

KLA Earnings

Q1 Fiscal 2020 (Quarter Ended 9/30/19)



October 30, 2019

Forward-Looking Statements

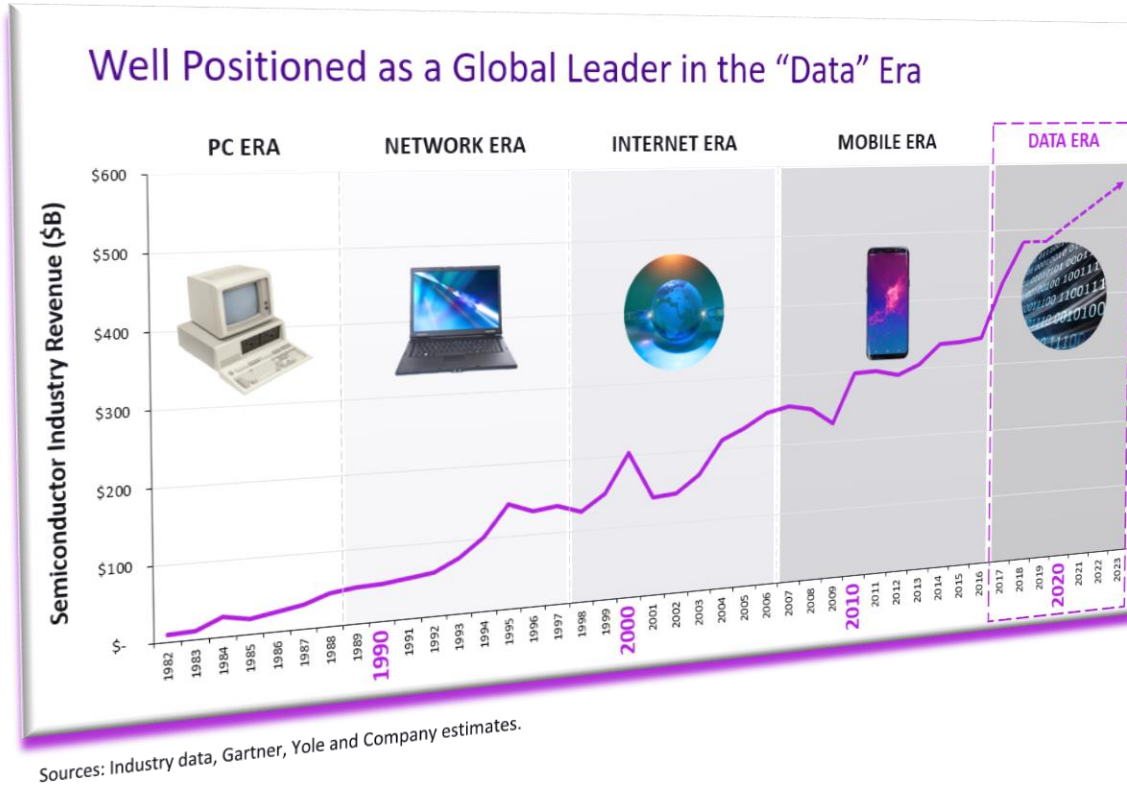
Statements in this presentation other than historical facts, such as data pertaining to: (i) net income per diluted share and shares used in calculating net income per diluted share; (ii) gross margin; (iii) free cash flow; (iv) level of shipments in 2019; (v) R&D investment levels; (vi) service revenues for 2019; (vii) December quarter sales, revenue mix by customer type, operating expenses, other income and expense, and effective tax rate are 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 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; cancellation of orders by customers; the ability of KLA Corporation's research and development teams to successfully innovate and develop technologies and products that are responsive to customer demands; KLA Corporation'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, 2019, 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.

Strategic Overview and Highlights

Rick Wallace | CEO and President



Strong Momentum Continues, Driven By Secular Trends

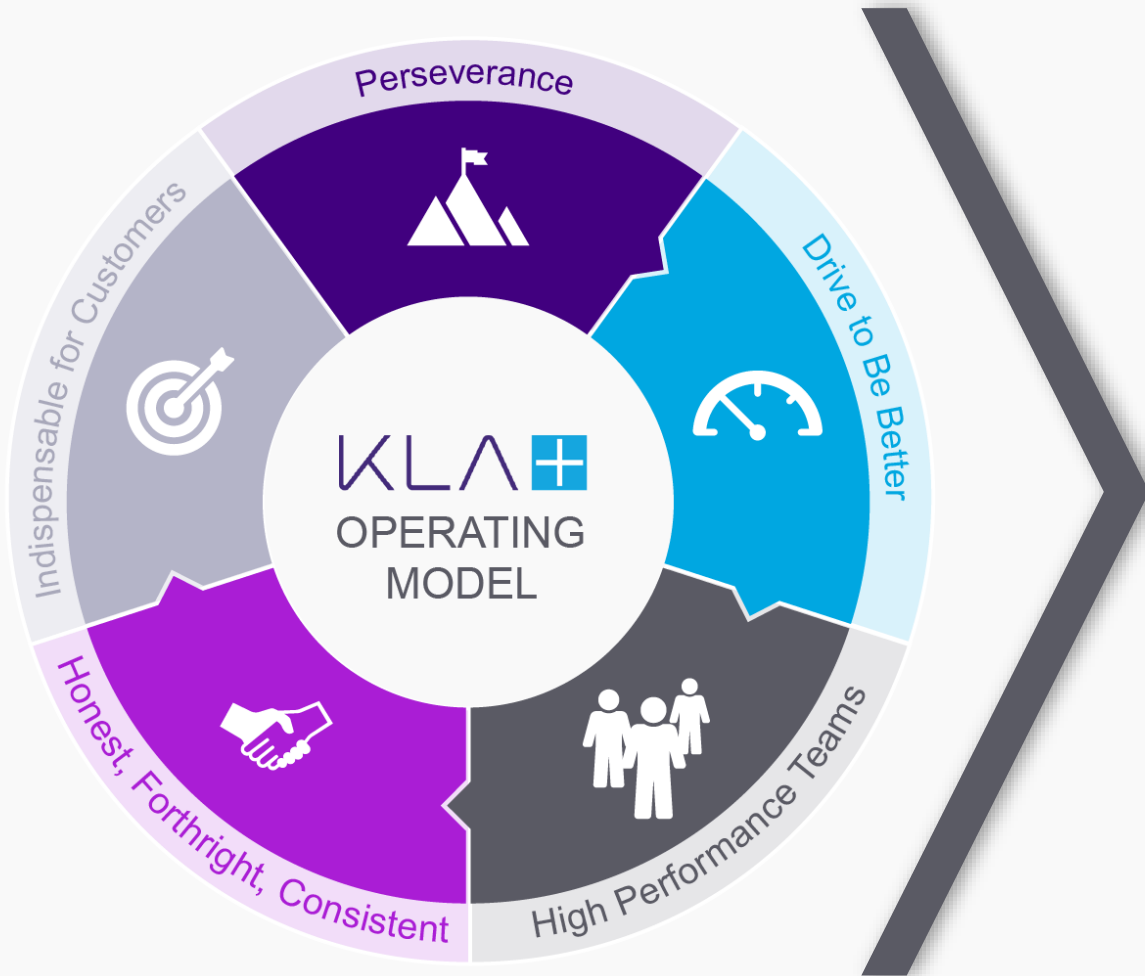


More Complexity & Semiconductor Devices Drive Greater Demand

MEGA TRENDS ACROSS...		...KEY INDUSTRIES		
<p>ARTIFICIAL INTELLIGENCE</p> <ul style="list-style-type: none"> Core engine of KLA products' performance Clear opportunities as a user and supplier Expanding the scope of advanced logic nodes Significant inflections in packaging via multi-chip integration 	<p>5G CONNECTIVITY</p> <ul style="list-style-type: none"> Embedded in technologies in the next 5 years Building infrastructure increases demand for KLA Mobile implementation in 2021E-2023E, driving new smartphone cycle Significant opportunities across our entire portfolio 	<p>MOBILE</p> <ul style="list-style-type: none"> #1 consumer of semiconductor (\$100B+/year) >30% growth of semiconductor content in future 5G phones Leading with new technology inflections Highest process control intensity industry 	<p>DATA CENTER</p> <ul style="list-style-type: none"> High growth industry Strong driver of leading-edge semiconductor End customers designing their own chips Strategic collaborations to influence semiconductor supply chain 	<p>AUTOMOTIVE</p> <ul style="list-style-type: none"> Secular transformation with connectivity/autonomous/electrification Fastest growing semiconductor segment Highest semiconductor quality and reliability standards

Differentiated by Solution-Centric, Product-Agnostic Approach

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

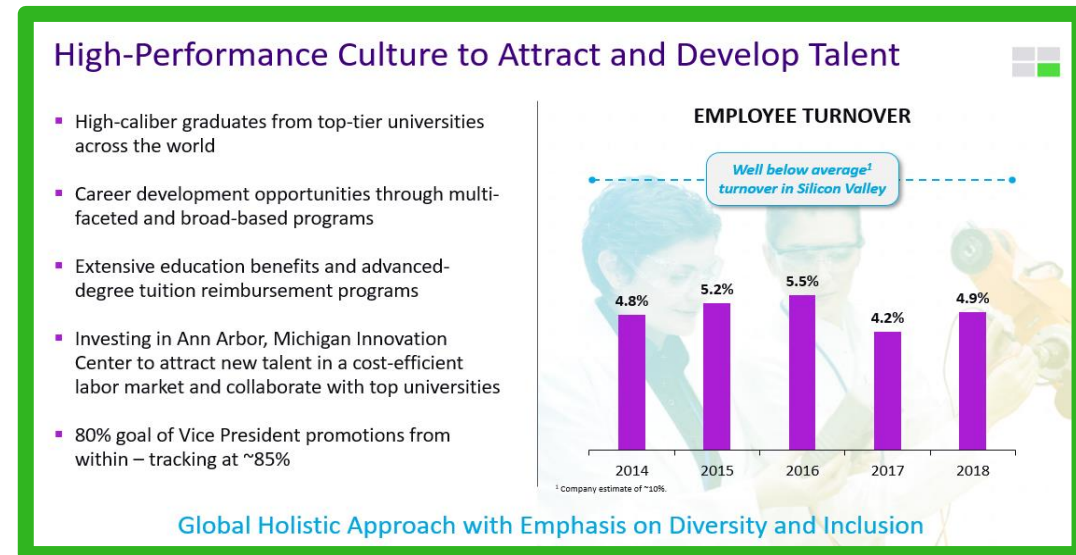
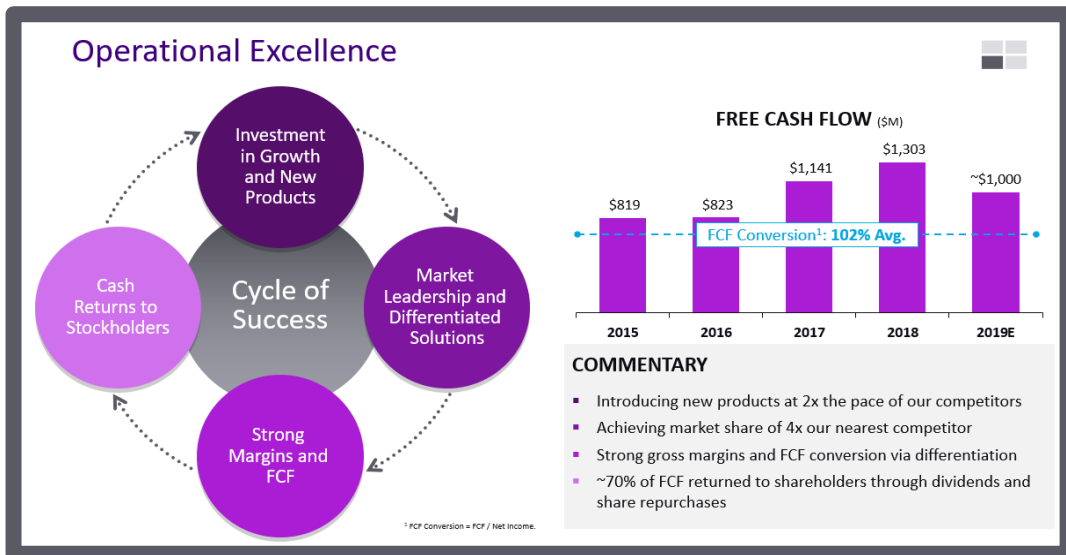
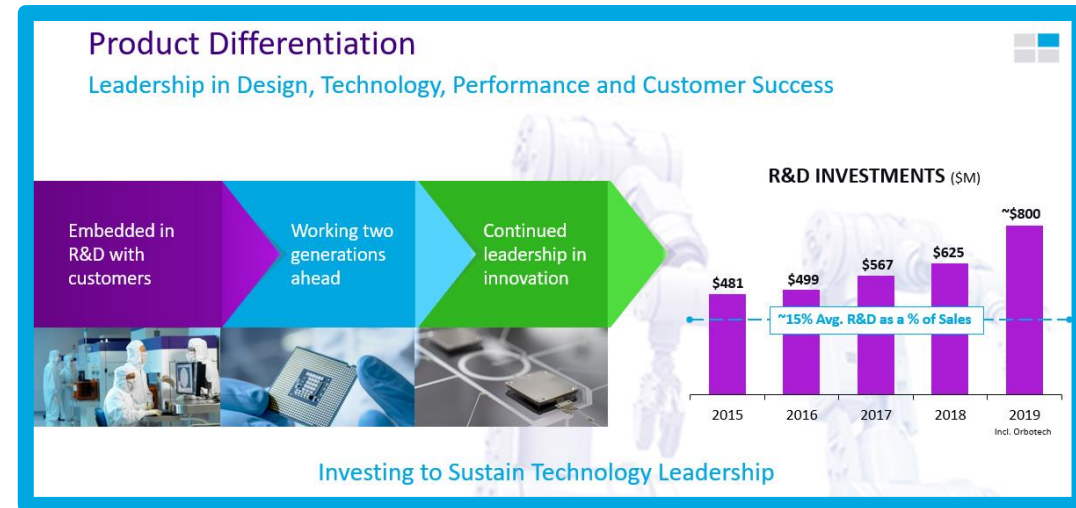
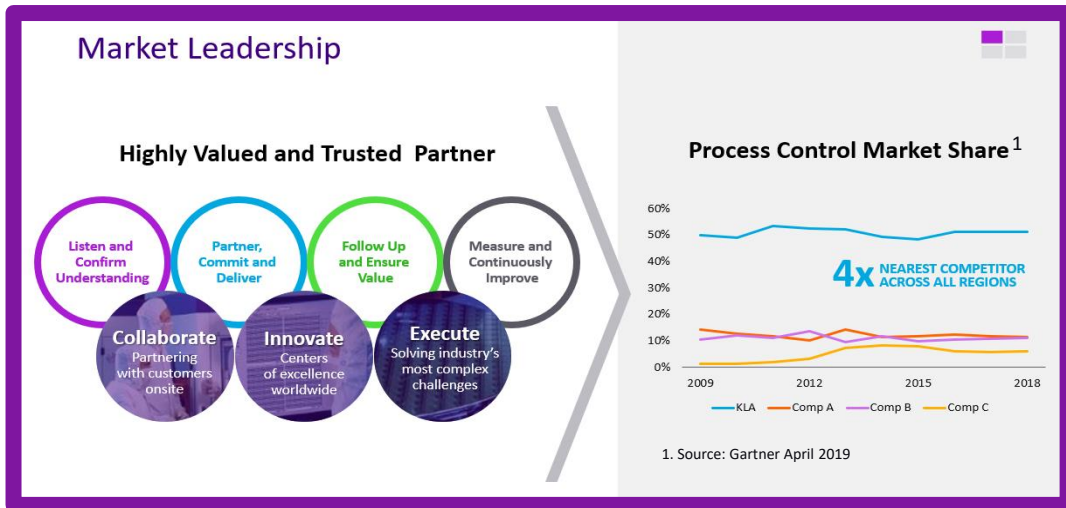
- Culture of performance and accountability
- Expectation of continuous improvement
- Superior margins driven by market leadership and differentiation

✓ 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

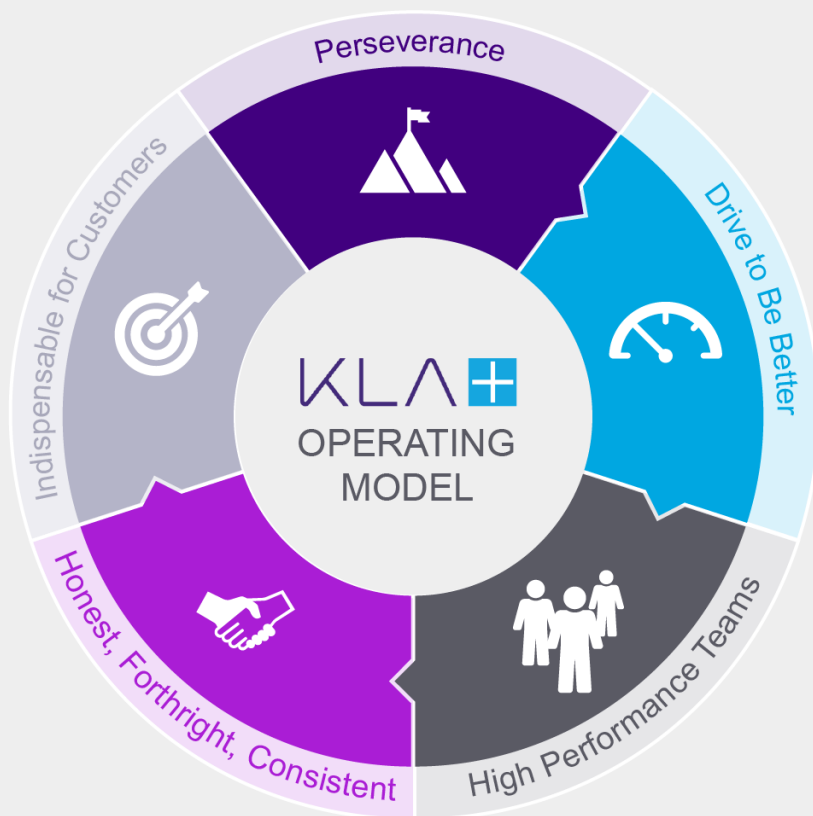
KLA's Four Strategic Objectives Serve As Our Guide



September Quarter 2019 Business Highlights

- 1. Strength in Foundry and Logic.** Foundry and Logic customers increased their capex investments to accelerate the ramp of 7 and 5 nanometer nodes, and the demand picture remains strong going into CY20.
- 2. Accelerated Adoption of Gen5.** Seeing accelerated adoption of the flagship Gen5 optical inspection platform. Shipments are expected to double in 2019 on the back of accelerating investments in EUV and increased investment in leading edge Foundry.
- 3. Launch of New Electron-Beam Inspection Platform.** Our new e-beam inspection platform is receiving strong customer feedback. KLA's differentiated e-beam inspection platform works with our Gen5 optical inspection platform with seamless connectivity to offer customers faster time to results in addressing the small defects that the EUV era generates.
- 4. Strong Momentum in Mask Inspection.** The September quarter marked a continuation of momentum with better than expected mask inspection demand helping to drive revenue upside for the quarter.
- 5. Service Business Continues to Shine.** KLA's recurring revenue service business continues to deliver robust revenue growth performance, while generating strong cash flow. Service revenue is on track to top \$1 billion in 2019.

The KLA Operating Model Also Drives Our Investment Thesis



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

Business Performance and Guidance

Bren Higgins | EVP, CFO



September Quarter 2019 Financial Highlights

\$1.413B

REVENUE

60.8%

Gross Margin

\$228M

Stock Repurchase

\$2.16

GAAP EPS

\$496M

CFO

Record

\$122M

Dividends Paid

\$2.48

NON-GAAP EPS

\$464M

FCF

Record

10th consecutive annual increase in dividend level and additional \$1B share repurchase

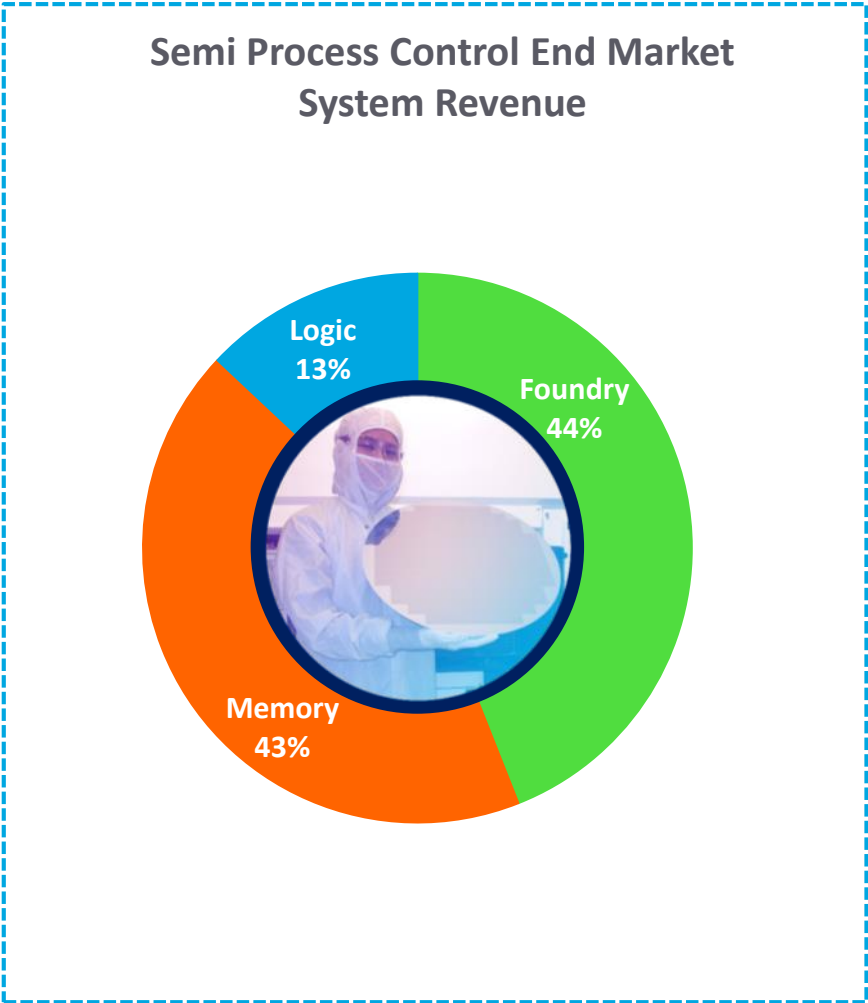
Breakdown of Revenue by Reportable Segments and End Markets

Semiconductor Process Control
(Systems + Services)

Specialty Semiconductor Process
(Systems + Services)

PCB, Display and Component Inspection
(Systems + Services)

Revenue		
Q3-CY19(\$M)	Q/Q Growth %	Revenue Mix
\$1,163	+16%	82%
\$69	+3%	5%
\$179	-3%	13%
Total	\$1,413¹	+12%

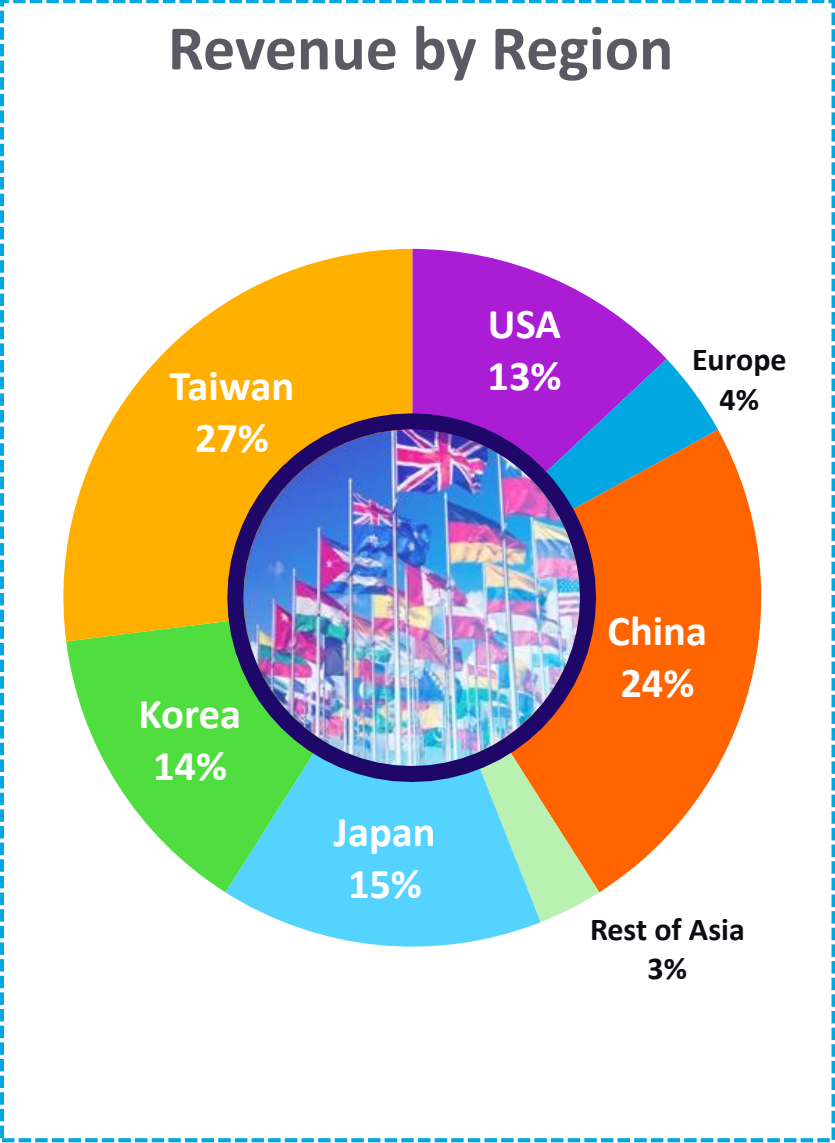


¹ Includes Other Revenue of \$2M.

Breakdown of Revenue by Major Products and Region

- Wafer Inspection**
(Systems Only)
- Patterning**
(Systems Only)
- Specialty Semi Process**
(Systems Only)
- PCB, Display and Component Inspection**
(Systems Only)
- Services**
- Other**
(KLA Pro, Instruments)

Revenue		
Q3-CY19(\$M)	Q/Q Growth %	Revenue Mix
\$448	+13%	32%
\$383	+31%	27%
\$57	+8%	4%
\$120	-5%	9%
\$355	+4%	25%
\$50	+0%	3%
\$1,413	+12%	



Total

Other September Quarter 2019 Income Statement Highlights

\$376M

Total OpEx

11%

Effective Tax Rate

34.2%

Operating Margin

\$398M

Net Income

\$39M

Other Income & Expense

160M

Diluted Shares

Balance Sheet Highlights and Debt Maturities Profile

CONSOLIDATED BALANCE SHEET¹ (\$M)

Total Cash ²	\$	1,752
Working Capital	\$	2,412
Total Assets	\$	9,229
Debt ³	\$	3,424
Total Shareholders' Equity	\$	2,680

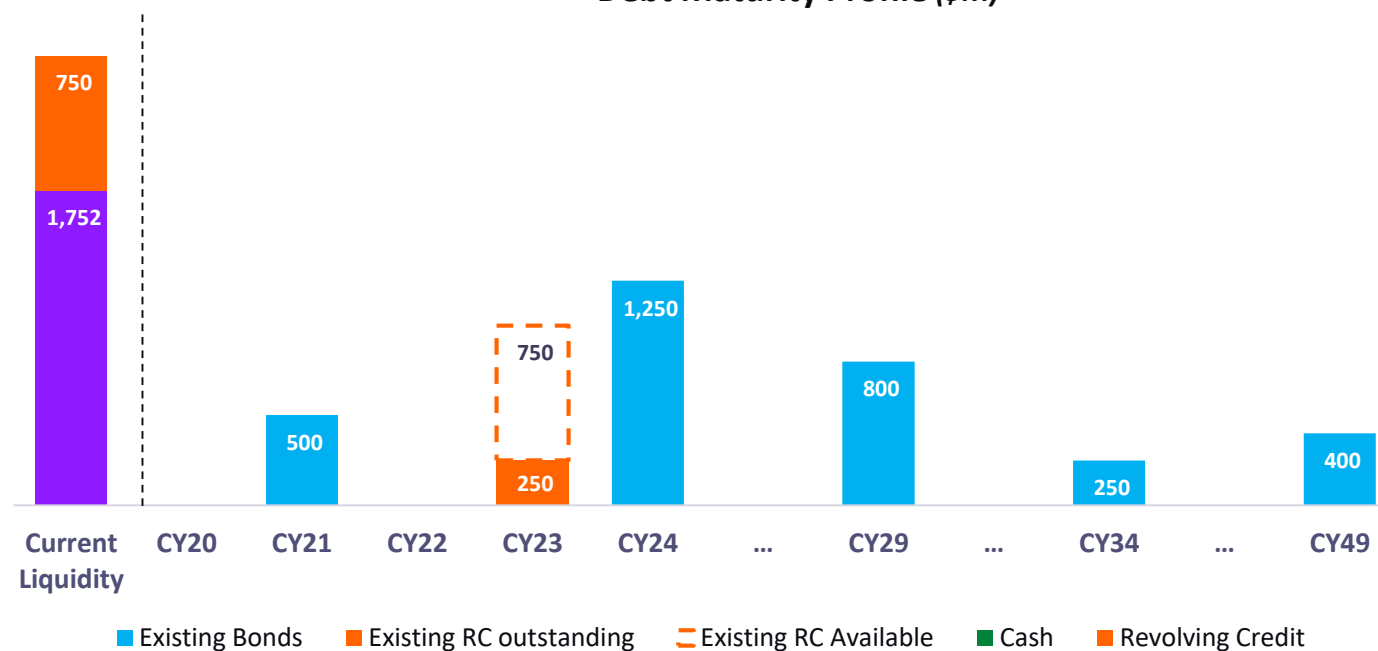
BOND MATURITY PROFILE

Bonds Outstanding	\$	3,450M
Weighted Average Coupon		4.47%
Weighted Average Life		8.9 years

INVESTMENT GRADE CREDIT RATINGS

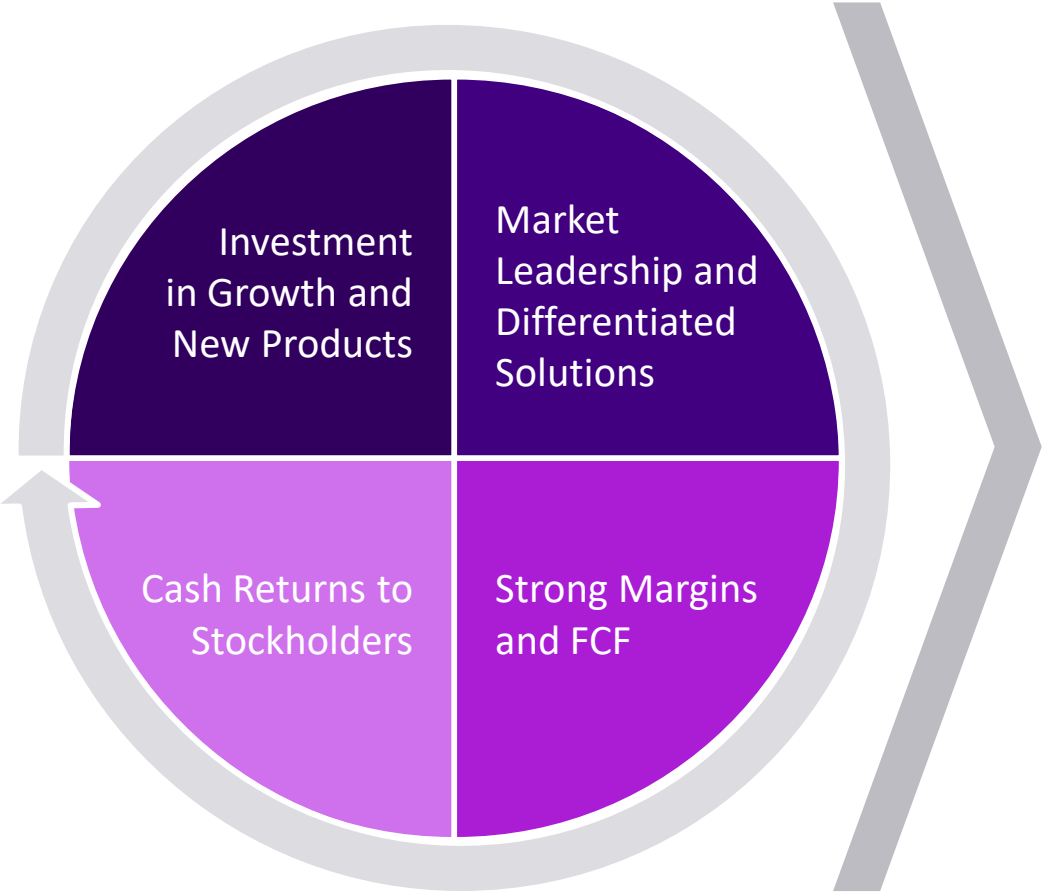
Moody's	Baa1
S&P	BBB
Fitch	BBB+

Debt Maturity Profile (\$M)

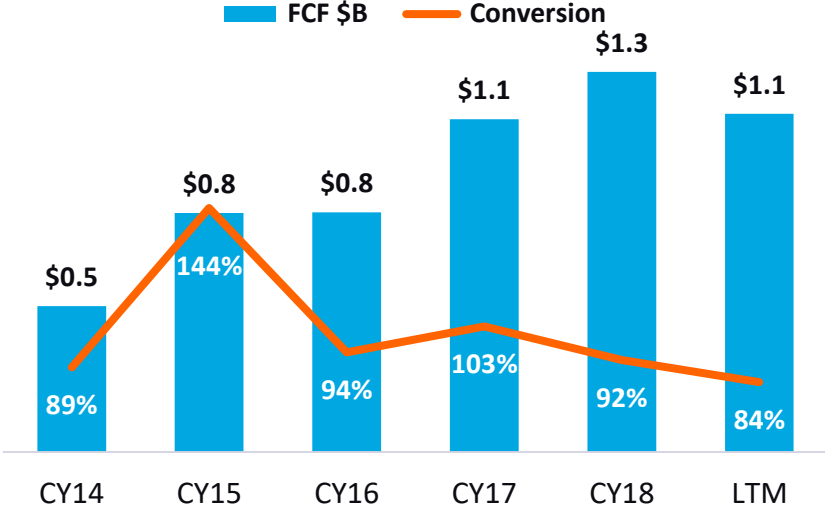


¹ As of 9/30/19; ² Total Cash includes Cash, Cash Equivalents and Marketable Securities; ³ Difference between debt of \$3.424B and gross debt of \$3,450B is un-amortized debt issuance discounts and costs.

FCF Generation Fuels Consistent Capital Return to Shareholders



FREE CASH FLOW¹ & CONVERSION²



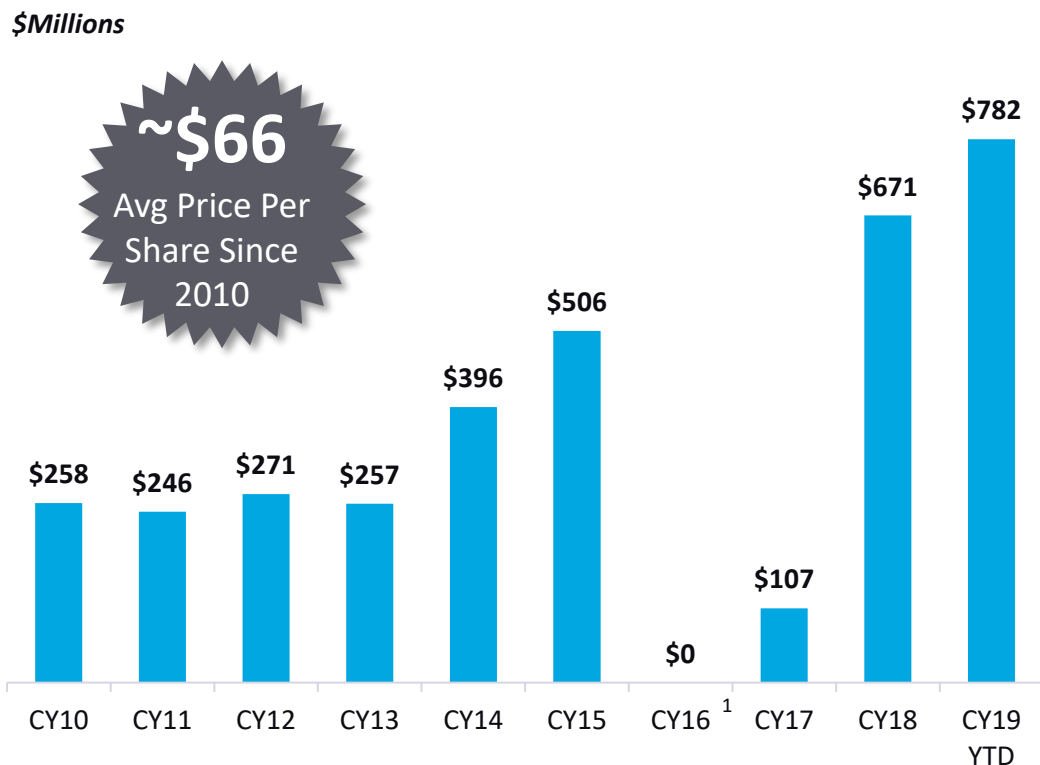
- Introducing new products at a 2x pace vs. our competitors
- Achieving market share of 4x our nearest competitor
- High gross margin and FCF conversion via differentiation
- >70% of Free Cash Flow returned to shareholders through dividends and share repurchases

¹ Free Cash Flow (FCF) = Cash Flow from Operating Activities minus Capital Expenditures

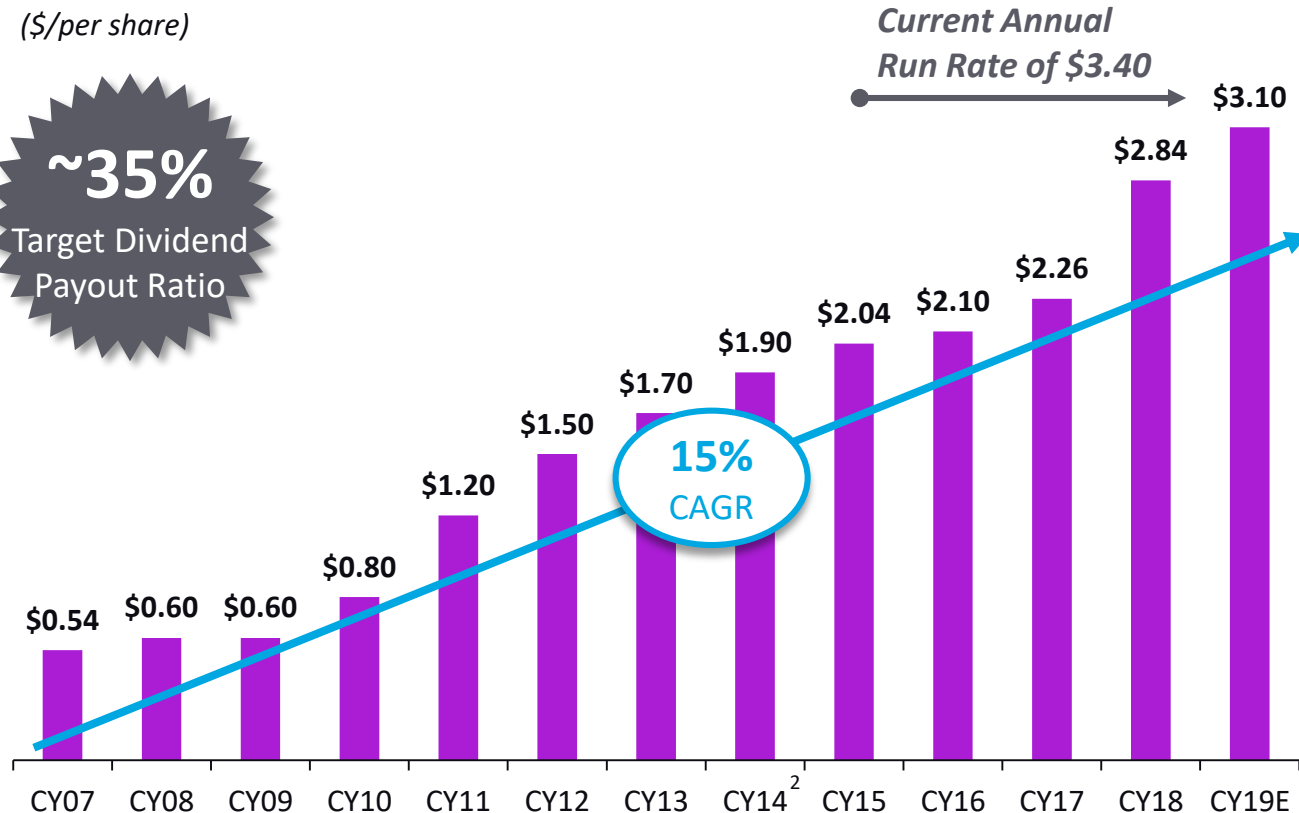
² FCF Conversion defined as FCF/Adjusted Net Income

Capital Return to Investors is Spread Across Buybacks and Dividends

CONSISTENT SHARE REPURCHASES



STRONG TRACK RECORD OF ANNUAL DIVIDEND INCREASES



¹Share repurchase halted in CY16 during KLA-Lam merger talk ²Excludes \$16.50 per share special dividend

December Quarter 2019 Guidance (Q2 FY20)

	DECEMBER 2019 QTR
SALES	\$1.435B - \$1.515B
GROSS MARGIN	60% - 61%
GAAP EPS	\$2.13 - \$2.43
NON-GAAP EPS	\$2.39 - \$2.69

- MACRO ASSUMPTIONS**
- Semiconductor industry CAGR of 4% - 5%
 - Semi Process Control System Revenue from Foundry: 55%
 - Semi Process Control System Revenue from Memory: 36%
- MODEL ASSUMPTIONS**
- Operating Expenses: ~\$385M
 - Interest & Other Expense (OIE): ~\$38M
 - Effective Tax Rate: 14%
 - Diluted Share Count: 159M

Driving Profitable Growth and Delivering Shareholder Value

Reconciliation of Non-GAAP Financial Measures

<i>(In thousands, except per share amounts and percentages)</i>	For the three months ended		
	September 30, 2019	June 30, 2019	September 30, 2018
GAAP net income	\$ 346,525	\$ 217,845	\$ 395,944
<u>Adjustments to reconcile GAAP net income to non-GAAP net income*:</u>			
Acquisition-related charges	a 73,363	102,807	5,551
Income tax effect of non-GAAP adjustments	b (22,266)	(32,930)	(310)
Discrete tax items	c -	983	(17,106)
Non-GAAP net income	\$ 397,622	\$ 288,705	\$ 384,079
GAAP net income as a percentage of revenue	24.5%	17.3%	36.2%
Non-GAAP net income as a percentage of revenue	28.1%	22.9%	35.1%
GAAP net income per diluted share	\$ 2.16	\$ 1.35	\$ 2.54
Non-GAAP net income per diluted share	\$ 2.48	\$ 1.78	\$ 2.46
Shares used in diluted shares calculation	160,131	161,937	156,083
GAAP operating income	\$ 410,248	\$ 268,900	\$ 443,905
<u>Adjustments to reconcile GAAP operating income to non-GAAP operating income*:</u>			
Acquisition-related charges	a 73,363	102,807	5,551
Non-GAAP operating income (1)	\$ 483,611	\$ 371,707	\$ 449,456
GAAP operating income as a percentage of revenue	29.0%	21.4%	40.6%
Non-GAAP operating income as a percentage of revenue	34.2%	29.5%	41.1%

* 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 includes 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 expense associated with change in the liability included in selling, general and administrative expense for the three months ended September 30, 2019, June 30, 2019, and September 30, 2018 was \$1.9 million, \$6.6 million and \$7.5 million, respectively. The net gains associated with the changes in the EDSP asset included in selling, general and administrative expense for the three months ended September 30, 2019, June 30, 2019 and September 30, 2018 were \$2.3 million, \$7.0 million and \$7.4 million, respectively.

Reconciliation of Non-GAAP Financial Measures

<i>(In thousands, except percentages)</i>	For the three months ended		
	September 30, 2019	June 30, 2019	September 30, 2018
GAAP gross margin	\$ 809,173	\$ 665,650	\$ 711,873
<u>Adjustments to reconcile GAAP gross margin to non-GAAP gross margin*:</u>			
Acquisition-related charges	a 49,999	75,805	890
Non-GAAP gross margin	\$ 859,172	\$ 741,455	\$ 712,763
GAAP gross margin as a percentage of revenue	57.2%	52.9%	65.1%
Non-GAAP gross margin as a percentage of revenue	60.8%	58.9%	65.2%
GAAP operating expenses	\$ 398,925	\$ 396,750	\$ 267,968
<u>Adjustments to reconcile GAAP operating expenses to non-GAAP operating expenses*:</u>			
Acquisition-related charges	a (23,364)	(27,002)	(4,661)
Non-GAAP operating expenses (1)	\$ 375,561	\$ 369,748	\$ 263,307
GAAP operating expenses as a percentage of revenue	28.2%	31.5%	24.5%
Non-GAAP operating expenses as a percentage of revenue	26.6%	29.4%	24.1%

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Reconciliation of Non-GAAP Financial Measures

<i>(In thousands, except percentages)</i>	For the three months ended		
	September 30, 2019	June 30, 2019	September 30, 2018
GAAP income before income taxes	\$ 371,516	\$ 231,310	\$ 427,568
GAAP income tax expense	\$ 25,120	\$ 13,982	\$ 31,624
GAAP income tax rate	6.8%	6.0%	7.4%
<u>Adjustments to reconcile GAAP effective tax rate to non-GAAP effective tax rate*:</u>			
Acquisition-related charges	a 73,363	102,807	5,551
Non-GAAP income before income taxes	\$ 444,879	\$ 334,117	\$ 433,119
Income tax effects of non-GAAP adjustments	b 22,266	32,930	310
Discrete tax item	c -	(983)	17,106
Non-GAAP income tax expense	\$ 47,386	\$ 45,929	\$ 49,040
Non-GAAP income tax rate	10.7%	13.7%	11.3%

* 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 Q4 CY 2019 Guidance Range

<i>(In millions, except per share amounts and percentages)</i>	<u>Low</u>	<u>High</u>
GAAP diluted net income per share	\$ 2.13	\$ 2.43
Acquisition-related charges	a 0.37	0.37
Income tax effect of non-GAAP adjustments	b (0.11)	(0.11)
Non-GAAP diluted net income per share	<u>\$ 2.39</u>	<u>\$ 2.69</u>
Shares used in net income per diluted shares calculation	<u>159.0</u>	<u>159.0</u>
GAAP gross margin as a percentage of revenue	57.5%	58.6%
Acquisition-related charges	a 2.5%	2.4%
Non-GAAP gross margin as a percentage of revenue	<u>60.0%</u>	<u>61.0%</u>
GAAP operating expenses	\$ (405)	\$ (410)
Acquisition-related charges	a 22	22
Non-GAAP operating expenses	<u>\$ (383)</u>	<u>\$ (388)</u>

Note: The guidance as of October 30, 2019 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 the 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 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, amortization of inventory fair value adjustments and backlog, and transaction costs associated with our acquisitions, primarily Orbotech. 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. Income tax effect of non-GAAP adjustments includes the income tax effects of the excluded items noted above. 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.
- c. Discrete tax item include charges associated with the acquisition of Orbotech as well as the income tax effects of an income tax expense from the enacted tax reform legislation through the Tax Cuts and Jobs-Act (the "Act"), which was signed into law on December 22, 2017, of which the impact is primarily related to the provisional tax amounts recorded for the transition tax on accumulated foreign earnings and the re-measurement of certain deferred tax assets and liabilities as a result of the enactment of the Act. 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.