



Lam Research Corporation (LRCX)

Updated February 20th, 2022 by Felix Martinez

Key Metrics

Current Price:	\$570	5 Year CAGR Estimate:	11.8%	Market Cap:	\$79.5 B
Fair Value Price:	\$593	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	03/15/2022
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.8%	Dividend Payment Date:	04/06/2022
Dividend Yield:	1.1%	5 Year Price Target	\$954	Years Of Dividend Growth:	7
Dividend Risk Score:	C	Retirement Suitability Score:	F	Last Dividend Increase:	15.4%

Overview & Current Events

Lam Research Corporation (LRCX) was founded in 1980 and headquartered in Fremont, 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 \$79.5 billion, over 10,700 employees, and produced roughly \$10 billion in revenue in 2020.

On January 26, 2022, Lam Research reported results for the second quarter of Fiscal Year (FY)2022, ending on December 26, 2021. Lam Research Corporation ends its fiscal year at the end of June. The company had another excellent quarter. The company revenue grew by over 22.3% compared to 2Q21 from \$3.5 billion to \$4.2 billion. However, compared to the first quarter of FY2022, revenue is down (2)%. Revenue by region shows that China and Korea represent 26% and 25%, respectively, of total revenue for the quarter. The next closest region is Taiwan, with 18%. Net income also grew by a substantial amount of 37.5%, from \$869 million to now \$1.2 billion year-over-year. On a per-share basis, the company earned \$8.44 for the quarter, 41.6% higher than in the second quarter of the fiscal year 2021, and it was 2% higher than the last quarter.

For the first half of the fiscal year, revenue is up 28%, and net income is up 40.3% compared to the first half of FY2021. Also, earnings are up 44.7% for the six months compared to the first six months of FY2021. Overall, the company has done well, even considering near-term impacts to its results like supply chain conditions which worsened in late December.

In the last quarterly Sure Dividend report, we estimated that The Company would earn \$34.16 EPS for FY2022. However, the company reported excellent earnings for Q2, but lower the expected. For FY2022, we now expect the company to make \$32.92 per share in earnings. This is an increase of 20.9% compared to FY2021.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.07	\$2.21	\$4.39	\$5.01	\$6.36	\$9.98	\$17.87	\$14.54	\$15.95	\$27.22	\$32.92	\$53.02
DPS	\$0.00	\$0.00	\$0.18	\$0.84	\$1.20	\$1.65	\$2.55	\$4.40	\$4.60	\$5.20	\$6.20	\$9.54
Shares¹	125.0	173.0	175.0	177.0	175.0	184.0	181.0	160.0	149.0	145.0	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 27.0% over the past five years. We expect annual earnings growth to be 10% 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 15.4%, announced on August 26, 2021.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	16.9	16.5	16.9	14	12.9	13.2	8.4	19.20	20.30	23.90	17.3	18.0
Avg. Yld.	0.0%	0.0%	0.3%	1.1%	1.6%	1.4%	1.4%	2.6%	1.4%	0.8%	1.1%	1.0%

Over the past decade, Lam Research has averaged a 16.2 P/E. During trough periods in the semiconductor industry, the company occasionally reported low or negative earnings. We estimate a forward P/E of 18.0 for the company should be a fair value, although it naturally varies through the highly cyclical semiconductor business cycle. However, the company has a lower PE at the current price than our reasonable price estimate. The company has a current PE of 17.3.

Safety, Quality, Competitive Advantage, & Recession Resiliency

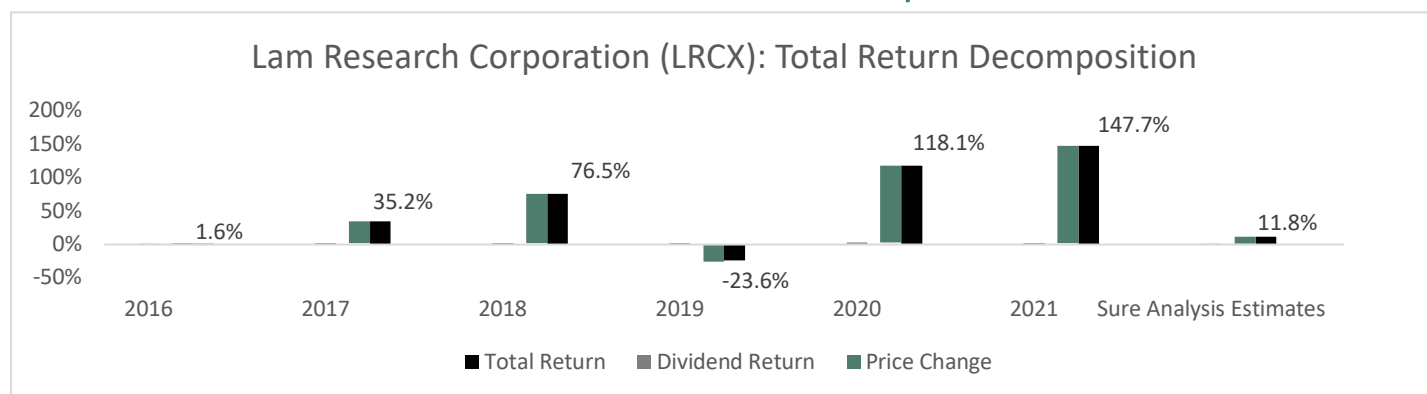
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	0.0%	0.0%	4.1%	16.8%	18.9%	16.5%	14.3%	30.3%	28.8%	19.1%	19%	18%

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 a small economic moat. However, the semiconductor industry is highly volatile due to commodity-like supply and demand characteristics. The sector halts new supply capacity every several years and negatively impacts equipment suppliers' revenues like Lam Research. The company has encountered periods of very low or negative earnings during these occasions. 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 0.8, decreasing from a previous report of 0.9.

Final Thoughts & Recommendation

Lam Research is a leader in a growing industry with a strong balance sheet. The company has the potential for an estimated forward return of 11.8%, and we consider it to be a Buy at the current price. The semiconductor industry is cyclical but expected to grow strongly 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 dividend 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,665	3,599	4,607	5,259	5,886	8,014	11,077	9,654	10,045	14,626
Gross Profit	1,084	1,403	2,007	2,284	2,619	3,603	5,165	4,358	4,609	6,805
Gross Margin	40.7%	39.0%	43.6%	43.4%	44.5%	45.0%	46.6%	45.1%	45.9%	46.5%
SG&A Exp.	402	601	613	592	631	667	762	702	682	830
D&A Exp.	101	304	292	278	291	307	326	309	269	307
Operating Profit	238	118	678	867	1,074	1,902	3,213	2,465	2,674	4,482
Operating Margin	8.9%	3.3%	14.7%	16.5%	18.3%	23.7%	29.0%	25.5%	26.6%	30.6%
Net Profit	169	114	632	656	914	1,698	2,381	2,191	2,252	3,908
Net Margin	6.3%	3.2%	13.7%	12.5%	15.5%	21.2%	21.5%	22.7%	22.4%	26.7%
Free Cash Flow	392	559	572	587	1,175	1,872	2,382	2,873	1,923	3,239
Income Tax	36	(47)	91	85	46	114	771	255	323	462

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	8,005	7,250	7,993	9,365	12,264	12,123	12,479	12,001	14,559	15,892
Cash & Equivalents	1,565	1,162	1,453	1,502	5,039	2,378	4,512	3,658	4,915	4,418
Accounts Receivable	766	603	801	1,094	1,262	1,673	2,177	1,456	2,097	3,026
Inventories	633	559	741	943	972	1,233	1,876	1,540	1,900	2,689
Goodwill & Int. Ass.	2,687	2,527	2,360	2,116	1,951	1,797	1,803	1,702	1,653	1,622
Total Liabilities	2,683	2,575	2,780	4,020	6,162	5,135	5,899	7,278	9,376	9,865
Accounts Payable	259	200	224	300	348	465	511	377	592	830
Long-Term Debt	1,273	1,304	1,335	2,361	4,326	2,693	2,417	4,490	5,795	4,954
Shareholder's Equity	5,322	4,676	5,213	5,345	6,102	6,987	6,580	4,723	5,183	6,027
D/E Ratio	0.24	0.28	0.26	0.44	0.71	0.39	0.37	0.95	1.12	0.82

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.8%	1.5%	8.3%	7.6%	8.5%	13.9%	19.4%	17.9%	17.0%	25.7%
Return on Equity	4.3%	2.3%	12.8%	12.4%	16.0%	25.9%	35.1%	38.8%	45.5%	69.7%
ROIC	3.4%	1.8%	10.1%	9.2%	10.1%	16.9%	25.5%	24.1%	22.3%	35.6%
Shares Out.	125.0	173.0	175.0	177.0	175.0	184.0	181.0	160.0	149.0	145.00
Revenue/Share	21.28	20.75	26.40	29.70	33.60	43.61	61.27	60.37	67.37	100.65
FCF/Share	3.13	3.22	3.28	3.32	6.71	10.19	13.18	17.96	12.90	22.29

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

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