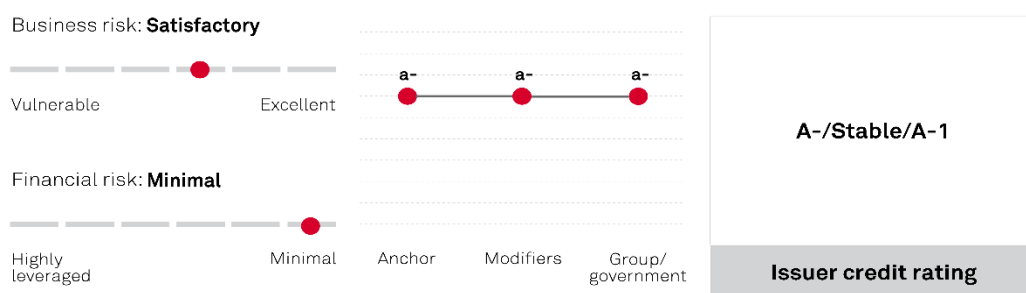


Lam Research Corp.

July 19, 2023

Ratings Score Snapshot



Primary contact

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Credit Highlights

Overview

Key strengths

Leading market positions in the etch and deposition product segments of the semiconductor capital equipment industry.

We expect growing capital intensity of leading nodes across logic and memory, combined with significant barriers to entry will support long-term top-line growth through cycles.

Consistent free operating cash flow (FOCF) generation through industry cycles and a strong balance sheet with net cash or near net cash position after shareholder returns.

Key risks

Amplified exposure to semiconductor industry volatility due to significant memory industry exposure will lead to significant revenue declines in calendar year 2023.

Increasingly aggressive semiconductor and wafer fabrication equipment (WFE) trade restrictions between the U.S. and China drive uncertainty around future results.

Significant customer concentration to a concentrated semiconductor and foundry industry.

Challenging industry conditions, particularly in memory markets, will drive double-digit revenue declines for Lam Research Corp. in fiscal 2024 before recovering in fiscal 2025.

Lam reported revenues declined approximately 5% year over year in the March quarter as an extremely painful downturn in the memory market decreased demand for WFE, and the company's segment revenues declined nearly 60%. We expect challenging semiconductor industry conditions to continue over the next 12 months, with revenue declines persisting in memory and expanding to Lam's other end markets as customers cut WFE spending amid high levels of inventory and weaker end-market demand. We currently forecast Lam will report a 20%-25% revenue decline in fiscal 2024, with memory continuing to underperform other end markets and recurring customer support and trailing-edge revenues holding up better than the corporate average. In spite of these near-term challenges, we believe Lam will return to potentially double-digit percent top-line growth in fiscal 2025 due to longer-term trends, including increasing capital intensity in semiconductor manufacturing, growing investments in artificial intelligence, and increasing levels of semiconductor content in nearly all aspects of the economy.

We expect Lam's consistent FOCF generation through industry cycles to enable the company to support its long-term capital return targets while maintaining a strong balance sheet.

We anticipate Lam's FOCF to be at least \$3.5 billion in fiscals 2023 and 2024, which we still view as sufficient for the company to invest in new and innovative technologies and maintain a strong balance sheet, along with maintaining current shareholder return objectives of 75%-100% of FOCF. Lam has a long track record of conservative balance sheet management and has operated in a net cash or near-net cash position through multiple industry cycles. Shareholder returns--including repurchases and dividends--have moderated over the past nine months as industry conditions have deteriorated, declining to approximately \$1.8 billion compared with approximately \$3.6 billion in the same period a year prior. For fiscals 2023 and 2024, we estimate that the company will use 85%-90% of FOCF towards shareholder returns, a slight decline from historical levels. Its leverage has returned to a near net-cash position as of the March quarter, down from 0.3x as of the end of fiscal 2022, and we expect the company to maintain a robust balance sheet and see limited risk of sustained leverage increases, even in an industry downturn over the next 12 months. The extremely high concentration in the semiconductor equipment industry also constrains the risk of higher debt in our view as we believe there are few sizable acquisition targets that Lam could pursue that would pass regulatory scrutiny.

Significant consolidation among WFE providers, broader end-market demand for semiconductor devices, and an expanding services business will help Lam navigate industry cycles.

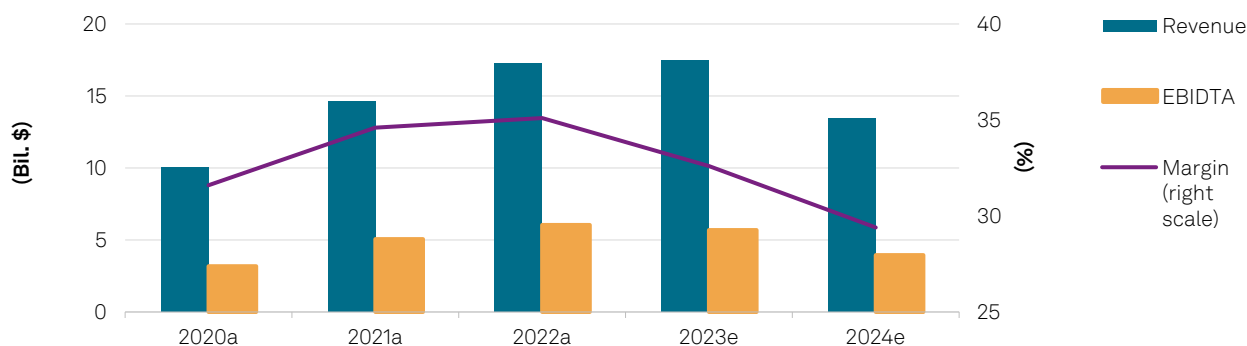
Although the company's acquisition activity has slowed over the past year, significant consolidation among chipmakers and foundries over the past decade has given Lam a more concentrated customer list but also enabled greater coordination on capital spending and longer-term supply agreements. Additionally, increasingly diverse end markets for semiconductor devices across industrial, automotive, and connectivity applications will reduce industry exposure to consumer spending and lowers the probability that all end markets will contract at once. Lam's customer support and services business, which generates revenue from spares, upgrades, and nonleading-edge equipment sales (representing about a third of total revenue), provides a more stable, recurring source of revenue to offset lumpy equipment orders. Nevertheless, we continue to view this as one of the more volatile subsectors of the technology industry, and its increasing centrality to economic policy and national security concerns clouds our view of the longer-term future.

We believe that although there is a risk that growing trade conflicts and geopolitical concerns may increase semiconductor cyclicality in the future, Lam's strong market position and growing services base will enable it to navigate any turbulence. The impact of existing trade

Lam Research Corp.

restrictions on WFE have been fairly limited to date, and the overall impact of recent policy actions such as the CHIPS and Science Act has been limited in scale compared with the background level of semiconductor capital investment. Despite this, we believe that current trends toward de-risking supply chains and building more regional supplier networks in the semiconductor industry could increase the volatility of future cycles. While we believe these steps may serve to moderate the impact of a major geopolitical crisis, a less efficient, more decoupled foundry network and increasingly government-driven capital spending could magnify the more normal volatility of business and inventory cycles.

Lam Research Corp.--Revenue and S&P Global Ratings-adjusted EBITDA



a--Actual. e--Estimate. Source: S&P Global Ratings.

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Outlook

The stable outlook on Lam reflects our expectation that the company will maintain its competitive position in the etch, deposition, and clean product specialty area within the WFE industry. We also expect Lam will adhere to a consistent financial policy framework whereby it maintains a credit cushion against potential industry volatility.

Downside scenario

We could lower our rating on Lam if:

- Its financial performance deteriorates materially below our base-case due to end market supply-demand imbalances or external shocks like trade conflicts such that its EBITDA and FOCF declines, substantially raising S&P Global Ratings-adjusted leverage to above 1.5x; or
- It pursues large, debt-financed acquisitions or shareholder-friendly initiatives that raise S&P Global Ratings-adjusted leverage above 1.5x.

Upside scenario

We would consider upgrading Lam if it:

- Continues to enhance its competitive position by expanding its market share and product portfolio through industry cycles; and

- Adheres to a conservative financial policy that includes maintaining S&P Global Ratings-adjusted leverage well below the mid-1x area.

Our Base-Case Scenario

Assumptions

- Global GDP expands 3.0% in calendar 2023 and 2024;
- U.S. GDP grows 1.7% in 2023 and 1.3% in 2024;
- Eurozone GDP grows 0.6% in 2023 and 0.9% in 2024;
- Semiconductor industry sales shrink by about 10% in 2023 as a sectorwide inventory correction amplifies the effect of slowing macroeconomic conditions;
- WFE spending falls approximately 20%, roughly double the downturn in semiconductors as foundries and memory suppliers aggressively cut capacity investments;
- Revenue growth declines about 20%-25% in fiscal 2024 as slowing WFE demand offsets stability in trailing services and trailing nodes, before returning to double-digit percent growth in 2025;
- EBITDA margins decline about 200 basis points to the 30% area in 2024 as the impact of lower revenues on operating leverage outweighs recent actions on expense discipline, before recovering in 2025.
- Capital expenditure (capex) of about 3.0%-3.5% of revenues per year supports expansionary manufacturing efforts, investment in infrastructure, and new centers both onshore and overseas.
- Share repurchases and dividends aggregate to about 85% of annual FOCF over the next two fiscal years, in line with the company's long-term capital return target return of 75%-100% of annual FOCF.

Key metrics

Lam Research Corp.--Key metrics*

| Bil. \$ | 2021a | 2022a | 2023e | 2024f |
|-------------------------------|-------|-------|---------------|---------------|
| Revenue | 14.6 | 17.2 | 17.3-17.5 | 13.5-14.0 |
| EBITDA margin (%) | 34.6 | 35.1 | 32.5-33.0 | 29.0-30.0 |
| Capital expenditure (mil. \$) | 349.1 | 546.0 | 540.0-560.0 | 430.0-445.0 |
| Free operating cash flow | 3.29 | 2.6 | More than 3.5 | More than 3.5 |

| | | | | |
|------------------------------|------|------|----------------|----------------|
| Net debt to EBITDA (x) | -- | 0.3 | 0.0-0.5 | 0.0-0.5 |
| EBITDA interest coverage (x) | 23.8 | 31.7 | More than 25.0 | More than 25.0 |

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

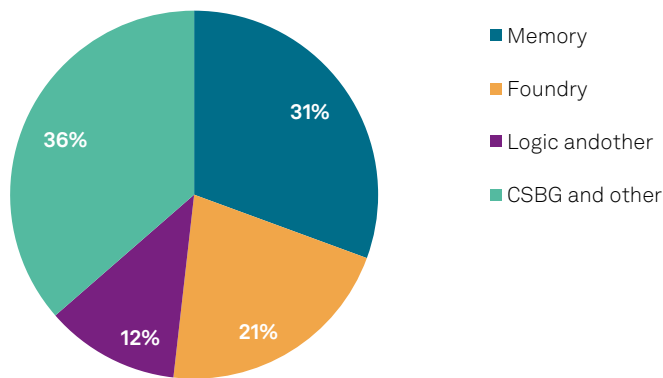
Revenue growth will slow further in fiscal 2023 and margins will contract on slowing macroeconomic conditions. However, as supply-and-demand dynamics improve further, we expect revenue to recover in late 2024. We expect Lam’s revenue growth to decline over the next 12-18 months as weakening macroeconomic condition slow WFE spending, which causes semiconductor manufacturers to reduce capital budgets. This will be partially offset by the company’s efforts to increase its investment on resources to address supply chain constraints. Although we expect cost pressure and inflationary pressure to remain over the near term, we project Lam to maintain its near mid-30% EBITDA margins through disciplined operating expense management.

Company Description

Lam supplies WFE to the semiconductor industry, with strong positions in deposition, etch, and clean products. Lam’s customer base includes memory, foundry, and logic semiconductor manufacturers that produce chips such as non-volatile memory (NAND), DRAM, and logic. In fiscal 2022, four customers accounted for approximately 21% of its total revenue.

Lam Research Corp.--Revenue by market

For the 12 months ended March 31, 2023



CSBG--Customer Support Business Group. Source: S&P Global Ratings.

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Peer Comparison

Lam Research Corp.--Peer Comparisons

| | Lam Research Corp. | Applied Materials Inc. | KLA Corp. | Texas Instruments Inc. |
|---------------------------------------|--------------------|------------------------|--------------|------------------------|
| Foreign currency issuer credit rating | A-/Stable/A-1 | A/Stable/A-1 | A-/Stable/-- | A+/Stable/A-1 |
| Local currency issuer credit rating | A-/Stable/A-1 | A/Stable/A-1 | A-/Stable/-- | A+/Stable/A-1 |
| Period | Annual | Annual | Annual | Annual |
| Period ending | 2022-06-26 | 2022-10-30 | 2022-06-30 | 2022-12-31 |
| Mil. | \$ | \$ | \$ | \$ |
| Revenue | 17,227 | 25,785 | 9,212 | 20,028 |
| EBITDA | 6,044 | 8,738 | 4,181 | 11,475 |
| Funds from operations (FFO) | 5,055 | 6,812 | 3,559 | 9,785 |
| Interest | 191 | 236 | 163 | 226 |
| Cash interest paid | 181 | 213 | 157 | 210 |
| Operating cash flow (OCF) | 3,163 | 5,484 | 3,402 | 8,775 |
| Capital expenditure | 546 | 787 | 307 | 2,797 |
| Free operating cash flow (FOCF) | 2,617 | 4,697 | 3,094 | 5,978 |
| Discretionary cash flow (DCF) | (2,064) | (2,545) | (2,497) | (1,934) |
| Cash and short-term investments | 3,658 | 2,581 | 2,708 | 9,067 |
| Gross available cash | 3,753 | 4,561 | 2,708 | 9,067 |
| Debt | 1,802 | 1,889 | 4,597 | 348 |
| Equity | 6,278 | 12,194 | 1,399 | 14,577 |
| EBITDA margin (%) | 35.1 | 33.9 | 45.4 | 57.3 |
| Return on capital (%) | 76.9 | 59.0 | 66.5 | 72.9 |
| EBITDA interest coverage (x) | 31.7 | 37.0 | 25.6 | 50.8 |
| FFO cash interest coverage (x) | 28.9 | 32.9 | 23.7 | 47.6 |
| Debt/EBITDA (x) | 0.3 | 0.2 | 1.1 | 0.0 |
| FFO/debt (%) | 280.5 | 360.6 | 77.4 | 2810.1 |
| OCF/debt (%) | 175.5 | 290.3 | 74.0 | 2520.1 |
| FOCF/debt (%) | 145.2 | 248.6 | 67.3 | 1716.8 |
| DCF/debt (%) | (114.5) | (134.7) | (54.3) | (555.4) |

Business Risk

Our assessment reflects Lam's solid position and scale within the WFE industry, having gained significant share over the past decade through industry growth and strategic acquisitions. Lam benefits from high barriers to entry given the significant research and development expenditures required to compete in leading WFE supply and its long-term customer relationships with the largest semiconductor firms globally. Lam outgrew the WFE industry through current chip

manufacturing process inflections by gaining share in the deposition and etch segments and expanding its addressable market. However, given the semiconductor industry consolidation over the past decade, Lam is exposed to high customer concentration, with its top four customers accounting for 21% of total revenue in fiscal 2022. Lam continues to benefit from capital investments in advanced semiconductor processes--particularly extreme ultraviolet patterning and gate-all-around--which in turn drive demand for its etch and deposition products. While memory remains the most cyclical subsector within the semiconductor industry, we believe suppliers are mostly disciplined and will adjust investment plans to normalize inventory levels and refrain from overinvesting as in previous cycles. We forecast this, along with Lam's recurring maintenance and services revenue, will reduce the company's revenue volatility over the longer term.

We expect WFE spending will continue to be volatile, as it depends on fab expansions and node advancements, both of which could be lumpy and result in revenue and profit fluctuation for Lam through industry cycles, as witnessed historically. However, Lam's strong balance sheet and ample liquidity can largely withstand short-term industry corrections. Longer term, we expect WFE industry growth will exceed that of global GDP because of increasing chip demand and steadily rising equipment intensity.

Financial Risk

Lam's financial risk profile reflects minimal S&P Global Ratings-adjusted leverage and solid FOCF of over \$3.5 billion in fiscal 2023 and 2024. Shareholder returns will continue to be the primary use of cash over the next two years. We expect large merger and acquisition activity to be highly unlikely in the WFE industry. Lam has total debt outstanding of about \$5 billion as of March 31, 2023, and the next maturity of \$500 million of senior notes due in 2025.

Lam Research Corp.--Financial Summary

| Period ending | June-25-2017 | June-24-2018 | June-30-2019 | June-28-2020 | June-27-2021 | June-26-2022 |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Reporting period | 2017a | 2018a | 2019a | 2020a | 2021a | 2022a |
| Display currency (mil.) | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenues | 8,014 | 11,077 | 9,654 | 10,045 | 14,626 | 17,227 |
| EBITDA | 2,395 | 3,748 | 2,991 | 3,178 | 5,061 | 6,044 |
| Funds from operations (FFO) | 2,256 | 3,515 | 2,609 | 2,778 | 4,334 | 5,055 |
| Interest expense | 124 | 104 | 122 | 182 | 212 | 191 |
| Cash interest paid | 111 | 91 | 82 | 176 | 208 | 181 |
| Operating cash flow (OCF) | 2,059 | 2,686 | 3,201 | 2,168 | 3,636 | 3,163 |
| Capital expenditure | 157 | 273 | 303 | 203 | 349 | 546 |
| Free operating cash flow (FOCF) | 1,901 | 2,412 | 2,897 | 1,965 | 3,287 | 2,617 |
| Discretionary cash flow (DCF) | 846 | (549) | (1,562) | (62) | (138) | (2,064) |
| Cash and short-term investments | 6,041 | 4,950 | 5,431 | 6,710 | 5,729 | 3,658 |
| Gross available cash | 6,097 | 5,019 | 5,509 | 6,783 | 5,825 | 3,753 |
| Debt | 0 | 0 | 0 | 0 | 0 | 1,802 |
| Common equity | 6,817 | 6,502 | 4,674 | 5,172 | 6,027 | 6,278 |
| Adjusted ratios | | | | | | |
| EBITDA margin (%) | 29.9 | 33.8 | 31.0 | 31.6 | 34.6 | 35.1 |

Lam Research Corp.--Financial Summary

| | | | | | | |
|--------------------------------|------|------|------|------|------|---------|
| Return on capital (%) | 31.0 | 49.7 | 46.0 | 55.9 | 80.9 | 76.9 |
| EBITDA interest coverage (x) | 19.3 | 36.0 | 24.5 | 17.5 | 23.8 | 31.7 |
| FFO cash interest coverage (x) | 21.3 | 39.6 | 32.8 | 16.8 | 21.9 | 28.9 |
| Debt/EBITDA (x) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 |
| FFO/debt (%) | NM | NM | NM | NM | NM | 280.5 |
| OCF/debt (%) | NM | NM | NM | NM | NM | 175.5 |
| FOCF/debt (%) | NM | NM | NM | NM | NM | 145.2 |
| DCF/debt (%) | NM | NM | NM | NM | NM | (114.5) |

Reconciliation Of Lam Research Corp. Reported Amounts With S&P Global Adjusted Amounts (Mil. \$)

| | Debt | Shareholder Equity | Revenue | EBITDA | Operating income | Interest expense | S&PGR adjusted EBITDA | Operating cash flow | Dividends | Capital expenditure |
|--|--------------|-----------------------|----------------|---------------|---------------------|-------------------------|------------------------------|----------------------------|------------------|----------------------------|
| Financial year | June-26-2022 | | | | | | | | | |
| Company reported amounts | 4,962 | 6,278 | 17,227 | 5,716 | 5,382 | 185 | 6,044 | 3,100 | 815 | 546 |
| Cash taxes paid | - | - | - | - | - | - | (808) | - | - | - |
| Cash interest paid | - | - | - | - | - | - | (176) | - | - | - |
| Lease liabilities | 262 | - | - | - | - | - | - | - | - | - |
| Operating leases | - | - | - | 69 | 6 | 6 | (6) | 63 | - | - |
| Accessible cash and liquid investments | (3,753) | - | - | - | - | - | - | - | - | - |
| Share-based compensation expense | - | - | - | 259 | - | - | - | - | - | - |
| Nonoperating income (expense) | - | - | - | - | 35 | - | - | - | - | - |
| Debt: Tax liabilities | 331 | - | - | - | - | - | - | - | - | - |
| Total adjustments | (3,160) | - | - | 328 | 41 | 6 | (989) | 63 | - | - |
| S&P Global Ratings adjusted | Debt | Equity | Revenue | EBITDA | EBIT | Interest expense | Funds from Operations | Operating cash flow | Dividends | Capital expenditure |
| | 1,802 | 6,278 | 17,227 | 6,044 | 5,422 | 191 | 5,055 | 3,163 | 815 | 546 |

Liquidity

We view Lam’s liquidity as exceptional. We expect sources to exceed uses by over 2x in the next 12-24 months and that net sources will remain positive even if EBITDA declines 50%. Our assessment also incorporates the following expectations and assumptions:

- Lam has well-established and solid relationships with its banks and a generally high standing in the credit markets.
- It could absorb low-probability shocks based on its strong cash flow and outstanding cash balances.
- Its debt maturity schedule is manageable over the intermediate term.

| Principal liquidity sources | Principal liquidity uses |
|---|---|
| <ul style="list-style-type: none">• Cash and investments of about \$5.4 billion as of March 31, 2023;• Full availability under its \$1.5 billion revolving credit facility maturing in June 2026; and• Expected cash flow from operations of over \$4 billion in fiscals 2023 and 2024. | <ul style="list-style-type: none">• Capex of about \$450 milllion-\$550 million per year;• Annual dividends of about \$900 million-\$950 million; and• Continued share repurchases in line with its public capital allocation policy. |

Environmental, Social, And Governance

ESG Credit Indicators

| | | | | | | | | | | | | | | |
|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| E-1 | E-2 | E-3 | E-4 | E-5 | S-1 | S-2 | S-3 | S-4 | S-5 | G-1 | G-2 | G-3 | G-4 | G-5 |
|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings’ opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary “ESG Credit Indicator Definitions And Applications,” published Oct. 13, 2021.

Environmental and social factors have no material influence on our credit rating analysis of Lam. Carbon exposure is one of the main environmental risks the company is managing. As of the end of 2020, renewable energy and energy with an equivalent amount of voluntary renewable attributes made up 30% of its U.S. energy use and 32% of its global use. Lam set targets of reducing greenhouse gas emissions 25% by 2025 from 2019 levels, achieving 100% renewable energy globally by 2030, and net-zero carbon emissions by 2050.

Issue Ratings--Subordination Risk Analysis

Capital structure

Lam’s capital structure consists of senior unsecured debt issued at the publicly traded entity level.

Analytical conclusions

We rate the senior unsecured debt ‘A-’, the same as the issuer credit rating, because there is no material element of subordination risk in the capital structure.

Rating Component Scores

| | |
|--|--------------------------|
| Foreign currency issuer credit rating | A-/Stable/A-1 |
| Local currency issuer credit rating | A-/Stable/A-1 |
| Business risk | Satisfactory |
| Country risk | Intermediate |
| Industry risk | Moderately High |
| Competitive position | Satisfactory |
| Financial risk | Minimal |
| Cash flow/leverage | Minimal |
| Anchor | a- |
| Diversification/portfolio effect | Neutral (no impact) |
| Capital structure | Neutral (no impact) |
| Financial policy | Neutral (no impact) |
| Liquidity | Exceptional (no impact) |
| Management and governance | Satisfactory (no impact) |
| Comparable rating analysis | Neutral (no impact) |
| Stand-alone credit profile | a- |

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (as of July 19, 2023)*

Lam Research Corp.

| | |
|-----------------------|---------------|
| Issuer Credit Rating | A-/Stable/A-1 |
| Commercial Paper | |
| <i>Local Currency</i> | A-1 |
| Senior Unsecured | A- |

Issuer Credit Ratings History

| | | |
|-------------|-------------------------|-----------------|
| 12-Mar-2020 | <i>Foreign Currency</i> | A-/Stable/A-1 |
| 14-Nov-2017 | | BBB+/Stable/A-2 |
| 15-Jun-2017 | | BBB+/Stable/-- |
| 12-Mar-2020 | <i>Local Currency</i> | A-/Stable/A-1 |
| 14-Nov-2017 | | BBB+/Stable/A-2 |
| 15-Jun-2017 | | BBB+/Stable/-- |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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