Lam Research Corporation (LRCX)

Updated May 18th, 2024 by Felix Martinez

Key Metrics

Current Price:	$912	**5 Year CAGR Estimate:**	-7.5%	**Market Cap:**	$119.2 B
Fair Value Price:	$386	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	06/18/24
% Fair Value:	237%	**5 Year Valuation Multiple Estimate:**	-15.8%	**Dividend Payment Date:**	07/10/24
Dividend Yield:	0.9%	**5 Year Price Target**	$567	**Years Of Dividend Growth:**	9
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Sell

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 $119.2 billion, over 10,700 employees, and produced roughly $17.4 billion in revenue in 2023.

On April 24th, 2024, Lam Research reported the third quarter results for Fiscal Year (FY)2024, ending on March 31st, 2024. Lam Research Corporation ends its fiscal year at the end of June. The company reported revenue of $3.79 billion. The U.S. GAAP gross margin was 47.5%, with a non-GAAP gross margin of 48.7%. Operating income as a percentage of revenue was 27.9% on a GAAP basis and 30.3% on a non-GAAP basis, resulting in diluted EPS of $7.34 and $7.79, respectively, reflecting slight improvements over the previous quarter.

The company's financial position remains strong, with total cash and equivalents rising to $5.7 billion by the end of the March 2024 quarter, up from $5.6 billion at the end of December 2023. This increase was driven by $1.385 billion in cash generated from operations, offset by $981 million in share repurchases and $263 million in dividends. Deferred revenue decreased to $1.746 billion, with significant contributions to revenue from China (42%) and Korea (24%).

CEO Tim Archer highlighted the strong start to 2024, crediting the company's success to its focus on supporting semiconductor advancements for AI. For the upcoming quarter ending June 30, 2024, Lam Research projects revenue around $3.8 billion, with GAAP and non-GAAP gross margins between 46.7% and 47.5%. Operating income is expected to be 28.3% to 29.5% of revenue, with net income per diluted share forecasted between $7.20 and $7.50, indicating solid future growth prospects.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$4.39	$5.01	$6.36	$9.98	$17.87	$14.54	$15.95	$27.22	$32.75	$34.10	***$29.66***	***$43.58***
DPS	$0.18	$0.84	$1.20	$1.65	$2.55	$4.40	$4.60	$5.20	$6.00	$6.90	***$7.95***	***$11.68***
Shares[1]	175.0	177.0	175.0	184.0	181.0	160.0	149.0	145.0	140.0	140.0	***132.0***	***132.0***

Lam Research has grown its earnings by an impressive 25.6% growth rate over the past ten years and 15.3% 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 12.6%. The company's most recent dividend increase was 16.0%, announced on August 24, 2023.

[1] Share count is in millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.9	14.0	12.9	13.2	8.4	19.2	20.3	23.9	11.9	18.9	***30.8***	***13.0***
Avg. Yld.	0.3%	1.1%	1.6%	1.4%	1.4%	2.6%	1.4%	0.8%	1.4%	1.1%	***0.9%***	***2.1%***

Over the past decade, Lam Research has averaged a 16.0x 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 higher PE at the current price than our reasonable price estimate. The company has a current PE of 30.8x. The current PE would provide a (15.8)% annual headwind if the company reverted back to its fair PE ratio of 13.0x.

Safety, Quality, Competitive Advantage, & Recession Resiliency

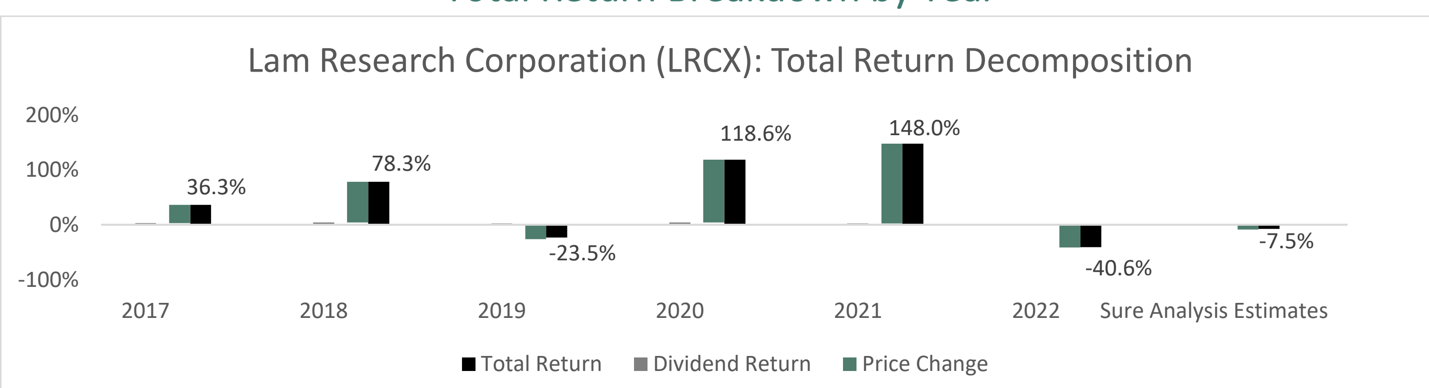
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	4.1%	16.8%	18.9%	16.5%	14.3%	30.3%	28.8%	19.1%	18.3%	20.2%	***27%***	***27%***

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 0.6, decreasing from a previous report of 0.7.

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 negative return of (7.5)%, and we consider it to be a sell 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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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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	4,607	5,259	5,886	8,014	11,077	9,654	10,045	14,626	17227	17,430
Gross Profit	2,007	2,284	2,619	3,603	5,165	4,358	4,609	6,805	7872	7,777
Gross Margin	43.6%	43.4%	44.5%	45.0%	46.6%	45.1%	45.9%	46.5%	45.7%	44.6%
SG&A Exp.	613	592	631	667	762	702	682	830	886	833
D&A Exp.	292	278	291	307	326	309	269	307	334	342
Operating Profit	678	867	1,074	1,902	3,213	2,465	2,674	4,482	5382	5217
Operating Margin	14.7%	16.5%	18.3%	23.7%	29.0%	25.5%	26.6%	30.6%	31.2%	29.9%
Net Profit	632	656	914	1,698	2,381	2,191	2,252	3,908	4605	4511
Net Margin	13.7%	12.5%	15.5%	21.2%	21.5%	22.7%	22.4%	26.7%	26.7%	25.9%
Free Cash Flow	572	587	1,175	1,872	2,382	2,873	1,923	3239	2554	4677
Income Tax	91	85	46	114	771	255	323	462	588	598

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	7,993	9,365	12,264	12,123	12,479	12,001	14,559	15,892	17196	18780
Cash & Equivalents	1,453	1,502	5,039	2,378	4,512	3,658	4,915	4,418	3522	5337
Accounts Receivable	801	1,094	1,262	1,673	2,177	1,456	2,097	3,026	4314	2823
Inventories	741	943	972	1,233	1,876	1,540	1,900	2,689	3966	4816
Goodwill & Int. Ass.	2,360	2,116	1,951	1,797	1,803	1,702	1,653	1,622	1617	1791
Total Liabilities	2,780	4,020	6,162	5,135	5,899	7,278	9,376	9,865	10917	10570
Accounts Payable	224	300	348	465	511	377	592	830	1011	
Long-Term Debt	1,335	2,361	4,326	2,693	2,417	4,490	5,795	4,954	4958	5012
Shareholder's Equity	5,213	5,345	6,102	6,987	6,580	4,723	5,183	6,027	6,278	8,210
D/E Ratio	0.26	0.44	0.71	0.39	0.37	0.95	1.12	0.82	0.79	0.61

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.3%	7.6%	8.5%	13.9%	19.4%	17.9%	17.0%	25.7%	27.8%	25.1%
Return on Equity	12.8%	12.4%	16.0%	25.9%	35.1%	38.8%	45.5%	69.7%	74.8%	62.3%
ROIC	10.1%	9.2%	10.1%	16.9%	25.5%	24.1%	22.3%	35.6%	41.5%	36.9%
Shares Out.	175.0	177.0	175.0	184.0	181.0	160.0	149.0	145.00	140.63	135.83
Revenue/Share	26.40	29.70	33.60	43.61	61.27	60.37	67.37	100.65	122.50	128.31
FCF/Share	3.28	3.32	6.71	10.19	13.18	17.96	12.90	22.29	18.16	34.43

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