



# Lam Research Corporation

June Quarter 2015 Financial Results

July 29, 2015



# 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; the size of the Wafer Fab Equipment (WFE) market and its components; the size, timing and drivers of our opportunities to grow, expand and continue to outperform the WFE market; the value and extent of our competitive advantage and the differentiation of our products and services; the value of and our ability to engage in collaborations with customers; the strength of our market position in the inflections (such as multi-patterning, 3-D devices and packaging); the percentage of the WFE market that encompasses inflection technologies; the extent of etch and deposition intensity in the inflection points; the extent to which we can sustain growth in the applications and markets influenced by inflections; the components of our industry outlook such as the extent of capital equipment purchases by Memory, Foundry and Logic companies, as well as the timing and size of any such purchases; the ability of our products and services to address customer requirements at the inflection points; our strategic objectives and focus areas for 2015; 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 returning capital to stockholders, 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; customer, supplier or competitor consolidation; merger and acquisition activity; the level of sovereign investment in companies that consume our products and services or that compete with us; the occurrence and pace of technology transitions and conversions; actions of competitors, consumers, semiconductor companies and key suppliers and subcontractors; 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 reports on Form 10-K for the year ended June 29, 2014 and on Form 10-Q for the quarters ended September 28, 2014, December 28, 2014 and March 29, 2015. 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

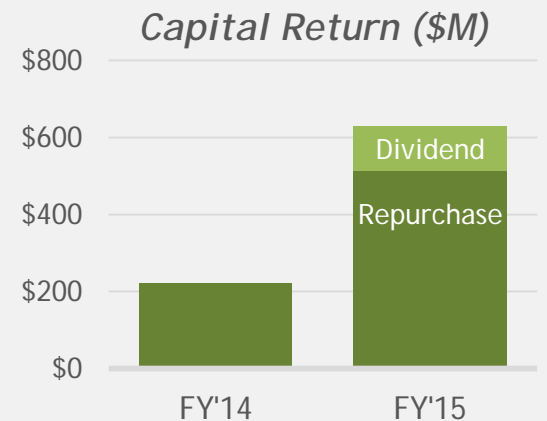
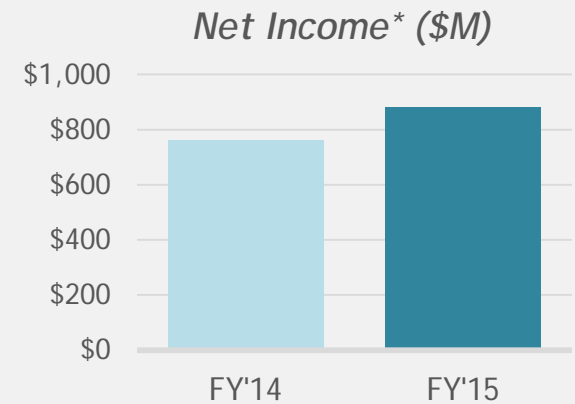
Martin Anstice

President & Chief Executive Officer

# June Quarter and FY'15 Summary

## A record quarter concludes a successful FY'15

- ▶ Record levels for shipments, revenues, and Op Inc\* in the June quarter
- ▶ >\$5B in shipments and revenue in FY'15
- ▶ >\$1B in operating income\* in FY'15
- ▶ Delivered 16% growth in net income\* year-over-year
- ▶ \$630M returned to shareholders via share repurchase and dividends in FY'15



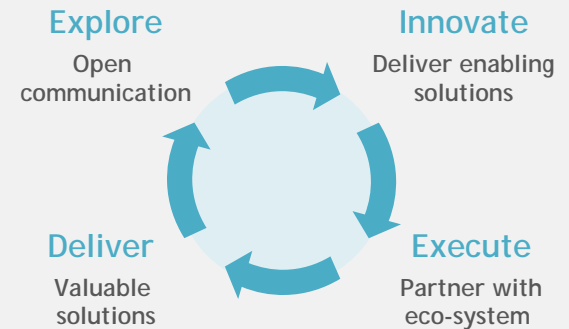
\* Non-GAAP

# Confidence in Our Ability to Continue Outperformance

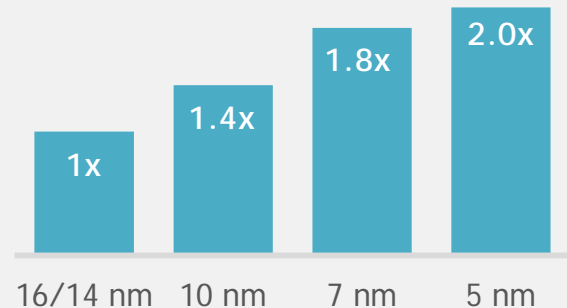
## Focused on opportunities, collaboration, and execution

- ▶ Ongoing strength in execution across the organization, increasing customer trust
- ▶ Collaborating to solve our customers' most difficult challenges
- ▶ Winning in the multi-patterning inflection with technology and productivity leadership
  - Lam's patterning opportunity continues to grow through 5 nm
  - Majority of patterning passes are spacer-based schemes

### Value-Enhancing Collaboration

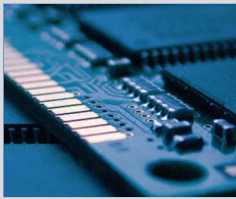

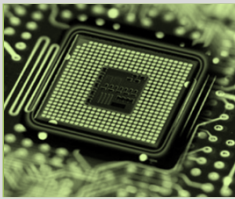


### Dep/Etch/Clean Patterning Passes for Foundry/Logic\*



\* Source: Lam Research

# 2015 Industry Outlook

 Memory	 Foundry	 Logic
<ul style="list-style-type: none"><li>▪ Market demand driven by mobile and enterprise</li><li>▪ DRAM spend focused on conversion to 20 nm</li><li>▪ 3D NAND investment 2H'15 weighted</li><li>▪ Expect 3D NAND shipped capacity of ~150k WSPM by the end of CY'15</li></ul>	<ul style="list-style-type: none"><li>▪ Leading-edge investment focused on FinFET</li><li>▪ 28 nm capacity investments continue</li><li>▪ Distributed among a number of customers</li><li>▪ Project spending levels to be slightly lower vs. CY'14</li></ul>	<ul style="list-style-type: none"><li>▪ Sustained commitment to technology conversions</li><li>▪ Optimized reuse of installed base</li><li>▪ Demand for image sensors providing upside</li><li>▪ Project spending levels to be slightly lower vs. CY'14</li></ul>

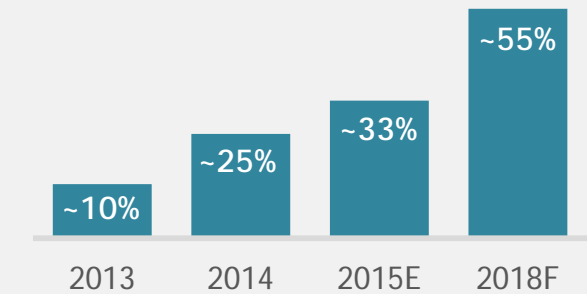
Forecast 2015 WFE spend in a range of \$34B ± \$2B

# \$3B+ Market Expansion Opportunity Through 2018

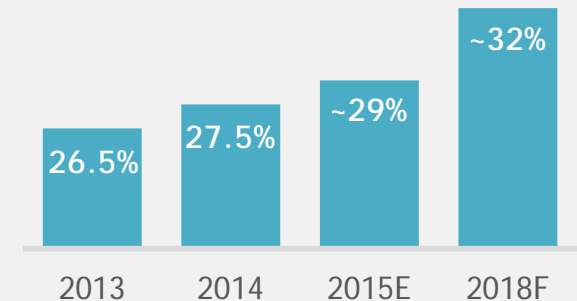
## Positioned for growth over a multi-year period

- ▶ Today's inflections are enabled by deposition and etch processes
- ▶ Inflection spending expected to reach ~55% in 2018
- ▶ Driving a \$3B+ SAM expansion opportunity through 2018
- ▶ Focused on execution excellence, collaboration, and value-enhancing services to enable economic scaling

*Inflection-Based Spending  
as % of WFE*



*Lam SAM  
as % of WFE*





# June Quarter 2015 Financial Results and September Quarter 2015 Outlook

Doug Bettinger  
Executive Vice President & Chief Financial Officer

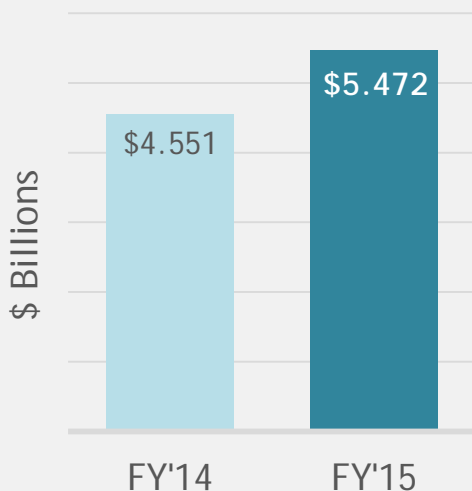


# June Quarter and FY'15 Results

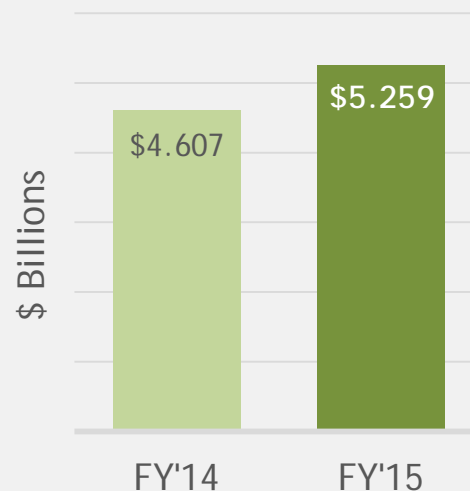
## Multiple milestones achieved for the quarter and FY'15

- ▶ Record levels for shipments, revenue, and operating income\*
- ▶ Shipments and revenue topped \$5 billion in FY'15
- ▶ Generated >\$1 billion in operating income\* in FY'15

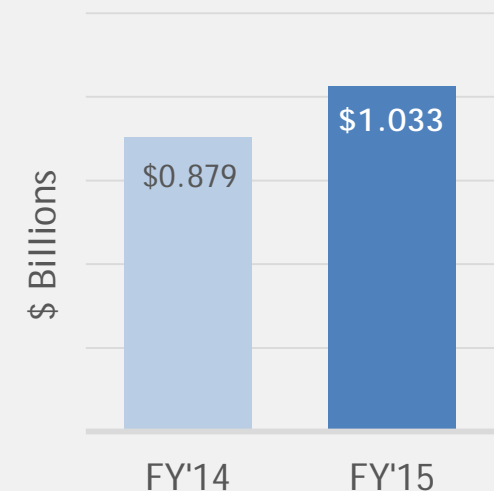
### Shipments



### Revenue



### Op Inc\*



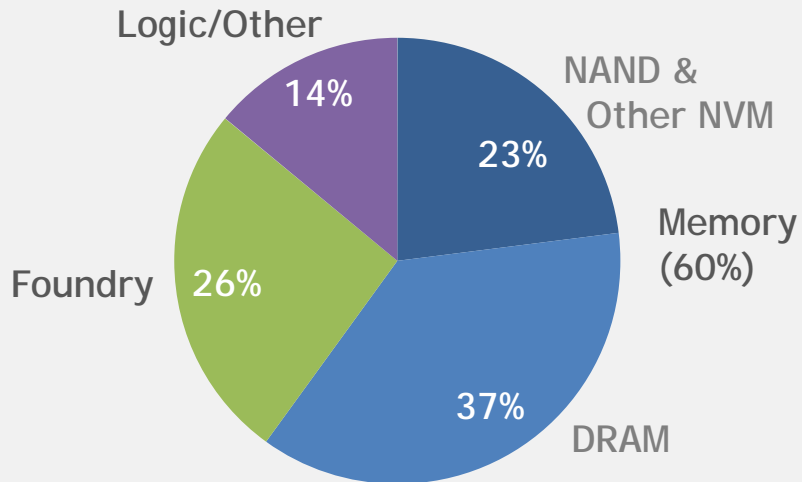
\* Non-GAAP

# June Quarter Shipments

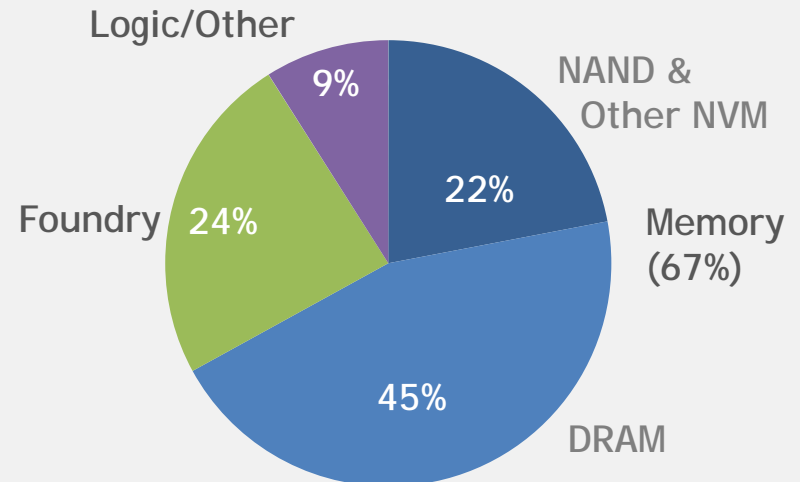
## QJun'15 shipments above mid-point

- ▶ Shipments of \$1.616 billion
  - Shipments up 8% quarter over quarter
- ▶ System shipments segment mix:

Jun'15



Mar'15



# June Quarter Financial Results

	Jun'15	Mar'15
Revenue	\$1,481M	\$1,393M
Non-GAAP Gross Margin*	45.5%	44.7%
Non-GAAP Operating Expenses*	\$355M	\$345M
Non-GAAP Operating Income*	\$319M	\$277M
Non-GAAP Operating Margin*	21.6%	19.9%
Non-GAAP Other Income/(Expense)*	(\$11.3M)	(\$2.6M)
Non-GAAP Tax Rate*	16%	11%
GAAP EPS	\$0.74	\$1.16
Non-GAAP EPS*	\$1.50	\$1.40
Non-GAAP Diluted Share Count*	174M	174M

\*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'15	Mar'15
Total Consolidated Gross Cash Balance	\$4,247M	\$4,113M
Account Receivables, Net	\$1,094M	\$1,047M
DSO	67 Days	68 Days
Inventory Turns	3.6	3.4
Deferred Revenue*	\$518M	\$485M
Capital Expenditures	\$63M	\$32M
Equity Compensation Expense	\$40M	\$33M
Amortization Expense	\$39M	\$40M
Depreciation Expense	\$31M	\$31M
Headcount	~7,200	~7,000

\*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 2015 Quarter Non-GAAP Guidance

	Sep'15 Guidance
Shipments	\$1.580 billion $\pm$ \$75 million
Revenue	\$1.600 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>	\$1.70 $\pm$ \$0.10

(1) Based on a share count of ~174 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)

	<u>Three Months Ended</u> <u>June 28,</u> <u>2015</u>	<u>Three Months Ended</u> <u>March 29,</u> <u>2015</u>
U.S. GAAP gross margin	\$ 641,538	\$ 600,602
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	21,286	21,286
Acquisition-related inventory fair value impact - cost of goods sold	1,192	308
Impairment of long lived asset - cost of goods sold	9,821	-
Costs associated with rationalization of certain product configurations - cost of goods sold	-	-
Non-GAAP gross margin	<u>\$ 673,837</u>	<u>\$ 622,196</u>
U.S. GAAP gross margin as a percentage of revenue	43.3%	43.1%
Non-GAAP gross margin as a percentage of revenue	45.5%	44.7%
U.S. GAAP operating expenses	\$ 450,503	\$ 360,637
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - operating expenses	(16,083)	(16,083)
Restructuring (charges)/benefits - operating expenses	(434)	495
Goodwill impairment - operating expenses	(79,444)	-
Non-GAAP operating expenses	<u>\$ 354,542</u>	<u>\$ 345,049</u>
Non-GAAP operating income	<u>\$ 319,295</u>	<u>\$ 277,147</u>
GAAP operating margin as percent of revenue	12.9%	17.2%
Non-GAAP operating margin as a percent of revenue	21.6%	19.9%



# 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>Year Ended</u> <u>June 28,</u> <u>2015</u>	<u>Year Ended</u> <u>June 29,</u> <u>2014</u>
U.S. GAAP gross margin	\$ 2,284,336	\$ 2,007,481
Pre-tax non-GAAP items:		
Costs associated with rationalization of certain product configurations - cost of goods sold	1,600	4,855
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	84,751	86,326
Acquisition-related inventory fair-value impact - cost of goods sold	3,601	4,439
Impairment of long lived asset - cost of goods sold	9,821	-
Integration costs - cost of goods sold	-	1,588
Synthetic lease impairment - cost of goods sold	-	1,558
Non-GAAP gross margin	<u>\$ 2,384,109</u>	<u>\$ 2,106,247</u>
U.S. GAAP gross margin as a percentage of revenue	43.4%	43.6%
Non-GAAP gross margin as a percentage of revenue	45.3%	45.7%
U.S. GAAP operating expenses	\$ 1,496,297	\$ 1,329,812
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - operating expenses	(64,332)	(66,984)
Restructuring charges - operating expenses	(1,559)	(2,000)
Goodwill impairment - operating expense	(79,444)	-
Integration costs - operating expenses	-	(10,848)
Costs associated with rationalization of certain product configurations - operating expenses	-	(4,698)
Costs associated with disposition of business - operating expenses	-	(1,103)
Impairment of long lived asset - operating expense	-	(11,632)
Synthetic lease impairment - operating expense	-	(5,356)
Non-GAAP operating expenses	<u>\$ 1,350,962</u>	<u>\$ 1,227,191</u>
Non-GAAP operating income	<u>\$ 1,033,147</u>	<u>\$ 879,056</u>
GAAP operating margin as percent of revenue	15.0%	14.7%
Non-GAAP operating margin as a percent of revenue	19.6%	19.1%

# 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)

	<b>Three Months Ended</b>	<b>Three Months Ended</b>
	<b>June 28,</b>	<b>March 29,</b>
	<b>2015</b>	<b>2015</b>
U.S. GAAP net income	\$ 131,271	\$ 206,285
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	21,286	21,286
Acquisition-related inventory fair value impact - cost of goods sold	1,192	308
Impairment of long lived asset - cost of goods sold	9,821	-
Amortization related to intangible assets acquired in Novellus transaction - operating expenses	16,083	16,083
Restructuring charges/(benefits) - operating expenses	434	(495)
Goodwill impairment - operating expenses	79,444	-
Amortization of note discounts - other expense, net	9,019	8,749
Net tax benefit on non-GAAP items	(9,605)	(7,181)
Net income tax expense (benefit) on resolution or additional accrual for certain tax matters	1,078	(124)
Non-GAAP net income	\$ 260,023	\$ 244,911
Non-GAAP net income per diluted share	\$ 1.50	\$ 1.40
U.S. GAAP number of shares used for diluted per share calculation	176,575	177,531
Effect of convertible note hedge	(2,934)	(3,060)
Non-GAAP number of shares used for diluted per share calculation	173,641	174,471

# 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)

	<u>Year Ended</u> <u>June 28,</u> <u>2015</u>	<u>Year Ended</u> <u>June 29,</u> <u>2014</u>
U.S. GAAP net income	\$ 655,577	\$ 632,289
Pre-tax non-GAAP items:		
Costs associated with rationalization of certain product configurations - cost of goods sold	1,600	4,855
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	84,751	86,326
Acquisition-related inventory fair-value impact - cost of goods sold	3,601	4,439
Impairment of long lived asset - cost of goods sold	9,821	-
Integration costs - cost of goods sold	-	1,588
Synthetic lease impairment - cost of goods sold	-	1,558
Amortization related to intangible assets acquired in Novellus transaction - operating expenses	64,332	66,984
Restructuring charges - operating expenses	1,559	2,000
Goodwill impairment - operating expense	79,444	-
Integration costs - operating expenses	-	10,848
Costs associated with rationalization of certain product configurations - operating expenses	-	4,698
Costs associated with disposition of business - operating expenses	-	1,103
Impairment of long lived asset - operating expense	-	11,632
Synthetic lease impairment - operating expense	-	5,356
Amortization of note discounts - other expense, net	34,881	32,875
Net gain associated with the disposition of business - other (income) expense	(4,331)	-
Gain on sale of real estate	-	(83,090)
Gain on sale of investment - other expense, net	-	(4,813)
Net tax benefit on non-GAAP items	(38,048)	(13,300)
Net income tax expense (benefit) on resolution or additional accrual for certain tax matters	954	(3,901)
Net tax benefit on valuation allowance release	(2,811)	-
Tax expense associated with legal-entity integration	(11,094)	137
Non-GAAP net income	<u>\$ 880,236</u>	<u>\$ 761,584</u>
Non-GAAP net income per diluted share	<u>\$ 5.05</u>	<u>\$ 4.36</u>
U.S. GAAP number of shares used for diluted per share calculation	177,067	174,503
Effect of convertible note hedge	(2,602)	-
Number of shares used for diluted per share calculation	<u>174,465</u>	<u>174,503</u>

# Appendix - Reconciliation

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

	<b>Three Months Ended</b>	
	<b>June 28,</b>	<b>March 29,</b>
	<b>2015</b>	<b>2015</b>
U.S. GAAP other expense, net	\$ (20,353)	\$ (11,389)
Pre-tax non-GAAP items:		
Amortization of note discounts	9,019	8,749
Non-GAAP other expense, net	<u>\$ (11,334)</u>	<u>\$ (2,640)</u>

# Appendix - Reconciliation

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

	<b>Three Months Ended</b>	
	<b>June 28, 2015</b>	<b>March 29, 2015</b>
U.S. GAAP income (loss) before income taxes	\$ 170,682	\$ 228,576
U.S. GAAP income tax expense (benefit)	\$ 39,411	\$ 22,291
U.S. GAAP income tax rate	23.1%	9.8%
<b>Pre-tax non-GAAP items:</b>		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	\$ 21,286	\$ 21,286
Acquisition-related inventory fair value impact - cost of goods sold	1,192	308
Impairment of long lived asset - cost of goods sold	9,821	-
Amortization related to intangible assets acquired in Novellus transaction - operating expenses	16,083	16,083
Restructuring charges/(benefits) - operating expenses	434	(495)
Goodwill impairment - operating expenses	79,444	-
Amortization of note discounts - other expense, net	9,019	8,749
Non-GAAP income before taxes	307,961	274,507
Net tax benefit on non-GAAP items	\$ 9,605	\$ 7,181
Net income tax expense (benefit) on resolution or additional accrual for certain tax matters	\$ (1,078)	\$ 124
Non-GAAP income tax expense	\$ 47,938	\$ 29,596
Non-GAAP income tax rate	15.6%	10.8%

# Appendix - Reconciliation

## Reconciliation of U.S. GAAP to Non-GAAP Guidance for the September 2015 Quarter (unaudited)

	GAAP	Reconciling Items	Non-GAAP
Shipments	\$1.58 Billion +/- \$75 Million	-	\$1.58 Billion +/- \$75 Million
Revenue	\$1.60 Billion +/- \$75 Million	-	\$1.60 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	\$1.46 +/- \$0.10	\$38 Million	\$1.70 +/- \$0.10
Diluted share count	177 Million		174 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, 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, \$9 million; and associated tax benefit for non-GAAP items (\$8) million; totaling \$38 million.
- Diluted share count – impact of a note hedge issued contemporaneously with the convertible notes due in 2016 and 2018, 3 million shares.

# Appendix - Reconciliation

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

	Three Months Ended	Three Months Ended
	June 28, 2015	March 29, 2015
Beginning Balance	\$ 485.2	\$ 373.7
Shipments	1,616.0	1,497.4
Revenue	(1,481.4)	(1,393.3)
Net Change in Japan (1)	(119.0)	7.8
Services & Other	17.3	(0.4)
Ending Balance	<u>\$ 518.1</u>	<u>\$ 485.2</u>
Value of shipments to Japanese customers not recorded as deferred revenue (2)	\$ 164.4	\$ 45.4

- (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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