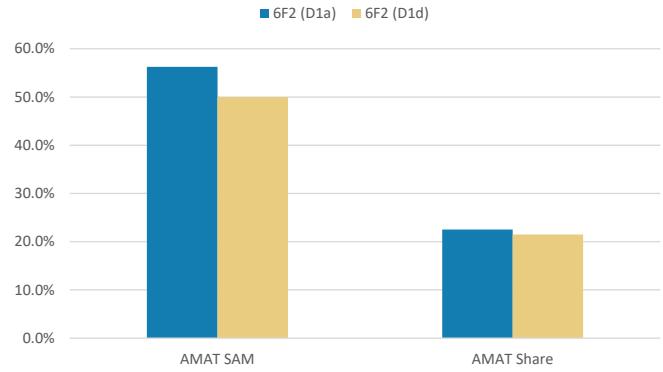
Bottom Line: We came away increasingly encouraged by AMAT's competitive positioning and execution in DRAM, while remaining somewhat more cautious on its Logic business.

Exhibit 1: We estimate WFE per 100kwpm increased from $8bn to $12bn from D1a to D1d due to EUV adoption



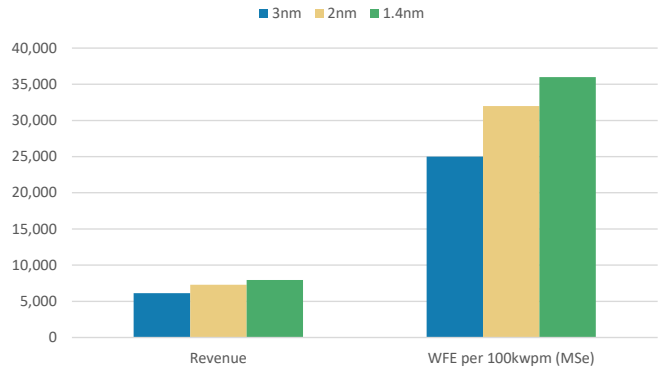
Source: Company Data, Morgan Stanley Research. e = Morgan Stanley Research estimates

Exhibit 2: AMAT's DRAM share declined far less than we expected



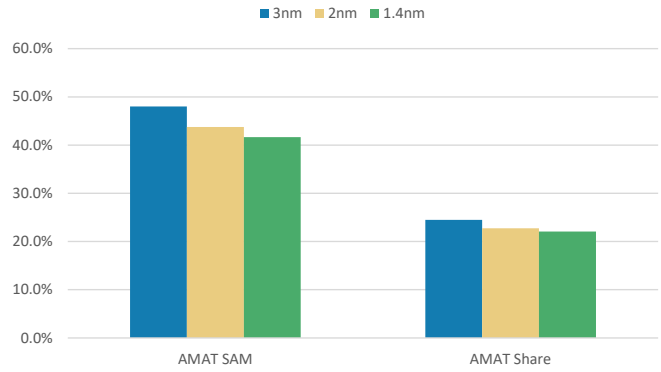
Source: Company Data, Morgan Stanley Research. e = Morgan Stanley Research estimates

Exhibit 3: We estimate WFE per 100kwpm increased from $25bn to $36bn from 3nm to 1.4nm



Source: Company Data, Morgan Stanley Research. e = Morgan Stanley Research estimates

Exhibit 4: AMAT's SAM has declined



Source: Company Data, Morgan Stanley Research. e = Morgan Stanley Research estimates

Question #2: Process Control

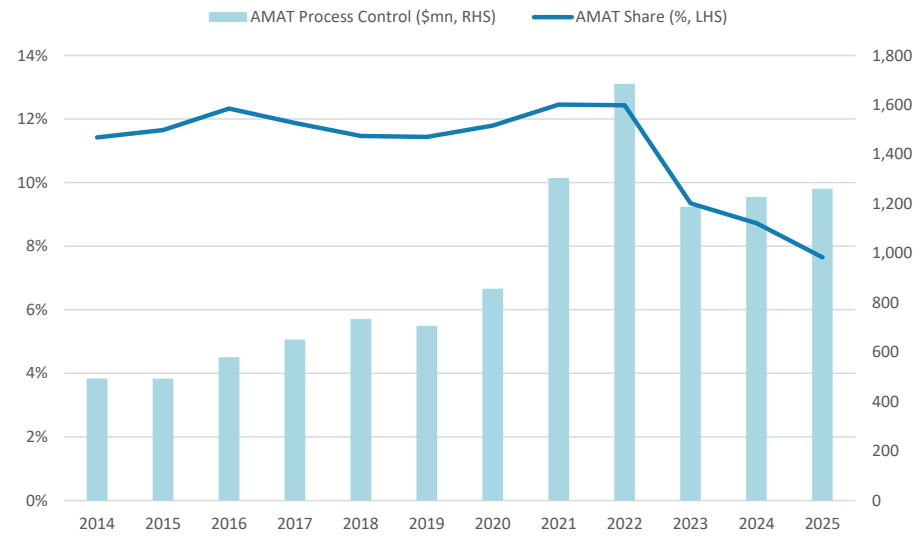
AMAT's View: AMAT sees meaningful opportunities across both front-end and back-end process control, targeting optical inspection in the front-end while expanding e-beam applications in the back-end.

Our View: AMAT is undoubtedly the biggest winner in process control this year, although we view this as share recovery rather than incremental share gains. If AMAT delivers another year of meaningful share gains in 2027 and surpasses its prior share highs, we believe this could have significant competitive implications for peers.

We see different opportunities and implications across front-end and back-end process control.

- **Front-end (positive on AMAT):** AMAT's increased focus on front-end optical inspection makes strategic sense, given the sizable TAM (~$9bn), KLA's near-monopoly position, and attractive gross margins (mid-60%). AMAT is the clear winner this year, with growth exceeding 50% versus peers growing in the mid-20% range. While we currently view this as share recovery, another strong year of share gains in 2027 could cause us to reassess our thesis on peers.
- **Back-end (neutral on AMAT):** We are somewhat surprised by AMAT's increased focus on back-end process control, given the relatively limited TAM (~$1.1bn for KLA in 2026) and more fragmented competitive landscape (KLA, ONTO, NOVA, CAMT). We also see structural challenges to share gains in certain segments, particularly materials metrology, where ASPs are in the MSD$mn and customers typically purchase only 1–2 tools, making dual-vendor strategies extremely difficult to justify.

Exhibit 5: AMAT growing 50%+ in 2026 will mean share gain but share will be below prior highs.



Source: Gartner

Question #3: EPIC Center ROI

AMAT's View: EPIC will enable AMAT to engage earlier in new chip and packaging architecture inflections, providing greater visibility into multiple generations of customer roadmaps and positioning the company to capture incremental share.

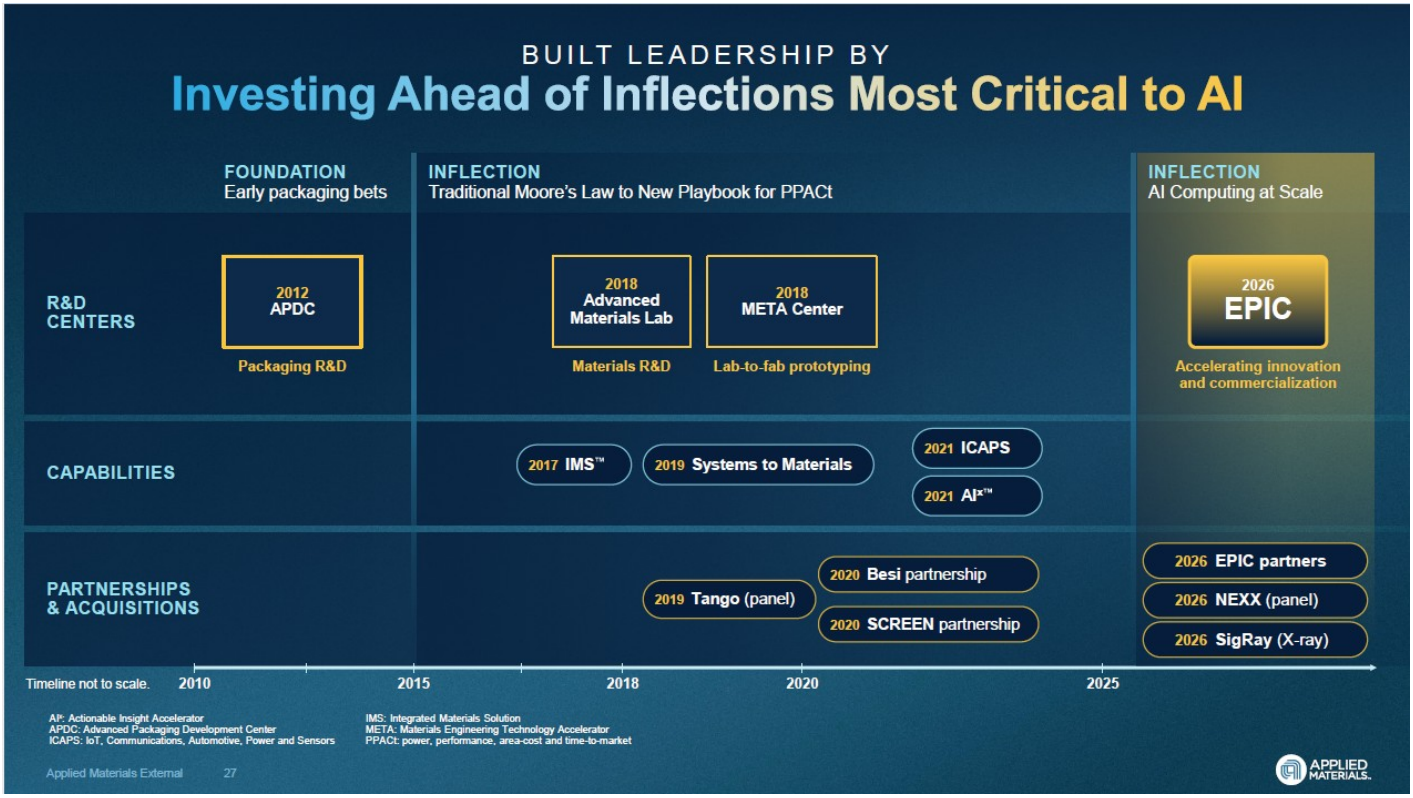
Our View: We came away from EPIC more positive than negative and believe the facility undoubtedly strengthens AMAT's competitive positioning. However, we still view the potential for meaningful share gains as a show-me story.

Equipment suppliers collaborate with customers in different ways, and AMAT is making a significant push on co-innovation through its new EPIC Center. We frame our assessment around three key questions:

1. **Is AMAT better positioned with EPIC? Yes.** We believe EPIC meaningfully strengthens AMAT's competitive positioning. The company has committed substantial capex to the facility, demonstrating a level of investment and commitment that we believe resonates with customers.
2. **Does AMAT have a proven track record? Not yet.** AMAT opened its Advanced Packaging Development Center in 2012, but this has yet to translate into clear leadership in advanced packaging. We believe this partly reflects the company's significant push on hybrid bonding, where the ultimate outcome remains uncertain. As such, we would not consider the verdict final.
3. **Will EPIC translate into share gains? Yes, but selectively.** We have less conviction in the potential for near-term front-end share gains, where we believe any benefits will take several years to materialize. However, we are more constructive on the back-end opportunity. Given the accelerating pace of packaging technology inflections, AMAT's broad equipment portfolio, and the

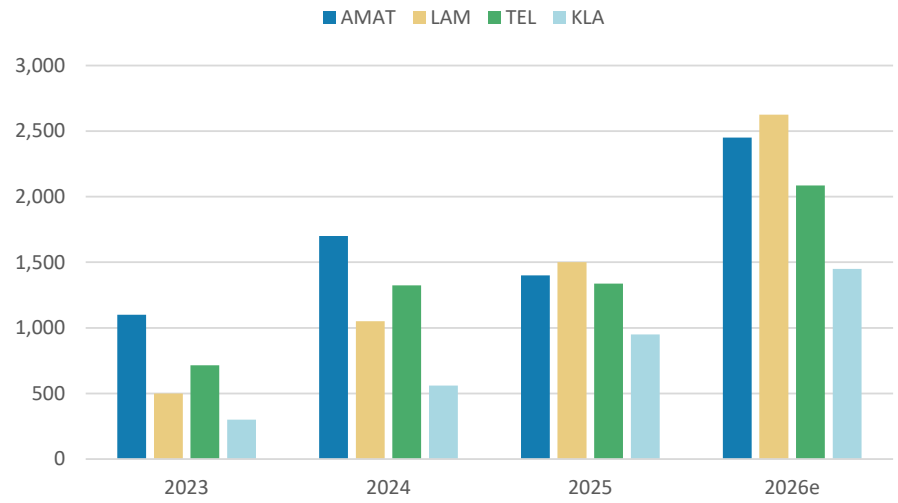
potential for deeper customer collaboration, we believe EPIC could help AMAT accelerate innovation and potentially regain leadership in advanced packaging.

Exhibit 6:



Source: Applied Materials 2026 Investor Breakfast

Exhibit 7: Advanced Packaging Revenue (MSe)



Source: Morgan Stanley Research. e = Morgan Stanley Research estimates

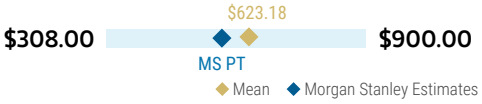
Risk Reward – Applied Materials Inc. (AMAT.O)

DRAM/Leading Logic upside & China/ICAPS derisked

PRICE TARGET $563.00

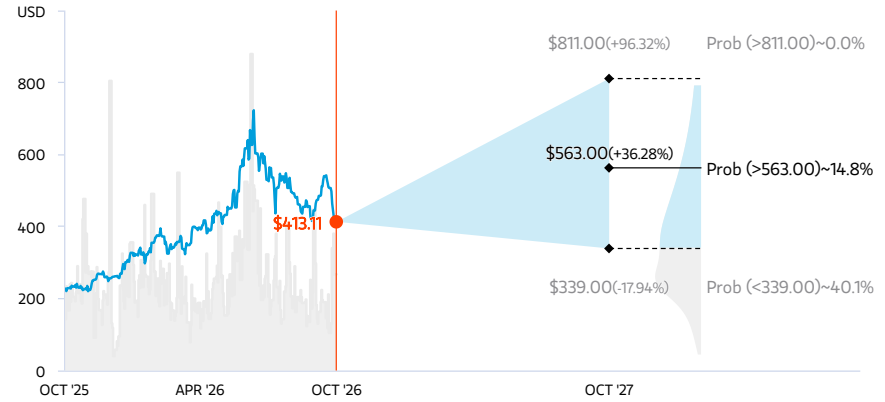
~22x CY28e EPS of $25.61, ~10% premium to the company's 20x through-cycle average since 2020.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



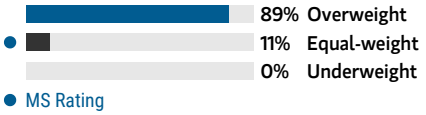
Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 19 Oct 2026. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

EQUAL-WEIGHT THESIS

- AMAT has traded at a material valuation discount vs LAM & KLA given execution and concerns around market share loss in China. We think AMAT will be a share gainer in 2026 but given our growth forecast is in-line with broader WFE in 2027 we think the valuation discount is unlikely to narrow in the near term.
- AMAT has the highest DRAM mix in their portfolio (CY26 32% vs LAM 24%, KLA 30%) and is most levered to greenfield wafer additions. We see DRAM as the fastest growing end-market in 2026 but the slowest growing in 2027.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

New Data Era: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $811.00

~28x CY28 EPS of $28.96

DRAM & ICAPS remain strong and AMAT's margin expansion accelerates.

- Revenue grows 28.0% in CY28 as AMAT outperforms WFE
- Gross margin expands to 53.4% in CY28
- Multiples expand to 28x PE, as equipment is perceived as a growth sector within semis

BASE CASE $563.00

~22x CY28 EPS of $25.61

AMAT grows in-line with WFE with DRAM growth slightly offset by China/ICAPS

- Revenue growth of 16.3% in CY28
- Non-GAAP gross margin slightly increases to 52.9% in CY28
- Multiple at a premium to AMAT's historical average

BEAR CASE $339.00

~15x CY28 EPS of $22.58

DRAM WFE slows in 2027 and leading edge logic sees headwinds from foundries scaling back their aspirations.

- Revenue increases 7.0% in CY28 as WFE recovery is subdued.
- Gross margin of 52.2% in CY28
- Multiple contracts to a 15x PE, closer to cycle trough

Risk Reward – Applied Materials Inc. (AMAT.O)

KEY EARNINGS INPUTS

Drivers	Oct 2025	Oct 2026e	Oct 2027e	Oct 2028e
GAAP Revenue ($, mm)	28,368	34,311	48,324	57,424
MW Gross Margin (%)	48.8	50.1	51.6	52.8
Non-GAAP EPS ($)	9.42	12.76	19.60	24.68
Inventory ($, mm)	5,915	6,819	7,803	8,812
DOI	146.2	143.0	119.9	116.8

CATALYST CALENDAR

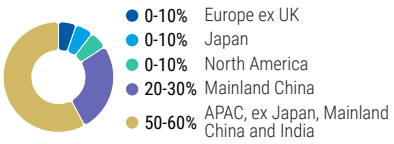
Source: Refinitiv, Morgan Stanley

Date	Event
12 Mar 2027 - 16 Mar 2027	Applied Materials Inc Annual Shareholders Meeting

INVESTMENT DRIVERS

- DRAM WFE outpaces overall WFE growth
- AMAT capitalizes on logic growth opportunities (GAA, back-side power)

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

5/5 BEST	24 Month Horizon	3/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Market share gains as DRAM outpaces WFE
- AMAT captures market share in logic architecture inflections (backside power)

RISKS TO DOWNSIDE

- Widespread restrictions on equipment shipments and services to China
- AMAT loses market share with key customers (Samsung, TSMC)

OWNERSHIP POSITIONING

Inst. Owners, % Active	50%
HF Sector Long/Short Ratio	2.2x
HF Sector Net Exposure	30.6%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Oct 2027e

Sales / Revenue ($, mm)	43,085	48,324 / 46,695	51,006
EBITDA ($, mm)	15,862	18,448 / 17,527	19,633
Net income ($, mm)	13,377	15,559 / 14,849	17,022
EPS ($)	16.72	19.60 / 18.72	21.77

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Valuation Methodology and Risks

Advanced Energy Industries Inc. (AEIS.O)

We use a 22x PE multiple on the company's CY28 EPS of $19.96. Multiple is a slight premium to MKS but at a discount to SPE OEMs, which we believe is warranted based on AEIS's lower GM% profile.

Risks to Upside

- AMAT/LAM gain more share than expected.
- 800v transition leads to more than expected content.
- Data Center customer broadens

Risks to Downside

- AMAT/LAM lose share
- Share loss to Delta in data center

MKS Inc. (MKSI.O)

15x FY28 EPS of $22.98. Multiple is a historical cycle trough ex-macro corrections.

Risks to Upside

- Stronger than expected WFE spend
- Market share gains in semis on the back of NAND growth
- PC, smartphone, and server strength
- Debt paydowns progress quicker than anticipated

Risks to Downside

- WFE growth slows and NAND makers continue to be disciplined on capex
- PC, smartphone, and server extended weakness
- Debt paydowns slow due to slow revenue growth and higher rates



Risk Reward Reference links

1. View explanation of Options Probabilities methodology - Options_Probabilities_Exhibit_Link.pdf

2. View descriptions of Risk Rewards Themes - RR_Themes_Exhibit_Link.pdf

3. View explanation of regional hierarchies - GEG_Exhibit_Link.pdf

4. View explanation of Theme/Exposure methodology - ESG_Sustainable_Solutions_External_Link.pdf

5. View explanation of HERS methodology - ESG_HERS_External_Link.pdf



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Global Stock Ratings Distribution

(as of September 30, 2026)

The Stock Ratings described below apply to Morgan Stanley's Fundamental Equity Research and do not apply to Debt Research produced by the Firm.

For disclosure purposes only (in accordance with FINRA requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1599	43%	455	48%	28%	783	44%
Equal-weight/Hold	1563	42%	394	42%	25%	763	43%
Not-Rated/Hold	2	0%	1	0%	50%	1	0%
Underweight/Sell	570	15%	96	10%	17%	227	13%
Total	3,734		946			1774	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 10/1/21 : NA/I; 12/7/23 : NA/C; 5/22/25 : NA/I; 5/13/26 : NA/I; 7/22/26 : O/I

Price Target History: 5/13/26 : NA; 7/22/26 : 421; 8/3/26 : 439

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target No Price Target Assigned (NA)

Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)

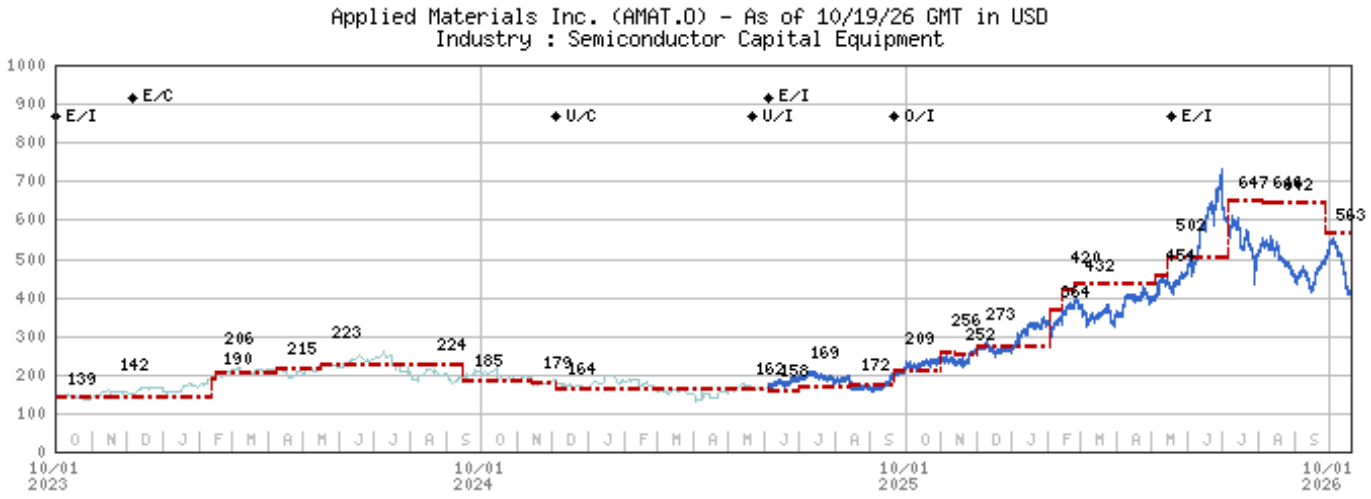
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View

Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)

Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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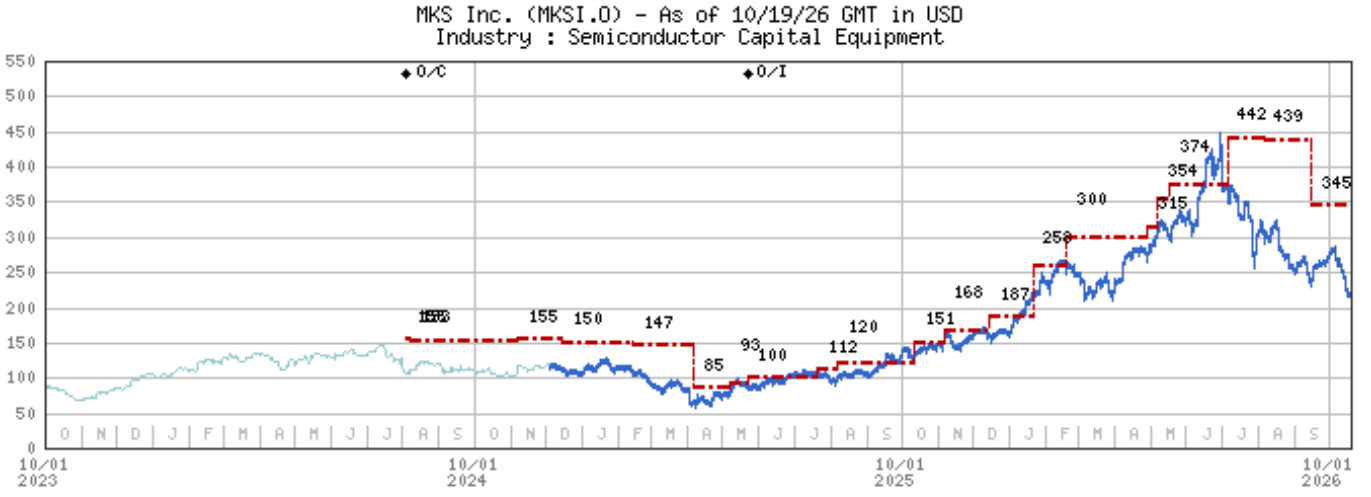
Stock Rating History: 10/1/21 : E/I; 12/7/23 : E/C; 12/5/24 : U/C; 5/22/25 : U/I; 6/5/25 : E/I; 9/22/25 : O/I; 5/18/26 : E/I

Price Target History: 8/20/21 : 150; 12/14/21 : 160; 5/19/22 : 133; 7/24/22 : 115; 9/6/22 : 109; 10/13/22 : 99; 10/17/22 : 89; 11/18/22 : 88; 2/16/23 : 125; 8/17/23 : 139; 11/16/23 : 142; 2/12/24 : 190; 2/15/24 : 206; 4/8/24 : 215; 5/16/24 : 223; 8/15/24 : 224; 9/16/24 : 185; 11/14/24 : 179; 12/5/24 : 164; 5/15/25 : 162; 6/5/25 : 158; 7/1/25 : 169; 8/14/25 : 172; 9/22/25 : 209; 10/31/25 : 256; 11/13/25 : 252; 12/1/25 : 273; 2/2/26 : 364; 2/12/26 : 420; 2/24/26 : 432; 5/4/26 : 454; 5/14/26 : 502; 7/6/26 : 647; 8/4/26 : 646; 8/13/26 : 642; 9/27/26 : 563

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
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Stock Rating History: 8/4/24 : O/C; 5/22/25 : O/I

Price Target History: 8/4/24 : 155; 8/8/24 : 153; 11/7/24 : 155; 12/15/24 : 150; 2/13/25 : 147; 4/6/25 : 85; 5/8/25 : 93; 5/22/25 : 100; 7/21/25 : 112; 8/7/25 : 120; 10/12/25 : 151; 11/6/25 : 168; 12/15/25 : 187; 1/21/26 : 258; 2/18/26 : 300; 4/28/26 : 315; 5/7/26 : 354; 5/18/26 : 374; 7/6/26 : 442; 8/6/26 : 439; 9/16/26 : 345

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/19/2026)
Shane Brett		

Advanced Energy Industries Inc. (AEIS.O)	O (07/22/2026)	$240.86
Applied Materials Inc. (AMAT.O)	E (05/18/2026)	$413.11
Camtek (CAMT.O)	E (12/01/2025)	$128.94
KLA Corp (KLAC.O)	O (01/15/2026)	$166.40
Lam Research Corp (LRCX.O)	O (05/18/2026)	$272.20
MKS Inc. (MKSI.O)	O (08/04/2024)	$215.41
Nova Ltd (NVMI.O)	E (12/01/2025)	$319.10
ONTO Innovation Inc (ONTO.N)	O (06/14/2026)	$226.28
Teradyne Inc (TER.O)	E (07/30/2025)	$335.53

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