



# Lam Research Corporation

December Quarter 2018 Financial Results

January 23, 2019



# Cautionary Statement Regarding Forward-Looking Statements

This presentation and the accompanying discussion contain “forward-looking statements” under U.S. securities laws. Forward-looking statements include any statements that are not statements of historical fact. Examples of forward-looking statements include, but are not limited to: (1) anticipated business, balance sheet, cash flow and financial measures and results, including guidance, whether on a GAAP or non-GAAP basis; (2) economic, market, industry and industry segment expectations; and (3) our ability to successfully execute business, capital allocation, product and growth plans or strategies, or otherwise deliver value for customers and stockholders. Forward-looking statements speak only as of the date they are made and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed, including the factors discussed in our filings with the Securities and Exchange Commission (“SEC”). You should not place undue reliance on forward-looking statements. Lam undertakes no obligation to update any forward-looking statements.

# Business Review and Industry Outlook

Tim Archer

President and Chief Executive Officer

## 2018 Strongest Financial Year in Company History



**\$10,871M in Revenue - 14% increase  
from 2017**



**EPS growth of 27% from 2017\***



**Operating Cash Flow growth over  
50% from 2017**

# Industry Overview



Calendar 2018 WFE ended largely as expected at ~ \$50B



Memory-led decline in industry spending entering 2019



Expect WFE down from 2018 in the mid to high teens range

Lam is well-positioned to deliver attractive long-term growth and opportunity

# Lam's Growth Strategy



**Expanding Size of Served Available Markets**



**Gaining Market Share**



**Increasing the Recurring Revenue Stream from Installed Base**

# Etch and Deposition - Central to Customers' Technology Roadmaps

## Etch



- Built on leadership position in memory for critical applications with penetrations for high aspect ratio etch
- Non-memory high aspect ratio win for metal interconnect and spacer applications

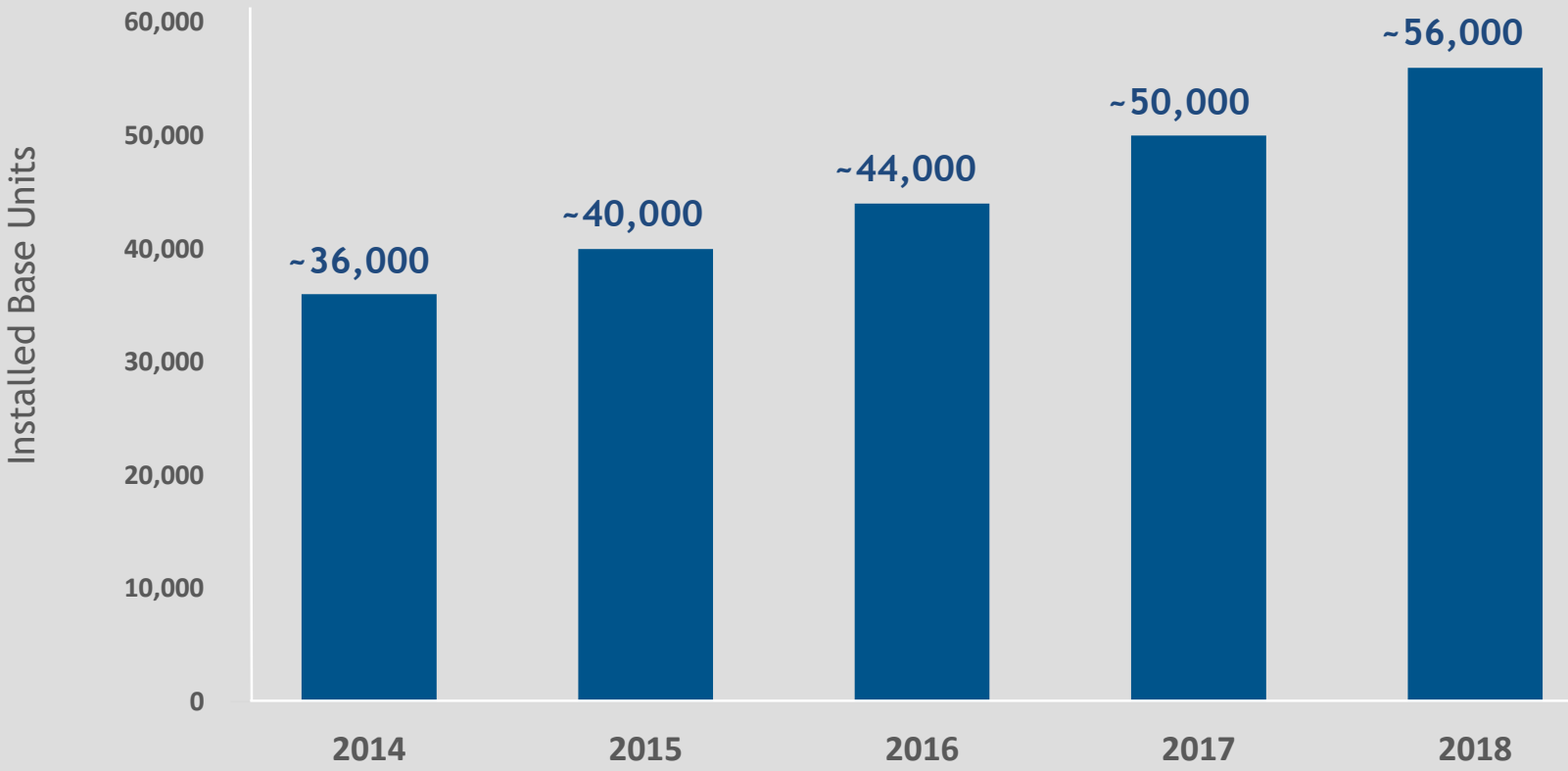
## Deposition



- Film quality, repeatability, and productivity are fundamental elements of differentiation for Lam
- Gained momentum in DRAM and NAND with ALD application wins

**A strong pipeline of differentiated products, targeting our customers' most difficult technology and productivity challenges**

# CSBG: Installed-Base Units 5-Year Growth



Building a strong recurring revenue stream for Lam



# Summary

2019 business environment is challenging; our long-term opportunity remains compelling

Lam is committed to delivering on its growth strategy while responding to near-term trends with strong focus on operating efficiency

Lam is fundamentally well-positioned in the right segments of the market

New \$5B share repurchase authorization affirms our commitment to capital returns and our confidence in Lam's long-term opportunities

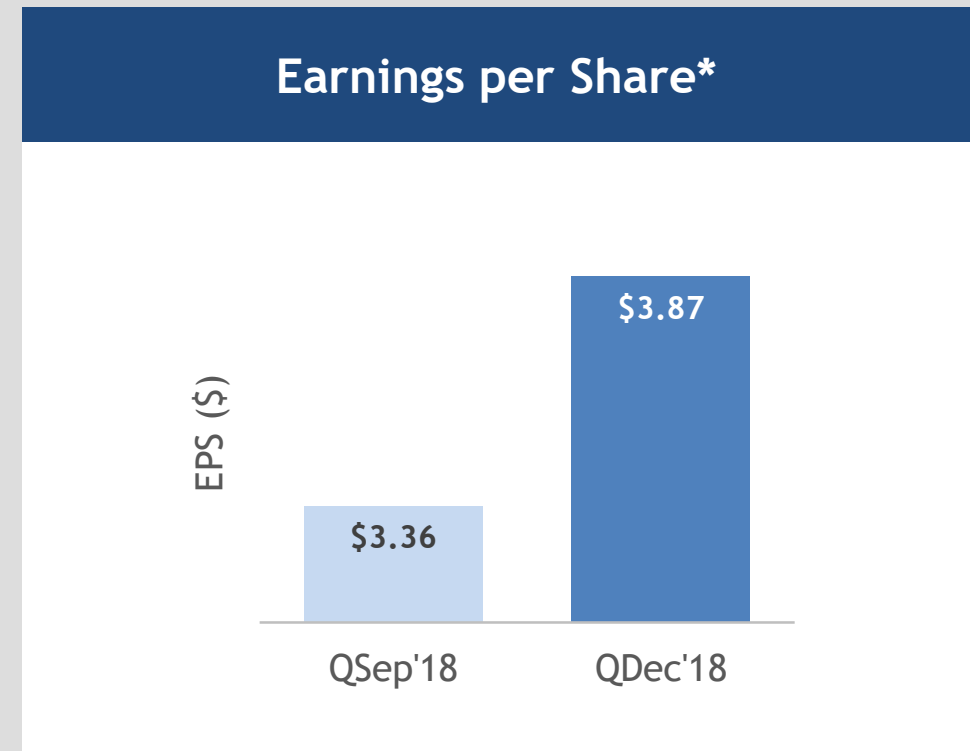
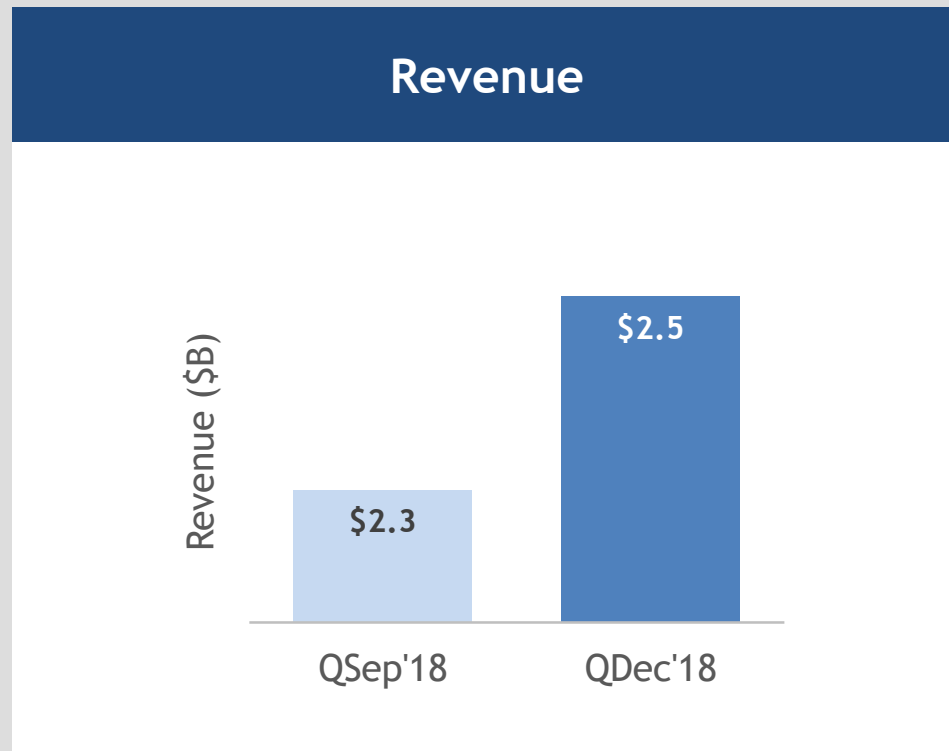
# December Quarter 2018 Financial Results and March Quarter 2019 Outlook

**Doug Bettinger**

Executive Vice President and Chief Financial Officer

# December Quarter Results

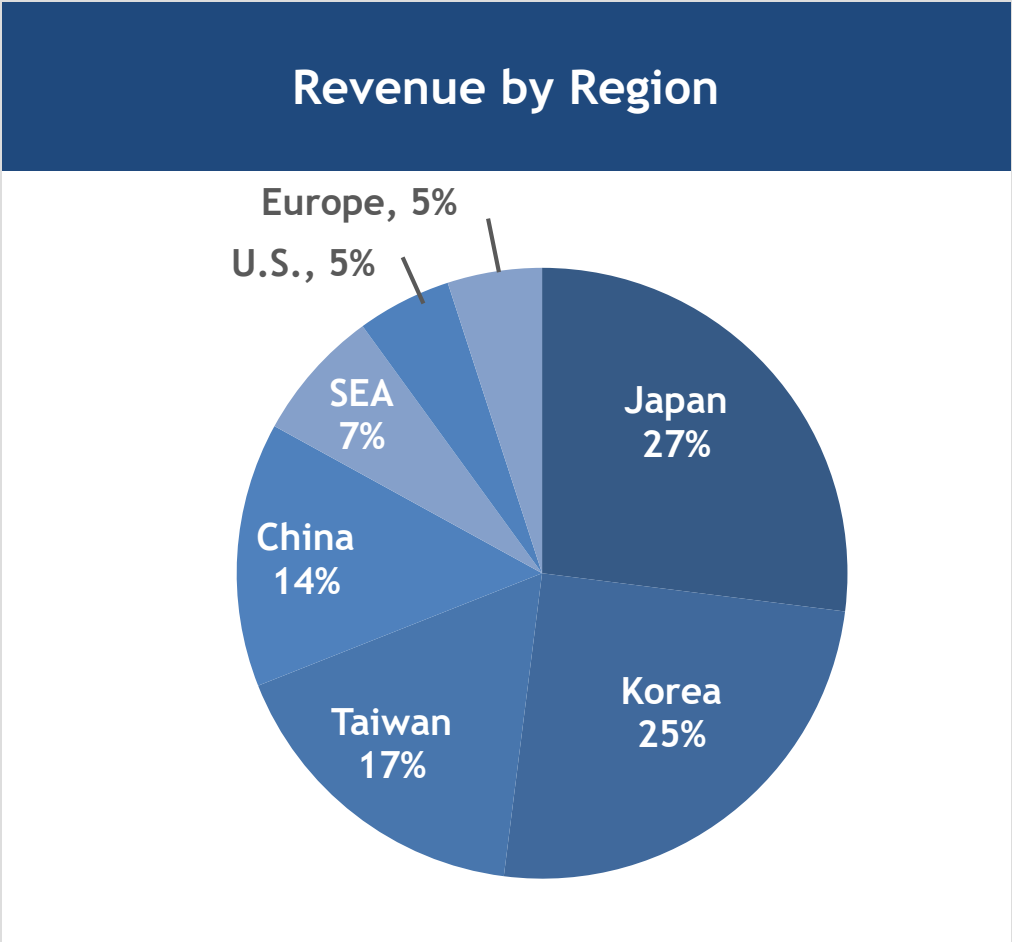
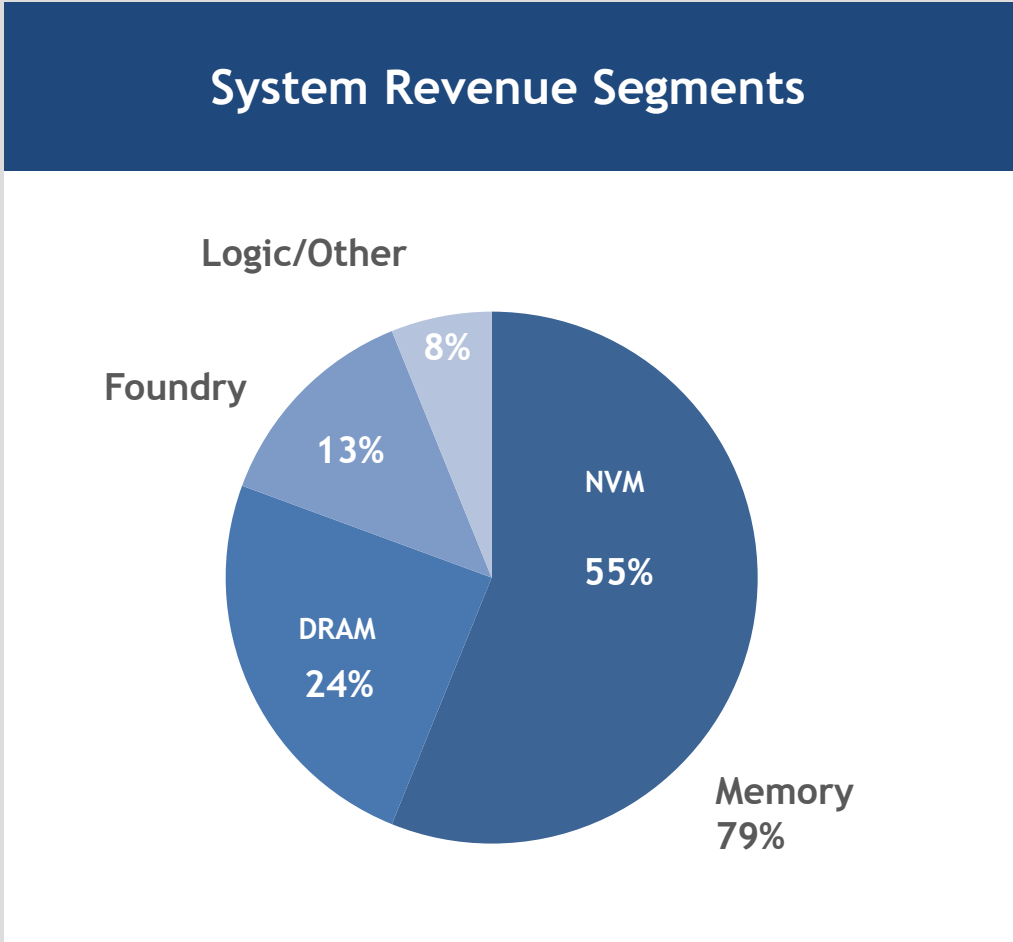
- ▶ Non-GAAP Operating margin and EPS exceeded guidance range
- ▶ Spending discipline during a decline in industry capital equipment investments



\*Data are presented on a non-GAAP basis. Reconciliations of U.S. GAAP results to non-GAAP results can be found at the end of this presentation.

# December Quarter Revenue Mix

► Combined memory segment is 79% of total systems revenue



# December Quarter Financial Results

	Dec'18	Sep'18
Revenue	\$2,523M	\$2,331M
Non-GAAP Gross Margin*	46.3%	46.4%
Non-GAAP Operating Expenses*	\$440M	\$451M
Non-GAAP Operating Income*	\$728M	\$630M
Non-GAAP Operating Income as a percentage of Revenue*	28.8%	27.0%
Non-GAAP Other Income/(Expense)*	(\$30M)	\$0.5M
Non-GAAP Tax Rate*	10.0%	11.9%
GAAP Diluted EPS	\$3.51	\$3.23
Non-GAAP Diluted EPS*	\$3.87	\$3.36
Diluted Share Count	162M	165M

\*A reconciliation of U.S. GAAP results to non-GAAP results can be found at the end of this presentation.

# Key Balance Sheet and Financial Metrics

	Dec'18	Sep'18
Total Consolidated Gross Cash Balance	\$3,891M	\$3,875M
Account Receivables, Net	\$1,869M	\$1,847M
DSO	67 Days	72 Days
Inventory Turns	3.2	2.7
Deferred Revenue*	\$493M	\$626M
Capital Expenditures	\$106M	\$56M
Equity Compensation Expense	\$39M	\$50M
Amortization Expense	\$36M	\$36M
Depreciation Expense	\$46M	\$44M
Headcount	~10,950	~11,000

\*Does not include anticipated revenue from previous shipments to customers in Japan totaling \$262 million in Dec'18 and \$454 million in Sep'18.

# March 2019 Quarter Guidance



**\$2,400M ± \$150M**

Revenue



**25.0% ± 1%**

Non-GAAP  
Operating Income as a percentage  
of revenue



**44.5% ± 1%**

Non-GAAP  
Gross Margin



**\$3.40 ± \$0.20**

Non-GAAP  
Earnings per Share\*

A reconciliation of U.S. GAAP projected results to non-GAAP projected results can be found at the end of this presentation

\* Based on a diluted share count of approximately 159M shares

# Questions and Answers



# Appendix - Reconciliation

## Reconciliation of U.S. GAAP Net Income to Non-GAAP Net Income (in thousands, except per share data) (unaudited)

	Three Months Ended				Twelve Months Ended
	December 23, 2018	September 23, 2018	June 24, 2018	March 25, 2018	December 23, 2018
U.S. GAAP net income	\$ 568,855	\$ 533,360	\$ 1,021,146	\$ 778,800	\$ 2,902,161
Pre-tax non-GAAP items:					
Amortization related to intangible assets acquired through certain business combinations - cost of goods sold	22,342	22,342	22,342	22,342	89,368
Amortization related to intangible assets acquired through certain business combinations - selling, general and administrative	12,490	12,490	16,069	17,074	58,123
Restructuring charges - selling, general and administrative	2,356	3,417	—	—	5,773
Business combination acquisition and integration related costs - selling, general and administrative	—	—	728	107	835
Amortization of note discounts - other expense, net	886	900	1,851	2,860	6,497
Realized loss on sale or impairment of investments - other expense, net	—	—	—	46,641	46,641
Net income tax benefit on non-GAAP items	(5,704)	(5,838)	(4,686)	(11,518)	(27,746)
Income tax benefit on the conclusion of certain tax matters	(1,635)	—	(9,656)	(4,511)	(15,802)
Income tax expense (benefit) associated with U.S. tax reform	28,606	(11,211)	(115,838)		(98,443)
Non-GAAP net income	\$ 628,196	\$ 555,460	\$ 931,956	\$ 851,795	\$ 2,967,407
Non-GAAP net income per diluted share	\$ 3.87	\$ 3.36	\$ 5.31	\$ 4.79	\$ 17.44
GAAP net income per diluted share	\$ 3.51	\$ 3.23	\$ 5.82	\$ 4.33	\$ 17.00
U.S. GAAP number of shares used for per diluted share calculation	162,170	165,327	175,432	179,779	170,677
Effect of convertible note hedge	—	—	—	(1,993)	(498)
Non-GAAP number of shares used for per diluted share calculation	162,170	165,327	175,432	177,786	170,179

# Appendix - Reconciliation

**Reconciliation of U.S. GAAP Gross Margin, Operating Expenses and Operating Income to Non-GAAP  
Gross Margin, Operating Expenses and Operating Income  
(in thousands, except percentages)  
(unaudited)**

	<b>Three Months Ended</b>	
	<b>December 23, 2018</b>	<b>September 23, 2018</b>
U.S. GAAP gross margin	\$ 1,145,033	\$ 1,058,198
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired through certain business combinations	22,342	22,342
Non-GAAP gross margin	\$ 1,167,375	\$ 1,080,540
U.S. GAAP gross margin as a percentage of revenue	45.4%	45.4%
Non-GAAP gross margin as a percentage of revenue	46.3%	46.4%
U.S. GAAP operating expenses	\$ 454,654	\$ 466,447
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired through certain business combinations	(12,490)	(12,490)
Restructuring charges	(2,356)	(3,417)
Non-GAAP operating expenses	\$ 439,808	\$ 450,540
U.S. GAAP operating income	\$ 690,379	\$ 591,751
Non-GAAP operating income	\$ 727,567	\$ 630,000
U.S. GAAP operating income as percent of revenue	27.4%	25.4%
Non-GAAP operating income as a percent of revenue	28.8%	27.0%

# Appendix - Reconciliation

**Reconciliation of U.S. GAAP Other Expense, Net to Non-GAAP Other Income (Expense), Net**  
**(in thousands)**  
**(unaudited)**

	<b>Three Months Ended</b>	
	<b>December 23, 2018</b>	<b>September 23, 2018</b>
U.S. GAAP Other expense, net	\$ (30,649)	\$ (377)
Pre-tax non-GAAP items:		
Amortization of note discounts	886	900
Non-GAAP Other (expense) income, net	\$ (29,763)	\$ 523

# Appendix - Reconciliation

## Reconciliation of U.S. GAAP Income Tax Rate to Non-GAAP Income Tax Rate (in thousands, except percentages) (unaudited)

	Three Months Ended	
	December 23, 2018	September 23, 2018
U.S. GAAP income before income taxes	\$ 659,730	\$ 591,374
U.S. GAAP income tax expense	\$ 90,875	\$ 58,014
U.S. GAAP income tax rate	13.8%	9.8%
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired through certain business combinations - cost of goods sold	\$ 22,342	\$ 22,342
Amortization related to intangible assets acquired through certain business combinations - selling, general and administrative	12,490	12,490
Restructuring charges - selling, general and administrative	2,356	3,417
Amortization of note discounts - other expense, net	886	900
Non-GAAP income before taxes	\$ 697,804	\$ 630,523
Net income tax benefit on non-GAAP items	\$ 5,704	\$ 5,838
Income tax benefit on conclusion of certain tax matters	1,635	—
Income tax (expense) benefit associated with U.S. tax reform	(28,606)	11,211
Non-GAAP income tax expense	\$ 69,608	\$ 75,063
Non-GAAP income tax rate	10.0%	11.9%

# Appendix - Reconciliation

## Reconciliation of U.S. GAAP to Non-GAAP Guidance for the March 2019 quarter

	U.S. GAAP			Reconciling Items	Non-GAAP		
	\$2.4 Billion	+/-	\$150 Million		\$2.4 Billion	+/-	\$150 Million
Revenue				—			
Gross margin as a percentage of revenue	43.6%	+/-	1%	\$ 22 Million	44.5%	+/-	1%
Operating income as a percentage of revenue	23.6%	+/-	1%	\$ 34 Million	25.0%	+/-	1%
Net income per diluted share	\$3.21	+/-	\$0.20	\$ 30 Million	\$3.40	+/-	\$0.20
Diluted share count	159 Million			—	159 Million		

The information provided above is only an estimate of what the Company believes is realizable as of the date of this release, and does not incorporate the potential impact of any business combinations, asset acquisitions, divestitures, restructuring, balance sheet valuation adjustments, financing arrangements, other investments, or other significant transactions that may be completed after the date of this release. U.S. GAAP to non-GAAP reconciling items provided include only those items that are known and can be estimated as of the date of this release. Actual results will vary from this model and the variations may be material. Reconciling items included above are as follows:

- Gross margin as a percentage of revenue - amortization related to intangible assets acquired through business combinations, \$22 million.
- Operating income as a percentage of revenue - amortization related to intangible assets acquired through business combinations, \$34 million.
- Earnings per share - amortization related to intangible assets acquired through business combinations, \$34 million; amortization of note discounts, \$1 million; and associated tax benefit for non-GAAP items (\$5 million); totaling \$30 million.

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