



Lam Research Corporation (LRCX)

Updated October 30th, 2022 by Felix Martinez

Key Metrics

Current Price:	\$406	5 Year CAGR Estimate:	11.6%	Market Cap:	\$55.3 B
Fair Value Price:	\$450	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	12/14/22 ¹
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.1%	Dividend Payment Date:	01/05/23
Dividend Yield:	1.7%	5 Year Price Target	\$6.62	Years Of Dividend Growth:	9
Dividend Risk Score:	X	Retirement Suitability Score:	X	Rating:	Buy

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 \$55.3 billion, over 10,700 employees, and produced roughly \$17.23 billion in revenue in 2022.

On October 19, 2022, Lam Research reported the first quarter results for Fiscal Year (FY)2023, ending on September 25, 2022. Lam Research Corporation ends its fiscal year at the end of June. The company had another excellent quarter. The company revenue grew by over 9.5% compared to 1Q22 from \$4.64 billion to \$5.1 billion. Diluted earnings per share is up 18.9% from compared to last quarter that ended in June. Revenue by region shows that China and Taiwan represent 30% and 22% of total revenue for the quarter. The next closest region is Korea, with 17%. Net income was also up by 20.9%, from \$1.17 billion to \$1.43 billion year-over-year. On a per-share basis, the company earned \$8.27 for the quarter, 25.6% higher than in the first quarter of the fiscal year 2022, and it was 18.9% higher than the last reported quarter. Overall, the company has done well, even considering near-term impacts on its results like supply chain conditions which worsened. The company also announced a 15% dividend increase from \$1.50 per share to \$1.725 per share. This increase represents a nine consecutive years of dividend increases.

For FY2023, we expect the company to make \$34.65 per share in earnings. This is an increase of 5.8% compared to FY2022.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.21	\$4.39	\$5.01	\$6.36	\$9.98	\$17.87	\$14.54	\$15.95	\$27.22	\$32.75	\$34.65	\$50.91
DPS	\$0.00	\$0.18	\$0.84	\$1.20	\$1.65	\$2.55	\$4.40	\$4.60	\$5.20	\$6.00	\$6.45	\$9.48
Shares²	173.0	175.0	177.0	175.0	184.0	181.0	160.0	149.0	145.0	140.0	140.0	140.0

Lam Research has grown its revenue by an impressive 34.9% growth rate over the past ten years and 14.2% over the past five years. We expect annual earnings growth to be 8% for the next five years, and we expect dividend growth of 8% going forward. Also, 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 15.0%, announced on August 25, 2022.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.5	16.9	14.0	12.9	13.2	8.4	19.2	20.3	23.9	11.9	11.7	13.0
Avg. Yld.	0.0%	0.3%	1.1%	1.6%	1.4%	1.4%	2.6%	1.4%	0.8%	1.4%	1.7%	1.2%

¹ Ex-Dividend and Dividend Payment Dates are estimates.

² Share count is in millions.

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Over the past decade, Lam Research has averaged a 15.7x P/E. During trough periods in the semiconductor industry, the company occasionally reported low or negative earnings. We estimate a forward P/E of 13.0x 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 11.7x. The current PE would provide a 2.1% annual tailwind if the company reverted back to its fair PE ratio of 13.0x.

Safety, Quality, Competitive Advantage, & Recession Resiliency

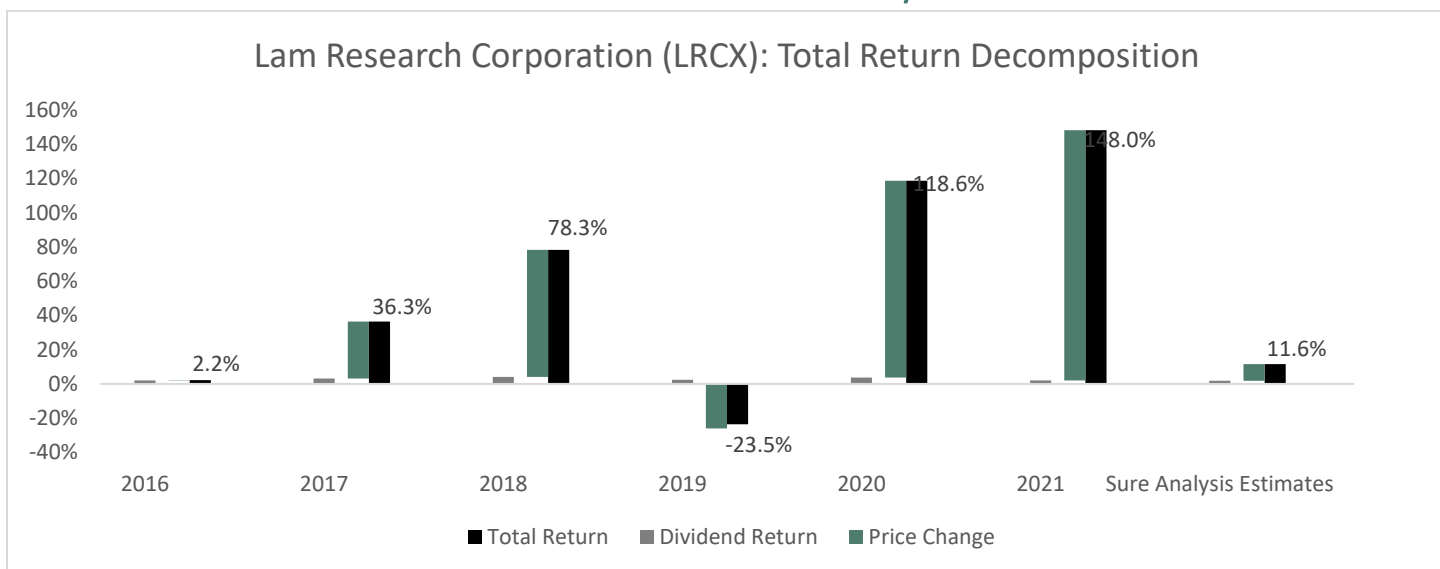
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	0.0%	4.1%	16.8%	18.9%	16.5%	14.3%	30.3%	28.8%	19.1%	18.1%	19%	19%

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 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 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 0.7, 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 11.6%, 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	3,599	4,607	5,259	5,886	8,014	11,077	9,654	10,045	14,626	17227
Gross Profit	1,403	2,007	2,284	2,619	3,603	5,165	4,358	4,609	6,805	7872
Gross Margin	39.0%	43.6%	43.4%	44.5%	45.0%	46.6%	45.1%	45.9%	46.5%	45.7%
SG&A Exp.	601	613	592	631	667	762	702	682	830	886
D&A Exp.	304	292	278	291	307	326	309	269	307	334
Operating Profit	118	678	867	1,074	1,902	3,213	2,465	2,674	4,482	5382
Operating Margin	3.3%	14.7%	16.5%	18.3%	23.7%	29.0%	25.5%	26.6%	30.6%	31.2%
Net Profit	114	632	656	914	1,698	2,381	2,191	2,252	3,908	4605
Net Margin	3.2%	13.7%	12.5%	15.5%	21.2%	21.5%	22.7%	22.4%	26.7%	26.7%
Free Cash Flow	559	572	587	1,175	1,872	2,382	2,873	1,923	3239	2554
Income Tax	(47)	91	85	46	114	771	255	323	462	588

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	7,250	7,993	9,365	12,264	12,123	12,479	12,001	14,559	15,892	17196
Cash & Equivalents	1,162	1,453	1,502	5,039	2,378	4,512	3,658	4,915	4,418	3522
Accounts Receivable	603	801	1,094	1,262	1,673	2,177	1,456	2,097	3,026	4314
Inventories	559	741	943	972	1,233	1,876	1,540	1,900	2,689	3966
Goodwill & Int. Ass.	2,527	2,360	2,116	1,951	1,797	1,803	1,702	1,653	1,622	1617
Total Liabilities	2,575	2,780	4,020	6,162	5,135	5,899	7,278	9,376	9,865	10917
Accounts Payable	200	224	300	348	465	511	377	592	830	1011
Long-Term Debt	1,304	1,335	2,361	4,326	2,693	2,417	4,490	5,795	4,954	4958
Shareholder's Equity	4,676	5,213	5,345	6,102	6,987	6,580	4,723	5,183	6,027	6278
D/E Ratio	0.28	0.26	0.44	0.71	0.39	0.37	0.95	1.12	0.82	0.79

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.5%	8.3%	7.6%	8.5%	13.9%	19.4%	17.9%	17.0%	25.7%	27.8%
Return on Equity	2.3%	12.8%	12.4%	16.0%	25.9%	35.1%	38.8%	45.5%	69.7%	74.8%
ROIC	1.8%	10.1%	9.2%	10.1%	16.9%	25.5%	24.1%	22.3%	35.6%	41.5%
Shares Out.	173.0	175.0	177.0	175.0	184.0	181.0	160.0	149.0	145.00	140.63
Revenue/Share	20.75	26.40	29.70	33.60	43.61	61.27	60.37	67.37	100.65	122.50
FCF/Share	3.22	3.28	3.32	6.71	10.19	13.18	17.96	12.90	22.29	18.16

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

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