Bernstein Inaugural Operational Decisions Conference

Rick Wallace, CEO and President

November 17, 2020
Forward-Looking Statements

Statements in this presentation other than historical facts, such as statements pertaining to: (i) industry trends; (ii) customer demand and investment strategy; (iii) anticipated synergies from acquisitions; (iv) hiring by KLA; (v) anticipated dividends and share repurchases; (vi) WFE and KLA cyclicality; (vii) projected end-demand uses for semiconductors; (viii) growth of KLA’s service business; (ix) sales, revenue growth rate, operating margin, EPS, capital allocation, semiconductor industry CAGR, capital intensity, memory and foundry/logic mix, process control market growth rate and growth in new markets through 2023; are forward-looking statements and subject to the Safe Harbor provisions created by the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current information and expectations, and involve a number of risks and uncertainties. Actual results may differ materially from those projected in such statements due to various factors, including but not limited to: the future impacts of the COVID-19 pandemic; the demand for semiconductors; the financial condition of the global capital markets and the general macroeconomic environment; new and enhanced product and technology offerings by competitors; push-out of deliveries or cancellation of orders by customers; the ability of KLA’s research and development teams to successfully innovate and develop technologies and products that are responsive to customer demands; KLA’s ability to successfully manage its costs; market acceptance of KLA’s existing and newly issued products; changing customer demands; and industry transitions. For other factors that may cause actual results to differ materially from those projected and anticipated in forward-looking statements in this letter, please refer to KLA Corporation’s Annual Report on Form 10-K for the year ended June 30, 2020, and other subsequent filings with the Securities and Exchange Commission (including, but not limited to, the risk factors described therein). KLA Corporation assumes no obligation to, and does not currently intend to, update these forward-looking statements.
What We Will Cover Today...

- Who is KLA?
- The KLA Operating Model Drives Our Success
- KLA Possess A Strong Competitive Moat
- A History of Strong Cash Flow & Capital Return
- KLA is Well Positioned to Outperform
Who is KLA?
KLA is a High Performing Company Enabling Key Trends Across Industries

KLA Has Many Qualities Investors Value From Resiliency to Competitive Moats and High Cash Returns

These Key Trends Will Transform The Way We All Live and Work

The “Data Era” Will Drive Key Trends That Shape the Next Growth Markets Like Industry 4.0, 5G, and A.I.

Semiconductors Power The World More Today Than Ever Before

KLA is Critical to Powering the Semi Industry

Virtually Every Electronic Device In The World Is Made Possible Using KLA Products
Run By A Seasoned, Internally-Developed Leadership Team

RICK WALLACE  
CEO & President  
Joined: 1988

BREN HIGGINS  
EVP, CFO & Global Operations  
1999

ORESTE DONZELLA  
EVP, CMO & Head of EPC  
1999

AHMAD KHAN  
President, KLA Semiconductor Process Control  
2004

BRIAN LORIG  
EVP, Global Support & Services  
1998

BEN TSAI  
EVP, CTO & Corporate Alliances  
1984

MARYBETH WILKINSON  
EVP, Chief Legal Officer & Corp. Secretary  
2020

JOHN VAN CAMP  
Chief Human Resources Officer  
2006

BOBBY BELL  
EVP, Chief Strategy Officer  
1994
Virtually no computer, tablet, smart phone, wearable device, data center, video game console, smart factory, autonomous car, industrial monitoring equipment, medical electronic technology, or spacecraft, would exist without us.

Proud to Be Part of the Most Significant Technological Breakthroughs in History
Our Shared Purpose is the Foundation for the KLA Operating Model

MISSION

Improve customer yield, performance and time-to-market, enabling the data era

STRATEGY

Provide leading technologies, differentiated solutions and superior customer experiences through collaboration, innovation and execution

OBJECTIVES

Achieve world-class results in market leadership, product differentiation and operational excellence with our diverse and inclusive global organization
KLA Is The Global Leader in Semiconductor Process Control Technology

KLA’s Systems, Software, and Services Enable The Most Advanced Inspection and Measurement In The World

**Inspection**
Find Critical Defects

**Metrology**
Measure Critical Dimensions

You Can’t Fix What You Can’t Find

You Can’t Control What You Can’t Measure

Smaller Than the Wavelengths of Visible Light

KLA Is The Global Leader in Semiconductor Process Control Technology
$15 billion investment for a leading-edge semiconductor fab
>1000 process steps

if each process step had a yield of 99.5%, then <1% of manufactured devices would work

>$10,000 cost of one ≤7nm wafer
KLA systems find the defects and variations that affect IC performance.
process control improves the
productivity
predictability
profitability
of a fab by maximizing the output
KLA at a Glance

**Key Facts**

- **Founded**: 1976
- **Installed Base**: >56,800 Systems
- **Global Locations**: 19
- **Global Employees**: >10,000
- **PhD’s + Masters**: ~40%
- **R&D % of Sales**: 15%
- **Revenue**: $5.9B (21% Y/Y)
- **EPS**: $10.89 (28% Y/Y)
- **Revenue Split**: $4.4B Systems (74%)
- **Operating Margin**: 35.6%
- **Capital Return %**: 82%+
- **Free Cash Flow (FCF)**: $1.6B
- **FCF Margin**: ~28%
- **Consecutive Dividend Increases**: 11 Years

**LTM Free Cash Flow and Capital Return**

1 LTM – All financial metrics non-GAAP measures and Last Twelve Months (LTM) unless otherwise noted.
The KLA Operating Model Drives Our Success
The KLA Operating Model Is Core To Our Strategy and Success

1. **Global leader** in process control and supplier of process-enabling solutions for the data era

2. **Sustained technology leadership** allows us to remain at forefront of industry trends with new capabilities and technologies, enabling our profitable growth strategy

3. **Competitive moat** driven by deep, collaborative customer relationships, a broad IP portfolio, significant R&D investments, and differentiated solutions to solve our customers’ most complex challenges

4. **Experienced and energized leadership team** utilizing the KLA Operating Model to instill a high-performance culture driving efficiency and operating performance

5. **Track record of strong cash flow generation** supported by diversification of revenue streams; balanced capital allocation delivering superior shareholder value
The KLA Operating Model Is Key To Driving Operational Decisions

1976
KLA INSTRUMENTS FOUNDED
1 Operating Division - Mask Inspection

1978
KLA 100, 1st Product, Ships

1980
Expanded product lines with Wafer Inspection

1988
Sales of ~$113M surpass $100M for 1st time

1992
Formalized product life cycle (PLC) management

1997
KLA MERGES WITH TENCOR
Leading Inspection combines with leading metrology
Pre-Merger Revenue $800M
Pre-Merger SAM $1.5B

2007-2018
10+ strategic acquisitions further expand KLA portfolio

2006
Rick Wallace becomes CEO, further streamlined the PLC, executive reviews, strategic planning

2006
Codified KLA Operating Model and trained 150 top KLA employees

1998-2004
10+ strategic acquisitions expand offering and market opportunities

2007-2018
10+ strategic acquisitions further expand KLA portfolio

2016

2019
ORBOTECH + SPTS ACQUISITION
Extends technology and market reach into electronics value chain with market leading products & services
Pre-Orbotech Revenue $4.3B
Pre-Orbotech SAM $6.6B

2020+
LEVERAGING KLA OPERATING MODEL TO HIT 2023 LONG-TERM TARGETS
Post-Orbotech Revenue Target > $7B (2023)
Post-Orbotech SAM >$10B

2020+

• Maintained resilient and flexible supply chain
• Executed on digital transformation
• Launched new products & hired for growth
• Met or exceeded all financial guidance

Leveraging KLA Operating Model to integrate Orbotech + SPTS and navigate COVID-19 uncertainty

1976
1980
1978
1988
1992
1997
2006
2007-2018
2016
2019
2020+

The KLA Operating Model Is Key To Driving Operational Decisions
KLA’s Strategic Objectives Serve As Our Guide

**Market Leadership**

- **Highly Valued and Trusted Partner**
  - Listen and Understand
  - Collaborate with Customers
  - Innovate and Deliver
  - Follow Up and Ensure Value
  - Measure and Continuously Improve

**Operational Excellence**

- **Investment in Growth and New Products**
- **Cash Returns to Stockholders**
- **Market Leadership and Differentiated Solutions**
- **Strong Margins and FCF**

**Product Differentiation**

- **Leadership in Design, Technology, Performance and Customer Success**
  - Embedded in R&D with customers
  - Working two generations ahead
  - Continued leadership in innovation

**High-Performance Culture to Attract and Develop Talent**

- High-caliber graduates from top-tier universities across the world
- Career development opportunities through multi-faceted and broad-based programs
- Extensive education benefits and advanced degree tuition reimbursement programs
- Investing in Ann Arbor, Michigan Innovation Center to attract new talent in a cost-efficient labor market and collaborate with top universities
- 80% goal of Vice President promotions from within – tracking at ~85%

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*Non-GAAP metric – Please refer to Appendix for reconciliation to GAAP.*

*Source: Gartner April 2020*
Operational Excellence

COMMENTARY

- Introducing new products at 2x the pace of our competitors
- Achieving market share of 4x our nearest competitor
- Strong gross margins and FCF conversion via differentiation
- ~70% of FCF returned to shareholders through dividends and share repurchases

* FCF Conversion = FCF / Net Income
Corporate Social Responsibility and Sustainability is in Our DNA

Reducing overall environmental impact by focusing on improving yield and efficiency for our customers

### Sustainable Environmental Initiatives

- **Transportation**: Avoiding wasted space and saving fuel by utilizing custom tailored and collapsible containers in product shipments
- **Energy & Emissions**: Saving 80,000 metric tons of CO₂ over the next five years from recent switch to third-party provider of energy with nearly 100% sourced from renewable energy
- **Waste**: Improved diversion rate to over 80%, up from 50% a decade ago
- **Supply Chain Environmental & Social Responsibility Management**: Requiring suppliers to meet more stringent sustainability criteria as a member of Responsible Business Alliance (RBA)

### Community Programs & Initiatives

- **KLA Foundation**: Inspires individual philanthropy and supporting programs focusing on health/wellness, social services, and educational programs and institutions
- **CSR Award**: KLA Singapore received CARES Award from American Chamber of Commerce for our efforts in charity and volunteering
- **COVID-19 Community Support**: The KLA Foundation committed $2 million dollars in global relief efforts to benefit local non-profit organizations working in areas identified as having high numbers of individuals impacted by COVID-19, and those who are working with high-risk populations in Asia, Europe, Israel, and the United States.

### Corporate Governance

- **Board of Directors**: 11 members
- **Diversity**: Seasoned board comprised of independent business leaders, 30% female independent directors
- **Board Tenure**: Well balanced tenure of directors, with six serving < 10 years, and five serving > 10 years
- **Management Aligned with Shareholders**: Compensation of management and board aligned with shareholder interests

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1 Note: statistics are for the Milpitas, CA facility.
KLA Possesses A Strong Competitive Moat

Best in Class Margins and Market Leadership | Innovation | Significant R&D Advantage
Market Leader in Semiconductor Process Control

Highly Valued and Trusted Partner

- Listen and Confirm Understanding
- Collaborate: Partnering with customers onsite
- Partner, Commit and Deliver
- Innovate: Four centers of excellence worldwide
- Follow Up and Ensure Value
- Execute: Solving industry’s most complex challenges
- Measure and Continuously Improve
- Follow Up and Ensure Value

Process Control Market Share

> 4x NEAREST COMPETITOR ACROSS ALL REGIONS

<table>
<thead>
<tr>
<th>Year</th>
<th>KLA</th>
<th>Comp A</th>
<th>Comp B</th>
<th>Comp C</th>
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<tr>
<td>2009</td>
<td></td>
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<td>2010</td>
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<td>2018</td>
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<td>2019</td>
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KLA Non-Confidential | Unrestricted
KLA Has A History of Best in Class Margins Versus Leading Peers

![GROSS MARGIN\(^1\)](chart)

![OPERATING MARGIN\(^1\)](chart)

\(^1\) Non-GAAP measure, please see Appendix for definition and GAAP to non-GAAP reconciliation.

Source: Bloomberg / FactSet
KLA Has Best in Class GAAP Operating Margins vs. Broader Universe

10-Yr. Avg. GAAP Operating Margin %

- KLA
- S&P 500
- DJIA
- NASDAQ
- SOX

Source: Bloomberg
KLA Innovates to Differentiate

- Embedded in R&D with customers
- Working two generations ahead
- Continued leadership in innovation
- Innovation 2X pace of competition

R&D INVESTMENTS ($M)

2015  $481
2016  $499
2017  $567
2018  $625
2019  $819
2020E $867

~15% Avg. R&D as a % of Sales

1 2020E represents the midpoint of guidance for R&D
High Level of R&D Investment Powers Market Leadership

2019 GARTNER PROCESS CONTROL SYSTEMS REVENUE ESTIMATES ($M)

KLA’s Process Control R&D > Most Competitors Process Control Revenue

Source: Gartner April 2020 and Company estimates.
A History of Strong Cash Flow & Capital Returns

Sustainable Free Cash Flow | Rapidly Growing Services Business | Consistent Capital Returns
Investment in Growth and New Products  
Market Leadership and Differentiated Solutions  
Cash Returns to Stockholders  
Strong Margins and FCF

FCF Generation Fuels Consistent Capital Return to Shareholders

- Introducing new products at a 2x pace vs. our competitors
- Achieving market share of 4x our nearest competitor
- High gross margin and FCF conversion via differentiation

Committed to a Minimum of >70% FCF Returned to Shareholders through Dividends and Buybacks

FREE CASH FLOW\(^1\) & CONVERSION\(^2\)

<table>
<thead>
<tr>
<th>Year</th>
<th>FCF ($B)</th>
<th>Conversion</th>
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<tbody>
<tr>
<td>CY14</td>
<td>$0.5</td>
<td>89%</td>
</tr>
<tr>
<td>CY15</td>
<td>$0.8</td>
<td>144%</td>
</tr>
<tr>
<td>CY16</td>
<td>$0.8</td>
<td>94%</td>
</tr>
<tr>
<td>CY17</td>
<td>$1.1</td>
<td>103%</td>
</tr>
<tr>
<td>CY18</td>
<td>$1.3</td>
<td>92%</td>
</tr>
<tr>
<td>CY19</td>
<td>$1.2</td>
<td>88%</td>
</tr>
<tr>
<td>LTM</td>
<td>$1.6</td>
<td>95%</td>
</tr>
</tbody>
</table>

\(^1\) Free Cash Flow (FCF) = Cash Flow from Operating Activities minus Capital Expenditures
\(^2\) FCF Conversion defined as FCF/Non-GAAP Net Income; Non-GAAP metric – Please refer to Appendix for reconciliation to GAAP
Attractive Free Cash Flow Margins Compared to Leading Indices

Source: Bloomberg; ¹ Free Cash Flow Margin = Free Cash Flow / Revenue.
KLA Runs An Asset-Lite, High Capital Return Business Model

Asset-Lite

LTM Capex / Revenue

<table>
<thead>
<tr>
<th></th>
<th>KLA</th>
<th>S&amp;P 500</th>
<th>DJIA</th>
<th>NASDAQ</th>
<th>SOX</th>
</tr>
</thead>
<tbody>
<tr>
<td>3%</td>
<td></td>
<td>6%</td>
<td>4%</td>
<td>8%</td>
<td>10%</td>
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</table>

High Capital Return

10-Yr Dividends + Repurchases / FCF

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<th></th>
<th>KLA</th>
<th>S&amp;P 500</th>
<th>DJIA</th>
<th>NASDAQ</th>
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<tbody>
<tr>
<td>107%</td>
<td></td>
<td>87%</td>
<td>79%</td>
<td>80%</td>
<td>81%</td>
</tr>
</tbody>
</table>

1 KLA’s capital return includes the 2014 leveraged recapitalization and $16.50 special dividend

Source: Bloomberg
COMMENTARY

- Growing installed base of > 56,800 systems
- Risen to ~25% of total revenue
- >75% revenue from subscription-like service contracts in semiconductor process control
- 10% CAGR since 2002
- Expected CAGR of 9% to 11% (2019 – 2023E)
- Resilient revenue growth with only one year of Y/Y decline in 2009
- High free cash flow generator
Capital Return to Investors is Spread Across Buybacks and Dividends

**CONSISTENT SHARE REPURCHASES**

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<tbody>
<tr>
<td>CY10</td>
<td>$258</td>
<td>$246</td>
<td>$271</td>
<td>$257</td>
<td>$396</td>
<td>$506</td>
<td>$0</td>
<td>$107</td>
<td>$672</td>
<td>$1,062</td>
<td>$788</td>
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~$75 Avg Price Per Share Since 2010

**STRONG TRACK RECORD OF ANNUAL DIVIDEND INCREASES**

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</thead>
<tbody>
<tr>
<td>CY06</td>
<td>$0.48</td>
<td>$0.54</td>
<td>$0.60</td>
<td>$0.60</td>
<td>$0.80</td>
<td>$1.20</td>
<td>$1.50</td>
<td>$1.70</td>
<td>$1.90</td>
<td>$2.04</td>
<td>$2.10</td>
<td>$2.26</td>
<td>$2.84</td>
<td>$3.10</td>
<td>$3.45</td>
</tr>
</tbody>
</table>

Newly Announced Dividend Increase to $3.60

1 Share repurchase halted in CY16 during KLA-Lam merger proceedings 2 Excludes $16.50 per share special dividend 3 Settlement Date basis 4 LTM = Last Twelve Months 5 NTM = Next Twelve Months
KLA is Well Positioned To Outperform

Less Cyclical Industry | Investment Grade Balance Sheet | Attractive Long-Term Model
More Diversified Industry Drives Increased Stability

Wafer Front-End (WFE) and KLA’s Cyclicality Are Declining

YoY Growth %

Source: Gartner

(1) 2020 estimates for WFE and KLA Revenue are based on consensus estimates as of Nov. 13, 2020

End-Demand for Semiconductors is Diversifying

Source: Credit Suisse, November 2020
Strong Investment Grade Balance Sheet With No Bond Maturities Until 2024

**CONSOLIDATED BALANCE SHEET**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount ($M)</th>
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<tbody>
<tr>
<td>Total Cash</td>
<td>2,043</td>
</tr>
<tr>
<td>Working Capital</td>
<td>3,006</td>
</tr>
<tr>
<td>Total Assets</td>
<td>9,320</td>
</tr>
<tr>
<td>Debt</td>
<td>3,420</td>
</tr>
<tr>
<td>Total Shareholders’ Equity</td>
<td>2,762</td>
</tr>
</tbody>
</table>

**DEBT MATURITY PROFILE**

- Debt Outstanding: $3,450M
- Weighted Average Rate: 4.37%
- Weighted Average Life: 14.2 years

**INVESTMENT GRADE CREDIT RATINGS**

- Moody’s: Baa1
- S&P: BBB+
- Fitch: BBB+

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1. As of 9/30/20;
2. Total Cash includes Cash, Cash Equivalents and Marketable Securities;
3. Difference between debt of $3.420B and gross debt of $3,450B is un-amortized debt issuance discounts and costs.
Long-Term Revenue Model Update

GROWTH DRIVERS

**Industry Growth**
- Diversification of end markets
- Flat-to-increasing capital intensity
- New applications

**Intensity Improvement / Share Gain**
- New product pipeline
- Higher Process Control intensity

**Service Growth**
- Growth in installed base
- High fab utilization
- Service opportunities in acquired businesses

**Through-Cycle Revenue Growth Targets**

**2017 MODEL**
- Industry Growth: 1% - 2%
- Intensity Improvement / Share Gain: ~1%
- Service Growth: 4% - 5%

**2023E MODEL**
- Industry Growth: ~2%
- Intensity Improvement / Share Gain: 1% - 2%
- Service Growth: 4% - 5%

**GROWTH DRIVERS**

6-8% 7-9%
2023E Long-Term Targets

Driving Profitable Growth and Delivering Shareholder Value

**MACRO ASSUMPTIONS**

- Semiconductor industry CAGR of 4% - 5%
- Capital intensity ~flat
- ~60% memory / ~40% foundry/logic mix
- Process Control Market grows with WFE

**BUSINESS ASSUMPTIONS**

- Intensity/market share gain at leading edge
- Greater exposure to trailing edge markets
- New market penetration
- M&A with synergy execution

<table>
<thead>
<tr>
<th>2023E TARGETS</th>
<th>ONGOING FINANCIAL FRAMEWORK</th>
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<tbody>
<tr>
<td>SALES</td>
<td></td>
</tr>
<tr>
<td>$7.0B - $7.5B</td>
<td>7% - 9% CAGR</td>
</tr>
<tr>
<td>OPERATING MARGIN</td>
<td>40% - 50% (Incremental)</td>
</tr>
<tr>
<td>EARNINGS PER SHARE</td>
<td>~1.5x Revenue Growth Rate</td>
</tr>
<tr>
<td>$14.50 - $15.50</td>
<td>Balanced Between Dividend and Share Repurchase</td>
</tr>
<tr>
<td>CAPITAL ALLOCATION</td>
<td>Target Payout ~70% of FCF</td>
</tr>
</tbody>
</table>
In Summary…

**Semi conductors** Power The World More Today Than Ever Before

The “Data Era” Will Drive Key Trends That Shape the Industrial Markets Like Industry 4.0, 5G, and A.I.

KLA Has a Long Established Track Record of Best In Class Profitability and Strong Free Cash Flow

KLA’s Increasingly Diversified Profit Stream Supported By A Subscription-Like Services Business Contributes to Long-Term Stability

KLA Has Many Qualities That Investors Value From Resiliency to Competitive Moats and High Cash Returns

Virtually Every Electronic Device In The World Is Made Possible Using KLA Products
Appendix
## Reconciliation of Non-GAAP Financial Measures*

### (Dollars in millions)

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<tbody>
<tr>
<td><strong>GAAP gross margin</strong></td>
<td>$ 1,475</td>
<td>$ 1,868</td>
<td>$ 1,789</td>
<td>$ 1,633</td>
<td>$ 1,644</td>
<td>$ 1,653</td>
<td>$ 2,051</td>
<td>$ 2,406</td>
<td>$ 2,768</td>
<td>$ 2,961</td>
<td>$ 3,466</td>
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<tr>
<td>Acquisition-related charges</td>
<td>23</td>
<td>21</td>
<td>15</td>
<td>7</td>
<td>10</td>
<td>8</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>214</td>
<td>156</td>
</tr>
<tr>
<td>Restructuring, severance and other related charges</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>3</td>
<td>-</td>
<td>11</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
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<td>Merger-related charges</td>
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</tr>
<tr>
<td><strong>Non-GAAP gross margin</strong></td>
<td>$ 1,498</td>
<td>$ 1,891</td>
<td>$ 1,804</td>
<td>$ 1,643</td>
<td>$ 1,654</td>
<td>$ 1,672</td>
<td>$ 2,064</td>
<td>$ 2,411</td>
<td>$ 2,772</td>
<td>$ 3,176</td>
<td>$ 3,624</td>
</tr>
<tr>
<td><strong>GAAP gross margin as a percentage of revenue</strong></td>
<td>59%</td>
<td>58%</td>
<td>57%</td>
<td>58%</td>
<td>57%</td>
<td>58%</td>
<td>63%</td>
<td>63%</td>
<td>64%</td>
<td>56%</td>
<td>58%</td>
</tr>
<tr>
<td><strong>Non-GAAP gross margin as a percentage of revenue</strong></td>
<td>60%</td>
<td>60%</td>
<td>58%</td>
<td>58%</td>
<td>57%</td>
<td>59%</td>
<td>63%</td>
<td>63%</td>
<td>64%</td>
<td>60%</td>
<td>61%</td>
</tr>
</tbody>
</table>

### (Dollars in millions)

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<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>GAAP operating margin</strong></td>
<td>$ 757</td>
<td>$ 1,070</td>
<td>$ 942</td>
<td>$ 728</td>
<td>$ 608</td>
<td>$ 773</td>
<td>$ 1,169</td>
<td>$ 1,421</td>
<td>$ 1,886</td>
<td>$ 1,385</td>
<td>$ 1,618</td>
</tr>
<tr>
<td>Acquisition-related charges</td>
<td>33</td>
<td>30</td>
<td>25</td>
<td>16</td>
<td>16</td>
<td>16</td>
<td>4</td>
<td>5</td>
<td>21</td>
<td>340</td>
<td>222</td>
</tr>
<tr>
<td>Restructuring, severance and other related charges</td>
<td>6</td>
<td>6</td>
<td>3</td>
<td>7</td>
<td>10</td>
<td>35</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td>Merger-related charges</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>9</td>
<td>17</td>
<td>9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Debt extinguishment loss and recapitalization charges</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Restatement-related charges</td>
<td>5</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Goodwill and intangible asset impairment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>257</td>
<td>-</td>
</tr>
<tr>
<td><strong>Non-GAAP operating margin</strong></td>
<td>$ 801</td>
<td>$ 1,113</td>
<td>$ 970</td>
<td>$ 751</td>
<td>$ 726</td>
<td>$ 829</td>
<td>$ 1,190</td>
<td>$ 1,434</td>
<td>$ 1,707</td>
<td>$ 1,728</td>
<td>$ 2,111</td>
</tr>
<tr>
<td><strong>GAAP operating expenses as a percentage of revenue</strong></td>
<td>30%</td>
<td>34%</td>
<td>30%</td>
<td>26%</td>
<td>24%</td>
<td>27%</td>
<td>30%</td>
<td>27%</td>
<td>36%</td>
<td>37%</td>
<td>26%</td>
</tr>
<tr>
<td><strong>Non-GAAP operating expenses as a percentage of revenue</strong></td>
<td>32%</td>
<td>35%</td>
<td>31%</td>
<td>27%</td>
<td>25%</td>
<td>29%</td>
<td>37%</td>
<td>38%</td>
<td>40%</td>
<td>33%</td>
<td>36%</td>
</tr>
</tbody>
</table>

* Refer to “Reconciliation of Non-GAAP Financial Measures – Explanation of Non-GAAP Financial Measures” for detailed descriptions and information for each reconciling item.
Reconciliation of Non-GAAP Financial Measures*

### (Dollars in millions)

**GAAP research and development expenses ("R&D")**

<table>
<thead>
<tr>
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<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Acquisition-related charges</td>
<td>$492</td>
<td>$503</td>
<td>$570</td>
<td>$625</td>
<td>$823</td>
<td>$872</td>
</tr>
<tr>
<td>Restructuring, severance and other related charges</td>
<td>-</td>
<td>-</td>
<td>(3)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Merger-related charges</td>
<td>(9)</td>
<td>-</td>
<td>-</td>
<td>(1)</td>
<td>(3)</td>
<td></td>
</tr>
<tr>
<td><strong>Non-GAAP R&amp;D expenses</strong></td>
<td>$481</td>
<td>$499</td>
<td>$567</td>
<td>$625</td>
<td>$819</td>
<td>$869</td>
</tr>
</tbody>
</table>

**GAAP R&D expenses as a percentage of revenue**

- CY 2015: 17%
- CY 2016: 15%
- CY 2017: 15%
- CY 2018: 15%
- CY 2019: 16%
- LTM: 15%

**Non-GAAP R&D expenses as a percentage of revenue**

- CY 2015: 17%
- CY 2016: 15%
- CY 2017: 15%
- CY 2018: 16%
- CY 2019: 16%
- LTM: 15%

### (Dollars in millions)

**GAAP net income**

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Acquisition-related charges</td>
<td>$425</td>
<td>$531</td>
<td>$864</td>
<td>$656</td>
<td>$1,421</td>
<td>$1,138</td>
<td>$1,291</td>
</tr>
<tr>
<td>Restructuring, severance and other charges</td>
<td>16</td>
<td>12</td>
<td>4</td>
<td>5</td>
<td>21</td>
<td>340</td>
<td>221</td>
</tr>
<tr>
<td>Merger-related charges</td>
<td>10</td>
<td>35</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Debt extinguishment loss and recapitalization charges</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Income tax effect of non-GAAP adjustments and discrete tax items</td>
<td>-</td>
<td>(54)</td>
<td>(17)</td>
<td>(9)</td>
<td>439</td>
<td>(19)</td>
<td>(90)</td>
</tr>
<tr>
<td>Goodwill and intangible asset impairment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>257</td>
</tr>
<tr>
<td><strong>Non-GAAP net income</strong></td>
<td>$531</td>
<td>$570</td>
<td>$876</td>
<td>$1,108</td>
<td>$1,423</td>
<td>$1,391</td>
<td>$1,712</td>
</tr>
</tbody>
</table>

*Refer to “Reconciliation of Non-GAAP Financial Measures – Explanation of Non-GAAP Financial Measures” for detailed descriptions and information for each reconciling item.*
Reconciliation of Non-GAAP Financial Measures*

**Free Cash Flow Measures (Dollars in millions)**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Net cash provided by operating activities</td>
<td>$859</td>
<td>$883</td>
<td>$532</td>
<td>$854</td>
<td>$858</td>
<td>$1,190</td>
<td>$1,390</td>
<td>$1,373</td>
<td>$1,795</td>
</tr>
<tr>
<td>Less Capital expenditures</td>
<td>(68)</td>
<td>(74)</td>
<td>(57)</td>
<td>(35)</td>
<td>(35)</td>
<td>(49)</td>
<td>(67)</td>
<td>(149)</td>
<td>(176)</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>$791</td>
<td>$809</td>
<td>$475</td>
<td>$819</td>
<td>$823</td>
<td>$1,141</td>
<td>$1,303</td>
<td>$1,224</td>
<td>$1,619</td>
</tr>
</tbody>
</table>

**Free cash flow**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Non-GAAP net income attributable to KLA</td>
<td>714</td>
<td>668</td>
<td>631</td>
<td>570</td>
<td>876</td>
<td>1,108</td>
<td>1,423</td>
<td>1,391</td>
<td>1,712</td>
</tr>
<tr>
<td>Free cash flow conversion</td>
<td>111%</td>
<td>143%</td>
<td>89%</td>
<td>144%</td>
<td>94%</td>
<td>103%</td>
<td>92%</td>
<td>88%</td>
<td>95%</td>
</tr>
</tbody>
</table>

**Free cash flow**

<table>
<thead>
<tr>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>3,127</td>
<td>2,813</td>
<td>2,885</td>
<td>2,848</td>
<td>3,259</td>
<td>3,798</td>
<td>4,304</td>
<td>5,279</td>
<td>5,932</td>
</tr>
<tr>
<td>Free cash flow margin</td>
<td>25%</td>
<td>29%</td>
<td>16%</td>
<td>29%</td>
<td>26%</td>
<td>30%</td>
<td>30%</td>
<td>23%</td>
<td>27%</td>
</tr>
</tbody>
</table>

**Cash paid for dividends**

<table>
<thead>
<tr>
<th></th>
<th>CY 2018</th>
<th>CY 2019</th>
<th>LTM 9/30/2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$542</td>
<td></td>
<td>$1,330</td>
</tr>
<tr>
<td>Cash paid for share repurchases</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital returns</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital returns as a percentage of free cash flow</td>
<td></td>
<td></td>
<td>82%</td>
</tr>
</tbody>
</table>

* Refer to “Reconciliation of Non-GAAP Financial Measures – Explanation of Non-GAAP Financial Measures” for detailed descriptions and information for each reconciling item.
Reconciliation of Non-GAAP Financial Measures

Explanation of Non-GAAP Financial Measures:

To supplement our condensed consolidated financial statements presented in accordance with GAAP, we provide certain non-GAAP financial information, which is adjusted from results based on GAAP to exclude certain costs and expenses, as well as other supplemental information. The non-GAAP and supplemental information is provided to enhance the user’s overall understanding of our operating performance and our prospects in the future. Specifically, we believe that the non-GAAP information provides useful measures to both management and investors regarding financial and business trends relating to our financial performance by excluding certain costs and expenses that we believe are not indicative of our core operating results. The non-GAAP information is among the budgeting and planning tools that management uses for future forecasting. However, because there are no standardized or generally accepted definitions for most non-GAAP financial metrics, definitions of non-GAAP financial metrics (for example, determining which costs and expenses to exclude when calculating such a metric) are inherently subject to significant discretion. As a result, non-GAAP financial metrics may be defined very differently from company to company, or even from period to period within the same company, which can potentially limit the usefulness of such information to an investor. The presentation of non-GAAP and supplemental information is not meant to be considered in isolation or as a substitute for results prepared and presented in accordance with United States GAAP.

a) Acquisition-related charges primarily include amortization of intangible assets and other acquisition-related adjustments including adjustments for the fair valuation of inventory and backlog, and transaction costs associated with our acquisitions, primarily Orbotech in CY 2019. Management believes that the expense associated with the amortization of acquisition-related intangible assets is appropriate to be excluded because a significant portion of the purchase price for acquisitions may be allocated to intangible assets, and exclusion of these expenses allows comparisons of operating results that are consistent over time for both KLA’s newly acquired and long-held businesses. Management believes that the other acquisition-related expenses are appropriate to be excluded because such costs would not have otherwise been incurred in the periods presented. Management believes excluding these items helps investors compare our operating performances with our results in prior periods as well as with the performance of other companies.

b) Restructuring, severance and other charges primarily include costs associated with employee severance, acceleration of certain stock-based compensation arrangements, and other exit costs including non-cash charges for accelerated depreciation for certain assets to be abandoned. Management believes excluding these items helps investors compare our operating performance with our results in prior periods.

c) Merger-related charges associated with the terminated merger agreement between KLA and Lam Research Corporation primarily includes employee retention-related expenses, legal expenses and other costs. Management believes that it is appropriate to exclude these items as they are not indicative of ongoing operating results and therefore limit comparability and excluding these items helps investors compare our operating performance with our results in prior periods as well as with the performance of other companies.

d) Loss on extinguishment of debt includes a pre-tax loss on early extinguishment of Senior Notes. Management believes it is appropriate to exclude these losses as they are not indicative of ongoing operating results and therefore limits comparability and excluding these losses help investors compare our operating results with our results in prior periods as well as with the performance of other companies.

e) Restatement related charges include legal and other expenses related to the investigation regarding the company’s historical stock option granting process and related stockholder litigation and other matters. KLA has paid or reimbursed legal expenses incurred by a number of its current and former directors, officers and employees in connection with the investigation of the company's historical stock option practices and the related litigation and government inquiries. Management believes that it is appropriate to exclude these items as they are not indicative of ongoing operating results and therefore limit comparability. Management believes excluding these items helps investors compare our operating performance with our results in prior periods as well as with the performance of other companies.

f) Income tax effect of non-GAAP adjustments and discrete tax items includes the income tax effects of the excluded items noted above and certain tax adjustments for discrete items. Management believes that it is appropriate to exclude the tax effects of the items noted above in order to present a more meaningful measure of non-GAAP net income. Management believes excluding these items helps investors compare our operating performance with our results in prior periods as well as with the performance of other companies.
Reconciliation of Non-GAAP Financial Measures

g) Goodwill impairment includes non-cash expense recognized as a result of the company's annual testing for goodwill impairment performed in the third quarter of the fiscal year. The impairment charge resulted from the downward revision of financial outlook for the acquired Orbotech business as well as the impact of elevated risk and macroeconomic slowdown driven by the COVID-19 pandemic. Management believes that it is appropriate to exclude the impairment charge as it is not indicative of ongoing operating results and therefore limits comparability. Management also believes excluding this item helps investors compare our operating performance with our results in prior periods as well as with the performance of other companies.
For More Info Go To ➔ ir.kla.com

or Contact:

Kevin Kessel, CFA
VP, Investor Relations
kevin.kessel@kla.com

Ed Lockwood
Sr. Dir, Investor Relations
ed.lockwood@kla.com