



Lam Research Corporation

December Quarter 2016 Financial Results

January 25, 2017



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, cash flow and financial measures and 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

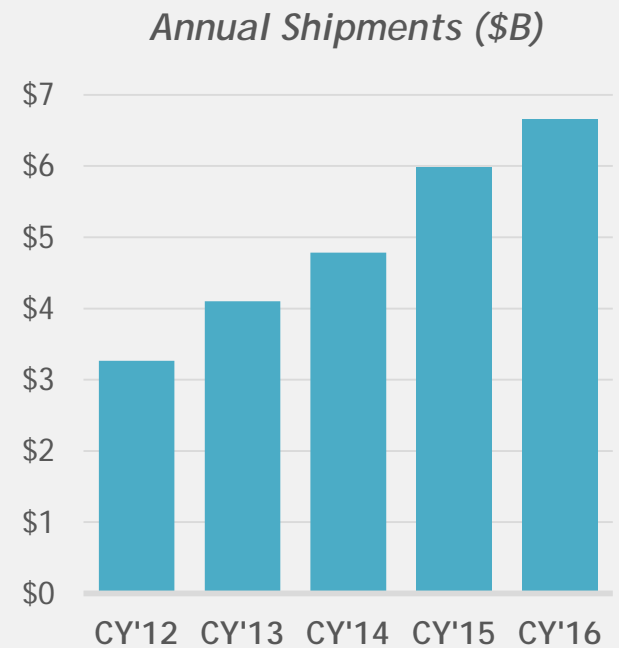
Martin Anstice

President & Chief Executive Officer

December Quarter Results and CY'16 Milestones

Continuing the trajectory of sustainable growth

- ▶ Record results for shipments, revenues, profit dollars*, and earnings per share* in the December quarter
- ▶ Fifth consecutive year of outperformance
 - 5-year shipments CAGR approaching 20%
 - CY'16 shipments of \$6.7B, grew at 2X the pace of WFE
- ▶ Strengthened technical position, creating sustained opportunity for outperformance



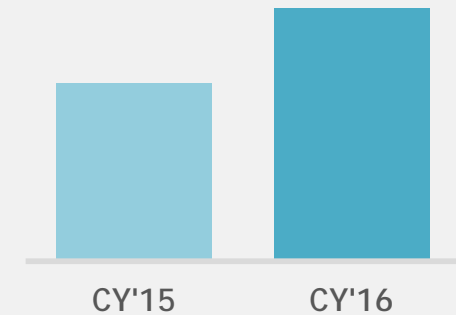
*Non-GAAP

Creating Balance Across Market Segments

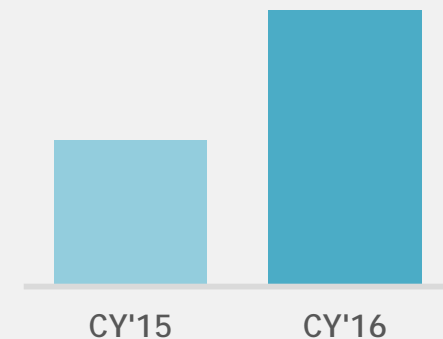
Strengthening our momentum in foundry and NAND

- ▶ **Atomic Layer Etch (ALE):** Doubled installed base of ALE systems for logic self-aligned contact application in the December quarter
- ▶ **Foundry:** Grew foundry shipments by ~40% in CY'16, compared to foundry WFE growth of 25%
- ▶ **NAND:** Grew NAND shipments by >80% in CY'16, almost 2X the growth of NAND WFE
- ▶ Defended 100% of critical applications and penetrated additional applications in NAND and advanced memory process flows

Foundry Shipments



NAND Shipments



Multi-Year Growth Opportunity Ahead

Accelerating demand for cloud, mobility, connected devices

- ▶ The semiconductor industry is now “more than Moore”
- ▶ Lam has the right products at the right time to help customers enable industry transformation
- ▶ Sustained opportunity for Lam outperformance, supported by technical competency and customer trust



Enabling Customer Success

Supporting time-to-market needs of our customers

- ▶ Ramped supply chain and factory capacity to deliver record factory output in December quarter; scaling for further growth
- ▶ Global customer support organization effected accelerated production ramps at multiple sites worldwide
- ▶ Fifth consecutive year of growth for Customer Support Business
- ▶ Focus on improving technology and productivity for an installed base of >40k modules



2017 Industry Outlook



DRAM

- Tight supply and demand continues into 2017
- DRAM investments focused on conversions, with ~25% of capacity converted to 1X by the end of 2017
- Double-digit growth in DRAM WFE



NAND

- Early stage of industry transition to solid-state storage
- 3D NAND shipped capacity of >700k WSPM by the end of 2017
- Double-digit growth in NAND WFE



Foundry & Logic

- Spend primarily focused on 10 nm and 7 nm capacity for leading-edge processors
- ~25% of capacity at 20 nm and below nodes by the end of 2017, matching capacity at the 28 nm node
- Flat foundry and logic investments

Forecast 2017 WFE spend in a range of mid-\$37B ± \$2B



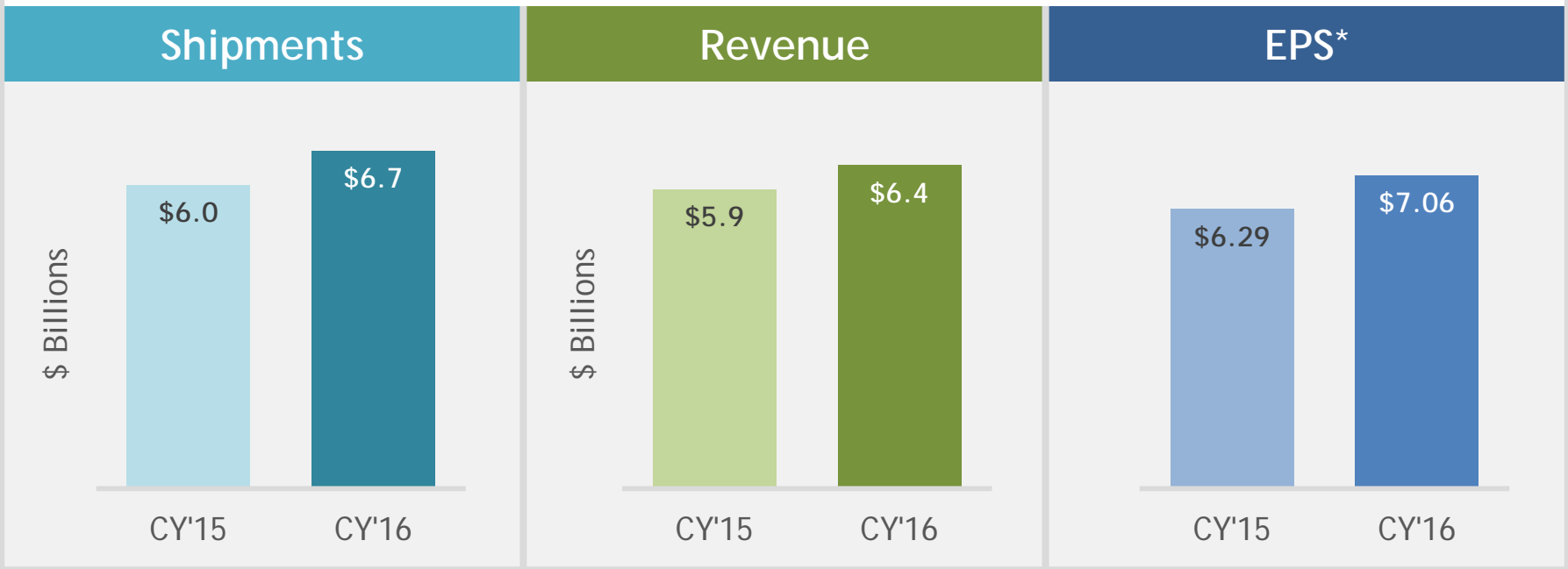
December Quarter 2016 Financial Results and March Quarter 2017 Outlook

Doug Bettinger
Executive Vice President & Chief Financial Officer

December Quarter and CY'16 Results

Achieved multiple milestones throughout CY'16

- ▶ Shipments, revenue, operating income dollars*, and earnings per share* at record levels for QDec'16 and CY'16

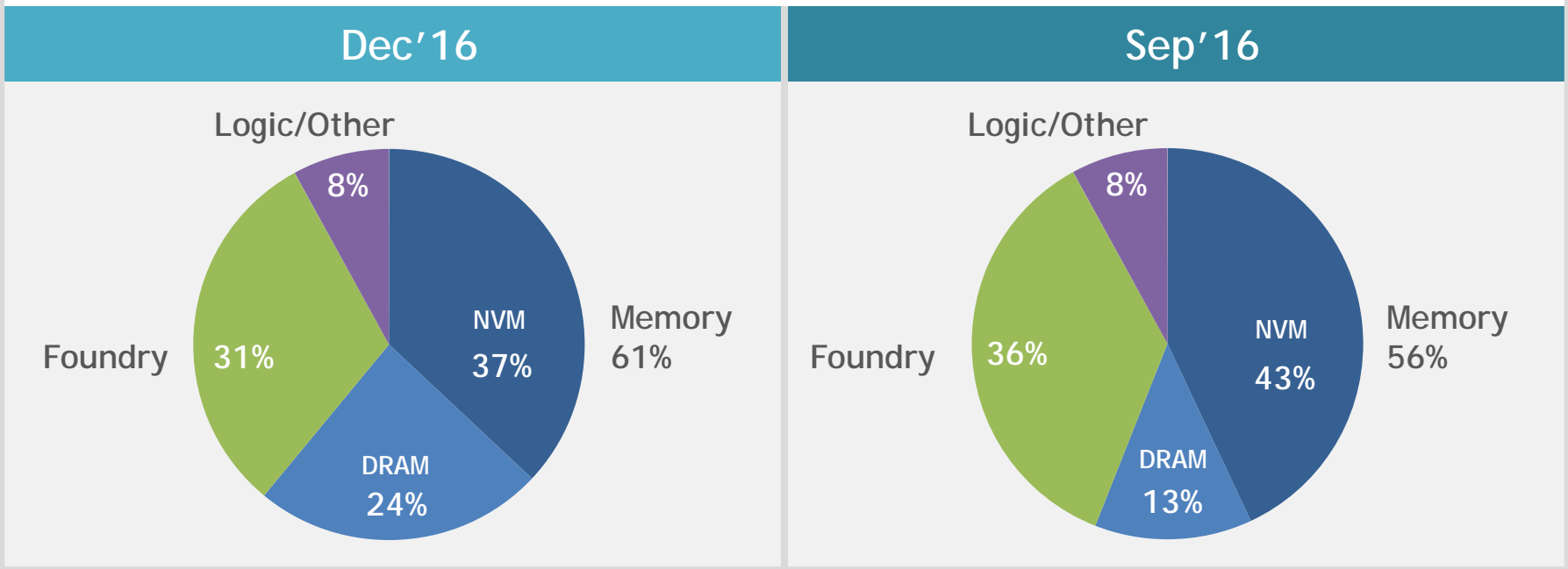


*Data are presented on a non-GAAP basis. Reconciliations of U.S. GAAP results to non-GAAP results can be found at the end of this presentation.

December Quarter Shipments

▶ QDec'16 shipments of \$1.923 billion

- ▶ 13% increase compared to September quarter
- ▶ System shipments segment mix:



December Quarter Financial Results

	Dec'16	Sep'16
Revenue	\$1,882M	\$1,632M
Non-GAAP Gross Margin*	46.4%	45.2%
Non-GAAP Operating Expenses*	\$384M	\$372M
Non-GAAP Operating Income*	\$490M	\$366M
Non-GAAP Operating Margin*	26.0%	22.4%
Non-GAAP Other Income/(Expense)*	(\$12.2M)	\$0.5M
Non-GAAP Tax Rate*	15%	12%
GAAP Diluted EPS	\$1.81	\$1.47
Non-GAAP Diluted EPS*	\$2.24	\$1.81
Non-GAAP Diluted Share Count*	181M	178M

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

Key Balance Sheet and Financial Metrics

	Dec'16	Sep'16
Total Consolidated Gross Cash Balance	\$6,089M	\$7,470M
Account Receivables, Net	\$1,426M	\$1,290M
DSO	69 Days	72 Days
Inventory Turns	4.1	3.9
Deferred Revenue*	\$673M	\$704M
Capital Expenditures	\$37M	\$42M
Equity Compensation Expense	\$32M	\$39M
Amortization Expense	\$39M	\$39M
Depreciation Expense	\$38M	\$36M
Headcount	~8,200	~7,800

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

March 2017 Quarter Non-GAAP Guidance

	Mar'17 Guidance
Shipments	\$2.350 billion \pm \$75 million
Revenue	\$2.125 billion \pm \$75 million
Non-GAAP Gross Margin	45.5% \pm 1%
Non-GAAP Operating Margin	25.5% \pm 1%
Non-GAAP Earnings per Share*	\$2.55 \pm \$0.10

*Based on a share count of ~180 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			
	December 25, 2016	September 25, 2016	June 26, 2016	March 27, 2016
U.S. GAAP gross margin	\$ 846,797	\$ 716,197	\$ 698,784	\$ 571,265
Pre-tax non-GAAP items:				
Amortization related to intangible assets acquired in Novellus transaction	21,250	21,250	21,250	21,250
Novellus acquisition-related inventory fair value impact	—	—	128	—
Product rationalization	6,127	—	—	—
Non-GAAP gross margin	\$ 874,174	\$ 737,447	\$ 720,162	\$ 592,515
U.S. GAAP gross margin as a percentage of revenue	45.0%	43.9%	45.2%	43.5%
Non-GAAP gross margin as a percentage of revenue	46.4%	45.2%	46.6%	45.1%
U.S. GAAP operating expenses	\$ 406,969	\$ 400,250	\$ 389,543	\$ 380,512
Pre-tax non-GAAP items:				
Amortization related to intangible assets acquired in Novellus transaction	(16,083)	(16,083)	(16,083)	(16,084)
KLA-Tencor acquisition-related costs	—	(9,972)	(19,270)	(14,323)
Costs associated with campus consolidation	(995)	(2,561)	(7,763)	—
Restructuring (charges) benefits	—	—	(160)	130
Gain on sale of assets, net associated exit costs	—	—	15,223	—
Product rationalization	(1,650)	—	—	—
Litigation settlement	(4,000)	—	—	—
Non-GAAP operating expenses	\$ 384,241	\$ 371,634	\$ 361,490	\$ 350,235
Non-GAAP operating income	\$ 489,933	\$ 365,813	\$ 358,672	\$ 242,280
GAAP operating margin as percent of revenue	23.4%	19.4%	20.0%	14.5%
Non-GAAP operating margin as a percent of revenue	26.0%	22.4%	23.2%	18.4%

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		Twelve Months Ended	
	December 25, 2016	September 25, 2016	December 25, 2016	December 27, 2015
U.S. GAAP net income	\$ 332,791	\$ 263,835	\$ 999,016	\$ 849,215
Pre-tax non-GAAP items:				
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	21,250	21,250	85,000	85,072
Novellus acquisition-related inventory fair value impact - cost of goods sold	—	—	128	2,149
Product rationalization - cost of goods sold	6,127	—	6,127	—
Impairment of long-lived assets - cost of goods sold	—	—	—	9,821
Restructuring charges - cost of goods sold	—	—	—	371
Costs associated with campus consolidation - research and development	995	2,561	11,319	—
Product rationalization - research and development	1,650	—	1,650	—
Restructuring charges - research and development	—	—	115	4,240
Amortization related to intangible assets acquired in Novellus transaction - selling, general and administrative	16,083	16,083	64,333	64,332
KLA-Tencor acquisition-related costs - selling, general and administrative	—	9,972	43,565	17,392
Restructuring charges - selling, general and administrative	—	—	(85)	5,021
Litigation settlement - selling general and administrative	4,000	—	4,000	—
Gain on sale of real property, net of associated exit costs - selling, general and administrative	—	—	(15,223)	—
Goodwill impairment - selling, general and administrative	—	—	—	79,444
KLA-Tencor acquisition funding interest expense, net - other expense, net	2,682	17,709	24,212	—
Amortization of note discounts - other expense, net	5,671	5,913	28,409	36,148
Costs related to early termination of KLA-Tencor acquisition funding - other expense, net	34,518	—	34,518	—
Amortization of bridge loan issuance costs and other related fees - other expense, net	—	—	20,270	13,573
Net income tax benefit on non-GAAP items	(20,577)	(15,249)	(58,559)	(43,912)
Income tax benefit on resolution of certain tax matters	—	—	(3,017)	954
Income tax benefit from tax extenders, primarily the research and development credit	—	—	—	(13,603)
Change to income tax benefit from court ruling	—	—	(887)	(21,925)
Non-GAAP net income	\$ 405,190	\$ 322,074	\$ 1,244,891	\$ 1,088,292
Non-GAAP net income per diluted share	\$ 2.24	\$ 1.81	\$ 7.06	\$ 6.29
U.S. GAAP number of shares used for per diluted share calculation	183,543	180,017	178,895	175,681
Effect of convertible note hedge	(2,930)	(2,389)	(2,531)	(2,692)
Non-GAAP number of shares used for per diluted share calculation	180,613	177,628	176,364	172,989

Appendix - Reconciliation

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

	Three Months Ended	
	December 25, 2016	September 25, 2016
U.S. GAAP Other expense, net	\$ (55,023)	\$ (23,154)
Pre-tax non-GAAP items:		
KLA-Tencor acquisition funding interest expense, net - other expense, net	2,682	17,709
Amortization of note discounts - other expense, net	5,671	5,913
Costs related to early termination of KLA-Tencor acquisition funding - other expense, net	34,518	—
Non-GAAP other (expense) income, net	<u>\$ (12,152)</u>	<u>\$ 468</u>

Appendix - Reconciliation

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

	Three Months Ended	
	December 25, 2016	September 25, 2016
U.S. GAAP income before income taxes	384,805	\$ 292,793
U.S. GAAP income tax expense (benefit)	52,014	\$ 28,958
U.S. GAAP income tax rate	13.5%	9.9%
Pre-tax non-GAAP items:		
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold	\$ 21,250	\$ 21,250
Product rationalization - cost of goods sold	6,127	—
Costs associated with campus consolidation - research and development	995	2,561
Product rationalization - research and development	1,650	—
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
Litigation settlement - selling general and administrative	4,000	—
KLA-Tencor acquisition funding interest expense, net - other expense, net	2,682	17,709
Amortization of note discounts - other expense, net	5,671	5,913
Costs related to early termination of KLA-Tencor acquisition funding - other expense, net	34,518	—
Non-GAAP income before taxes	\$ 477,781	\$ 366,281
Net income tax benefit on non-GAAP items	\$ 20,577	\$ 15,249
Non-GAAP income tax expense	\$ 72,591	\$ 44,207
Non-GAAP income tax rate	15.2%	12.1%

Appendix - Reconciliation

Reconciliation of U.S. GAAP to Non-GAAP Guidance for the March 2017 quarter (unaudited)

	U.S. GAAP			Reconciling Items	Non-GAAP		
Shipments	\$2.350 Billion	+/-	\$75 Million	—	\$2.350 Billion	+/-	\$75 Million
Revenue	\$2.125 Billion	+/-	\$75 Million	—	\$2.125 Billion	+/-	\$75 Million
Gross margin	44.5%	+/-	1%	\$ 21 Million	45.5%	+/-	1%
Operating margin	23.8%	+/-	1%	\$ 37 Million	25.5%	+/-	1%
Net income per diluted share	\$2.31	+/-	\$0.10	\$ 37 Million	\$2.55	+/-	\$0.10
Diluted share count	183 Million			3 Million	180 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, balance sheet valuation adjustments, financing arrangements, other investments, or other significant transactions that may be completed or determined 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; and associated tax benefit for non-GAAP items (\$6 million; totaling \$37 million).
- Diluted share count - impact of a note hedge issued contemporaneously with the convertible notes due 2018, 3 million shares.

Appendix - Reconciliation

RECONCILIATION OF DEFERRED REVENUE

(in millions)

(unaudited)

	Three Months Ended	
	December 25, 2016	September 25, 2016
Beginning Balance	\$ 704.3	\$ 566.4
Shipments	1,922.5	1,708.5
Revenue	(1,882.3)	(1,632.4)
Net Change in Japan (1)	(63.7)	66.4
Services & Other	(8.2)	(4.6)
Ending Balance	\$ 672.6	\$ 704.3
Value of shipments to Japanese customers not recorded as deferred revenue (2)	\$ 129.0	\$ 65.3

- (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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