



Lam Research Corporation

December Quarter 2015 Financial Results

January 27, 2016



Cautions Regarding Forward-Looking Statements

All statements included or incorporated by reference in this document, other than statements or characterizations of historical fact, are forward-looking statements within the meaning of the federal securities laws, including Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on Lam Research Corporation's ("Lam") and KLA-Tencor Corporation's ("KLA") current expectations, estimates and projections about its respective business and industry, management's beliefs, and certain assumptions made by Lam and KLA, all of which are subject to change. Forward-looking statements can often be identified by words such as "anticipate," "confident," "optimistic," "expect," "intend," "plan," "predict," "believe," "seek," "assume," "estimate," "forecast," "outlook," "may," "will," "should," "would," "could," "can," "potential," "continue," "ongoing," similar expressions, and variations or negatives of these words. Examples of such forward-looking statements include, but are not limited to: (1) references to the anticipated benefits of the proposed transaction; (2) the expected industry leadership, future technical capabilities and served markets of the individual and/or combined companies; (3) projections of pro forma revenue, cost synergies, revenue synergies, cash flow, market share and other metrics, whether by specific market segment, or as a whole, and whether for each individual company or the combined company; (4) economic conditions, market expansion opportunities, and systems and products that may benefit from sales growth as a result of changes in market share or existing markets; (5) technological achievements that may be realized by the combined company, (6) the combined company's integration; (7) the financing components of the proposed transaction; (8) potential financing opportunities, together with sources and uses of cash; (9) the companies' ability to achieve the closing conditions, including holding shareholder meetings and achieving regulatory approvals, and the expected date of closing of the transaction; (10) Lam's expected profit and revenue growth; (11) Lam's ability to continue to successfully execute its growth strategy; (12) each individual company's or combined company's ability to deliver value and growth for its customers and its stockholders, to partner and collaborate with customers, address technical and economic challenges, and enable innovation; and (13) Lam's anticipated and/or guidance for shipments, revenues (including, actual, deferred and from previous shipments to Japanese customers), gross margin, operating margin, earnings per share, share count, and quarterly, semi-annual and annual performance.

These forward-looking statements are not guarantees of future results and are subject to risks, uncertainties and assumptions that could cause actual results to differ materially and adversely from those expressed in any forward-looking statement. Important risk factors that may cause such a difference in connection with the proposed transaction include, but are not limited to, the following factors: (1) the risk that the conditions to the closing of the transaction are not satisfied, including the risk that required approvals for the transaction from governmental authorities or the stockholders of KLA or Lam are not obtained; (2) litigation relating to the transaction; (3) uncertainties as to the timing of the consummation of the transaction and the ability of each party to consummate the transaction; (4) risks that the proposed transaction disrupts the current plans and operations of KLA or Lam; (5) the ability of KLA and Lam to retain and hire key personnel; (6) competitive responses to the proposed transaction and the impact of competitive products; (7) unexpected costs, charges or expenses resulting from the transaction; (8) potential adverse reactions or changes to business relationships resulting from the announcement or completion of the transaction; (9) the combined companies' ability to achieve the growth prospects and synergies expected from the transaction, as well as delays, challenges and expenses associated with integrating the combined companies' existing businesses; (10) the terms and availability of the indebtedness planned to be incurred in connection with the transaction; and (11) legislative, regulatory and economic developments, including changing business conditions in the semiconductor industry and overall economy as well as the financial performance and expectations of Lam's and KLA's existing and prospective customers. These risks, as well as other risks associated with the proposed transaction, are more fully discussed in the Registration Statement on Form S-4, which includes the joint proxy statement of Lam and KLA, also constitutes a prospectus of Lam, and was filed with the Securities and Exchange Commission ("SEC") on December 7, 2015, amended on January 12, 2016 and declared effective on January 13, 2016 (the "Registration Statement"). Each of Lam and KLA provided a definitive joint proxy statement/prospectus to their respective stockholders on or about January 19, 2016. Investors and potential investors are urged not to place undue reliance on forward-looking statements in this document, which speak only as of this date. Neither Lam nor KLA undertakes any obligation to revise or update publicly any forward-looking statement to reflect future events or circumstances. Nothing contained herein constitutes or will be deemed to constitute a forecast, projection or estimate of the future financial performance of Lam, KLA, or the merged company, whether following the implementation of the proposed transaction or otherwise.

In addition, actual results are subject to other risks and uncertainties that relate more broadly to Lam's overall business, including those more fully described in Lam's filings with the SEC including its annual report on Form 10-K for the fiscal year ended June 28, 2015 and quarterly report on Form 10-Q for the fiscal quarter ended September 27, 2015, and KLA's overall business and financial condition, including those more fully described in KLA's filings with the SEC including its annual report on Form 10-K for the fiscal year ended June 30, 2015 and its quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2015.

Additional Information and Where to Find It; Participants in the Solicitation

Additional Information and Where to Find It:

This document does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. The proposed transaction will be submitted to the stockholders of each of Lam and KLA for their consideration. On December 7, 2015, Lam and KLA filed with the SEC the Registration Statement. The Registration Statement includes a joint proxy statement of Lam and KLA and a prospectus of Lam, which was mailed by Lam and KLA to their respective stockholders on or about January 19, 2016. Lam and KLA also plan to file other documents with the SEC regarding the proposed transaction. This document is not a substitute for any prospectus, proxy statement or any other document that Lam or KLA has filed or may file with the SEC in connection with the proposed transaction. Investors and security holders of Lam and KLA are urged to read carefully and in their entirety the joint proxy statement/prospectus and any other relevant documents that have been filed or will be filed with the SEC when they become available because they contain or will contain important information about the proposed transaction. You may obtain copies of all documents filed with the SEC regarding this transaction, free of charge, at the SEC's website (www.sec.gov). In addition, investors and stockholders will be able to obtain free copies of the joint proxy statement/prospectus and other documents filed with the SEC by Lam on Lam's Investor Relations website (investor.lamresearch.com) or by writing to Lam Research Corporation, Investor Relations, 4650 Cushing Parkway, Fremont, CA 94538-6401 (for documents filed with the SEC by Lam), or by KLA on KLA's Investor Relations website (ir.kla-tencor.com) or by writing to KLA-Tencor Corporation, Investor Relations, One Technology Drive, Milpitas, California 95035 (for documents filed with the SEC by KLA).

Participants in the Solicitation:

Lam, KLA, their respective directors, and certain of their respective executive officers, other members of management and employees, may, under SEC rules, be deemed to be participants in the solicitation of proxies from Lam and KLA stockholders in connection with the proposed transaction. Information regarding the persons who, under SEC rules, are or may be deemed to be participants in the solicitation of Lam and KLA stockholders in connection with the proposed transaction is set forth in the joint proxy statement/prospectus that was filed with the SEC on January 13, 2016.

Business Review and Industry Outlook

Martin Anstice

President & Chief Executive Officer

Agenda

December Quarter and CY'15 Accomplishments

2016 Industry Outlook

Lam Opportunities in CY'16 and Beyond

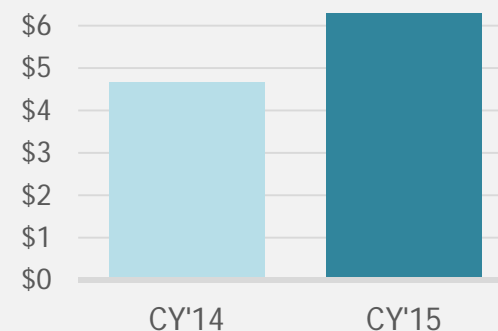
Financial Results and Outlook

December Quarter and CY'15 Accomplishments

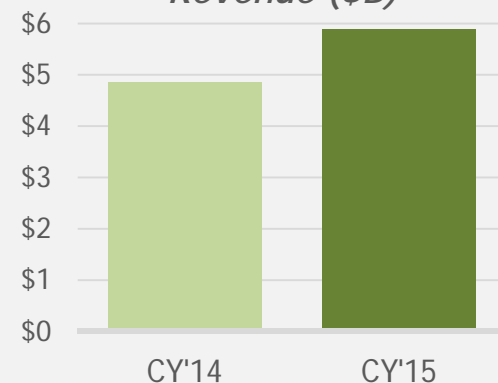
A strong finish to a record CY'15

- ▶ Earnings per share* >\$6 in CY'15
- ▶ Shipments and revenue >\$5.9B in CY'15
- ▶ Three year CAGR in shipments >22% vs. 6% CAGR in WFE
- ▶ Ongoing strength in execution across the organization
- ▶ Announced planned combination with KLA-Tencor

*Earnings Per Share**



Revenue (\$B)



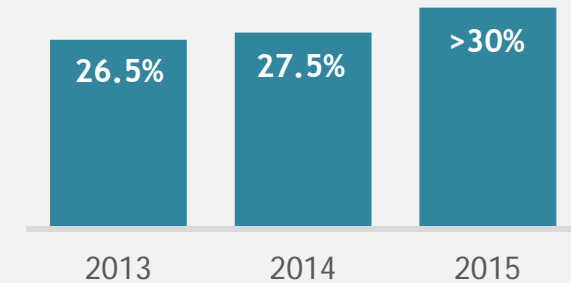
* Non-GAAP

CY'15 Market Share and SAM Progress

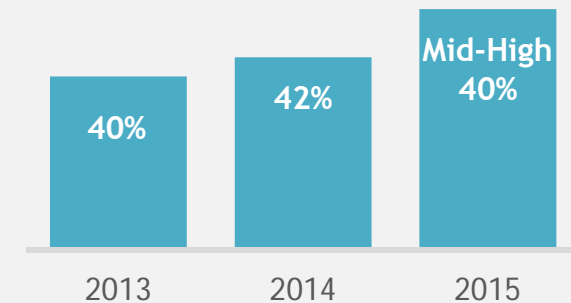
Demonstrated our ability to continue outperformance

- ▶ SAM increased to beyond 30% of WFE in 2015
- ▶ Increased company market share to mid-high 40% range in CY'15
- ▶ ≥5% market share gain in etch and single-wafer clean
- ▶ ~2% market share gain in deposition

*Lam SAM
as % of WFE*



Company Market Share

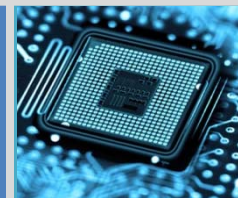


2016 Industry Outlook



Memory

- NAND supply bit growth in the mid 30% range
- Expect 3D NAND shipped capacity of ~350k-400k WSPM by the end of 2016
- DRAM investments in 20 nm and 1X nm nodes, with bit growth ~mid 20%



Foundry & Logic

- Leading-edge investment focused on 10 nm technology
- 28 nm and above capacity investments continue
- Project spending levels to be slightly higher vs. CY'15

Forecast 2016 WFE spend in a range of \$33B ± \$2B

Lam Opportunities in CY'16 and Beyond

Focused on opportunities, planning and execution

- ▶ Deliver on customer commitments made
- ▶ Continued focus on our value proposition of increased innovation
- ▶ Execute on our outperformance opportunity in the technology inflections
- ▶ Create stronger company with greater strategic relevance through proposed combination with KLA-Tencor
- ▶ Positioning Lam for significant opportunities through the long term





December Quarter 2015 Financial Results and March Quarter 2016 Outlook

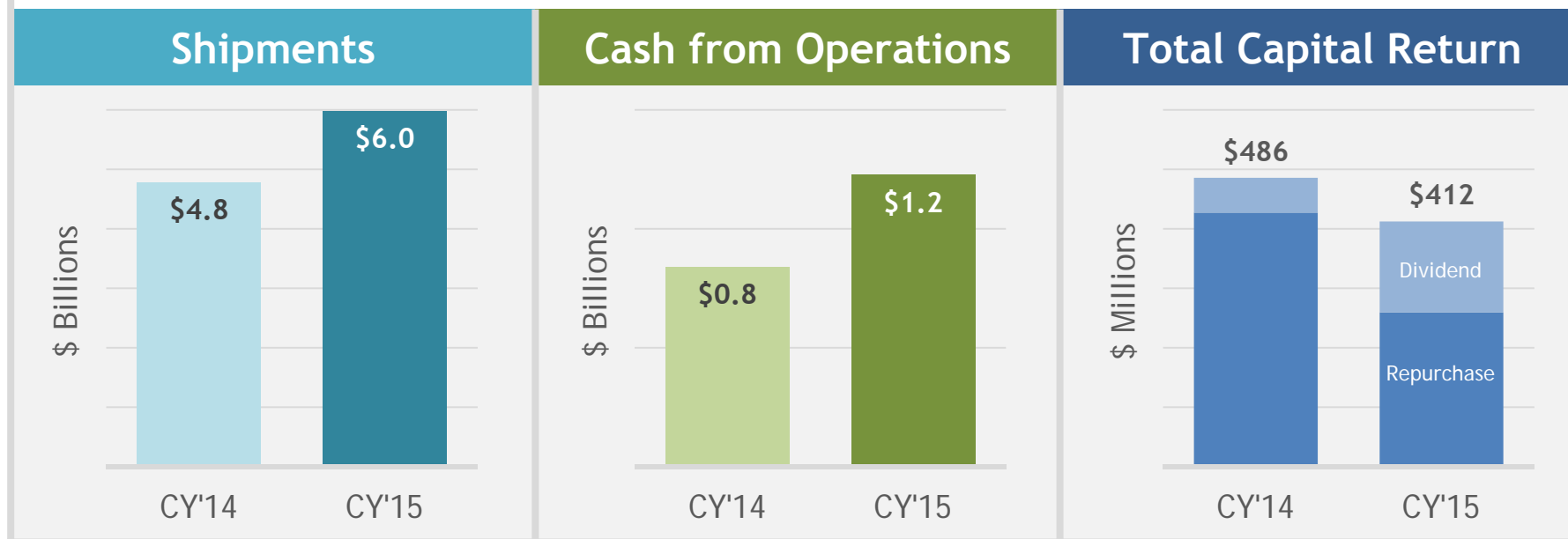
Doug Bettinger

Executive Vice President & Chief Financial Officer

December Quarter and CY'15 Results

Multiple milestones achieved in CY'15

- ▶ At or above mid-point of guidance in QDec'15 for all guided metrics
- ▶ Generated \$1.2 billion in cash from operations in CY'15
- ▶ >\$410 million returned to shareholders through dividends and share repurchases in CY'15

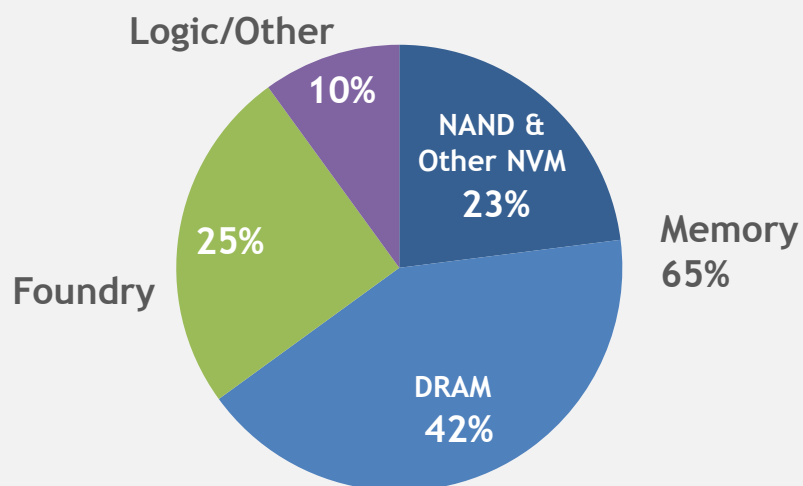


December Quarter Shipments

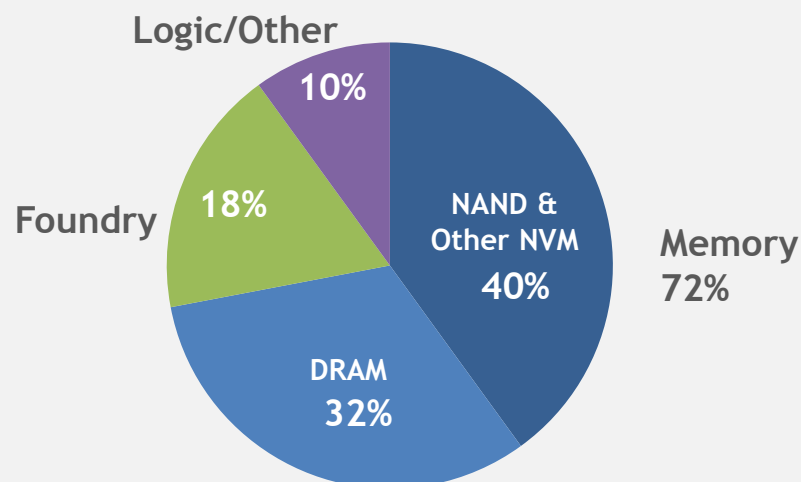
QDec'15 shipments above mid-point

- ▶ Shipments of \$1.288 billion
- ▶ System shipments segment mix:

Dec'15



Sep'15



December Quarter Financial Results

	Dec'15	Sep'15
Revenue	\$1,426M	\$1,600M
Non-GAAP Gross Margin*	45.5%	46.5%
Non-GAAP Operating Expenses*	\$352M	\$364M
Non-GAAP Operating Income*	\$296M	\$380M
Non-GAAP Operating Margin*	20.8%	23.8%
Non-GAAP Other Income/(Expense)*	(\$7.1M)	(\$18.0M)
Non-GAAP Tax Rate*	7%	14%
GAAP EPS	\$1.28	\$1.66
Non-GAAP EPS*	\$1.57	\$1.82
Non-GAAP Diluted Share Count*	172M	172M

*A reconciliation of U.S. GAAP results to non-GAAP results can be found at the end of this presentation.

Key Balance Sheet and Financial Metrics

	Dec'15	Sep'15
Total Consolidated Gross Cash Balance	\$4,683M	\$4,515M
Account Receivables, Net	\$1,090M	\$1,089M
DSO	70 Days	62 Days
Inventory Turns	3.6	3.8
Deferred Revenue*	\$395M	\$517M
Capital Expenditures	\$28M	\$49M
Equity Compensation Expense	\$33M	\$36M
Amortization Expense	\$39M	\$39M
Depreciation Expense	\$33M	\$32M
Headcount	~7,300	~7,300

*Does not include anticipated revenues from previous shipments to Japanese customers.
A reconciliation of deferred revenue can be found at the end of this presentation.

March 2016 Quarter Non-GAAP Guidance

	Mar'16 Guidance
Shipments	\$1.430 billion \pm \$75 million
Revenue	\$1.300 billion \pm \$75 million
Non-GAAP Gross Margin	44.0% \pm 1%
Non-GAAP Operating Margin	17.0% \pm 1%
Non-GAAP Earnings per Share ⁽¹⁾	\$1.07 \pm \$0.10

(1) Based on a share count of ~172.5 million shares.

Questions & Answers



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TRUSTED **PRODUCTIVITY**
FAST **SOLUTIONS**



Appendix - Reconciliation

Reconciliation of U.S. GAAP Gross Margin, Operating Expenses and Operating Income to Non-GAAP Gross Margin, Operating Expenses and Operating Income (unaudited)

	Three Months Ended	
	December 27, 2015	September 27, 2015
U.S. GAAP gross margin	\$ 626,510	\$ 722,363
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	21,250	21,250
Acquisition-related inventory fair value impact - cost of goods sold	649	-
Restructuring charges - cost of goods sold	-	371
Non-GAAP gross margin	\$ 648,409	\$ 743,984
U.S. GAAP gross margin as a percentage of revenue	43.9%	45.1%
Non-GAAP gross margin as a percentage of revenue	45.5%	46.5%
U.S. GAAP operating expenses	\$ 387,676	\$ 386,935
Pre-tax non-GAAP items:		
Restructuring charges - research and development	(34)	(4,206)
Acquisition costs - selling, general and administrative	(17,392)	-
Amortization related to intangible assets acquired in Novellus transaction -selling, general and administrative	(16,083)	(16,083)
Restructuring charges - selling, general and administrative	(2,032)	(3,050)
Non-GAAP operating expenses	\$ 352,135	\$ 363,596
Non-GAAP operating income	\$ 296,274	\$ 380,388
GAAP operating margin as percent of revenue	16.8%	21.0%
Non-GAAP operating margin as a percent of revenue	20.8%	23.8%

Appendix - Reconciliation

Reconciliation of U.S. GAAP Gross Margin, Operating Expenses and Operating Income to Non-GAAP Gross Margin, Operating Expenses and Operating Income (unaudited)

	Twelve Months Ended	
	December 27, 2015	December 28, 2014
U.S. GAAP gross margin	\$ 2,591,013	\$ 2,130,030
Pre-tax non-GAAP items, cost of goods sold:		
Amortization related to intangible assets acquired in Novellus transaction	85,072	85,534
Impairment of long lived asset	9,821	
Acquisition-related inventory fair value impact	2,149	3,268
Restructuring charges	371	-
Costs associated with rationalization of certain product configurations	-	6,455
Synthetic lease impairment	-	1,558
Non-GAAP gross margin	<u>\$ 2,688,426</u>	<u>\$ 2,226,845</u>
U.S. GAAP operating expenses	\$ 1,585,751	\$ 1,365,204
Pre-tax non-GAAP items, operating expenses:		
Goodwill impairment	(79,444)	-
Amortization related to intangible assets acquired in Novellus transaction	(64,332)	(65,250)
Acquisition costs	(17,392)	-
Restructuring charges	(9,261)	(1,915)
Synthetic lease impairment	-	(5,356)
Impairment of long lived asset	-	(4,000)
Costs associated with rationalization of certain product configurations	-	(3,008)
Cost associated with disposition of business	-	(1,103)
Non-GAAP operating expenses	<u>\$ 1,415,322</u>	<u>\$ 1,284,572</u>
Non-GAAP operating income	<u>\$ 1,273,104</u>	<u>\$ 942,273</u>

Appendix - Reconciliation

Reconciliation of U.S. GAAP Net Income to Non-GAAP Net Income and U.S. GAAP number of dilutive shares to Non-GAAP number of dilutive shares
(in thousands, except per share data)
(unaudited)

	Three Months Ended	
	December 27, 2015	September 27, 2015
U.S. GAAP net income	\$ 222,980	\$ 288,679
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	21,250	21,250
Acquisition-related inventory fair value impact - cost of goods sold	649	-
Restructuring charges - cost of goods sold	-	371
Restructuring charges - research and development	34	4,206
Acquisition costs - selling, general and administrative	17,392	-
Amortization related to intangible assets acquired in Novellus transaction -selling, general and administrative	16,083	16,083
Restructuring charges - selling, general and administrative	2,032	3,050
Amortization of note discounts - other expense, net	9,258	9,122
Amortization of bridge loan issuance costs - other expense, net	13,573	-
Net income tax benefit on non-GAAP items	(19,335)	(7,791)
Cumulative income tax benefit due to a court ruling	-	(21,925)
Income tax benefit related to tax extenders, primarily the research and development credit	(13,603)	-
Non-GAAP net income	<u>\$ 270,313</u>	<u>\$ 313,045</u>
Non-GAAP net income per diluted share	<u>\$ 1.57</u>	<u>\$ 1.82</u>
U.S. GAAP number of shares used for per diluted share calculation	<u>174,242</u>	<u>174,374</u>
Effect of convertible note hedge	<u>(2,446)</u>	<u>(2,328)</u>
Non-GAAP number of shares used for per diluted share calculation	<u>171,796</u>	<u>172,046</u>

Appendix - Reconciliation

Reconciliation of U.S. GAAP Net Income and U.S. GAAP number of dilutive shares to Non-GAAP number of dilutive shares (in thousands, except per share data) (unaudited)

	Twelve Months Ended	
	December 27, 2015	December 28, 2014
U.S. GAAP net income	\$ 849,215	\$ 715,812
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	85,072	85,534
Costs associated with rationalization of certain product configurations - cost of goods sold	—	6,455
Acquisition-related inventory fair value impact - cost of goods sold	2,149	3,268
Impairment of long lived asset - cost of goods sold	9,821	—
Synthetic lease impairment - cost of goods sold	—	1,558
Restructuring charges - cost of goods sold	371	—
Restructuring charges - research and development	4,240	—
Acquisition costs - selling, general and administrative	17,392	—
Amortization related to intangible assets acquired in Novellus transaction -selling, general and administrative	64,332	65,250
Restructuring charges - selling, general and administrative	5,021	1,915
Goodwill impairment - selling, general and administrative	79,444	—
Costs associated with rationalization of certain product configurations - selling general and administrative	—	3,008
Costs associated with disposition of business - selling general and administrative	—	1,103
Impairment of long lived asset - selling general and administrative	—	4,000
Synthetic lease impairment - selling general and administrative	—	5,356
Gain on sale of real estate	—	(83,090)
Amortization of note discounts - other expense, net	36,148	33,795
Amortization of bridge loan issuance costs - other expense, net	13,573	—
Net gain associated with the disposition of business - other (income) expense	—	(4,331)
Net income tax benefit on non-GAAP items	(43,912)	(16,512)
Cumulative income tax benefit due to a court ruling	(21,925)	—
Income tax expense (benefit) on resolution or additional accrual for certain tax matters	954	(302)
Income tax benefit from tax extenders, primarily the research and development credit	(13,603)	(11,094)
Net tax benefit on valuation allowance release	—	(2,811)
Non-GAAP net income	\$ 1,088,292	\$ 808,914
Non-GAAP net income per diluted share	\$ 6.29	\$ 4.66
U.S. GAAP number of shares used for per diluted share calculation	175,681	174,786
Effect of convertible note hedge	(2,692)	(1,104)
Non-GAAP number of shares used for per diluted share calculation	172,989	173,682

Appendix - Reconciliation

Reconciliation of U.S. GAAP Other Expense, Net to Non-GAAP Other Expense, Net
(in thousands)
(unaudited)

	Three Months Ended	
	December 27, 2015	September 27, 2015
U.S. GAAP other expense, net	\$ (29,935)	\$ (27,121)
Pre-tax non-GAAP items:		
Amortization of note discounts	9,258	9,122
Amortization of bridge loan issuance costs	13,573	-
Non-GAAP other expense, net	<u>\$ (7,104)</u>	<u>\$ (17,999)</u>

Appendix - Reconciliation

Reconciliation of U.S. GAAP Income Tax Rate to Non-GAAP Income Tax Rate
(in thousands, except percentages)
(unaudited)

	Three Months Ended	
	December 27, 2015	September 27, 2015
U.S. GAAP income before income taxes	\$ 208,899	\$ 308,307
U.S. GAAP income tax expense	\$ (14,081)	\$ 19,628
U.S. GAAP income tax rate	-6.7%	6.4%
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	\$ 21,250	\$ 21,250
Acquisition-related inventory fair value impact - cost of goods sold	649	-
Restructuring charges - cost of goods sold	-	371
Restructuring charges - research and development	34	4,206
Acquisition costs - selling, general and administrative	17,392	-
Amortization related to intangible assets acquired in Novellus transaction -selling, general and administrative	16,083	16,083
Restructuring charges - selling, general and administrative	2,032	3,050
Amortization of note discounts - other expense, net	9,258	9,122
Amortization of bridge loan issuance costs - oher expense, net	13,573	-
Non-GAAP income before taxes	289,170	362,389
Net income tax benefit on non-GAAP items	\$ 19,335	\$ 7,791
Cumulative income tax benefit due to a court ruling	\$ -	\$ 21,925
Income tax benefit related to tax extenders, primarily the research and development credit	\$ 13,603	\$ -
Non-GAAP income tax expense	\$ 18,857	\$ 49,344
Non-GAAP income tax rate	6.5%	13.6%

Appendix - Reconciliation

Reconciliation of U.S. GAAP to Non-GAAP Guidance for the March 2016 Quarter (unaudited)

	GAAP			Reconciling Items	Non-GAAP		
Shipments	\$1.43 Billion	+/-	\$75 Million	-	\$1.43 Billion	+/-	\$75 Million
Revenue	\$1.30 Billion	+/-	\$75 Million	-	\$1.30 Billion	+/-	\$75 Million
Gross margin	42.4%	+/-	1%	\$21 Million	44.0%	+/-	1%
Operating margin	14.2%	+/-	1%	\$37 Million	17.0%	+/-	1%
Net income per diluted share	\$0.77	+/-	\$0.10	\$50 Million	\$1.07	+/-	\$0.10
Diluted share count	174.5 Million			2 Million	172.5 Million		

The information provided above is only an estimate of what the Company believes is realizable as of the date of this release, and does not incorporate the potential impact of any KLA-Tencor related acquisition or integration expenses, business combinations, asset acquisitions, divestitures, financing arrangements, other investments, or other significant transactions that may be completed after the date of this release. GAAP to non-GAAP reconciling items provided include only those items that are known and can be estimated as of the date of this release. Actual results will vary from this model and the variations may be material. Reconciling items included above are as follows:

- Gross Margin - amortization related to intangible assets acquired in the Novellus transaction, \$21 million.
- Operating margin - amortization related to intangible assets acquired in the Novellus transaction, \$37 million.
- Earnings per share - amortization related to intangible assets acquired in the Novellus transaction, \$37 million; amortization of note discounts, \$9 million; amortization of bridge loan issuance costs associated with the KLA-Tencor acquisition, \$18 million and associated tax benefit for non-GAAP items (\$14) million; totaling \$50 million.
- Diluted share count - impact of a note hedge issued contemporaneously with the convertible notes due 2016 and 2018, 2 million shares.

Appendix - Reconciliation

LAM RESEARCH CORPORATION
RECONCILIATION OF DEFERRED REVENUE
(in millions)
(unaudited)

	Three Months Ended	Three Months Ended
	December 27, 2015	September 27, 2015
Beginning Balance	\$ 517.4	\$ 518.1
Shipments	1,287.9	1,579.3
Revenue	(1,425.5)	(1,600.0)
Net Change in Japan (1)	38.1	17.7
Services & Other	(23.3)	2.3
Ending Balance	<u>\$ 394.6</u>	<u>\$ 517.4</u>
Value of shipments to Japanese customers not recorded as deferred revenue (2)	\$ 108.6	\$ 146.7

- (1) Net change in the value of orders shipped from backlog to Japanese customers that are not recorded as deferred revenue. These shipments are classified as inventory at cost until title transfers.
- (2) The value of orders shipped from backlog to Japanese customers that are not recorded as deferred revenue. These shipments are classified as inventory at cost until title transfers.



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