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| **Company Name**: Lam Research Corp. **Ticker: LRCX** |
| **Date of Study**: Oct 16, 2017 **Price**: $192.36  |
| **Your Name**: Gladys Henrikson |
| **Your Club**: MicNova |

**Lam Research Corp -First Cut Stock Study Report**

**Discuss why you consider this to be a high quality. Growth company that should be investigated further. Please include comments on historical sales and EPS growth, pre-tax profit margin, return on equity and debt.**

Historical Sales Growth: 18%
Historical EPS growth: 51%
Pre-tax profit margin- 5 Yr Average: 14%
Return on equity- 5 yr Average: 12.5%
Debt: 5-Yr Average: 29%

Key analysts have *largely* rated this company a “Buy”. In Sept, 2017, **Value Line** raised its “Timeliness Rank” to #1
**S&P (CFRA**), Oct 14, 2017 gave this company a “Buy” rating on Oct 14, 2017, believing its 12-mo stock price would be $200. **Seeking Alpha**, on Sept 26, 2017, saw room for the stock to run higher with important tailwinds and,” although valuation is high from a cyclical point of view, the company is cheaper than competitors and cyclical fears are likely overblown.” **Morningstar**, in July gave the company just a two star rating, and found it’s price way over MS’s estimated Fair Value of $135/share, worrying about recent consolidation in wafer fabrication equipment customers. MS recommends “prospective investors wait for a more attractive entry point for this narrow-moat equipment vendor.” All analysts give LRCS an “A” for financial stability and **Manifest Investing** gives it a quality rating of 96 and a PAR of 11.4%.

**Briefly describe how the company makes money**.

LRCX is a leading vendor among semiconductor companies making wafer fabrication equipment (WFE). In 10 years they’ve grow from a single product etch company to multi-product – etch, clean and deposition chips. There is a structural demand for non-volatile (chip) memory like multi-layer NAND flash, which LCRX produces. 3D NAND is where LCRX has a leadership position based on their strength in etch and deposition. Their customers include Samsung, Micro, Intel, Toshiba/SanDisk, and XMC/Yangtze River Storage Technology. All report they plan to significantly ramp up 3D NAND flash capacity in the next couple of years. 88% of their revenue come from customers in Southeast Asia (e.g. Korea, Japan, Taiwan, China) and 12% from the US and Europe.

Some analysts worry that China will get its own semiconductor industry off the ground. But, **Seeking Alpha** says “the amount of expertise that goes into this industry is very difficult to replicate in the short term.”

In addition, LCRX provides engineering services to help installed customers better use their products. Service income rose 40% last year, and generates much cash, smoothing out the volatility of semiconductor production alone.

**Projected Growth Rate for Sales**? \_11%\_\_\_\_\_\_\_\_\_

**Why did you select this rate**? **Discuss from where future growth will come**.

In line with Value Line and CFRA but lower than Manifest Investing. Future growth will come from tight memory chip production, and increased demands for these specialty products that can allow users to operate between mobile devices, the internet, and cloud services.

**Projected growth rate for Earnings Per Share**? \_5.4%\_\_\_\_\_\_\_

**Why did you select this rate**? Expect EPS to come down more in line with sales, and in alignment with, if slightly more conservative than, analysts’ forecasts (including Value Line).

**Projected High P/E**? \_24.9\_\_\_\_\_\_\_

**Why did you select this value**? It is the average PE of the last five years (although 2013 was abnormally high)

**Projected Low P/E**? \_15\_\_\_\_\_\_\_\_

**Why did you select this value**? Excluding 2013, it is the average low PE of the previous 4 years.

**Projected Low Price**? \_$140.00\_\_\_\_\_\_\_\_\_\_

**Why did you select this value**? The price has ranged from $91-$190 over the last 52 weeks. Allowing for semiconductor industry volatility, I estimate the stock price could drop as much as 25%, which would make the low price $140.

**At the current price, the stock is a (*check one***):

\_\_\_\_\_**Buy** \_\_X\_\_ **Hold** \_\_\_\_\_**Sell

*Note***: Price ~$190./share now is high, and MS advises waiting for it to come down. However, CRFA recommended a Buy at price $189.

**At the current price the upside/downside ratio is** \_\_2.2\_\_\_\_ **to 1**.

**Compound Annual Return, using Forecast High P/E is** \_\_10.2%\_\_\_\_\_\_\_\_\_

**Your Final Recommendation is (*check one*):**

\_\_?\_\_\_**Buy** \_\_\_?

\_\_\_ **Hold** \_\_\_\_\_**Sell**