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Company Summary

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PRESENTATION

Operator

Good day, and welcome to the Lam Research Corporation June '26 earnings conference call. (Operator Instructions) Please note this event is being recorded.

I would now like to turn the conference over to Ram Ganesh, Vice President of Investor Relations. Please go ahead.

Ram Ganesh - *Lam Research Corp - Vice President of Investor Relations*

Thank you, and good afternoon, everyone. Welcome to the Lam Research quarterly earnings conference call. With me today are Tim Archer, President and Chief Executive Officer; and Doug Bettinger, Executive Vice President and Chief Financial Officer.

During today's call, we will share our overview on the business environment and we'll review our financial results for the June 2026 quarter and our outlook for the September 2026 quarter. The press release detailing our financial results was distributed a little after 1:00 PM Pacific Time. The release and the accompanying presentation slides for today can be found on the Investors section of the company's website.

Today's presentation and Q&A include forward-looking statements based on our current beliefs, expectations and assumptions. These statements are subject to risks and uncertainties, and actual results could differ materially from those expressed or implied in such statements. For a discussion of factors that could cause actual results to differ materially, please refer to the risk factors in our most recently filed periodic

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reports on Form 10-K, and Form 10-Q and subsequent filings with the SEC and the cautionary statement in the accompanying presentation slides.

Today's discussion of our financial results will be presented on a non-GAAP financial basis unless otherwise specified. A detailed reconciliation between GAAP and non-GAAP results can be found in the accompanying presentation lines.

This call is scheduled to last until 3:00 PM Pacific Time. A replay of this call will be made available later this afternoon on our website.

And with that, I'll hand the call over to Tim.

Timothy Archer - *Lam Research Corp - President, Chief Executive Officer, Director*

Thanks, Ram. In the June quarter, Lam delivered record revenue, operating margin and earnings per share. Sequential top-line growth was led by a doubling of NAND revenue from the prior quarter underscoring the growing importance of storage to AI system performance. Our customer support business group also posted strong revenue growth driven by robust demand for upgrades Reliant and Equipment Intelligence-enabled services.

As we enter the second half of the year, we expect calendar 2026 wafer fab equipment spending, or WFE, to be in the low $150 billion range up from our prior outlook of $140 billion with upside bias. Against this backdrop of rising demand, Lam's momentum is strong. Our $8.1 billion September-quarter revenue guide represents more than 20% growth quarter on quarter. And we see 2026 shaping up to be our third consecutive year of relative outperformance to WFE.

Looking into 2027, we see an extraordinary setup for WFE growth. AI is driving record revenue and profitability for our customers who have signaled unprecedented long-term demand visibility. They've also announced multiyear timelines for new fab projects and are working with us to secure equipment orders to fill the incremental clean room space as it comes online.

Spending on capacity is occurring alongside investments in technology transitions that are creating structural opportunities for Lam to outgrow WFE. As a driver of industry investment, we are seeing AI progress through distinct waves, from training to inference to agentic and now increasingly physical AI. Each wave is building on what came before, creating new AI use cases, greater demand and new performance requirements.

We're seeing the impact of this progression notably in NAND. We're expanding context windows and persistent memory requirements driving significantly higher demand for flash storage. In response, customers are, in the near term, adding bit supply and improving device capability through installed base conversions to 200-plus layer architectures.

As layer counts rise and manufacturing complexity grows, so does our opportunity. We expect Lam's served available market or SAM per wafer in NAND to double from the 128-layer node to 500-plus layer devices.

AI is also reshaping the technology requirements in advanced foundry, logic and DRAM. Gate all around CFET, HBM, 4F-squared and panel-level advanced packaging, all featureprominently in the current and future AI device road maps. Through these transitions, increasing deposition and etch intensity remains the common thread.

Higher aspect ratio structures, more complex 3D architectures, smaller pitch patterning and new materials integration are all areas where Lam is a leader. We see the benefit of this technology acceleration in our expanding SAM, and we are moving towards our target of high 30s SAM as a percentage of WFE faster than what we had outlined at our 2025 Investor Day.

Let me highlight a few examples that illustrate why we're excited about what's ahead for Lam. Starting with conductor Etch. Lam is the industry leader with an installed base of more than 40,000 chambers worldwide. With our latest platform, Akara, we are further strengthening our position.

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Akara combines unique direct drive plasma technology with industry-leading high aspect ratio patterning capabilities. First adopted for 2-nanometer and below gate all-around architectures and foundry-logic, Akara is now gaining momentum in advanced DRAM. We have secured several strategic tool of record positions, including recent wins for the most challenging gate etch applications. Since its launch, Akara's installed base has doubled every year. and we expect that growth trajectory to continue in 2027.

DRAM pitch scaling is also driving higher interconnect density and wire and complexity. Shrinking dimensions place increasing demands on pattern fidelity, RC performance and reliability, driving adoption of advanced hard masks, etch stops and diffusion barriers. We previously addressed these patterning challenges in foundry-logic and are now extending those capabilities and our production-proven technologies into DRAM.

For example, DRAM customers are adopting our VECTOR hard mask deposition platform for low-k film patterning. By co-optimizing the hard mask film properties with our conductor etch process we have shown we can deliver improved transistor performance and better yield. Lam's co-optimized solution also offers over 20% cost savings to customers compared to traditional approaches.

Similarly, DRAM customers are increasingly adopting our VECTOR diffusion barrier systems to meet next-generation requirements. Our modular architecture combines interface cleaning etch stop enhancement and hermetic protection to prevent shorting at tighter pitches and reduce capacitance by approximately 5% versus competing technologies.

As devices scale, surface engineering becomes increasingly important for reducing defectivity and variability. In the transition from FinFET to gate-all-around, the number of applications requiring surface treatment roughly doubles.

Our Argos selective etch system uniquely addresses this need. By leveraging proprietary plasma technology, Argos creates a radical-rich environment that enables highly selective surface treatment with minimal substrate damage. As a result, we are winning leading-edge foundry-logic customers at 2-nanometer and below and expanding Argos into a growing set of DRAM applications.

Turning to advanced packaging. As an industry leader in TSV etch and electroplating, we are on track to deliver greater than 70% year-on-year growth. The long-term opportunity is even more compelling as AI performance will increasingly depend less on transistor density scaling and instead on integrating more chiplets, more HBM stacks and greater memory bandwidth within a single package. We expect each successive generation of advanced packaging to require more redistribution layers, denser copper interconnects, taller mega pillar structures and increasingly complex power delivery networks.

We also see future AI packages exceeding 9x the reticle size, roughly 3 times larger than today's mainstream designs. This is driving the industry to look beyond traditional wafer-based architectures, toward larger format panel level packaging approaches. Panels enable the creation of larger AI packages but they also introduce new challenges to maintain deposition uniformity material properties, defect control and yield across the larger panel area.

By leveraging technology and learning from our wafer-based SABRE 3D and advanced wet processing platforms, we have shipped 510 by 515-millimeter panel systems into development programs across multiple geographies. And this year, we will also ship our first 310 by 310-millimeter panel tool putting us at the leading edge of this important packaging transition.

In CSBG, customers are increasingly leveraging Lam's Equipment Intelligence and fab automation solutions to help increase capacity as they race to meet growing AI demand. Lam's Dextro cobots, the industry's first collaborative maintenance robots, are seeing rapid adoption. The precision and repeatability of automated maintenance is leading to improved first-time right recovery, higher tool availability and increased output, all critical at a time of industry-wide supply shortages.

We are accelerating Dextro application development. And since the start of 2026 have doubled the number of preventative maintenance tasks that can be automated. Importantly, many of the Equipment Intelligence and Dextro solutions initially proven out for NAND are now expanding into DRAM, creating additional service revenue opportunities in the second half of the year. Overall, we are still in the very early stages of a multiyear rollout of these offerings across our installed base.

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So to sum up, this is an exciting time for the industry and for Lam. AI is driving unprecedented demand, greater technical requirements and accelerated architectural scaling at both the device and packaging level. These trends all point to more opportunities for Lam. With our etch and deposition technology leadership, our close customer partnerships and our increasing operational velocity, we believe we are well positioned to outperform this year and in the years ahead.

Thank you, and here's Doug.

Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Excellent. Thank you, Tim. Good afternoon, everyone, and thank you for joining our call today during what I know is a very busy earnings season. We were pleased with our continued strong execution in the June quarter, resulting in our fourth consecutive quarter of record revenue, our highest quarterly gross margin in 20 years, record operating margin and record earnings per share.

We just finished fiscal year 2026, and we had record revenue of $23.2 billion and gross margin of 50.6%. Our diluted earnings per share in fiscal year 2026 was also a record, coming in at $5.82, which was up 41% from fiscal year 2025. We're ahead of the profitability objectives we discussed at our 2025 Investor Day, delivered through robust top-line growth and strong operational execution.

Let's look at the details of our June-quarter financial results. Our revenue was above the midpoint of guidance. With gross margin, operating margin and earnings per share all exceeded the high end of our guided range.

Revenue for the June quarter was $6.72 billion, which was up 15% sequentially and up 30% from the same period in 2025. Our deferred revenue balance at quarter end was $2.43 billion, which was an increase of $213 million from the March quarter. The increase was driven by a variety of factors, the largest of which was customer downpayments. From a market segment perspective, June-quarter systems revenue in memory was 46%, an increase from 39% in the prior quarter. On a dollar basis, this represented a record level for us in total memory.

Within memory, non-volatile memory accounted for 23% of our systems revenue, which was up from the March-quarter level of 12%. NAND revenue dollars more than doubled sequentially as the industry focuses on conversions to 256 layer and above class devices, primarily enabling enterprise SSDs.

DRAM remained strong, representing 23% of systems revenue compared to 27% in the March quarter. On a dollar basis, DRAM revenue was flattish with the record level we set in the March quarter. DRAM spending remained directed towards wafer additions and technology upgrades across 1 alpha, 1 beta and 1 gamma nodes enabling DDR5, LPDDR5 and high-bandwidth memory.

Foundry represented 44% of our systems revenue, down from the percentage concentration in the March quarter of 54%. Mature node spending with our customers in China was down sequentially. This was largely offset by strength in leading-edge process node investments in 2- and 3-nanometer capability, as well as advanced packaging.

And finally, logic and other were 10% of our systems revenue in the June quarter, which was up from the prior quarter level of 7%.

Let me now discuss the regional composition of our total revenue. The Taiwan region contributed 27% of revenue, up from the March quarter at 23%. Taiwan represented a new record level for us in dollar terms. China declined as we expected it would and accounted for 26% of revenue. I'll just remind you that China was 34% of revenue last quarter.

I would mention that within China, the global multinational customers grew sequentially, while the domestic customer base declined. Our next largest geographic region was Korea at 20% of revenue in the June quarter, down a little bit from the March-quarter level of 23%.

The customer support business group generated a third consecutive quarter of record revenue at nearly $2.5 billion in the June quarter, which was up 17% sequentially from March quarter and 43% higher than the same period in 2025. Sequentially, the increase was primarily

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due to record upgrade revenue. We also saw smaller increases in Reliant and services. Spare part purchases remained consistent with their strong level from the March quarter.

Let's look at the gross margin performance. The June quarter came in at 52%, exceeding the upper end of our guidance range and improving from the March-quarter level of 49.9%. Gross margin was stronger due to a myriad of factors, including pricing actions, operational and scale efficiencies as well as a favorable product mix.

Operating expenses in the June quarter were $916 million, up from the prior-quarter amount of $866 million. The increase was mainly due to employee-related spending associated with higher headcount and variable compensation expense as a result of our improving profitability. R&D accounted for 67% of our total operating expenses. We are funding incremental product spending that should enhance the breadth and competitiveness of our future portfolio.

Operating margin for the June quarter was 38.4%, also exceeding the upper end of our guidance range and improvement from the March quarter level of 35%. This improvement was primarily due to the higher revenue and stronger gross margin.

Our non-GAAP tax rate third quarter was 11%, in line with our expectations. We do believe the tax rate will be in the mid-teens in the September quarter due to the increase in revenue in higher tax jurisdictions, primarily the United States as we enter the new fiscal year. The US GILTI rate is also higher as we enter the fiscal year. We should expect this uptick in the tax rate to continue for the remainder of 2026 and likely beyond.

Other income and expense for the June quarter was approximately $19 million compared with $8 million in expense in the March quarter. The change in OI&E was primarily due to foreign exchange. And as we've talked about in the past, you should expect to see variability in OI&E quarter to quarter.

Let's look at capital return. We allocated approximately $246 million to share repurchases, and we paid $325 million in dividends in the June quarter. We returned 45% of free cash flow in the quarter. Year to date, we have returned 81% of free cash flow, and our plans remain to return at least 85% of free cash flow to our shareholders over time.

For the June quarter, diluted earnings per share were a record $1.82. The diluted share count was roughly 1.26 billion shares, down from the March quarter. We have $4 billion remaining on our Board-authorized share repurchase program.

Let me pivot to the balance sheet. Our cash and short-term investments totaled $5.6 billion at the end of the June quarter, up from $4.8 billion at the end of the March quarter. The primary factors behind the cash increase for cash from operating activities somewhat offset by our capital return activities. As the business grows, we'd like to build a little bit more cash on the balance sheet to support potential liquidity needs like capital spending and working capital.

Days sales outstanding were 72 days in the June quarter, an increase from 64 days in the March quarter. Inventory at the June-quarter end totaled $4.3 billion which was an increase in the March quarter as we are building inventory to meet growing customer demand. Nonetheless, inventory turns continue to improve coming in at 3 times versus 2.9 times in the prior quarter. This is the highest inventory turns level we've delivered in almost five years.

Our noncash expenses in the June quarter included approximately $104 million for equity compensation, $105 million in depreciation and $15 million in amortization. Capital expenditures in the June quarter were $189 million.

Capital spending was centered on lab investments in the United States and global growth in our manufacturing facilities. We ended the June quarter with approximately 22,400 regular full-time employees, which was an increase of approximately 1,800 people from the prior quarter. We had headcount growth primarily in the factory and field organizations to support increased tool installations as well as growing manufacturing activities. We also added headcount in R&D.

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Now let's turn to our non-GAAP guidance for the September 2026 quarter. We're expecting revenue of $8.1 billion, plus or minus $400 million; gross margin of 52%, plus or minus 1 percentage point; operating margins of 39.5%, plus or minus 1 percentage point. I would just mention, we are growing spending in the September quarter albeit at a much slower rate than the growth in revenue. And finally, we're expecting earnings per share of $2.15, plus or minus $0.15 based on a share count of approximately 1.255 billion shares.

So let me wrap up by sharing a brief update to the long-term profitability framework that we introduced at our Investor Day 1.5 years ago. Since then, demand has strengthened significantly, and we're executing well to the strategy that we outlined. As Tim mentioned, we see 2026 shaping up to be our third consecutive year our outperformance to the WFE. We've been growing the CSBG business faster than the installed base, and our close to customer strategy has helped expand our margins.

The technology inflections increasing deposition etch intensity reinforce our confidence that we can continue to expand our SAM creating additional opportunities for gaining share. Our SAM expansion is trending toward that high 30% range that we communicated. Now within this framework, we intend to drive gross margins to the mid-50% level and operating margins to the mid-40% level over the next several years as the AI transformation drives continued greater investment in global semiconductor capacity.

Operator, that concludes our scripted remarks. We would now like to open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Timothy Arcuri, UBS.

Timothy Arcuri - *UBS AG - Analyst*

Doug, I know you usually don't guide by segment, but service was up so much in June. And based upon the gross margin guidance, which you're guiding basically flattish on a revenue. I would imagine that it's up big again in September. So can you give us some sense of sort of what to expect in service within the guidance for September?

Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Listen, Tim, I think you're going to see similar profile of what we saw this quarter, and I won't get into specific numbers necessarily.

But upgrades are going to continue to be strong, I think, right, driven by what you got going on in NAND investment. I expect spares to continue to be pretty strong given the high utilization in the industry. And then we're excited about what's going on in Advanced Services with all the cobot and Equipment Intelligence. So I think it's going to be pretty consistent across the board, Tim, similar to what we saw this quarter.

Timothy Arcuri - *UBS AG - Analyst*

Great, Doug. And then -- so the new gross margin of mid-50s, that makes perfect sense. That's great.

And I guess the question is, how long will it take to get gross margin to that level? I know -- I mean, obviously, if you look at your margins versus, say, the large foundry margins, I mean it used to be within 5 points and now it's between 5 and 7 points as early as the first half of '24. And now you're like the gap is like 2x that. So there's obviously a lot of room for you to move it up.

How long will it take you for you to move that up? Is it like a revenue thing or is it a time thing?

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Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

A little bit of both, Tim, honestly, right? Part of it is scale and scope and revenue growth, part of it is new product introduction and getting fairly paid for the value we're delivering. I expect, Tim, this is over the next several years that we'll continue to drive it on an annual basis for sure, but it's going to take several years, I think, to get to those levels, Tim.

Operator

CJ Muse, Cantor.

C.J. Muse - *Cantor Fitzgerald LP - Analyst*

I guess a follow-up on the CSBG side of the house. It looks like you're going to grow in the mid-30s, plus or minus. I'm just curious, how do you think about the growth rate beyond '26 into '27, how much strength should we continue to see from NAND inside here? How are you thinking about Reliant? Does that start to recover more meaningfully? And do we see sustained kind of spares as well? I would love to hear your thoughts there.

Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Yes, CJ, I'll start, and then I'll let Tim add on. Yeah, the framework we put out at the Investor Day 1.5 years ago, still, I would encourage you to think about it in a similar way. Now clearly, we've grown faster than that suggested back 1.5 years ago, and that's come a little bit from advanced services. We're super excited about that driving incremental growth. It's come, Tim, also from just really high utilization in the industry, which drives consumption of spares and service. To the extent that, that continues, spares and service will continue to be really strong from that.

And then I think the way to think about Reliant is think about what's going on in the mature node investment, a little bit of what's happening in China. And then more broadly, what's happening in the analog, industrial, automotive space. So that will be a little bit more situational, I guess. But that's the framework to think about. We're probably going to do a little bit better than the growth that we talked about 1.5 years ago.

C.J. Muse - *Cantor Fitzgerald LP - Analyst*

Perfect. And then I guess, could you speak to perhaps new entrants or more meaningful spending from historically larger spenders on the logic front? What kind of visibility do you have today? And what kind of growth should we expect into 2027 and beyond?

Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Yeah. CJ, you're funny. Asking that tricky question about new logic customers. Yeah, there's some of the stuff going on. There's clearly dialogue, and I'll let comment a little bit. We are talking to that new logic customer in the US, that is happening.

Timothy Archer - *Lam Research Corp - President, Chief Executive Officer, Director*

Yeah, I don't have much to add other than to say we're engaged. And I think what's exciting for us is that in many cases where we have new entrants come into foundry-logic or memory or any of the spaces, they're always looking at some of the more innovative approaches. They're not encumbered by kind of the road maps and installed base that's existed.

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And so I think that we're hoping that when we think about all of the new systems that we've talked about, I mentioned a few in the prepared remarks, that we've talked about a lot of others in other calls, that's an opportunity for us to showcase the significant technical improvement Lam is in on the foundry-logic side. And I think that's what new entrants mean for us is more opportunities to grow our share within that space.

Operator

Harlan Sur, JPMorgan.

Harlan Sur - *JPMorgan Chase & Co - Analyst*

If I look back historically, your gross margin seems to have taken a structural step-up in 2023, but I believe this corresponded to the team moving a bigger part the volume manufacturing going through your more efficient low-cost Malaysia facility. And as the team has continued to scale volumes higher to Malaysia, since then, right, the increment that you've been able to drive incrementally higher margins on these products, and that continues to be a gross margin benefit.

Looking at your strong gross margin results for June and for the September outlook, like how much of the incremental gross margin improvement is coming from the volume mix to Malaysia and the increases there? Or could it be product mix, new product introduction upgrades? I know just incremental pricing increases on your systems? And maybe which of these dynamics is going to be most influential in driving you to your mid-50s sort of new long-term targets?

Timothy Archer - *Lam Research Corp - President, Chief Executive Officer, Director*

Yeah, Harlan, let me start just because and I know you want to get to the quantification, I'll let Doug do some of that to the extent that he can. But I just wanted to point out, when we look at the tremendous operational execution -- and I refer to it as operational velocity inside the company, I wanted to just make sure it's clear we have been able to execute to what have been really accelerated customer demand because of what I see as a strategic asset in our global manufacturing footprint and then a global supply chain footprint.

We have factories in Oregon, in California and Ohio, in Malaysia and Taiwan and Korea and Austria. And really, as we've looked at this tremendous growth period we've gone through and expect to continue to go through, we've leveraged that full scope of sites and supply chains. And what's really helped us is that they're not all interrelated, and so they're not all being driven by the same demand. And so in that way, we can both get what we need when we need it and also at the prices that we needed. And so there's an element of really being able to leverage this global capability. I think that's somewhat unique in how Lam has driven our operational structure.

And I'll let Doug talk to the second part of your question.

Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Yeah, Harlan, a lot of the uptick that you're seeing gross margin has come from exactly what Tim just outlined. On top of that, we've got new products coming out every single year. theoretically adding more value to the customers and driving improving profitability. Clearly, that's going to be our ongoing objective.

Clearly, we're always working to get fairly paid for the value we're delivering to the customers. We're absolutely working on that. And then, yes, a lot of it has come from operational efficiencies, close to customer strategy, all of that were conscious strategies that we've outlined over the last several years and have been talking about.

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Harlan Sur - *JPMorgan Chase & Co - Analyst*

I appreciate that. And then on advanced packaging, you came into this year with a view of greater than 40% growth. You upped back to greater than 50% growth last earnings. Now you're looking at 70% growth today, right? Is the increase in the outlook due to HBM or 2.5, the 3.5 SoIC advanced packaging transitions happening faster or is it customer just pulling in production capability from next year into this year, curious?

Timothy Archer - *Lam Research Corp - President, Chief Executive Officer, Director*

Yeah. I mean, Harlan, it's just everything. I mean advanced packaging, I mentioned in my prepared remarks, it's becoming quite a technical tool for our customers and for the industry to drive greater performance. So it's everything you just mentioned. It's 2.5D.

It's in the foundry-logic space, it's in HBM and I think that what we're excited about is, obviously, as it moves also into panel packaging, that's a place where Lam we feel like we've gotten out to an early start there, and we think that transition is very -- at very early stages but it's an important inflection point there as well. So I think just next few years, advanced packaging growth will be a little hard to predict because adoption is just occurring all over the place.

Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

But our clear leadership, Harlan, and I'll just remind you, in the TSV etch and the copper electric plating, I call it the drill and fill we just have really strong product offerings there. So as that goes, we just benefit extensively from our technical leadership.

Operator

Atif Malik, Citi.

Atif Malik - *Citi Infrastructure Investments LLC - Analyst*

I know you guys talked about doubling of NAND revenues and the context window or KB cash. There is a third-party trend forecasting a divergence in memory fundamentals next year, they're calling for an oversupply in NAND because of the NAND demand getting pulled down by weaker consumer and shortages to continue on the DRAM side, which is more driven by data center.

Are you seeing anything in your conversation with the memory makers that are pointing to some sort of oversupply or a reversal in the NAND fundamentals for next year?

Timothy Archer - *Lam Research Corp - President, Chief Executive Officer, Director*

I think that it's -- as we've said on NAND, I mean, clearly, customers are right now progressing through upgrades to 200-plus layer devices. There's some greenfield this year. it's a ways out before there's a lot of greenfield coming in demand.

So I think that, again, next year, we haven't -- we're still having conversations about how to continue to upgrade the existing installed base and get the fleet up to kind of current state of the art in terms of NAND. And so I think it's a little early on 2028. But our view right now is the fundamentals are still about the same for us.

I think what I tried to highlight in my prepared remarks is the Lam story is a lot bigger than just NAM. And there's often this focus. But what we've done is we've successfully looked at these vertical scaling trends that are occurring in both DRAM and foundry-logic.

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And we've applied all of that learning and expert that we have from 3D NAND into those. And those are the basis for a lot of the wins that I was talking about in my remarks. And I think that's a trend that continues into 2028 on as well. So you've got NAND and then you've got DRAM and foundry-logic as well.

And I would point out, we said that we believe 2027 looks like a great setup, not only for the industry, but for Lam. And that's an environment where next year, we still see DRAM being the fastest grower. foundry-logic being the second fastest grower and NAND being third. And that's exactly the setup that we came into this year on. And clearly, our results so far in 2026 are quite good. So we think even in that environment, Lam can do extremely well.

Atif Malik - *Citi Infrastructure Investments LLC - Analyst*

And then Taiwan was a record revenue year. Can you just talk about your foundry share gains at 3 and 2 nanometer.

Timothy Archer - *Lam Research Corp - President, Chief Executive Officer, Director*

Sure. I mean I can't tell you specifically. Obviously, in some of that gets quite close to a single customer. But look, it's back to the things that we've talked about. As customers are shrinking and they're moving to gate all around. It's the verticalization of the transistor structure. It's the focus on things like RC performance.

And if you go back and look at our transcripts from the last number of calls, we've been talking about things like low-K spaces, and we talked about the importance of patterning etch as features become ever smaller and taller because of EUV patterning and device shrink.

And so I would just say anything that's related again to something becoming higher aspect ratio, it requires etch, if it has to do with RC meaning metallization resistance or dialectric capacities. Those are areas where Lam's new ALD tools where our new etch tools like Akara are doing extremely well, not just in Taiwan, but really at every leading-edge foundry-logic customer around the world because these are unique capabilities built into our newest tools and they're doing great at the customer.

Operator

Jim Schneider, Goldman Sachs.

James Schneider - *Goldman Sachs - Analyst*

I was wondering, as you look at the growth rates, the industry has gone up post in 2026. How would you had to cap looking at mid-'27 where you could see a similar, better or worse growth rate relative to this year?

Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Yeah, Jim, we're not going to get into talking specifically about next year, at least not numerically. I would tell you, though, that as we look at kind of what's being invested in, the industry is still meaningfully undersupplied, right? You've got clean room coming online over the next, I don't know, 12 months and beyond, frankly, and all that will lead to incremental opportunities as we get into '27.

It's too soon for us to put quantification around what '27 is going to be. But it looks like it's going to set up to be a pretty darn good year, Jim. I guess I'd just leave it at that.

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James Schneider - *Goldman Sachs - Analyst*

That's fair enough. I understand. And then maybe just as a follow-up. You mentioned pricing being one of the factors to promote performance in the quarter. Can you speak to some of the factors that drove that? And do you see opportunities for further pricing actions in the short term, for example, like-for-like pricing pieces even which on the same program, the same project?

Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Jim, I mean, we're always working on getting fairly paid for the value we're delivering last quarter was no different than it ever has been. Pricing is always a component of what's been going on in addition to operational efficiency, that close to customer strategy I talked about -- all these new products that we're bringing out, delivering better gross margin because it's solving more difficult technical challenges.

All that contributes to what you're seeing us deliver in gross margin. And frankly, we will strive to continue to expand gross margin to that mid-50% level. We're going to work on all of those stuff.

Operator

Srini Pajjuri, RBC Capital Markets.

Srini Pajjuri - *RBC Capital Markets Inc - Analyst*

Tim, on your WFE comment about $150 billion, I think you said -- you alluded to maybe further upward bias for the year. I'm just trying to get a sense of what your lead times are? And in case if there is more upside, I guess, in the second half of the year, how well positioned you are to be able to supply to any potential upside?

Timothy Archer - *Lam Research Corp - President, Chief Executive Officer, Director*

Yeah. Sorry, that might have been poorly worded in the remarks. It was -- our previous quarter's guidance was $140 billion with upside bias and that upside bias played out to get us to $150 billion now. So this outlook was in the $150 billion range. We didn't say upside bias for this current outlook.

But to that extent, I mean, your second part of your question about what capability do we have? I mean, I know we were thinking one of the questions might be, how did you go to from $140 billion to $150 billion when you said it was clean room constrained.

People find ways and the demand is very strong. And so people have squeezed out a little bit of extra space. They've resolved bottleneck tools. We work with customers on if we happen to be the bottleneck tool from a throughput perspective in places, we work with customers to resolve those and that sometimes frees them up to spend a little bit more to resolve other bottleneck tools. So that's kind of the $140 billion to $150 billion.

From this point forward, as you said, lead times are challenging. But maybe referring back to the answer I gave about our strategic global manufacturing supply chain, our team is doing a phenomenal job, a heroic job, I think, responding to urgent customer requests and so when those do come up, we've been able to meet those needs.

I think as we move through the second half of the year, that becomes more and more built to see anything further in this year as true surprise upside. And that's why the discussions are now out in the '27 and beyond to make sure that as new fabs come into play -- this is my comment about visibility. As those new fabs are opening up, customers want to make sure they have secured the tools they need from Lam to -- and so those discussions are taking place at lead time or beyond.

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Srini Pajjuri - *RBC Capital Markets Inc - Analyst*

And then my follow-up, maybe on gross margins. Doug, pretty impressive gross margin performance despite the fact that China declined pretty meaningfully sequentially. So I'm just trying to get a sense of what you're seeing in terms of China overall demand. Are you expecting, I guess, China to recover in the next few quarters?

I see you were deferred revenue balance went up a little bit. So I'm just trying to get a sense of how to think about China going forward.

Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Srini, I still think China overall WFE is flat to slightly up, similar to what we said before. I think quarter by quarter, you'll see some lumpiness to it. right? But our view is still largely the same.

I would just also point out a comment that I made in my script and maybe that we're going to continue to see is understand in that China region, you also have the global multinational customers with fabs in China showing up in that number at 26%. And in the June quarter, those global multinationals in China actually grew somewhat while the indigenous Chinese customers declined. It won't surprise me if that's a similar trend that we see as we go through the latter part of the year as well.

Operator

Vivek Arya, Bank of America Securities.

Michael Mani - *Bank of America - Analyst*

This is Michael Mani on for Vivek Arya. My first question is on NAND. So it seems like the company is pretty close to realizing the $40 billion upgrade opportunity faster than expected. But as you've described in the past, that's not so much of a static opportunity. Like whatever has been upgraded to layers eventually has to migrate to 300 layers and above, which could trigger another wave of spending for NAND.

Where are we in that kind of second phase of upgrades? And is there a way to kind of contextualize how big that opportunity could be relative to the initial $40 billion upgrade opportunity you saw in the last couple of years?

Timothy Archer - *Lam Research Corp - President, Chief Executive Officer, Director*

Yeah, it's a good question. We've said that it is not a static thing. And in fact, as the industry -- if we look at this year, we made a comment. It's a combination of both upgrades plus some greenfield shipments, and that's kind of going to characterize the next couple of years. I mean, most of that $40 billion we had previously said would likely occur -- and upgrades would likely occur before the end of 2027. But then as you pointed out, it kind of all starts again.

The key is since greenfield additions have been made in that period of time. The next time it rolls through, you go from 200 to 300 plus or 400 plus, it's an even bigger installed base. And so while we have not -- we haven't quantified that, but it's a good action item for us to get to you into the future.

But you can imagine that as you go -- we've described from 200 to 300 to 400 to 500 layers, I mean -- I said that our SAM will double from the 200-plus layer to the 500-plus layer on a per wafer basis. And that's a combination of longer process times to process the taller stacks plus additional tools that get added in to deal with all the complexity of all that stacking. And that's where Lam's opportunity lies helping address the complexity of stacking the 500 layers and beyond for customers.

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Michael Mani - *Bank of America - Analyst*

And my follow-up, I wanted to ask about DRAM. So I think a lot of the strong outgrowth and have seen over the last couple of years in share gains has been mainly driven by HBM, which are TSV drilling and electric plating tools. But could you talk about your share opportunity in traditional conventional DRAM, especially as you move to new nodes like 1c and 1 gamma, given that right now, that seems like where most of the industry capacity constraints are over the next couple of years?

Timothy Archer - *Lam Research Corp - President, Chief Executive Officer, Director*

Sure, sure. I mean it's -- obviously, as you mentioned, HBM has been tremendous for Lam from the standpoint of the position we have in the TSV formation and other elements of the HBM process itself. But I mentioned a couple of improvements. As DRAM performance at the device level continues to push forward into future nodes, they're incorporating more processes that are associated with higher performance. It's low pay. It's also introduction of more EUV layers, which pulls in and makes Lam's patterning etch tools that much more critical. And so we're seeing wins across very conventional for types of devices.

In my prepared remarks, I talked about if you're trying to build very high-performance DRAM, you start to worry about things, as I mentioned, like the diffusion barrier performance and the ex-op layer performance. And that's an area where today, we hold a very strong leadership position in advanced leading-edge foundry-logic.

And the reality is, as you try to push DRAM performance ahead, it starts to look a lot like leading-edge foundry-logic. And I think that's where the real strength of Lam's portfolio is that, in many ways, the performance requirements across all three devices as we see more vertical scaling, more performance, they're all converging.

And I think that a couple of years from now, we're going to look back and say, hey, everything kind of became 3D NAND like, much taller, much more complex acquiring higher performance tools. And right now, I think DRAM is seeing that. So it's -- we are winning in conventional DRAM, but it's related to the strength of the device, the patterning of the device, the materials that are being introduced and I think that continues. And then you layer on top of that, if you do HBM, it's even better for us.

Operator

Melissa Weathers, Deutsche Bank.

Melissa Weathers - *Deutsche Bank AG - Analyst*

I wanted to bring it back to a framework that you guys brought up on one of your calls last year about the relationship between WFE spending and total data center spending, especially with the market looking at potential slowing of AI spending or more efficient models.

Is there any way you can help us think about your view of WFE in the context of potential slowing AI spending? And how do we think about the resilience of your business there?

Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Yeah. Listen, Melissa, I think as we look into next year, the fact that the industry is undersupplied this year is going to roll into next year. So we feel great about what's going to happen with WFE.

Yeah, that metric, we about the $100 billion data center CapEx equating, if I remember the number to roughly $8 billion in WFE. That was probably a little bit of a low estimate as we see here today, probably trending, I don't know, $1 billion or $2 higher. But that clearly, at the

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end of the day, is what's driving demand at the end of the day, the hyperscale investment is trickling all the way back to WFE, and that is absolutely a driver. The numbers are probably a little higher than we had talked about with middle part of last year.

Melissa Weathers - *Deutsche Bank AG - Analyst*

Perfect. And then on the supply side, I'm sure you guys are getting more visibility from your own customers. But I was wondering, Doug, you talked about higher inventory turn. What kind of like partnership and visibility are you giving your suppliers to make sure you can bring on capacity for this strong ramp?

Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

All the same visibility we get, Melissa, is propagating its way all the way back to our supply chain and even a couple of layers deep in the supply chain. So we're doing everything we can to make sure we're not going to be the bottleneck.

I would tell you, it's a lot of work. We've got a lot of things we're expediting and working our way through. We'll continue to do that. But that part of the company is doing an extraordinary job managing this for us.

Operator

Stacy Rasgon, Bernstein Research.

Stacy Rasgon - *Sanford C Bernstein & Co LLC - Analyst*

For the first one, Doug, I know you said '27 is going to be kind of a remarkable year. I want to ask you to give us a number. But I mean, are clean rooms really the limiter to how big '27 can be like. I mean if clean rooms were unlimited, I think you guys are growing, you guys think is growing from like [110 to 150] this year sets mid-30s. If clean rooms were unlimited, like is there no question that we could grow that much next year even more. Is that where the demand is the demand note thing like that?

Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Yeah, Stacy, again, I'm not going to put numbers on it right now. It's too soon for us to do that. But when I look into what's going on in the industry, I don't know, when you just look at the bigger customers, there's probably 8, 9, 10 new fabs coming online between now and the end of next year that's going to enable the reception of more equipment.

So we're excited about where this is going. I'm not going to put a number on it quite yet. We'll do that as we get further down the road here.

Stacy Rasgon - *Sanford C Bernstein & Co LLC - Analyst*

Got it. For my follow-up, let me try one more way. Again, I'll try to answer without having to put numbers on it. But if '27 is going to be that good, do you think the setup is good enough where, at a minimum, we could see sequential growth from here until the end of '27? Is the setup and I guess, the availability of space enough that at least you could be willing to sign up for something like that?

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Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Yeah, maybe, Stacy, when you look at it, this doesn't all come on in any one quarter. So it comes on kind of bit by bit. Again, not going to guide you quarter by quarter through next year. But I feel incrementally do at about each successive quarter as I sit here right now. And as we get a little bit closer, maybe I'll give you a little more color.

Operator

Krish Sankar, TD Cowen.

Krish Sankar - *TD Cowen - Analyst*

To Doug, you mentioned about growing inventory but the inventory management is still lean. When I look at prior cycles, this is the time where you should be building a lot more inventory given the huge WFE potential ahead.

I'm just wondering, is this a new norm for inventory management? Or is this more supply chain being constrained on capacity? And if you can just try and that to what your lead timewill be helpful, too.

Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

It's just efficiently managing the building inventory. We are absolutely growing inventory. I think it grew $300 million or something last quarter. But at the same time, turns improved. I think you're going to continue to see us think about it in the same way. We clearly are going to need to build inventory as we get into revenue growth like we're seeing, but we'll also be focused on efficiency and making sure we're managing the cash for the company well.

Krish Sankar - *TD Cowen - Analyst*

Got you. And then a quick follow-up on gross margins. I thought you mentioned that some of the strength in June came from pricing, too. I understand product mix might have an impact. But if you assume current level of volumes is 50%-plus the right baseline for gross margins to assume?

Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

You mean as we go forward, Krish, is that your question?

Krish Sankar - *TD Cowen - Analyst*

Yeah. Yeah, at these volume levels, yeah.

Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Yeah. No, I think so. Listen, we're in that 51%, 52% range right now. I think we can continue to deliver that in the near term.

Operator

Blayne Curtis, Jefferies.

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Blayne Curtis - *Jefferies - Analyst*

I actually wanted to ask on pricing. It's been kind of an investor theme, and I'm kind of just curious what you're seeing like-for-like pricing in the industry and you?

Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Yeah, Blayne, I'm not going to talk about like-for-like pricing. When I described the solid gross margin that we saw last quarter, I talked a little bit about pricing, about operational and scale efficiencies and about product mix, all of that contributed. We're always doing everything we can to get fairly paid for the value we're delivering. That's true today. It's been true for, I don't know, a decade, longer, but we're working on all of those things, Blayne.

Blayne Curtis - *Jefferies - Analyst*

Got you. And then I want to ask you in terms of just your CapEx plans and in terms of adding this back in capacity, there's a lot of talk of WFE $300 billion . Just kind of curious, what are you starting today and like what could that spending be over the next year or two years?

Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Yeah. Blayne, I still think we can manage the company for 4% to 5% of revenue going towards CapEx as we build out lab infrastructure. We're making big investments in labs, by the way. This isn't just manufacturing capacity. We're also very focused, Blayne, on, I don't know, I think about it as footprint in densification, getting more output for the same square footage that we have in manufacturing.

The company is doing a really nice job at that. We probably haven't talked enough about it. But we're making the investments we need to support where we believe the customers are going to be. We'll be ahead of that.

Timothy Archer - *Lam Research Corp - President, Chief Executive Officer, Director*

Yeah. I think if you don't mind, I'd just add Doug's comment about labs. I mean if we think about CapEx and investments and long term for the company, we sit in a position where as etch and dep intensity is growing and playing a much more important role to kind of our future road maps of our customers, we see a lot of opportunity for new product development to accelerate SAM expansion even further.

And so labs play a big role in that. Tooling for those labs plays a big role in that. And so where we see opportunity, we will invest in the company to accelerate growth.

Operator

Vijay Rakesh, Mizuho.

Vijay Rakesh - *Mizuho Securities USA LLC - Analyst*

Tim and Doug, just a question on the -- when you look at the DRAM side, obviously growing very nicely. But when you look at HBM 440 and HBF, obviously, it looks like your capital intensity starts to pick up significantly for Lam. Any way of kind of sizing the opportunity there for every 100 wafers, whether it's HBF with PSVs or HBM 440. And I have a follow-up.

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Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Yeah. Vijay, we haven't put numbers around that. But clearly, I mean, relative to your HBM question, as the stack gets taller, process times take longer, you need more equipment. And clearly, we're enabling a lot of that with the things we do around the TSV. But we haven't put specific numbers on it, and I'm not prepared to do it right now.

Vijay Rakesh - *Mizuho Securities USA LLC - Analyst*

Got it. And when you look at the Lam revenues this year 2026, looks like you're somewhere in that $30 billion neighborhood on $150 billion WFE. So about 20% share back of the envelop you talked about a 30% SAM. When you start to kind of scale and bridge into that, I guess, what would be the timeframe?

Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Yeah, Vijay, what we talked about, I got to take you back to the Investor Day and the beginning of 2025. We at that point, we're talking about our SAM extending from the low 30% of WFE range into the high 30% range. As we sit here today, we're probably trending already to that high level.

We're, I don't know, I guess, 36%, 36.5% this year, something like that. So we're progressing quite nicely. I'm not exactly sure the math that you were doing, it might be confusing a little bit of the CSBG business in there as well, which isn't purely WFE. So maybe we can take that off-line.

Operator, we will take one more question, please.

Operator

Shane Brett, Morgan Stanley.

Shane Brett - *Morgan Stanley & Co Ltd - Analyst*

So my first question is, you talk a lot about etch and dep, but you've gained quite a bit of share in cleaning over the last few years. Could you talk about the roll cleaning plays in your SAM expansion? Is there a world where you actually become the leading market shareholder for clean?

Timothy Archer - *Lam Research Corp - President, Chief Executive Officer, Director*

Yeah. I guess we're still focused on the 3D scaling that's occurring in all these devices. We sometimes forget about clean, but you're right. It's a very important business for us and one that has grown nicely. And I think, again, as customers focus, we talked a little bit about it purely cleaning, but we talked about the selective etch process in surface treatment. And clean kind of plays into that as well, although I'll be in different tools.

But it's the focus as you are getting to more and more difficult technologies, the need to control surfaces, the need to perform cleans, eliminate defectivity, all just are becoming much more important to the customers. And so we've seen our performance in clean where we are really focused on the high-performing critical cleans we've done extremely well.

And so I don't know about the number one player because there's a lot of it to go look at that market. But in terms of critical cleans, that, of course, would be our objective is to help our customers with all of the processes.

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Shane Brett - *Morgan Stanley & Co Ltd - Analyst*

Got it. And for my follow-up, apologies if this is a little repetitive to prior questions. But I want to dig into DRAM, as your DRAM revenue may double this year, but you mentioned earlier to a question that DRAM will be the fastest driver next year. Just how big could DRAM be for you in 2027 as a percentage of your system revenue? And kind of how much of that growth could be based on share gain?

Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Yeah, Shane. We're not going to put numbers around next year yet too soon. But what Tim said is as we look into next year, we expect the growth drivers next year to be largely the same as they are this year led by growth in DRAM WFE followed by leading-edge founder and logic followed by NAND. We see everything growing into next year.

And frankly, Shane, when we think about the guide for next quarter at $8.1 billion, I think you're going to see everything growing next quarter as well.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Doug Bettinger for any closing remarks.

Douglas Bettinger - *Lam Research Corp - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Yeah, I would just say thank you all for joining our call. We're very excited about what's going on in the industry right now and our unique position in it. As we talked about, both Tim and I, we're looking into what we believe to be our third consecutive year of outperforming growth in WFE because of the intensity of etch and deposition. And I wouldn't change our position for anybody in the industry.

Our execution has been great, and we intend to continue delivering that. And we look forward to seeing all of you guys on upcoming NDRs and conferences.

And with that, operator, we're all concluded.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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