

Lam Research Corporation Reports Financial Results for the Quarter Ended June 24, 2018

FREMONT, Calif., July 26, 2018 (GLOBE NEWSWIRE) -- Lam Research Corp. (Nasdaq:LRCX) today announced financial results for the quarter ended June 24, 2018 (the "June 2018 quarter").

Highlights for the June 2018 quarter were as follows:

- Shipments of \$3.03 billion and revenue of \$3.13 billion.
- U.S. GAAP gross margin of 47.3%, U.S. GAAP operating margin of 30.6%, and U.S. GAAP diluted EPS of \$5.82.
- Non-GAAP gross margin of 48.0%, non-GAAP operating margin of 31.8%, and non-GAAP diluted EPS of \$5.31.

Key Financial Data for the Quarters Ended June 24, 2018 and March 25, 2018 (in thousands, except per-share data, percentages, and basis points)

U.S. GAAP

	June 2018		March 2018		Change Q/Q
Shipments	\$	3,028,390	\$	3,134,677	- 3%
Revenue	\$	3,125,928	\$	2,892,115	+ 8%
Gross margin as percentage of revenue		47.3		46.0	+ 130 bps
Operating margin as percentage of revenue		30.6		28.6	+ 200 bps
Diluted EPS	\$	5.82	\$	4.33	+ 34%

Non-GAAP

	June 2018		March 2018		Change Q/Q
Shipments	\$	3,028,390	\$	3,134,677	- 3%
Revenue	\$	3,125,928	\$	2,892,115	+ 8%
Gross margin as percentage of revenue		48.0		46.8	+ 120 bps
Operating margin as percentage of revenue		31.8		30.0	+ 180 bps
Diluted EPS	\$	5.31	\$	4.79	+ 11%

U.S. GAAP Financial Results

For the June 2018 quarter, revenue was \$3,126 million, gross margin was \$1,479 million, or 47.3% of revenue, operating expenses were \$524 million, operating margin was 30.6% of revenue, and net income was \$1,021 million, or \$5.82 per diluted share on a U.S. GAAP basis. This compares to revenue of \$2,892 million, gross margin of \$1,331 million, or 46.0% of revenue, operating expenses of \$503 million, operating margin of 28.6% of revenue, and net income of \$779 million, or \$4.33 per diluted share, for the quarter ended March 25, 2018 (the "March 2018 quarter"). Net income in the June 2018 quarter was positively impacted by a \$116 million reversal of the provisional charge associated with the December 2017 U.S. tax reform.

Non-GAAP Financial Results

For the June 2018 quarter, non-GAAP gross margin was \$1,502 million or 48.0% of revenue, non-GAAP operating expenses were \$507 million, non-GAAP operating margin was 31.8% of revenue, and non-GAAP net income was \$932 million, or \$5.31 per diluted share. This compares to non-GAAP gross margin of \$1,353 million or 46.8% of revenue, non-GAAP operating expenses of \$486 million, non-GAAP operating margin of 30.0% of revenue, and non-GAAP net income of \$852 million, or \$4.79 per diluted share for the March 2018 quarter.

"Lam's June quarter results confirmed 2018 as the strongest fiscal year in our history, with over 11 billion dollars in revenues, approximately 18 dollars in non-GAAP diluted earnings per share and 2.7 billion dollars of cash generated from operations," said Martin Anstice, Lam Research's chief executive officer. "Essentially unsurpassed in our industry, the multi-year growth at Lam has been enabled by the increased prominence of Etch and Deposition in the semiconductor device manufacturing process flow and the broadening of our product and services portfolio over many years. Our forward-looking optimism is reinforced by the fundamental opportunity of silicon technologies, enabling a new generation of cognitive computing applications and services, combined with the expectation of sustainable investment by our customers, who in turn are pursuing inspiring and enhanced value creation agendas."

Balance Sheet and Cash Flow Results

Cash and cash equivalents, short-term investments, and restricted cash and investments balances decreased to \$5.2 billion at the end of the June 2018 quarter compared to \$6.7 billion at the end of the March 2018 quarter. This decrease was primarily the result of \$1.3 billion of share repurchases, including net share settlement on employee stock-based compensation, combined with \$817 million of debt reductions, partially offset by \$718 million of cash generated in operating activities.

Deferred revenue at the end of the June 2018 quarter decreased to \$994 million as compared to \$1.1 billion at the end of the March 2018 quarter. Deferred profit at the end of the June 2018 quarter decreased to \$720 million as compared to \$749 million at the end of the March 2018 quarter. Lam's deferred revenue balance does not include shipments to customers in Japan, to whom title does not transfer until customer acceptance. Shipments to customers in Japan are classified as inventory at cost until the time of acceptance. The estimated future revenue from shipments to customers in Japan was approximately \$607 million as of June 24, 2018 and \$526 million as of March 25, 2018.

Geographic Distribution

The geographic distribution of shipments and revenue during the June 2018 quarter is shown in the following table:

Region	Shipments	Revenue
Korea	29%	35%

Revenue	\$	3,125,928			\$	2,892,115			\$	2,344,907			\$	11,076,998	
Cost of goods sold		1,646,520				1,561,401				1,275,946				5,911,966	
Gross margin		1,479,408				1,330,714				1,068,961				5,165,032	
Gross margin as a percent of revenue		47.3		%		46.0		%		45.6		%		46.6	%
Research and development		327,713				305,412				285,712				1,189,514	
Selling, general and administrative		196,500				197,791				175,310				762,219	
Total operating expenses		524,213				503,203				461,022				1,951,733	
Operating income		955,195				827,511				607,939				3,213,299	
Operating income as a percent of revenue		30.6		%		28.6		%		25.9		%		29.0	%
Other income (expense), net		2,954				(55,810)		)		(4,444)		)		(61,510))
Income before income taxes		958,149				771,701				603,495				3,151,789	
Income tax benefit (expense)		62,997				7,099				(77,071)		)		(771,108))
Net income	\$	1,021,146				\$	778,800			\$	526,424			\$	2,380,681
Net income per share:															
Basic	\$	6.35				\$	4.80			\$	3.25			\$	14.73
Diluted	\$	5.82				\$	4.33			\$	2.82			\$	13.17
Number of shares used in per share calculations:															
Basic		160,916				162,378				162,213				161,643	
Diluted		175,432				179,779				186,427				180,782	
Cash dividend declared per common share	\$	1.10				\$	0.50			\$	0.45			\$	2.55
(1) Derived from audited financial statements.															

**LAM RESEARCH CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)**

	June 24, 2018	March 25, 2018	June 25, 2017
	(unaudited)	(unaudited)	(1)
ASSETS			
Cash and cash equivalents	\$ 4,512,257	\$ 4,698,995	\$ 2,377,534
Investments	437,338	1,785,976	3,663,628
Accounts receivable, net	2,176,936	2,082,632	1,673,398
Inventories	1,876,162	1,693,128	1,232,916

Other current assets	147,218		165,066		195,022
Total current assets	9,149,911		10,425,797		9,142,498
Property and equipment, net	902,547		826,500		685,595
Restricted cash and investments	256,301		256,587		256,205
Goodwill and intangible assets	1,802,740		1,825,891		1,796,668
Other assets	367,979		328,724		241,799
Total assets	\$ 12,479,478		\$ 13,663,499		\$ 12,122,765
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of convertible debt and capital leases	\$ 610,030		\$ 1,423,265		\$ 908,439
Other current liabilities	2,540,278		2,525,155		2,041,676
Total current liabilities	3,150,308		3,948,420		2,950,115
Long-term debt and capital leases	1,806,562		1,781,731		1,784,974
Income taxes payable	851,936		818,700		120,178
Other long-term liabilities	90,629		230,620		280,186
Total liabilities	5,899,435		6,779,471		5,135,453
Temporary equity, convertible notes	78,192		80,973		169,861
Stockholders' equity (2)	6,501,851		6,803,055		6,817,451
Total liabilities and stockholders' equity	\$ 12,479,478		\$ 13,663,499		\$ 12,122,765

(1) Derived from audited financial statements.

(2) Common shares issued and outstanding were 156,892 as of June 24, 2018, 164,100 as of March 25, 2018 and 161,723 as of June 25, 2017.

LAM RESEARCH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three Months Ended				Twelve Months Ended			
	June 24, 2018	March 25, 2018	June 25, 2017	June 24, 2018	June 25, 2017	June 24, 2017	June 20, 2016	
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(1)	
CASH FLOWS FROM OPERATING ACTIVITIES:								
Net income	\$ 1,021,146	\$ 778,800	\$ 526,424	\$ 2,380,681	\$ 1,800,000	\$ 1,800,000	\$ 1,800,000	
Adjustments to reconcile net income to net cash provided by operating activities:								
Depreciation and amortization	85,119	82,236	79,036	326,395	306,000	306,000	306,000	
Deferred income taxes	212,260	19,060	35,069	3,046	104,000	104,000	104,000	
Equity-based compensation expense	47,214	41,095	43,802	172,216	149,000	149,000	149,000	
Impairment of investment	—	42,456	—	42,456	—	—	—	
(Gain) Loss on early extinguishment of debt	—	—	(73)	—	36,000	36,000	36,000	

employee stock purchase plan	41,567			—			23,120			75,624			59,
Proceeds from issuance of common stock	2,626			2,517			369			9,258			12,
Other, net	(2	)		7			(1	)		9			(12
Net cash used for financing activities	(2,160,769	)		(186,462	)		(539,809	)		(3,272,057	)		(2,6
Effect of exchange rate changes on cash and cash equivalents	(5,607	)		4,041			399			2,593			(63
Net (decrease) increase in cash and cash equivalents	(186,738	)		2,953,822			248,964			2,134,723			(2,6
Cash and cash equivalents at beginning of period	4,698,995			1,745,173			2,128,570			2,377,534			5,0
Cash and cash equivalents at end of period	\$ 4,512,257			\$ 4,698,995			\$ 2,377,534			\$ 4,512,257			\$
(1) Derived from audited financial statements.													

**Non-GAAP Financial Summary
(in thousands, except percentages and per share data)
(unaudited)**

	Three Months Ended					
	June 24, 2018			March 25, 2018		
Revenue	\$	3,125,928		\$	2,892,115	
Gross margin	\$	1,501,750		\$	1,353,056	
Gross margin as percentage of revenue		48.0	%		46.8	%
Operating expenses	\$	507,416		\$	486,022	
Operating income	\$	994,334		\$	867,034	
Operating margin as a percentage of revenue		31.8	%		30.0	%
Net income	\$	931,956		\$	851,795	
Net income per diluted share	\$	5.31		\$	4.79	
Shares used in per share calculation - diluted		175,432			177,786	

**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 24, 2018			March 25, 2018		
U.S. GAAP net income	\$	1,021,146		\$	778,800	
Pre-tax non-GAAP items:						

Amortization related to intangible assets acquired through certain business combinations - cost of goods sold	22,342			22,342	
Amortization related to intangible assets acquired through certain business combinations -selling, general and administrative	16,069			17,074	
Business combination acquisition and integration related costs - selling, general and administrative	728			107	
Amortization of note discounts - other expense, net	1,851			2,860	
Realized loss on sale or impairment of investments - other expense, net	—			46,641	
Net income tax benefit on non-GAAP items	(4,686	)		(11,518)
Income tax benefit on conclusion of certain tax matters	(9,656	)		(4,511)
Income tax benefit associated with U.S. tax reform	(115,838)		—	
Non-GAAP net income	\$	931,956		\$	851,795
Non-GAAP net income per diluted share	\$	5.31		\$	4.79
GAAP net income per diluted share	\$	5.82		\$	4.33
U.S. GAAP number of shares used for per diluted share calculation	175,432			179,779	
Effect of convertible note hedge	—			(1,993)
Non-GAAP number of shares used for per diluted share calculation	175,432			177,786	

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 24, 2018		June 25, 2017		
U.S. GAAP net income	\$	2,380,681		\$	1,697,763
Pre-tax non-GAAP items:					
Amortization related to intangible assets acquired through certain business combinations - cost of goods sold	88,640			85,000	
Product rationalization - cost of goods sold	—			6,127	
Product rationalization - research and development	—			1,650	
Cost associated with campus consolidation - research and development	—			3,556	
Amortization related to intangible assets acquired through certain business combinations - selling, general and administrative	66,630			64,332	
Costs associated with business process reengineering - selling, general and administrative	2,078			7,487	
Business combination acquisition and integration related costs - selling, general and administrative	2,864			9,972	
Litigation settlement - selling, general and administrative	—			4,000	
Amortization of note discounts - other expense, net	12,225			22,869	
Realized loss on sale or impairment of investments - other expense, net	46,641			—	
Costs related to early termination of KLA-Tencor acquisition funding - other expense, net	—			34,518	
KLA-Tencor pre-acquisition funding interest expense, net - other expense, net	—			20,391	
Net income tax benefit on non-GAAP items	(26,722	)		(47,941)
Income tax benefit on conclusion of certain tax matters	(14,720	)		(109,191)
Income tax expense associated with U.S. tax reform	641,051			—	
Non-GAAP net income	\$	3,199,368		\$	1,800,533
U.S. GAAP net income per diluted share	\$	13.17		\$	9.24

Non-GAAP net income per diluted share	\$	17.87			\$	9.98		
U.S. GAAP number of shares used for per diluted share calculation		180,782				183,770		
Effect of convertible note hedge		(1,711	)			(3,302)	
Non-GAAP number of shares used for per diluted share calculation		179,071				180,468		

**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 24, 2018				March 25, 2018			
U.S. GAAP gross margin	\$	1,479,408			\$	1,330,714		
Pre-tax non-GAAP items:								
Amortization related to intangible assets acquired through certain business combinations		22,342				22,342		
Non-GAAP gross margin	\$	1,501,750			\$	1,353,056		
U.S. GAAP gross margin as a percentage of revenue		47.3	%			46.0	%	
Non-GAAP gross margin as a percentage of revenue		48.0	%			46.8	%	
U.S. GAAP operating expenses	\$	524,213			\$	503,203		
Pre-tax non-GAAP items:								
Amortization related to intangible assets acquired through certain business combinations		(16,069	)			(17,074)	
Costs associated with business process reengineering		—				—		
Business combination acquisition and integration related costs		(728	)			(107)	
Non-GAAP operating expenses	\$	507,416			\$	486,022		
Non-GAAP operating income	\$	994,334			\$	867,034		
GAAP operating margin as percent of revenue		30.6	%			28.6	%	
Non-GAAP operating margin as a percent of revenue		31.8	%			30.0	%	

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