Lam Research Corporation (LRCX)

Updated May 25th, 2021 by Felix Martinez

Key Metrics

Current Price:	$640	**5 Year CAGR Estimate:**	8.4%	**Market Cap:**	$87.6 B
Fair Value Price:	$481	**5 Year Growth Estimate:**	14.0%	**Ex-Dividend Date:**	6/15/2021
% Fair Value:	133%	**5 Year Valuation Multiple Estimate:**	-5.6%	**Dividend Payment Date:**	7/07/2021
Dividend Yield:	0.9%	**5 Year Price Target**	$952	**Years Of Dividend Growth:**	6
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	13%

Overview & Current Events

Lam Research Corporation (LRCX) was founded in 1980 and headquartered in Fermont, California. The company designs, manufactures, markets, refurbishes, and services semiconductor processing equipment used to fabricate integrated circuits worldwide. Lam is a major supplier of wafer fabrication equipment and services to the semiconductor industry. Its products address various applications, including thin film deposition, single-wafer cleaning, and plasma tech. The Company has a market capitalization of approximately $87.6 billion, over 10,700 employees, and produced roughly $10 billion in revenue in 2020.

On April 21, 2021, Lam Research reported results for the third quarter for Fiscal Year (FY)2021, ending on March 28, 2021. The Company had another great quarter to start the second half of FY2021. CEO Mr. Archer had this to say about the quarter "Lam's growth trajectory continues with record revenue and earnings per share delivered in the March quarter". The Company revenue grew over 11% Quarter over Quarter (QoQ) from $3.46 billion to now $3.85 billion. Revenue by region shows that China and Korea represent 32% and 31%, respectively, of total revenue for the quarter. The next closest region is Taiwan, with 14%. The gross margin decreased 10 basis points for the third quarter compared to the last quarter, and operating income increased by 190 basis points from 29.2% to 31.1%. Net income also grew by a substantial amount of 86.4%, from $574 million to now $1,071 million year over year. For the nine month of FY2021, net income is up 77.7% compared to the nine months of FY2020. Non-GAAP earnings per share (EPS) came in $7.41 for the quarter. This was an increase of 90.9% compared to the third quarter of FY2020 Non-GAAP EPS of $3.88. Cash and Cash equivalents decreased slightly. This decrease was primarily the result of $1.1 billion of share repurchases and dividends paid to stockholders.

In the last quarterly Sure Dividend report, we estimated that The Company would earn $24.95 EPS for FY2021. However, the Company reported excellent earnings for Q3. Thus, we are increasing our estimates to now $26.70 EPS for FY2021, which is an increase of 7%. The Company provided guidance for the fourth quarter of FY2021. The management team expects revenue of $4.0 billion and EPS of $7.50 for the quarter. We will use our estimate of $26.70 EPS for our fair price calculation and total return calculation. This earning would represent a growth of 67.4% compared to FY2020.

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	***$26.70***	***$51.41***
DPS	$0.00	$0.00	$0.00	$0.18	$0.84	$1.20	$1.65	$2.55	$4.40	$4.60	***$5.20***	***$8.00***
Shares[1]	125.0	125.0	173.0	175.0	177.0	175.0	184.0	181.0	160.0	149.0	***145.0***	***145.0***

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 33.2% over the past five years. We expect annual earnings growth to be 14% for the next five years, and we expect dividend growth of 9% going forward. However, The Company has had a tremendous dividend growth record over the past three years, with an average of 49.4%. The Company's most recent dividend increase was 13%, announced on August 27, 2020.

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[1] Share count is in millions.

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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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	***24.0***	***18.0***
Avg. Yld.	0.0%	0.0%	0.0%	0.3%	1.1%	1.6%	1.4%	1.4%	2.6%	1.4%	***0.8%***	***0.9%***

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 18.0 for the company should be fair value, although it naturally varies through the highly cyclical semiconductor business cycle. Thus, the company is higher at the current price than our reasonable price estimate with a current PE of 24.0.

Safety, Quality, Competitive Advantage, & Recession Resiliency

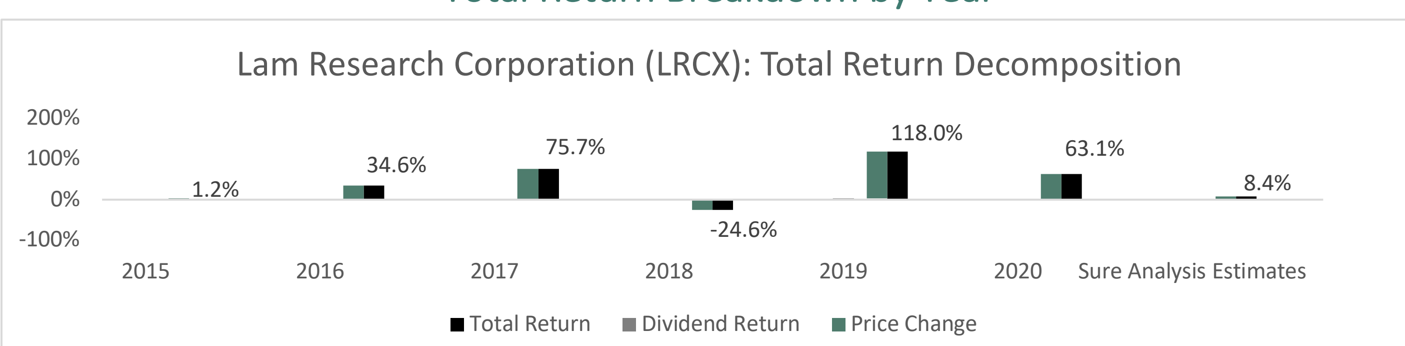
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	0.0%	0.0%	0.0%	4.1%	16.8%	18.9%	16.5%	14.3%	30.3%	28.8%	***19%***	***16%***

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 equipment suppliers' revenues 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 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 a total debt/equal ratio of 1.1, decreasing from a previous 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 8.4%, and we consider it to be a HOLD at the current price. However, when we first gave our Buy recommendation of LRCX, the share price has increased over 114%. 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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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	3,238	2,665	3,599	4,607	5,259	5,886	8,014	11,077	9,654	10,045
Gross Profit	1,497	1,084	1,403	2,007	2,284	2,619	3,603	5,165	4,358	4,609
Gross Margin	46.2%	40.7%	39.0%	43.6%	43.4%	44.5%	45.0%	46.6%	45.1%	45.9%
SG&A Exp.	308	402	601	613	592	631	667	762	702	682
D&A Exp.	75	101	304	292	278	291	307	326	309	269
Operating Profit	816	238	118	678	867	1,074	1,902	3,213	2,465	2,674
Operating Margin	25.2%	8.9%	3.3%	14.7%	16.5%	18.3%	23.7%	29.0%	25.5%	26.6%
Net Profit	724	169	114	632	656	914	1,698	2,381	2,191	2,252
Net Margin	22.4%	6.3%	3.2%	13.7%	12.5%	15.5%	21.2%	21.5%	22.7%	22.4%
Free Cash Flow	754	392	559	572	587	1,175	1,872	2,382	2,873	1,923
Income Tax	77	36	(47)	91	85	46	114	771	255	323

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	4,054	8,005	7,250	7,993	9,365	12,264	12,123	12,479	12,001	14,559
Cash & Equivalents	1,492	1,565	1,162	1,453	1,502	5,039	2,378	4,512	3,658	4,915
Accounts Receivable	591	766	603	801	1,094	1,262	1,673	2,177	1,456	2,097
Inventories	397	633	559	741	943	972	1,233	1,876	1,540	1,900
Goodwill & Int. Ass.	217	2,687	2,527	2,360	2,116	1,951	1,797	1,803	1,702	1,653
Total Liabilities	1,584	2,683	2,575	2,780	4,020	6,162	5,135	5,899	7,278	9,376
Accounts Payable	164	259	200	224	300	348	465	511	377	592
Long-Term Debt	743	1,273	1,304	1,335	2,361	4,326	2,693	2,417	4,490	5,795
Shareholder's Equity	2,470	5,322	4,676	5,213	5,345	6,102	6,987	6,580	4,723	5,183
D/E Ratio	0.30	0.24	0.28	0.26	0.44	0.71	0.39	0.37	0.95	1.12

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	22.1%	2.8%	1.5%	8.3%	7.6%	8.5%	13.9%	19.4%	17.9%	17.0%
Return on Equity	34.2%	4.3%	2.3%	12.8%	12.4%	16.0%	25.9%	35.1%	38.8%	45.5%
ROIC	28.9%	3.4%	1.8%	10.1%	9.2%	10.1%	16.9%	25.5%	24.1%	22.3%
Shares Out.	125.0	125.0	173.0	175.0	177.0	175.0	184.0	181.0	160.0	149.0
Revenue/Share	25.90	21.28	20.75	26.40	29.70	33.60	43.61	61.27	60.37	67.37
FCF/Share	6.03	3.13	3.22	3.28	3.32	6.71	10.19	13.18	17.96	12.90

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