

Lam Research Corporation Reports Financial Results for the Quarter Ended June 25, 2017

FREMONT, Calif., July 26, 2017 (GLOBE NEWSWIRE) -- Lam Research Corp. (Nasdaq:LRCX) today announced financial results for the quarter ended June 25, 2017 (the "June 2017 quarter").

Highlights for the June 2017 quarter were as follows:

- Shipments of \$2.54 billion and revenue of \$2.34 billion.
- GAAP gross margin of 45.6%, GAAP operating margin of 25.9%, and GAAP diluted EPS of \$2.82.
- Non-GAAP gross margin of 46.5%, non-GAAP operating margin of 27.7%, and non-GAAP diluted EPS of \$3.11.

Key Financial Data for the Quarters Ended June 25, 2017 and March 26, 2017

(in thousands, except per-share data, percentages, and basis points)

U.S. GAAP

	June 2017				March 2017				Change Q/Q	
Shipments	\$	2,542,664			\$	2,412,656			+ 5	%
Revenue	\$	2,344,907			\$	2,153,995			+ 9	%
Gross margin as percentage of revenue		45.6	%			45.1	%		+ 50 bps	
Operating margin as percentage of revenue		25.9	%			25.0	%		+ 90 bps	
Diluted EPS	\$	2.82			\$	3.10			- 9	%

Non-GAAP

	June 2017				March 2017				Change Q/Q	
Shipments	\$	2,542,664			\$	2,412,656			+ 5	%
Revenue	\$	2,344,907			\$	2,153,995			+ 9	%
Gross margin as percentage of revenue		46.5	%			46.1	%		+ 40 bps	
Operating margin as percentage of revenue		27.7	%			26.9	%		+ 80 bps	
Diluted EPS	\$	3.11			\$	2.80			+ 11	%

U.S. GAAP Financial Results

For the June 2017 quarter, revenue was \$2,345 million, gross margin was \$1,069 million, or 45.6% of revenue, operating expenses were \$461 million, operating margin was 25.9% of revenue, and net income was \$526 million, or \$2.82 per diluted share on a GAAP basis. This compares to revenue of \$2,154 million, gross margin of \$971 million, or 45.1% of revenue, operating expenses of \$433 million, operating margin of 25.0% of revenue, and net income of \$575 million, or \$3.10 per diluted share, for the quarter ended March 26, 2017 (the "March 2017 quarter").

Non-GAAP Financial Results

For the June 2017 quarter, non-GAAP gross margin was \$1,090 million or 46.5% of revenue, non-GAAP operating expenses were \$440 million, non-GAAP operating margin was 27.7% of revenue, and non-GAAP net income was \$566 million, or \$3.11 per diluted share. This compares to non-GAAP gross margin of \$993 million or 46.1% of revenue, non-GAAP operating expenses of \$414 million, non-GAAP operating margin of 26.9% of revenue, and non-GAAP net income of \$508 million, or \$2.80 per diluted share for the March 2017 quarter.

"Lam delivered another record quarter for shipments, revenue and non-GAAP operating income in June, capping a record fiscal 2017 highlighted by over eight and a half billion dollars in shipments and nearly ten dollars in non-GAAP diluted earnings per share," said Martin Anstice, Lam Research's President and Chief Executive Officer. "Demand trends in our key end markets have improved, and we are on track once again to outperform overall industry growth in calendar 2017. Longer-term, our increased strategic relevance enabling a new generation of technology innovations, combined with broad competitive strength, deliver a compelling value creation opportunity for Lam."

Balance Sheet and Cash Flow Results

Cash and cash equivalents, short-term investments, and restricted cash and investments balances increased to \$6.3 billion at the end of the June 2017 quarter compared to \$6.1 billion at the end of the March 2017 quarter. This increase was primarily the result of approximately \$729 million of cash generated in operating activities, partially offset by \$526 million of share repurchases, including net share settlement on employee stock-based compensation.

Deferred revenue at the end of the June 2017 quarter increased to \$966 million as compared to \$842 million at the end of the March 2017 quarter. Deferred profit at the end of the June 2017 quarter increased to \$608 million as compared to \$527 million at the end of the March 2017 quarter. Lam's deferred revenue balance does not include shipments to Japanese customers, to whom title does not transfer until customer acceptance. Shipments to Japanese customers are classified as inventory at cost until the time of acceptance. The estimated future revenue from shipments to Japanese customers was approximately \$397 million as of June 25, 2017 and \$260 million as of March 26, 2017.

Geographic Distribution

The geographic distribution of shipments and revenue during the June 2017 quarter is shown in the following table:

Region	Shipments	Revenue
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Korea	36	%		38	%
Japan	21	%		17	%
China	16	%		16	%
Taiwan	14	%		16	%
United States	8	%		9	%
Europe	3	%		3	%
Southeast Asia	2	%		1	%

Outlook

For the September 2017 quarter, Lam is providing the following guidance:

	U.S. GAAP					Reconciling Items							Non-GAAP					
Shipments	\$2.35 Billion		+/-	\$100 Million		—							\$2.35 Billion		+/-	\$100 Million		
Revenue	\$2.45 Billion		+/-	\$100 Million		—							\$2.45 Billion		+/-	\$100 Million		
Gross margin	45.6	%	+/-	1	%	\$	21		Million				46.5	%	+/-	1		
Operating margin	26.5	%	+/-	1	%	\$	37		Million				28.0	%	+/-	1		
Net income per diluted share	\$	2.98		+/-	\$	0.12			\$	37		Million	\$	3.25		+/-	\$	0.12
Diluted share count	187 Million						4		Million				183 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 after the date of this release. U.S. 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, 4 million shares.

Use of Non-GAAP Financial Results

In addition to U.S. GAAP results, this press release also contains non-GAAP financial results. The Company's non-GAAP results for both the June 2017 and March 2017 quarters exclude amortization related to intangible assets acquired in the Novellus transaction, costs associated with business process reengineering, the amortization of notes discounts, tax benefit of non-GAAP items, and income tax benefit on the conclusion of tax matters related to a prior business combination.

Management uses non-GAAP gross margin, operating expense, operating income, operating margin, net income, and net income per diluted share to evaluate the Company's operating and financial results. The Company believes the presentation of non-GAAP results is useful to investors for analyzing business trends and comparing performance to prior periods, along with enhancing investors' ability to view the Company's results from management's perspective. Tables presenting reconciliations of non-GAAP results to U.S. GAAP results are included at the end of this press release and on the Company's website at <http://investor.lamresearch.com>.

Caution Regarding Forward-Looking Statements

Statements made in this press release that are not of historical fact are forward-looking statements and are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, but are not limited to; the estimated future revenue from shipments to Japanese customers; our revenue, industry, performance and general outlooks, and their drivers; our future strategic relevance to customers; the potential for value creation; technology demand trends; the legal and business factors that may affect our future tax rate; and our guidance for shipments, revenue, gross margin, operating margin, net income or earnings per diluted share, and diluted share count. Some factors that may affect these forward-looking statements include: business conditions in the consumer electronics industry, the semiconductor industry and the overall economy may deteriorate or change; and the actions of our customers and competitors may be inconsistent with our expectations, as well as the other risks and uncertainties that are described in the documents filed or furnished by us with the Securities and Exchange Commission, including specifically the Risk Factors described in our annual report on Form 10-K for the fiscal year ended June 26, 2016 and quarterly reports on Form 10-Q for the fiscal quarters ended September 25, 2016, December 25, 2016 and March 26, 2017. These uncertainties and changes could materially affect the forward looking statements and cause actual results to vary from expectations in a material way. The Company undertakes no obligation to update the information or statements made in this release.

About Lam Research

Lam Research Corp. is a global supplier of innovative wafer fabrication equipment and services to the semiconductor industry. As a trusted, collaborative partner to the world's leading semiconductor companies, we combine superior systems engineering capability, technology leadership, and unwavering commitment to customer success to accelerate innovation through enhanced device performance. In fact, today, nearly every advanced chip is built with Lam technology. Lam Research (Nasdaq:LRCX) is a FORTUNE 500® company headquartered in Fremont, Calif., with operations around the globe. Learn more at www.lamresearch.com. (LRCX-F)

Consolidated Financial Tables Follow.

LAM RESEARCH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data and percentages)

	Three Months Ended									Twelve Months Ended			
	June 25, 2017				March 26, 2017				June 26, 2016				June 25, 2017
	(unaudited)				(unaudited)				(unaudited)				(unaudited)
Revenue	\$	2,344,907			\$	2,153,995			\$	1,546,261			\$ 8,013,620
Cost of goods sold		1,275,946				1,182,591				847,477			4,410,261
Gross margin		1,068,961				971,404				698,784			3,603,359
Gross margin as a percent of revenue		45.6	%			45.1	%			45.2	%		45.0
Research and development		285,712				265,986				237,255			1,033,742
Selling, general and administrative		175,310				167,000				152,288			667,485
Total operating expenses		461,022				432,986				389,543			1,701,227
Operating income		607,939				538,418				309,241			1,902,132
Operating income as a percent of revenue		25.9	%			25.0	%			20.0	%		23.7
Other expense, net		(4,444)	)			(7,838)	)			(27,249)	)		(90,459)
Income before income taxes		603,495				530,580				281,992			1,811,673
Income tax (expense) benefit		(77,071)	)			44,133				(23,053)	)		(113,910)
Net income	\$	526,424			\$	574,713			\$	258,939			\$ 1,697,763
Net income per share:													
Basic	\$	3.25			\$	3.52			\$	1.62			\$ 10.47
Diluted	\$	2.82			\$	3.10			\$	1.46			\$ 9.24
Number of shares used in per share calculations:													
Basic		162,213				163,408				159,862			162,222
Diluted		186,427				185,094				177,649			183,770
Cash dividend declared per common share	\$	0.45			\$	0.45			\$	0.30			\$ 1.65

(1) Derived from audited financial statements.

LAM RESEARCH CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	June 25,	March 26,	June 26,
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	2017 (unaudited)			2017 (unaudited)			2016 (1)		
ASSETS									
Cash and cash equivalents	\$	2,377,534		\$	2,128,570		\$	5,039,322	
Investments		3,663,628			3,755,036			1,788,612	
Accounts receivable, net		1,673,398			1,636,090			1,262,145	
Inventories		1,232,916			1,133,196			971,911	
Other current assets		195,022			223,056			151,160	(2)
Total current assets		9,142,498			8,875,948			9,213,150	
Property and equipment, net		685,595			675,707			639,608	
Restricted cash and investments		256,205			256,157			250,421	
Goodwill and intangible assets		1,796,668			1,835,150			1,951,197	
Other assets		241,799			232,224			209,939	(2)
Total assets	\$	12,122,765		\$	11,875,186		\$	12,264,315	
LIABILITIES AND STOCKHOLDERS' EQUITY									
Current portion of convertible notes and capital leases	\$	908,439		\$	905,288		\$	947,733	(2)
Other current liabilities		2,041,676			1,851,451			1,470,308	
Total current liabilities		2,950,115			2,756,739			2,418,041	
Long-term debt and capital leases		1,784,974			1,777,297			3,378,129	(2)
Income taxes payable		120,178			137,173			231,514	
Other long-term liabilities		280,186			282,615			134,562	
Total liabilities		5,135,453			4,953,824			6,162,246	
Temporary equity, convertible notes		169,861			175,108			207,552	
Stockholders' equity (3)		6,817,451			6,746,254			5,894,517	
Total liabilities and stockholders' equity	\$	12,122,765		\$	11,875,186		\$	12,264,315	

(1) Derived from audited financial statements.

(2) Adjusted for effects of retrospective implementation of ASU 2015-3, regarding the simplification of the presentation of bond issuance costs, which requires that bond issuance costs related to a recognized liability be presented on the balance sheet as a direct reduction from the carrying amount of that debt liability, consistent with debt discounts.

(3) Common shares issued and outstanding were 161,723 as of June 25, 2017, 163,969 as of March 26, 2017 and 160,201 as of June 26, 2016.

LAM RESEARCH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended						Twelve Months Ended					
	June 25, 2017		March 26, 2017		June 26, 2016		June 25, 2017		June 26, 2016		June 25, 2016	
	(unaudited)		(unaudited)		(unaudited)		(unaudited)		(unaudited)		(1)	
CASH FLOWS FROM OPERATING ACTIVITIES:												
Net income	\$	526,424	\$	574,713	\$	258,939	\$	1,697,763	\$	1,697,763	\$	1,697,763

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Principal payments on long-term debt and capital lease obligations	(2,445)	(69,227)	(450,624)	(1,688,313)	(45
Proceeds from issuance of long-term debt, net of issuance costs	—		—		2,374,220		—		2,3
Excess tax benefit (expense) on equity-based compensation plans	38,635		—		(9,035	)	38,635		(1,0
Treasury stock purchases	(525,778	)	(216,373	)	(27,114	)	(811,672	)	(15
Dividends paid	(73,709	)	(73,337	)	(47,308	)	(243,495	)	(19
Re-issuance of treasury stock related to employee stock purchase plan	23,120		17,223		20,360		59,663		55,
Proceeds from issuance of common stock	369		7,964		1,547		12,913		3,4
Other, net	(1	)	(70	)	(159	)	(125	)	(48
Net cash (used for) provided by financing activities	(539,809	)	(333,820	)	1,861,887		(2,632,394	)	1,5
Effect of exchange rate changes on cash and cash equivalents	399		2,992		76		(63	)	(72
Net increase (decrease) in cash and cash equivalents	248,964		(375,390	)	2,807,301		(2,661,788	)	3,5
Cash and cash equivalents at beginning of period	2,128,570		2,503,960		2,232,021		5,039,322		1,5
Cash and cash equivalents at end of period	\$ 2,377,534		\$ 2,128,570		\$ 5,039,322		\$ 2,377,534		\$

(1) Derived from audited financial statements.

Non-GAAP Financial Summary

(in thousands, except percentages and per share data)

(unaudited)

	Three Months Ended					
	June 25, 2017			March 26, 2017		
Revenue	\$	2,344,907		\$	2,153,995	
Gross margin	\$	1,090,211		\$	992,654	

Gross margin as percentage of revenue	46.5	%		46.1	%
Operating expenses	\$	440,126		\$	414,229
Operating income	\$	650,085		\$	578,425
Operating margin as a percentage of revenue	27.7	%		26.9	%
Net income	\$	565,518		\$	507,751
Net income per diluted share	\$	3.11		\$	2.80
Shares used in per share calculation - diluted	182,093			181,539	

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					
	June 25, 2017			March 26, 2017		
U.S. GAAP net income	\$	526,424		\$	574,713	
Pre-tax non-GAAP items:						
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold		21,250			21,250	
Amortization related to intangible assets acquired in Novellus transaction -selling, general and administrative		16,083			16,083	
Cost associated with business process reengineering- selling, general and administrative		4,813			2,674	
Amortization of note discounts - other expense, net		5,631			5,654	
Net income tax benefit on non-GAAP items		(5,697)	)		(6,418))
Income tax benefit on conclusion of certain tax matters		(2,986)	)		(106,205))
Non-GAAP net income	\$	565,518		\$	507,751	
Non-GAAP net income per diluted share	\$	3.11		\$	2.80	
U.S. GAAP number of shares used for per diluted share calculation		186,427			185,094	
Effect of convertible note hedge		(4,334)	)		(3,555))
Non-GAAP number of shares used for per diluted share calculation		182,093			181,539	

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)

	Twelve Months Ended					
	June 25, 2017			June 26, 2016		
U.S. GAAP net income	\$	1,697,763		\$	914,049	
Pre-tax non-GAAP items:						
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold		85,000			85,000	
Product rationalization - cost of goods sold		6,127			—	
Novellus acquisition-related inventory fair value impact - cost of goods sold		—			777	
Restructuring charges - cost of goods sold		—			371	
Restructuring charges - research and development		—			4,355	

Product rationalization - research and development	1,650			—	
Cost associated with campus consolidation - research and development	3,556			7,763	
KLA-Tencor acquisition-related costs - selling, general and administrative	9,972			50,985	
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	64,332			64,333	
Restructuring charges - selling, general and administrative	—			4,997	
Costs associated with business process reengineering - selling, general and administrative	7,487			—	
Litigation settlement - selling, general and administrative	4,000			—	
Amortization of note discounts - other expense, net	22,869			35,205	
Costs related to early termination of KLA-Tencor acquisition funding - other expense, net	34,518			—	
Amortization of bridge loan issuance costs and other related fees - other expense, net	—			33,843	
KLA-Tencor pre-acquisition funding interest expense, net - other expense, net	20,391			3,821	
Net income tax benefit on non-GAAP items	(47,941	)		(49,859)
Income tax benefit on conclusion of certain tax matters	(109,191	)		(3,017)
Change to income tax benefit due to a court ruling	—			(22,812)
Income tax benefit related to tax extenders, primarily the research and development credit	—			(13,603)
Non-GAAP net income	\$	1,800,533		\$	1,100,985
Non-GAAP net income per diluted share	\$	9.98		\$	6.37
U.S. GAAP number of shares used for per diluted share calculation	183,770			175,159	
Effect of convertible note hedge	(3,302	)		(2,398)
Non-GAAP number of shares used for per diluted share calculation	180,468			172,761	

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															
	June 25, 2017				March 26, 2017				December 25, 2016				September 25, 2016			
U.S. GAAP gross margin	\$	1,068,961			\$	971,404			\$	846,797			\$	716,197		
Pre-tax non-GAAP items:																
Amortization related to intangible assets acquired in Novellus transaction	21,250				21,250				21,250				21,250			
Product rationalization	—				—				6,127				—			
Non-GAAP gross margin	\$	1,090,211			\$	992,654			\$	874,174			\$	737,447		
U.S. GAAP gross margin as a percentage of revenue	45.6		%		45.1		%		45.0		%		43.9		%	
Non-GAAP gross margin as a percentage of revenue	46.5		%		46.1		%		46.4		%		45.2		%	

U.S. GAAP operating expenses	\$	461,022			\$	432,986			\$	406,969			\$	400,250		
Pre-tax non-GAAP items:																
Amortization related to intangible assets acquired in Novellus transaction	(16,083	)			(16,083	)			(16,083	)			(16,083)		
Costs associated with business process reengineering	(4,813	)			(2,674)			—				—			
KLA-Tencor acquisition-related costs	—				—				—				(9,972)		
Product rationalization	—				—				(1,650)			—			
Cost associated with campus consolidation	—				—				(995	)			(2,561)		
Litigation settlement	—				—				(4,000)			—			
Non-GAAP operating expenses	\$	440,126			\$	414,229			\$	384,241			\$	371,634		
Non-GAAP operating income	\$	650,085			\$	578,425			\$	489,933			\$	365,813		
GAAP operating margin as percent of revenue	25.9	%			25.0	%			23.4	%			19.4	%		
Non-GAAP operating margin as a percent of revenue	27.7	%			26.9	%			26.0	%			22.4	%		

Lam Research Corporation Contacts:

Satya Kumar, Investor Relations, phone: 510-572-1615, e-mail: investor.relations@lamresearch.com



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