



Lam Research Corporation

March Quarter 2016 Financial Results

April 20, 2016



Cautions 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, 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 December 27, 2015, KT’s Annual Report for the fiscal year ended June 30, 2015, and KT’s Quarterly Report for the fiscal quarter ended December 31, 2015. You should not place undue reliance on forward-looking statements. Lam undertakes no obligation to publicly revise or update any forward-looking statements.

Agenda

March Quarter Highlights

Progress on Growth Objectives

2016 Industry Outlook

Update on Combination with KLA-Tencor

Financial Results and Outlook

Business Review and Industry Outlook

Martin Anstice

President & Chief Executive Officer

March Quarter Highlights

Strong execution and performance momentum

- ▶ Revenue and shipments above the mid-point of guidance
- ▶ Gross margin, operating income, and EPS above the high end of guidance*
- ▶ Growing R&D while managing operating expenses
- ▶ Ended the quarter with a strong combination of both backlog and deferred revenue balances

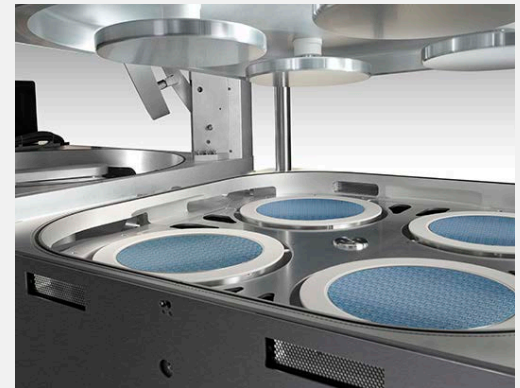


* Non-GAAP

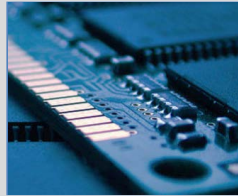
Progress on Growth Objectives

Partnering with customers to enable technology inflections

- ▶ Strong traction for Lam's product and service offerings in 3D NAND selections and roadmaps
- ▶ Building on momentum with differentiated products for FinFET and multiple patterning applications
- ▶ 35k+ module installed base business driving higher customer satisfaction, creating SAM growth opportunities

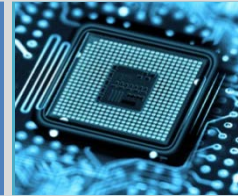


2016 Industry Outlook



Memory

- Non-volatile memory WFE to exceed \$9B
- 3D NAND shipped capacity of ~350k-400k WSPM by the end of 2016
- Expect DRAM WFE in the mid-to high- \$5B range
- DRAM investments focused on 20 nm and 1X nm nodes



Foundry & Logic

- Spending levels projected to be flat to slightly higher vs. CY'15
- Strategic investments focused on enabling 10 nm technology
- 28 nm capacity investments continue

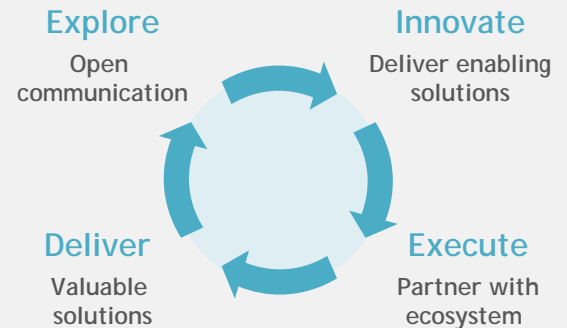
Forecast 2016 WFE spend in a range of \$33B ± \$2B

Update on Combination with KLA-Tencor

Accelerated innovation as combined company

- ▶ Interactions with customers reinforce confidence in the vision for the combined company
- ▶ Integration planning focused on organization design and business processes
- ▶ Strong global leadership team with balanced representation from both companies
- ▶ Secured the approval of both Lam and KLA-Tencor stockholders
- ▶ Continue to anticipate mid-2016 closing

Value-Enhancing Collaboration





March Quarter 2016 Financial Results and June Quarter 2016 Outlook

Doug Bettinger
Executive Vice President & Chief Financial Officer

March Quarter Results

Starting CY'16 with momentum

- ▶ Above mid-point of guidance for all metrics
- ▶ Building deferred revenue on the strength of shipments

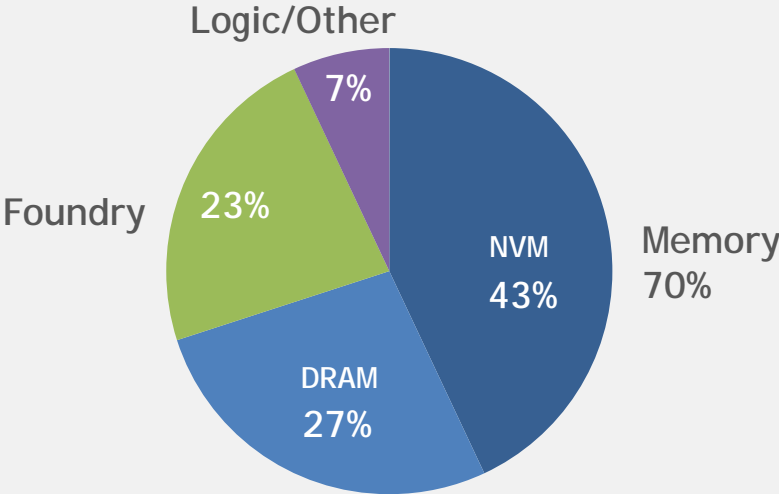


March Quarter Shipments

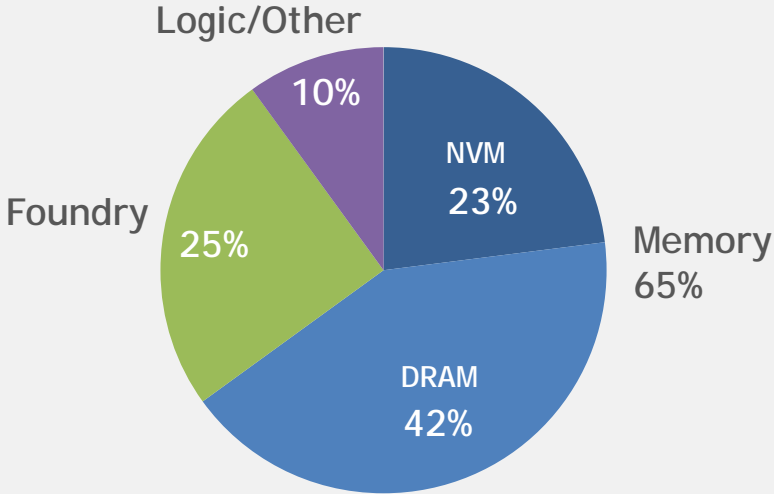
QMar'16 shipments of \$1.446 billion

- ▶ 12% increase compared to December quarter
- ▶ System shipments segment mix:

Mar'16



Dec'15



March Quarter Financial Results

	Mar'16	Dec'15
Revenue	\$1,314M	\$1,426M
Non-GAAP Gross Margin*	45.1%	45.5%
Non-GAAP Operating Expenses*	\$350M	\$352M
Non-GAAP Operating Income*	\$242M	\$296M
Non-GAAP Operating Margin*	18.4%	20.8%
Non-GAAP Other Income/(Expense)*	(\$7.2M)	(\$7.1M)
Non-GAAP Tax Rate*	14%	7%
GAAP EPS	\$0.82	\$1.28
Non-GAAP EPS*	\$1.18	\$1.57
Non-GAAP Diluted Share Count*	172M	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

	Mar'16	Dec'15
Total Consolidated Gross Cash Balance	\$4,767M	\$4,683M
Account Receivables, Net	\$1,237M	\$1,090M
DSO	86 Days	70 Days
Inventory Turns	3.2	3.6
Deferred Revenue*	\$511M	\$395M
Capital Expenditures	\$46M	\$28M
Equity Compensation Expense	\$35M	\$33M
Amortization Expense	\$39M	\$39M
Depreciation Expense	\$35M	\$33M
Headcount	~7,300	~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.

June 2016 Quarter Non-GAAP Guidance

	Jun'16 Guidance
Shipments	\$1.575 billion \pm \$75 million
Revenue	\$1.525 billion \pm \$75 million
Non-GAAP Gross Margin	46.0% \pm 1%
Non-GAAP Operating Margin	22.0% \pm 1%
Non-GAAP Earnings per Share ⁽¹⁾	\$1.63 \pm \$0.10

(1) Based on a share count of ~173 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 (unaudited)

	Three Months Ended	
	March 27, 2016	December 27, 2015
U.S. GAAP gross margin	571,265	\$ 626,510
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	21,250	21,250
Acquisition-related inventory fair value impact - cost of goods sold	—	649
Non-GAAP gross margin	<u>\$ 592,515</u>	<u>\$ 648,409</u>
U.S. GAAP gross margin as a percentage of revenue	43.5 %	43.9 %
Non-GAAP gross margin as a percentage of revenue	45.1 %	45.5 %
U.S. GAAP operating expenses	\$ 380,512	\$ 387,676
Pre-tax non-GAAP items:		
Restructuring charges - research and development	(72)	(34)
Acquisition costs - selling, general and administrative	(14,323)	(17,392)
Amortization related to intangible assets acquired in Novellus transaction -selling, general and administrative	(16,084)	(16,083)
Restructuring benefit (charges) - selling, general and administrative	202	(2,032)
Non-GAAP operating expenses	<u>\$ 350,235</u>	<u>\$ 352,135</u>
Non-GAAP operating income	<u>\$ 242,280</u>	<u>\$ 296,274</u>
GAAP operating margin as percent of revenue	14.5 %	16.8 %
Non-GAAP operating margin as a percent of revenue	18.4 %	20.8 %

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	
	March 27, 2016	December 27, 2015
U.S. GAAP net income	\$ 143,451	\$ 222,980
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	21,250	21,250
Acquisition-related inventory fair value impact - cost of goods sold	—	649
Restructuring charges - research and development	72	34
Acquisition costs - selling, general and administrative	14,323	17,392
administrative	16,084	16,083
Restructuring (benefit) charges - selling, general and administrative	(202)	2,032
Amortization of note discounts - other expense, net	9,333	9,258
Amortization of bridge loan issuance costs and other related fees - other expense, net	13,332	13,573
Net income tax benefit on non-GAAP items	(14,320)	(19,335)
Income tax benefit on resolution of certain tax matters	(502)	—
Income tax benefit from tax extenders, primarily the research and development credit	—	(13,603)
Non-GAAP net income	<u>\$ 202,821</u>	<u>\$ 270,313</u>
Non-GAAP net income per diluted share	<u>\$ 1.18</u>	<u>\$ 1.57</u>
U.S. GAAP number of shares used for per diluted share calculation	174,373	174,242
Effect of convertible note hedge	(2,220)	(2,446)
Non-GAAP number of shares used for per diluted share calculation	<u>172,153</u>	<u>171,796</u>

Appendix - Reconciliation

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

	Three Months Ended	
	March 27, 2016	December 27, 2015
U.S. GAAP other expense, net	\$ (29,834)	\$ (29,935)
Pre-tax non-GAAP items:		
Amortization of note discounts	9,333	9,258
Amortization of bridge loan issuance costs and other related costs	13,332	13,573
Non-GAAP other expense, net	<u>\$ (7,169)</u>	<u>\$ (7,104)</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	
	March 27, 2016	December 27, 2015
U.S. GAAP income before income taxes	\$ 160,919	\$ 208,899
U.S. GAAP income tax expense (benefit)	\$ 17,468	\$ (14,081)
U.S. GAAP income tax rate	10.9%	-6.7%
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	\$ 21,250	\$ 21,250
Acquisition-related inventory fair value impact - cost of goods sold	-	649
Restructuring charges - research and development	72	34
Acquisition costs - selling, general and administrative	14,323	17,392
Amortization related to intangible assets acquired in Novellus transaction -selling, general and administrative	16,084	16,083
Restructuring (benefits) charges - selling, general and administrative	(202)	2,032
Amortization of note discounts - other expense, net	9,333	9,258
Amortization of bridge loan issuance costs and other related fees - other expense, net	13,332	13,573
Non-GAAP income before taxes	<u>\$ 235,111</u>	<u>\$ 289,170</u>
Net income tax benefit on non-GAAP items	\$ 14,320	\$ 19,335
Income tax benefit on resolution of certain tax matters	502	-
Income tax benefit related to tax extenders, primarily the research and development credit	-	13,603
Non-GAAP income tax expense	<u>\$ 32,290</u>	<u>\$ 18,857</u>
Non-GAAP income tax rate	13.7%	6.5%

Appendix - Reconciliation

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

	U.S. GAAP			Reconciling Items	Non-GAAP		
Shipments	\$1.575 Billion	+/-	\$75 Million	-	\$1.575 Billion	+/-	\$75 Million
Revenue	\$1.525 Billion	+/-	\$75 Million	-	\$1.525 Billion	+/-	\$75 Million
Gross margin	44.6%	+/-	1%	\$21 Million	46.0%	+/-	1%
Operating margin	19.6%	+/-	1%	\$37 Million	22.0%	+/-	1%
Net income per diluted share	\$1.37	+/-	\$0.10	\$42 Million	\$1.63	+/-	\$0.10
Diluted share count	175 Million			2 Million	173 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, 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; amortization of note discounts, \$7 million; amortization of bridge loan issuance costs and related fees associated with the KLA-Tencor acquisition, \$7 million; and associated tax benefit for non-GAAP items (\$9) million; totaling \$42 million.
- Diluted share count - impact of a note hedge issued contemporaneously with the convertible notes due 2016 and 2018, 2 million shares.

Appendix - Reconciliation

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

	Three Months Ended	Three Months Ended
	March 27, 2016	December 27, 2015
Beginning Balance	\$ 394.6	\$ 517.4
Shipments	1,446.0	1,287.9
Revenue	(1,314.1)	(1,425.5)
Net Change in Japan (1)	(12.1)	38.1
Services & Other	(3.7)	(23.3)
Ending Balance	<u>\$ 510.7</u>	<u>\$ 394.6</u>
Value of shipments to Japanese customers not recorded as deferred revenue (2)	\$ 120.7	\$ 108.6

- (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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