Lam Research Corporation (LRCX)

Updated August 18th, 2020 by Felix Martinez

Key Metrics

Current Price:	$379	**5 Year CAGR Estimate:**	14.2%	**Market Cap:**	$56.47 B
Fair Value Price:	$336	**5 Year Growth Estimate:**	16.0%	**Ex-Dividend Date:**	9/30/2020[1]
% Fair Value:	113%	**5 Year Valuation Multiple Estimate:**	-2.4%	**Dividend Payment Date:**	10/16/2020
Dividend Yield:	1.2%	**5 Year Price Target**	$706	**Years Of Dividend Growth:**	6
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	4.5%

Overview & Current Events

Lam Research Corporation (LRCX) was founded in 1980 and is headquartered in Fermont, California. The company designs, manufacture, 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. 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 $56.47 billion, over 10,700 employees, and produced roughly $10 billion in revenue in 2020.

On July 29, 2020, Lam Research reported results for the fourth quarter and Fiscal Year (FY)2020 ending on June 28, 2020. The company had a great quarter and year overall. For the quarter, the company revenue grew over 18% Year over year (YoY) from $2.4 billion to now $2.7 billion. For the year, revenue increased from $9.7 billion in FY2019 to now $10 billion for FY2020, which is increased by 4.1%. Revenue by region shows that China and Korea represent 34% and 32%, respectively, of total revenue for the year. The next closest region is Taiwan, with 11%. Net income also grew by a substantial amount. In 4Q19, the company's net income was $542 million. At the end of the fourth quarter, Lam reported a net income of $697 million, which represents an increase of 28.6% YoY. Non-GAAP earnings per share (EPS) came in $4.78 for the quarter. This was an increase of 20% compared to the third quarter Non-GAAP EPS of $3.98.

For FY2020, we estimated that the company would earn $15.14 for the year, which was estimated in the last quarterly Sure Dividend Report. However, the company reported earnings of $15.95, which is an increase of 5.4%.

The company provided guidance for the first quarter of FY2021. The management team expects revenue of $3.1 billion and EPS of $5.15. For our estimate, we expect the company to make $21 for FY2021. We will use this estimate for our fair price calculation and total return calculation. This earning would represent a growth of 31.7%.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$5.86	$2.07	$2.21	$4.39	$5.01	$6.36	$9.98	$17.87	$14.54	$15.95	***$21.00***	***$44.11***
DPS	$0.00	$0.00	$0.00	$0.18	$0.84	$1.20	$1.65	$2.55	$4.40	$4.60	***$4.60***	***$7.08***
Shares[2]	125.0	125.0	173.0	175.0	177.0	175.0	184.0	181.0	160.0	149.0	***149.0***	***149.0***

Lam Research has grown its revenue by an impressive 18.3% growth rate over the past ten years, and 16.4% over the past five years. Earnings per share have increased by over 25.8% over the past five years. We expect annual earnings growth to be 16% for the next five years, and dividend growth of 9% going forward. However, the company has had tremendous dividend growth record over the past three years with an average of 49.4%.

[1] Ex-dividend date and dividend payment date are estimates.

[2] Share count is in millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	9.3	16.9	16.5	16.9	14	12.9	13.2	8.4	19.20	20.30	***18.1***	***16.0***
Avg. Yld.	0.0%	0.0%	0.0%	0.3%	1.1%	1.6%	1.4%	1.4%	2.6%	1.4%	***1.2%***	***1.0%***

Over the past decade, Lam Research has averaged a 14.8 P/E. During trough periods in the semiconductor industry, the company occasionally reported very low or negative earnings. We estimate a forward P/E of 16.0 for the company should be fair value, although it naturally varies through the course of the highly cyclical semiconductor business cycle. Thus, at the current price, the company is slightly higher than our fair price estimate.

Safety, Quality, Competitive Advantage, & Recession Resiliency

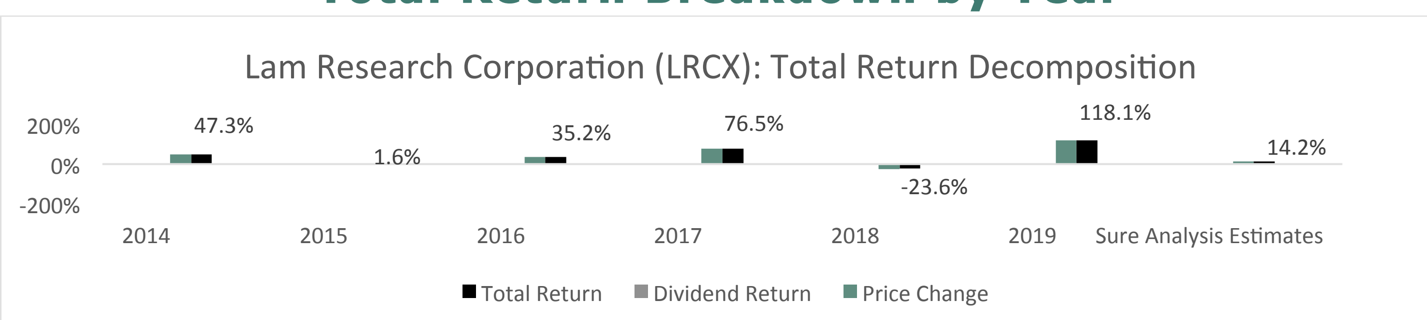
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	0.0%	0.0%	0.0%	4.1%	16.8%	18.9%	16.5%	14.3%	30.3%	28.8%	***22%***	***16%***

Lam Research is one of the top 3 semiconductor manufacturing equipment vendors globally, 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. 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. However, it appears to be more profitable during each down cycle than the one before as its service revenue continues to smooth out its overall results, and the company matures. 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 assets than debt, and total debt/equal ratio of 1.1 which is a decrease from the last report of 1.8.

Final Thoughts & Recommendation

Lam Research is a leader in a growing industry with a strong balance sheet. However, the company still has the potential for an estimated forward return of 14.2%, and we consider it to be a Buy at the current price. Our last report also had a Buy recommendation, and since then, the share price for LRCX has increased by 60%. The semiconductor industry is cyclical but expected to have strong growth over the next decade. Cloud computing, machine learning, autonomous driving, and the internet of things continue to grow in scale and relevance. With a low payout ratio, the company pays a modest but fast-growing dividend and appears to be maturing into a solid dividend stock.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	2,134	3,238	2,665	3,599	4,607	5,259	5,886	8,014	11,077	9,654
Gross Profit	970	1,497	1,084	1,403	2,007	2,284	2,619	3,603	5,165	4,358
Gross Margin	45.5%	46.2%	40.7%	39.0%	43.6%	43.4%	44.5%	45.0%	46.6%	45.1%
SG&A Exp.	241	308	402	601	613	592	631	667	762	702
D&A Exp.	71	75	101	304	292	278	291	307	326	309
Operating Profit	447	816	238	118	678	867	1,074	1,902	3,213	2,465
Operating Margin	20.9%	25.2%	8.9%	3.3%	14.7%	16.5%	18.3%	23.7%	29.0%	25.5%
Net Profit	347	724	169	114	632	656	914	1,698	2,381	2,191
Net Margin	16.2%	22.4%	6.3%	3.2%	13.7%	12.5%	15.5%	21.2%	21.5%	22.7%
Free Cash Flow	315	754	392	559	572	587	1,175	1,872	2,382	2,873
Income Tax	83	77	36	(47)	91	85	46	114	771	255

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	2,487	4,054	8,005	7,250	7,993	9,365	12,264	12,123	12,479	12,001
Cash & Equivalents	546	1,492	1,565	1,162	1,453	1,502	5,039	2,378	4,512	3,658
Accounts Receivable	500	591	766	603	801	1,094	1,262	1,673	2,177	1,456
Inventories	318	397	633	559	741	943	972	1,233	1,876	1,540
Goodwill & Int. Ass.	237	217	2,687	2,527	2,360	2,116	1,951	1,797	1,803	1,702
Total Liabilities	719	1,584	2,683	2,575	2,780	4,020	6,162	5,135	5,899	7,278
Accounts Payable	121	164	259	200	224	300	348	465	511	377
Long-Term Debt	23	743	1,273	1,304	1,335	2,361	4,326	2,693	2,417	4,490
Shareholder's Equity	1,768	2,470	5,322	4,676	5,213	5,345	6,102	6,987	6,580	4,723
D/E Ratio	0.01	0.30	0.24	0.28	0.26	0.44	0.71	0.39	0.37	0.95

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	15.5%	22.1%	2.8%	1.5%	8.3%	7.6%	8.5%	13.9%	19.4%	17.9%
Return on Equity	21.5%	34.2%	4.3%	2.3%	12.8%	12.4%	16.0%	25.9%	35.1%	38.8%
ROIC	21.1%	28.9%	3.4%	1.8%	10.1%	9.2%	10.1%	16.9%	25.5%	24.1%
Shares Out.	128.0	125.0	125.0	173.0	175.0	177.0	175.0	184.0	181.0	160.0
Revenue/Share	16.65	25.90	21.28	20.75	26.40	29.70	33.60	43.61	61.27	60.37
FCF/Share	2.46	6.03	3.13	3.22	3.28	3.32	6.71	10.19	13.18	17.96

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