Lam Research Corporation (LRCX)

Updated August 4th, 2024 by Felix Martinez

Key Metrics

Current Price:	$763	**5 Year CAGR Estimate:**	-0.6%	**Market Cap:**	$99.4 B
Fair Value Price:	$467	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	09/12/24
% Fair Value:	163%	**5 Year Valuation Multiple Estimate:**	-9.4%	**Dividend Payment Date:**	10/04/24
Dividend Yield:	1.1%	**5 Year Price Target**	$686	**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 $99.4 billion, over 10,700 employees, and produced roughly $14.9 billion in revenue in 2024.

On July 31st, 2024, Lam Research reported the fourth quarter results for Fiscal Year (FY)2024, ending on June 30th, 2024. Lam Research Corporation ends its fiscal year at the end of June. The company reported a revenue of $3.87 billion, with a U.S. GAAP gross margin of 47.5%, operating income at 29.1% of revenue, and a diluted EPS of $7.78. On a non-GAAP basis, the gross margin was 48.5%, operating income was 30.7% of revenue, and diluted EPS was $8.14. Comparatively, the previous quarter ending March 31, 2024, saw a revenue of $3.79 billion, with a U.S. GAAP gross margin of 47.5%, operating income at 27.9%, and diluted EPS of $7.34. Non-GAAP results for the same period showed a gross margin of 48.7%, operating income at 30.3%, and diluted EPS of $7.79. Lam Research's President and CEO, Tim Archer, attributed the positive results to solid execution and growth in the customer support business group. He highlighted strategic investments in R&D and operations aimed at capitalizing on an expected multi-year period of robust wafer fabrication equipment spending. Cash and cash equivalents increased to $5.9 billion from $5.7 billion in the previous quarter. The company generated $862.4 million from operating activities, offset by $373.6 million in share repurchases, $261.5 million in dividends, and $100.7 million in capital expenditures. Deferred revenue decreased to $1.55 billion from $1.75 billion in the previous quarter, with future revenue from shipments to Japanese customers estimated at $98 million. Geographically, 39% of Lam's revenue came from China, 18% from Korea, and 15% from Taiwan. The U.S. accounted for 10%, Southeast Asia for 8%, Japan for 7%, and Europe for 3%. Systems revenue for the June 2024 quarter was $2.17 billion, down from $2.39 billion in the previous quarter, while customer support-related revenue increased to $1.70 billion from $1.40 billion. For the next quarter ending September 29, 2024, Lam projects a revenue of $4.05 billion, with a U.S. GAAP gross margin of 46.9% and non-GAAP gross margin of 47.0%. Operating income is expected to be 29.4% on a GAAP basis and 29.5% on a non-GAAP basis, with a diluted EPS of approximately $7.97 on a GAAP basis and $8.00 on a non-GAAP basis.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2024	2030
EPS	$5.01	$6.36	$9.98	$17.87	$14.54	$15.95	$27.22	$32.75	$34.10	$30.30	***$35.90***	***$52.75***
DPS	$0.84	$1.20	$1.65	$2.55	$4.40	$4.60	$5.20	$6.00	$6.90	$8.00	***$8.74***	***$12.84***
Shares[1]	177.0	175.0	184.0	181.0	160.0	149.0	145.0	140.0	140.0	131.0	***131.0***	***130.0***

Lam Research has grown its earnings by an impressive 22.1% growth rate over the past ten years and 17.6% over the past five years. We expect annual earnings growth to be 8% for the next five years, and we expect dividend growth of

[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.

8% going forward. Also, the company has had a tremendous dividend growth record over the past five years, with an average of 13.7%. The company's most recent dividend increase was 16.0%, announced on August 24, 2023.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	14.0	12.9	13.2	8.4	19.2	20.3	23.9	11.9	18.9	35.1	***21.3***	***13.0***
Avg. Yld.	1.1%	1.6%	1.4%	1.4%	2.6%	1.4%	0.8%	1.4%	1.1%	0.8%	***1.1%***	***1.9%***

Over the past decade, Lam Research has averaged a 17.8x 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 21.3x. The current PE would provide a (9.4)% annual headwind if the company reverted back to its fair PE ratio of 13.0x.

Safety, Quality, Competitive Advantage, & Recession Resiliency

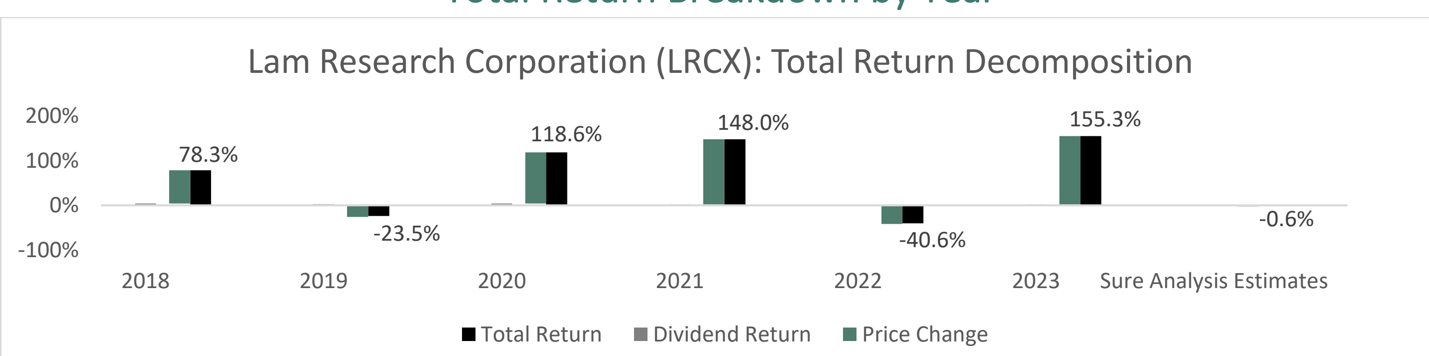
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	16.8%	18.9%	16.5%	14.3%	30.3%	28.8%	19.1%	18.3%	20.2%	26.4%	***24%***	***24%***

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 (0.6)%, 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



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.

Lam Research Corporation (LRCX)

Updated August 4th, 2024 by Felix Martinez

Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	5,259	5,886	8,014	11,077	9,654	10,045	14,626	17227	17,430	
Gross Profit	2,284	2,619	3,603	5,165	4,358	4,609	6,805	7872	7,777	
Gross Margin	43.4%	44.5%	45.0%	46.6%	45.1%	45.9%	46.5%	45.7%	44.6%	
SG&A Exp.	592	631	667	762	702	682	830	886	833	
D&A Exp.	278	291	307	326	309	269	307	334	342	
Operating Profit	867	1,074	1,902	3,213	2,465	2,674	4,482	5382	5217	
Operating Margin	16.5%	18.3%	23.7%	29.0%	25.5%	26.6%	30.6%	31.2%	29.9%	
Net Profit	656	914	1,698	2,381	2,191	2,252	3,908	4605	4511	
Net Margin	12.5%	15.5%	21.2%	21.5%	22.7%	22.4%	26.7%	26.7%	25.9%	
Free Cash Flow	587	1,175	1,872	2,382	2,873	1,923	3239	2554	4677	
Income Tax	85	46	114	771	255	323	462	588	598	

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	9,365	12,264	12,123	12,479	12,001	14,559	15,892	17196	18780	
Cash & Equivalents	1,502	5,039	2,378	4,512	3,658	4,915	4,418	3522	5337	
Accounts Receivable	1,094	1,262	1,673	2,177	1,456	2,097	3,026	4314	2823	
Inventories	943	972	1,233	1,876	1,540	1,900	2,689	3966	4816	
Goodwill & Int. Ass.	2,116	1,951	1,797	1,803	1,702	1,653	1,622	1617	1791	
Total Liabilities	4,020	6,162	5,135	5,899	7,278	9,376	9,865	10917	10570	
Accounts Payable	300	348	465	511	377	592	830	1011		
Long-Term Debt	2,361	4,326	2,693	2,417	4,490	5,795	4,954	4958	5012	
Shareholder’s Equity	5,345	6,102	6,987	6,580	4,723	5,183	6,027	6,278	8,210	
D/E Ratio	0.44	0.71	0.39	0.37	0.95	1.12	0.82	0.79	0.61	

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	7.6%	8.5%	13.9%	19.4%	17.9%	17.0%	25.7%	27.8%	25.1%	
Return on Equity	12.4%	16.0%	25.9%	35.1%	38.8%	45.5%	69.7%	74.8%	62.3%	
ROIC	9.2%	10.1%	16.9%	25.5%	24.1%	22.3%	35.6%	41.5%	36.9%	
Shares Out.	177.0	175.0	184.0	181.0	160.0	149.0	145.00	140.63	135.83	
Revenue/Share	29.70	33.60	43.61	61.27	60.37	67.37	100.65	122.50	128.31	
FCF/Share	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.