

Earnings Trajectory Improved More Than the Headline Beat, but Demand Is Not Yet Deliverable

Revenue

1 KEY RESULTS VS. CONSENSUS			
Metric	Reported	Consensus	vs. Cons.
Revenue	\$8.22B	\$8.13B	+1.1%
Diluted EPS (adjusted)	\$2.20	\$2.19	+0.5%
SEGMENT REVENUE			
Systems revenue	\$5.733B	\$5.60B	+2.4%
Customer support-related revenue and other	\$2.487B	\$2.60B	-4.3%

2 GUIDANCE AND OUTLOOK	
December guidance is initial: revenue of \$8.60 billion, plus or minus \$400 million, implying 4.6% sequential growth after September’s 22.3%; adjusted gross margin of 52.5% and operating margin of 40.5%, each plus or minus 1 point; EPS of \$2.33, plus or minus \$0.15. The revenue guide would have been higher without component constraints, and shipments deferred by timing are expected to ship in March. The 2026 WFE outlook rose to the mid-\$150 billion range, and management gave a preliminary 2027 WFE expectation above \$200 billion.	

3 EARNINGS ANALYSIS	
A MODEST SURPRISE ON EXCEPTIONAL GROWTH. Revenue rose 54.4% year over year and 22.3% sequentially to \$8.219 billion, a fifth consecutive record, yet exceeded consensus by only about 1.1%, and adjusted EPS of \$2.20 beat by \$0.01, or 0.5%. Systems revenue beat its estimate by 2.4% and supplied approximately 99% of the sequential increase, while customer support revenue fell approximately \$113 million below its estimate and rose only 0.6% sequentially.	
EARNINGS QUALITY IS HIGH. GAAP EPS of \$2.19 nearly matched adjusted EPS of \$2.20, and GAAP operating margin of 40.0% nearly matched the 40.2% adjusted figure, so the result does not depend on large exclusions; approximately \$115 million of equity compensation remained an economic cost. The adjusted tax rate rose to 16.5% from 11.0% in June and is expected to stay near that level, which is why EPS growth lagged operating income; a separate \$11.5 million tax-law charge was excluded from adjusted earnings.	
LEVERAGE AND CASH CONVERSION ARE STRONG. Adjusted gross margin expanded 180 basis points year over year to 52.4%, and operating margin rose 520 basis points to 40.2%, above 40% for the first time, on an incremental operating margin of approximately 48.1%. Free cash flow reached \$3.240 billion, a 39.4% margin, but approximately 68% of the sequential operating cash flow increase came from a working-capital swing; the year-to-date free cash flow margin was a more representative 25.6%. The balance sheet holds roughly \$3.7 billion of net cash.	
DEMAND VISIBILITY EXCEEDS DELIVERABLE REVENUE. Management’s preliminary 2027 WFE expectation above \$200 billion extends the cycle, the Aether opportunity rose to approximately \$2.5 billion cumulative, and backside-power tool-of-record wins span multiple product families. But cleanroom availability and component supply constrain conversion, December guidance decelerates sharply, and China, 35% of September revenue, is expected to fall significantly as a share. The trajectory improved more than the headline beat suggests; the open question is conversion into earnings revisions. The summary’s stance is constructive on the operating outlook but selective on adding exposure at current valuation.	

4 KEY READ-THROUGHS	
PROCESS INTENSITY SUPPORTS EQUIPMENT GROWTH BEYOND WAFER CAPACITY EXPANSION <i>Applied Materials (AMAT), ASM International (ASM), ASML Holding (ASML), KLA (KLAC) Positive Substantial for industry demand</i> Lam expects 2027 WFE spending above \$200 billion, led by DRAM, then leading-edge foundry/logic and NAND, with 10 new tier-1 fabs coming online in 2027. Complexity has expanded its served market by 4 percentage points of WFE, so demand also grows within existing fabs, with installed-base spending adding durability (CSBG growth above 30% in 2026, above 15% in 2027).	
AETHER CREATES A SPECIFIC COMPETITIVE HEADWIND FOR TOKYO ELECTRON'S TRACK FRANCHISE <i>Tokyo Electron (8035), ASML Holding (ASML) Negative for Tokyo Electron; positive for ASML Meaningful strategically for Tokyo Electron</i> Lam raised the Aether revenue expectation to approximately \$2.5 billion by the end of the decade, about \$1 billion above the prior view, and it is ramping in HBM high-volume manufacturing with low-NA EUV. Dry-resist deposition and development displace selected track steps on new production flows, while the approximately 10% lower dose improves EUV economics for ASML.	
DRAM CAPEX GROWTH DOES NOT IMPLY IMMEDIATE RELIEF FROM MEMORY SCARCITY <i>SK hynix (000660), Micron Technology (MU), Samsung Electronics (005930) Positive; negative for capital requirements Substantial for SK hynix and Micron</i> Lam expects DRAM to lead 2027 WFE growth, spanning 1-alpha, 1-beta and 1-gamma nodes supporting DDR5, LPDDR5 and HBM. High utilization, tight cleanroom space and equipment constraints mean spending becomes qualified output only with a lag, so scarcity persists. The counterweight is capital intensity and a widening earnings to free cash flow gap.	
MEMORY SUPPLY CONSTRAINTS REMAIN A NEGATIVE MARGIN AND AFFORDABILITY SIGNAL FOR HARDWARE OEMS <i>HP Inc. (HPQ), Dell Technologies (DELL) Negative Potentially material to segment operating profit</i> Lam’s DRAM-led outlook, high utilization and cleanroom and equipment constraints weaken the assumption that memory investment will restore inexpensive components. OEMs absorb costs, pass them on, or change configurations. HP’s Personal Systems margin was 4.6% as units fell 16% despite 18% revenue growth; an unrecovered cost increase of 1% of segment revenue would reduce segment operating profit by approximately 22%.	