Lam Research Corporation (LRCX)

Updated July 13th, 2019 by Lyn Alden

Key Metrics

Current Price:	$191	**5 Year CAGR Estimate:**	11.3%	**Volatility Percentile:**	86.6%
Fair Value Price:	$201	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	65.9%
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.0%	**Growth Percentile:**	75.2%
Dividend Yield:	2.3%	**5 Year Price Target**	$295	**Valuation Percentile:**	68.6%
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Total Return Percentile:**	70.5%

Overview & Current Events

Lam Research Corporation (LRCX) was founded in 1980 and is headquartered in Fermont, California. The company designs, manufactures, markets, refurbishes and services semiconductor processing equipment used in the fabrication of integrated circuits around the world. Lam is a major supplier of wafer fabrication equipment and services to the semiconductor industry, and its products address a variety of applications, including thin film deposition, single-wafer cleaning and plasma tech. The company has a market capitalization of approximately $27.7 billion, over 10,800 employees, and produced approximately $11 billion in revenue in 2018.

On April 24, 2019, Lam Research reported results for the quarter ended March 31, 2019. The company reported revenue of $2.44 billion for the quarter, which was a 3% reduction from the prior quarter. Gross margins were 44% and diluted EPS was $3.47, which was a 1% reduction from the prior quarter. The semiconductor industry is currently in a global downturn, which has been putting pressure on Lam Research's revenue.

Lam Research provided guidance for the next quarter of $2.35 billion in revenue, 45% gross margins, and $3.30 diluted EPS. The CEO of Lam Research acknowledged the challenging near-term environment but expects the company to emerge in a strong position as the semiconductor industry rebounds.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	-$1.00	$2.71	$5.79	$1.35	$0.66	$3.62	$3.70	$5.22	$9.98	$17.87	***$14.33***	***$21.05***
DPS	---	---	---	---	---	$0.18	$0.84	$1.20	$1.65	$2.55	***$4.40***	***$5.26***
Shares	126.53	125.95	123.58	186.66	162.87	162.35	158.53	160.20	161.72	156.89	***147.00***	***142.00***

Lam Research has grown its revenue by an impressive 25.0% growth rate over the past 10 years, and at a 17.7% growth rate over the past 5 years. Earnings-per-share have grown by 31.7% over the past 5 years. Due to the current downturn in the semiconductor industry, analysts expect weak 2019 and 2020 results followed by a resumption of growth in 2021 and beyond. Based on maturation in the industry and potential headwinds from ongoing international trade disputes, we expect an 8.0% forward earnings growth rate.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	---	13.1	8.1	30.0	---	14.8	20.7	14.4	11.4	10.5	***13.3***	***14.0***
Avg. Yld.	---	---	---	---	---	0.3%	1.1%	1.6%	1.4%	1.4%	***2.3%***	***1.8%***

Over the past decade, Lam Research has averaged a 15.1 P/E for years when it had meaningful earnings. During trough periods in the semiconductor industry, the company occasionally reported very low or negative earnings. We conservatively estimate a forward P/E of 14.0 for the company, depending on where it is on the future semiconductor expansion cycle.

Disclosure: This analyst is long LRCX.

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Safety, Quality, Competitive Advantage, & Recession Resiliency

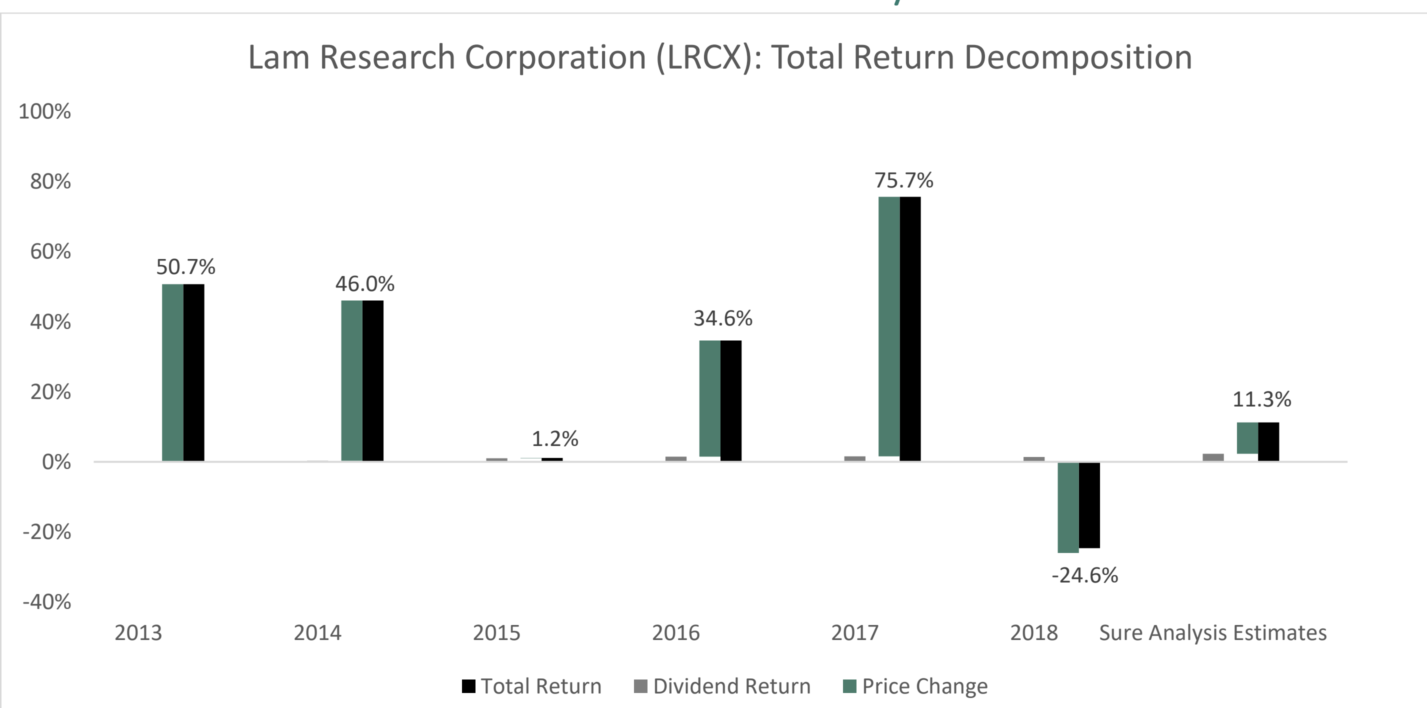
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	---	5.0%	22.7%	23.0%	16.5%	14.3%	***30.7%***	***25.0%***

Lam Research is one of the top 3 semiconductor manufacturing equipment vendors in the world, along with Applied Materials and Tokyo Electron. The company supplies equipment to chipmakers and provides service and maintenance support. Due to propriety technologies and a highly concentrated industry, Lam Research maintains high returns on invested capital in most years and has at least a small economic moat. However, the semiconductor industry is highly volatile due to commodity-like supply and demand characteristics, which means there are periods every several years where the industry halts new supply capacity and negatively impacts the revenues of equipment suppliers like Lam Research. During these occasions, the company has encountered periods of very low or negative earnings, although it appears to be more profitable during each down cycle compared to the one before as its service revenue continues to smooth out its overall results. Additionally, Lam Research's customer base is narrow with Intel, Micron, Samsung, SK Hynix, Toshiba, and Taiwan Semiconductor Manufacturing Company each making up at least 10% of Lam Research's revenue in recent years. The company has a strong balance sheet with more cash then debt, and total debt equal to less than two times annual net income.

Final Thoughts & Recommendation

Lam Research is a leader in a growing industry with a strong balance sheet that is currently facing short-term headwinds. With over 11% forward annual returns based on conservative estimates, we consider Lam Research to be a buy. The semiconductor industry is cyclical but is expected to have strong growth over the next decade as cloud computing, machine learning, autonomous driving, and internet of things continue to grow in scale and relevance. With a low payout ratio, the company also pays a modest but fast-growing dividend.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	1116	2134	3238	2665	3599	4607	5259	5886	8014	11077
Gross Profit	389	970	1497	1084	1403	2007	2284	2619	3603	5165
Gross Margin	34.8%	45.5%	46.2%	40.7%	39.0%	43.6%	43.4%	44.5%	45.0%	46.6%
SG&A Exp.	241	241	308	402	601	613	592	631	667	762
D&A Exp.	72	71	75	101	304	292	278	291	307	326
Operating Profit	-140	447	816	238	118	678	867	1074	1902	3213
Operating Margin	-12.6%	20.9%	25.2%	8.9%	3.3%	14.7%	16.5%	18.3%	23.7%	29.0%
Net Profit	-302	347	724	169	114	632	656	914	1698	2381
Net Margin	-27.1%	16.2%	22.4%	6.3%	3.2%	13.7%	12.5%	15.5%	21.2%	21.5%
Free Cash Flow	-122	315	754	392	559	572	587	1175	1872	2382
Income Tax	39	83	77	36	-47	91	85	46	114	771

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	1993	2487	4054	8005	7250	7993	9365	12264	12123	12479
Cash & Equivalents	374	546	1492	1565	1162	1453	1502	5039	2378	4512
Accounts Receivable	254	500	591	766	603	801	1094	1262	1673	2177
Inventories	233	318	397	633	559	741	943	972	1233	1876
Goodwill & Int. Ass.	261	237	217	2687	2527	2360	2116	1951	1797	1803
Total Liabilities	540	719	1584	2683	2575	2780	4020	6162	5135	5899
Accounts Payable	50	121	164	259	200	224	300	348	465	511
Long-Term Debt	46	23	743	1273	1304	1335	2361	4326	2693	2417
Shareholder's Equity	1453	1768	2470	5322	4676	5213	5345	6102	6987	6580
D/E Ratio	0.03	0.01	0.30	0.24	0.28	0.26	0.44	0.71	0.39	0.37

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	-12.6%	15.5%	22.1%	2.8%	1.5%	8.3%	7.6%	8.5%	13.9%	19.4%
Return on Equity	-18.7%	21.5%	34.2%	4.3%	2.3%	12.8%	12.4%	16.0%	25.9%	35.1%
ROIC	-16.8%	21.1%	28.9%	3.4%	1.8%	10.1%	9.2%	10.1%	16.9%	25.5%
Shares Out.	126.53	125.95	123.58	186.66	162.87	162.35	158.53	160.20	161.72	156.89
Revenue/Share	8.89	16.65	25.90	21.28	20.75	26.40	29.70	33.60	43.61	61.27
FCF/Share	-0.97	2.46	6.03	3.13	3.22	3.28	3.32	6.71	10.19	13.18

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.