Applied Material Exit Strategy

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This document outlines a forward-looking exit strategy framework for Applied Materials (AMAT), grounded in valuation, historical cyclicality, and market positioning. It is intended as a strategic guide for future analysts managing this position. It includes timing strategies, valuation bands, risk considerations, and justification for holding or exiting the position depending on conviction and market conditions.

AMAT Overview

At the time of writing this, we are very optimistic about AMAT's growth potential within the semiconductor industry. Our current conservatively placed bull valuation has the company valued around $240/share, and many analysts are currently valuing the company between $270-$330/share. We purchased 600 shares of AMAT at $152/share, implying a very undervalued price. That price is highly indicative of the broader scope industry demand volatility as the industry's demand occurs in cycles. Please refer to the best idea presentation covering AMAT for a more detailed overview of the business.

Semiconductor Industry Cyclicality

Understanding the cyclical nature of the semiconductor industry is crucial in understanding the fluctuation in the price of AMAT's stock.

If historical patterns hold, then this could be an excellent time to consider buying AMAT

The graph above captures the stock price fluctuations over the past decade, identifying 4 major cycles. This pattern reflects broader changes in the demand for semiconductors due to several factors such as:

- 2010–2011: Recovery from the financial crisis → Strong mobile demand.
- 2015–2016: Downturn due to DRAM/NAND oversupply and weak PC demand.
- 2017–2018: AI/cloud/data center boom → Record profits.
- 2019: Slowdown due to inventory and trade tensions.
- 2020–2021: Huge COVID-driven upswing (remote work, AI).
- 2022–2023: Inventory glut, China export controls → downturn.
- 2024–Now: Recovery underway, led by AI and advanced foundry demand.

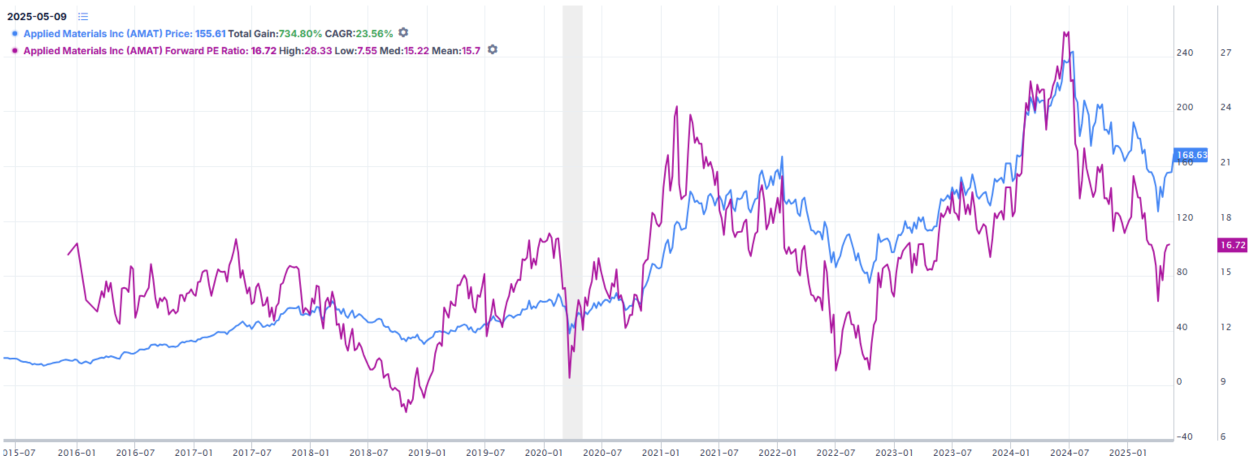
However, these cycles are not reflective of the financial strength of the company by BIC threshold standards, or the company's capacity for growth. Currently after seeing a new high of $256/share in 2024, AMAT sees itself in the 4th cycle of the decade. Prior cycles have seen dips lasting between 6-10 months, dropping between 40-55%. Recovery periods have also taken between 8-13 months to reach its previous high in price, before accelerating into a growth phase.

These timeframes lead us to believe that AMAT's stock price has reached the bottom of its current cycle, presenting an excellent opportunistic entry point for the business.

Multiples VS Stock Price

The following multiples (Price/Earnings, Price/Sales, and Price/Free Cash Flow) are considered the most indicative of tracking the valuation of AMAT. While P/FCF was used in our valuation, PE and PS should be used in conjunction with P/FCF as indicators to properly time valuation within the cycles of the industry. The following graphs outline the correlation between these multiples with the stock performance of AMAT.

Stock Price & Forward PE Ratio (10-YR):

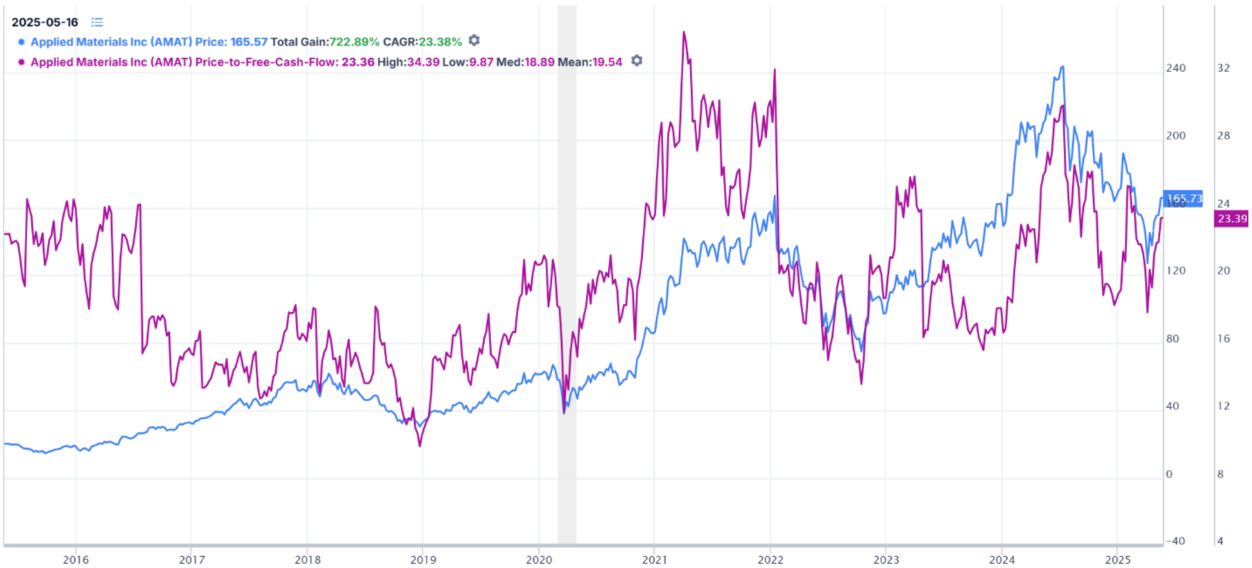


Period	Stock Behavior	PE Ratio Behavior	Interpretation
Mid-2018	Peaked	Declining	Valuation multiple was compressing due to market losing confidence
Early 2019	Bottomed	Near low	Stock was undervalued with sentiment likely too negative
2020–Early 2021	Strong rally	PE surged	Surge in Earnings, price and expectations both rising
Late 2021	Peaked	PE already falling	Earnings were still strong, but sentiment peaked earlier
2022	Dropped sharply	PE collapsed to ~9.8	Valuation compressed due to pessimism, but also created rebound potential
Early 2024	Peaked again	PE hit high (~**28*****)	Overvaluation risk and sentiment overshot fundamentals growth
2025 (now)	Recovering from a dip	PE at 16.7 (below average)	Rebounding with future growth dependent on earnings moving forward

Stock Price & PS Ratio (10-YR):

Period	Stock Behavior	PS Ratio Behavior	Interpretation
Mid-2018	Peaked	Declining	Valuation multiple was compressing as market confidence waned
Early 2019	Bottomed	Near historical low (~1.9)	Stock was undervalued with sentiment overly negative
Early 2021	Strong rally	PS surged (~7.2 peak)	Both price and sales expectations accelerated with renewed optimism
Late 2021	Peaked	PS already falling	Sentiment peaked earlier than fundamentals; valuation began to contract
2022	Dropped sharply	PS collapsed	Bearish sentiment and slowdown fears drove a sharp compression in valuation
Early 2024	Peaked	PS hit 7.71	Valuation expanded aggressively; signs of overenthusiasm
2025 (Now)	Recovering from a dip	PS at 4.86 (below average)	Rebound underway; valuation elevated; outlook depends on sales momentum ahead

Stock Price & Price-to-Free-Cash-Flow (10-YR):



Period	Stock Behavior	P/FCF Ratio Behavior	Interpretation
Mid-2018	Peaked	Declining	Market was cautious; valuation compressing despite strong price performance
Early 2019	Bottomed	Near low (~10)	Undervalued based on cash flow; sentiment had turned too bearish
2020–Early 2021	Strong rally	Surged sharply (peaked >30)	Bullish outlook and strong cash generation led to sharp valuation expansion
Late 2021	Peaked	P/FCF already declining	Earnings still strong but market was pricing in a future slowdown
2022	Dropped sharply	Fell back near historical average	Valuation reset driven by macro headwinds and lowered expectations
Early 2024	Peaked again	Rose again (~28–30 range)	Rebound enthusiasm outpaced fundamentals; risk of overvaluation re-emerged

2025 (Now)	Recovering	P/FCF at reasonably undervalued	Valuation is rebounding; future upside tied to sustaining strong cash flows

Timing

Properly timing the cycle of the semiconductor industry requires a great deal of nuance, as well as holistic understanding of capital expenditure trends in the industry. I would recommend deciding between **2 basic approaches:**

Strategy 1: Exit at the Next Cycle Peak

***(Price To Sales/ Price To Free Cash Flow/ Forward Price To Earnings)

Use this approach if conviction is low or the outlook weakens (refer to graphs above)

1. If AMAT reaches any of the following multiples, we recommend **further evaluation** of the company to **decide whether to exit** out of AMAT in the Portfolio. These multiples are just possible indicators of the company reaching its peak in the cycle, but must be factored in holistically with all components of the business (possibly through a bull/bear presentation):
    a. **6.5x Price/Sales**
    b. **26x Price/Free Cash Flow**
    c. **28x Forward Price/Earnings**
2. This action is especially appropriate if:
    a. The next set of analysts lacks deep conviction or understanding of AMAT's long-term business model.
    b. Financial strength has deteriorated (for example weakened balance sheet, FCF margins fall below 28% for 2+ quarters, Global WFE/CapEx is projected to decline >10%...)
    c. Industry visibility or capital spending outlook becomes materially negative.
3. This is a risk-managed exit to lock in value at the top of the cycle, without requiring long-term conviction.

Strategy 2: Hold and Double Down on the Next Dip (preferred)

Use this approach if conviction is high and the industry outlook remains favorable.

1. Maintain the core position through the cycle, and **add exposure during the next downturn**, once CapEx retrenches and valuations compress.
2. Recommended only if:
    a. The current team (or future analysts) has strong conviction and understand AMAT's long-term role in enabling secular tech trends (AI, EVs, HPC, etc.).

    b. Forward looking industry CapEx expectations remain structurally strong, and leading indicators suggest a rebound ahead.
3. This is the idea of compounding: lean into volatility and capture the full upside of the next cycle.

Reinvest (for example) if:

- FCF/share growth expected to re-accelerate
- Global CapEx stabilizes or rebounds
- Valuation compresses to <18x Forward P/E or P/FCF
- Long-term tech tailwinds (AI, HPC, EV) remain intact

Other things to consider

- Actively monitoring Industry capital expenditures. (If following strategy 1, this could provide indication to exit before peak spending is priced in
- DCF was modeled using FCF/share. Valuation using EPS provides a different range of valuations.
- We are optimistic of the likelihood that AMAT rerates itself to a higher P/E and P/FCF multiple in the future. (5-year vs 10-year value bands already show this trend). This would place future pricing along the lines of companies such as Nvidia and ASML who have rerated themselves to higher multiples.
    - Think of AMAT as a foundational supplier, like ASML. Not “just a tool maker,” but a critical enabler of digital infrastructure.
    - When investors begin to re-rate a company from “cyclical industrial” → “platform enabler,” it commands higher multiples.
    - AMAT may not be NVDA or ASML, but it’s the closest U.S. proxy for full-stack semi cap exposure. That justifies 23x–25x P/E in a bull case, especially with their considerable buybacks and consistent margins >28%.

Reference Applied Materials Presentations on Bulldog Investment Company website for additional information and insights