

Lam Research Corp.

Solid execution justifies premium multiple, reiterate Buy

Reiterate Rating: BUY | PO: 970.00 USD | Price: 848.16 USD

Solid execution through both down/upcycles, raise PO

Reiterate Buy and raise ests/PO to \$970 from \$915 on an unchanged 25x CY25E P/E. Business has now generally stabilized after a sharp CY23 memory-driven downturn, and we think LRCX is well positioned to benefit from the expected cyclical upturn in CY24/25E. DecQ DRAM sales has reached near all-time highs on continued HBM/DDR5 (data center) spends, with leading-edge logic and NAND expected to recover by C2H'24. Mgmt is deliberately keeping lead-times long (keeping customers disciplined) and should also have modest visibility into customer demand. On the profitability side, LRCX has shown consistent FCF generation (25%+) throughout the downturn and has returned 79% of FCF in CY23, contributing to an overall 21% decrease in share count between CY18-CY23. As a result, trough annualized EPS nearly doubled this cycle vs. last cycle. While increased spends (R&D) somewhat limit op. leverage into the upcycle, we still highlight pf-EPS growth expectation of +18% CAGR (CY23-26E) on strong sales outlook. High China exposure (~40% in DecQ) remains a risk, and valuation has also reached low-/mid-20s NTM P/E, above historical high-teens, but we believe is justified by the much-improved earnings stability and strong FCF generation ability (25%+) that is in-line with auto/industrial analog semis peers who also trade at 20-30x P/E.

Likes: Business stabilizing, memory recovery, FCF/buybacks

1) Business is now stabilizing after a -25% YoY decline in CY23. We anticipate memory to lead the recovery, initially by DRAM on HBM/DDR5 (data center) strengths, followed by NAND in 2H'24 and into CY25E. Meanwhile, demand for domestic China trailing-edge should remain healthy throughout the year. 2) FCF is holding up strongly despite the cyclical nature of equipment industry. We highlight LRCX has reduced share count by ~21% over the last five years via buybacks (as well as continued dividend increase).

Risks: Op. leverage, premium multiple, China exposure

1) MarQ opex guided to an implied 18.5% of sales (up 90bps QoQ), and we anticipate opex to remain high at 18.2% for the full year CY24E (up 90bps YoY) on increased R&D run-rate, limiting leverage. 2) Valuation has now reached low-/mid-20s NTM P/E vs. historical high-teens, though we believe is justified by much improved earnings stability during downturn and healthy cash flow generation. 3) China represented 40%+ of sales in DecQ, though mgmt expects normalization throughout CY24E.

Estimates (Jun) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	33.11	34.16	28.71	33.53	41.97
GAAP EPS	32.75	33.21	28.07	32.50	39.59
EPS Change (YoY)	21.5%	3.2%	-16.0%	16.8%	25.2%
Consensus EPS (Bloomberg)		27.86	35.20	43.02	
DPS	6.00	6.90	8.00	8.80	9.68
Valuation (Jun)					
P/E	25.6x	24.8x	29.5x	25.3x	20.2x
GAAP P/E	25.9x	25.5x	30.2x	26.1x	21.4x
Dividend Yield	0.7%	0.8%	0.9%	1.0%	1.1%
EV / EBITDA*	19.5x	19.6x	23.9x	21.0x	17.3x
Free Cash Flow Yield*	2.3%	4.2%	4.0%	3.9%	4.3%

* For full definitions of *IQmethod*SM measures, see page 14.

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Timestamp: 24 January 2024 10:04PM EST

24 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	915.00	970.00
2024E Rev (m)	14,711.8	14,653.6
2025E Rev (m)	16,222.7	16,679.1
2026E Rev (m)	17,738.4	19,080.5
2024E EPS	27.68	28.71
2025E EPS	31.62	33.53
2026E EPS	37.00	41.97

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Stock Data

Price	848.16 USD
Price Objective	970.00 USD
Date Established	24-Jan-2024
Investment Opinion	C-1-7
52-Week Range	467.00 USD - 858.64 USD
Mrkt Val (mn) / Shares Out (mn)	111,781 USD / 131.8
Free Float	99.7%
Average Daily Value (mn)	842.34 USD
BofA Ticker / Exchange	LRCX / NAS
Bloomberg / Reuters	LRCX US / LRCX.OQ
ROE (2024E)	45.1%
Net Dbt to Eqty (Jun-2023A)	-7.5%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

Abbreviations

ASML – ASML Holding

iQprofileSM Lam Research Corp.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	39.0%	35.4%	26.3%	28.4%	30.9%
Return on Equity	75.7%	64.0%	45.1%	46.6%	47.6%
Operating Margin	31.3%	30.7%	29.5%	29.5%	31.5%
Free Cash Flow	2,554	4,677	4,525	4,359	4,752

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.7x	1.1x	1.3x	1.1x	1.0x
Asset Replacement Ratio	1.6x	1.5x	1.1x	1.2x	1.2x
Tax Rate	11.3%	11.7%	12.4%	12.0%	12.1%
Net Debt-to-Equity Ratio	17.5%	-7.5%	-13.3%	-17.6%	-21.7%
Interest Cover	27.0x	26.8x	21.6x	24.6x	30.0x

Income Statement Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	17,227	17,429	14,654	16,679	19,080
% Change	17.8%	1.2%	-15.9%	13.8%	14.4%
Gross Profit	7,868	7,886	6,991	7,846	9,078
% Change	15.2%	0.2%	-11.3%	12.2%	15.7%
EBITDA	5,732	5,698	4,688	5,334	6,471
% Change	16.7%	-0.6%	-17.7%	13.8%	21.3%
Net Interest & Other Income	(109)	(113)	(26)	14	14
Net Income (Adjusted)	4,657	4,640	3,793	4,322	5,267
% Change	17.6%	-0.4%	-18.2%	13.9%	21.9%

Free Cash Flow Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	4,605	4,511	3,732	4,330	5,275
Depreciation & Amortization	334	342	364	409	466
Change in Working Capital	(1,796)	159	668	(211)	(794)
Deferred Taxation Charge	(257)	(172)	(113)	0	0
Other Adjustments, Net	214	339	288	331	378
Capital Expenditure	(546)	(502)	(415)	(500)	(572)
Free Cash Flow	2,554	4,677	4,525	4,359	4,752
% Change	-21.2%	83.2%	-3.3%	-3.7%	9.0%
Share / Issue Repurchase	(3,753)	(1,896)	(2,722)	(2,582)	(2,582)
Cost of Dividends Paid	(815)	(908)	(1,025)	(1,167)	(1,284)
Change in Debt	(12)	(23)	(254)	0	0

Balance Sheet Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	3,909	5,625	6,129	6,739	7,625
Trade Receivables	4,314	2,823	2,990	3,421	3,867
Other Current Assets	4,314	5,030	4,141	4,006	4,427
Property, Plant & Equipment	1,648	1,857	2,370	2,870	3,443
Other Non-Current Assets	3,011	3,446	3,582	3,582	3,582
Total Assets	17,196	18,782	19,212	20,617	22,944
Short-Term Debt	7	8	4	4	4
Other Current Liabilities	4,557	4,177	4,298	4,382	4,455
Long-Term Debt	4,998	5,003	4,980	4,980	4,980
Other Non-Current Liabilities	1,354	1,383	1,309	1,309	1,309
Total Liabilities	10,917	10,571	10,591	10,675	10,748
Total Equity	6,278	8,210	8,621	9,942	12,196
Total Equity & Liabilities	17,196	18,782	19,212	20,617	22,944

* For full definitions of iQmethodSM measures, see page 14.

Company Sector

Semiconductor Capital Equipment

Company Description

Lam Research is a leading global supplier of wafer fabrication equipment (WFE) and services for semiconductor manufacturing with core competencies in deposition, etch, and clean equipment. These systems play a critical role in enabling LRCX's customers' ability to make chips smaller, faster, and more performant. LRCX's major customers include leading semi memory, foundry, and integrated device manufacturers (IDMs), such as Samsung, TSMC (Taiwan Semiconductor Manufacturing), and Intel.

Investment Rationale

We rate LRCX Buy. LRCX is the second largest supplier of semiconductor capital equipment with a core competency in etch, deposition, and cleaning systems. We believe LRCX unique positioning in memory compounded by a less-cyclical semicap industry overall should allow the company to continue to outgrow the industry over the next 3+ years. Near term we also see a favorable set up from stabilized pricing/ tight supply in memory and capacity constraints on the leading and lagging.

Stock Data

Average Daily Volume 1,030,910

Quarterly Earnings Estimates

	2023	2024
Q1	10.42A	6.85A
Q2	10.71A	7.52A
Q3	6.99A	7.27E
Q4	5.98A	7.07E

Summary of DecQ earnings

Revenue

- Sales BEAT Street by 2%, at \$3.8bn, +8% QoQ and -29% YoY for DecQ
- Full-year 2023 sales of \$14.3bn, EPS of \$27.33
- Higher deferred revenue balance given customer advanced payments
- Installed base almost 50% larger than in the previous cycle
- Memory WFE down nearly 40% YoY
- Non-Memory WFE fell in mid single-digits range: mature node growth in China partially offset declines in leading-edge node spending in the RoW

Memory

- Memory segment BEAT in DecQ of \$897mn, 12% above Street, +15% QoQ/-49% YoY
 - o NVM sales BEAT +2% at \$345mn, +12% QoQ/-75% YoY
 - NVM WFE at historic lows in 2023
 - o DRAM sales BEAT by 26% at \$551mn, +17% QoQ/+41% YoY
 - Benefitting from growth in HBM capacity and move to DDR5 for AI workloads, as well as China shipments

Foundry

- Foundry sales BEAT Street by 3% at \$821mn, +11% QoQ/-25% YoY
- Growth from new fabs in various regions across several process nodes

Logic/other

- Logic/other sales MISSED Street by 10%, at \$582mn, +9% QoQ/-14% YoY
- General mature node softness and timing of customer projects drove weakness

CSBC

- CSBG was in line with Street at \$1.5bn, +2% QoQ/-16% YoY
- Memory customers operating fabs at low utilization rates

China

- China sales were 40% of total revenue, down from 48% in SepQ
- Most revenue from domestic Chinese customers, with spending in the region to be stable in 2024
- China as % of sales should stay high in MarQ, but trend lower through the year

Korea

- Sales 19% share in DecQ vs 16% in SepQ

EPS

- EPS BEAT Street by +5% at \$7.82 in DecQ, +10% QoQ/-30% YoY

OpM

- Delivered OpM in 2023 that were about 2.5ppts higher than in previous trough
- OpM of 30% BEAT by 24bps, -6bps QoQ/-211bps YoY

GM

- Gross margin of 47.6% in DecQ, BEAT Street by 56bps, -31bps QoQ/+251bps YoY

Inventory

- Inventory turns improved to 1.8x vs 1.5x last Q
- Will bring inventory down through CY24E

Outlook

- Entering 2024, business outlook muted but modest recovery in memory spending in 2H
- WFE spend in CY24E mid-to-high \$80bn range
- DRAM growth from capacity additions in HBM and node conversions
- NAND spending increases coming from tech upgrades



- Foundry Logic spend growing in CY24E, with higher leading-edge investment partially offset by declining mature node spending outside of China
- China spending stable in CY24E
- Expect HBM-related DRAM and packaging shipments to more than 3x in CY24E and outpace WFE growth significantly
- Investing in facilities close to customers' R&D fabs

R&D

- Planned R&D spending increases in CY24E
- Focus on 3D architectures in advanced packaging, driving etch and deposition intensity increasing I-t

Guidance (MarQ)

- Sales of \$3.7bn, +/- \$300mn
- GM of 48%, +/- 1ppt
 - o This favorable customer mix should mitigate through the year
- OpM of 29.5% +/- 1ppt
- MarQ will have higher spending since it includes one extra week
- EPS of \$7.25 +/- \$0.75

Summary of model changes

Exhibit 1: LRCX Summary of Model Changes

We adjust CY24/25/26E sales by +1%/+2%/+3% and EPS by +4%/+6%/+7%

	Sales (\$mn)				EPS (Non-GAAP)		
	OLD	NEW	delta		OLD	NEW	delta
1Q24	\$3,482	\$3,482	\$0	1Q24	\$6.85	\$6.85	\$0.00
2Q24	\$3,701	\$3,758	\$57	2Q24	\$7.01	\$7.52	\$0.51
3Q24E	\$3,754	\$3,708	(\$46)	3Q24E	\$6.74	\$7.27	\$0.53
4Q24E	\$3,774	\$3,705	(\$69)	4Q24E	\$7.08	\$7.07	(\$0.01)
FY2024E	\$14,712	\$14,654	(\$58)	FY2024E	\$27.68	\$28.71	\$1.03
YoY%	-15.6%	-15.9%	-0.4%	YoY%	-19.0%	-16.0%	3.7%
1Q25E	\$3,907	\$3,939	\$32	1Q25E	\$7.45	\$7.46	\$0.01
2Q25E	\$4,036	\$4,190	\$154	2Q25E	\$7.84	\$8.45	\$0.62
3Q25E	\$4,111	\$4,243	\$132	3Q25E	\$8.09	\$8.68	\$0.59
4Q25E	\$4,208	\$4,307	\$99	4Q25E	\$8.39	\$8.95	\$0.56
FY2025E	\$16,262	\$16,679	\$417	FY2025E	\$31.75	\$33.53	\$1.78
YoY%	10.5%	13.8%	2.6%	YoY%	14.7%	16.8%	5.6%
CY2024E	\$15,471	\$15,543	\$71	CY2024E	\$29.09	\$30.24	\$1.15
YoY%	8.5%	8.6%	0.5%	YoY%	8.4%	10.6%	4.0%
CY2025E	\$17,533	\$17,921	\$387	CY2025E	\$36.08	\$38.08	\$2.00
YoY%	13.3%	15.3%	2.2%	YoY%	24.0%	25.9%	5.5%
CY2026E	\$19,128	\$19,755	\$627	CY2026E	\$41.74	\$44.54	\$2.81
YoY%	9.1%	10.2%	3.3%	YoY%	15.7%	17.0%	6.7%

Source: BofA Global Research estimates, company report

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DecQ reported vs. expectations

Exhibit 2: Actual reported DecQ earnings vs. our/Street expectations

DecQ sales \$54mn/2% above Street, EPS \$0.38/5% ahead

	Dec-22	Sep-23	Dec-23						
			Guidance	Street	BofA	New BofA	Delta vs. Cons (% bps)	Delta vs. Cons (\$)	QoQ %
Sales (\$mn)	\$5,278	\$3,482	\$3,700 +/- 300	\$3,704	\$3,701	\$3,758	1.5%	\$54	7.9%
QoQ%	4.0%	8.6%		6.4%	6.3%	7.9%	155		
YoY%	24.9%	-31.4%		-29.8%	-29.9%	-28.8%	102		
Segment detail:									
Memory	\$1,774	\$782		\$798	\$865	\$1,104	38.3%	\$305	41.2%
Non-volatile memory (NVM)	\$1,384	\$308		\$338	\$333	\$391	15.6%	\$53	26.7%
DRAM	\$390	\$473		\$439	\$532	\$713	62.3%	\$274	50.7%
Foundry	\$1,100	\$740		\$800	\$792	\$874	9.2%	\$73	18.0%
Logic/other	\$674	\$535		\$643	\$561	\$322	-49.9%	(\$321)	-39.8%
CSBG	\$1,730	\$1,425		\$1,456	\$1,482	\$1,459	0.2%	\$3	2.4%
Gross Margin % (Non-GAAP)	45.1%	47.9%	47.0% +/- 1%	47.1%	47.0%	47.6%	56		(31)
Gross profit (Non-GAAP)	2,382	1,669			1,741	1,790			7.2%
R&D (Non-GAAP)	462	423			443	470			11.1%
SG&A (Non-GAAP)	229	197			213	203			3.1%
Opex (Non-GAAP)	686	622			650	662			6.4%
Operating Income (Non-GAAP)	1,695	1,047		1,103	1,091	1,128	2.3%	\$25	7.7%
Operating Margin % (Non-GAAP)	32.1%	30.1%	29.5% +/- 1%	29.8%	29.5%	30.0%	24		(6)
Other expense, net (Non-GAAP)	(38)	7			(16)	5			-22.5%
Pretax income (Non-GAAP)	1,657	1,054			1,074	1,133			7.5%
Tax expense (Non-GAAP)	196	141			150	139			-1.7%
Tax rate (Non-GAAP)	11.9%	13.4%			14.0%	12.3%			(115)
Net Income (Non-GAAP)	1,461	912			924	994			9.0%
Diluted EPS (Non-GAAP)	\$10.71	\$6.85	\$7.00 +/- \$0.75	\$7.14	\$7.01	\$7.52	5.3%	\$0.38	9.7%
Diluted shares (Non-GAAP)	136	133	132		132	132			-0.7%

Source: BofA Global Research estimates, company report, Bloomberg

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MarQ guidance vs. expectations

Exhibit 3: MarQ guidance vs. BofA/Street expectations

LRCX guided MarQ sales \$6mm/0% above Street and EPS guided \$0.58/9% above Street

Dec-23		Mar-24E			
		BofA	Street	Guidance	New BofA
Sales (\$mn)	\$3,758	\$3,754	\$3,694	\$3,700 +/- 300	\$3,708
QoQ%	7.9%	1.4%	-0.3%		-1.3%
YoY%	-28.8%	-3.0%			-4.2%
Segment detail:					
Memory	\$1,104	\$923	\$838		\$1,068
Non-volatile memory (NVM)	\$391	\$361	\$483		\$391
DRAM	\$713	\$561	\$328		\$677
Foundry	\$874	\$800	\$734		\$856
Logic/other	\$322	\$578	\$670		\$340
CSBG		\$1,453	\$1,482		\$1,444
Gross Margin % (Non-GAAP)	47.6%	46.3%	46.2%	48.0% +/- 1%	48.0%
Gross profit (Non-GAAP)	1,790	1,738			1,781
R&D (Non-GAAP)	470	468			465
SG&A (Non-GAAP)	203	233			223
Opex (Non-GAAP)	662	700			688
Operating Income (Non-GAAP)	1,128	1,038	1,021		1,094
Operating Margin % (Non-GAAP)	30.0%	27.6%	27.6%	29.5% +/- 1%	29.5%
Other expense, net (Non-GAAP)	5	(16)			4
Pretax income (Non-GAAP)	1,133	1,021			1,097
Tax expense (Non-GAAP)	139	143			137
Tax rate (Non-GAAP)	12.3%	14.0%			12.5%
Net Income (Non-GAAP)	994	878			960
Diluted EPS (Non-GAAP)	\$7.52	\$6.74	\$6.67	\$7.25 +/- \$0.75	\$7.27
Diluted shares (Non-GAAP)	132	130		132	132

Source: BofA Global Research estimates, company report, Bloomberg

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Balance sheet & cash flow snapshot

Exhibit 4: Summary of Balance Sheet and Cash Flow Statements

Net cash increased QoQ; inventory dollars decreased and days decreased QoQ

	2Q23	3Q23	4Q23	1Q24	2Q24		
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	QoQ	YoY
Total Cash	4,839	5,620	5,625	5,157	5,638	9.3%	16.5%
ST Debt	7	8	8	4	4		
Days Payables Outstanding (DPO)	28.8	24.2	24.5	26.3	24.0		
Inventory \$	4,820	4,882	4,816	4,748	4,430	-6.7%	-8.1%
Inventory Turns	2.4	1.9	1.5	1.5	1.8		
Inventory Days	151.6	196.8	251.3	237.1	202.0	(35.0)	50.4
LT Debt	4,996	4,997	5,003	4,980	4,980		
Total Debt	5,003	5,005	5,012	4,984	4,984		
Net Cash	(164)	615	613	172	654		
Net Cash / Share	(\$1.20)	\$4.54	\$4.56	\$1.29	\$4.95	282.2%	511.1%
Book Value / Share	\$60.91	\$62.10	\$61.09	\$60.43	\$62.19	2.9%	2.1%
Tangible Book Value / Share	\$47.67	\$48.79	\$47.76	\$47.03	\$48.74	3.6%	2.3%
Days Sales Outstanding (DSO)	70.2	76.7	80.1	73.5	65.6		
Cash Conversion days	192.9	249.3	306.9	284.2	243.6		
Cash Flow from Ops	1,140	1,726	1,123	951	1,454	52.8%	27.5%
Capex	(163)	(119)	(79)	(77)	(115)	49.7%	-29.4%
Free cash flow	977	1,607	1,044	874	1,339	53.1%	37.0%
Dividends paid	236	234	232	230	264	14.8%	12.0%
Share repurchase amount	456	582	869	843	645	-23.5%	41.5%

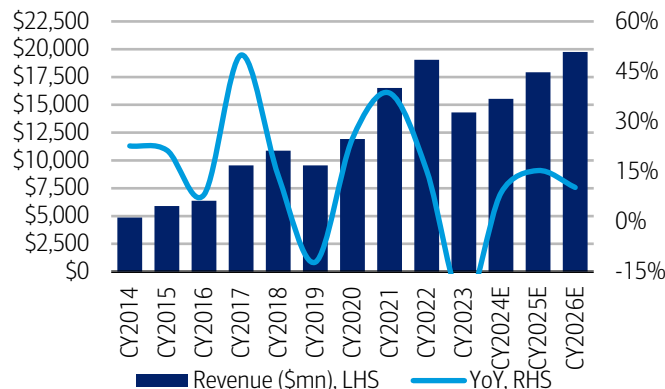
Source: BofA Global Research, company reports

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Key charts

Chart 1: LRCX annual revenue (calendar year) and YoY growth

LRCX revenue to reach \$18bn by CY25E

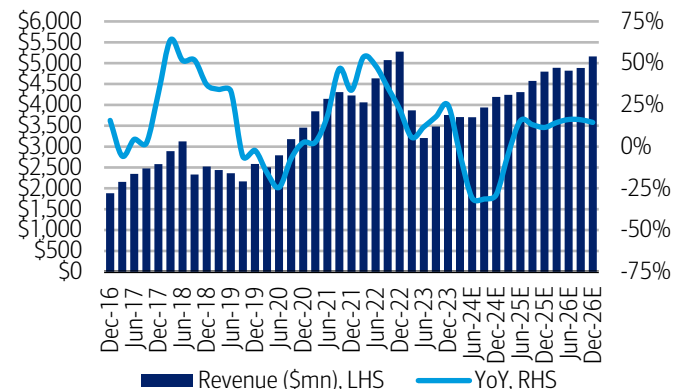


Source: BofA Global Research estimates, company report

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Chart 2: LRCX quarterly revenue and YoY growth

LRCX sales should approach \$5bn on a quarterly run rate

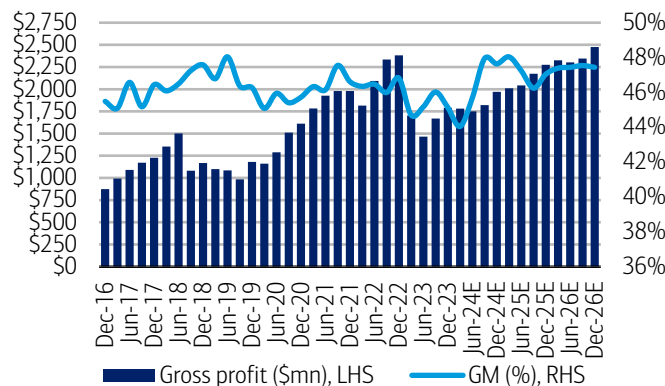


Source: BofA Global Research estimates, company report

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Chart 3: LRCX quarterly gross profit and GM%

We see GM pressures from a semis down cycle

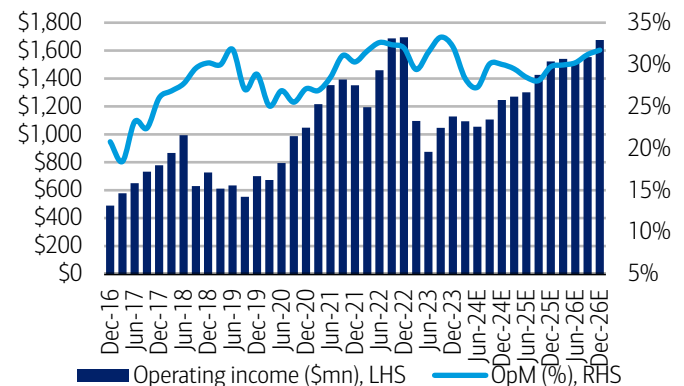


Source: BofA Global Research estimates, company report

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Chart 4: LRCX quarterly operating income and OpM%

We see OpMs remaining above 25%

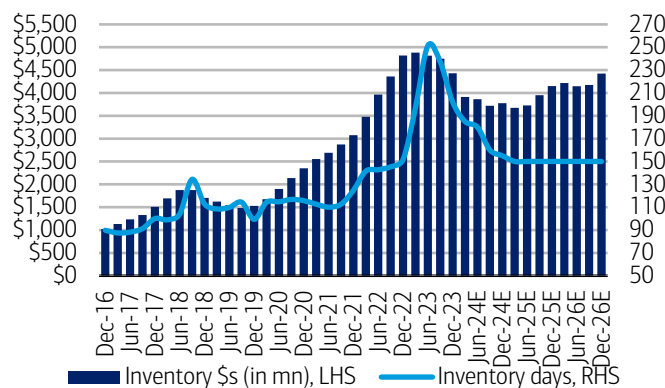


Source: BofA Global Research estimates, company report

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Chart 5: LRCX quarterly inventory dollars and days

We expect inventory \$s to fall but days to remain elevated

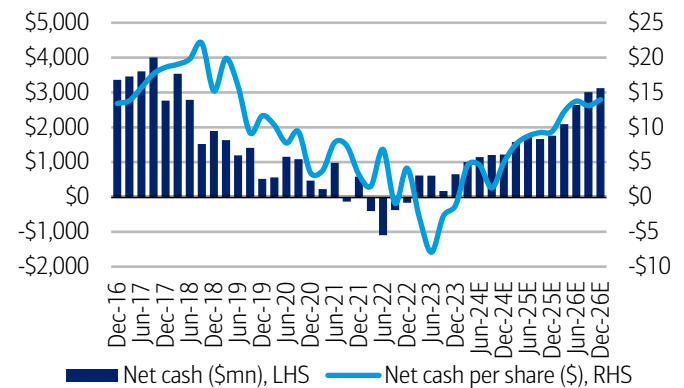


Source: BofA Global Research estimates, company report

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Chart 6: LRCX quarterly net cash and net cash per share

LRCX has a net cash position of \$5 per share

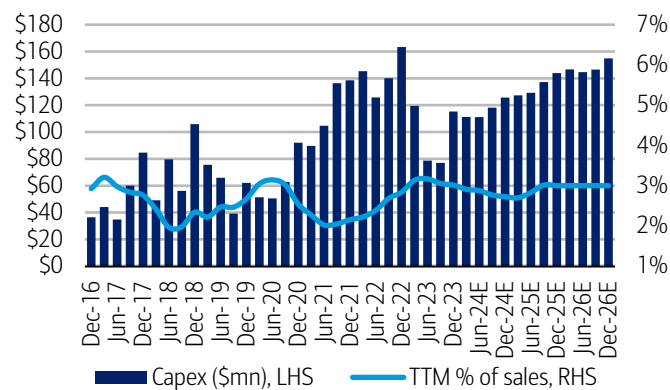


Source: BofA Global Research estimates, company report

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Chart 7: LRCX quarterly capex and % of sales

We see capex as a % of sales in the 2-4% range

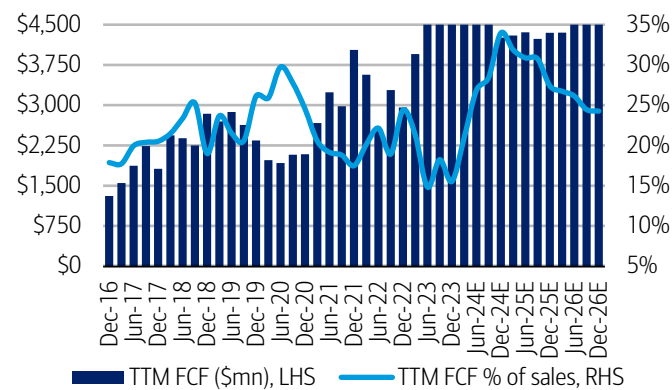


Source: BofA Global Research estimates, company report

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Chart 8: LRCX quarterly TTM FCF and TTM FCF as a % of sales

We expect a modest pullback of FCF and FCF per share growth



Source: BofA Global Research estimates, company report

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**Exhibit 5: LRCX - Income Statement (\$mn)**

LRCX delivered DecQ revenues of \$3.76bn, EPS of \$7.52

FY (Jun)	1Q24 Sep-23	2Q24 Dec-23	3Q24E Mar-24E	4Q24E Jun-24E	1Q25E Sep-24E	2Q25E Dec-24E	3Q25E Mar-25E	4Q25E Jun-25E	1Q26E Sep-25E	2Q26E Dec-25E	3Q26E Mar-26E	4Q26E Jun-26E	CY2024E Dec-24	CY2025E Dec-25	CY2026E Dec-26
Revenue	\$3,482	\$3,758	\$3,708	\$3,705	\$3,939	\$4,190	\$4,243	\$4,307	\$4,574	\$4,797	\$4,888	\$4,821	\$15,543	\$17,921	\$19,755
QoQ	8.6%	7.9%	-1.3%	-0.1%	6.3%	6.4%	1.3%	1.5%	6.2%	4.9%	1.9%	-1.4%			
YoY	-31.4%	-28.8%	-4.2%	15.5%	13.1%	11.5%	14.4%	16.2%	16.1%	14.5%	15.2%	11.9%	8.6%	15.3%	10.2%
Cost of goods sold (GAAP)	1,827	2,001	1,929	1,957	2,120	2,222	2,235	2,266	2,402	2,524	2,564	2,522	8,229	9,428	10,317
Gross profit (GAAP)	1,655	1,757	1,779	1,748	1,819	1,968	2,008	2,041	2,172	2,273	2,323	2,299	7,314	8,493	9,438
Gross profit (Non-GAAP)	1,669	1,790	1,781	1,750	1,821	1,971	2,011	2,043	2,174	2,276	2,326	2,302	7,324	8,504	9,449
Research & development (GAAP)	423	470	465	470	485	493	503	505	510	515	535	537	1,912	2,032	2,160
Selling, general & admin. (GAAP)	207	229	224	226	231	233	238	238	239	240	251	251	913	954	1,006
Other adjustments	2	2	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Income (GAAP)	1,023	1,057	1,090	1,052	1,103	1,243	1,267	1,298	1,423	1,519	1,538	1,512	4,488	5,507	6,272
Research & development (Non-GAAP)	424	458	465	470	485	493	503	505	510	515	535	537	1,912	2,032	2,160
Selling, general & admin. (Non-GAAP)	197	203	223	225	230	232	237	237	238	239	250	250	910	951	1,003
Operating expenses (Non-GAAP)	622	662	688	695	715	725	740	742	748	754	785	787	2,822	2,983	3,163
Operating income (Non-GAAP)	1,047	1,128	1,094	1,055	1,107	1,246	1,271	1,301	1,427	1,522	1,541	1,515	4,502	5,521	6,286
Other expense, net (GAAP)	3	30	3	3	3	3	3	3	3	3	3	3	11	11	11
Other expense, net (Non-GAAP)	7	5	4	4	4	4	4	4	4	4	4	4	14	14	14
Gain on sale of real estate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pretax income (GAAP)	1,026	1,087	1,093	1,055	1,106	1,246	1,270	1,301	1,426	1,521	1,541	1,514	4,500	5,519	6,283
Pretax income (Non-GAAP)	1,054	1,133	1,097	1,059	1,110	1,250	1,274	1,305	1,430	1,526	1,545	1,519	4,516	5,535	6,300
Income tax expense (GAAP)	138	133	131	126	133	150	153	157	173	185	187	184	540	667	763
Income taxes (Non-GAAP)	141	139	137	132	139	156	159	163	179	191	193	190	565	692	787
Net income (GAAP)	887	954	962	929	973	1,095	1,117	1,144	1,253	1,337	1,354	1,331	3,960	4,851	5,520
Net income (Non-GAAP, incl. SBC)	912	994	960	927	972	1,094	1,115	1,142	1,251	1,335	1,352	1,329	3,952	4,843	5,512
GAAP Diluted EPS	\$6.66	\$7.22	\$7.22	\$6.97	\$7.31	\$8.22	\$8.39	\$8.59	\$9.41	\$10.03	\$10.16	\$9.99	\$29.72	\$36.41	\$41.44
Non-GAAP Diluted EPS (incl. SBC)	\$6.85	\$7.52	\$7.27	\$7.07	\$7.46	\$8.45	\$8.68	\$8.95	\$9.87	\$10.60	\$10.81	\$10.70	\$30.24	\$38.08	\$44.54
Stock-based compensation expense	67	70	74	74	79	84	85	86	91	96	98	96	311	358	395
EPS (pf, ex stock comp)	\$7.29	\$7.98	\$7.76	\$7.56	\$7.99	\$9.02	\$9.26	\$9.54	\$10.50	\$11.27	\$11.49	\$11.38	\$32.32	\$40.54	\$47.34
Diluted shares (GAAP)	133	132	133	133	133	133	133	133	133	133	133	133	133	133	133
Diluted shares (Non-GAAP)	133	132	132	131	130	129	128	128	127	126	125	124	131	127	124
Margins, Non-GAAP (%)															
Gross margin	47.9%	47.6%	48.0%	47.2%	46.2%	47.0%	47.4%	47.4%	47.5%	47.4%	47.6%	47.7%	47.1%	47.5%	47.8%
Operating margin	30.1%	30.0%	29.5%	28.5%	28.1%	29.7%	30.0%	30.2%	31.2%	31.7%	31.5%	31.4%	29.0%	30.8%	31.8%
Margins, GAAP (%)															
Gross margin	47.5%	46.8%	48.0%	47.2%	46.2%	47.0%	47.3%	47.4%	47.5%	47.4%	47.5%	47.7%	47.1%	47.4%	47.8%
Operating margin	29.4%	28.1%	29.4%	28.4%	28.0%	29.7%	29.9%	30.1%	31.1%	31.7%	31.5%	31.3%	28.9%	30.7%	31.7%

Source: BofA Global Research estimates, company reports

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Exhibit 6: LRCX Segment Model (\$mn)

We forecast 9% sales increase for LRCX in CY2024

FY (Jun)	1Q24 Sep-23	2Q24 Dec-23	3Q24E Mar-24E	4Q24E Jun-24E	1Q25E Sep-24E	2Q25E Dec-24E	3Q25E Mar-25E	4Q25E Jun-25E	1Q26E Sep-25E	2Q26E Dec-25E	3Q26E Mar-26E	4Q26E Jun-26E	CY2024E Dec-24	CY2025E Dec-25	CY2026E Dec-26
Sales (\$mn)															
Memory	782	1,104	1,068	935	983	1,031	1,068	1,163	1,340	1,470	1,504	1,398	4,017	5,041	5,814
Non-volatile memory (NVM)	308	391	391	393	479	518	572	618	729	893	915	842	1,781	2,811	3,469
DRAM	473	713	677	542	504	514	496	545	611	577	589	556	2,237	2,230	2,346
Foundry	740	874	856	899	989	1,058	1,079	1,042	1,021	1,046	1,062	1,078	3,802	4,188	4,377
Logic/IDM	535	322	340	441	494	569	571	586	659	695	713	720	1,844	2,511	3,046
CSBG	1,425	1,459	1,444	1,430	1,473	1,532	1,524	1,516	1,554	1,585	1,609	1,625	5,879	6,180	6,518
Total	3,482	3,758	3,708	3,705	3,939	4,190	4,243	4,307	4,574	4,797	4,888	4,821	15,543	17,921	19,755
QoQ															
Memory	69.2%	41.2%	-3.2%	-12.5%	5.2%	4.9%	3.5%	8.9%	15.2%	9.7%	2.3%	-7.0%			
Non-volatile memory (NVM)	0.2%	26.7%	0.0%	0.5%	22.0%	8.0%	10.5%	8.0%	18.0%	22.5%	2.5%	-8.0%			
DRAM	207.3%	50.7%	-5.0%	-20.0%	-7.0%	2.0%	-3.5%	10.0%	12.0%	-5.5%	2.0%	-5.5%			
Foundry	-7.9%	18.0%	-2.0%	5.0%	10.0%	7.0%	2.0%	-3.5%	-2.0%	2.5%	1.5%	1.5%			
Logic/IDM	20.2%	-39.8%	5.5%	30.0%	12.0%	15.0%	0.5%	2.5%	12.5%	5.5%	2.5%	1.0%			
CSBG	-4.8%	2.4%	-1.0%	-1.0%	3.0%	4.0%	-0.5%	-0.5%	2.5%	2.0%	1.5%	1.0%			
Total	8.6%	7.9%	-1.3%	-0.1%	6.3%	6.4%	1.3%	1.5%	6.2%	4.9%	1.9%	-1.4%			
YoY															
Memory	-52.8%	-37.8%	47.9%	102.4%	25.8%	-6.5%	0.0%	24.5%	36.3%	42.5%	40.9%	20.2%	30.9%	25.5%	15.3%
Non-volatile memory (NVM)	-75.1%	-71.7%	-24.7%	27.6%	55.4%	32.4%	46.3%	57.2%	52.1%	72.5%	60.0%	36.3%	16.7%	57.9%	23.4%
DRAM	14.4%	82.7%	233.5%	251.9%	6.5%	-27.9%	-26.8%	0.7%	21.3%	12.3%	18.8%	2.0%	45.0%	-0.3%	5.2%
Foundry	-31.6%	-20.6%	-17.5%	11.8%	33.6%	21.1%	26.1%	15.9%	3.2%	-1.1%	-1.6%	3.5%	10.0%	10.1%	4.5%
Logic/IDM	20.0%	-52.2%	-31.6%	-0.7%	-7.5%	76.6%	68.3%	32.7%	33.3%	22.3%	24.7%	22.9%	2.6%	36.2%	21.3%
CSBG	-24.7%	-15.7%	-10.5%	-4.5%	3.3%	5.0%	5.5%	6.1%	5.5%	3.5%	5.6%	7.2%	-1.9%	5.1%	5.5%
Total	-31.4%	-28.8%	-4.2%	15.5%	13.1%	11.5%	14.4%	16.2%	16.1%	14.5%	15.2%	11.9%	8.6%	15.3%	10.2%
% of Product															
Memory	38.0%	48.0%	47.2%	41.1%	39.9%	38.8%	39.3%	41.7%	44.4%	45.8%	45.9%	43.8%	41.6%	42.9%	43.9%
Non-volatile memory (NVM)	15.0%	17.0%	17.3%	17.3%	19.4%	19.5%	21.0%	22.1%	24.1%	27.8%	27.9%	26.3%	18.4%	23.9%	26.2%
DRAM	23.0%	31.0%	29.9%	23.8%	20.4%	19.3%	18.2%	19.5%	20.2%	18.0%	18.0%	17.4%	23.1%	19.0%	17.7%
Foundry	36.0%	38.0%	37.8%	39.5%	40.1%	39.8%	39.7%	37.3%	33.8%	32.6%	32.4%	33.7%	39.3%	35.7%	33.1%
Logic/IDM	26.0%	14.0%	15.0%	19.4%	20.0%	21.4%	21.0%	21.0%	21.8%	21.6%	21.7%	22.5%	19.1%	21.4%	23.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: BofA Global Research estimates, company reports

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Exhibit 7: LRCX Balance Sheet (\$mn)

LRCX has about \$5 of net cash per share

FY (Jun)	1Q24 Sep-23	2Q24 Dec-23	3Q24E Mar-24E	4Q24E Jun-24E	1Q25E Sep-24E	2Q25E Dec-24E	3Q25E Mar-25E	4Q25E Jun-25E	1Q26E Sep-25E	2Q26E Dec-25E	3Q26E Mar-26E	4Q26E Jun-26E	CY2024E Dec-24	CY2025E Dec-25	CY2026E Dec-26
Assets															
Cash and cash equivalents	4,875	5,374	5,720	5,865	5,924	5,937	6,295	6,474	6,382	6,478	6,809	7,361	5,937	6,478	7,845
Short-term investments	31	15	15	15	15	15	15	15	15	15	15	15	15	15	15
Accounts receivable, net	2,811	2,707	3,043	2,990	3,203	3,386	3,378	3,421	3,689	3,858	3,928	3,867	3,386	3,858	4,140
Inventories	4,748	4,430	3,913	3,862	3,719	3,775	3,674	3,726	3,950	4,150	4,216	4,147	3,775	4,150	4,424
Prepaid expenses and other current assets	278	279	279	279	279	279	279	279	279	279	279	279	279	279	279
Total current assets	12,743	12,805	12,969	13,011	13,139	13,391	13,641	13,916	14,314	14,780	15,248	15,670	13,391	14,780	16,702
Property and equipment, net	2,111	2,147	2,259	2,370	2,488	2,614	2,741	2,870	3,007	3,151	3,298	3,443	2,614	3,151	3,744
Restricted cash and investments	251	249	249	249	249	249	249	249	249	249	249	249	249	249	249
Goodwill	1,784	1,778	1,778	1,778	1,778	1,778	1,778	1,778	1,778	1,778	1,778	1,778	1,778	1,778	1,778
Intangible assets, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	1,650	1,804	1,804	1,804	1,804	1,804	1,804	1,804	1,804	1,804	1,804	1,804	1,804	1,804	1,804
Total assets	18,538	18,784	19,058	19,212	19,459	19,836	20,213	20,617	21,153	21,763	22,377	22,944	19,836	21,763	24,278
Liabilities & Stock Equity															
Trade accounts payable	528	528	586	557	593	626	634	641	687	715	725	715	626	715	763
Accrued expenses and other current liabilities	2,120	2,120	2,120	2,120	2,120	2,120	2,120	2,120	2,120	2,120	2,120	2,120	2,120	2,120	2,120
Deferred profit	1,595	1,620	1,620	1,620	1,620	1,620	1,620	1,620	1,620	1,620	1,620	1,620	1,620	1,620	1,620
Current portion of convert. notes & capital leases	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Total current liabilities	4,247	4,272	4,331	4,302	4,337	4,370	4,379	4,386	4,432	4,459	4,470	4,459	4,370	4,459	4,508
Long-term debt and capital leases	4,980	4,980	4,980	4,980	4,980	4,980	4,980	4,980	4,980	4,980	4,980	4,980	4,980	4,980	4,980
Income taxes payable	781	798	798	798	798	798	798	798	798	798	798	798	798	798	798
Other long-term liabilities	483	511	511	511	511	511	511	511	511	511	511	511	511	511	511
Total liabilities	10,491	10,561	10,620	10,591	10,626	10,659	10,667	10,675	10,721	10,748	10,759	10,748	10,659	10,748	10,796
Key Metrics															
Total cash (incl. restricted cash)	5,157	5,638	5,984	6,129	6,188	6,201	6,559	6,739	6,646	6,742	7,073	7,625	6,201	6,742	8,109
Total debt	4,984	4,984	4,984	4,984	4,984	4,984	4,984	4,984	4,984	4,984	4,984	4,984	4,984	4,984	4,984
Net cash	172	654	1,000	1,145	1,204	1,217	1,575	1,755	1,662	1,759	2,089	2,641	1,217	1,759	3,125
Net cash per share	\$1.29	\$4.95	\$7.57	\$8.74	\$9.25	\$9.41	\$12.26	\$13.75	\$13.11	\$13.97	\$16.71	\$21.27	\$9.41	\$13.97	\$25.52
Days sales outstanding (DSO)	73	66	75	73	74	74	72	72	73	73	73	73	74	73	73
Days payables outstanding (DPO)	26	24	28	26	25	26	26	26	26	26	26	26	26	26	26
Days of inventory (DIO)	237	202	185	180	160	155	150	150	150	150	150	150	155	150	150
Cash conversion days (DIO+DSO-DPO)	284	244	232	228	209	203	197	197	197	197	197	197	203	197	197

Source: BofA Global Research estimates, company reports

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Exhibit 8: LRCX Cash Flow Statement (\$mn)

We see path towards \$40 in FCF per share by 2026E

FY (Jun)	1Q24 Sep-23	2Q24 Dec-23	3Q24E Mar-24E	4Q24E Jun-24E	1Q25E Sep-24E	2Q25E Dec-24E	3Q25E Mar-25E	4Q25E Jun-25E	1Q26E Sep-25E	2Q26E Dec-25E	3Q26E Mar-26E	4Q26E Jun-26E	CY2024E Dec-24	CY2025E Dec-25	CY2026E Dec-26
Cash Flow - Operations															
Net income	887	954	962	929	973	1,095	1,117	1,144	1,253	1,337	1,354	1,331	3,960	4,851	5,520
Depreciation and amortization	90	91	91	91	97	103	104	105	112	117	119	118	382	438	482
Deferred income taxes	(24)	(89)	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity-based compensation expense	67	70	74	74	79	84	85	86	91	96	98	96	311	358	395
Amort. of note discounts & issuance costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other, net	(0)	4	(1)	(1)	(0)	(1)	(1)	(1)	(0)	(1)	(1)	(1)	(2)	(3)	(1)
Changes in assets and liabilities	(70)	423	241	74	(34)	(206)	117	(88)	(445)	(342)	(126)	120	74	(758)	(507)
Net cash provided by operating activities	951	1,454	1,367	1,167	1,114	1,076	1,422	1,246	1,011	1,207	1,443	1,663	4,725	4,887	5,889
Cash Flows - Investing															
Capital expenditures and intangible assets	(77)	(115)	(111)	(111)	(118)	(126)	(127)	(129)	(137)	(144)	(147)	(145)	(466)	(538)	(593)
Business acquisitions, net of cash acquired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net (purchase) sale of avail.-for-sale securities	7	16	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers of restricted cash and investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other, net	(5)	(3)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash used for investing activities	(75)	(102)	(111)	(111)	(118)	(126)	(127)	(129)	(137)	(144)	(147)	(145)	(466)	(538)	(593)
Cash Flows - Financing															
Payments on l-t debt & capital lease obligations	(253)	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from issuance of l-t debt, net of costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury stock purchases	(843)	(645)	(645)	(645)	(645)	(645)	(645)	(645)	(645)	(645)	(645)	(645)	(2,582)	(2,582)	(2,582)
Dividends paid	(230)	(264)	(265)	(265)	(292)	(292)	(292)	(292)	(321)	(321)	(321)	(321)	(1,114)	(1,225)	(1,348)
Reissuance of treasury stock (employee plan)	-	53	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from issuance of common stock	3	2	-	-	-	-	-	-	-	-	-	-	-	-	-
Other, net	(2)	(4)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash used for financing activities	(1,326)	(860)	(911)	(911)	(937)	(937)	(937)	(937)	(966)	(966)	(966)	(966)	(3,696)	(3,807)	(3,930)
Net change in cash and equivalents	(461)	499	346	145	59	13	358	180	(93)	97	330	552			
Cash and cash equivalents, beginning of period	5,336	4,875	5,374	5,720	5,865	5,924	5,937	6,295	6,474	6,382	6,478	6,809			
Cash and cash equivalents, end of period	4,875	5,374	5,720	5,865	5,924	5,937	6,295	6,474	6,382	6,478	6,809	7,361			
Free Cash Flow (FCF)	874	1,339	1,256	1,056	996	950	1,295	1,117	874	1,063	1,297	1,519	4,259	4,349	5,296
FCF/share	\$6.56	\$10.12	\$9.51	\$8.06	\$7.65	\$7.35	\$10.08	\$8.75	\$6.89	\$8.44	\$10.37	\$12.23	\$32.58	\$34.19	\$42.80
TTM FCF	4,502	4,864	4,513	4,525	4,647	4,259	4,297	4,359	4,236	4,349	4,351	4,752			
TTM FCF/Share	\$33.81	\$36.79	\$34.15	\$34.52	\$35.69	\$32.92	\$33.45	\$34.15	\$33.42	\$34.54	\$34.79	\$38.27			

Source: BofA Global Research estimates, company reports

BofA GLOBAL RESEARCH



Price objective basis & risk

Lam Research Corp. (LRCX)

Our PO of \$970 is based on 25x cash adjusted CY25E PE, in line with its historical 1-2 turn discount to more profitable semicap peers.

Upside risks to our PO are: stronger-than-expected electronics demand that would tighten up semiconductor capacity, driving increased semiconductor equipment sales and/or increasing market share.

Downside risks are slower than expected capital spending cycle, delay in memory capacity adds, market share loss in etch or clean segments, merger & integrations risk, and macro headwinds.

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I, Vivek Arya, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Semiconductors and Semiconductor Capital Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Advanced Micro Devices, Inc	AMD	AMD US	Vivek Arya
	Analog Devices Inc.	ADI	ADI US	Vivek Arya
	Applied Materials, Inc.	AMAT	AMAT US	Vivek Arya
	Arm Holdings	ARM	ARM US	Vivek Arya
	Broadcom Inc	AVGO	AVGO US	Vivek Arya
	Cadence	CDNS	CDNS US	Vivek Arya
	Camtek	CAMT	CAMT US	Vivek Arya
	KLA Corporation	KLAC	KLAC US	Vivek Arya
	Lam Research Corp.	LRCX	LRCX US	Vivek Arya
	M/A-Com	MTSI	MTSI US	Vivek Arya
	Marvell Technology Group Ltd.	MRVL	MRVL US	Vivek Arya
	Microchip	MCHP	MCHP US	Vivek Arya
	Micron Technology, Inc	MU	MU US	Vivek Arya
	Nova	NVMI	NVMI US	Vivek Arya
	NVIDIA Corporation	NVDA	NVDA US	Vivek Arya
	NXP Semiconductors NV	NXPI	NXPI US	Vivek Arya
	onsemi	ON	ON US	Vivek Arya
	Synopsys	SNPS	SNPS US	Vivek Arya
NEUTRAL				
	Advanced Energy Industries	AEIS	AEIS US	Duksan Jang
	Allegro MicroSystems	ALGM	ALGM US	Blake Friedman
	Axcelis Technologies	ACLS	ACLS US	Duksan Jang
	Coherent Corp	COHR	COHR US	Vivek Arya
	GlobalFoundries	GFS	GFS US	Vivek Arya
	Intel	INTC	INTC US	Vivek Arya
	Lattice Semiconductor	LSCC	LSCC US	Blake Friedman
	Texas Instruments Inc.	TXN	TXN US	Vivek Arya
UNDERPERFORM				
	Ambarella	AMBA	AMBA US	Vivek Arya
	Credo Technology	CRDO	CRDO US	Vivek Arya
	Lumentum Holdings	LITE	LITE US	Vivek Arya
	Qorvo Inc.	QRVO	QRVO US	Vivek Arya
	Skyworks Solutions, Inc.	SWKS	SWKS US	Vivek Arya
	Teradyne	TER	TER US	Vivek Arya
	Wolfspeed Inc	WOLF	WOLF US	Vivek Arya



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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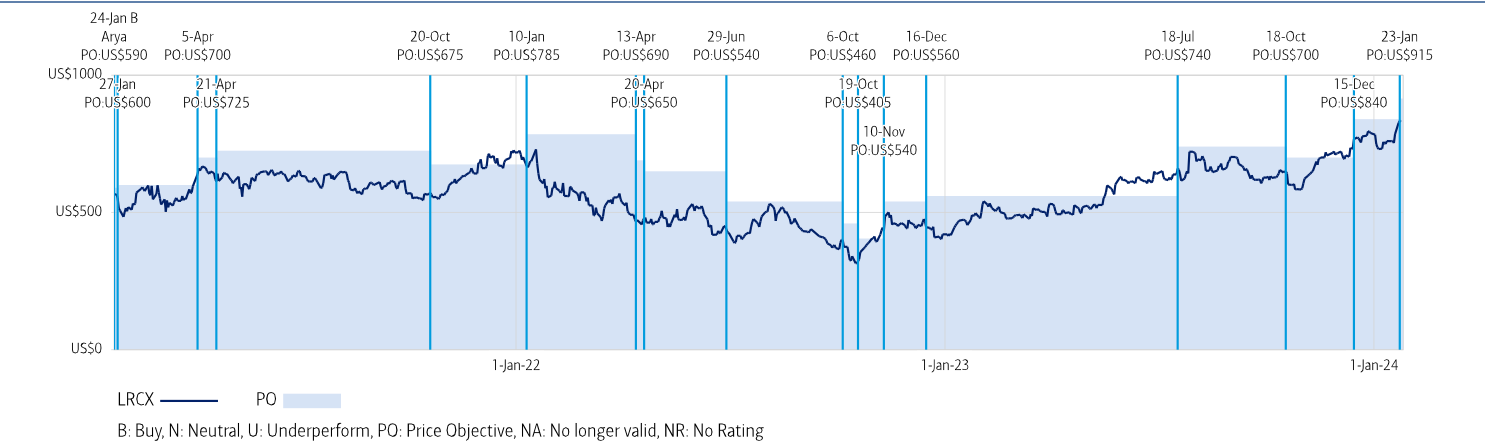
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Lam Research (LRCX) Price Chart



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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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