

Lam Research (LRCX)

\$311.34 (As of 01/22/20)

Price Target (6-12 Months): **\$327.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/23/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: D

Summary

Lam Research continues to ride on the back of robust equipment demand and solid execution. Further, rising adoption of 3D architectures is driving the performance of the company's non-memory segments. Additionally, advanced packaging technology inflections are tailwinds. Also, both etch and deposition technologies are expected to expand the company's addressable market. Further, Lam Research is benefiting from its transition to new data-enabled economy, in which DRAM and NAND continue to gain from density growth. Notably, the stock has outperformed the industry it belongs to in the past year. However, cyclicality in the semiconductor space is a negative. The ongoing U.S.-China trade war is a major headwind. Further, foreign currency fluctuation risks are major concerns.

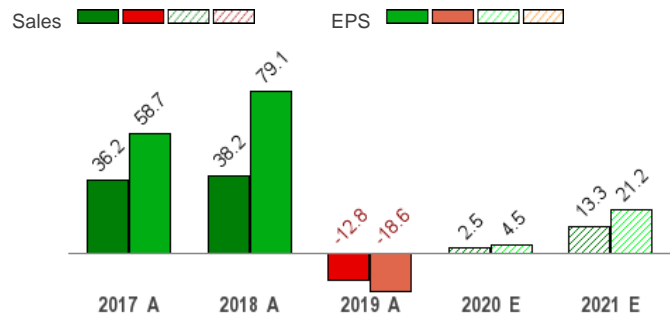
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$315.36 - \$137.58
20 Day Average Volume (sh)	1,172,880
Market Cap	\$45.2 B
YTD Price Change	6.5%
Beta	1.64
Dividend / Div Yld	\$4.60 / 1.5%
Industry	Semiconductor Equipment - Wafer Fabrication
Zacks Industry Rank	Top 8% (20 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.0%
Last Sales Surprise	0.7%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	01/29/2020
Earnings ESP	-0.4%
P/E TTM	21.7
P/E F1	20.5
PEG F1	1.7
P/S TTM	4.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,598 E	2,718 E	2,858 E	2,967 E	11,210 E
2020	2,166 A	2,503 E	2,564 E	2,659 E	9,893 E
2019	2,331 A	2,523 A	2,439 A	2,361 A	9,654 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$4.29 E	\$4.61 E	\$4.85 E	\$5.16 E	\$18.43 E
2020	\$3.18 A	\$3.81 E	\$4.00 E	\$4.32 E	\$15.20 E
2019	\$3.36 A	\$3.87 A	\$3.70 A	\$3.62 A	\$14.55 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/22/2020. The reports text is as of 01/23/2020.

Overview

Established in 1980 and headquartered in Fremont, CA, Lam Research Corporation supplies wafer fabrication equipment and services to the semiconductor industry. Its products are used by semiconductor manufacturers in front-end and WLP processes, creating memory, microprocessors, and other logic integrated circuits for a broad range of electronic devices.

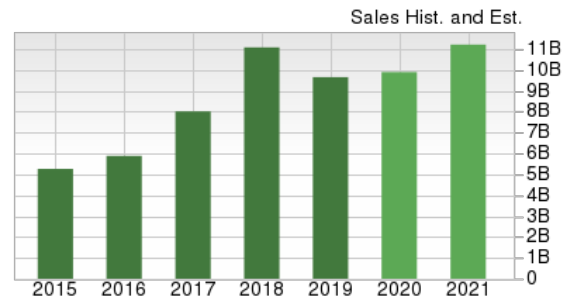
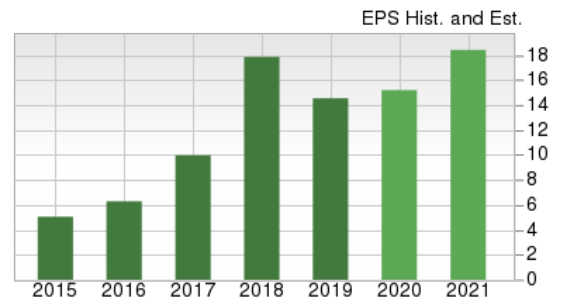
The MOS process of making integrated circuits involve the deposition of many layers of materials on a semiconductor wafer. Each layer is prepared using a pattern on a photomask, cleaning off the excess material and then exposing to light sources to change the chemical composition of the layer. The final wafer is then planarized, cut into individual die, electrical leads attached and packaged.

Lam's product offerings in deposition and etch address numerous critical steps in the fabrication process with the goal of reducing defect rates, improving yields, lowering costs and reducing the processing time.

In fiscal 2019, Lam served three market segments—Memory, Foundry and Logic/Integrated device manufacturing which generated 70% (down from 78% in fiscal 2018), 20% (up from 14%) and 10% (up from 8%), of its revenues, respectively.

The revenue distribution by geography in fiscal 2019 was as follows — Taiwan 17% (up from 13% in fiscal 2018), Japan 20% (up from 17%), China 22% (up from 16%), Korea 23% (down from 35%), U.S accounted for 8% (up from 7%), Europe 4% (down from 5%) and South East Asia accounted for 6% (down from 7%).

For fiscal 2019, the customers that accounted for greater than 10% of total revenues include Micron Technology, Inc.; Samsung Electronics Company, Ltd.; SK hynix Inc., and Toshiba, Inc.



Reasons To Buy:

- ▲ Traditionally, Lam Research has **high exposure to the memory segment**, which should see tremendous growth over the next few years. The strength is driven by cloud computing, big data, mobile devices and IoT. These phenomena have greatly increased the volume of data on information networks that can be stored, processed and analysed to increase efficiency or drive additional sales depending on the circumstances and the business model of companies. Since storage is the starting point of this digital economy, there is a huge demand for memory chips, particularly the more efficient variety.
- ▲ **Technological advancements** in the areas of multi-patterning, 3D device architecture and advanced packaging technologies are playing to Lam's strengths. Technology transitions help to increase the efficiency of semiconductor manufacturing processes. Since new manufacturing techniques necessitate spending on new equipment, these changes usually lead to increased investment in manufacturing equipment. For the providers of equipment such as Lam, the challenge is to stay abreast of these changes and have the equipment on offer when customers are ready to purchase. Lam's R&D efforts have enabled it to capitalize on these trends, so it should remain a prime beneficiary, particularly since these technological inflections will be more etch and deposition intensive, which are Lam's strong points. Consequently, the company may be able to capture a larger share of total WFE spending over the next few years.
- ▲ Management expects **logic and foundry demand to continue to remain strong** in the second half of the year. There are twin positives in this business with not just the leading edge but also the trailing edge contributing. IoT, auto, wearables, low-end phones, and so forth are leading to a resurgence of 28-nanometer demand. At the same time, the company has a huge installed base of process modules and a lot of these are being upgraded. While not as strong as 3D NAND, there are technology inflections in this segment too. The transition of the DRAM market to 10nm and FinFET is resulting in a sizeable increase in multi-patterning steps. Lam has the necessary next generation products that can facilitate this transition.
- ▲ Lam Research has a **strong balance sheet**, with cash and short term investments of approximately \$5.8 billion at the end of fiscal first-quarter 2020. Additionally, management returned \$158.9 million through dividend. The company regularly repurchases shares to ensure a steady share count after dilution from stock option vesting. The shareholder friendly strategy makes the stock more attractive.

Lam's exposure to memory and opportunity in logic & foundry are positives. Also, etch and deposition portfolio should gain momentum.

Reasons To Sell:

- ▼ The semiconductor equipment industry has historically been very **cyclical**. It fluctuates highly with respect to timing and length of the cycles. During the down cycle, there could be decreased demand from consumers. The company has a high fixed cost structure, so margins suffer substantially when sales decline. At the same time, it is mandatory for the structure to generate sales to support increases in customer demand. Additionally, Lam Research has to spend a significant amount of money on R&D to maintain its lead in innovation and generate margins that are high enough to continue this expenditure. Lam Research makes significant R&D investments focused on leading-edge deposition, plasma etch, single-wafer clean and other semiconductor manufacturing requirements.
- ▼ On the memory front, there are **concerns related to oversupply and overcapacity of memory chips** in the upcoming years. Yield and output seems to be improving over time as cutting-edge technologies mature, potentially leading to an oversupply situation in two years time. This could depress prices and curb equipment spending, impacting Lam's growth.
- ▼ The semiconductor capital equipment industry experiences rapid changes and is **highly competitive** globally. It faces significant competition from the likes of Applied Materials, Hitachi, Tokyo Electron and many more in this space. To compete effectively, considerable financial resources are required to strengthen and augment product and services portfolio as well as maintain customer service and support locations worldwide. Semiconductor manufacturers assess capital equipment suppliers, and the ability to do well in the marketplace depends upon how well the existing products are maintained and enhanced while new ones are launched to meet customer requirements on a timely basis. Also, once a semiconductor manufacturer has selected a particular supplier's equipment and qualified it for production, the manufacturer generally maintains it as long as the supplier's products perform according to specifications at the installed base. So the companies find it difficult to sell to a given customer that has qualified a competitor's equipment. At the same time, the companies have to continue to meet the expectations of their existing customers via the delivery of high-quality and cost-efficient spare parts amid competition from third-party spare parts providers. Lam Research faces significant competition in all its product and service categories.
- ▼ Lam Research derives a major portion of its revenues from outside the U.S. This is natural because a lot of the semiconductor facilities using its manufacturing equipment are located in Asian countries. However, this exposes the company to foreign currency translation impacts and poses a threat to its growth. The company also faces other risks like local legislation, monetary devaluation, exchange control restrictions and unstable political conditions, which may hamper revenue growth and impact its financial position.

The cyclical nature of the industry, high fixed cost structure and weakness in DRAM are concerns.

Last Earnings Report

Lam Research Q1 Earnings & Revenues Beat Estimates

Lam Research Corporation reported first-quarter fiscal 2020 non-GAAP earnings of \$3.18 per share, which beat the Zacks Consensus Estimate of \$3.00. However, the figure decreased 12.2% sequentially.

Moreover, adjusted revenues decreased 8.3% sequentially and 7.1% year over year to \$2.17 billion. However, the reported revenues surpassed the Zacks Consensus Estimate by 0.7%.

Management expects to see improvements in the memory market, primarily led by NAND. The company expects NAND demand dynamics to further improve and oversupply conditions to abate in the near term. Foundry and logic spending should remain strong in the future. Also, both the server and smart home markets are expected to perform well in the near term.

Top Line in Detail

China, Korea, Taiwan and Japan accounted for 27%, 21%, 18% and 13% of the company's total fiscal first-quarter revenues, respectively. On the contrary, Southeast Asia, the United States and Europe accounted for 10%, 8% and 3%, respectively.

Operating Details

Non-GAAP gross margin came in at 45.4%, which contracted 50 basis points (bps) sequentially.

Non-GAAP operating expenses were \$431 million, reflecting a decrease of 4.4% sequentially. As a percentage of sales, research & development expenses marked an increase, while selling, general & administrative costs decreased.

Adjusted operating margin was 25.5%, down 140 bps sequentially. The decrease was primarily due to higher-than-expected expenses.

Balance Sheet & Cash Flow

At the end of the fiscal first quarter, cash and cash equivalents, and short-term investments increased to \$5.8 billion from \$5.4 billion in the fiscal fourth quarter.

Cash flow from operating activities was \$464 million, down from \$880.5 million in the fiscal fourth quarter. Capital expenditures were \$39.3 million, down from \$65.9 million in the fiscal fourth quarter.

During the quarter, Lam Research paid dividends of \$158.9 million.

Guidance

For second-quarter fiscal 2020, Lam Research projects revenues to be \$2.5 billion (+/- \$150 million).

Gross margin is projected at around 45% (+/-1%) and operating margin is expected to be 27% (+/-1%).

Non-GAAP earnings are projected at \$3.80 (+/- 20 cents) per share on a share count of nearly 150 million.

Quarter Ending **09/2019**

Report Date	Oct 23, 2019
Sales Surprise	0.65%
EPS Surprise	6.00%
Quarterly EPS	3.18
Annual EPS (TTM)	14.37

Recent News

On **Dec 3, 2019**, Lam Research introduced edge yield solutions for high volume manufacturing with the Corvus etch and Coronus plasma bevel clean systems which are capable of improving device yield at the edge of the wafer. The move has strengthened the company's semiconductor manufacturing systems portfolio.

On **Nov 7, 2019**, Lam Research's Board of Directors approved a quarterly dividend of \$1.15 per share for the shareholders of the record as of Dec 11, 2019 which will be paid on Jan 8, 2020.

Valuation

Lam Research shares are up 43.5% in the 6-month period and 123.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 28.6% and 14.8% in the 6-month period, respectively. Over the past year, the Zacks sub-industry is up 93.4% and the sector is up 34.5%.

The S&P 500 index is up 10.8% in the 6-month period and 25.1% in the past year.

The stock is currently trading at 18.29X forward 12-month earnings, which compares to 22.72X for the Zacks sub-industry, 23.08X for the Zacks sector and 19.13X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.29X and as low as 7.86X, with a 5-year median of 12.93X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$327 price target reflects 19.2X forward 12-month earnings.

The table below shows summary valuation data for LRCX

Valuation Multiples - LRCX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	18.29	22.72	23.08	19.13
	5-Year High	18.26	22.72	23.08	19.34
	5-Year Low	7.86	12.36	16.87	15.17
	5-Year Median	12.93	17.24	19.24	17.44
P/S F12M	Current	4.25	6.86	3.74	3.56
	5-Year High	4.25	6.86	3.74	3.56
	5-Year Low	1.6	3.63	2.3	2.54
	5-Year Median	2.49	4.8	3.01	3
EV/EBITDA TTM	Current	13	25.2	11.47	11.39
	5-Year High	13.86	26.75	12.57	12.84
	5-Year Low	4.21	9.67	7.66	8.48
	5-Year Median	7.42	19.68	10.34	10.56

As of 01/22/2020

Industry Analysis Zacks Industry Rank: Top 8% (20 out of 255)



Top Peers

Advanced Energy Industries, Inc. (AEIS)	Outperform
MKS Instruments, Inc. (MKS)	Outperform
Agilent Technologies, Inc. (A)	Neutral
Applied Materials, Inc. (AMAT)	Neutral
ASML Holding N.V. (ASML)	Neutral
KLA Corporation (KLAC)	Neutral
Lam Research Corporation (LRCX)	Neutral
Analog Devices, Inc. (ADI)	Underperform

Industry Comparison Industry: Semiconductor Equipment - Wafer Fabrication				Industry Peers		
	LRCX Neutral	X Industry	S&P 500	AMAT Neutral	ASML Neutral	MKS Outperform
VGM Score	D	-	-	D	C	F
Market Cap	45.17 B	51.82 B	24.65 B	58.48 B	124.76 B	6.41 B
# of Analysts	9	7	13	10	3	5
Dividend Yield	1.48%	0.99%	1.77%	1.31%	0.67%	0.68%
Value Score	C	-	-	C	D	C
Cash/Price	0.13	0.09	0.04	0.06	0.02	0.08
EV/EBITDA	15.69	15.82	13.98	15.40	31.49	11.69
PEG Ratio	1.71	2.07	2.05	2.07	2.28	NA
Price/Book (P/B)	9.07	8.13	3.38	7.19	9.29	3.25
Price/Cash Flow (P/CF)	17.66	17.94	13.60	18.23	35.06	12.33
P/E (F1)	20.48	21.57	19.07	16.93	31.59	19.25
Price/Sales (P/S)	4.76	4.77	2.69	4.00	9.40	3.45
Earnings Yield	4.88%	4.65%	5.24%	5.90%	3.17%	5.20%
Debt/Equity	0.76	0.61	0.72	0.57	0.26	0.44
Cash Flow (\$/share)	17.63	6.53	6.94	3.51	8.45	9.54
Growth Score	D	-	-	D	C	F
Hist. EPS Growth (3-5 yrs)	37.02%	29.14%	10.60%	39.24%	21.26%	38.63%
Proj. EPS Growth (F1/F0)	4.48%	30.92%	7.53%	24.14%	36.09%	39.71%
Curr. Cash Flow Growth	-25.33%	-13.09%	13.90%	-35.58%	19.24%	22.18%
Hist. Cash Flow Growth (3-5 yrs)	23.38%	18.35%	9.00%	13.90%	16.21%	51.05%
Current Ratio	3.59	2.60	1.22	2.30	2.72	4.38
Debt/Capital	43.21%	37.70%	42.99%	36.46%	20.80%	30.68%
Net Margin	22.38%	20.45%	11.21%	18.52%	23.36%	9.10%
Return on Equity	43.11%	29.20%	17.16%	35.13%	23.26%	13.84%
Sales/Assets	0.79	0.68	0.55	0.77	0.58	0.58
Proj. Sales Growth (F1/F0)	2.48%	11.95%	4.08%	13.98%	9.92%	9.90%
Momentum Score	D	-	-	D	A	F
Daily Price Chg	0.86%	0.07%	-0.04%	1.09%	-0.72%	0.93%
1 Week Price Chg	4.64%	3.43%	2.29%	2.24%	1.30%	6.61%
4 Week Price Chg	5.73%	4.57%	2.05%	3.89%	0.45%	5.53%
12 Week Price Chg	12.17%	13.95%	6.92%	15.72%	11.52%	6.77%
52 Week Price Chg	123.46%	84.47%	21.50%	86.21%	82.74%	64.49%
20 Day Average Volume	1,172,880	818,552	1,518,423	4,920,894	464,224	354,682
(F1) EPS Est 1 week change	-0.06%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.06%	0.13%	0.00%	0.00%	0.43%	0.99%
(F1) EPS Est 12 week change	1.06%	2.21%	-0.23%	14.71%	1.74%	-1.90%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	D
Momentum Score	D
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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