



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 cyclicalities; (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

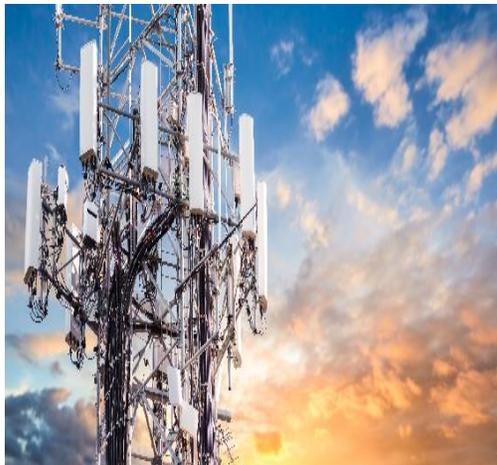
# Who is KLA?



# 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



Semiconductors Power The World More Today Than Ever Before



KLA is Critical to Powering the Semi Industry



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

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**

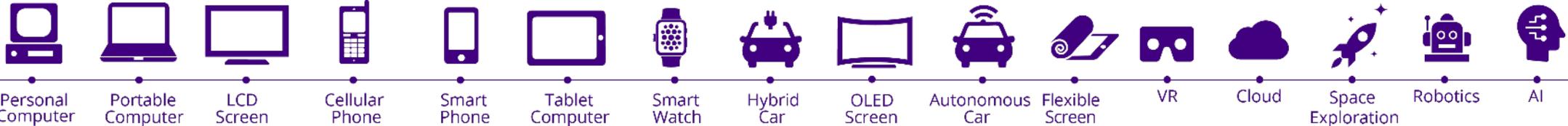
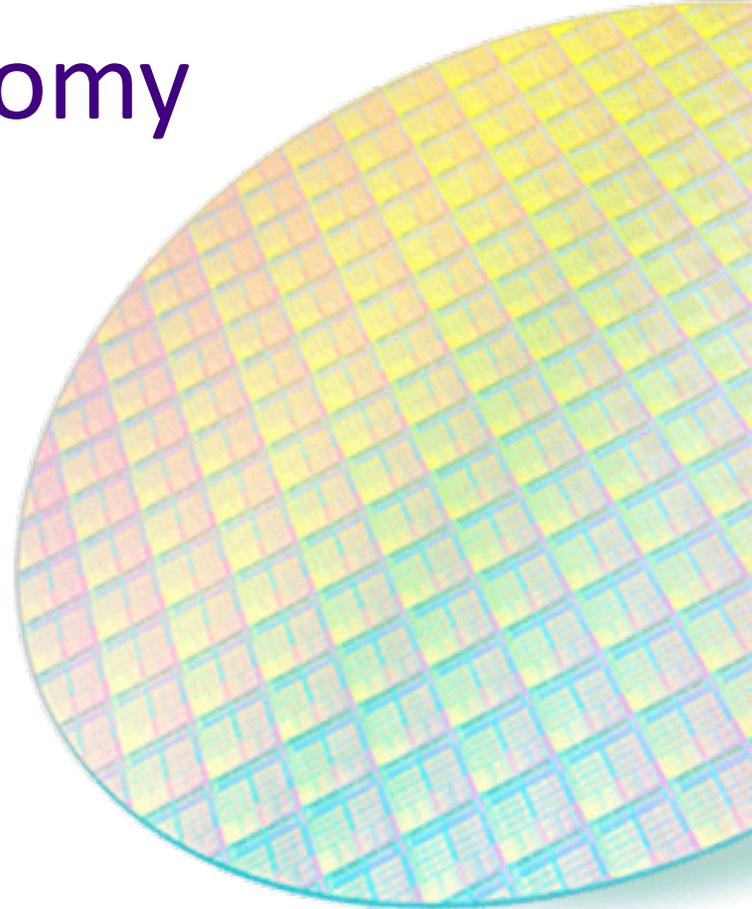


**BOBBY BELL**

EVP, Chief Strategy Officer  
**1994**

# KLA Helps Enable The Digital Economy

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



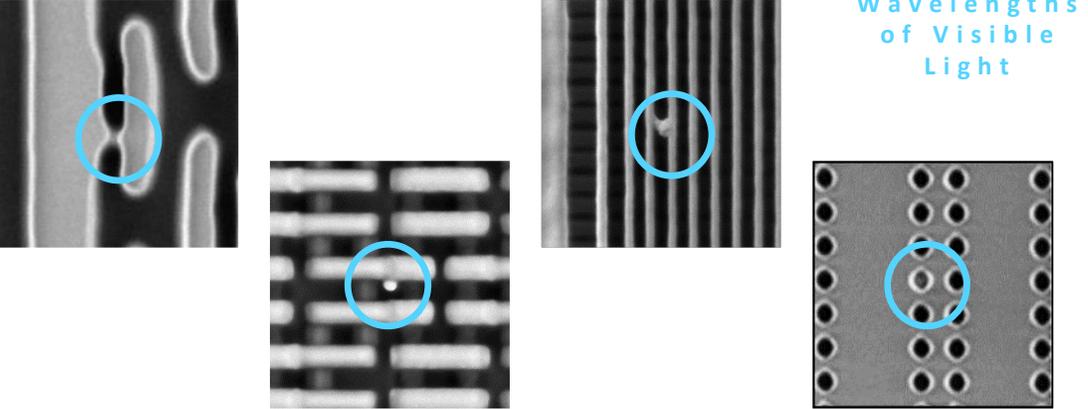
Achieve world-class results in market leadership, product differentiation and operational excellence with our diverse and inclusive global organization

# 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

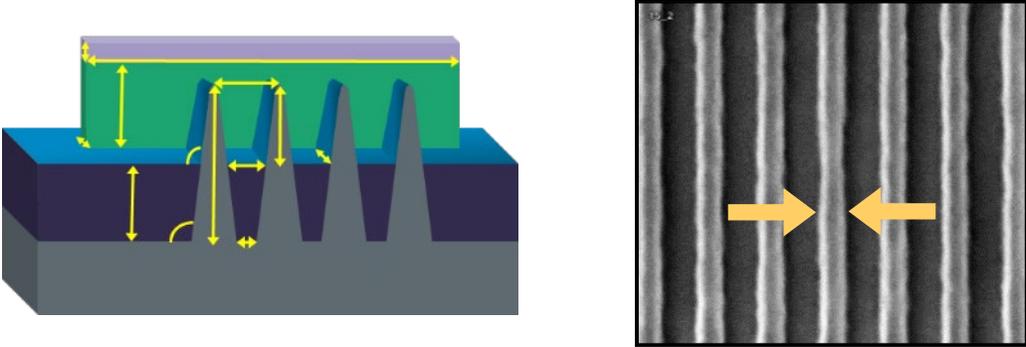
Find Critical Defects



You Can't Fix What You Can't Find

## Metrology

Measure Critical Dimensions



You Can't Control What You Can't Measure

# \$15 billion

investment for a leading-edge  
semiconductor fab



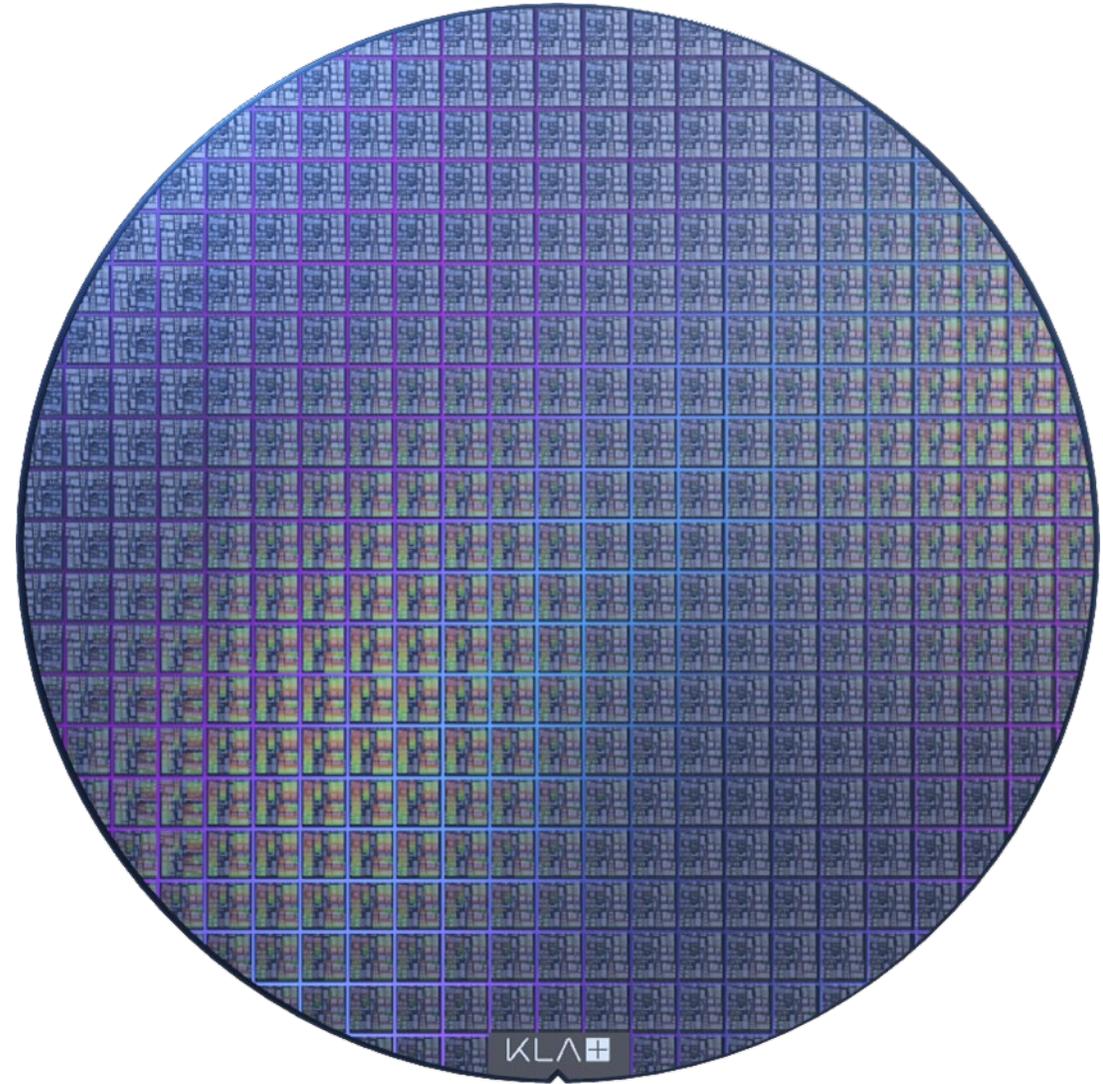
# >1000

process steps

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

# >\$10,000

cost of one  $\leq 7\text{nm}$  wafer



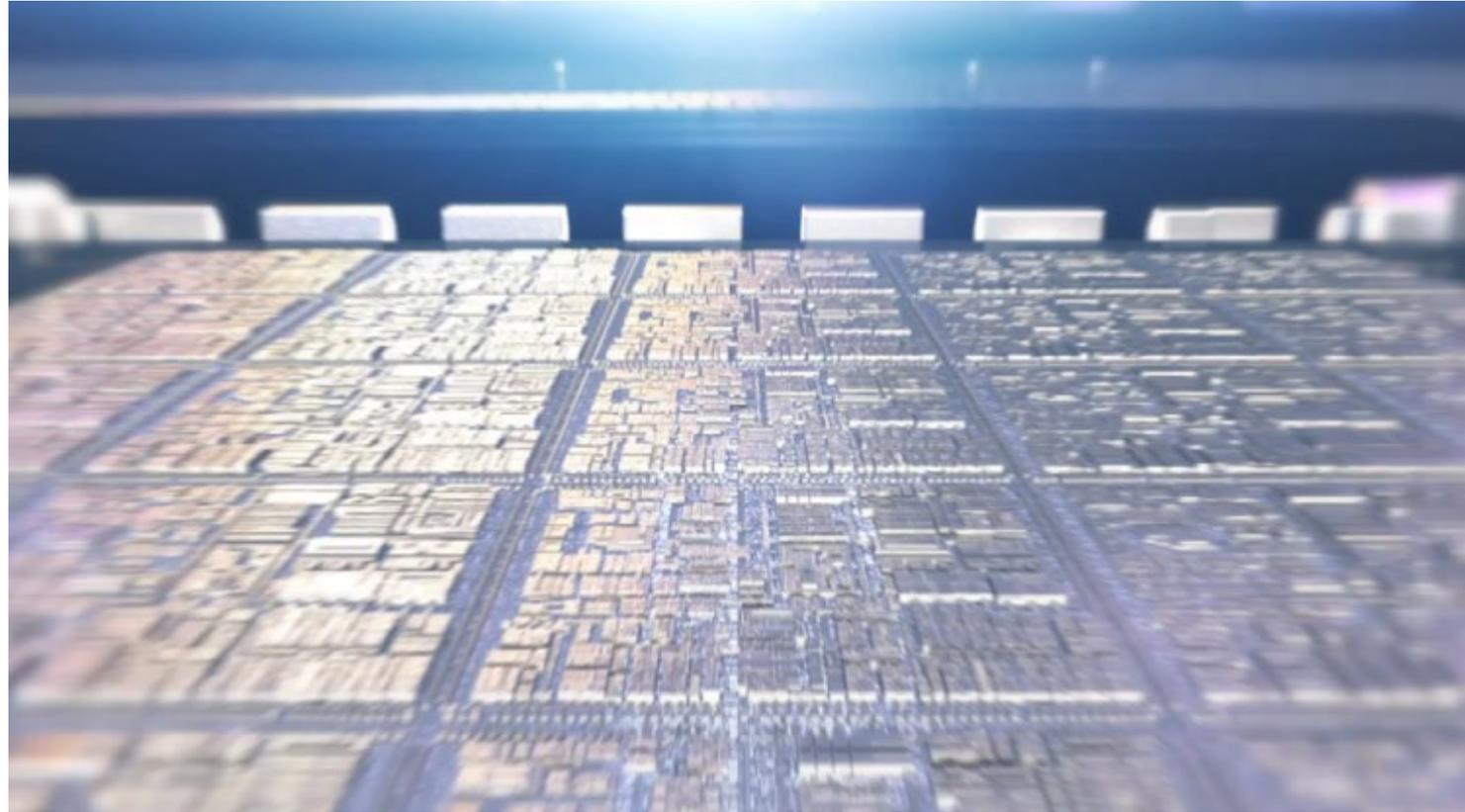
KLA systems find the

**defects**

and

**variations**

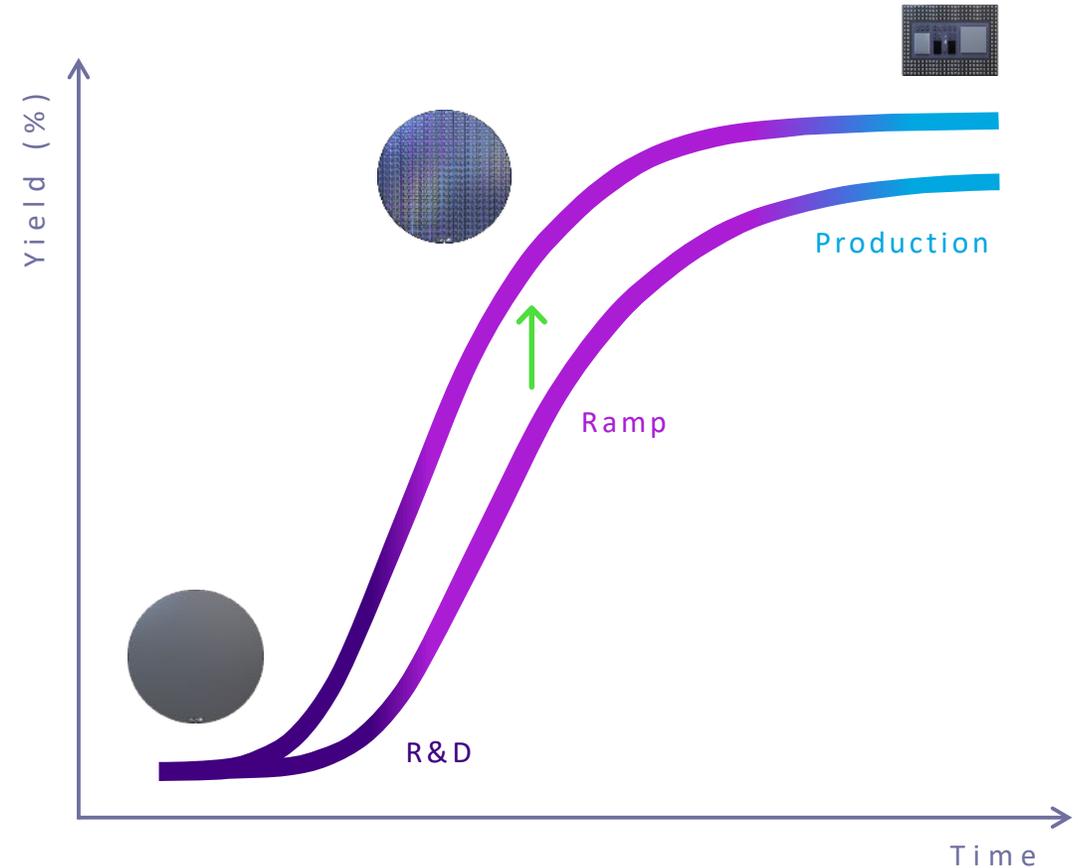
that affect IC performance



process control improves the

- productivity
- predictability
- profitability

of a fab by maximizing the output



# KLA at a Glance<sup>1</sup>

## 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 | EPS  
**\$5.9B** | **\$10.89**  
+ 21% Y/Y | + 28% Y/Y



Revenue Split  
**\$4.4B Systems (74%)**  
**\$1.5B Services (26%)**



Operating Margin  
**35.6%**

## LTM Free Cash Flow and Capital Return

**\$1.6B**

Free Cash Flow (FCF)

**~28%**

FCF Margin



**11 Years**

Consecutive Dividend Increases

**82%+**

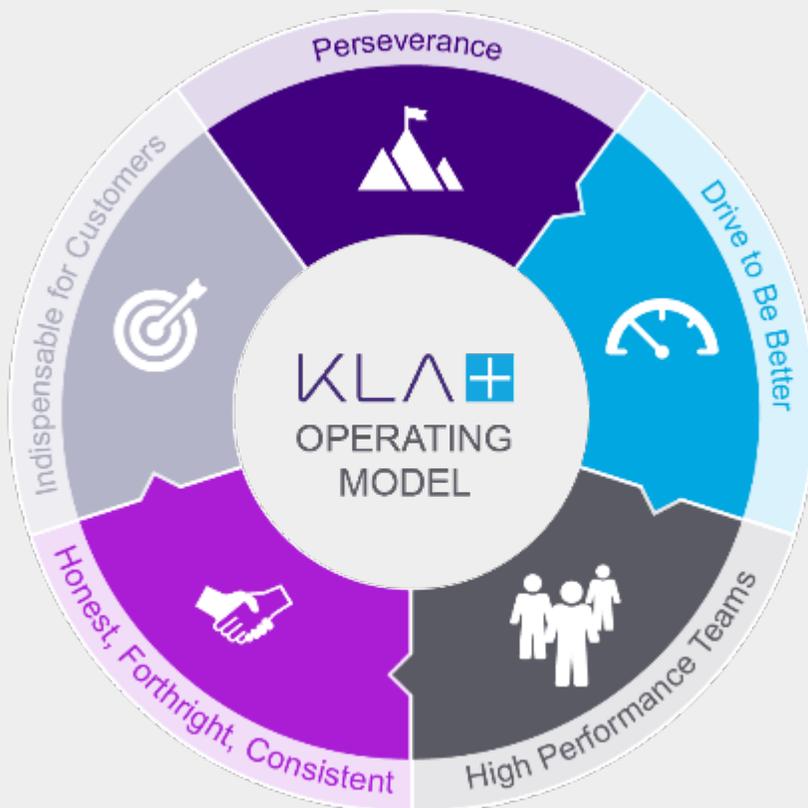
Capital Return %

Diversified Global Leader in Electronics Value Chain

# 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

# 1976

## KLA INSTRUMENTS FOUNDED

1 Operating Division - Mask Inspection

# 1997

## KLA MERGES WITH TENCOR

Leading Inspection combines with leading metrology

Pre-Merger Revenue \$800M

Pre-Merger SAM \$1.5B

# 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

- 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

## 2007-2018

10+ strategic acquisitions further expand KLA portfolio

## 2006

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

## 1998-2004

10+ strategic acquisitions expand offering and market opportunities

## 2016

Codified KLA Operating Model and trained 150 top KLA employees

## 1980

Expanded product lines with Wafer Inspection

## 1992

Formalized product life cycle (PLC) management

## 1978

KLA 100, 1<sup>st</sup> Product, Ships

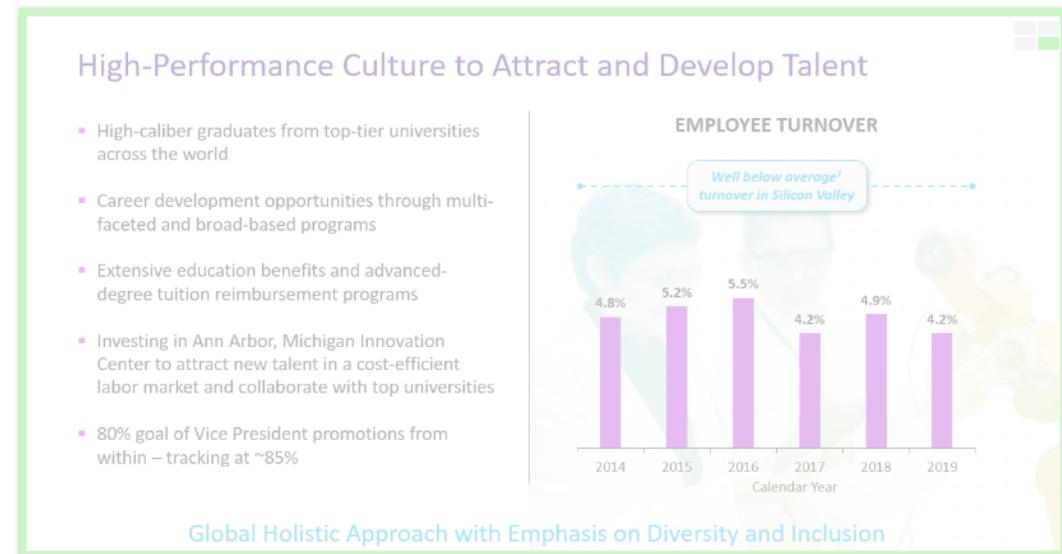
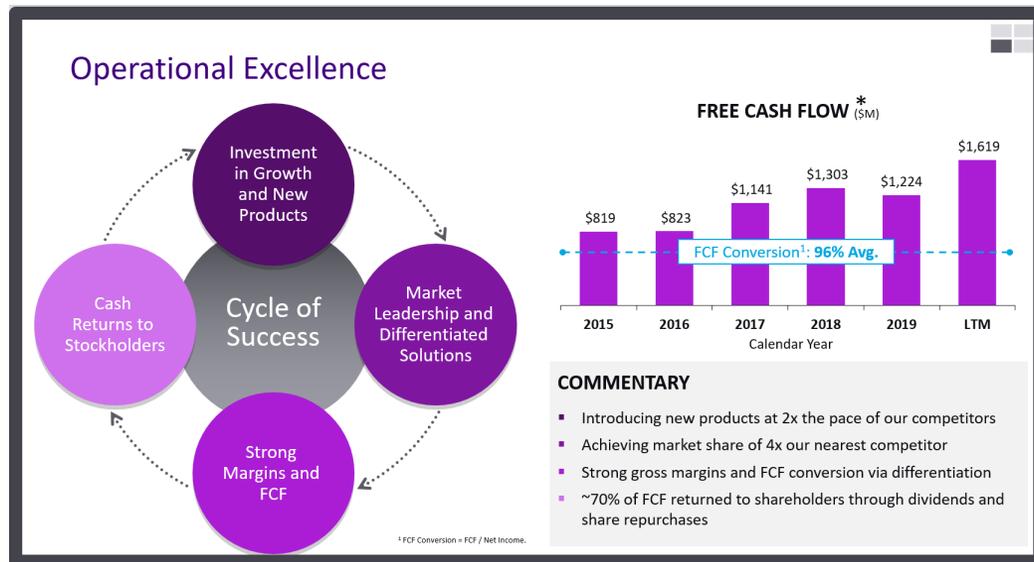
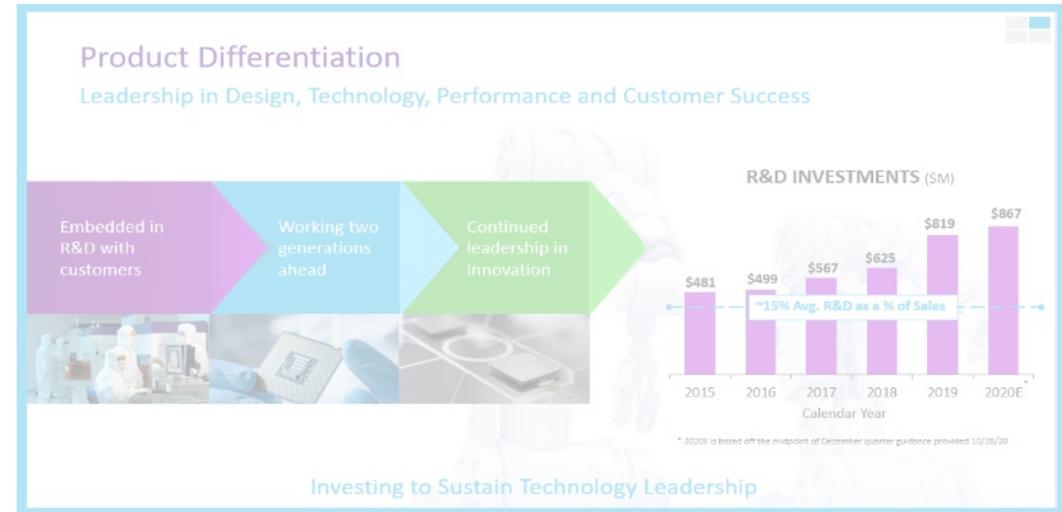
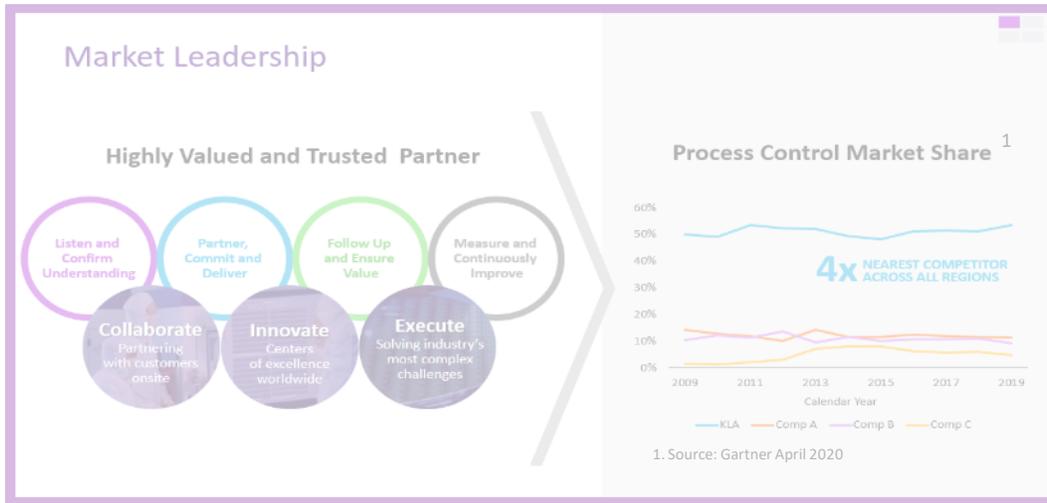
## 1988

Sales of ~\$113M surpass \$100M for 1<sup>st</sup> time

The KLA Operating Model Is Key To Driving Operational Decisions

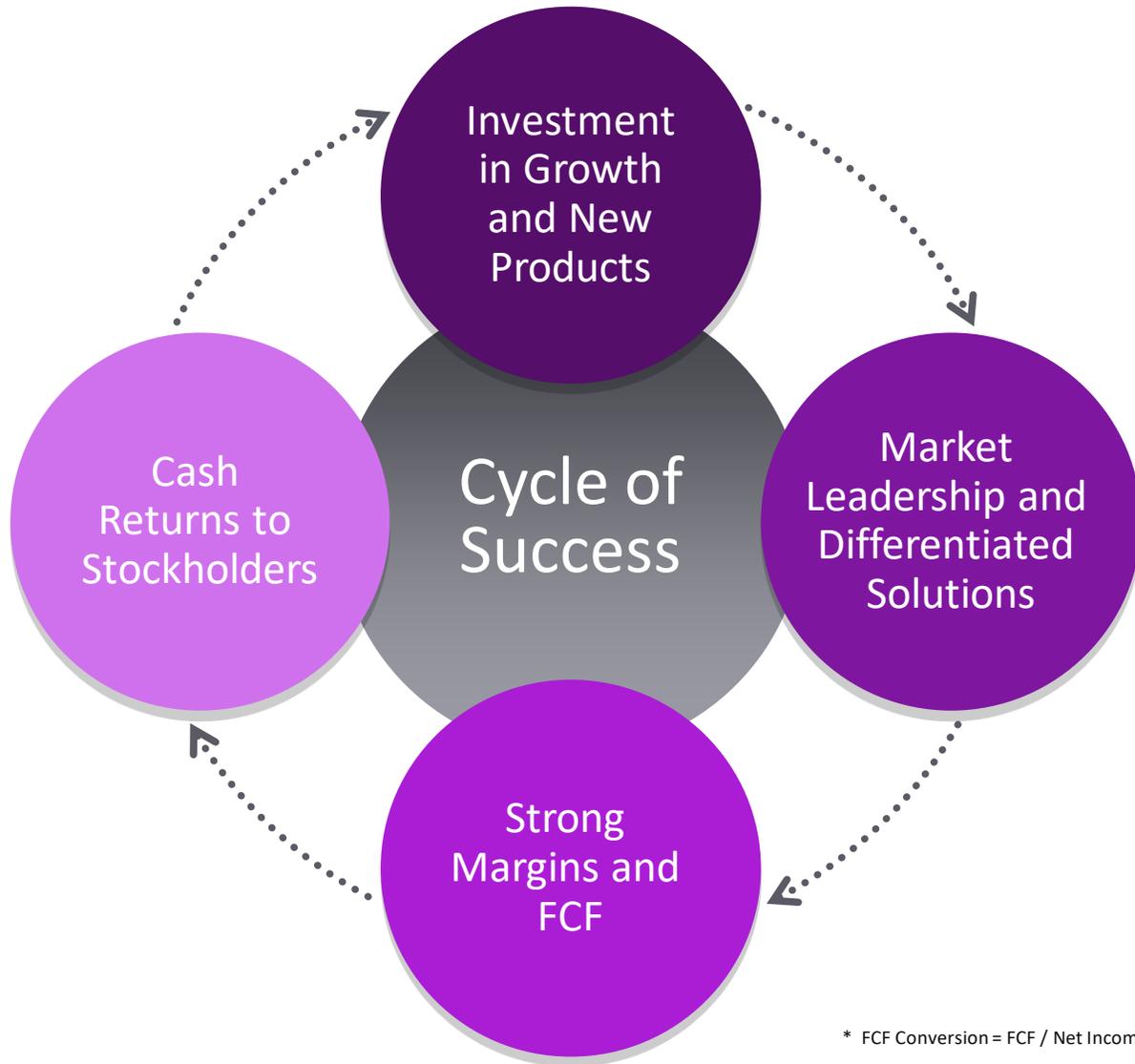


# KLA's Strategic Objectives Serve As Our Guide



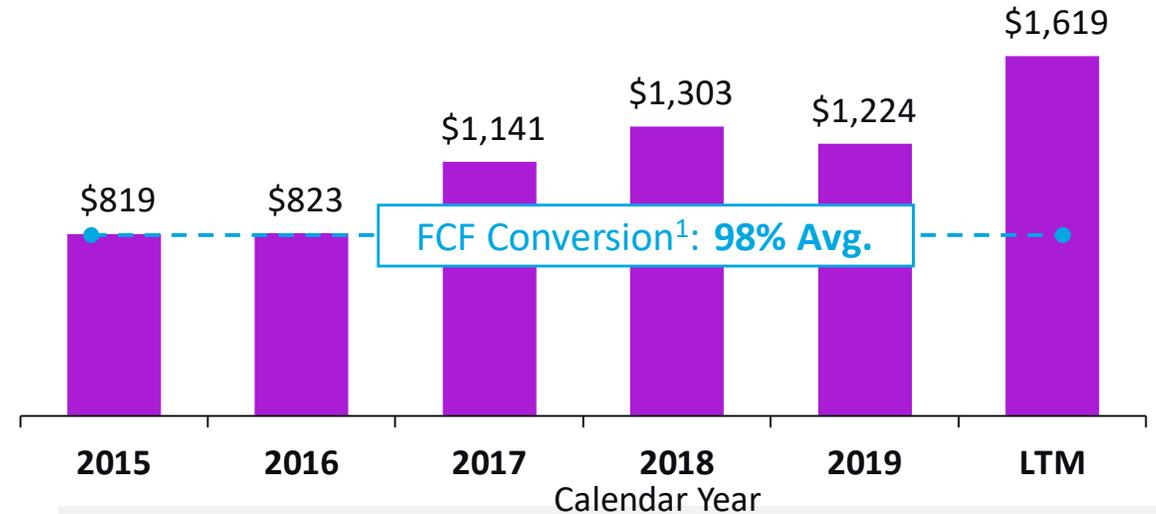
\* Non-GAAP metric – Please refer to Appendix for reconciliation to GAAP.

# Operational Excellence



\* FCF Conversion = FCF / Net Income

## FREE CASH FLOW\* (\$M)



### 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

# 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<sup>1</sup>:** Saving 80,000 metric tons of CO<sub>2</sub> 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

<sup>1</sup> 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

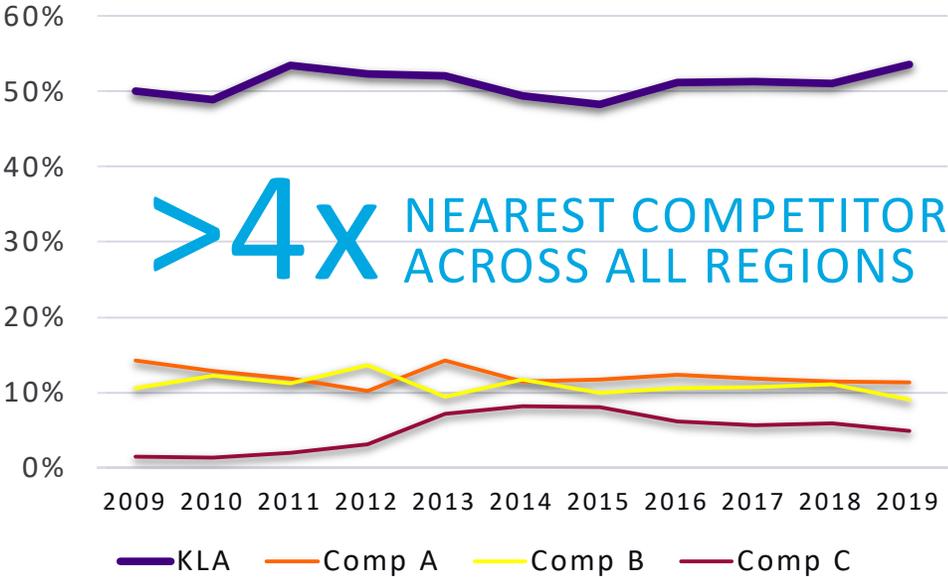


# Market Leader in Semiconductor Process Control

Highly Valued and Trusted Partner

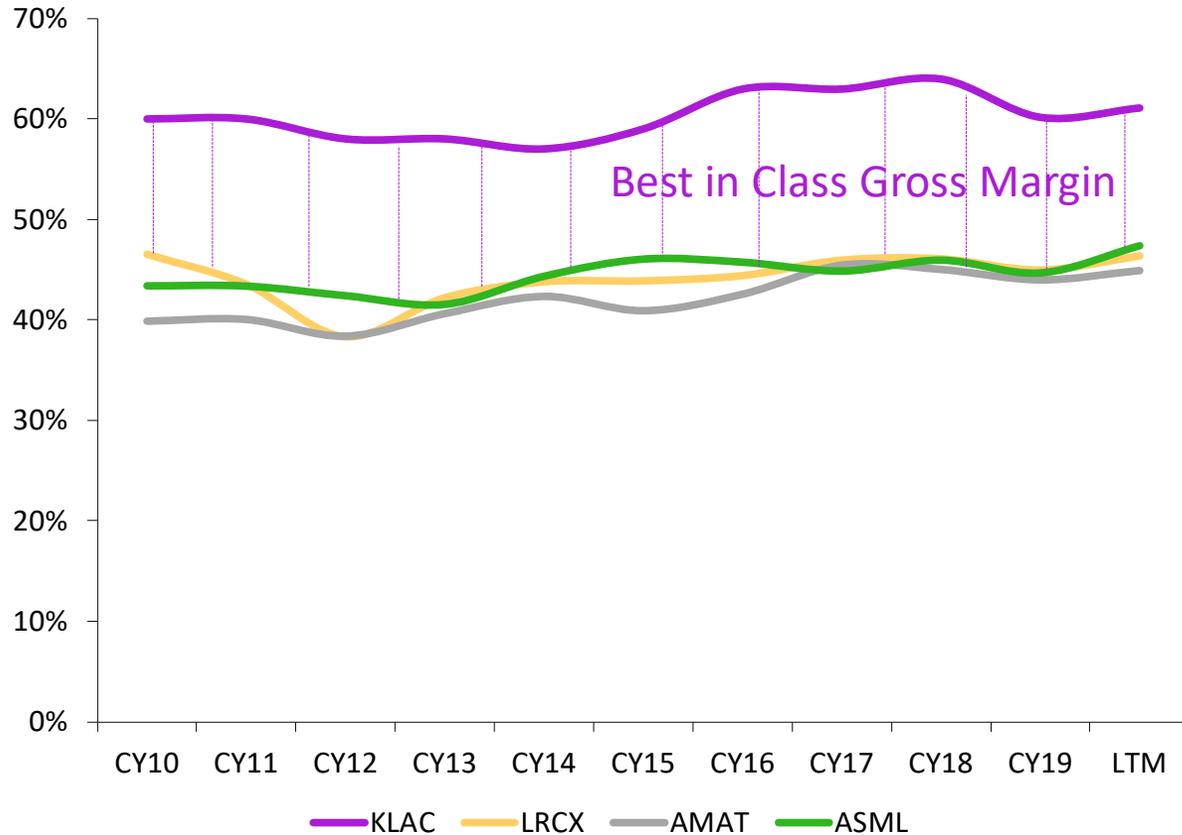


Process Control Market Share

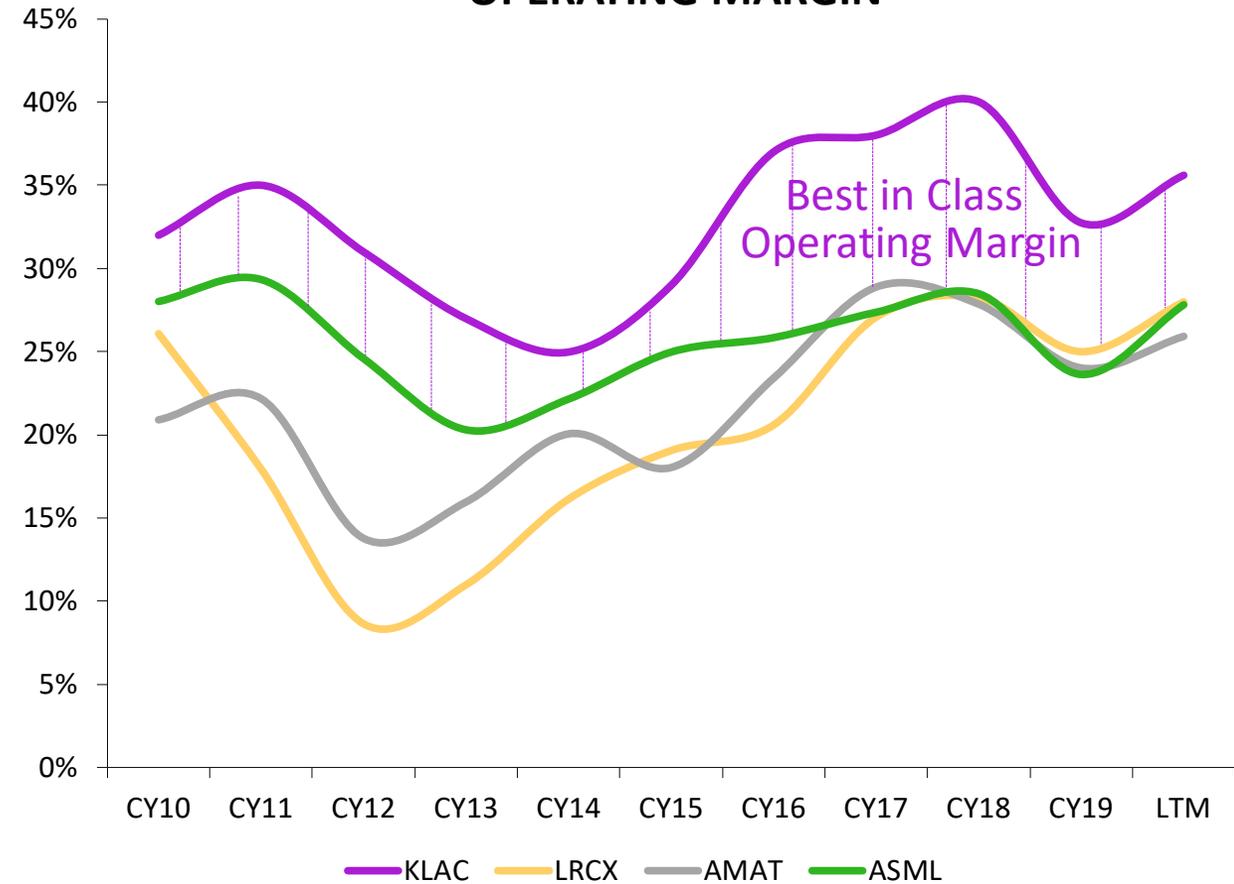


# KLA Has A History of Best in Class Margins Versus Leading Peers

## GROSS MARGIN<sup>1</sup>



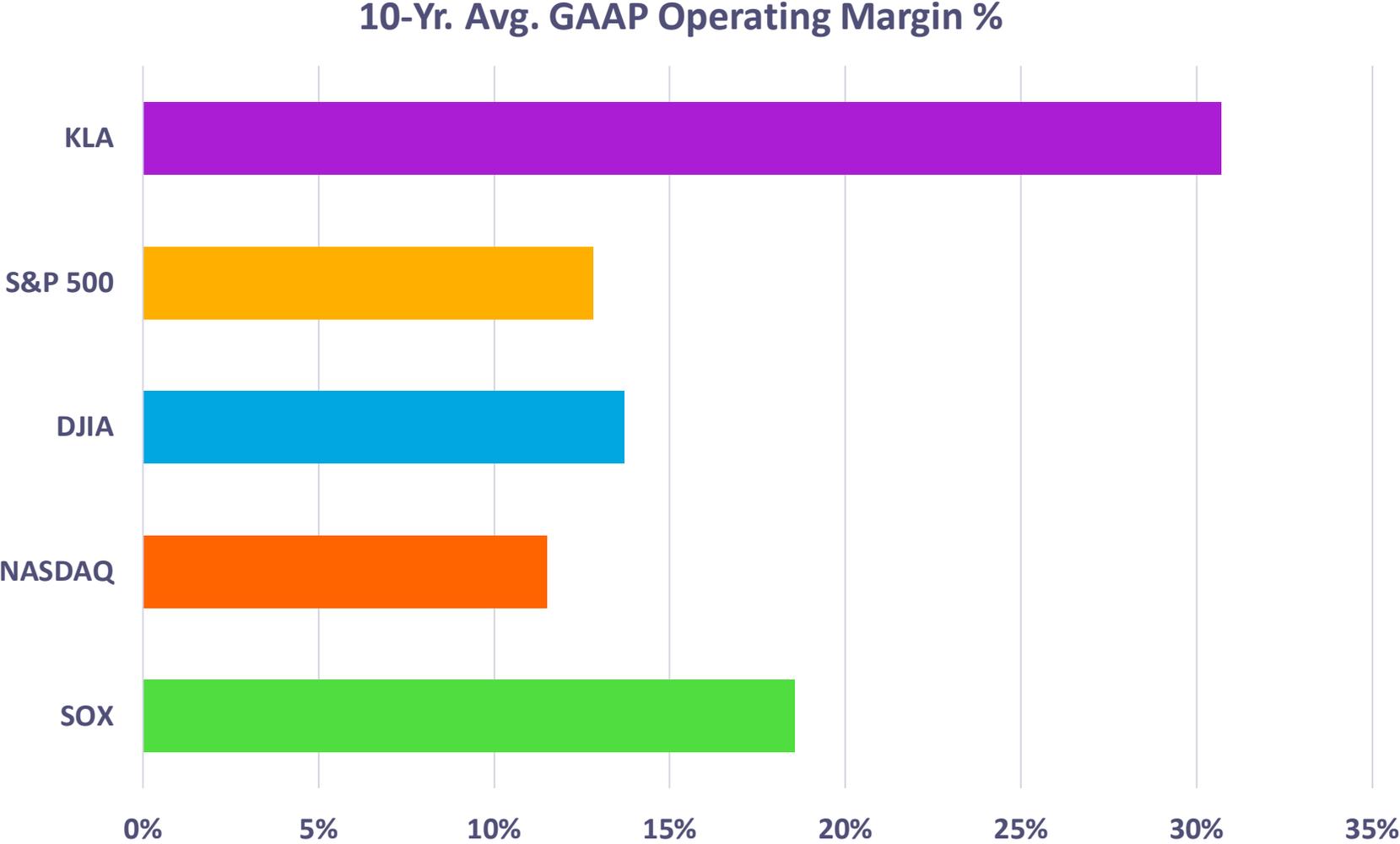
## OPERATING MARGIN<sup>1</sup>



<sup>1</sup> 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



Source: Bloomberg



# KLA Innovates to Differentiate



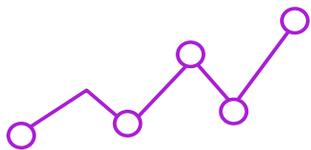
Embedded in R&D  
with customers



Working two  
generations ahead

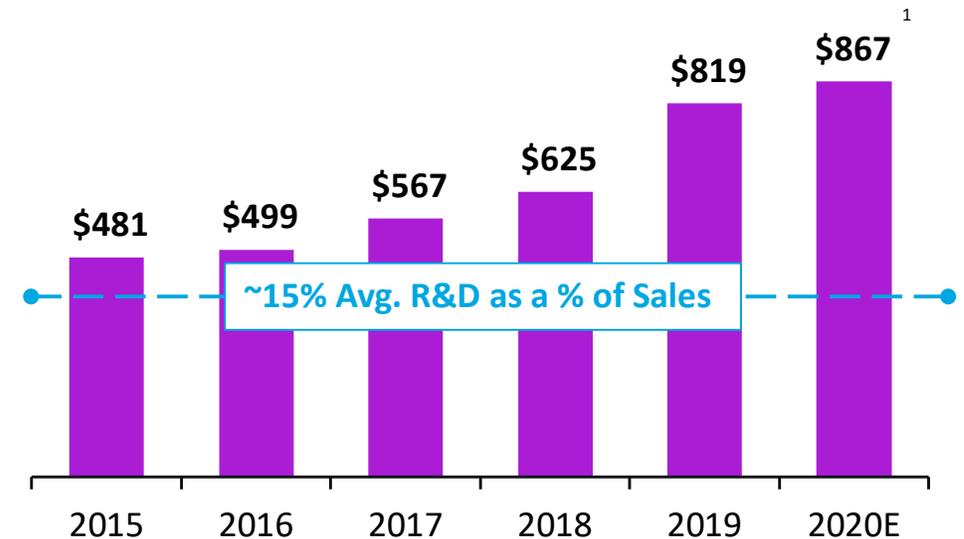


Continued leadership  
in innovation



Innovation 2X pace of  
competition

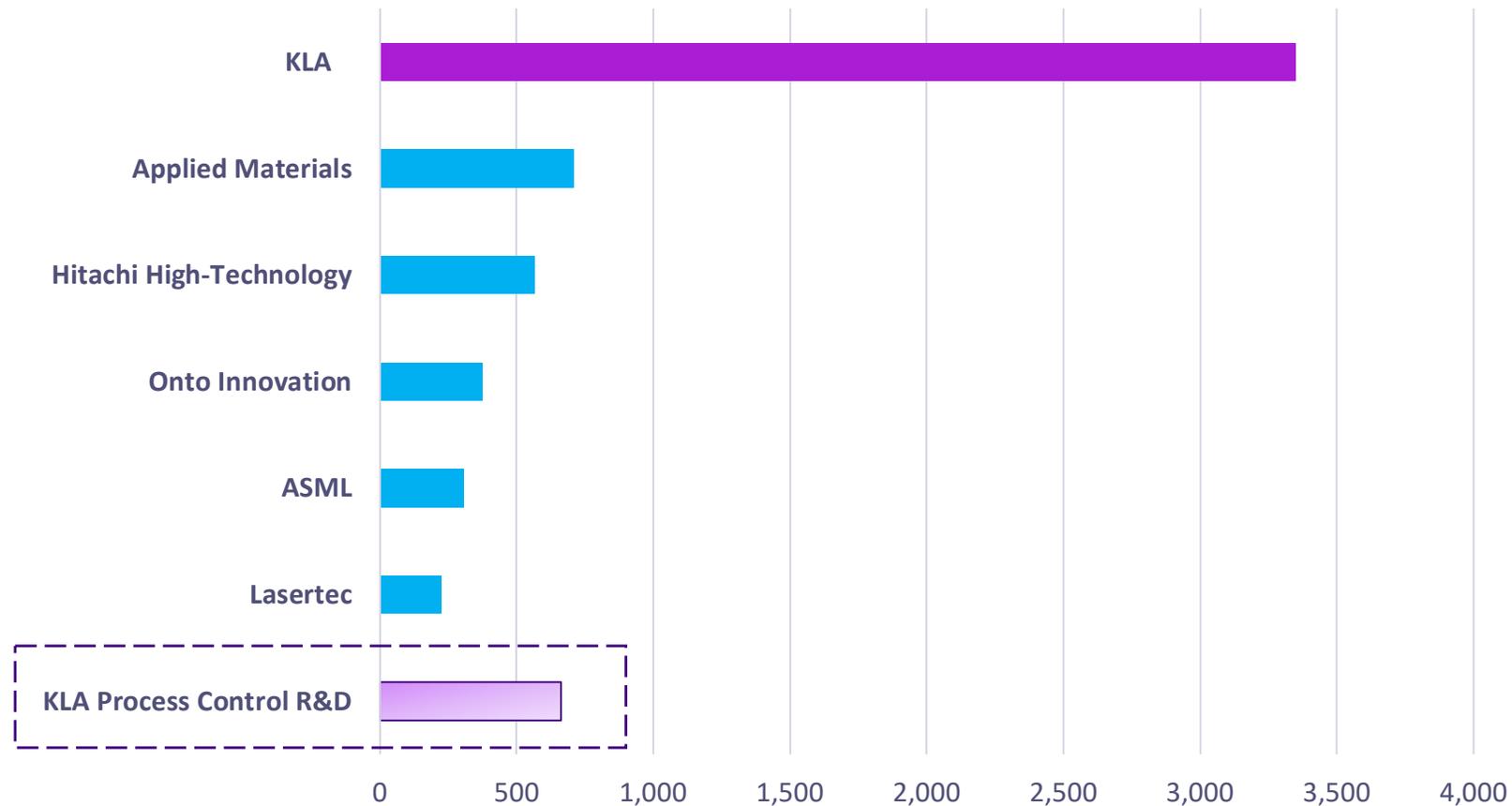
R&D INVESTMENTS (\$M)



<sup>1</sup> 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)



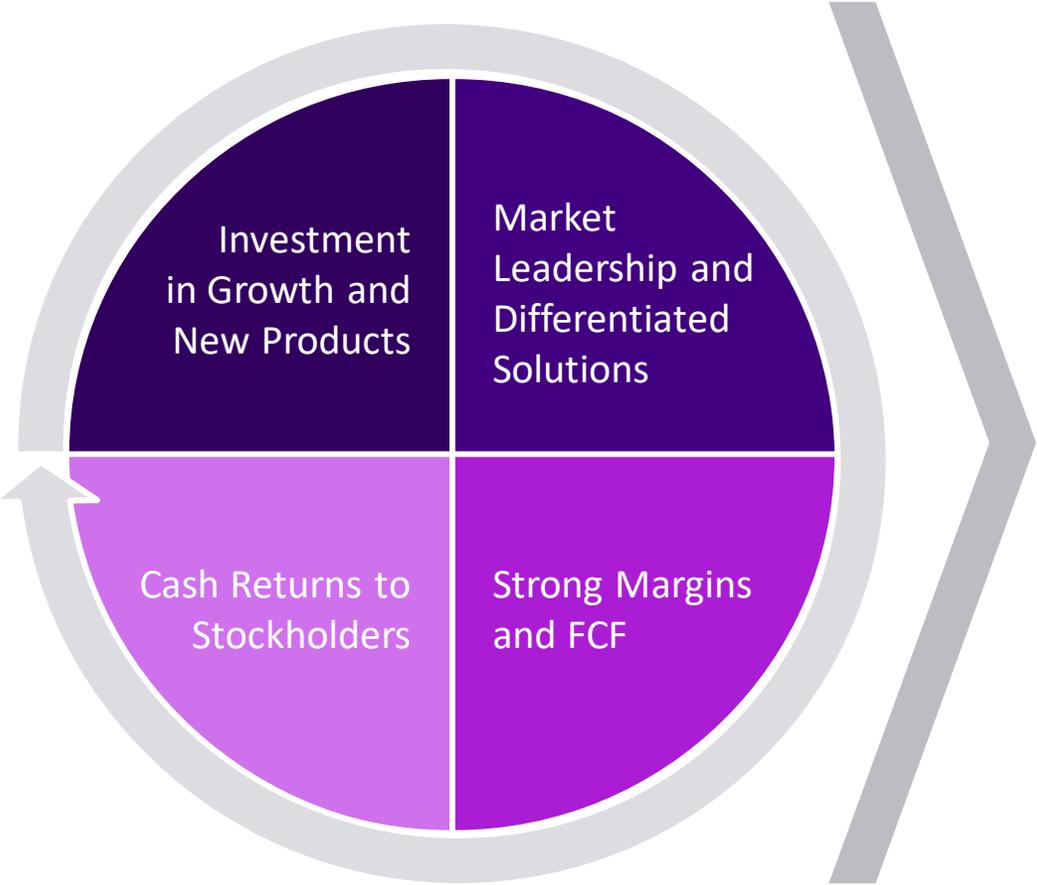
KLA's Process Control R&D > Most Competitors Process Control Revenue

# A History of Strong Cash Flow & Capital Returns

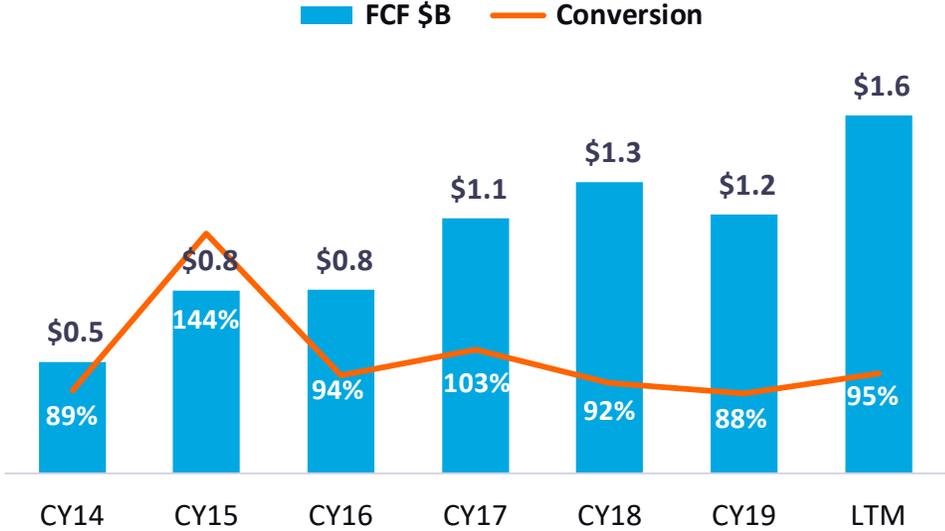
Sustainable Free Cash Flow | Rapidly Growing Services Business | Consistent Capital Returns



# FCF Generation Fuels Consistent Capital Return to Shareholders



FREE CASH FLOW<sup>1</sup> & CONVERSION<sup>2</sup>

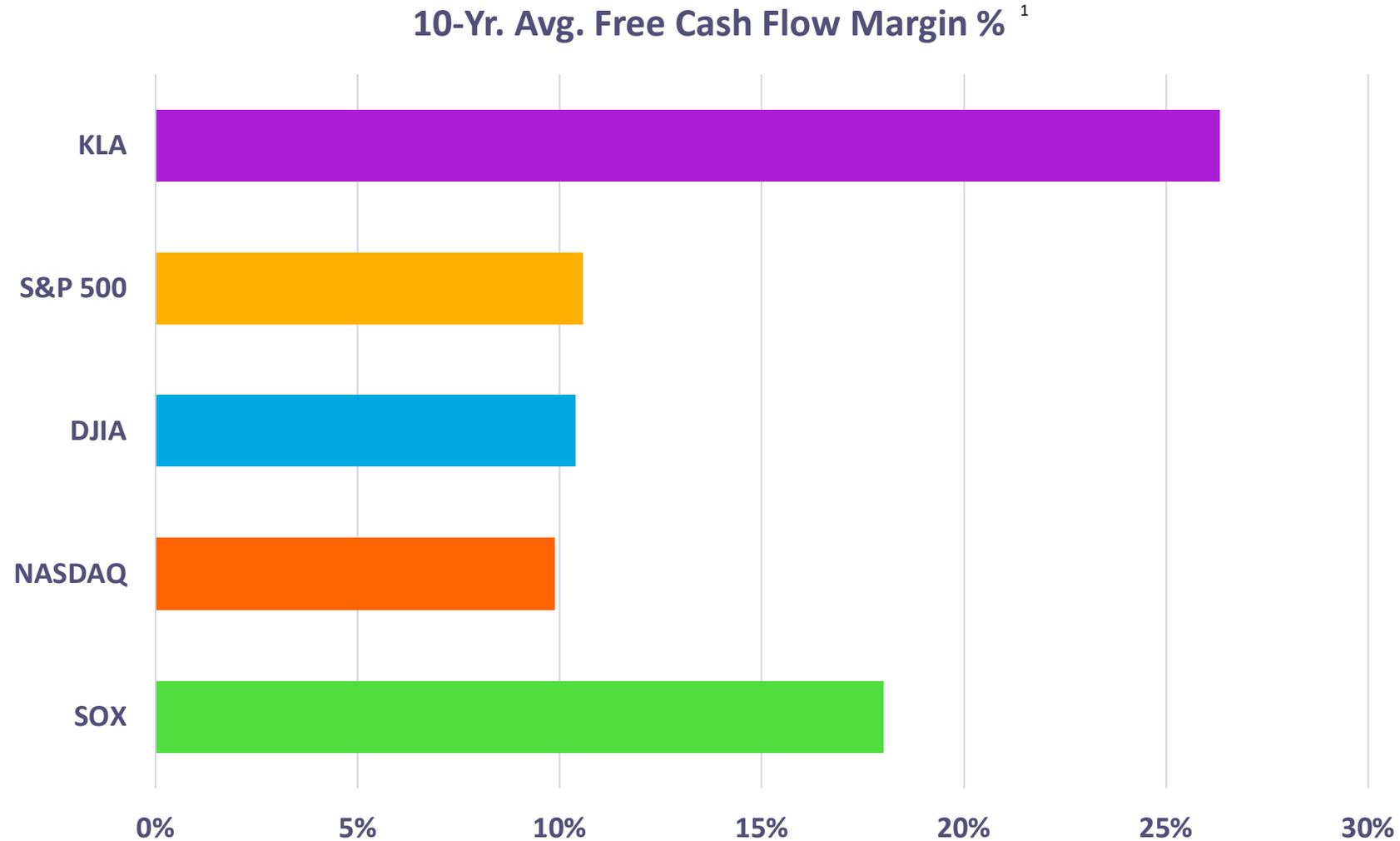


- Introducing new products at a 2x pace vs. our competitors
- Achieving market share of 4x our nearest competitor
- High gross margin and FCF conversion via differentiation

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

<sup>1</sup> Free Cash Flow (FCF) = Cash Flow from Operating Activities minus Capital Expenditures  
<sup>2</sup> 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

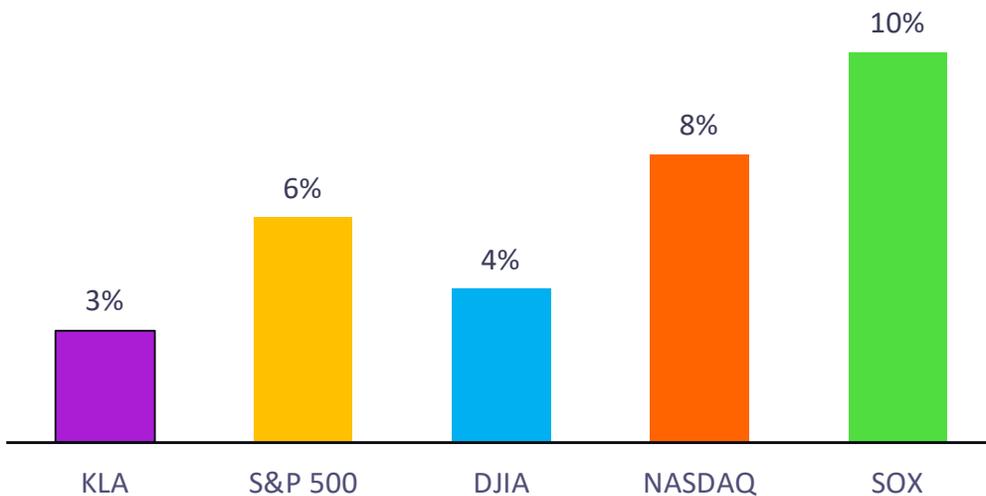


Source: Bloomberg; <sup>1</sup>Free Cash Flow Margin = Free Cash Flow / Revenue.

# KLA Runs An Asset-Lite, High Capital Return Business Model

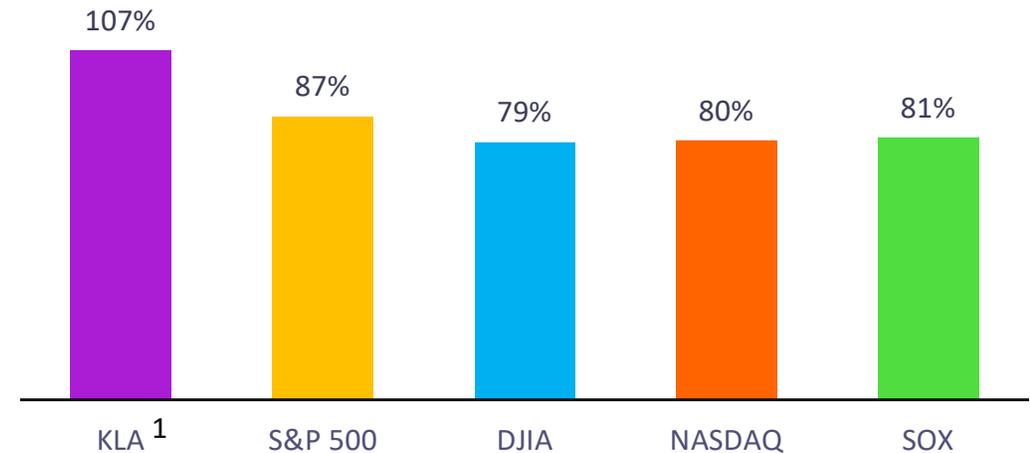
## Asset-Lite

LTM Capex / Revenue



## High Capital Return

10-Yr Dividends + Repurchases / FCF

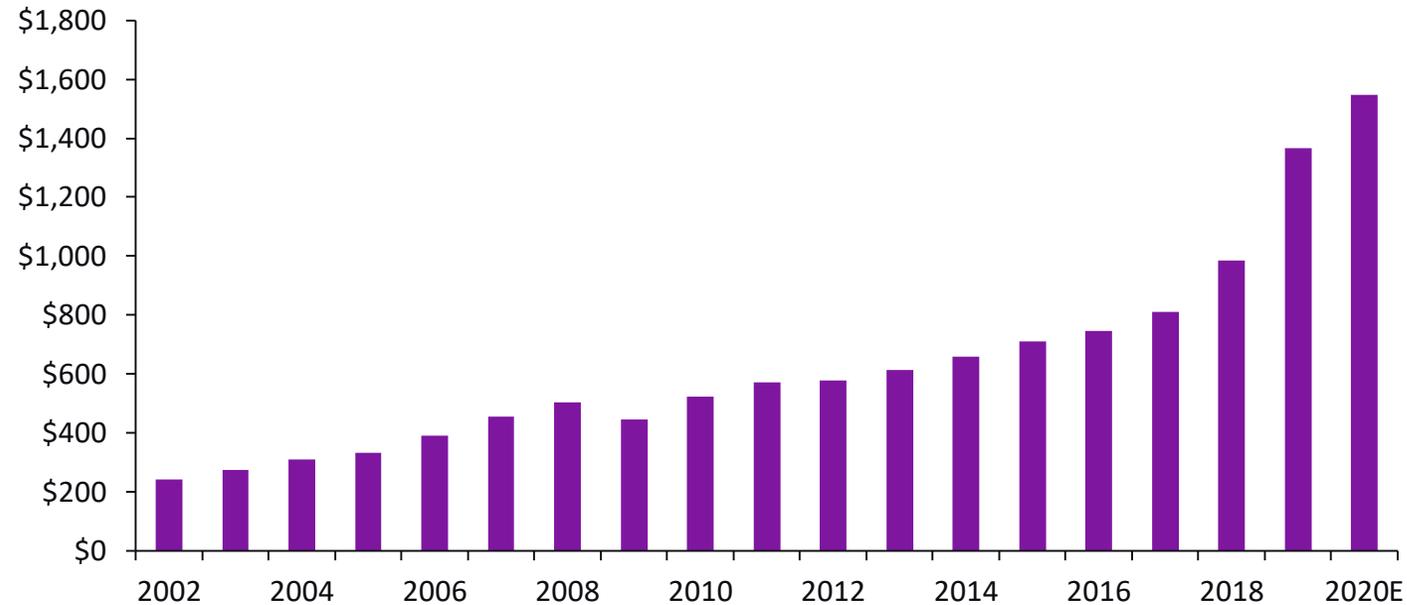


<sup>1</sup> KLA's capital return includes the 2014 leveraged recapitalization and \$16.50 special dividend

Source: Bloomberg

# Services Delivers Recurring Revenue at 2x Industry Growth Rate

**KLA SERVICES REVENUE (\$M)**



## 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

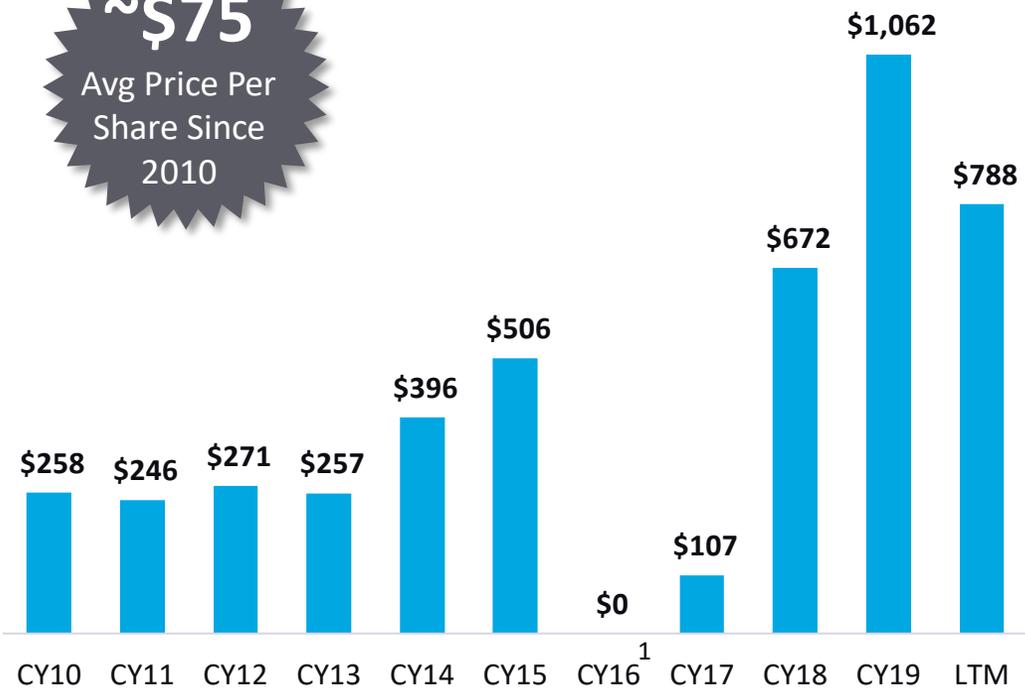
Predictable Long-Term Revenue and Free Cash Flow Growth

# Capital Return to Investors is Spread Across Buybacks and Dividends

## CONSISTENT SHARE REPURCHASES <sup>3</sup>

\$Millions

**~\$75**  
Avg Price Per Share Since 2010

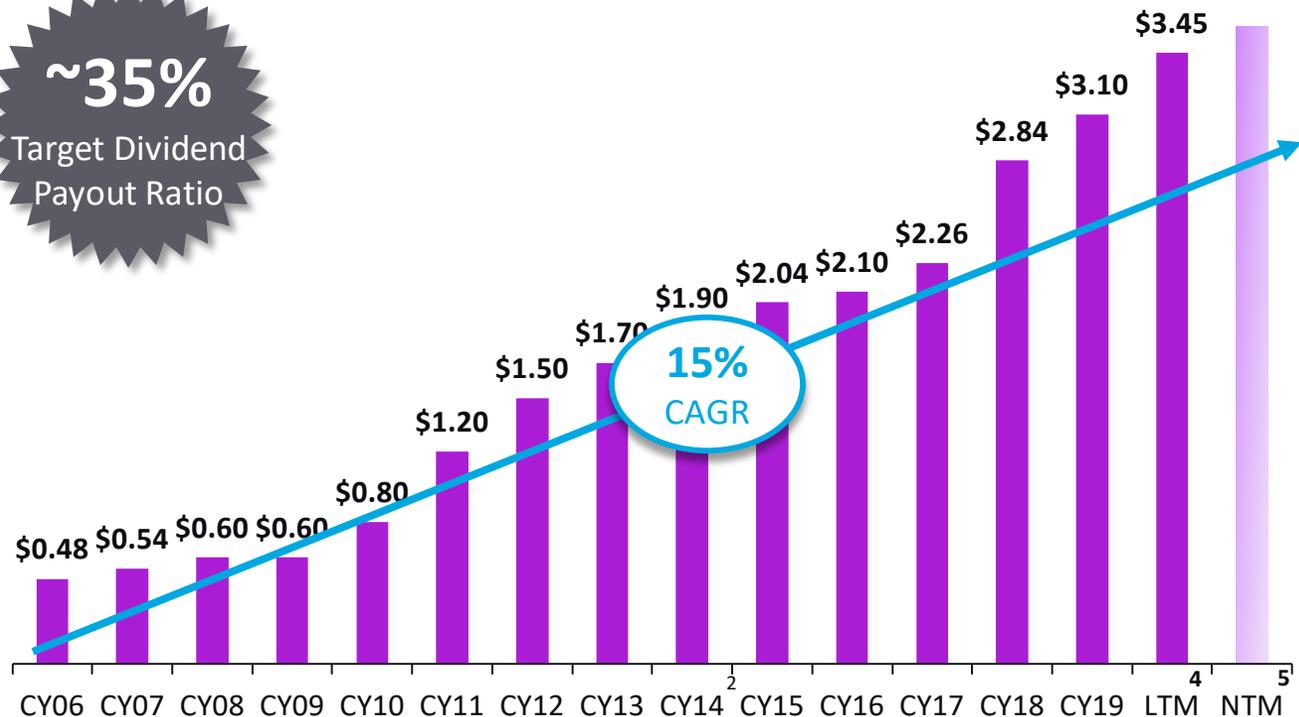


## STRONG TRACK RECORD OF ANNUAL DIVIDEND INCREASES

(\$/per share)

**~35%**  
Target Dividend Payout Ratio

Newly Announced Dividend Increase to \$3.60



<sup>1</sup>Share repurchase halted in CY16 during KLA-Lam merger proceedings <sup>2</sup>Excludes \$16.50 per share special dividend <sup>3</sup>Settlement Date basis <sup>4</sup>LTM = Last Twelve Months <sup>5</sup>NTM = Next Twelve Months

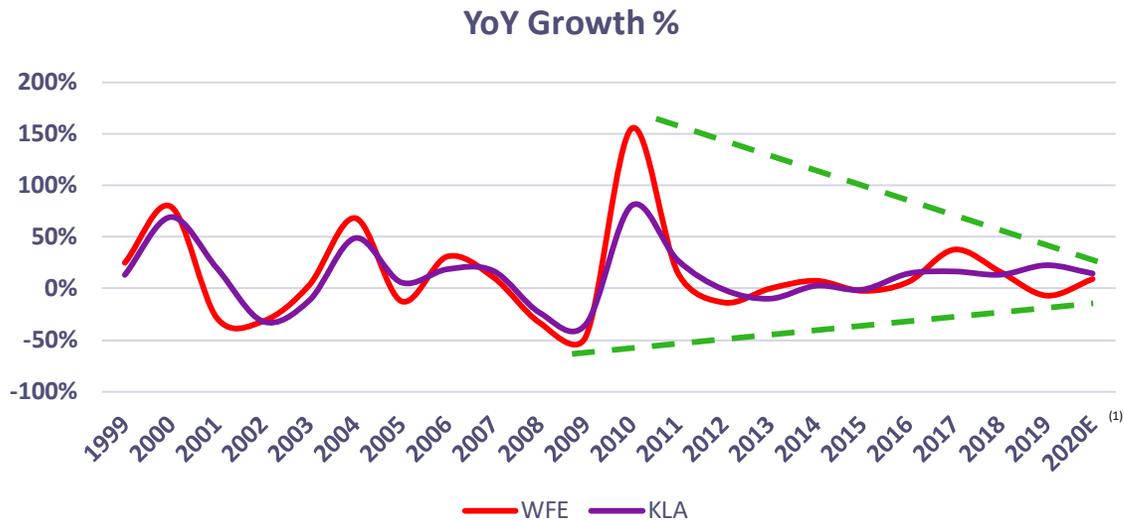
# KLA is Well Positioned To Outperform

Less Cyclical Industry | Investment Grade Balance Sheet | Attractive Long-Term Model



# More Diversified Industry Drives Increased Stability

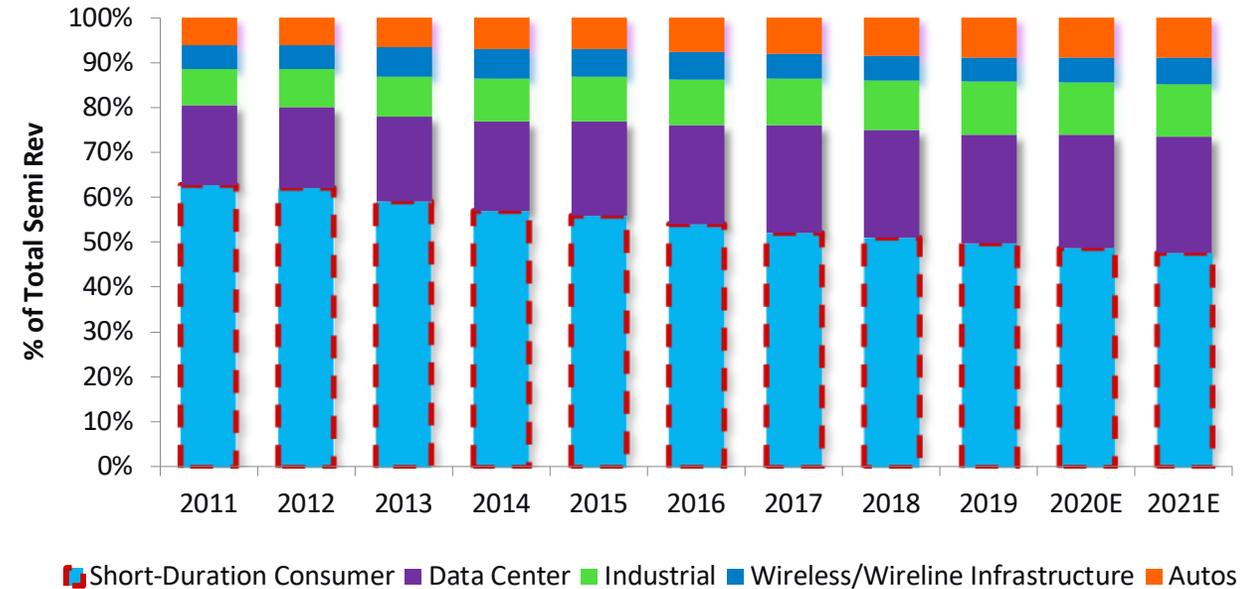
Wafer Front-End (WFE) and KLA's Cyclicity Are Declining



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<sup>1</sup> (\$M)

Total Cash <sup>2</sup>	\$	2,043
Working Capital	\$	3,006
Total Assets	\$	9,320
Debt <sup>3</sup>	\$	3,420
Total Shareholders' Equity	\$	2,762

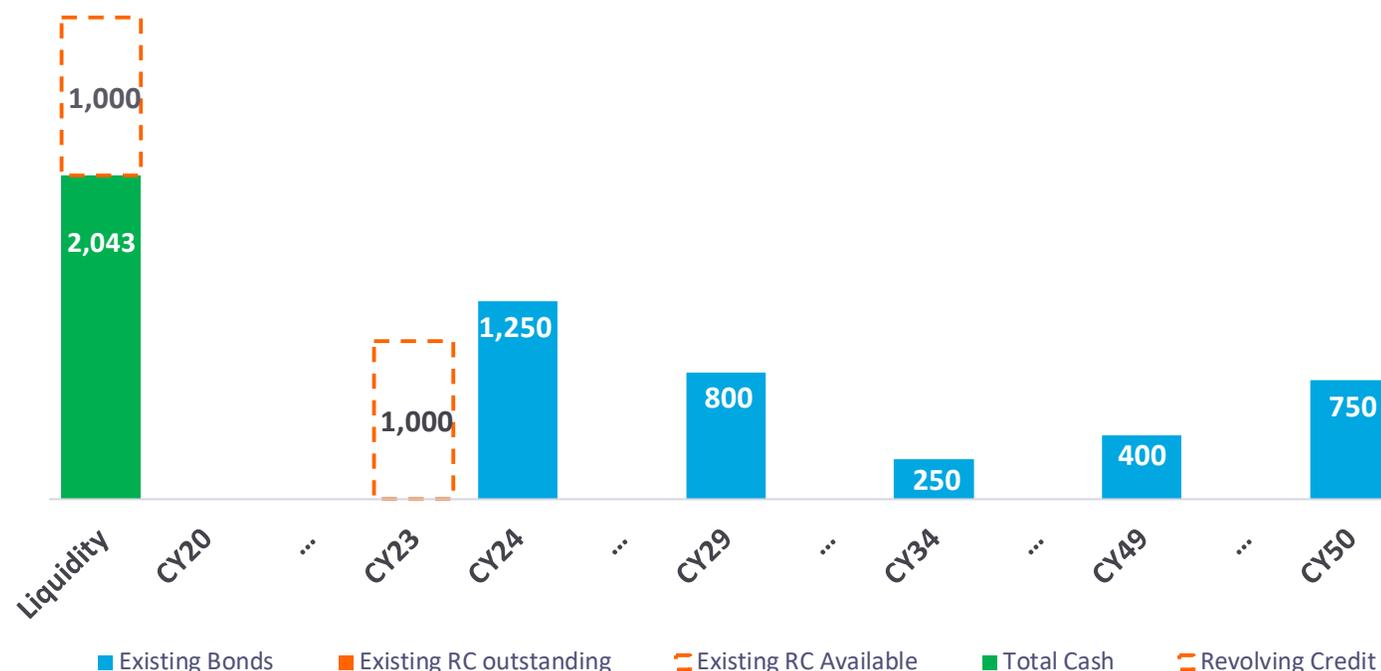
## DEBT MATURITY PROFILE

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+

## Bond Maturity Profile \$M



<sup>1</sup> As of 9/30/20 ; <sup>2</sup> Total Cash includes Cash, Cash Equivalents and Marketable Securities; <sup>3</sup> 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



# 2023E Long-Term Targets

	2023E TARGETS	ONGOING FINANCIAL FRAMEWORK
SALES	<b>\$7.0B - \$7.5B</b>	<b>7% - 9% CAGR</b>
OPERATING MARGIN	<b>36%+</b>	<b>40% - 50% (Incremental)</b>
EARNINGS PER SHARE	<b>\$14.50 - \$15.50</b>	<b>~1.5x Revenue Growth Rate</b>
CAPITAL ALLOCATION	<b>Target Payout ~70% of FCF</b>	<b>Balanced Between Dividend and Share Repurchase</b>

## 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

Driving Profitable Growth and Delivering Shareholder Value

# In Summary...

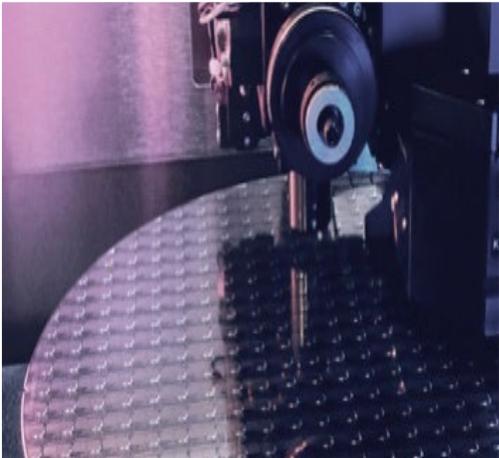
*Semiconductors Power  
The World More Today  
Than Ever Before*



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



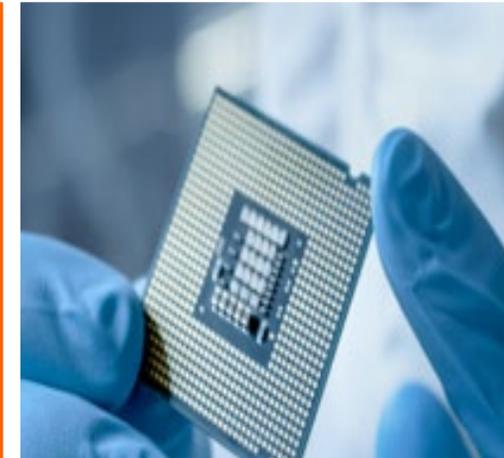
*KLA Has a Long  
Established Track Record  
of Best In Class  
Profitability and Strong  
Free Cash Flow*



*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\*

											LTM	
<i>(Dollars in millions)</i>		CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019	9/30/2020
GAAP gross margin		\$ 1,475	\$ 1,868	\$ 1,789	\$ 1,633	\$ 1,644	\$ 1,653	\$ 2,051	\$ 2,406	\$ 2,768	\$ 2,961	\$ 3,466
Acquisition-related charges	a.	23	21	15	7	10	8	2	4	4	214	156
Restructuring, severance and other related charges	b.	-	2	-	3	-	11	-	-	-	1	2
Merger-related charges	c.	-	-	-	-	-	-	1	1	-	-	-
Non-GAAP gross margin		\$ 1,498	\$ 1,891	\$ 1,804	\$ 1,643	\$ 1,654	\$ 1,672	\$ 2,054	\$ 2,411	\$ 2,772	\$ 3,176	\$ 3,624
GAAP gross margin as a percentage of revenue		59%	59%	57%	58%	57%	58%	63%	63%	64%	56%	58%
Non-GAAP gross margin as a percentage of revenue		60%	60%	58%	58%	57%	59%	63%	63%	64%	60%	61%

												LTM
<i>(Dollars in millions)</i>		CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019	9/30/2020
GAAP operating margin		\$ 757	\$ 1,070	\$ 942	\$ 728	\$ 698	\$ 773	\$ 1,169	\$ 1,421	\$ 1,686	\$ 1,385	\$ 1,618
Acquisition-related charges	a.	33	30	25	16	16	12	4	5	21	340	222
Restructuring, severance and other related charges	b.	6	6	3	7	10	35	-	-	-	3	14
Merger-related charges	c.	-	-	-	-	-	9	17	9	-	-	-
Debt extinguishment loss and recapitalization charges	d.	-	-	-	-	2	-	-	(1)	-	-	-
Restatement-related charges	e.	5	7	-	-	-	-	-	-	-	-	-
Goodwill and intangible asset impairment	g.	-	-	-	-	-	-	-	-	-	-	257
Non-GAAP operating margin		\$ 801	\$ 1,113	\$ 970	\$ 751	\$ 726	\$ 829	\$ 1,190	\$ 1,434	\$ 1,707	\$ 1,728	\$ 2,111
GAAP operating expenses as a percentage of revenue		30%	34%	30%	26%	24%	27%	36%	37%	39%	26%	27%
Non-GAAP operating expenses as a percentage of revenue		32%	35%	31%	27%	25%	29%	37%	38%	40%	33%	36%

\* 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\*

<i>(Dollars in millions)</i>	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019	LTM
						9/30/2020
GAAP research and development expenses ("R&D")	\$ 492	\$ 503	\$ 570	\$ 625	\$ 823	\$ 872
Acquisition-related charges	a. (2)	-	-	-	(3)	-
Restructuring, severance and other related charges	b. (9)	-	-	-	(1)	(3)
Merger-related charges	c. -	(4)	(3)	-	-	-
Non-GAAP R&D expenses	\$ 481	\$ 499	\$ 567	\$ 625	\$ 819	\$ 869
GAAP R&D expenses as a percentage of revenue	17%	15%	15%	15%	16%	15%
Non-GAAP R&D expenses as a percentage of revenue	17%	15%	15%	15%	16%	15%

<i>(Dollars in millions)</i>	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019	LTM
							9/30/2020
GAAP net income	\$ 425	\$ 531	\$ 864	\$ 656	\$ 1,421	\$ 1,138	\$ 1,291
Acquisition-related charges	a. 16	12	4	5	21	340	221
Restructuring, severance and other charges	b. 10	35	-	-	-	3	16
Merger-related charges	c. -	9	17	9	-	-	-
Debt extinguishment loss and recapitalization charges	d. 134	-	-	(1)	-	-	23
Income tax effect of non-GAAP adjustments and discrete tax items	f. (54)	(17)	(9)	439	(19)	(90)	(96)
Goodwill and intangible asset impairment	g. -	-	-	-	-	-	257
Non-GAAP net income	\$ 531	\$ 570	\$ 876	\$ 1,108	\$ 1,423	\$ 1,391	\$ 1,712

\* 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)

	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019	LTM 9/30/2020
Net cash provided by operating activities	\$ 859	\$ 883	\$ 532	\$ 854	\$ 858	\$ 1,190	\$ 1,390	\$ 1,373	\$ 1,795
Less Capital expenditures	(68)	(74)	(57)	(35)	(35)	(49)	(87)	(149)	(176)
Free cash flow	\$ 791	\$ 809	\$ 475	\$ 819	\$ 823	\$ 1,141	\$ 1,303	\$ 1,224	\$ 1,619

	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019	LTM 9/30/2020
Free cash flow	\$ 791	\$ 809	\$ 475	\$ 819	\$ 823	\$ 1,141	\$ 1,303	\$ 1,224	\$ 1,619
Non-GAAP net income attributable to KLA	714	568	531	570	876	1,108	1,423	1,391	1,712
Free cash flow conversion	111%	143%	89%	144%	94%	103%	92%	88%	95%

	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019	LTM 9/30/2020
Free cash flow	\$ 791	\$ 809	\$ 475	\$ 819	\$ 823	\$ 1,141	\$ 1,303	\$ 1,224	\$ 1,619
Revenue	3,127	2,813	2,885	2,848	3,259	3,798	4,304	5,279	5,932
Free cash flow margin	25%	29%	16%	29%	25%	30%	30%	23%	27%

	LTM 9/30/2020
Cash paid for dividends	\$ 542
Cash paid for share repurchases	788
Capital returns	\$ 1,330
Capital returns as a percentage of free cash flow	82%

\* 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 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](https://ir.kla.com)

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