



Lam Research Corporation (LRCX)

Updated February 7th, 2023 by Felix Martinez

Key Metrics

| | | | | | |
|-----------------------------|-------|--------------------------------------------|-------|----------------------------------|-----------------------|
| Current Price: | \$533 | 5 Year CAGR Estimate: | 5.1% | Market Cap: | \$70.3 B |
| Fair Value Price: | \$436 | 5 Year Growth Estimate: | 8.0% | Ex-Dividend Date: | 12/14/22 ¹ |
| % Fair Value: | 122% | 5 Year Valuation Multiple Estimate: | -4.0% | Dividend Payment Date: | 01/05/23 |
| Dividend Yield: | 1.3% | 5 Year Price Target | \$640 | Years Of Dividend Growth: | 9 |
| Dividend Risk Score: | C | Retirement Suitability Score: | F | Rating: | Hold |

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 \$70.3 billion, over 10,700 employees, and produced roughly \$17.23 billion in revenue in 2022.

On January 25, 2023, Lam Research reported the second quarter results for Fiscal Year (FY)2023, ending on December 25, 2022. Lam Research Corporation ends its fiscal year at the end of June. The company revenue grew by over 24% compared to 2Q22 from \$4.2 billion to \$5.2 billion. Diluted earnings per share is up 27.6% year-over-year. Revenue by region shows that China and Korea represent 24% and 20% of total revenue for the quarter. The next closest region is Taiwan, with 19%. Net income was also up by 22.9%, from \$1.2 billion to \$1.5 billion year-over-year. On a per-share basis, the company earned \$10.77 for the quarter, 27.6% higher than in the second quarter of the fiscal year 2022, and it was 3.7% 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.

For FY2023, we expect the company to make \$33.52 per share in earnings. This is an increase of 2.4% 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 | \$33.52 | \$49.25 |
| DPS | \$0.00 | \$0.18 | \$0.84 | \$1.20 | \$1.65 | \$2.55 | \$4.40 | \$4.60 | \$5.20 | \$6.00 | \$6.90 | \$10.14 |
| 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 earnings by an impressive 34.9% growth rate over the past ten years and 13.4% 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 five years, with an average of 22.0%. 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 | 15.9 | 13.0 |
| Avg. Yld. | 0.0% | 0.3% | 1.1% | 1.6% | 1.4% | 1.4% | 2.6% | 1.4% | 0.8% | 1.4% | 1.3% | 1.6% |

¹ Ex-Dividend and Dividend Payment Dates are estimates.

² 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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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 15.9x. The current PE would provide a (4.0)% annual headwind if the company reverted back to its fair PE ratio of 13.0x.

Safety, Quality, Competitive Advantage, & Recession Resiliency

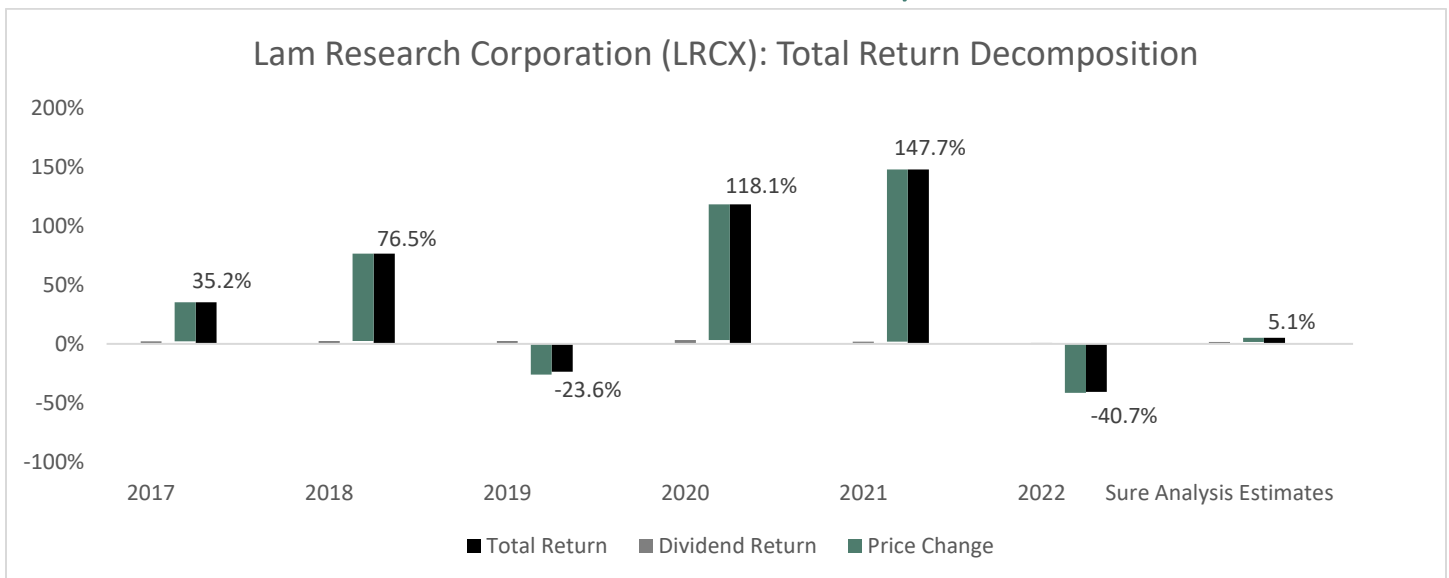
| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|
| Payout | 0.0% | 4.1% | 16.8% | 18.9% | 16.5% | 14.3% | 30.3% | 28.8% | 19.1% | 18.1% | 21% | 21% |

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 0.6.

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 5.1%, and we consider it to be a hold 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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