Lam Research Corporation (LRCX)

Updated February 2nd, 2025 by Felix Martinez

Key Metrics

Current Price:	$81	**5 Year CAGR Estimate:**	4.2%	**Market Cap:**	$104.2 B
Fair Value Price:	$64	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	03/12/25
% Fair Value:	127%	**5 Year Valuation Multiple Estimate:**	-4.7%	**Dividend Payment Date:**	04/03/25
Dividend Yield:	1.1%	**5 Year Price Target**	$94	**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 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 $104.2 billion, over 10,700 employees, and produced roughly $14.9 billion in revenue in 2024.

On January 29th, 2025, Lam Research reported the second quarter results for Fiscal Year (FY)2025, ending on December 29th, 2024. Lam Research Corporation ends its fiscal year at the end of June. The company reported strong financial performance for the quarter ending December 29, 2024, with revenue reaching $4.38 billion, reflecting a 5% increase from the previous quarter. The company's U.S. GAAP gross margin stood at 47.4%, while operating income accounted for 30.5% of revenue. Net income totaled $1.19 billion, resulting in diluted earnings per share (EPS) of $0.92, a 7% increase quarter-over-quarter. On a non-GAAP basis, gross margin was slightly higher at 47.5%, with operating income at 30.7% of revenue and diluted EPS of $0.91. Despite a modest decline in gross margin percentage, Lam maintained solid profitability and growth.

Lam's balance sheet showed a decline in cash and cash equivalents, which decreased from $6.1 billion to $5.7 billion, primarily due to capital returns and expenditures. Deferred revenue also fell slightly to $2.03 billion, excluding $453 million in shipments to Japanese customers, which remain classified as inventory until acceptance. Geographically, China contributed the largest share of revenue at 31%, followed by Korea (25%) and Taiwan (17%). System sales, which include advanced deposition and etch equipment, totaled $2.63 billion, while customer support-related revenue accounted for $1.75 billion.

Looking ahead, Lam projects revenue of $4.65 billion for the March 2025 quarter, with a gross margin of approximately 48% and an operating income margin of 32%. The company expects diluted EPS to reach $1.00, reflecting continued financial strength and strategic investments in semiconductor manufacturing technologies. CEO Tim Archer emphasized Lam's competitive advantage in advanced chipmaking processes, positioning the company for further growth in a rapidly evolving industry.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$0.50	$0.64	$1.00	$1.79	$1.45	$1.60	$2.73	$3.31	$3.41	$3.03	***$3.75***	***$5.51***
DPS	$0.08	$0.12	$0.16	$0.26	$0.44	$0.46	$0.52	$0.60	$0.69	$0.80	***$0.92***	***$1.35***
Shares[1]	1.8	1.8	1.8	1.8	1.6	1.5	1.5	1.4	1.4	1.3	***1.3***	***1.2***

Lam Research has grown its earnings by an impressive 22.2% growth rate over the past ten years and 18.6% 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.

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8% going forward. Also, the company has had a tremendous dividend growth record over the past five years, with an average of 14.9%. The company's most recent dividend increase was 15.0%, announced on August 29, 2024.

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	***21.6***	***17.0***
Avg. Yld.	1.1%	1.6%	1.4%	1.4%	2.6%	1.4%	0.8%	1.4%	1.1%	0.8%	***1.1%***	***1.4%***

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 17.0x 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 21.6x. The current PE would provide a (4.7)% annual headwind if the company reverted back to its fair PE ratio of 17.0x.

Safety, Quality, Competitive Advantage, & Recession Resiliency

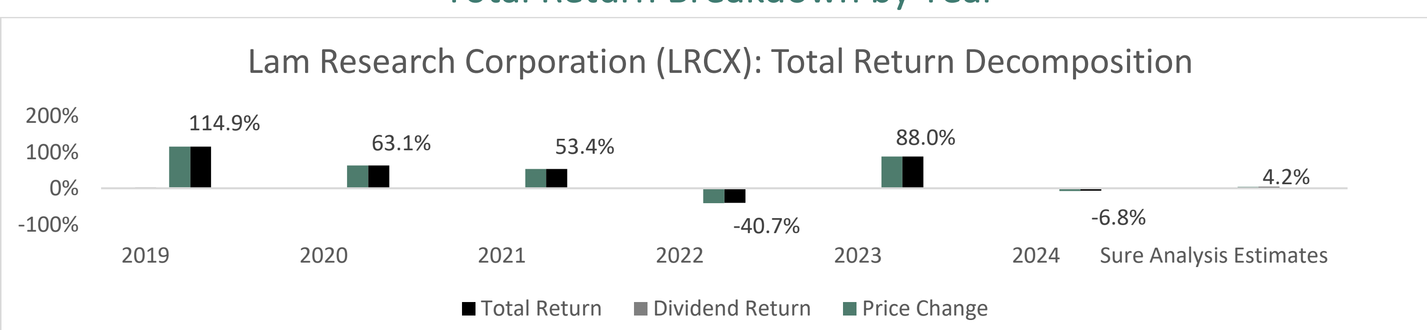
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	16.0%	18.8%	16.0%	14.5%	30.3%	28.8%	19.0%	18.1%	20.2%	26.4%	***25%***	***25%***

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 0.5, 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 4.2%, 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	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	14910
Gross Profit	2,284	2,619	3,603	5,165	4,358	4,609	6,805	7872	7,777	7053
Gross Margin	43.4%	44.5%	45.0%	46.6%	45.1%	45.9%	46.5%	45.7%	44.6%	47.3%
SG&A Exp.	592	631	667	762	702	682	830	886	833	868
D&A Exp.	278	291	307	326	309	269	307	334	342	360
Operating Profit	867	1,074	1,902	3,213	2,465	2,674	4,482	5382	5217	4282
Operating Margin	16.5%	18.3%	23.7%	29.0%	25.5%	26.6%	30.6%	31.2%	29.9%	28.7%
Net Profit	656	914	1,698	2,381	2,191	2,252	3,908	4605	4511	3828
Net Margin	12.5%	15.5%	21.2%	21.5%	22.7%	22.4%	26.7%	26.7%	25.9%	25.7%
Free Cash Flow	587	1,175	1,872	2,382	2,873	1,923	3239	2554	4677	4256
Income Tax	85	46	114	771	255	323	462	588	598	532

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	18740
Cash & Equivalents	1,502	5,039	2,378	4,512	3,658	4,915	4,418	3522	5337	5848
Accounts Receivable	1,094	1,262	1,673	2,177	1,456	2,097	3,026	4314	2823	2519
Inventories	943	972	1,233	1,876	1,540	1,900	2,689	3966	4816	4218
Goodwill & Int. Ass.	2,116	1,951	1,797	1,803	1,702	1,653	1,622	1617	1791	1765
Total Liabilities	4,020	6,162	5,135	5,899	7,278	9,376	9,865	10917	10570	10210
Accounts Payable	300	348	465	511	377	592	830	1011		614
Long-Term Debt	2,361	4,326	2,693	2,417	4,490	5,795	4,954	4958	5012	4967
Shareholder’s Equity	5,345	6,102	6,987	6,580	4,723	5,183	6,027	6,278	8,210	8539
D/E Ratio	0.44	0.71	0.39	0.37	0.95	1.12	0.82	0.79	0.61	0.58

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%	20.4%
Return on Equity	12.4%	16.0%	25.9%	35.1%	38.8%	45.5%	69.7%	74.8%	62.3%	45.7%
ROIC	9.2%	10.1%	16.9%	25.5%	24.1%	22.3%	35.6%	41.5%	36.9%	28.7%
Shares Out.	177.0	175.0	184.0	181.0	160.0	149.0	145.00	140.63	135.83	1320
Revenue/Share	29.70	33.60	43.61	61.27	60.37	67.37	100.65	122.50	128.31	11.29
FCF/Share	3.32	6.71	10.19	13.18	17.96	12.90	22.29	18.16	34.43	3.22

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