



Lam Research Corporation

June Quarter 2014 Financial Results

July 30, 2014



Cautions Regarding Forward-Looking Statements

Statements made in this presentation that are not statements of historical fact are forward-looking statements and are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate, but are not limited, to the components and projections of our financial models; our prospects and strategies for continued traction with key technology solutions such as 3D NAND, multi-patterning, advanced packaging, FinFet and single-wafer clean; the elements of our 2014 Industry Outlook, including the drivers and expected spending (both in terms of quantity and timing) related to wafer fab equipment, memory (both Planar and 3D NAND and DRAM), logic and foundry accounts and inflection technology opportunities; our expected momentum at the inflections, the underlying measures (such as forecasted investments, product portfolio market share, customer collaborations, rate of innovation and product portfolio positioning), the anticipated points of inflection and our strategies to meet those expectations; our performance position for 2014, including forecasted equipment selection decisions, revenue growth and cash from operations, our strategies, vision and capabilities for achieving such performance and the underlying assumptions relating to opportunities from leveraging technology inflections, exposure to industry segments and execution of our market share growth plans; the anticipated revenue from our sales to Japanese customers; trends in the global economic environment and the semiconductor industry; factors that affect our tax rates; and forecasts for tax rates, shipments, revenues, gross margins, operating margins, share count and earnings per share on either a GAAP or a non-GAAP basis. Some important factors that may affect these forward-looking statements include but are not limited to: business conditions in the semiconductor industry and the overall economy; global political and economic conditions; electronics consumption; the financial performance and expectations of our existing and prospective customers; the introduction of new technologies; the occurrence and pace of technology transitions and conversions; actions of competitors, consumers, semiconductor companies and key suppliers and subcontractors; unanticipated challenges to our integration efforts; and the success of our R&D and sales and marketing programs. These forward-looking statements are based on current expectations and are subject to uncertainties and changes in condition, significance, value and effect, as well as other risks detailed in the oral presentation accompanying these slides, and documents filed with the Securities and Exchange Commission, including the report on Form 10-Q for the quarter ended March 30th, 2014. These important factors could cause actual results to differ materially from expectations. As a result, you should not place undue weight on such forward-looking statements. The Company undertakes no obligation to update the statements made in this presentation.

Business Review and Industry Outlook

Martin Anstice

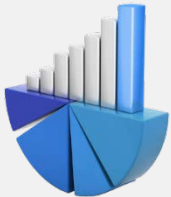
President & Chief Executive Officer

Another Quarter of Strong Execution



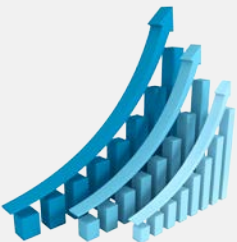
Strong Financial Results

- ▶ Above mid-point of guided ranges across all metrics for the June quarter
- ▶ Record revenues in each successive quarter through FY'14



Profitable Growth

- ▶ Operating income growth outpaced revenue growth by 2X for the June quarter and the 2014 fiscal year



Modeled Performance

- ▶ Continued trend of outperformance
- ▶ Results reinforce confidence in updated financial model

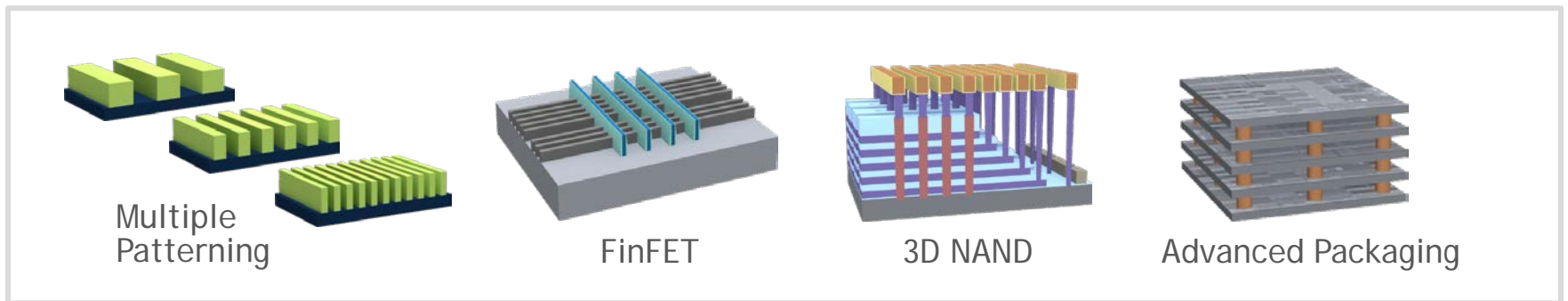
Industry Outlook

- ▶ Maintaining 2014 WFE spend forecast of \$32B ± \$1B
- ▶ Second-half balance with first-half view holds
 - NAND
 - Investment focused on 16 nm and below planar conversions and initial 3D NAND capacity
 - Planar investments continue to be the majority of 2014 spend
 - DRAM
 - Investment focused on enabling transition to mid 2x and below
 - Foundry, Logic
 - Ramp plans for 20 nm foundry and 14 nm logic progressing as expected
 - Second half investment focus weighted to early FinFET purchases
- ▶ Anticipate ~25% of 2014 WFE investments related to technology inflections

Lam positioned to materially outperform 2014 WFE growth

Momentum at the Inflections

- ▶ Investment at the inflections will approach one third of total WFE in 2015
- ▶ Tracking to market share >50% at the inflections across the product portfolio
- ▶ Momentum driven by investing in long-term growth with strong focus on collaborations
- ▶ We are executing to meet our customers' most critical challenges
 - Innovating at a high rate, with 17 new product configurations shipped in last 12 months
 - Lam's product portfolio uniquely positioned to address customers' needs for scaling solutions in such areas as multi-patterning, FinFET, 3D NAND, and advanced packaging



Achieving Outperformance in 2014 and Beyond

▶ Second-half 2014 highlights:

- Focusing on the significant number of equipment selection decisions outstanding
- Targeting 20% - 25% year-over-year revenue growth
- Potential to deliver ~\$1B in cash from operations for the calendar year

▶ Vision to grow meaningfully through multi-year inflection period

- Committed to successfully scaling our company
- Well positioned to capitalize on \$2B SAM expansion opportunity

▶ Executing to our long-term market share growth plans

- Deposition: 4% - 8%
- Etch: 3% - 5%
- Clean: 5% - 10%

Creating sustainable value for customers and shareholders



June Quarter 2014 Financial Results and September Quarter 2014 Outlook

Doug Bettinger
Executive Vice President & Chief Financial Officer

June Quarter Results Bring a Strong Finish to FY'14

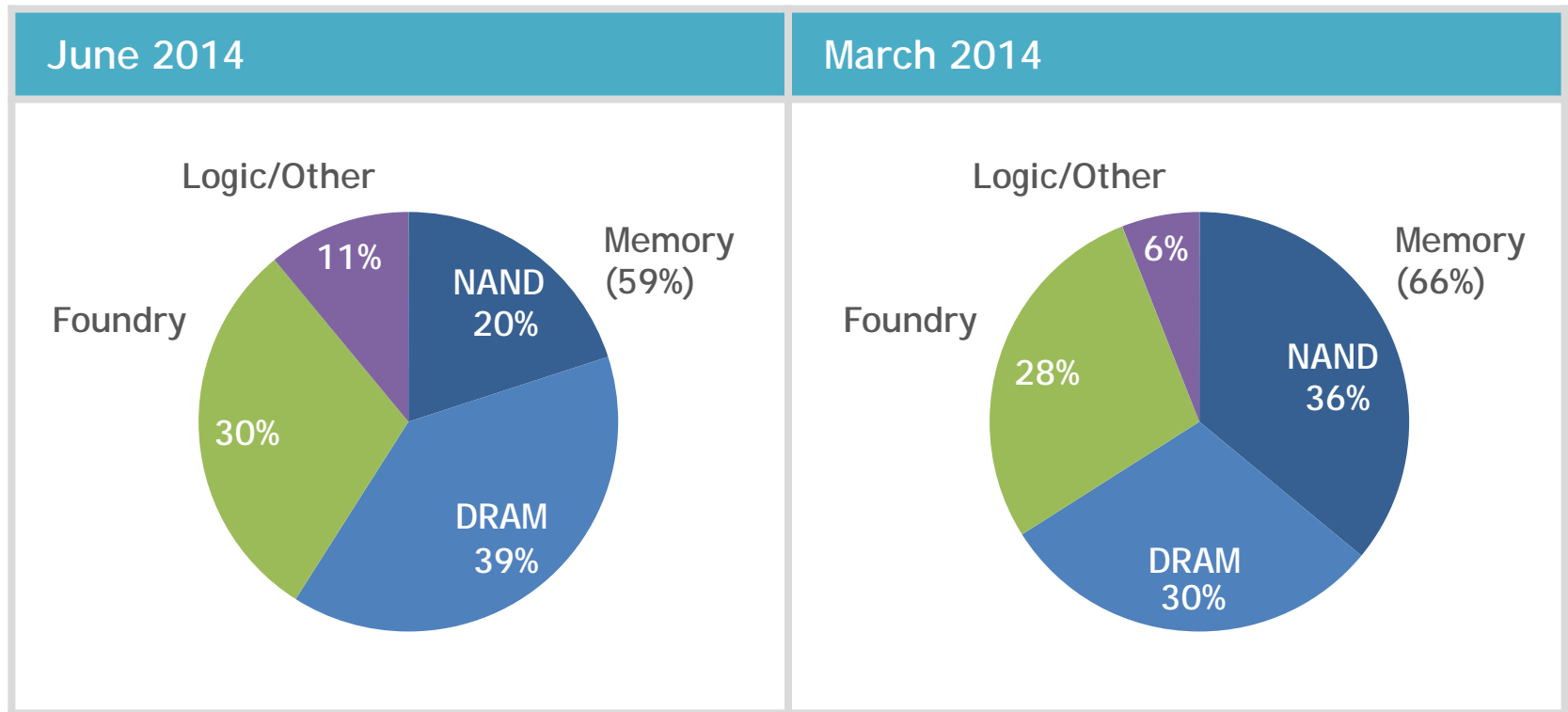
- ▶ **Record levels of revenues and operating income in FY'14**
 - Four consecutive quarters of record revenue through the fiscal year
 - Operating income more than doubled year-over-year
- ▶ **June quarter performance**
 - Operating income grew at approximately 2X revenue
 - Results topped the midpoint of our guided ranges across all metrics
- ▶ **Announced a \$1B capital return program**
 - Initiated a quarterly dividend and an \$850M share buyback program
- ▶ **We continue to execute on our plans to outperform the industry around key technology inflections and deliver on our financial commitments**

Meeting our commitments, delivering value

June Quarter Shipments

▶ Shipments of \$1.160 billion

▶ System shipments segment mix:



June Quarter Financial Results

	Jun'14	Mar'14
Revenue	\$1,249M	\$1,227M
Non-GAAP Gross Margin*	46.4 %	45.5 %
Non-GAAP Operating Expenses*	\$322M	\$311M
Non-GAAP Operating Income*	\$258M	\$248M
Non-GAAP Operating Margin*	20.6%	20.2%
Non-GAAP Other Income/(Expense)*	(\$1.2M)	(\$1.4M)
Non-GAAP Tax Rate*	15%	12%
GAAP EPS	\$1.35	\$0.96
Non-GAAP EPS*	\$1.25	\$1.26
Diluted Share Count	173M	172M

*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

	Jun'14	Mar'14
Total Consolidated Gross Cash Balance	\$3,212M	\$2,898M
Account Receivables, Net	\$801M	\$818M
DSO	58 Days	61 Days
Inventory Turns	3.7	3.9
Deferred Revenue*	\$362M	\$432M
Capital Expenditures	\$42M	\$42M
Equity Compensation Expense	\$33M	\$24M
Amortization Expense	\$40M	\$40M
Depreciation Expense	\$31M	\$33M
Headcount	~6,700	~6,600

*Does not include anticipated revenues from previous shipments to Japanese customers.
A reconciliation of deferred revenue can be found at the end of this presentation.

September 2014 Quarter Non-GAAP Guidance

	Sep'14 Guidance
Shipments	\$1.110 billion \pm \$50 million
Revenue	\$1.150 billion \pm \$50 million
Non-GAAP Gross Margin	45.5% \pm 1%
Non-GAAP Operating Margin	17.5% \pm 1%
Non-GAAP Earnings per Share ⁽¹⁾	\$0.92 \pm \$0.07

(1) Based on a share count of ~177 million shares

Questions & Answers

INNOVATIVE **TECHNOLOGY**
TRUSTED **PRODUCTIVITY**
FAST **SOLUTIONS**



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)

	<u>Three Months Ended</u> <u>June 29,</u> <u>2014</u>	<u>Three Months Ended</u> <u>March 30,</u> <u>2014</u>
U.S. GAAP gross margin	\$ 557,036	\$ 530,798
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	21,685	21,670
Costs associated with rationalization of certain product configurations - cost of goods sold	-	4,855
Acquisition-related inventory fair value impact - cost of goods sold	1,167	-
Synthetic lease impairment - cost of goods sold	-	1,558
Non-GAAP gross margin	<u>\$ 579,888</u>	<u>\$ 558,881</u>
U.S. GAAP gross margin as a percentage of revenue	44.6%	43.2%
Non-GAAP gross margin as a percentage of revenue	46.4%	45.5%
U.S. GAAP operating expenses	\$ 341,186	\$ 338,861
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - operating expenses	(16,547)	(16,537)
Restructuring charges - operating expenses	(295)	-
Costs associated with rationalization of certain product configurations - operating expenses	(1,086)	(1,922)
Cost associated with disposition of business - operating expense	(1,103)	-
Impairment of long lived asset - operating expense	-	(4,000)
Synthetic lease impairment - operating expense	-	(5,356)
Non-GAAP operating expenses	<u>\$ 322,155</u>	<u>\$ 311,046</u>
Non-GAAP operating income	<u>\$ 257,733</u>	<u>\$ 247,835</u>
Non-GAAP operating margin as a percent of revenue	20.6%	20.2%

Appendix - Reconciliation

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

	<u>Three Months Ended</u> <u>June 29,</u> <u>2014</u>	<u>Three Months Ended</u> <u>March 30,</u> <u>2014</u>
U.S. GAAP net income	\$ 233,395	\$ 164,396
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	21,685	21,670
Costs associated with rationalization of certain product configurations - cost of goods sold	-	4,855
Acquisition-related inventory fair value impact - cost of goods sold	1,167	-
Synthetic lease impairment - cost of goods sold	-	1,558
Amortization related to intangible assets acquired in Novellus transaction - operating expenses	16,547	16,537
Restructuring charges - operating expenses	295	-
Costs associated with rationalization of certain product configurations - operating expenses	1,086	1,922
Cost associated with disposition of business - operating expense	1,103	-
Impairment of long lived asset - operating expense	-	4,000
Synthetic lease impairment - operating expense	-	5,356
Amortization of convertible note discount, Lam notes - other expense, net	7,504	7,416
Amortization of convertible note discount, Novellus assumed notes - other expense, net	763	999
Gain on sale of real estate	(83,090)	-
Net tax expense (benefit) on non-GAAP items	17,075	(12,325)
Net income tax benefit on successful resolution of certain tax matters	(302)	-
Non-GAAP net income	<u>\$ 217,228</u>	<u>\$ 216,384</u>
Non-GAAP net income per diluted share	<u>\$ 1.25</u>	<u>\$ 1.26</u>
Number of shares used for diluted per share calculation	173,345	171,636

Appendix - Reconciliation

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

	Three Months Ended	
	June 29, 2014	March 30, 2014
U.S. GAAP other expense, net	\$ (9,442)	\$ (9,855)
Pre-tax non-GAAP items:		
Amortization of convertible note discount, Lam notes	7,504	7,416
Amortization of convertible note discount, Novellus assumed notes	763	999
Non-GAAP other expense, net	<u>\$ (1,175)</u>	<u>\$ (1,440)</u>

Appendix - Reconciliation

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

	Three Months Ended	
	June 29, 2014	March 30, 2014
U.S. GAAP income (loss) before income taxes	\$ 289,498	\$ 182,082
U.S. GAAP income tax expense (benefit)	\$ 56,103	\$ 17,686
U.S. GAAP income tax rate	19.4%	9.7%
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	\$ 21,685	\$ 21,670
Acquisition-related inventory fair value impact - cost of goods sold	1,167	\$ -
Costs associated with rationalization of certain product configurations - cost of goods sold	-	4,855
Synthetic lease impairment - cost of goods sold	-	1,558
Amortization related to intangible assets acquired in Novellus transaction - operating expenses	16,547	16,537
Costs associated with rationalization of certain product configurations - operating expenses	1,086	1,922
Cost associated with disposition of business - operating expense	1,103	-
Restructuring charges - operating expenses	295	-
Impairment of long lived asset - operating expenses	-	4,000
Synthetic lease impairment - operating expenses	-	5,356
Amortization of convertible note discount, Lam notes - other expense, net	7,504	7,416
Amortization of convertible note discount, Novellus assumed notes - other expense, net	763	999
Gain on sale of real estate	(83,090)	-
Non-GAAP income before taxes	256,558	246,395
Net tax benefit on non-GAAP items	\$ (17,075)	\$ 12,325
Net tax benefit on successful resolution of certain tax matters	\$ 302	-
Non-GAAP income tax expense (benefit)	\$ 39,330	\$ 30,011
Non-GAAP income tax rate	15.3%	12.2%

Appendix - Reconciliation

LAMRESEARCH CORPORATION RECONCILIATION OF DEFERRED REVENUE

(in millions)
(unaudited)

	Three Months Ended <u>Jun 29</u> 2014	Three Months Ended <u>Mar 30</u> 2014
Beginning Balance	431.5	405.0
Shipments	1,160.3	1,263.8
Revenue	(1,248.8)	(1,227.4)
Net Change in Japan (1)	22.7	(3.2)
Services & Other	<u>(4.1)</u>	<u>(6.7)</u>
Ending Balance	<u><u>361.6</u></u>	<u><u>431.5</u></u>
Value of shipments to Japanese customers not recorded as deferred revenue (2)	\$ 34.0	\$ 56.7

- (1) Net change in the value of orders shipped from backlog to Japanese customers that are not recorded as deferred revenue. These shipments are classified as inventory at cost until title transfers.
- (2) The value of orders shipped from backlog to Japanese customers that are not recorded as deferred revenue. These shipments are classified as inventory at cost until title transfers.

Appendix - Reconciliation

Reconciliation of U.S. GAAP to Non-GAAP Guidance for the September 2014 Quarter (unaudited)

	GAAP		Reconciling Items	Non-GAAP	
Shipments	\$1.11 Billion	+/- \$50 Million	-	\$1.11 Billion	+/- \$50 Million
Revenue	\$1.15 Billion	+/- \$50 Million	-	\$1.15 Billion	+/- \$50 Million
Gross margin	43.7%	+/- 1%	\$21 Million	45.5%	+/- 1%
Operating margin	14.3%	+/- 1%	\$37 Million	17.5%	+/- 1%
Earnings per share	\$0.71	+/- \$0.07	\$38 Million	\$0.92	+/- \$0.07
Diluted share count	177 Million			177 Million	

The information provided above is only an estimate of what the Company believes is realizable as of the date of this release. 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 - amortization related to intangible assets acquired in the Novellus transaction, \$21 million.
- Operating margin - amortization related to intangible assets acquired in the Novellus transaction, \$37 million.
- Earnings per share - amortization related to intangible assets acquired in the Novellus transaction, \$37 million; the amortization of convertible note discounts, \$8 million; and the associated tax benefit for non-GAAP items (\$7) million, totaling \$38 million.

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