



# Lam Research Corporation

September Quarter 2015 Financial Results

October 21, 2015



# Cautions Regarding Forward-Looking Statements

Statements made in this document that are not of historical fact are forward-looking statements and are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, but are not limited to; Lam Research Corporation's ("Lam") expected revenue growth; Lam's ability to continue to successfully execute its growth strategy; Lam's ability to deliver growth and value for its customers and its stockholders; and Lam's guidance for shipments, revenue, gross margin, operating margin, earnings per share, and share count. Some factors that may affect these forward-looking statements include: Lam's proposed acquisition of KLA-Tencor Corporation ("KLA") may not close and if it does close Lam may not receive the expected benefits of the acquisition, such as the scale and breadth of critical technologies and better financial performance for its stockholders; Lam stockholders and the KLA stockholders may not support the planned acquisition; business conditions in the consumer electronics industry, the semiconductor industry and the overall economy may deteriorate; and the strength of the financial position reflected in the documents filed or furnished by Lam with the Securities and Exchange Commission, including specifically its report on Form 10-K for the fiscal year ended June 28, 2015, may not be as anticipated. These uncertainties and changes could cause actual results to vary from expectations. Lam undertakes no obligation to update the information or statements made in this document. 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, following the implementation of the proposed acquisition or otherwise. No statement contained herein should be interpreted to mean that the revenue, margins, earnings per share, cash flows or other financial performance metrics of Lam or the merged company for the current or future financial years would necessarily match or exceed the historical published figures.

# 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. Lam intends to file with the SEC a Registration Statement on Form S-4 that will include a joint proxy statement/prospectus of Lam and KLA. Each of Lam and KLA will provide the joint proxy statement/prospectus to their respective stockholders. 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 may file with the SEC in connection with the proposed transaction. Investors and security holders of Lam and KLA are urged to read the joint proxy statement/prospectus and any other relevant documents that will be filed with the SEC carefully and in their entirety when they become available because they 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](http://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](http://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](http://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).

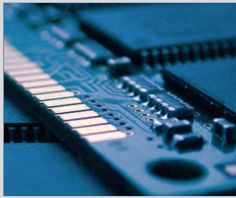

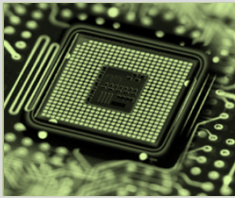
## Participants in the Solicitation:

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 will be set forth in the joint proxy statement/prospectus when it is filed with the SEC. You can find more detailed information about Lam's executive officers and directors in its definitive proxy statement filed with the SEC on September 21, 2015. You can find more detailed information about KLA's executive officers and directors in its definitive proxy statement filed with the SEC on September 24, 2015. Additional information about Lam's executive officers and directors and KLA's executive officers and directors will be provided in the above-referenced Registration Statement on Form S-4 when it becomes available.

# September Quarter 2015 Financial Results and December Quarter 2015 Outlook

Doug Bettinger  
Executive Vice President & Chief Financial Officer

# 2016 Industry Outlook

 Memory	 Foundry	 Logic
<ul style="list-style-type: none"><li>▪ DRAM spend focused on 20 nm, optimized to balance supply/demand</li><li>▪ SSD adoption to drive positive 3D NAND investment momentum</li><li>▪ Expect 3D NAND shipped capacity of ~350k WSPM by the end of CY'16</li></ul>	<ul style="list-style-type: none"><li>▪ Initial 10 nm investments to start</li><li>▪ FinFET investments to continue</li><li>▪ Optimal reuse from 20 nm to 16 nm</li><li>▪ Project spending levels to grow from CY'15</li></ul>	<ul style="list-style-type: none"><li>▪ Sustained commitment to technology conversions</li><li>▪ Optimized reuse of installed base</li><li>▪ Demand for image sensors to continue</li><li>▪ Project spending levels to be about flat vs. CY'15</li></ul>

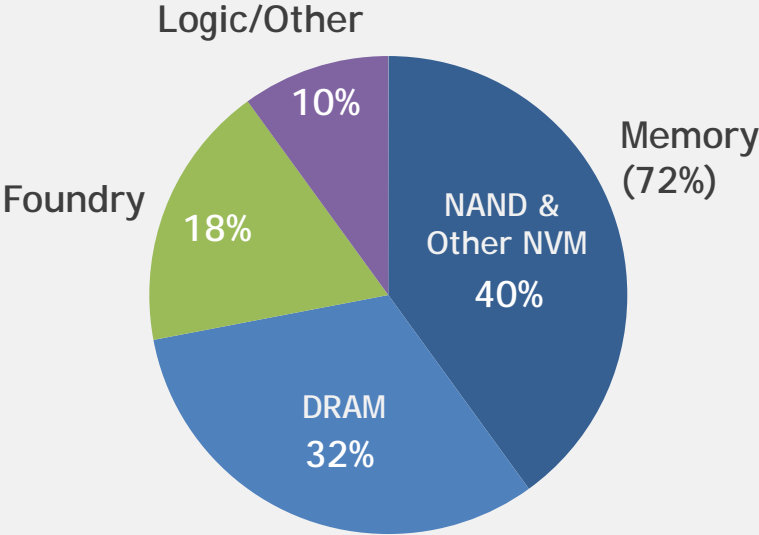
2015 WFE tracking slightly below mid-point of prior \$34B ± \$2B outlook  
We expect 2016 WFE to be flat to slightly down

# September Quarter Shipments

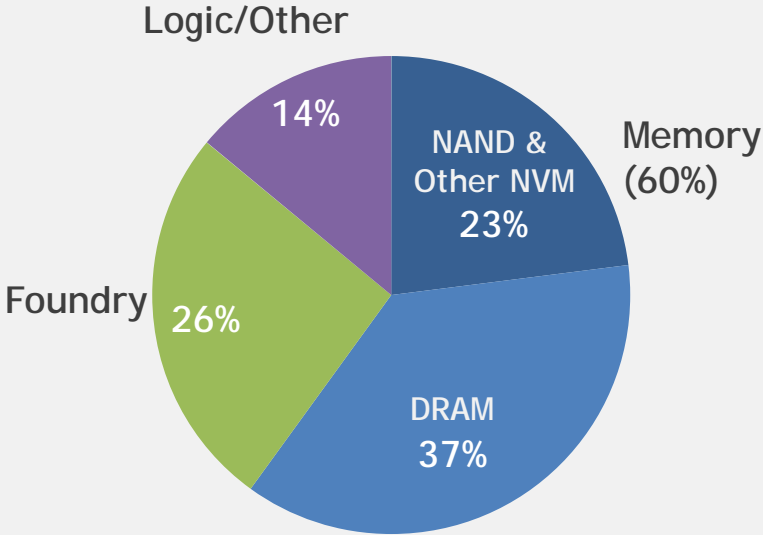
QSep'15 shipments of \$1.58 billion

► System shipments segment mix:

Sep'15



Jun'15



# September Quarter Financial Results

	Sep'15	Jun'15
Revenue	\$1,600M	\$1,481M
Non-GAAP Gross Margin*	46.5%	45.5%
Non-GAAP Operating Expenses*	\$364M	\$355M
Non-GAAP Operating Income*	\$380M	\$319M
Non-GAAP Operating Margin*	23.8%	21.6%
Non-GAAP Other Income/(Expense)*	(\$18.0M)	(\$11.3M)
Non-GAAP Tax Rate*	14%	16%
GAAP EPS	\$1.66	\$0.74
Non-GAAP EPS*	\$1.82	\$1.50
Non-GAAP Diluted Share Count*	172M	174M

\*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

	Sep'15	Jun'15
Total Consolidated Gross Cash Balance	\$4,515M	\$4,247M
Account Receivables, Net	\$1,089M	\$1,094M
DSO	62 Days	67 Days
Inventory Turns	3.8	3.6
Deferred Revenue*	\$517M	\$518M
Capital Expenditures	\$49M	\$63M
Equity Compensation Expense	\$36M	\$40M
Amortization Expense	\$39M	\$39M
Depreciation Expense	\$32M	\$31M
Headcount	~7,300	~7,200

\*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.



# December 2015 Quarter Non-GAAP Guidance

	Dec'15 Guidance
Shipments	\$1.275 billion $\pm$ \$75 million
Revenue	\$1.410 billion $\pm$ \$75 million
Non-GAAP Gross Margin	45.5% $\pm$ 1%
Non-GAAP Operating Margin	20.5% $\pm$ 1%
Non-GAAP Earnings per Share <sup>(1)</sup>	\$1.42 $\pm$ \$0.10

(1) Based on a share count of ~172 million shares.

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# 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	
	September 27, 2015	June 28, 2015
U.S. GAAP gross margin	\$ 722,363	\$ 641,538
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	21,250	21,286
Acquisition-related inventory fair value impact - cost of goods sold	-	1,192
Impairment of long lived asset - cost of goods sold	-	9,821
Restructuring charges - cost of goods sold	371	-
Non-GAAP gross margin	<u>\$ 743,984</u>	<u>\$ 673,837</u>
U.S. GAAP gross margin as a percentage of revenue	45.1%	43.3%
Non-GAAP gross margin as a percentage of revenue	46.5%	45.5%
U.S. GAAP operating expenses	\$ 386,935	\$ 450,503
Pre-tax non-GAAP items:		
Restructuring charges - research and development	(4,206)	-
Amortization related to intangible assets acquired in Novellus transaction -selling, general and administrative	(16,083)	(16,083)
Restructuring charges - selling, general and administrative	(3,050)	(434)
Goodwill impairment - selling, general and administrative	-	(79,444)
Non-GAAP operating expenses	<u>\$ 363,596</u>	<u>\$ 354,542</u>
Non-GAAP operating income	<u>\$ 380,388</u>	<u>\$ 319,295</u>
GAAP operating margin as percent of revenue	21.0%	12.9%
Non-GAAP operating margin as a percent of revenue	23.8%	21.6%

# 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	
	September 27, 2015	June 28, 2015
U.S. GAAP net income	\$ 288,679	\$ 131,271
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	21,250	21,286
Acquisition-related inventory fair value impact - cost of goods sold	-	1,192
Impairment of long lived asset - cost of goods sold	-	9,821
Restructuring charges - cost of goods sold	371	-
Restructuring charges - research and development	4,206	-
Amortization related to intangible assets acquired in Novellus transaction -selling, general and administrative	16,083	16,083
Restructuring charges - selling, general and administrative	3,050	434
Goodwill impairment - selling, general and administrative	-	79,444
Amortization of note discounts - other expense, net	9,122	9,019
Net income tax benefit on non-GAAP items	(7,791)	(9,605)
Cumulative income tax benefit due to a court ruling	(21,925)	-
Net income tax expense on resolution or additional accrual for certain tax matters	-	1,078
Non-GAAP net income	<u>\$ 313,045</u>	<u>\$ 260,023</u>
Non-GAAP net income per diluted share	<u>\$ 1.82</u>	<u>\$ 1.50</u>
U.S. GAAP number of shares used for per diluted share calculation	174,374	176,575
Effect of convertible note hedge	(2,328)	(2,934)
Non-GAAP number of shares used for per diluted share calculation	<u>172,046</u>	<u>173,641</u>

# Appendix - Reconciliation

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

	<b>Three Months Ended</b>	
	<b>September 27, 2015</b>	<b>June 28, 2015</b>
U.S. GAAP other expense, net	\$ (27,121)	\$ (20,353)
Pre-tax non-GAAP items:		
Amortization of note discounts	9,122	9,019
Non-GAAP other expense, net	<u>\$ (17,999)</u>	<u>\$ (11,334)</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	
	September 27, 2015	June 28, 2015
U.S. GAAP income before income taxes	\$ 308,307	\$ 170,682
U.S. GAAP income tax expense	\$ 19,628	\$ 39,411
U.S. GAAP income tax rate	6.4%	23.1%
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	\$ 21,250	\$ 21,286
Acquisition-related inventory fair value impact - cost of goods sold	-	1,192
Impairment of long lived asset - cost of goods sold	-	9,821
Restructuring charges - cost of goods sold	371	-
Restructuring charges - research and development	4,206	-
Amortization related to intangible assets acquired in Novellus transaction -selling, general and administrative	16,083	16,083
Restructuring charges - selling, general and administrative	3,050	434
Goodwill impairment - selling, general and administrative	-	79,444
Amortization of note discounts - other expense, net	9,122	9,019
Non-GAAP income before taxes	362,389	307,961
Net income tax benefit on non-GAAP items	\$ 7,791	\$ 9,605
Cumulative income tax benefit due to a court ruling	\$ 21,925	\$ -
Net income tax expense on resolution or additional accrual for certain tax matters	\$ -	\$ (1,078)
Non-GAAP income tax expense	\$ 49,344	\$ 47,938
Non-GAAP income tax rate	13.6%	15.6%

# Appendix - Reconciliation

## Reconciliation of U.S. GAAP to Non-GAAP Guidance for the December 2015 Quarter (unaudited)

	GAAP			Reconciling Items	Non-GAAP		
Shipments	\$1.275 Billion	+/-	\$75 Million	-	\$1.275 Billion	+/-	\$75 Million
Revenue	\$1.410 Billion	+/-	\$75 Million	-	\$1.410 Billion	+/-	\$75 Million
Gross margin	44.0%	+/-	1%	\$21 Million	45.5%	+/-	1%
Operating margin	17.8%	+/-	1%	\$37 Million	20.5%	+/-	1%
Net income per diluted share	\$1.19	+/-	\$0.10	\$38 Million	\$1.42	+/-	\$0.10
Diluted share count	174 Million			2 Million	172 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 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; and associated tax benefit for non-GAAP items (\$8) million; totaling \$38 million
- Diluted share count – impact of a note hedge issued contemporaneously with the convertible notes due in 2016 and 2018, 2 million shares.

# Appendix - Reconciliation

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

	Three Months Ended	Three Months Ended
	September 27, 2015	June 28, 2015
Beginning Balance	\$ 518.1	\$ 485.2
Shipments	1,579.3	1,616.0
Revenue	(1,600.0)	(1,481.4)
Net Change in Japan (1)	17.7	(119.0)
Services & Other	2.3	17.3
Ending Balance	<u>\$ 517.4</u>	<u>\$ 518.1</u>
Value of shipments to Japanese customers not recorded as deferred revenue (2)	\$ 146.7	\$ 164.4

- (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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