



Lam Research Corporation

March Quarter 2014 Financial Results

April 23, 2014



Cautions Regarding Forward-Looking Statements

Statements made in this presentation that are not statements 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. Forward-looking statements relate, but are not limited, to the components and projections of our financial models; our prospects and strategies for continued traction with key technology solutions such as 3D NAND, multi-patterning, advanced packaging and single-wafer clean; the elements of our 2014 Industry Outlook, including the drivers and expected spending related to wafer fab equipment, memory (both Planar and 3D NAND and DRAM), logic and foundry accounts and inflection technology opportunities; our performance position for 2014, our strategies and capabilities to sustaining such performance and the underlying assumptions relating to opportunities from leveraging technology inflections, exposure to industry segments and execution of market share gains; the anticipated revenue from our sales to Japanese customers; trends in the global economic environment and the semiconductor industry; factors that affect our tax rates; and forecasts for tax rates, shipments, revenues, gross margins, operating margins, share count and earnings per share on either a GAAP or a non-GAAP basis. Some important factors that may affect these forward-looking statements include but are not limited to: business conditions in the semiconductor industry and the overall economy; global political and economic conditions; electronics consumption; the financial performance and expectations of our existing and prospective customers; the introduction of new technologies; the occurrence and pace of technology transitions and conversions; actions of competitors, consumers, semiconductor companies and key suppliers and subcontractors; unanticipated challenges to our integration efforts; and the success of our R&D and sales and marketing programs. These forward-looking statements are based on current expectations and are subject to uncertainties and changes in condition, significance, value and effect, as well as other risks detailed in the oral presentation accompanying these slides, and documents filed with the Securities and Exchange Commission, including the report on Form 10-Q for the quarter ended December 29, 2013. These important factors could cause actual results to differ materially from expectations. As a result, you should not place undue weight on such forward-looking statements. The Company undertakes no obligation to update the statements made in this presentation unless required by law.

Business Review and Industry Outlook

Martin Anstice

President & Chief Executive Officer

Another Quarter of Strong Execution

Lam Achieved

Strong Financial Results

- Above mid-point of guidance range for all metrics
- Cash from operations increased to 24% of revenue

Profitable Growth

- 10% sequential revenue growth
- Operating income grew ~2x faster than revenue QoQ

Modeled Performance

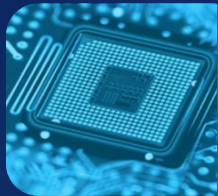
- In-line with long-term financial targets ahead of schedule
- Progressing well through industry transitions

Positive Traction with Key Solutions



3D NAND

- Lam is addressing all critical steps in transistor formation
- PTOR selections for dielectric deposition, dielectric etch and tungsten CVD



Multi-Patterning

- Benefiting in etch from increased multi-patterning steps in DRAM and Foundry 20nm / FinFET
- Secured production win with our ALD system for 20 nm DRAM



Advanced Packaging

- Leveraging market leadership to win two new customers with our 3D Copper Electroplating tool



Single-Wafer Clean

- Evaluations underway with 3 leading device manufacturers for next-gen clean system
- One system released for production use for front end of line applications

2014 Industry Outlook



- **Continued investments for both Planar and 3D NAND**
 - Majority investments for Planar NAND in 2014
 - Second generation 3D NAND investments extended into early 2015



- **Strong DRAM investments for mid-2x and 20 nm nodes**
 - Multi-patterning and technology conversions driving spend
 - Continued DRAM requirements through the year



- **Foundry, Logic on track**
 - Ramp plans for 20 nm Foundry and 14 nm Logic progressing as expected
 - Initial FinFET Pilot capacity coming on line



- **~25% of 2014 WFE investments for inflection technologies**
 - 3D NAND, FinFET, Multi-patterning, advanced packaging

Maintaining 2014 WFE spend forecast of ~\$32B

Positioned for Outperformance in 2014

- **Strong leverage to technology inflections represent expansion opportunities**
 - Benefiting from the further adoption of multi-patterning in Foundry and DRAM
 - Expanding on early successes in 3D NAND
- **Lam's exposure to industry segments is more balanced than ever**
 - Strengthened memory positions for deposition products
 - Expanded applications for etch in Foundry and MPU
- **Executing market share gains**
 - 2013: gained 2%-3% shipped share in etch, ~1% in deposition and held positions in clean
 - 2014: positioned to gain 1%-2% shipped share in both etch and deposition

Strong execution combined with technology inflections support opportunity for sustained outperformance

March Quarter 2014 Financial Results and June Quarter 2014 Outlook

Doug Bettinger

Executive Vice President & Chief Financial Officer

Positive Momentum to Start 2014

- Shipments at an all-time high
- Four consecutive quarters of record revenue
- Operating income outpaced revenue growth
- Gross Margin toward the upper end of guidance range
- Earnings per share exceeded the high end of guidance range
- More than doubled operational cash flow sequentially quarter over quarter
- Exceeding long term model expectations

Solid performance in line with our financial model

March Quarter Shipments

- Shipments of \$1.264 billion
 - Up 11% sequentially from the December quarter
- System shipments segment mix:

	Mar'14	Dec'13
Memory	66%	64%
<i>NAND</i>	36%	36%
<i>DRAM</i>	30%	28%
Foundry	28%	28%
Logic/Other	6%	8%

March Quarter Financial Results

	Mar'14	Dec'13
Revenue	\$1,227M	\$1,116M
Non-GAAP Gross Margin*	45.5 %	45.8 %
Non-GAAP Operating Expenses *	\$311M	\$302M
Non-GAAP Operating Income *	\$248M	\$209M
Non-GAAP Operating Margin *	20.2%	18.7%
Non-GAAP Other Income/(Expense) *	(\$1.4M)	(\$0.6M)
Non-GAAP Tax Rate *	12%	9%
GAAP EPS	\$0.96	\$0.87
Non-GAAP EPS *	\$1.26	\$1.10
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 Metrics

	Mar'14	Dec'13
Total Consolidated Gross Cash Balance	\$2,898M	\$2,689M
Account Receivables, Net	\$818M	\$910M
DSO	61 Days	74 Days
Inventory Turns	3.9	3.8
Deferred Revenue*	\$432M	\$405M
Capital Expenditures	\$42M	\$38M
Equity Compensation Expense	\$24M	\$23M
Amortization Expense	\$40M	\$41M
Depreciation Expense	\$33M	\$33M
Headcount	~6,600	~6,550

*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.

June 2014 Quarter Non-GAAP Guidance

Shipments	\$1.150 billion \pm \$50 million
Revenue	\$1.240 billion \pm \$50 million
Non-GAAP Gross Margin	46.0% \pm 1%
Non-GAAP Operating Margin	20.0% \pm 1%
Non-GAAP Earnings per Share ⁽¹⁾	\$1.21 \pm \$0.07

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

Q&A

Appendix – Reconciliation

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

	<u>Three Months Ended</u> <u>March 30,</u> <u>2014</u>	<u>Three Months Ended</u> <u>December 29,</u> <u>2013</u>
U.S. GAAP gross margin	\$ 530,798	\$ 487,789
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	21,670	21,491
Costs associated with rationalization of certain product configurations - cost of goods sold	4,855	-
Acquisition-related inventory fair value impact - cost of goods sold	-	1,225
Integration costs - cost of goods sold	-	264
Synthetic lease impairment - cost of good sold	1,558	-
Non-GAAP gross margin	<u>\$ 558,881</u>	<u>\$ 510,769</u>
U.S. GAAP gross margin as a percentage of revenue	43.2%	43.7%
Non-GAAP gross margin as a percentage of revenue	45.5%	45.8%
U.S. GAAP operating expenses	\$ 338,861	\$ 323,315
Pre-tax non-GAAP items:		
Integration costs - operating expenses	-	(2,785)
Amortization related to intangible assets acquired in Novellus transaction - operating expenses	(16,537)	(16,953)
Costs associated with rationalization of certain product configurations - operating expenses	(1,922)	(846)
Impairment of long lived asset - operating expenses	(4,000)	(628)
Synthetic lease impairment - operating expenses	(5,356)	-
Non-GAAP operating expenses	<u>\$ 311,046</u>	<u>\$ 302,103</u>
Non-GAAP operating income	<u>\$ 247,835</u>	<u>\$ 208,666</u>
Non-GAAP operating margin as a percent of revenue	20.2%	18.7%

Appendix – Reconciliation

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

	<u>Three Months Ended</u> <u>March 30,</u> <u>2014</u>	<u>Three Months Ended</u> <u>December 29,</u> <u>2013</u>
U.S. GAAP net income	\$ 164,396	\$ 148,992
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	21,670	21,491
Costs associated with rationalization of certain product configurations - cost of goods sold	4,855	-
Acquisition-related inventory fair value impact - cost of goods sold	-	1,225
Integration costs - cost of goods sold	-	264
Synthetic lease impairment - cost of good sold	1,558	-
Integration costs - operating expenses	-	2,785
Amortization related to intangible assets acquired in Novellus transaction - operating expenses	16,537	16,953
Costs associated with rationalization of certain product configurations - operating expenses	1,922	846
Impairment of long lived asset - operating expenses	4,000	628
Synthetic lease impairment - operating expenses	5,356	-
Amortization of convertible note discount, Lam notes - other expense, net	7,416	7,329
Amortization of convertible note discount, Novellus assumed notes - other expense, net	999	762
Gain on sale of investment - other expense, net	-	(4,813)
Net tax benefit on non-GAAP items	(12,325)	(6,404)
Net tax benefit on successful resolution of certain tax matters	-	(1,313)
Non-GAAP net income	<u>\$ 216,384</u>	<u>\$ 188,745</u>
Non-GAAP net income per diluted share	<u>\$ 1.26</u>	<u>\$ 1.10</u>
Number of shares used for diluted per share calculation	171,636	171,757

Appendix – Reconciliation

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

	Three Months Ended	
	March 30, 2014	December 29, 2013
U.S. GAAP other expense, net	\$ (9,855)	\$ (3,837)
Pre-tax non-GAAP items:		
Amortization of convertible note discount, Lam notes	7,416	7,329
Amortization of convertible note discount, Novellus assumed notes	999	762
Gain on sale of investment	-	(4,813)
Non-GAAP other expense, net	<u>\$ (1,440)</u>	<u>\$ (559)</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	
	March 30, 2014	December 29, 2013
U.S. GAAP income before income taxes	\$ 182,082	\$ 160,637
U.S. GAAP income tax expense	\$ 17,686	\$ 11,645
U.S. GAAP income tax rate	9.7%	7.2%
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	21,670	21,491
Costs associated with rationalization of certain product configurations - cost of goods sold	4,855	-
Acquisition-related inventory fair value impact - cost of goods sold	-	1,225
Integration costs - cost of goods sold	-	264
Synthetic lease impairment - cost of good sold	1,558	-
Integration costs - operating expenses	-	2,785
Amortization related to intangible assets acquired in Novellus transaction - operating expenses	16,537	16,953
Costs associated with rationalization of certain product configurations - operating expenses	1,922	846
Impairment of long lived asset - operating expenses	4,000	628
Synthetic lease impairment - operating expenses	5,356	-
Amortization of convertible note discount, Lam notes - other expense, net	7,416	7,329
Amortization of convertible note discount, Novellus assumed notes - other expense, net	999	762
Gain on sale of investment - other expense, net	-	(4,813)
Non-GAAP income before taxes	246,395	208,107
Net tax benefit on non-GAAP items	\$ 12,325	\$ 6,404
Net tax benefit on successful resolution of certain tax matters	\$ -	\$ 1,313
Non-GAAP income tax expense	\$ 30,011	\$ 19,362
Non-GAAP income tax rate	12.2%	9.3%

Appendix – Reconciliation

LAM RESEARCH CORPORATION RECONCILIATION OF DEFERRED REVENUE

(in millions)
(unaudited)

	Three Months Ended	
	Mar 30	Dec 29
	2014	2013
Beginning Balance	\$ 405.0	\$ 334.0
Shipments	1,263.8	1,139.5
Revenue	(1,227.4)	(1,116.1)
Net Change in Japan (1)	(3.2)	43.8
Services & Other	(6.7)	3.8
Ending Balance	<u>431.5</u>	<u>405.0</u>
Value of shipments to Japanese customers not recorded as deferred revenue (2)	\$ 56.7	\$ 53.5

- (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.

Innovative **Technology**
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