May 5, 2020

Letter to Shareholders
March 2020 Quarterly Letter

Rick Wallace
Chief Executive Officer

Bren Higgins
Chief Financial Officer
Dear KLA Shareholders,

We are all living through extraordinary times. We hope you and your families are safe and healthy.

KLA delivered strong results in the March 2020 quarter: Revenue finished at the mid-point of our guidance, and non-GAAP EPS was above the mid-point of the guidance range, demonstrating strong demand from our customers and exceptional execution across our global KLA operations.

KLA’s performance in the March quarter highlights how the Company’s operating model and long-term Strategic Objectives provide a strong and resilient framework to guide our execution and consistently deliver on our commitments, even during unprecedented challenges.

In our shareholder letter today, we will discuss how KLA’s unique and sustainable competitive advantages help us consistently deliver strong relative results while showcasing the enduring strength of the KLA Investment Thesis. We will also discuss how KLA is positioned to confidently navigate through these periods of uncertainty.

To lead off, we want to highlight KLA’s priorities and actions in addressing the COVID-19 crisis.

**KLA’s Priorities and Actions in Response to COVID-19**

1. **Protecting our Colleagues and Partners** — Our first priority is the health and safety of our employees, their families, and our partners. We have taken proactive measures to ensure their safety across our global footprint through our Global Crisis Management Team. Above all, we remain exceptionally strong advocates for the holistic health and safety of everyone that is part of the KLA ecosystem.

2. **Supporting Customer Needs** — Worldwide our teams have been resourceful and committed to executing for our customers most pressing needs and challenges. Customer feedback has been outstanding in response, and we are proud of how we are executing and meeting the challenges.

3. **Taking Direct Action to Support our Communities** — Early on we committed $2 million in global relief efforts through our KLA Foundation Relief Fund to benefit local non-profit organizations who are working with high-risk populations in Asia, Europe, Israel and the United States.

**Keeping Employees Safe, Supporting Customers and Our Communities**

First and foremost, we are prioritizing the health and safety of our employees, their families, and our partners. We began taking proactive measures for our teams as soon as we saw the outbreak begin in China including immediately eliminating non-essential travel, canceling KLA’s annual Global Sales Conference and our Global Engineering Conference, as well as the KLA Lithography Users Forum at SPIE. A large percentage of our workforce is in China and the Pacific region, and we initiated a Global Crisis Management Team to ensure we had insight into needs and activities at the local levels to provide assistance as needed. As information and shelter-in-place orders began to roll out across the globe, we prioritized rapid communication to our employees and immediately instituted guidelines.
and policies to ensure our essential workforce could operate in safe conditions and we remain focused on that daily.

Specifically, as our teams worldwide have largely had to shift to working from home, we have worked hard to maintain our ability to support our customers in this unique scenario. At our manufacturing facilities we have focused on creating a significantly reduced employee footprint, rigorous social distancing and cleaning guidelines, and health checks to allow our teams to be safe while staying on track with shipping, installing, and delivering the essential services we provide to our customers. I would like to personally commend our global team for their resourcefulness and commitment to executing under these challenging circumstances.

Customer feedback has been outstanding, and our business is healthy and performing well under unprecedented conditions. We are proud of the way we as a company have responded to these challenges, reflecting the extraordinary strength of our teams, guided by KLA’s Core Values of Perseverance, Drive to be Better, High Performing Teams, and Indispensability. For our global employee base, we recognize that this crisis also extends well beyond a disruption to their work life and we are focused on continuing to ensure that we are supporting them in any way we can.

I would also like to note that we took action to support our communities by creating a KLA Foundation Global Relief Fund, which committed $2 million dollars in global relief efforts to benefit local non-profit organizations working in areas identified as having high numbers of affected individuals, and those who are working with high-risk populations in Asia, Europe, Israel, and the United States. Above all, we remain advocates for the holistic health and safety of our employees as well as the communities they work and live in.

Now we would like to offer some comments on the industry demand environment. Though we were encouraged to see many of our customers in China return to full production late in the quarter, COVID-19 has already impacted global economic growth. The question remains whether it will result in a short-term push-out in global demand supported by substantial levels of monetary and fiscal stimulus from governments or whether it leads to a long-term demand decline followed by an elongated recovery. Many economic prognosticators now expect a global recession, as the effects of business disruption, rising unemployment, and reduction in consumer spending are felt across the global economy.

At KLA, we are not predicting the depth or duration of this impact until we have more evidence of the evolution of this crisis. If there is one thing we do know, it is that the situation is rapidly evolving, and at this stage, the full impact of COVID-19 on consumer demand and the global economy remains unclear. From our point of view, although the equipment industry is currently supply constrained, customer demand remains strong in the first half of 2020. To further underscore that point, KLA delivered record shipments of our Semiconductor Process Control systems during the quarter, and total backlog also finished at record levels exiting March.

It’s also important to point out that KLA is most levered to our customers’ strategic R&D investments and product roadmaps for leading-edge technologies across Foundry, Logic, and Memory. These investments are critical to our customers’ long-term growth strategies and competitive positioning, and therefore tend to be more resilient.
In the near and medium term, we see increased semiconductor device demand for enterprise and cloud applications in response to the surge in work-from-home, and a pick-up in gaming. This is somewhat offset by a decline in some consumer-facing end markets.

Industry Demand Environment

**Semiconductor Equipment Demand is Strong** – COVID-19 has not dampened customer demand for KLA products or services in a meaningful way. We delivered record shipments in the Semiconductor Process Control segment and total company quarterly ending backlog finished at record levels in the March quarter.

**Customer Capex Investment is Strategic** – KLA is most levered to our customers’ strategic R&D investments and product roadmaps for leading-edge technologies across Foundry, Logic, and Memory. These investments are critical to our customers’ long-term growth strategies and competitive positioning, and therefore tend to be more resilient.

**COVID-19 is Accelerating Secular Growth Drivers Outlined in KLA’s 2019 Investor Day** – Including data and cloud service applications, productivity tools such as PCs and mobile devices, and home gaming entertainment. KLA is also supplying products essential in MEMS manufacturing and power technologies in medical applications such as smart thermometers and ventilators. Health care will be one of the many industries which will be profoundly transformed with the acceleration of technology implementation, virtual capabilities, and automation.

The COVID-19 Crisis Further Accelerates Digitization and Move to the Data Era

We also see strong results in our specialty semiconductor markets, with demand driven by 5G infrastructure investment, particularly in China. We are fulfilling urgent requirements to supply products essential in MEMS manufacturing and power technologies focused on medical applications such as smart thermometers and ventilators, which are directly addressing the crisis. Health care will be one of the many industries which will be profoundly transformed with the acceleration of technology implementation, virtual capabilities, and automation.

We know that KLA is not immune to the impact this crisis may have on customers’ capital investment plans over the next several months. However, we draw some confidence from historical evidence that our customers tend to maintain their investment in next-generation development in times of semiconductor industry contraction and uncertainty, making KLA’s revenue more resilient in times like this. As an example, we would point out that in 2019, according to the recent Gartner Market Share Analysis Report, with total WFE investment was estimated to have declined 6% in the year, KLA’s semiconductor process control systems business grew 1%.

Taking a step back even further, it is worth highlighting that KLA’s business has always declined less than the industry in periods of general contraction. KLA’s service business, which accounts for roughly one-quarter of our total revenue today and has strong and growing profitability, also tends to demonstrate exceptional resilience throughout the business cycle, given the unique nature of our service model with 70-75% of revenue being subscription-like contracts.

Given the continued focus on innovation and execution, combined with our market share leadership and strong balance sheet, KLA is in a strong position to navigate this period of uncertainty and capitalize on the opportunities driving long term growth for our industry, once conditions eventually normalize. Even though we could not have anticipated what we’re experiencing today, we believe secular factors driving industry demand and our 2023 revenue and EPS targets remain largely intact and will drive diversified growth with operating leverage over the long term.
Finally, in many ways, the global response to COVID-19 is accelerating secular drivers of the industry growth that we outlined in our 2019 Investor Day, which gives us optimism that we and our industry will emerge from this crisis stronger than ever. We knew we had compelling secular growth trends a year ago, and if anything, those trends will be stronger and more important going forward.

Whether it’s the move to Industry 4.0 or Factory Automation, rising semiconductor content in automobiles, remote medical diagnostics and care, 5G ubiquitous connectivity supported by continued data center buildouts or new more capable handset offerings, the new work from home reality, or the overall acceleration of digitalization and move to the Data Era; everything will depend on advancing semiconductor technology that KLA helps to make possible.

As in prior industry downturns, one thing that remains a constant, serving as a guide as we manage through this uncertainty, is the KLA Operating Model, which codifies our corporate values and management principles, defining the critical core competencies that drives our performance and represents a solid and enduring framework for the execution of our long-term Strategic Objectives.

The KLA Operating Model is essential to aligning the company on a consistent strategy, tying accountability to results, ensuring product development execution, and facilitating continuous improvement while ensuring the company always operates with strong financial discipline while driving our long-term performance and profitability objectives.

**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 Continue To Serve As Our Guide

As we indicated during our September 2019 Investor Day, we are also leveraging the KLA Operating Model to strengthen the performance of our new businesses. We have recently reorganized the former Orbotech units under the leadership of KLA Executive Vice President Oreste Donzella, creating the new Electronics, Packaging and Components or (EPC) group. This new organization will help drive synergies, and growth across a broad electronics value chain, including specialty semiconductors, packaging, printed circuit boards, and flat panel displays. Guided by this, and with our global team’s experience navigating through various industry cycles and downturns over the years, we have the benefit of history and the processes in place to maintain a high level of investment which is critical to our market leadership and our customers’ technology roadmap, while at the same time protecting and preserving operating margins.

Let’s turn now to four highlights that stood out this quarter for our business.

First, mentioned at the outset, KLA achieved record company wide shipments driven by record shipments in our Semiconductor Process Control segment and ended March with record backlog. This illustrates the overall momentum we are having in the marketplace across are various product platforms, with particular strength in Mask Inspection, Patterned Optical Inspection (Gen5), and Films Metrology and further shores up our confidence in the long-term future growth position for the Company.

Secondly, we were pleased to see KLA’s customer success further validated by third party market share analysis from Gartner. KLA’s market leadership is the result of ongoing, successful execution of the company’s customer focus strategy, which is based on investing a high level of R&D to drive differentiation with a portfolio of products, technologies, and strategies that addresses the most critical process control market challenges. We are pleased once again to see the success of our strategies being validated by our customers purchasing decisions.

The report shows that Process Control grew as a percent of overall WFE, and KLA strengthened its Process Control market leadership by gaining two and half points of market share. The past year
marked a record or near-record demand in KLA’s core franchise markets such as Optical Wafer Inspection, Overlay Metrology, and Mask Inspection. The data also shows KLA’s first meaningful revenue in e-beam inspection since 2015.

We expect that process control intensity will continue to stay at a similar level in Calendar 2020 or better and KLA will maintain our market leadership, driven by expanding EUV investment, advanced technology development in memory, and continued semiconductor industry expansion in China.

Third, we saw continued strength in both Foundry and Logic. Foundry and Logic revenue grew sequentially as customers accelerate the ramp of both 7 and 5-nanometer nodes and continue to prioritize their leading-edge technology roadmaps.

And finally, our services business continues to perform well and remains on track for growth and steady free cash flow in calendar 2020, despite the uncertainty. Total KLA Service revenue rose to $373 million thanks to the continued growth of our semiconductor process control installed base as well as the expanding services businesses from recent acquisitions.

March Quarter 2020 Business Highlights

1. **Record Shipments for Semiconductor Process Control and Record Total Company Ending Backlog.** Our strong demand momentum continued across various product platforms, with particular strength in Mask Inspection, Patterned Optical Inspection (Gen5), and Films Metrology.

2. **KLA is Winning In The Marketplace.** The newly published Gartner industry report for 2019 shows Process Control grew as a percentage of WFE, and KLA strengthened its market leadership. KLA delivered record or near-record demand in Optical Wafer Inspection, Overlay Metrology, and Mask inspection in the year.

3. **Continued Strength in Foundry and Logic.** Foundry and Logic demand grew Q/Q as customers accelerate the ramp of 10-, 7-, and 5-nanometer nodes, and EUV.

4. **Services Business Continues to Grow and Perform Well.** Total KLA Service revenue rose to $373M and continues to perform well while also generating strong and predictable free cash flow.

KLA’s market leadership is the product of the successful execution of our portfolio strategy focused on differentiation to address our customers’ most critical challenges. We are confident in our product positioning and the validation from strong customer acceptance across our portfolio.

We continue to see accelerated growth of our flagship Gen5 optical inspection platform, deployed for both technology development and production monitoring at the advanced nodes. Our customers are now using the Gen5 platform to identify and solve yield-limiting issues at the 7nm node and beyond. We are also encouraged by the growing adoption of patterned wafer print check applications to qualify reticles for EUV. Gen5 offers the best solution to make sure EUV masks are defect-free and optimized to achieve process window requirements. Boosted in part by this expanded use case, Gen5 shipments nearly tripled in 2019, and adoption is expected to grow in 2020.
Also, at our recent Investor Day, we announced our first new e-beam inspection platform in multiple years, and we continue to receive very positive feedback from initial customer evaluations, and we are starting to receive purchase orders. KLA’s e-beam inspection platform works seamlessly with our Gen5 optical inspection platform through built-in connectivity offering customers the best inspection performance combination at the lowest overall Cost of Ownership. This combination is a unique differentiator in the marketplace today, and can identify and detect critical yield-limiting defects at the most advanced nodes.

After proving the value of the technology in initial customer evaluations, we delivered the industry’s first production-ready version of the X-ray metrology platform to customers in the December quarter. Introduced initially at our September Investor Day, the Axion platform is a small-angle X-ray scattering technology for in-line metrology applications to monitor the high aspect ratio features in advanced 3D NAND and DRAM device architectures. This platform provides a lower cost of ownership and improved cycle times when compared with existing destructive metrology techniques. We are now focusing on establishing new use cases with all leading memory customers.

Last, but certainly not least, KLA’s service business continues to deliver excellent revenue growth performance while simultaneously generating strong free cash flow. Semiconductor Process Control Service revenue reached $1.1 billion in 2019, with over 70% of this revenue generated from subscription-like service contracts. This performance continues to give us high levels of confidence that KLA Services can deliver long-term revenue growth rates in the range of 9% to 11%. Several factors drive growth in our services business, including increasing complexity of our systems, expansion of the installed base, and expanded demand at the trailing edge nodes. With high fab utilization in foundry/logic and signs of improvement in memory, our customers are also looking for opportunities to enhance productivity and extend the life of their installed base. As a result, we see robust service contract penetration, and our service business is providing a steady, recurring revenue stream for all our businesses.

Before getting in to greater detail on our financials, let us summarize by saying we are in extraordinary times, and in that, we are facing both unprecedented uncertainties as well as opportunities. Amidst this backdrop, one thing that is not changing is KLA’s strong fundamentals, and we are confident that our strategies and the actions we are taking today will continue to lead us in the right direction and position us to emerge even stronger and more resilient.
The KLA Operating Model Continues To Guide Us Through This Crisis

KLA’s March quarter results indicate the soundness and strength of our ongoing strategy. We expect to be able to continue to meet customer needs and expand our market leadership, while protecting operating profits, generating strong free cash flow, and maintaining our capital returns strategies. And as we stated earlier, we will remain laser-focused on continuing to preserve the health and safety of our employees and their families. We believe this is a new reality for quite some time and will work together to get through it and continue to deliver in the way we know we can.

March 2020 Financial Highlights

- **$1.424B** Revenue
- **61.2%** Gross Margin*
- **$316M** Stock Repurchase
- **$0.50** GAAP EPS
- **34.6%** Op. Margin*
- **$133M** Dividends Paid
- **$2.47** NON-GAAP EPS *
- **$399M** Free Cash Flow**
- **113%** % FCF Returned

*Non-GAAP metric – Please refer to appendix for reconciliation to basis. **Non-GAAP free cash flow = cash flow from operations activities - invest cash for investments.

KLA delivered a solid quarter in March with revenue at the mid-point, and Non-GAAP EPS finishing at the upper end of the company’s guidance ranges.
Total revenue was $1.424 billion. Non-GAAP Gross Margin was 61.2%, at the upper end of the guided range for the quarter of 59.5 – 61.5%, driven by a richer product mix than was modeled at the beginning of the quarter.

Non-GAAP Operating margin was 34.6%. GAAP EPS was $0.50, and non-GAAP EPS was $2.47. At the guided tax planning rate of 13%, EPS would have been $2.52. The reconciliation between the GAAP and non-GAAP EPS includes an impairment of goodwill of $257 million, and a $22.5 million loss related to the extinguishment of our November 2021 notes that we re-financed in a new bond offering in February.

Let me briefly provide more context on the goodwill impairment. During the March quarter and consistent with our policy, KLA conducted its annual evaluation of the value of goodwill for potential impairment based on discounted cash flow models for each business segment. Given the uncertainty of the current environment and the associated unknown long-run trajectory of economic growth, we elected to take a non-cash impairment charge of $257 million in the third quarter to write down a portion of the carrying value of the Goodwill associated with the Orbotech acquisition.

Before going into further detail on quarterly results, we want to reiterate that while the COVID-19 situation is unprecedented and introduces new challenges to running our business, one thing remains clear: KLA has a resilient business model underpinned by a rock-solid investment grade balance sheet. We will continue to be agile in the marketplace and actively manage and responsibly navigate our way through this crisis.

Additionally, we remain committed to maintaining our investment-grade credit ratings, and our recent bond offering and refinancing mean we are in a great position and don’t have any bond maturities until late 2024.

To further expand on that point, we want to highlight that in February, KLA issued $750 million in 3.30% 30-year bonds to redeem $500 million in aggregate principal amount 4.125% Senior Notes due in November of 2021, and S&P upgraded our credit rating one notch, earlier in the quarter to BBB+.

Given our solid balance sheet and the consistently robust free cash flow that our business generates, we believe KLA has enough cash and liquidity to respond to any operating condition while still being able to execute our long term strategies, invest at a high level in new capabilities across our product portfolio, and maintain our well-articulated capital returns approach which includes our current $3.40 annual per share dividend.

Regarding capital management and deployment, as you would expect, we are reviewing all operating expenses and capital expenditure plans to prioritize and optimize them given the current business conditions and economic environment. One thing is certain: We remain committed to returning 70% or more of free cash flow to shareholders over the long term, balanced between dividend payments and share repurchases.

In March, we were consistent with our long-standing capital return framework, returning 113% of quarterly free cash flow to investors, consisting of $133 million in quarterly dividend distributions, and $316 million in repurchases of common stock. KLA currently has approximately $1 billion dollars remaining under our share repurchase authorization.
Breakdown of Revenue by Reportable Segments and End Markets

Revenue for the Semiconductor Process Control segment, which includes associated service business was healthy at $1.18 billion. Foundry was once again very strong in March at approximately 55% of Semi Process Control revenue, up from 52% last quarter. Memory was 31% in March, down from 40%. Logic was 14% vs. 8% last quarter.

Revenue for the Specialty Semiconductor Process segment was $85 million, up 13% sequentially, driven by strength in RF, MEMS, and advanced packaging.

PCB, Display and Component Inspection revenue was $160 million, down 14% sequentially and slightly below our internal plans as these businesses, which are closer to consumer markets, softened somewhat as we moved through the quarter.

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Q1-CY20($M)</th>
<th>Q/Q Growth %</th>
<th>Revenue Mix</th>
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</thead>
<tbody>
<tr>
<td>Semiconductor Process Control (Systems + Services)</td>
<td>$1,178</td>
<td>-6%</td>
<td>83%</td>
</tr>
<tr>
<td>Specialty Semiconductor Process (Systems + Services)</td>
<td>$85</td>
<td>+13%</td>
<td>6%</td>
</tr>
<tr>
<td>PCB, Display and Component Inspection (Systems + Services)</td>
<td>$160</td>
<td>-14%</td>
<td>11%</td>
</tr>
<tr>
<td>Total</td>
<td>$1,424(^1)</td>
<td>-6%</td>
<td></td>
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</tbody>
</table>

\(^1\)Includes Other Revenue of $2M.

Breakdown of Revenue by Major Products and Region

Now for the breakdown of revenue by major products and regions, starting with the distribution of revenue by major product category: Wafer inspection was 38%, Patterning, which includes reticle inspection, was 21%, Wafer inspection and patterning are part of Semiconductor Process Control segment, Specialty semiconductor process was 5%, PCB, display and component inspection revenue was 7%, Service was 26% of revenue in the quarter, and Other was 3%.

The Regional split of revenue was as follows: China was 25%, Taiwan was 24%, Korea was 21%, the US and Japan were 11% each, Europe, including Israel was 5% and the rest of Asia was 3%.
Other March Quarter 2020 Income Statement Highlights

Total Operating Expenses were $378 million, including $215 million of R&D expense. Operating expenses were modestly below our targets for the quarter, with the largest delta to plan coming from lower travel and entertainment expenses, and a slower hiring pace than was originally planned. Operating margin was 34.6%. Interest expense and other in the March quarter was $38 million.

The Non-GAAP tax rate was 14.6% and above the company’s long-term tax planning rate of 13% due to negative capital market impact on expense deductions in the company’s employee deferred compensation program. Going forward, based on the company’s expectations for geographic distribution of profit, you should continue to use 13% as the long-term tax planning rate. Non-GAAP Net income was $389 million, and the company had approximately 157 million diluted weighted average shares outstanding.
Strong Investment Grade Balance Sheet With No Bond Maturities Until 2024

KLA ended the quarter with $1.6 billion in cash, total debt of $3.4 billion, and a flexible and attractive bond maturity profile supported by investment-grade ratings from all three agencies.

FCF Generation Fuels Consistent Capital Return to Shareholders

KLA has a history of consistent free cash flow generation and high free cash flow conversion. Our innovation and differentiation in the market place are what drives our industry-leading gross and operating margins and, ultimately, our free cash flow conversion.

Cash from operations and free cash flow were both strong, coming in at $442 and $399 million, respectively. Free cash flow margin was 28%, and the annualized free cash flow yield was above 6%.
For a frame of reference, over the last 10 years, KLA’s free cash flow margin averaged 25%. KLA’s business model generates strong free cash flow and is very resilient across the various phases of the business cycle and economic conditions. Over the past five years, the company has averaged 98% free cash flow conversion.

Capital Return to Investors is Spread Across Buybacks and Dividends

KLA continues to execute on its commitment to return capital to shareholders in the form of both dividends and share repurchases. The dividend payout has increased at a CAGR of approximately 15% since inception 13 years ago. Share repurchases have also increased over the years, with the average price paid to repurchase shares being roughly $73, and with approximately $4.1 billion deployed for repurchases since 2010.

June Quarter 2020 Guidance (Q4 FY2020)

MACRO ASSUMPTIONS
- Widened guidance ranges due to COVID-19 uncertainty
  - Semi Process Control System Revenue from Foundry: 51%
  - Semi Process Control System Revenue from Memory: 29%
  - Semi Process Control System Revenue from Logic: 10%

MODEL ASSUMPTIONS
- Operating Expenses: ~$380M
- Interest & Other Expense (OIlE): ~$40M
- Non-GAAP Tax Rate: ~13%
- Diluted Share Count: ~156M

Driving Profitable Growth and Delivering Shareholder Value

In the context of guidance, we would like to start out by saying that we have mitigated the supply chain issues related to COVID-19 that arose over the past quarter, but fluidity related to this situation makes it a daily challenge to manage as countries around the world handled their respective
coronavirus responses. The uncertainties and added complexity associated with global social
distancing policies, such as travel restrictions and mandated quarantine periods, continue to pose
challenges to our ability to install and support KLA systems.

Accordingly, we have taken extra measures to maintain flexibility and continuity of supply for critical
components in our supply chain. Somewhat unique to KLA’s business model are longer materials lead
times and volume hedging strategies to enable flexibility with key components in our products, which
slows inventory velocity but allows us to weather short-term disruptions in supply. For short lead
times parts, we maintain dual supplier strategies mostly with suppliers in different countries to
optimize capital commitments and to ensure we can shift supply to maintain flexibility to meet fluid
customer delivery schedules.

In addition, our customers rely on KLA to enable their long-term technology development programs,
which tend to be sustained and protected in periods of short-term demand uncertainty and
disruption, such as we are currently experiencing.

We continue to maintain close ongoing communication with our suppliers to ensure continuity and
identify supply chain pressure points, and we remain confident today in our ability to meet our
demand and to be able to continue to service and support our customers in the field. KLA is managing
this situation with both determination and creativity. We have fully mobilized our teams and are
taking action to minimize disruption in our operations, meet essential customer needs, and maintain
the resilience of our supply chain to limit the overall impact of COVID-19 across our business.

Given the scale of our worldwide service and support infrastructure, we are supporting our customers
with local resources and are executing well, however it is taking longer in some cases, to complete
rigorous acceptance criteria for certain products without the support of our factory-centric teams.

In all cases, we have done our best to contemplate these factors in our guidance including the broader
range of guidance in our June quarter outlook, which is as follows:

Total revenue for the June quarter is expected to be in a range of $1.26 billion to $1.54 billion.
Foundry is forecasted to be about 51% of Semi Process Control system revenue, depicting the strength
we continue to see amongst foundry customer base.

Memory is expected to be approximately 39%. Logic is expected to be about 10% of Semi Process
Control system revenue.

We forecast Gross Margin to be in a range of 59% to 61% as product mix is modestly less favorable,
and slightly higher costs are expected in our service business than in the March quarter.

Other Model Assumption include: Operating Expense of approximately $380 million, Interest and
Other Expense of approximately $40 million, and a Non-GAAP tax rate of approximately 13%.

Finally, GAAP diluted EPS is expected to be in a range of $1.58 to $2.64 and non-GAAP diluted EPS in a
range of $1.81 to $2.87. The EPS guidance is based on a fully diluted share count of approximately 156
million shares.

In Conclusion
We would like to share our perspective on the demand environment for the balance of the calendar year 2020:

First, we would like to address the new export rules published by the U.S. Department of Commerce on April 28, 2020, which will go into effect on June 29, 2020. Those rules will expand export license requirements for U.S. companies to sell certain items to companies in China that have operations that could support military end uses, even if the items sold by the U.S. companies are used for civilian purposes only. On this issue, we would note that the new rules do not impact the majority of our business, as most of our products are manufactured and assembled outside of the United States. We would also like to point out that we routinely ensure that our products are not used for prohibited military end uses in China.

However, the question remains today whether these new rules, when enacted, would make it more difficult to ship to certain customers in China that might be deemed “military end users” under the new rules as a result of their potential activities supporting “military end uses”. We are still assessing the new rules and working with trade associations and others to obtain additional guidance from the U.S. government regarding the scope and practical application of these new rules. Once we have clarity on how these rules will be implemented, we can better determine the impact on our business, if any, in the second half of the calendar year.

Notwithstanding this recent trade issue, our outlook for customer demand in the Semi Process Control business is virtually unchanged today from what we expected in February. We continue to drive our supply chain and our factories to meet current customer expectations for deliveries. However, we do expect that the overall macro-economic environment will put pressure at some point on some of our customers’ demand for products in certain segments, and ultimately could affect their capacity investment plans, both in magnitude and timing.

Obviously, the depth and duration of this impact is unknown today, so we continue to run our business to maintain the flexibility to respond to any demand scenario. We do expect our customers to continue to progress their technology roadmaps across all segments, and KLA products are critical to those transitions. We expect investments to continue in this area at a normalized pace independent of the macro environment.

For our more consumer-centric businesses, we have seen some weakness over the course of the quarter and while we are well-positioned, we would expect some impact to these businesses compared to what we thought in early February.

Finally, collaboration across global teams and partners on large scale product development programs without direct in-person engagement is creating some execution challenges and while early, could put pressure on release dates for new products expected over the next 12 months.
To summarize, as we look ahead to the balance of the year, KLA continues to be well-positioned to navigate the uncharted territory we find ourselves in:

- **Strength:** We derive our strength from our strong balance sheet and liquidity and comfort from not having any bond maturities until late in 2024.

- **Operating:** Our strong operating performance helps us prioritize and protect our margins while simultaneously generating strong and consistent free cash flow.

- **Allocation:** We will make smart capital allocation decisions, continue to invest in the important R&D to support our customers and new product launches, while maintaining our long track record of attractive capital returns to stakeholders.

- **Predictability:** KLA’s more predictable business benefits from our growing diversification and subscription-like services business.

We are confident we can excel in managing our business to position it for a brighter future.

**Strength, Operating, Allocation, and Predictability**

To summarize, as we look ahead to the balance of the year, KLA continues to be well-positioned to navigate the uncharted territory we find ourselves in:

- We derive our strength from our strong balance sheet and liquidity and comfort from not having any bond maturities until late in 2024.

- Our strong operating performance helps us prioritize critical investments across our technology portfolio and protect our margins while simultaneously generating strong and consistent free cash flow.

- Our market position has never been stronger. Despite the usual competitive noise, our share gain and improving process control intensity serve as validation that our portfolio of products and solutions are adding critical value to our customers technology roadmap differentiation and their ability to yield these new technologies at production volumes.

- How we allocate capital has never been more important. You can be assured we will continue to make smart capital allocation decisions, continue to invest in the important R&D to support our customers and new product launches, fuel our long term growth strategy, maintaining our ongoing dividend strategy and preserving our ability to be opportunistic with our buyback program to fully deploy the free cash flow of the company.

- Lastly, predictability and business model resiliency matter more now than ever. Our growing diversification, significant exposure to our customers critical process technology transitions, our subscription-like service revenue stream, and our focus on driving operating leverage are key attributes of our business model.
We are confident we can continue to excel in managing these areas and position KLA for a brighter future.

Sincerely,

Rick Wallace
CEO

Bren Higgins
CFO
## Appendix

### Reconciliation of Non-GAAP Financial Measures

<table>
<thead>
<tr>
<th>(In thousands, except per share amounts and percentages)</th>
<th>For the three months ended</th>
<th>For the nine months ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAAP net income</td>
<td>$78,452</td>
<td>$388,555</td>
</tr>
<tr>
<td>Adjustments to reconcile GAAP net income to non-GAAP net income*</td>
<td>$102,726</td>
<td>$957,722</td>
</tr>
<tr>
<td>Acquisition-related charges</td>
<td>$35,022</td>
<td>$60,393</td>
</tr>
<tr>
<td>Restructuring, severance and other charges</td>
<td>-</td>
<td>$103,785</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>$3,093</td>
<td>$6,920</td>
</tr>
<tr>
<td>Loss on extinguishment of debt</td>
<td>$22,500</td>
<td>$22,500</td>
</tr>
<tr>
<td>Income tax effects of non-GAAP adjustments</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Dilution factor</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Non-GAAP net income</td>
<td>$181,978</td>
<td>$1,038,357</td>
</tr>
<tr>
<td>Non-GAAP net income as a percentage of revenue</td>
<td>23.7%</td>
<td>31.4%</td>
</tr>
<tr>
<td>Non-GAAP net income as a percentage of revenue</td>
<td>$181,978</td>
<td>$1,038,357</td>
</tr>
<tr>
<td>Non-GAAP net income per diluted share</td>
<td>$2.47</td>
<td>$6.93</td>
</tr>
<tr>
<td>Shares used in diluted share calculation</td>
<td>$157,127</td>
<td>$155,190</td>
</tr>
<tr>
<td>GAAP operating income</td>
<td>$175,964</td>
<td>$462,631</td>
</tr>
<tr>
<td>Adjustments to reconcile GAAP operating income to non-GAAP operating income*</td>
<td>$243,296</td>
<td>$1,129,473</td>
</tr>
<tr>
<td>Acquisition-related charges</td>
<td>$55,022</td>
<td>$60,393</td>
</tr>
<tr>
<td>Restructuring, severance and other charges</td>
<td>-</td>
<td>$103,785</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>$5,093</td>
<td>$6,920</td>
</tr>
<tr>
<td>Loss on extinguishment of debt</td>
<td>$22,500</td>
<td>$22,500</td>
</tr>
<tr>
<td>Non-GAAP operating income</td>
<td>$493,967</td>
<td>$1,234,600</td>
</tr>
<tr>
<td>GAAP operating income as a percentage of revenue</td>
<td>12.4%</td>
<td>31.4%</td>
</tr>
<tr>
<td>Non-GAAP operating income as a percentage of revenue</td>
<td>$493,967</td>
<td>$1,234,600</td>
</tr>
</tbody>
</table>

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

### Adjustments to reconcile GAAP gross margin to non-GAAP gross margin:

<table>
<thead>
<tr>
<th>(In thousands, except percentages)</th>
<th>For the three months ended</th>
<th>For the nine months ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAAP gross margin</td>
<td>$832,956</td>
<td>$2,972,380</td>
</tr>
<tr>
<td>Acquisition-related charges</td>
<td>$36,023</td>
<td>$40,960</td>
</tr>
<tr>
<td>Restructuring, severance and other charges</td>
<td>-</td>
<td>$103,785</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>$5,093</td>
<td>$6,920</td>
</tr>
<tr>
<td>Non-GAAP gross margin</td>
<td>$871,132</td>
<td>$3,083,165</td>
</tr>
<tr>
<td>GAAP gross margin as a percentage of revenue</td>
<td>56.6%</td>
<td>61.4%</td>
</tr>
<tr>
<td>Non-GAAP gross margin as a percentage of revenue</td>
<td>61.2%</td>
<td>62.9%</td>
</tr>
</tbody>
</table>

### Adjustments to reconcile GAAP operating expenses to non-GAAP operating expenses:

<table>
<thead>
<tr>
<th>(In thousands, except percentages)</th>
<th>For the three months ended</th>
<th>For the nine months ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAAP operating expenses</td>
<td>$857,842</td>
<td>$3,119,471</td>
</tr>
<tr>
<td>Acquisition-related charges</td>
<td>$10,172</td>
<td>$19,903</td>
</tr>
<tr>
<td>Restructuring, severance and other charges</td>
<td>$5,093</td>
<td>$6,920</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>$5,093</td>
<td>$6,920</td>
</tr>
<tr>
<td>Non-GAAP operating expenses (1)</td>
<td>$877,072</td>
<td>$3,210,385</td>
</tr>
<tr>
<td>GAAP operating expenses as a percentage of revenue</td>
<td>25.0%</td>
<td>25.7%</td>
</tr>
<tr>
<td>Non-GAAP operating expenses as a percentage of revenue</td>
<td>25.0%</td>
<td>25.7%</td>
</tr>
</tbody>
</table>

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

### Adjustments to reconcile GAAP income before income taxes to non-GAAP income before income taxes:

<table>
<thead>
<tr>
<th>(In thousands, except percentages)</th>
<th>For the three months ended</th>
<th>For the nine months ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAAP income before income taxes</td>
<td>$116,159</td>
<td>$434,307</td>
</tr>
<tr>
<td>GAAP income tax expense</td>
<td>$37,193</td>
<td>$87,740</td>
</tr>
<tr>
<td>GAAP income tax rate</td>
<td>32.3%</td>
<td>19.8%</td>
</tr>
<tr>
<td>Adjustments to reconcile GAAP effective tax rate to non-GAAP effective tax rate*</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Acquisition-related charges</td>
<td>$50,022</td>
<td>$60,393</td>
</tr>
<tr>
<td>Restructuring, severance and other charges</td>
<td>$5,093</td>
<td>$6,920</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>$5,093</td>
<td>$6,920</td>
</tr>
<tr>
<td>Loss on extinguishment of debt</td>
<td>$22,500</td>
<td>$22,500</td>
</tr>
<tr>
<td>Non-GAAP income before income taxes</td>
<td>$448,962</td>
<td>$1,234,492</td>
</tr>
<tr>
<td>Income tax effects of non-GAAP adjustments</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Discrete tax item</td>
<td>$5,551</td>
<td>$10,360</td>
</tr>
<tr>
<td>Non-GAAP income tax expense</td>
<td>$454,513</td>
<td>$1,244,852</td>
</tr>
<tr>
<td>Non-GAAP income tax rate</td>
<td>14.6%</td>
<td>11.8%</td>
</tr>
<tr>
<td>GAAP research and development (R&amp;D) expenses</td>
<td>$215,433</td>
<td>$720,751</td>
</tr>
<tr>
<td>Adjustments to reconcile GAAP R&amp;D expenses to non-GAAP R&amp;D expenses*</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Acquisition-related charges</td>
<td>-</td>
<td>(3,328)</td>
</tr>
<tr>
<td>Restructuring, severance and other charges</td>
<td>-</td>
<td>(3,328)</td>
</tr>
<tr>
<td>Non-GAAP R&amp;D expenses</td>
<td>$214,107</td>
<td>$717,423</td>
</tr>
</tbody>
</table>

* Refer to "Reconciliation of Non-GAAP Financial Measures – Explanation of Non-GAAP Financial Measures" for detailed descriptions and information for each reconciling item.
Reconciliation of Q4 FY 2020 Guidance Range

<table>
<thead>
<tr>
<th>(In millions, except per share amounts and percentages)</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAAP diluted net income per share</td>
<td>$1.58</td>
<td>$2.64</td>
</tr>
<tr>
<td>Acquisition-related charges</td>
<td>a 0.33</td>
<td>0.33</td>
</tr>
<tr>
<td>Restructuring, severance and other charges</td>
<td>b 0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>Income tax effect of non-GAAP adjustments</td>
<td>e (0.11)</td>
<td>(0.11)</td>
</tr>
<tr>
<td>Non-GAAP diluted net income per share</td>
<td>$1.81</td>
<td>$2.87</td>
</tr>
<tr>
<td>Shares used in net income per diluted shares calculation</td>
<td>156.1</td>
<td>156.1</td>
</tr>
</tbody>
</table>

| GAAP gross margin as a percentage of revenue         | 58.0% | 58.5% |
| Acquisition-related charges                          | a 2.9% | 2.4% |
| Restructuring, severance and other charges           | b 0.1% | 0.1% |
| Non-GAAP gross margin as a percentage of revenue     | 59.0% | 61.0% |

| GAAP operating expenses                              | ($393) | ($399) |
| Acquisition-related charges                          | a 15    | 15    |
| Restructuring, severance and other charges           | b 1     | 1     |
| Non-GAAP operating expenses                          | ($377) | ($385) |

Note: The guidance as of May 5, 2020 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 and other acquisition-related adjustments including adjustments for the fair valuation of inventory 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 performance 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. Management believes excluding these items helps investors compare our operating performance with our results in prior periods.

c) 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.

d) Loss on extinguishment of debt includes a pre-tax loss on early extinguishment of the $600 million 4.125% Senior Notes due in November 2021. Management believes it is appropriate to exclude this loss as it is not indicative of ongoing operating results and therefore limits comparability and excluding this loss helps investors compare our operating results with our results in prior periods as well as with the performance of other companies.

e) 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.

f) Discrete tax items in the three and nine months ended March 31, 2020 include a decrease in deferred tax liability for an unrealized gain on investments held by subsidiaries of the acquired Orbotech business. Discrete tax items in the three and nine months ended March 31, 2019 include tax impacts of and 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.
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 R & D 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.

KLA’s board portfolio services the entire Semiconductor ecosystem:

<table>
<thead>
<tr>
<th>Semiconductor Manufacturing</th>
<th>Related Electronics Industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>• IC Manufacturing</td>
<td>• Compound Semiconductor</td>
</tr>
<tr>
<td>• Wafer Manufacturing</td>
<td>• Power Device</td>
</tr>
<tr>
<td>• Reticle Manufacturing</td>
<td>• LED</td>
</tr>
<tr>
<td>• IC Packaging</td>
<td>• MEMS</td>
</tr>
<tr>
<td>• Printed Circuit Board</td>
<td>• Data Storage/Media Head</td>
</tr>
<tr>
<td></td>
<td>• Flat Panel Display</td>
</tr>
<tr>
<td></td>
<td>• General Purpose/Labs</td>
</tr>
</tbody>
</table>

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408-875-6627

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