



Lam Research Corporation

September Quarter 2016 Financial Results

October 19, 2016



Cautionary Statement Regarding Forward-Looking Statements

This presentation and the accompanying discussion contain “forward-looking statements” under U.S. securities laws. Forward-looking statements include any statements that are not statements of historical fact. Examples of forward-looking statements include, but are not limited to: (1) anticipated business, balance sheet and financial results, including guidance, whether actual or pro forma; (2) economic, market, industry and industry segment expectations; and (3) our ability to successfully execute product plans or growth strategies, or otherwise deliver value for customers and stockholders. Forward-looking statements speak only as of the date they are made and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed, including the factors discussed in our filings with the Securities and Exchange Commission (“SEC”). You should not place undue reliance on forward-looking statements. Lam undertakes no obligation to publicly update any forward-looking statements.

Business Review and Industry Outlook

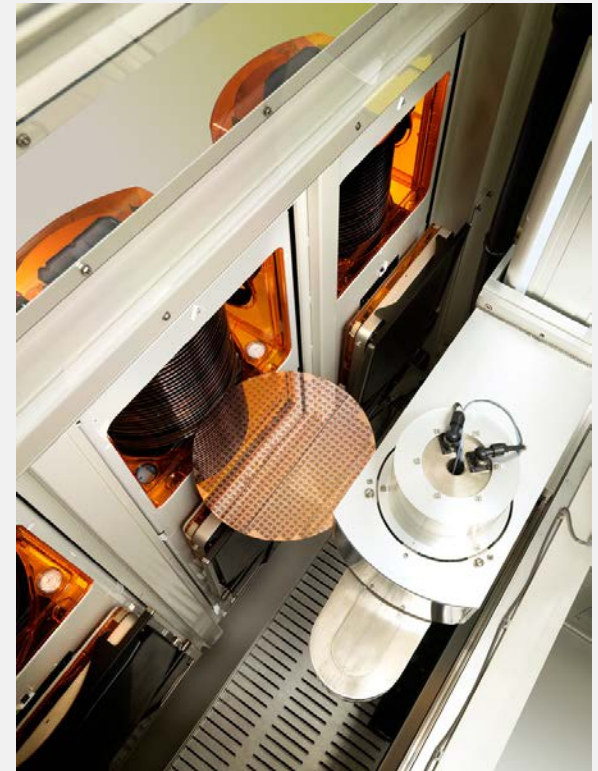
Martin Anstice

President & Chief Executive Officer

September Quarter Headlines and Outlook

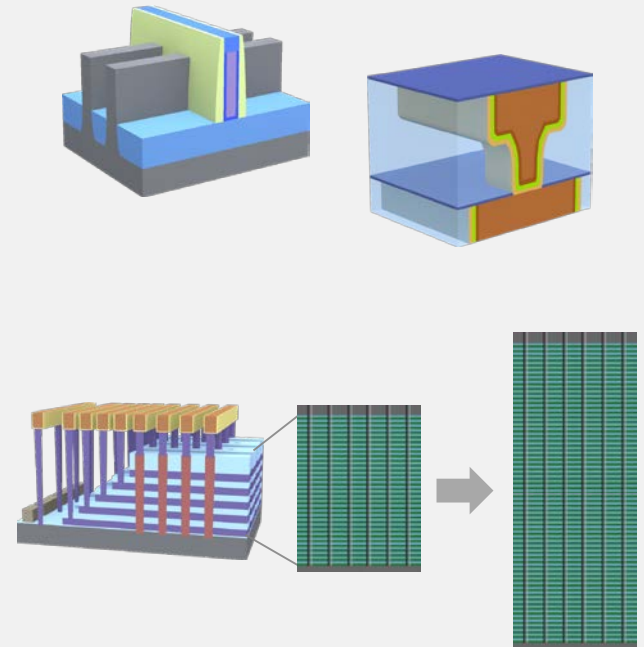
Demonstrating operational execution and company scaling

- ▶ **World-class performance from our supply chain, factories, and field service teams**
 - New record for shipments in the September quarter
 - Record high foundry shipments in the September quarter
 - Gearing up for additional growth in the December quarter
- ▶ **Differentiated product pipeline momentum continues**
- ▶ **>90% success in critical defenses and new market application penetrations**



Strengthening our strategic relevance

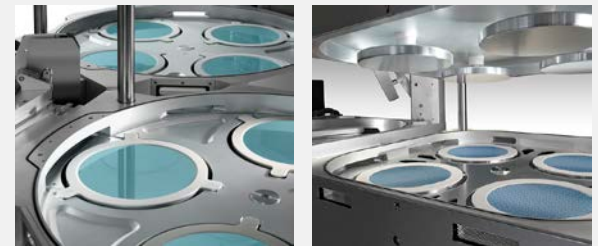
- ▶ Driving innovations to enable advanced transistors and interconnect in foundry/logic is a critical priority for Lam
- ▶ Rapid adoption of 3D NAND demonstrates its importance to performance scaling in consumer and data center applications
 - High density storage in smartphones
 - High density SSDs for cost-efficient scaling of cloud architectures



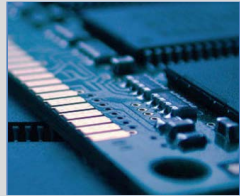
Extending Leadership Through Competitive Differentiation

Five consecutive years of Lam SAM outperforming WFE

- ▶ **Kiyo[®] with Hydra[®]**: the most technically advanced, production-proven conductor etch performance in the industry
- ▶ **Flex with Atomic Level Etching**: atomic-level control over variability for dielectric etching
- ▶ **ALTUS[®] tungsten fill and VECTOR[®] dielectric deposition**: strong momentum set to continue into 2017
- ▶ **Customer Support Business**: on track for a record year, with increased confidence of sustaining long-term profitable growth

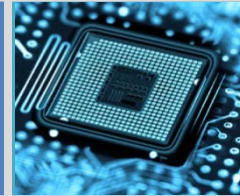


Industry Outlook



Memory

- NAND WFE on track for 40% growth year over year; DRAM WFE down ~40% year over year in 2016
- 3D NAND shipped capacity of ~425k WSPM by the end of 2016
- Upward bias to spending expectations for NAND and DRAM in 2017



Foundry & Logic

- Foundry WFE up >20% year over year in 2016
- Customer focus on additional qualifications and PTOR selections for 10 nm and 7 nm devices
- Flat to modest pull-back in logic/foundry spending in 2017

Expect modestly higher overall WFE spend in 2017



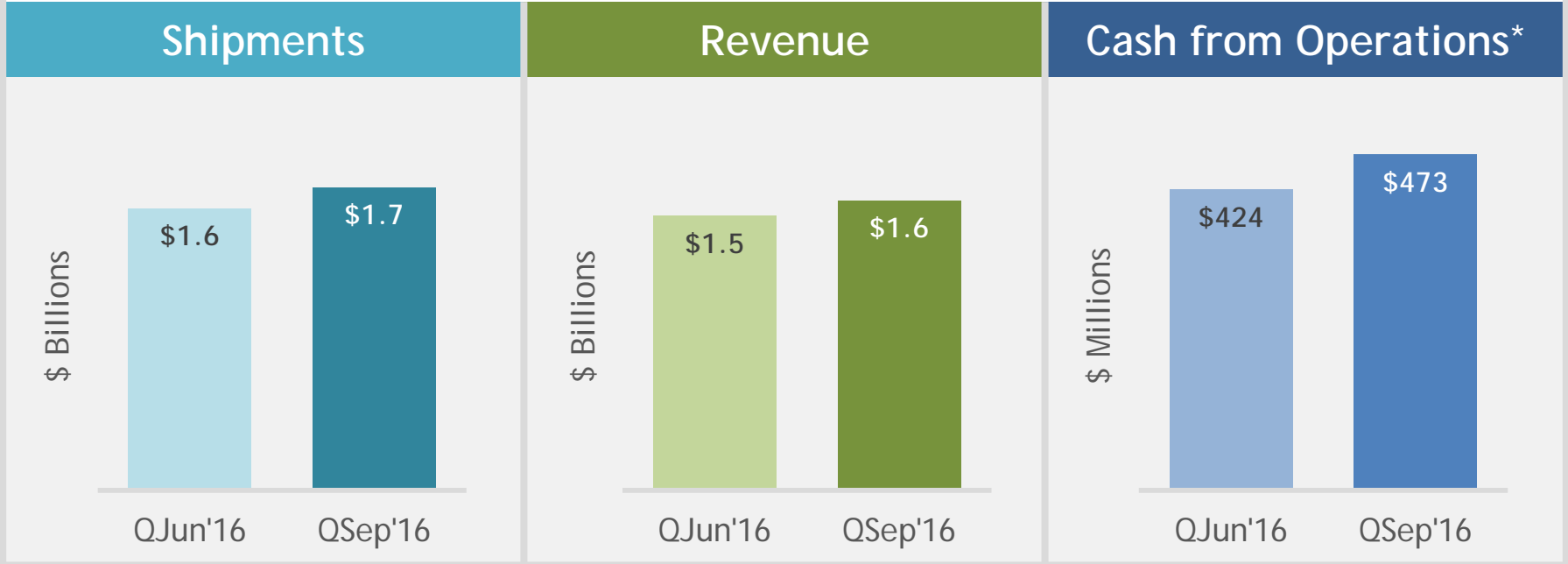
September Quarter 2016 Financial Results and December Quarter 2016 Outlook

Doug Bettinger
Executive Vice President & Chief Financial Officer

September Quarter Results

Solid execution and record results

- Shipments, revenue, net income*, and cash from operations* at all-time highs in QSep'16

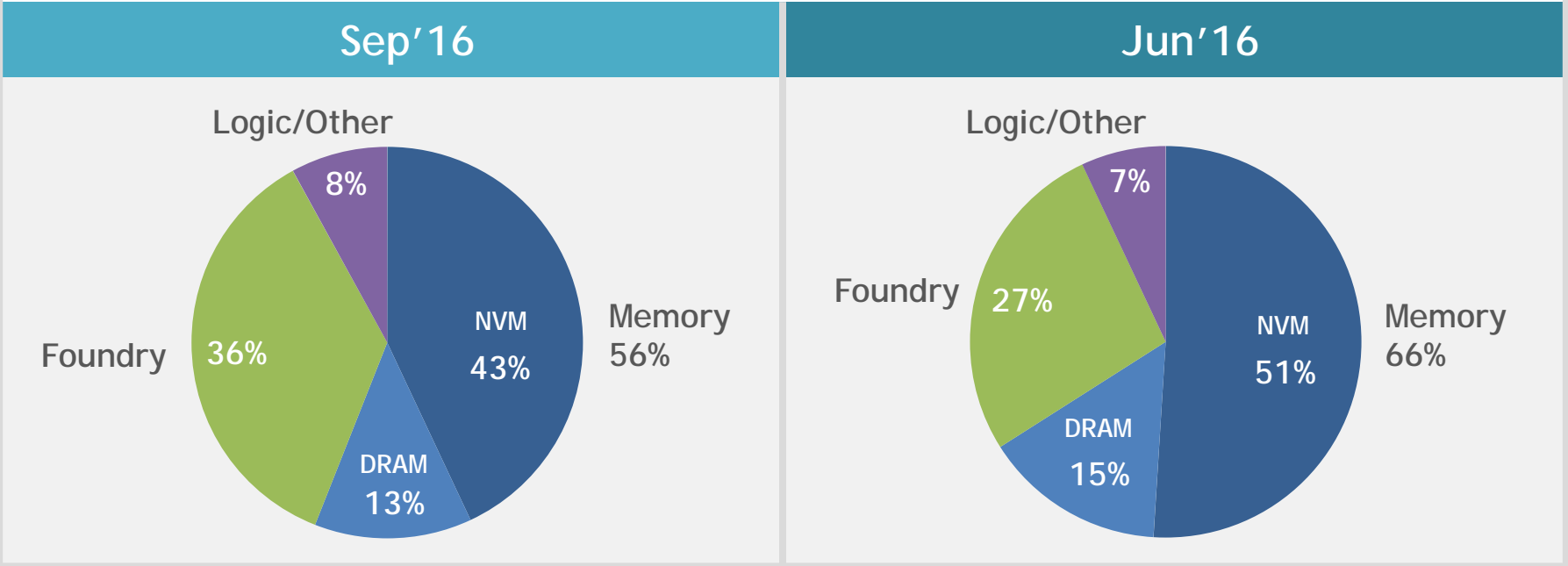


*Non-GAAP

September Quarter Shipments

QSep'16 shipments of \$1.708 billion

- ▶ 8% increase compared to June quarter
- ▶ System shipments reflect larger mix of foundry, logic



September Quarter Financial Results

	Sep'16	Jun'16
Revenue	\$1,632M	\$1,546M
Non-GAAP Gross Margin*	45.2%	46.6%
Non-GAAP Operating Expenses*	\$372M	\$361M
Non-GAAP Operating Income*	\$366M	\$359M
Non-GAAP Operating Margin*	22.4%	23.2%
Non-GAAP Other Income/(Expense)*	\$0.5M	(\$9.0M)
Non-GAAP Tax Rate*	12%	10%
GAAP Diluted EPS	\$1.47	\$1.46
Non-GAAP Diluted EPS*	\$1.81	\$1.80
Non-GAAP Diluted Share Count*	178M	175M

*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'16	Jun'16
Total Consolidated Gross Cash Balance	\$7,470M	\$7,078M
Account Receivables, Net	\$1,290M	\$1,262M
DSO	72 Days	74 Days
Inventory Turns	3.9	3.5
Deferred Revenue*	\$704M	\$566M
Capital Expenditures	\$42M	\$52M
Equity Compensation Expense	\$39M	\$39M
Amortization Expense	\$39M	\$39M
Depreciation Expense	\$36M	\$36M
Headcount	~7,800	~7,500

*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 2016 Quarter Non-GAAP Guidance

	Dec'16 Guidance
Shipments	\$1.850 billion \pm \$75 million
Revenue	\$1.840 billion \pm \$75 million
Non-GAAP Gross Margin	46.0% \pm 1%
Non-GAAP Operating Margin	25.0% \pm 1%
Non-GAAP Earnings per Share*	\$2.18 \pm \$0.10

*Based on a share count of ~179 million shares.

Questions & Answers

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)

	Three Months Ended	
	September 25, 2016	June 26, 2016
U.S. GAAP gross margin	\$ 716,197	\$ 698,784
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction	21,250	21,250
Novellus acquisition-related inventory fair value impact	—	128
Non-GAAP gross margin	\$ 737,447	\$ 720,162
U.S. GAAP gross margin as a percentage of revenue	43.9%	45.2%
Non-GAAP gross margin as a percentage of revenue	45.2%	46.6%
U.S. GAAP operating expenses	\$ 400,250	\$ 389,543
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction	(16,083)	(16,083)
KLA-Tencor acquisition-related costs	(9,972)	(19,270)
Costs associated with campus consolidation	(2,561)	(7,763)
Restructuring charges	—	(160)
Gain on sale of real property, net of associated exit costs	—	15,223
Non-GAAP operating expenses	\$ 371,634	\$ 361,490
Non-GAAP operating income	\$ 365,813	\$ 358,672
GAAP operating margin as percent of revenue	19.4%	20.0%
Non-GAAP operating margin as a percent of revenue	22.4%	23.2%

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 25, 2016	June 26, 2016
U.S. GAAP net income	\$ 263,835	\$ 258,939
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	21,250	21,250
Novellus acquisition-related inventory fair value impact - cost of goods sold	—	128
Costs associated with campus consolidation - research and development	2,561	7,763
Restructuring charges - research and development	—	43
Amortization related to intangible assets acquired in Novellus transaction -selling, general and administrative	16,083	16,083
KLA-Tencor acquisition-related costs - selling, general and administrative	9,972	19,270
Restructuring charges - selling, general and administrative	—	117
Gain on sale of real property, net of associated exit costs - selling, general and administrative	—	(15,223)
KLA-Tencor acquisition funding interest expense, net - other expense, net	17,709	3,821
Amortization of note discounts - other expense, net	5,913	7,492
Amortization of bridge loan issuance costs and other related fees - other expense, net	—	6,938
Net income tax benefit on non-GAAP items	(15,249)	(8,413)
Income tax benefit on resolution of certain tax matters	—	(2,515)
Change to income tax benefit from court ruling	—	(887)
Non-GAAP net income	\$ 322,074	\$ 314,806
Non-GAAP net income per diluted share	\$ 1.81	\$ 1.80
U.S. GAAP number of shares used for per diluted share calculation	180,017	177,649
Effect of convertible note hedge	(2,389)	(2,597)
Non-GAAP number of shares used for per diluted share calculation	177,628	175,052

Appendix - Reconciliation

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

	Three Months Ended	
	September 25, 2016	June 26, 2016
U.S. GAAP Other expense, net	\$ (23,154)	\$ (27,249)
Pre-tax non-GAAP items:		
Amortization of note discounts	5,913	7,492
Amortization of bridge loan issuance costs and other related fees	—	6,938
KLA-Tencor acquisition funding interest expense, net	17,709	3,821
Non-GAAP other income (expense), net	\$ 468	\$ (8,998)

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 25, 2016	June 26, 2016
U.S. GAAP income before income taxes	292,793	\$ 281,992
U.S. GAAP income tax expense (benefit)	28,958	\$ 23,053
U.S. GAAP income tax rate	9.9%	8.2%
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	\$ 21,250	\$ 21,250
Novellus acquisition-related inventory fair value impact - cost of goods sold	—	128
Restructuring charges - research and development	—	43
Cost associated with campus consolidation - research and development	2,561	7,763
KLA-Tencor acquisition-related costs - selling, general and administrative	9,972	19,270
Gain on sale of assets, net associated exit costs - selling, general and administrative	—	(15,223)
Amortization related to intangible assets acquired in Novellus transaction - selling, general and administrative	16,083	16,083
Restructuring charges (benefit) - selling, general and administrative	—	117
Amortization of note discounts - other expense, net	5,913	7,492
Amortization of bridge loan issuance costs and other related fees - other expense, net	—	6,938
KLA-Tencor pre-acquisition funding interest expense, net - other expense, net	17,709	3,821
Non-GAAP income before taxes	\$ 366,281	\$ 349,674
Net income tax benefit on non-GAAP items	\$ 15,249	\$ 8,413
Income tax benefit on resolution of certain tax matters	—	2,515
Change to income tax benefit due to a court ruling	—	887
Non-GAAP income tax expense	\$ 44,207	\$ 34,868
Non-GAAP income tax rate	12.1%	10.0%

Appendix - Reconciliation

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

	U.S. GAAP			Reconciling Items	Non-GAAP		
Shipments	\$1.85 Billion	+/-	\$75 Million	—	\$1.85 Billion	+/-	\$75 Million
Revenue	\$1.84 Billion	+/-	\$75 Million	—	\$1.84 Billion	+/-	\$75 Million
Gross margin	44.9%	+/-	1%	\$ 21 Million	46.0%	+/-	1%
Operating margin	23.0%	+/-	1%	\$ 37 Million	25.0%	+/-	1%
Net income per diluted share	\$1.82	+/-	\$0.10	\$ 60 Million	\$2.18	+/-	\$0.10
Diluted share count	181 Million			2 Million	179 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, \$6 million; special mandatory redemption fees, accelerated amortization of loan issuance costs and debt discounts, and interest expense, net associated with the early redemption of the KLA-Tencor acquisition funding, \$37 million; and associated tax benefit for non-GAAP items (\$20) million; totaling \$60 million.
- Diluted share count - impact of a note hedge issued contemporaneously with the convertible notes due 2018, 2 million shares.

Appendix - Reconciliation

RECONCILIATION OF DEFERRED REVENUE

(in millions)

(unaudited)

	Three Months Ended	
	September 25, 2016	June 26, 2016
Beginning Balance	\$ 566.4	\$ 510.7
Shipments	1,708.5	1,587.4
Revenue	(1,632.4)	(1,546.3)
Net Change in Japan (1)	66.4	(11.0)
Services & Other	(4.6)	25.6
Ending Balance	\$ 704.3	\$ 566.4
Value of shipments to Japanese customers not recorded as deferred revenue (2)	\$ 65.3	\$ 131.7

- (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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