

April 28, 2022

Letter to Shareholders

March 2022 Quarter

Rick Wallace

President & Chief Executive Officer

Bren Higgins

Chief Financial Officer



Dear KLA Shareholders,

KLA's March quarter results demonstrate strong execution across multiple areas of our business in a persistently challenging supply chain environment; delivering revenue, GAAP and non-GAAP earnings per share above the midpoint of the guidance ranges for the quarter. We once again displayed strong execution across multiple areas of our business. Our focus on consistently meeting commitments and delivering on our long-term strategic objectives and financial targets is the hallmark for which KLA is known and the standard by which we measure our success. In today's Shareholder Letter, we provide an update on our quarterly performance. This is further supported by newly published market share data, which shows KLA's continued expansion of market leadership in 2021.

Revenue in the March quarter was \$2.3 billion, closing at the top end of the guidance range. Revenue increased 27% on a year-over-year basis but declined 3% sequentially, as expected. Non-GAAP earnings per share was \$5.13, also at the high-end of the guidance range.

Customer demand across our major product groups continues to build as secular trends drive broad-based growth across a range of markets and applications served by the semiconductor industry. This robust demand has been putting pressure on the industry's ability to supply semiconductors across multiple technology nodes. Simultaneously, our leading-edge customers are increasing their strategic capex investments to improve their competitive positioning while addressing growth in markets that demand new leading-edge semiconductor capabilities.

Against this rising demand backdrop, KLA has remained focused on responding to evolving customer needs and navigating supply chain challenges. It is very important that KLA continues to operate with purpose and precision so we can create value for our customers, partners, and shareholders by outperforming expectations. Our talented global teams both run and improve the KLA operating model and use it as a critical guide to rise to the challenges and opportunities of the evolving marketplace.

In addition to our Shareholder Letter serving as an update on our most recent quarterly performance, it also allows us to discuss the key factors driving KLA's consistent outperformance, value creation, and long-term success. We begin with a brief update on how we see the current industry demand environment.

Semiconductor Industry Demand Environment

As the market leader in Process Control, one of the fastest-growing segments of the overall Wafer Fab Equipment ("WFE") market, KLA remains in a position of strength when we look at the industry demand landscape. The semiconductor industry has evolved to be significantly more strategic and has an increasingly less cyclical end market mix, with many fundamental drivers advancing the critical nature of semiconductors throughout the global economy. Factors such as the continuing advancement of technology at the leading edge, increasing investment in legacy nodes, and innovation and growth of new enabling technologies such as Advanced Packaging are fueling long-term growth for the semiconductor industry, and for the equipment and capabilities that make it possible. Despite persistent supply challenges and macro headwinds, our outlook for the WFE industry this year remains intact, albeit with an expectation for a stronger second half than anticipated in January. We expect WFE demand to top \$100 billion this calendar year, making it the

third consecutive year of double-digit growth. KLA's expected growth in calendar 2022 will mark the seventh consecutive year of growth.

Semiconductor Demand Is Strong – KLA continues to benefit from broad and diversified strength across our major markets, with growth fueled by our growing market leadership in some of the largest and fastest growing markets in Process Control. Calendar 2022 is expected to be another year of double-digit growth for the company and our industry. This is driven by strong secular growth trends for the Semiconductor and Electronics industries across a wide range of markets enabling the Data Economy.

Customer R&D Investment and Increasing Capacity Remains A Top Priority in Calendar 2022 – KLA continues to play a critical role in enabling technology transitions in advanced semiconductor manufacturing, as well as helping customers improve yields throughout the capacity growth phase. Calendar 2022 is forecasted to be another year of strong growth for WFE, with customers investing in technology transitions in every segment, as well as adding new capacity. KLA benefits from these investments as we are on the critical path to enabling faster R&D development cycles, faster yield ramps and higher, more stable yields in production.

Strong Secular Drivers Demonstrate Strategic Value of Semiconductors – There are many fundamental drivers propelling the Semiconductor industry, underscoring the strategic importance of Semiconductors and the Semiconductor supply chain. This is also making industry cycles more durable, as digital transformation has expanded beyond consumer and smartphone to enable growth in data center, enterprise, 5G, the electrification of automotive, digital healthcare, work from home, virtual collaboration, and digital entertainment to name a few. The growing focus on regionalization of production demonstrates the strategic importance of securing semiconductor supply and protecting IP.

Growth Underscores the Strategic Nature of Semiconductors in the Data Economy

This sustained strength in customer demand is happening in an environment of increasing momentum for Process Control, where KLA's market leadership has strengthened even further, and our market share remains greater than 4x the nearest competitor. KLA's expanding lead is the result of our number one market position in some of the fastest growing markets in WFE that have a market size greater than \$1 billion in terms of annual revenue.

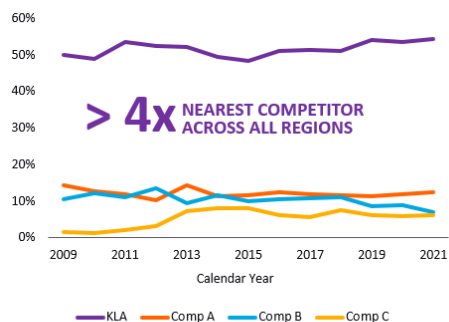
We attribute KLA's strengthening market leadership to our ongoing, successful execution of the company's customer focused strategies, including investing at a high level to drive differentiation with a unique portfolio of products and technologies that address the most critical process control challenges in the marketplace and help our customers drive their growth strategies. We are pleased to see the success of our strategies validated by our customers' purchasing decisions and reflected in the April 2022 Gartner Market Share Report showing KLA's market leadership advancement. This emphasizes the power of the portfolio strategy we employ.

KLA Strengthened Market Leadership in Calendar 2021

The recently published Gartner market report shows Process Control was one of the fastest growing segments of WFE in 2021, growing 43% in the year to \$10.4 billion. KLA's share of Process Control grew by approximately 1 percentage point to over 54% and has increased over 3 percentage points since 2018 and remains greater than four times our nearest competitor across all regions. Within Process Control, the Optical Inspection market grew to approximately \$2.5 billion in annual sales, outpacing WFE by 40%, and our share of this market remained above 80%. Other highlights demonstrate the power of KLA's portfolio strategy in delivering strong growth in other critical Process Control markets, including Metrology (Overlay Metrology and Optical Metrology), Macro Inspection, and very strong growth in E-beam Review. KLA's sustained market leadership is underpinned by our innovation and high levels of R&D investment to solve the most complex Process Control challenges in the semiconductor industry today. Our activities are guided by the KLA Operating Model which defines the processes by which we continue to evolve and improve.

New Market Share Report Demonstrates “Power of the Portfolio”

Process Control Market Share



Source: Gartner April 2022

1

KLA's Market Share in Process Control Has Maintained a Trajectory of Steady Growth Over the Past 15+ Years, Demonstrating the “Power of the Portfolio”

2

KLA's Share is Greater than 4x the Nearest Competitor Across All Regions

3

KLA's Share of the Fast-Growing Optical Inspection Remains 80%+

4

KLA Further Strengthened our Market Leadership in Optical Metrology and Maintained our Strong Position in Overlay Metrology in CY21, Two Additional Fastest Growing Markets in Process Control

5

Three of KLA's Largest End Markets - Optical Inspection, Optical Metrology, and Overlay Metrology - each grew by 50% or more in CY21

Top 5 Highlights for the March 2022 Quarter

First, KLA's market leadership in some of the most critical and fastest growing markets in WFE continues to fuel growth. We remain nimble and innovative in addressing global supply challenges to meet customer requirements and our financial targets. In Foundry/Logic, simultaneous investments across multiple nodes and rising capital intensity remain a tailwind. In Memory, demand is broad-based across multiple customers.

Second, our Optical Metrology business stood out in the March quarter, driven by KLA's market leadership and increasing customer adoption of metrology applications in leading-edge technology development and capacity monitoring. The Optical Metrology market is strongly leveraged to EUV and critical next-generation architectures including gate-all-around (GAA) and multi-stack 160+ layer 3D NAND. This was further illustrated in the new Gartner Market Share report, which showed 50% growth in 2021.

Third, KLA is intensifying our efforts in Advanced Packaging and Automotive electronics, leveraging the combined portfolios of both the Semiconductor Process Control (SPC) and Electronics, Packaging and Components (EPC) Groups. KLA is broadening our product portfolio and developing a comprehensive suite of products and technologies that include wafer-level packaging and final assembly and test products for Advanced Packaging markets, and a portfolio of inspection systems and process tools designed to help customers achieve their zero-defect goals. The portfolio includes inspection systems designed for Continuous Improvement Projects (CIP) in zero defect programs such as: in-line die screening, power device reliability, and packaging and PCB quality. These collaborations continue to grow, with KLA recording our highest-ever customer engagement in terms of Wafer Inspection revenue for Automotive applications in the March quarter.

Fourth, Services revenue was \$488 million, up 14% year-over-year. The company tallied a record 349 installs in the March quarter, well above the previous high of 293. This was a remarkable achievement given travel restrictions in Asia, lockdowns related to Covid-19, and complexities related to the current supply environment. Services revenue is consistently outperforming the 9-11% long-term target growth rate, driven by the growing installed base, increasing customer

adoption of long-term service agreements, higher utilization rates, and expansion of Service opportunities in the legacy nodes.

Finally, the March quarter was another exceptional period from a free cash flow perspective. We generated quarterly free cash flow of \$719 million, for 23% year-over-year growth. We have also remained focused on returning capital to shareholders via our dividend and stock repurchase programs, both of which are up materially year-over-year, including \$565 million in quarterly share repurchases, and an additional \$159 million in dividends in the March quarter.

March Quarter 2022 Business Highlights

1		Market Leadership. KLA's market leadership in some of the most critical and fastest growing areas of WFE continues to fuel our growth. We are benefitting from strength across nearly all our major end markets, illustrated by quarterly revenue growing 27% year-over-year.
2		Power of the Portfolio. Our Optical Metrology business continues to stand out, driven by KLA's market leadership. The Optical Metrology market is strongly leveraged to EUV and critical next-generation architectures including gate-all-around (GAA) and multi-stack 160+ layer 3D NAND.
3		Growing Advanced Packaging and Automotive Electronics Opportunity. KLA is intensifying our efforts in Advanced Packaging and Automotive Electronics markets, leveraging the combined portfolios of both the Semiconductor Process Control (SPC) and Electronics, Packaging and Components (EPC) Groups.
4		Double-Digit Services Growth Continues. Services revenue was \$488 million, up 14% Y/Y. Services revenue growth has been consistently outperforming the 9-11% long term target rate driven by the rapidly growing installed base, higher utilization rates, and expansion of opportunities in legacy nodes.
5		Strong Free Cash Flow and Capital Returns. KLA delivered strong quarterly free cash flow generation of \$719 million, driving LTM free cash flow up 37% year-over-year to \$2.7 billion, while returning \$724 million in capital, comprised of \$565 million in quarterly share repurchases and \$159 million in quarterly dividends.

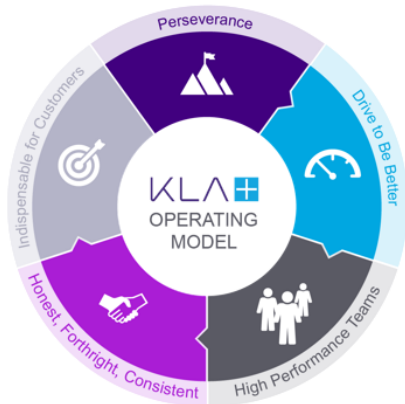
Before moving into the financial highlights, let's recap a few key points. KLA's March quarter results demonstrate sustained outperformance, highlighting the critical nature of KLA's products and services in enabling the digital transformation of our lives. Our consistent, strong execution against significant challenges in the marketplace, both in terms of meeting rising demand and addressing persistent supply issues, highlights the resiliency of the KLA Operating Model and our commitment to productive capital allocation.

KLA is exceptionally positioned at the forefront of technology innovation with a comprehensive portfolio of products to meet demanding customer requirements, balancing sensitivity and throughput. The semiconductor and electronics landscape are constantly changing, and we continue to see more customer interest driven by technology change than ever before at the leading edge. Simultaneously, the need for increasing performance and reliability requirements for legacy nodes to support evolving markets like Automotive and 5G is also important to help deliver new capabilities.

We believe KLA will continue to benefit from numerous secular growth factors driving long-term industry demand. At the same time, our strategy of driving diversified growth with strong long-term operating leverage should provide durable free cash flow generation and consistent capital returns to our shareholders.

The KLA Operating Model positions us well for sustainable outperformance relative to the industry. It also guides our important strategic objectives. These objectives fuel our growth, reliable operational excellence, and differentiation across an increasingly diverse product and services offering. Our strategic objectives also form the foundation for KLA’s sustained technology leadership, wide competitive moat, leading financial performance, strong free cash flow generation and consistent capital returns to shareholders.

The KLA Operating Model



Consistent strategy and execution

- Application of common processes and discipline
- Cascades throughout the organization
- Strong focus on talent development

Management by metrics

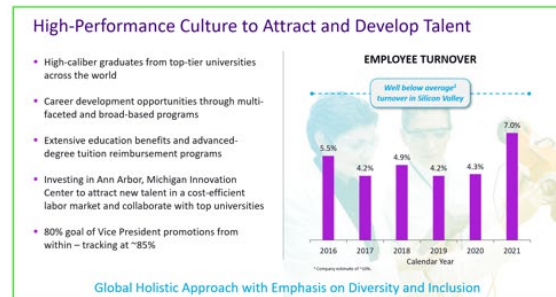
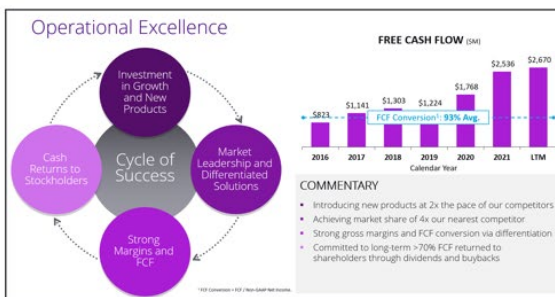
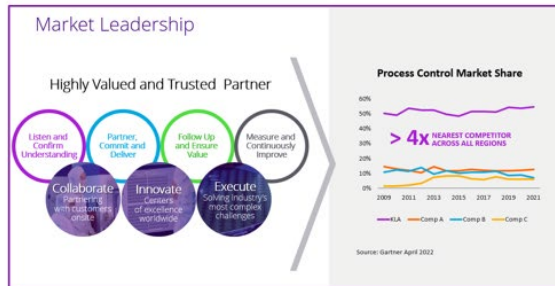
- Culture of performance and accountability
- Expectation of continuous improvement
- Superior margins driven by market leadership and differentiation

Financial discipline and rigor

- Exert efficiency and operating discipline in our investments
- Strong track record of high returns
- Focused on enhancing shareholder value

Focused on Driving Sustainable Profitability and Growth

KLA’s Four Strategic Objectives Serve As Our Guide



March Quarter 2022 Financial Highlights

KLA's March quarter 2022 results reinforce the success of our execution and strong market position. We continue to focus on meeting customer needs in a robust demand environment while expanding market leadership, growing revenue, increasing gross and operating profit, generating strong free cash flow, and maintaining our long-term strategy of productive capital allocation.

Quarterly revenue was \$2.289 billion, at the upper end the guided range of \$2.1 to \$2.3 billion. Non-GAAP gross margin was above the midpoint of guidance at 62.9% as the various components performed mostly as expected, with upside coming from the higher-than-expected semiconductor process control systems revenue which enhanced the product mix for the quarter. Non-GAAP diluted EPS was \$5.13, also towards the upper end of the guided range of \$4.35 to \$5.25. GAAP diluted EPS was \$4.83.

\$2,289M Revenue	\$719M Free Cash Flow*	\$776M Net Income*
62.9% Gross Margin*	31.4% FCF Margin*	\$5.13 Non-GAAP Diluted EPS*
41.7% Operating Margin*	93% FCF Conversion*	\$4.83 GAAP Diluted EPS

* Non-GAAP metric – Please refer to Appendix for reconciliation to GAAP. Free Cash Flow (FCF) = Cash Flow from Operating Activities minus Capital Expenditures.

Non-GAAP operating expenses were \$484 million, below our expectation of \$495 million for the quarter, mostly due to the pace of new hiring which was slower than originally planned. Total operating expenses were comprised of \$285 million in R&D and \$199 million in SG&A.

Given the strong demand backdrop, rapid expansion of our business over the last couple of years, and our revenue expectations for the business going forward, we expect to continue to invest in our global infrastructure and systems to scale the KLA Operating Model to facilitate growth. This includes investing in new product development programs and volume-dependent resources to support our business expansion as we position the company to execute against our long-term structural growth thesis. Furthermore, we, as most companies, are seeing a strong labor market driving cost pressure across our global workforce and adjustments related to our annual merit process went into effect during March. As a result, we expect operating expenses to grow to approximately \$525 million in the June quarter and we forecast quarterly operating expenses to trend higher over the balance of 2022 to support our sequential revenue growth expectations. We continue to size the company based on our target operating model, which delivers 40% to 50% incremental operating margin leverage on revenue growth over a normalized time horizon.

Non-GAAP operating income as a percentage of revenue was once again very strong at 41.7% in the March quarter. Other income and expense, net, was \$46 million, compared with guidance of \$41

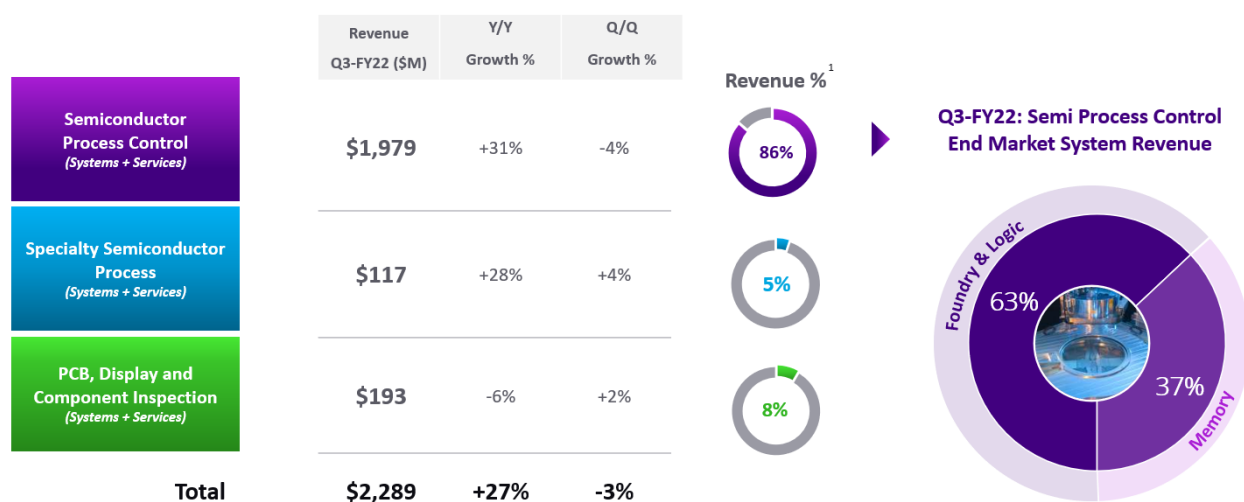
million, with the variance from guidance reflecting the mark-to-market impact of a strategic supply investment. For the June quarter, we forecast other income and expense, net at approximately \$43 million. The quarterly effective tax rate was 14.6%, above our guided tax rate of 13.5%. Non-GAAP earnings per share at the guided tax rate would have been \$5.20.

Non-GAAP net income was \$776 million, GAAP net income was \$731 million, cash flow from operations was \$819 million, and free cash flow was \$719 million, resulting in a free cash flow conversion of 93% and a free cash flow margin of 31.4%. The company had approximately 151 million diluted weighted average shares outstanding.

Breakdown of Revenue by Reportable Segments and End Markets

Revenue for the Semiconductor Process Control segment, including its associated Services business, was \$1.98 billion, up 31% year-over-year and down 4% sequentially, as expected. The approximate Semiconductor Process Control system customer segment mix for Foundry/Logic customers was approximately 63%. Memory was approximately 37% with the further breakdown comprised of 26% from DRAM customers and 11% from NAND.

Revenue for our Electronics, Packaging, and Components (EPC) group continues to be driven by strength in automotive, 5G, and advanced packaging. Within EPC, the Specialty Semiconductor Process segment, which includes its associated Services business, generated revenue of \$117 million, up 28% over the prior year and up 4% sequentially. PCB, Display and Component Inspection revenue was \$193 million, down 6% year-over-year, and up 2% on a sequential basis.

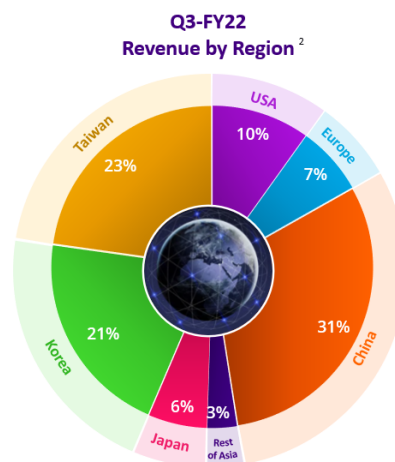
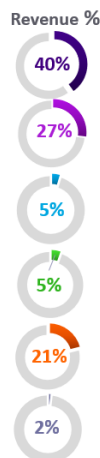


Breakdown of Revenue by Major Products and Region

Wafer Inspection systems grew 29% year-over-year and was 40% of total revenue. Patterning systems, which includes metrology and reticle inspection, was up 53% year-over-year and was 27% of total revenue. Specialty Semiconductor Process systems grew 38% year-over-year and was 5% of total revenue. PCB, Display and Component Inspection systems fell 13% year-over-year to 5% of revenue. Services rose 14% from a year ago levels to 21% and Other, which is consolidated into the Semiconductor Process Control segment, was 2% of total sales.

Wafer Inspection <i>(Systems Only)</i>
Patterning <i>(Systems Only)</i>
Specialty Semi Process <i>(Systems Only)</i>
PCB, Display and Component Inspection <i>(Systems Only)</i>
Services
Other ¹

Revenue Q3-FY22 (\$M)	Y/Y Growth %	Q/Q Growth %
\$919	+29%	-17%
\$611	+53%	+20%
\$106	+38%	+1%
\$123	-13%	+1%
\$488	+14%	+7%
\$42	-2%	-26%
\$2,289	+27%	-3%



Total

¹ Included in the Semiconductor Process Control Segment
² Percentages shown not adding to 100% due to rounding

The March 2022 quarter regional split of revenue was as follows: China was 31%, Taiwan was 23%, and Korea was 21%. The US was 10% of revenue. Regions that accounted for less than 10% of sales included Europe at 7%, Japan at 6%, and the rest of Asia at 3%.

Strong Investment Grade Balance Sheet With No Bond Maturities Until 2024

KLA ended the quarter with \$2.6 billion in total cash, debt of \$3.7 billion, and a flexible and attractive bond maturity profile supported by strong investment-grade ratings from all three agencies.

Balance Sheet Summary¹ (\$M)

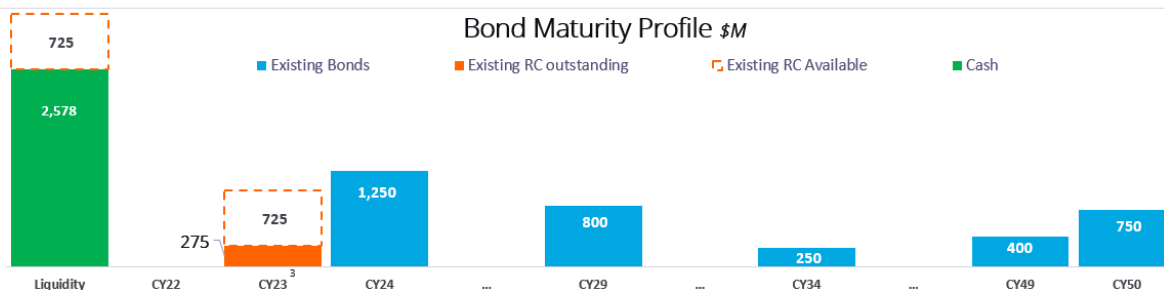
Total Cash²	\$ 2,578
Working Capital	\$ 3,754
Total Assets	\$ 12,018
Debt³	\$ 3,700
Total Shareholders' Equity	\$ 4,079

Bond Maturity Profile

Bonds Outstanding	\$ 3,450M
Weighted Average Rate	4.37%
Weighted Average Maturity	12.7 years

Investment Grade Credit Ratings

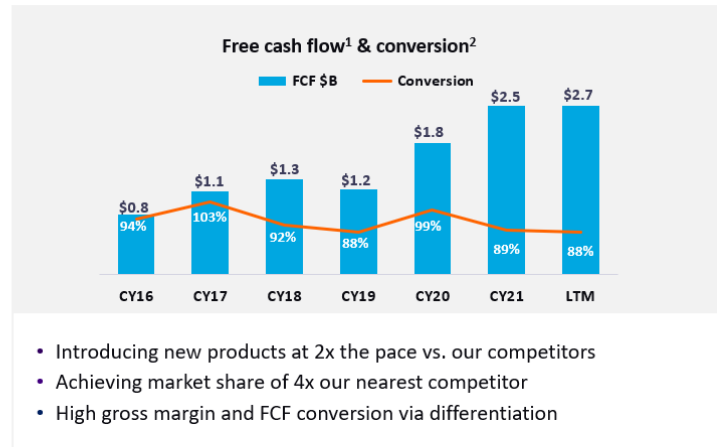
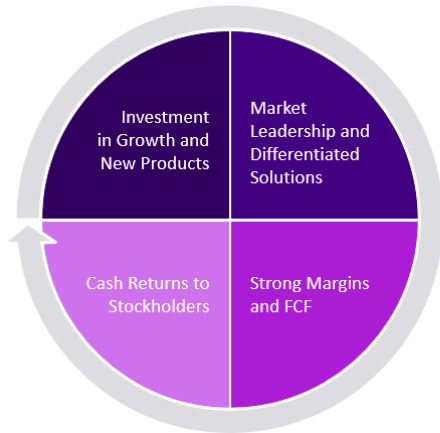
Moody's	A2
S&P	BBB+
Fitch	A-



¹ As of 3/31/22; ² Total Cash includes Cash, Cash Equivalents and Marketable Securities;
³ Includes \$275M in revolving credit facility drawings less \$25M in un-amortized debt issuance discounts and costs.

FCF Generation Fuels Consistent Capital Return to Shareholders

We have growing confidence in our business over the long run and are committed to a consistent strategy of cash returns to shareholders, that enables growing dividends and increased share repurchases. Over the long-term, we target returning at least 70% of free cash flow generated. Our capital return strategy underscores our strong track record of predictable and productive capital deployment and remains an important differentiating element of the KLA investment thesis.

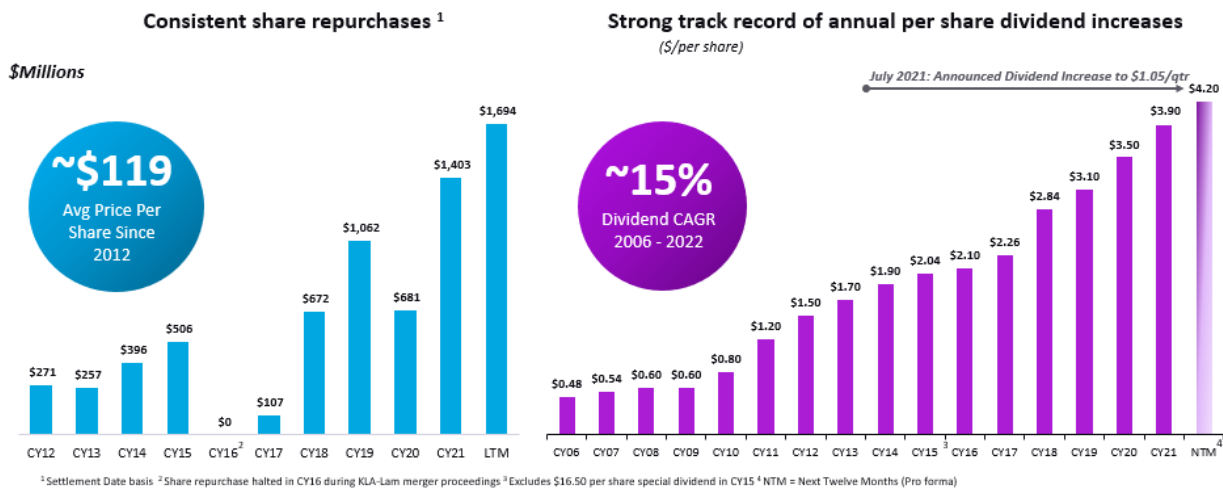


Committed to Long-Term >70% FCF Returned to Shareholders through Dividends and Buybacks

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

Over the last 12 months, KLA has returned \$2.3 billion to shareholders including \$1.7 billion in share repurchases and \$620 million in dividends paid.

Return to Shareholders Balanced Between Buybacks and Dividends



¹ Settlement Date basis ² Share repurchase halted in CY16 during KLA-Lam merger proceedings ³ Excludes \$16.50 per share special dividend in CY15 ⁴ NTM = Next Twelve Months (Pro forma)

Free Cash Flow and Capital Returns Highlights

KLA has an impressive history of consistent free cash flow generation, high free cash flow conversion, and strong free cash flow margins across all phases of the business cycle and economic conditions.

\$719M March Qtr FCF*	\$2,670M LTM FCF*
\$565M March Qtr Share Buyback	\$1,694M LTM Share Buyback
\$159M Mar Qtr Dividends Paid	\$620M LTM Dividends Paid

* Free Cash Flow (FCF) = Cash Flow from Operating Activities minus Capital Expenditures. Non-GAAP metric – Refer to Appendix for Reconciliation to GAAP. Capital Returns = Dividends + Share Repurchases

Outlook

Our overall semiconductor demand and WFE outlook for calendar 2022 remains unchanged. We expect the WFE market to grow in the mid-teens to over \$100 billion in 2022, off a higher baseline of approximately \$87 billion in calendar 2021 after assessing reported results for the December quarter. Although based on peer company March reporting, it appears that industry supply issues will increase the loading in the second half of the year. This reflects the continued, broad-based strength of demand across all customer segments. While we add capacity at KLA and with our suppliers, supply chain shortages continue to constrain our ability to meet customer demand. In addition, the duration and potential expansion of Covid-19 related lockdowns in China are unknown and could adversely impact some suppliers with operations in the affected areas. Furthermore, these lockdowns could delay systems installations and customer acceptance processes due to resource mobility restrictions in the country. In short, this situation is fluid and will be monitored closely. Supplier visibility remains challenging and has not improved over the past three months. We still expect to see quarterly sequential revenue growth through calendar 2022 and overall revenue growth for the calendar year to exceed 20%. In addition, we believe that demand will continue to exceed supply through the remainder of the calendar year. KLA is in position to deliver another year of sustainable outperformance in our semiconductor process control business and strong relative growth overall.

Looking ahead, we remain encouraged by the strength and sustainability of our current demand profile. Our bookings momentum and strong backlog positions us to outperform WFE. As in calendar 2021, we are strategically adding capacity across our global manufacturing footprint to support this outlook and our customers' growing process control requirements.

Our June quarter guidance is as follows: Total revenue is expected to be in a range of \$2.425 billion, plus or minus \$125 million. Foundry/Logic is forecasted to be approximately 56% and Memory is expected to be approximately 44% of Semiconductor Process Control systems revenue. Within Memory, DRAM is expected to be about 66% of the segment mix and NAND is forecasted to be about 34%. We forecast non-GAAP gross margin to be in a range of 61.5% to 63.5% as we expect sequential growth in EPC revenue in the quarter and a slightly weaker product mix within semi process control to dilute margins modestly versus the March quarter. Longer term, infrastructure investments, labor cost inflation, supply chain strain, and rising global logistics costs are surpassing the benefits of economies of scale normally seen in a rising revenue environment. Given expectations for revenue for the year, we continue to expect that calendar 2022 gross margins will be in the range of 63% plus or minus 50 basis points.

Other model assumptions for the June quarter include: non-GAAP operating expenses of approximately \$525 million, other income and expense, net, of approximately \$43 million, and an effective tax rate of approximately 13.5%. Finally, GAAP diluted EPS is expected to be in a range of \$4.60 to \$5.70 and non-GAAP diluted EPS in a range of \$4.93 to \$6.03. The EPS guidance is based on a fully diluted share count of approximately 150 million shares.

June Quarter 2022 Guidance (Q4 FY2022)

	June 2022 quarter
REVENUE	\$2,300M to \$2,550M
NON-GAAP GROSS MARGIN*	61.50% to 63.50%
GAAP DILUTED EPS	\$4.60 to \$5.70
NON-GAAP DILUTED EPS*	\$4.93 to \$6.03

Macro assumptions

- Semi Process Control Revenue By End Market
 - Foundry/Logic: 56%
 - Memory: 44%

Model assumptions

- Non-GAAP Operating Expenses:* ~\$525M
- Other Income & Expense (OIE), Net: ~\$43M
- Effective Tax Rate: ~13.5%
- Diluted Share Count: ~150M

* Non-GAAP metric – Refer to Appendix for Reconciliation to GAAP

Driving Profitable Growth and Delivering Shareholder Value

In Conclusion

In closing, the secular trends driving semiconductor growth and investments in WFE are compelling despite the current macro-economic headwinds. Broad-based customer demand and simultaneous investments across technology nodes are strong and resilient trends. We have confidence in the leading indicators for our business, including our backlog and bookings visibility which motivates us to invest in expanding our business infrastructure and the required capabilities to support our outlook. Our customers' multi-year investment plans provide an element of stability in the demand outlook for the future. The KLA Operating Model positions us well to outperform our industry and guides our important strategic objectives. These objectives fuel our growth, reliable operational excellence, and differentiation across an increasingly diverse product and services offering. They are also the foundation for our sustained technology leadership, wide competitive moat, leading

financial performance, long-standing track record of strong free cash flow generation and consistent capital returns to shareholders.

Sincerely,



Rick Wallace
CEO



Bren Higgins
CFO

Appendix

Reconciliation of Non-GAAP Financial Measures

(in thousands, except per share amounts and percentages)	For the three months ended		For the twelve months ended						
	Mar 31, 2022	Mar 31, 2022	Dec 31, 2021	Mar 31, 2021	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016
GAAP net income attributable to KLA	\$ 730,572	\$ 3,149,411	\$ 2,986,335	\$ 1,856,567	\$ 1,367,523	\$ 1,137,653	\$ 1,420,692	\$ 656,341	\$ 863,670
Adjustments to reconcile GAAP net income to non-GAAP net income*									
Acquisition-related charges	a 59,898	227,413	220,488	212,484	214,533	340,318	21,218	4,737	4,383
Restructuring, severance and other charges	b 2,513	3,996	(51)	9,919	16,885	2,786	-	-	137
Debt extinguishment loss	c -	-	-	-	22,538	-	-	-	-
Goodwill and intangible asset impairment	d -	-	-	-	256,649	-	-	-	-
Merger-related charges	e -	-	-	-	-	-	-	9,308	17,051
Income tax effect of non-GAAP adjustments	f (18,803)	(72,155)	(71,218)	(68,458)	(74,196)	(97,828)	(1,229)	(4,631)	(6,169)
Discrete tax items	g 1,457	(285,907)	(290,331)	(7,463)	(10,047)	8,465	(18,089)	441,894	(3,064)
Non-GAAP net income attributable to KLA	\$ 775,637	\$ 3,022,758	\$ 2,845,223	\$ 2,003,049	\$ 1,793,885	\$ 1,391,394	\$ 1,422,592	\$ 1,107,649	\$ 876,008
GAAP diluted EPS +	\$ 4.83								
Non-GAAP diluted EPS +	\$ 5.13								
Shares used in diluted shares calculation +	151,186								
GAAP research and development ("R&D") expenses	\$ 285,189	\$ 1,049,801	\$ 1,003,569		\$ 880,635	\$ 822,928	\$ 624,668	\$ 570,202	\$ 503,188
Adjustments to reconcile GAAP R&D expenses to non-GAAP R&D expenses*									
Acquisition-related charges	a -	(5,962)	(5,962)	-	-	(3,328)	-	-	-
Restructuring, severance and other charges	b -	(203)	(350)	-	(3,625)	(802)	-	-	(5)
Merger-related charges	e -	-	-	-	-	-	-	(3,139)	(3,767)
Non-GAAP R&D expenses	\$ 285,189	\$ 1,043,636	\$ 997,257		\$ 877,010	\$ 818,798	\$ 624,668	\$ 567,063	\$ 499,416
GAAP R&D expenses as a percentage of revenue	12.5%	12.1%	12.3%		14.5%	15.6%	14.5%	15.0%	15.4%
Non-GAAP R&D expenses as a percentage of revenue	12.5%	12.1%	12.2%		14.4%	15.5%	14.5%	14.9%	15.3%

+ In multiple-quarter calculations of diluted net income per share, the shares used are an average of the weighted average fully diluted shares outstanding for the relevant quarters. Therefore, the sum of the individual quarterly diluted net income per share amounts for the quarters may not equal the calendar year or multiple-quarter diluted net income per share presented.

* Refer to "Reconciliation of Non-GAAP Financial Measures - Explanation of Non-GAAP Financial Measures" for detailed descriptions and information for each reconciling item

(Dollars in thousands)	For the three months ended
	Mar 31, 2022
GAAP gross profit	\$ 1,396,585
Adjustments to reconcile GAAP gross profit to non-GAAP gross profit*	
Acquisition-related charges	a 42,576
Non-GAAP gross profit	\$ 1,439,161
GAAP gross margin	61.0%
Adjustments to reconcile GAAP gross margin to non-GAAP gross margin*	
Acquisition-related charges	a 1.9%
Non-GAAP gross margin	62.9%
GAAP operating income (1)	\$ 894,907
Adjustments to reconcile GAAP operating income to non-GAAP operating income*	
Acquisition-related charges	a 59,898
Non-GAAP Operating income (1)	\$ 954,805
GAAP operating margin	39.1%
Non-GAAP operating margin	41.7%
GAAP Selling, General and Administrative ("SG&A") expenses (1)	\$ 216,489
Adjustments to reconcile GAAP SG&A expenses to non-GAAP SG&A expenses*	
Acquisition-related charges	a (17,322)
Non-GAAP SG&A expenses (1)	\$ 199,167
GAAP Operating expenses (1)	\$ 501,678
Adjustments to reconcile GAAP operating expenses to non-GAAP operating expenses*	
Acquisition-related charges	a (17,322)
Non-GAAP Operating expenses (1)	\$ 484,356
GAAP Other expenses (income), net	\$ 48,622
Adjustments to reconcile GAAP other expenses (income), net to non-GAAP other expenses	
Restructuring, severance and other charges	b (2,513)
Non-GAAP Other expenses	\$ 46,109

* Refer to "Reconciliation of Non-GAAP Financial Measures - Explanation of Non-GAAP Financial Measures" for detailed descriptions and information for each reconciling item

- (1) Non-GAAP operating income and operating expenses include the effects of the changes in the Company's Executive Deferred Savings Plan Program ("EDSP") and the changes in the EDSP liability and asset are recorded in selling, general and administrative expense in operating expenses. The benefit associated with changes in the liability included in selling, general and administrative expense for the quarter ended March 31, 2022 was \$18.8 million. The net loss associated with changes in the EDSP assets included in selling, general and administrative expense for the quarter ended March 31, 2022 was \$18.7 million.

Reconciliation of Free Cash Flow and Related Metrics

Free Cash Flow Measures <i>(Dollars in thousands)</i>	For the three months ended				For the twelve months ended					
	Mar 31, 2022	Mar 31, 2021	Mar 31, 2022	Dec 31, 2021	Mar 31, 2021	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016
	Net cash provided by operating activities	\$ 818,878	\$ 646,150	\$ 2,959,095	\$ 2,786,367	\$ 2,172,248	\$ 1,968,126	\$ 1,373,031	\$ 1,389,697	\$ 1,190,475
Less Capital expenditures	(100,304)	(61,183)	(289,535)	(250,414)	(218,042)	(200,304)	(149,242)	(86,518)	(49,207)	(34,974)
Free cash flow	\$ 718,574	\$ 501,937	\$ 2,669,560	\$ 2,535,953	\$ 1,954,206	\$ 1,767,822	\$ 1,223,789	\$ 1,303,179	\$ 1,141,268	\$ 822,806
Free Cash Flow Conversion calculation										
Free cash flow	\$ 718,574	\$ 501,937	\$ 2,669,560	\$ 2,535,953	\$ 1,767,822	\$ 1,223,789	\$ 1,303,179	\$ 1,141,268	\$ 822,806	
Non-GAAP net income attributable to KLA	775,637	598,102	3,022,758	2,845,223	1,793,885	1,391,394	1,422,592	1,107,649	876,008	
Free cash flow conversion	92.6%	97.8%	88.3%	89.1%	98.5%	88.0%	91.6%	103.0%	93.9%	
GAAP metric comparable to Free Cash Flow Conversion										
Net cash provided by operating activities	\$ 818,878	\$ 646,150	\$ 2,959,095	\$ 2,786,367	\$ 1,968,126	\$ 1,373,031	\$ 1,389,697	\$ 1,190,475	\$ 857,780	
GAAP net income attributable to KLA	730,572	567,496	3,149,411	2,986,335	1,367,523	1,137,653	1,420,692	656,341	863,670	
GAAP metric comparable to free cash flow conversion	112.1%	113.9%	94.0%	93.3%	143.9%	120.7%	97.8%	181.4%	99.3%	
Cash paid for dividends	\$ 158,976	\$ 139,338	\$ 620,193							
Cash paid for share repurchases	564,666	273,441	1,693,994							
Capital returns	\$ 723,642	\$ 412,779	\$ 2,314,187							
Capital returns as a percentage of free cash flow	100.7%	70.6%	86.7%							
Free cash flow	\$ 718,574									
Revenue	2,288,676									
Free cash flow margin	31.4%									

The Company presents free cash flow and certain related metrics as supplemental non-GAAP measures of its performance. Free cash flow is determined by adjusting GAAP net cash provided by operating activities for capital expenditures. Free cash flow conversion is defined as free cash flow divided by non-GAAP net income, and free cash flow margin is defined as free cash flow divided by revenue.

Reconciliation of Q4 FY 2022 Guidance Range

<i>(In millions, except per share amounts and percentages)</i>	Low	High
GAAP diluted net income per share	\$ 4.60	\$ 5.70
Acquisition-related charges	a 0.46	0.46
Income tax effect of non-GAAP adjustments	e (0.13)	(0.13)
Non-GAAP diluted net income per share	\$ 4.93	\$ 6.03
Shares used in net income per diluted shares calculation	149.6	149.6
GAAP gross margin as a percentage of revenue	59.5%	61.7%
Acquisition-related charges	a 2.0%	1.8%
Restructuring, severance and other charges	b 0.0%	0.0%
Non-GAAP gross margin as a percentage of revenue	61.5%	63.5%
GAAP operating expenses	\$ 543	\$ 555
Acquisition-related charges	a (23)	(23)
Restructuring, severance and other charges	b (1)	(1)
Non-GAAP operating expenses	\$ 519	\$ 531

Note: The guidance as of April 28, 2022 represents our best estimate considering the information known as of the date of issuing the guidance. We undertake no responsibility to update the above in light of new information or future events. Refer to forward looking statements for important information. Also refer to "Reconciliation of Non-GAAP Financial Measures - Explanation of Non-GAAP Financial Measures" for detailed descriptions and information about 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, including non-GAAP net income attributable to KLA, non-GAAP net income per diluted share attributable to KLA, non-GAAP R&D expenses, non-GAAP gross margin, non-GAAP operating margin, non-GAAP operating expenses, Free Cash Flow, FCF Conversion and FCF Margin, 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 to help investors compare our operating performances with our results in prior periods as well as with the performance of other companies. 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 are inherently subject to significant discretion (for example, determining which costs and expenses to exclude when calculating such a metric). 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. The following are descriptions of the adjustments made to reconcile GAAP net income attributable to KLA to non-GAAP net income attributable to KLA:

- 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.
- b) Restructuring, severance and other charges primarily include costs associated with employee severance, acceleration of certain stock-based compensation arrangements, and other exit costs.
- c) Debt extinguishment loss includes a pre-tax loss on early extinguishment of the \$500 million 4.125% Senior Notes due in November 2021.
- d) 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.
- e) Merger-related charges associated with the terminated merger agreement between KLA-Tencor and Lam Research Corporation ("Lam") primarily include employee retention-related expenses, legal expenses and other costs.
- f) Income tax effect of non-GAAP adjustments includes the income tax effects of the excluded items noted above.
- g) Discrete tax items consist of certain income tax expenses/benefits that, by excluding, help investors compare our operating performance with our results in prior periods as well as with the performance of other companies.

About KLA Corporation

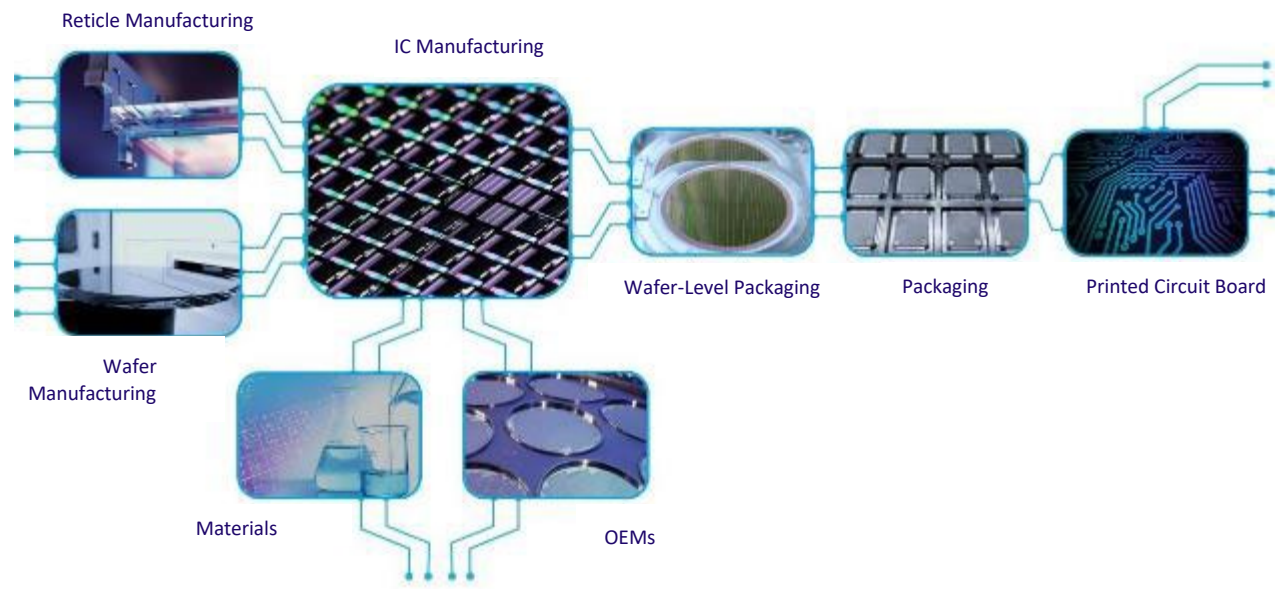
KLA Corporation (“KLA”) is the world's leading supplier of process control and yield management solutions for the semiconductor and related microelectronics industries. The company's comprehensive portfolio of products, software, analysis, services, and expertise is designed to help Integrated Circuit (IC) manufacturers manage yield throughout the entire wafer fabrication process—from Research & Development to final yield analysis. KLA offers a broad spectrum of products and services that are used by every major semiconductor manufacturer in the world. We provide advanced process control and process-enabling solutions for manufacturing wafers and reticles, integrated circuits, Packaging, printed circuit boards and flat panel displays. In close collaboration with leading customers across the globe, our expert teams of physicists, engineers, data scientists and problem-solvers design solutions that move the world forward. Additional information may be found at: www.kla.com.

Investors and others should note that KLA announces material financial information to investors using an investor relations website (ir.kla.com), including SEC filings, press releases, public earnings calls, and conference webcasts. These channels are used to communicate with the public about the company, products, services, and other matters.



KLA's Broad Portfolio Addresses Entire Semiconductor Ecosystem

Semiconductor Manufacturing	Related Electronics Industries
<ul style="list-style-type: none"> • IC Manufacturing • Wafer Manufacturing • Reticle Manufacturing • IC Packaging • Printed Circuit Board 	<ul style="list-style-type: none"> • Compound Semiconductor • Power Device • LED • MEMS • Data Storage/Media Head • Flat Panel Display • General Purpose/Labs



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Note on Forward-Looking Statements

Statements in this letter other than historical facts, such as statements pertaining to: (i) future industry demand for semiconductors; (ii) WFE and KLA's growth in calendar 2022; (iii) our operating expenses for the June quarter and 2022; (iv) our sequential revenue growth for the remainder of 2022; (v) other income and expense, net, for the June quarter; (vi) future capital returns as a percentage of free cash flow; (vii) our future investment in R&D and infrastructure; (viii) expansion of services opportunities; (ix) outperformance of our SPC business; (x) global manufacturing capacity; (xi) future levels of business activities; (xii) effective tax rate for the June quarter; (xiii) dividend levels over the next twelve months; and (xiv) revenues, GAAP and non-GAAP gross margin, GAAP and non-GAAP diluted EPS, and revenues across end markets for the June quarter, 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 impact of the COVID-19 pandemic on the global economy and on our business, financial condition and results of operations, including the supply chain constraints we are experiencing as a result of the pandemic; economic, political and social conditions in the countries in which we, our customers and our suppliers operate, including rising inflation and interest rates, Russia's invasion of Ukraine and global trade policies; disruption to our manufacturing facilities or other operations, or the operations of our customers, due to natural catastrophic events, health epidemics or terrorism; ongoing changes in the technology industry, and the semiconductor industry in particular, including future growth rates, pricing trends in end-markets, or changes in customer capital spending patterns; our ability to timely develop new technologies and products that successfully anticipate or address changes in the semiconductor industry; our ability to maintain our technology advantage and protect our proprietary rights; our ability to compete with new products introduced by our competitors; our ability to attract and retain key personnel; cybersecurity threats, cyber incidents affecting our and our service providers' systems and networks and our ability to access critical information systems for daily business operations; liability to our customers under indemnification provisions if our products fail to operate properly or contain defects or our customers are sued by third parties due to our products; exposure to a highly concentrated customer base; availability and cost of the wide range of materials used in the production of our products; our ability to operate our business in accordance with our business plan; legal, regulatory and tax environments in which we perform our operations and conduct our business and our ability to comply with relevant laws and regulations; our ability to pay interest and repay the principal of our current indebtedness is dependent upon our ability to manage our business operations, our credit rating and the ongoing interest rate environment, among other factors; instability in the global credit and financial markets; our exposure to currency exchange rate fluctuations, or declining economic conditions in those countries where we conduct our business; changes in our effective tax rate resulting from changes in the tax rates imposed by jurisdictions where our profits are determined to be earned and taxed, expiration of tax holidays in certain jurisdictions, resolution of issues arising from tax audits with various authorities or changes in tax laws or the interpretation of such tax laws; and our ability to identify suitable acquisition targets and successfully integrate and manage acquired businesses. For other factors that may cause actual results to differ materially from those projected and anticipated in forward-looking statements in this press release, please refer to KLA Corporation's Annual Report on Form 10-K for the year ended June 30, 2021, and other subsequent filings with the Securities and Exchange Commission. KLA Corporation assumes no obligation to, and does not currently intend to, update these forward-looking statements.