



# Lam Research Corporation

June Quarter 2016 Financial Results

July 27, 2016



# Cautionary Statement Regarding Forward-Looking Statements

This presentation and accompanying discussion contain “forward-looking statements” as defined under U.S. securities laws. Forward-looking statements are statements other than statements of historical fact. Examples of forward-looking statements include, but are not limited to, statements about: (1) forecasted shipments, revenue, deferred revenue, expenses, gross margin, operating margin, profits, earnings per share, share count, synergies, cash flow, market share, tax rate, the components of our financial models and other metrics, whether actual or pro forma; (2) economic and market conditions; (3) our ability to successfully execute our product plans or growth strategy or deliver value for customers and stockholders; (4) the anticipated benefits of the proposed KLA-Tencor Corporation (“KT”) merger; (5) the expected capabilities and served markets of the individual and/or combined companies; (6) integration activities; (7) the organizational structure of the company after the merger is completed; (8) the financing of the merger; (9) our outlook for the industry, including the memory and logic segment spending expectations and development plans; and (10) the companies’ ability to achieve the closing conditions and the expected transaction closing date. 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 worldwide economic conditions, the acts of regulators and tax authorities, discretionary decisions of our competitors, the success of our research and development efforts, and new product developments, by us or our competitors as well as other factors discussed in Lam’s and KT’s filings with the Securities and Exchange Commission (“SEC”), such as the amended Registration Statement on Form S-4 filed with the SEC on January 12, 2016, Lam’s Annual Report for the fiscal year ended June 28, 2015, Lam’s Quarterly Report for the fiscal quarter ended March 27, 2016, KT’s Annual Report for the fiscal year ended June 30, 2015, and KT’s Quarterly Report for the fiscal quarter ended March 31, 2016. You should not place undue reliance on forward-looking statements. Lam undertakes no obligation to publicly revise or update any forward-looking statements.

# Business Review and Industry Outlook

Martin Anstice

President & Chief Executive Officer

# June Quarter Headlines and Outlook

## Results reinforce increasingly strong presence in the industry

- ▶ Technology inflections continue to intensify around etch and deposition processes
- ▶ Higher share in complex, critical applications raises quality of earnings
- ▶ Expectations for performance in 2H'16 strengthen
- ▶ Multi-year outperformance is set to continue



# Inflections Enabling New Industry Growth Drivers

## Partnering to deliver innovative products & services at scale

- ▶ Focused on the success of our customers in achieving their business objectives
- ▶ Acceleration of industry application drivers such as virtual reality, artificial intelligence, connected automobiles
- ▶ Requires scaling of performance, power, cost, storage, and networking capability beyond what is currently possible
- ▶ Demands a holistic approach to system architecture through the entire semi ecosystem

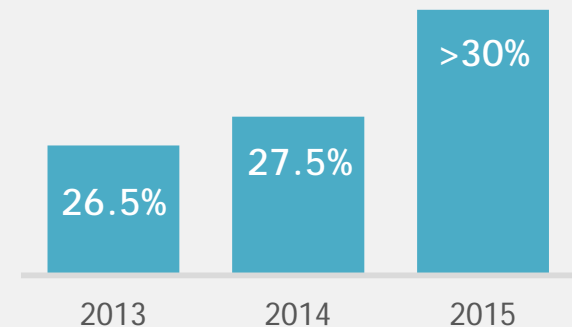


# Lam in Extraordinary Position

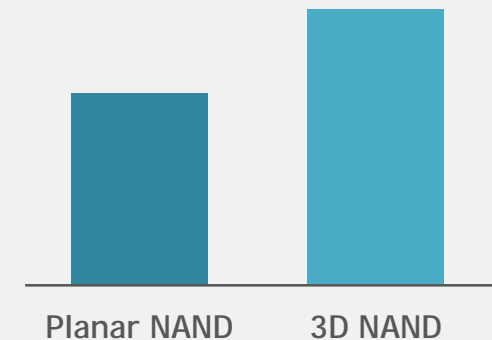
## Positioned to drive innovation & capitalize on opportunities

- ▶ Enabling roadmaps supporting performance and cost objectives of our customers
- ▶ Strategic relevance demonstrated by expansion of Lam's SAM opportunity to >30% of WFE in CY'15
- ▶ On track for 7-10 points of share gain in the 2D to 3D NAND transition
  - Flex™ dielectric etch HARC installed base doubled over the last year
  - VECTOR® Strata™ PECVD PTOR at a majority of 3D NAND customers
  - ALTUS® tungsten ALD system in qualification by multiple customers
- ▶ Productivity and life cycle solutions for ~40k module installed base creates SAM growth and increases revenue stream

*Lam SAM as % of WFE*



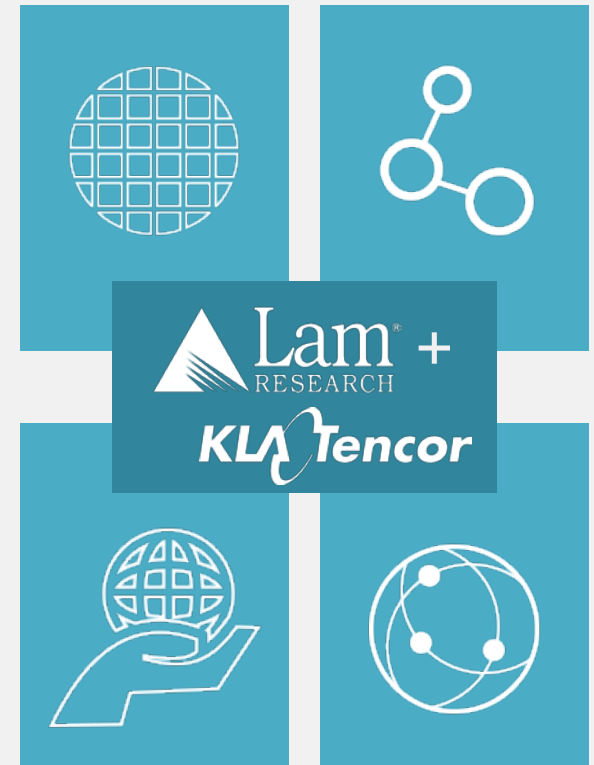
*7%-10% More Share in 3D NAND*



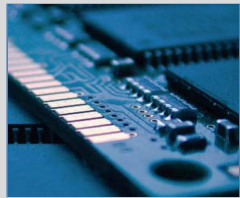
# Business Combination with KLA-Tencor

## Value creation for our stakeholders

- ▶ Excitement and substance building, both internally and with our customers
- ▶ Targeting closure in the coming few months pending regulatory approvals
- ▶ Committed to innovate to the benefit of the overall semi ecosystem
- ▶ Enhance standalone performance of two great companies

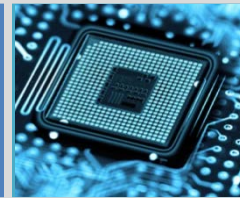


# 2016 Industry Outlook



## Memory

- Expect memory WFE of ~\$15B
- 3D NAND shipped capacity at the higher end of ~350k-400k WSPM range in CY'16
- 50% of DRAM capacity 20 nm capable by the end of CY'16



## Foundry & Logic

- Spend tracking better than prior expectations
- Investments focused on 10 nm additions and 7 nm pilot capacity
- 28 nm and 40 nm capacity investments continue

Forecast 2016 WFE spend in a range of \$33B ± \$1B





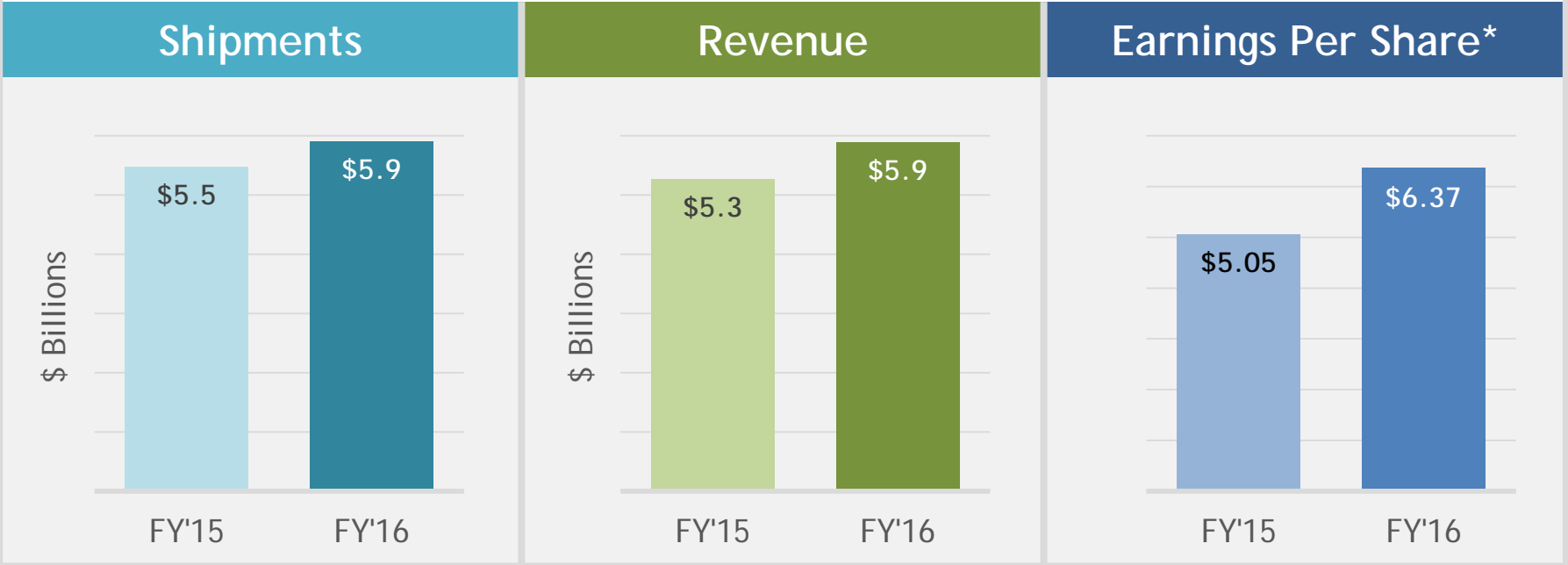
# June Quarter 2016 Financial Results and September Quarter 2016 Outlook

Doug Bettinger  
Executive Vice President & Chief Financial Officer

# June Quarter and FY'16 Results

## Record financial performance in FY'16

- ▶ QJun'16 above mid-point of guidance for all metrics
- ▶ Shipments, revenue, operating income,\* and earnings per share\* at an all-time high in FY'16

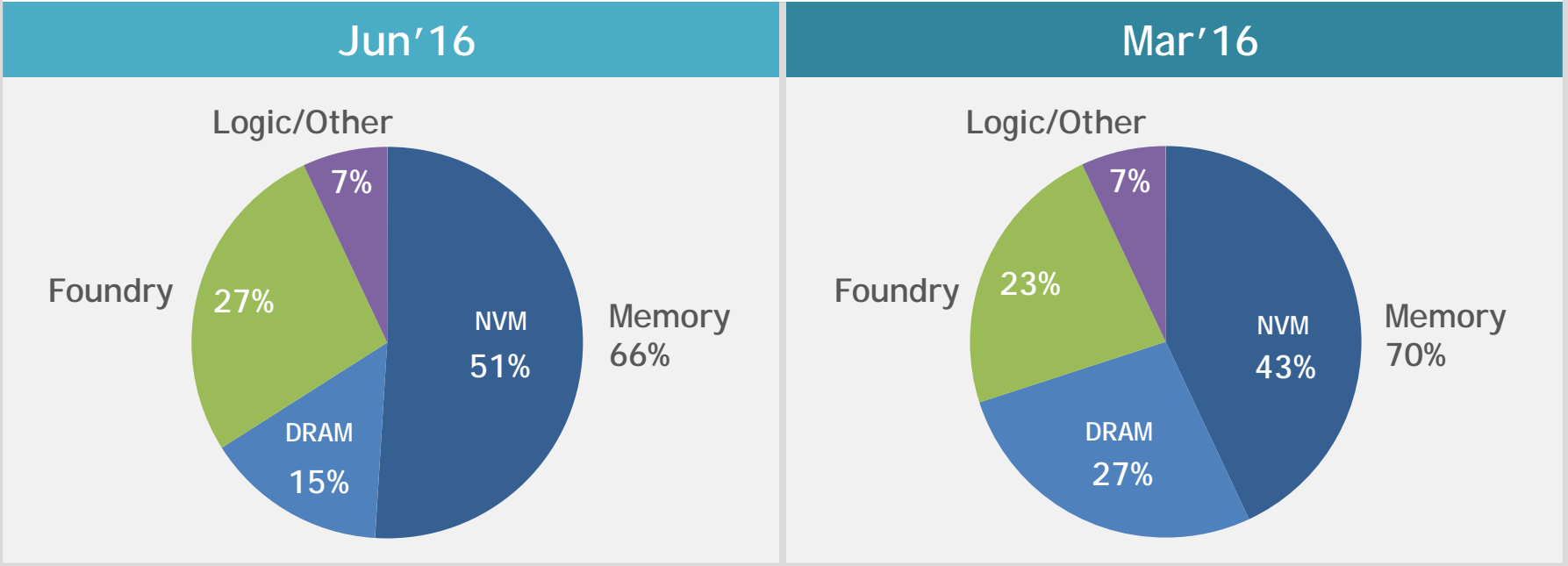


\* Non-GAAP

# June Quarter Shipments

▶ QJun'16 shipments of \$1.587 billion

- ▶ 10% increase compared to March quarter
- ▶ System shipments segment mix:



# June Quarter Financial Results

	Jun'16	Mar'16
Revenue	\$1,546M	\$1,314M
Non-GAAP Gross Margin*	46.6%	45.1%
Non-GAAP Operating Expenses*	\$361M	\$350M
Non-GAAP Operating Income*	\$359M	\$242M
Non-GAAP Operating Margin*	23.2%	18.4%
Non-GAAP Other Income/(Expense)*	(\$9.0M)	(\$7.2M)
Non-GAAP Tax Rate*	10%	14%
GAAP Diluted EPS	\$1.46	\$0.82
Non-GAAP Diluted EPS*	\$1.80	\$1.18
Non-GAAP Diluted Share Count*	175M	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'16	Mar'16
Total Consolidated Gross Cash Balance	\$7,078M	\$4,767M
Account Receivables, Net	\$1,262M	\$1,237M
DSO	74 Days	86 Days
Inventory Turns	3.5	3.2
Deferred Revenue*	\$566M	\$511M
Capital Expenditures	\$52M	\$46M
Equity Compensation Expense	\$39M	\$35M
Amortization Expense	\$39M	\$39M
Depreciation Expense	\$36M	\$35M
Headcount	~7,500	~7,300

\*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 2016 Quarter Non-GAAP Guidance

	Sep'16 Guidance
Shipments	\$1.700 billion $\pm$ \$75 million
Revenue	\$1.625 billion $\pm$ \$75 million
Non-GAAP Gross Margin	45.5% $\pm$ 1%
Non-GAAP Operating Margin	22.5% $\pm$ 1%
Non-GAAP Earnings per Share <sup>(1)</sup>	\$1.77 $\pm$ \$0.10

(1) Based on a share count of ~176 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 (unaudited)

	Three Months Ended			
	June 26, 2016	March 27, 2016	December 27, 2015	September 27, 2015
U.S. GAAP gross margin	\$ 698,784	\$ 571,265	\$ 626,510	\$ 722,363
Pre-tax non-GAAP items:				
Amortization related to intangible assets acquired in Novellus transaction	21,250	21,250	21,250	21,250
Novellus acquisition-related inventory fair value impact	128	—	649	—
Restructuring charges	—	—	—	371
Non-GAAP gross margin	\$ 720,162	\$ 592,515	\$ 648,409	\$ 743,984
U.S. GAAP gross margin as a percentage of revenue	45.2%	43.5%	43.9%	45.1%
Non-GAAP gross margin as a percentage of revenue	46.6%	45.1%	45.5%	46.5%
U.S. GAAP operating expenses	\$ 389,543	\$ 380,512	\$ 387,676	\$ 386,935
Pre-tax non-GAAP items:				
Restructuring charges	(43)	(72)	(34)	(4,206)
Cost associated with campus consolidation	(7,763)	—	—	—
KLA-Tencor acquisition-related costs	(19,270)	(14,323)	(17,392)	—
Gain on sale of assets, net associated exit costs	15,223	—	—	—
Amortization related to intangible assets acquired in Novellus transaction	(16,083)	(16,084)	(16,083)	(16,083)
Restructuring (charges) benefit	(117)	202	(2,032)	(3,050)
Non-GAAP operating expenses	\$ 361,490	\$ 350,235	\$ 352,135	\$ 363,596
Non-GAAP operating income	\$ 358,672	\$ 242,280	\$ 296,274	\$ 380,388
GAAP operating margin as percent of revenue	20.0%	14.5%	16.8%	21.0%
Non-GAAP operating margin as a percent of revenue	23.2%	18.4%	20.8%	23.8%

# Appendix - Reconciliation

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

	Three Months Ended	
	June 26, 2016	March 27, 2016
U.S. GAAP net income	\$ 258,939	\$ 143,451
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	21,250	21,250
Novellus acquisition-related inventory fair value impact - cost of goods sold	128	—
Restructuring charges - research and development	43	72
Cost associated with campus consolidation - research and development	7,763	—
KLA-Tencor acquisition-related costs - selling, general and administrative	19,270	14,323
Gain on sale of assets, net associated exit costs - selling, general and administrative	(15,223)	—
Amortization related to intangible assets acquired in Novellus transaction -selling, general and administrative	16,083	16,084
Restructuring charges (benefit) - selling, general and administrative	117	(202)
Amortization of note discounts - other expense, net	7,492	9,333
Amortization of bridge loan issuance costs and other related fees - other expense, net	6,938	13,332
KLA-Tencor pre-acquisition funding interest expense, net - other expense, net	3,821	—
Net income tax benefit on non-GAAP items	(8,413)	(14,320)
Income tax benefit on resolution of certain tax matters	(2,515)	(502)
Change to income tax benefit due to a court ruling	(887)	—
Non-GAAP net income	\$ 314,806	\$ 202,821
Non-GAAP net income per diluted share	\$ 1.80	\$ 1.18
U.S. GAAP number of shares used for per diluted share calculation	177,649	174,373
Effect of convertible note hedge	(2,597)	(2,220)
Non-GAAP number of shares used for per diluted share calculation	175,052	172,153

# Appendix - Reconciliation

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

	Year Ended	
	June 26, 2016	June 28, 2015
U.S. GAAP net income	\$ 914,049	\$ 655,577
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	85,000	84,751
Costs associated with rationalization of certain product configurations - cost of goods sold	—	1,600
Novellus acquisition-related inventory fair value impact - cost of goods sold	777	3,601
Restructuring charges - cost of goods sold	371	—
Impairment of long-lived assets - cost of goods sold	—	9,821
Restructuring charges - research and development	4,355	—
Cost associated with campus consolidation - research and development	7,763	—
KLA-Tencor acquisition-related costs - selling, general and administrative	50,985	—
Gain on sale of assets, net associated exit costs - selling, general and administrative	(15,223)	—
Amortization related to intangible assets acquired in Novellus transaction -selling, general and administrative	64,333	64,332
Restructuring charges - selling, general and administrative	4,997	1,559
Goodwill impairment	—	79,444
Amortization of note discounts - other expense, net	35,205	34,881
Amortization of bridge loan issuance costs and other related fees - other expense, net	33,843	—
KLA-Tencor pre-acquisition funding interest expense, net - other expense, net	3,821	—
Net gain associated with disposition of a business - other expense, net	—	(4,331)
Net income tax benefit on non-GAAP items	(49,859)	(38,048)
Income tax benefit on resolution of certain tax matters	(3,017)	954
Change to income tax benefit due to a court ruling	(22,812)	—
Income tax benefit related to tax extenders, primarily the research and development credit	(13,603)	\$ (11,094)
Net tax benefit on valuation allowance release	—	(2,811)
Non-GAAP net income	\$ 1,100,985	\$ 880,236
Non-GAAP net income per diluted share	\$ 6.37	\$ 5.05
U.S. GAAP number of shares used for per diluted share calculation	175,159	177,067
Effect of convertible note hedge	(2,398)	(2,602)
Non-GAAP number of shares used for per diluted share calculation	172,761	174,465

# Appendix - Reconciliation

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

	Three Months Ended	
	June 26, 2016	March 27, 2016
U.S. GAAP Other expense, net	\$ (27,249)	\$ (29,834)
Pre-tax non-GAAP items:		
Amortization of note discounts	7,492	9,333
Amortization of bridge loan issuance costs and other related fees	6,938	13,332
KLA-Tencor pre-acquisition funding interest expense, net	3,821	—
Non-GAAP other expense, net	\$ (8,998)	\$ (7,169)

# Appendix - Reconciliation

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

	Three Months Ended	
	June 26, 2016	March 27, 2016
U.S. GAAP income before income taxes	\$ 281,992	\$ 160,919
U.S. GAAP income tax expense (benefit)	\$ 23,053	\$ 17,468
U.S. GAAP income tax rate	8.2%	10.9%
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	\$ 21,250	\$ 21,250
Novellus acquisition-related inventory fair value impact - cost of goods sold	128	—
Restructuring charges - research and development	43	72
Cost associated with campus consolidation - research and development	7,763	—
KLA-Tencor acquisition-related costs - selling, general and administrative	19,270	14,323
Gain on sale of assets, net associated exit costs - selling, general and administrative	(15,223)	—
Amortization related to intangible assets acquired in Novellus transaction -selling, general and administrative	16,083	16,084
Restructuring charges (benefit) - selling, general and administrative	117	(202)
Amortization of note discounts - other expense, net	7,492	9,333
Amortization of bridge loan issuance costs and other related fees - other expense, net	6,938	13,332
KLA-Tencor pre-acquisition funding interest expense, net - other expense, net	3,821	—
Non-GAAP income before taxes	\$ 349,674	\$ 235,111
Net income tax benefit on non-GAAP items	\$ 8,413	\$ 14,320
Income tax benefit on resolution of certain tax matters	2,515	502
Change to income tax benefit due to a court ruling	887	—
Non-GAAP income tax expense	\$ 34,868	\$ 32,290
Non-GAAP income tax rate	10.0%	13.7%

# Appendix - Reconciliation

## Reconciliation of U.S. GAAP to Non-GAAP Guidance for the September 2016 Quarter (unaudited)

	U.S. GAAP			Reconciling Items	Non-GAAP		
Shipments	\$1.700 Billion	+/-	\$75 Million	—	\$1.700 Billion	+/-	\$75 Million
Revenue	\$1.625 Billion	+/-	\$75 Million	—	\$1.625 Billion	+/-	\$75 Million
Gross margin	44.2%	+/-	1%	\$ 21 Million	45.5%	+/-	1%
Operating margin	20.2%	+/-	1%	\$ 37 Million	22.5%	+/-	1%
Net income per diluted share	\$1.48	+/-	\$0.10	\$ 48 Million	\$1.77	+/-	\$0.10
Diluted share count	178 Million			2 Million	176 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 KLA-Tencor related acquisition or integration expenses other than the net interest expense associated with the KLA-Tencor pre-acquisition funding, business combinations, asset acquisitions, divestitures, financing arrangements, other investments, or other significant transactions that may be completed after 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; net interest expense associated with KLA-Tencor pre-acquisition funding, \$18 million; amortization of note discounts, \$6 million; and associated tax benefit for non-GAAP items (\$13) million; totaling \$48 million.
- Diluted share count - impact of a note hedge issued contemporaneously with the convertible notes due 2018, 2 million shares.

# Appendix - Reconciliation

**LAM RESEARCH CORPORATION**  
**RECONCILIATION OF DEFERRED REVENUE**  
(in millions)  
(unaudited)

	Three Months Ended June 26, 2016	Three Months Ended March 27, 2016
Beginning Balance	\$ 510.7	\$ 394.6
Shipments	1,587.4	1,446.0
Revenue	(1,546.3)	(1,314.1)
Net Change in Japan (1)	(11.0)	(12.1)
Services & Other	25.6	(3.7)
Ending Balance	<u>\$ 566.4</u>	<u>\$ 510.7</u>

Value of shipments to Japanese customers not recorded as deferred revenue (2)	\$ 131.7	\$ 120.7
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- (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.

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