

February 3, 2021

# Letter to Shareholders

December 2020 Quarterly Letter

**Rick Wallace**

Chief Executive Officer

**Bren Higgins**

Chief Financial Officer



## Dear KLA Shareholders,

As we reflect on the accomplishments of calendar<sup>1</sup> 2020, it's important to first appreciate and acknowledge the global KLA team: Your perseverance, drive to be better, and determination enabled KLA to rise to the challenge and deliver for our customers. 2020 was like no other year we have seen, and while our teams have not been physically together for the most part, our company continues to demonstrate the great KLA culture of collaboration and innovation and is emerging stronger than ever. In the process, we delivered exceptionally strong financial results in the December quarter closing a strong year for the company.

This Shareholder Letter summarizes how KLA's record results are driven by success on multiple fronts including the resourcefulness of our global workforce, the resiliency of our business model and our commitment to returning value to our shareholders.

### 2020 Recap

In 2020 KLA did not miss a beat. We delivered strong growth, profitability, and free cash flow while continuously adjusting to the changing work environments driven by the COVID pandemic. Through it all, we remained focused on meeting customer demand and delivering strong returns to shareholders in the rapidly growing semiconductor market.

For the year, KLA revenue grew 15% to \$6.1 billion, marking the fifth consecutive year of growth. We also delivered notable profitability growth with non-GAAP operating profit and non-GAAP earnings per share increasing 28% and 32% year-over-year, respectively. Our free cash flow grew 44% to \$1.8 billion, and we returned \$1.2 billion to shareholders in 2020 through share repurchases and dividends.

From an annual perspective, the Semiconductor Process Control segment revenue, which includes systems and service, grew 15%. Semi PC systems only revenue grew slightly faster. This growth demonstrates success in strengthening our market leadership in applications that we can build on to drive adoption of critical markets.

Within the Electronics, Packaging and Component Inspection or EPC group, the Specialty Semiconductor Process segment grew 24%, and Printed Circuit Board (PCB), Display and Component Inspection grew 12%. This strong relative performance for KLA reflects our market leadership and diversification and was driven by strong secular industry growth trends across multiple end markets.

### December Quarter Recap

In the December quarter we saw diversified strength across each of our segments. Semiconductor Process Control revenue was once again above plan, the Electronics, Packaging and Components (EPC) group met its targets, and our Services business delivered another quarter of growth and strong operating leverage.

We ended the year with strong backlog, setting the stage for double-digit growth in 2021 as we continue to execute at a high level, operate from a position of strength in our marketplace, and given

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<sup>1</sup> Throughout this letter we will refer to 2020 and 2021, in all cases we are referring to calendar years.

the accelerating growth in our served markets, remain solidly on track to meet and likely exceed our 2023 financial targets. All of this reflects the dedication of our global teams and the enabling role KLA plays in our customers' technology roadmaps and in enhancing their return on capital investment.

## Industry Demand Environment

**Industry Demand Remains Vibrant** – We continue to see broad, diversified strength across each of our segments. We ended the quarter with strong backlog, reflecting the enabling role KLA plays in our customers' drive to innovate and invest in next-generation technology.

**Customer R&D Investment Remains Very Strategic & Resilient** – 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 the most resilient.

**Acceleration of the Secular Growth Drivers Outlined at 2019 Investor Day** – Data center demand, 5G infrastructure and smartphone growth, and the revival of PC demand to support work from home, virtual collaboration, remote learning and entertainment and gaming are driving an acceleration of the data era that translates across end-markets and industries.

## KLA Remains on Track to Meet and Likely Exceed our 2023 Financial Targets

Today's demand environment continues to demonstrate accelerated adoption of several semiconductor and electronics industry growth drivers that we have been highlighting for the past few years. Technology continues to transform how we live and work, and the Data Driven Economy is fundamentally changing how businesses operate and deliver value. This digital transformation is enabling secular demand drivers such as High-Performance Computing (HPC), Artificial Intelligence (AI), and rapid growth in new automotive electronics and 5G communications markets. Each of these secular trends are driving investments and innovation in advanced Memory and Logic semiconductor devices, as well as new and increasingly more complex Advanced Packaging and PCB technologies. With our market leadership in Process Control and growth and expansion to new markets like Specialty Semiconductor Process equipment, PCB, and finished die inspection in our EPC group, KLA is essential to enabling our increasingly digital world.

As much as things have changed over the past year, one thing that has remained a constant is our KLA Operating Model. The Operating Model codifies our corporate values and management principles, which defines the core competencies and operating disciplines that drive our performance. The KLA Operating Model is the enduring framework that we rely on to guide the execution of our long-term Strategic Objectives.



## The KLA Operating Model



Focused on Driving Sustainable Profitability and Growth

## KLA's Four Strategic Objectives Serve As Our Guide

### Market Leadership

**Highly Valued and Trusted Partner**

1. Source: Gartner April 2019

### Product Differentiation

Leadership in Design, Technology, Performance and Customer Success

Investing to Sustain Technology Leadership

### Operational Excellence

**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

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

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

Global Holistic Approach with Emphasis on Diversity and Inclusion

We deploy the KLA Operating Model to align the company on a consistent strategy, tie accountability to results, drive product development execution, respond to changing market conditions, and facilitate continuous improvement while ensuring the company always operates with strong financial discipline as we pursue our long-term performance and profitability objectives.

Here are five top highlights from our results for the December quarter and for 2020:

## December Quarter 2020 Business Highlights

**1.** Foundry/Logic Strength Continues, Memory Growth Expected in 2021



**2.** KLA's Portfolio Approach Continues to Win in the Marketplace



**3.** Service Business Strong With Record Profitability



**4.** EPC Group Benefiting from Growth Associated with 5G and Advanced Semiconductor Packaging



**5.** Continuing Commitment to Returning Value to Shareholders



First, we saw continued strength and breadth in Foundry/Logic demand in the December quarter. As expected, Memory demand also grew in the quarter, as Memory customers plan for growth in equipment investment in 2021 to meet improving end demand. We expect higher business levels across a broader set of customers in the March quarter, with demand momentum continuing throughout 2021 across our major end markets. The strength in demand we are seeing reflects KLA's essential role in supporting our customers' drive to innovate and continue to invest in future technology nodes.

Second, we are seeing strong momentum in the marketplace from new products, driving market growth and share opportunities in both the Semiconductor Process Control and EPC groups. Fueled by expanding customer investment in EUV lithography, the Semiconductor Process Control business is driving adoption with new applications in the optical inspection portfolio, such as EUV print check for GEN5, and expanding our share in new markets for KLA, including the eSL10 e-beam inspection platform and the nascent use of x-ray technologies for metrology applications.

Third, our Services revenue was \$1.56 billion, or 25% of total sales in 2020. This is driven by growth in our installed base, higher utilization rates, and increasing expansion of Service opportunities in the trailing edge and in the EPC group. The mission of KLA's Service organization is to partner with our customers to maximize the value of their KLA assets. The strong results delivered in 2020 show how the Services team continues to do a fantastic job leveraging the KLA Operating Model to deliver at a high level. Working in close collaboration with customers and partners, the Services business innovated and drove new initiatives against the unprecedented challenges of the pandemic. Not only did our Services business receive praise from our customers, but it also grew share of wallet, as we've seen contract penetration steadily increase in 2020 from ~70% to the 75%plus, which fuels its recurring revenue streams and generates strong operating leverage and cash flows.

Fourth, this was an encouraging year for the newly established Electronics, Packaging, and Components (EPC) group, demonstrating success in KLA's growth strategies, and highlighting how execution of the KLA Operating Model drives market leadership and improved operating leverage in acquired businesses. Revenue growth was strong, and we believe on a net basis we will exceed our \$50 million-dollar annual acquisition cost synergy target by at least an additional \$30 million. With EPC, KLA is now providing a more comprehensive and broader product portfolio and addressing fast-growing new markets in the electronics value chain, such as RF, automotive, 5G wireless connectivity, and display. Relative to the adoption of 5G, KLA has exposure to many key components in the electronics value chain, from the 5-nanometer processor with CPU, GPU, integrated AI, and memory through our Semiconductor Process Control business, to RF, camera sensor, advanced packaging and display in EPC. The EPC group ended the year with record backlog, setting the stage for double-digit revenue growth in 2021, and for incremental operating margins on that growth in line with the total company model.

Finally, in keeping with our commitment to deliver strong and predictable capital returns to our shareholders, in the December quarter we repurchased \$177 million of our common stock and paid \$140 million in dividends. Back in July 2020, KLA's board of directors authorized the 11<sup>th</sup> consecutive annual dividend increase, to a yearly run-rate of \$3.60 per share. Since inception in 2006, KLA's dividend payout has grown at a CAGR of approximately 15%. Back in July, KLA returned \$1.23 billion to shareholders or 70% of Free Cash Flow. We believe our track record of delivering strong capital returns is a key component of the KLA investment thesis and offers predictable and compelling value creation for our shareholders.

Before getting into greater detail on our financial highlights, let's briefly summarize. Despite the disruption and unforeseen challenges that persisted throughout the year associated with COVID, KLA has benefited from the resourcefulness of its global workforce, adapted well, and ends 2020 in a position of strength while delivering record results, with momentum in our marketplace setting the stage for the sixth consecutive year of growth.

This demonstrates the critical nature of KLA's products and services in enabling the digital transformation of our lives, the resiliency of our business model, and our commitment to productive capital allocation.

KLA is exceptionally well positioned at the forefront of technology innovation with a comprehensive portfolio of products to meet demanding customer requirements balancing sensitivity and throughput. The semiconductor and electronics landscape is constantly changing, and we are seeing broadening customer interest which is being applied to more technology innovation than ever before at the leading edge.

We believe the secular factors driving industry demand that we identified at our last Investor Day are even more relevant now than they were then, and this will help us to meet and likely exceed our 2023 financial targets. At the same time, our strategy of driving diversified growth with strong long-term operating leverage should provide consistent capital returns to our shareholders.



## The KLA Operating Model Continues to Guide Us



- 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

KLA's December quarter and 2020 results highlight the soundness and strength of our ongoing strategy. We continue to demonstrate our ability to meet customer needs and expand our market leadership, while growing operating profits, generating record free cash flow, and maintaining our long-term strategy of productive capital allocation. 2020 was a year of strong growth and profitability across multiple areas of our business. All of this was accomplished while simultaneously continuing to return high levels of capital to shareholders.

## Calendar 2020 Highlights – A Year of Record Growth & Profitability

Revenue  
\$6,073M

# 15%

Revenue Growth Y/Y

FCF  
\$1,768M

# 44%

FCF Growth Y/Y \*\*

Gross Profit  
\$3,728M

# 17%

Gross Profit Growth Y/Y \*

EPS  
\$11.47

# 32%

EPS Growth Y/Y \*

Op. Profit  
\$2,213M

# 28%

Op. Profit Growth Y/Y \*

Dividends  
+  
Buybacks

# \$1.23B

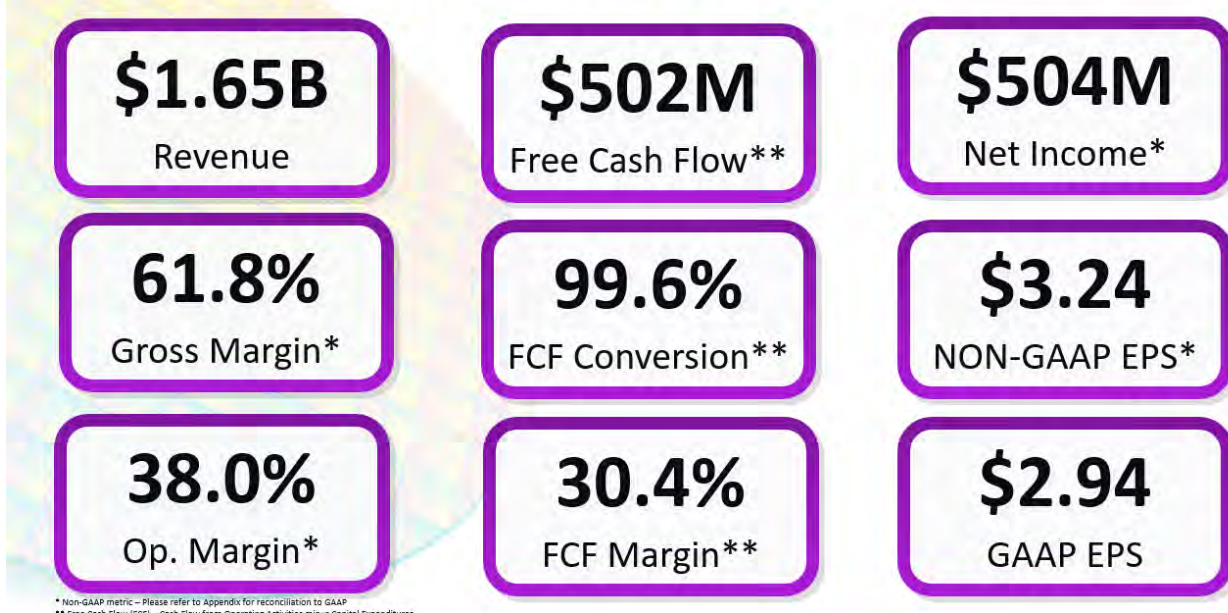
Capital Returns \*\*

\* Non-GAAP metrics – Please refer to Appendix for reconciliation to GAAP.  
\*\* Definitions: Free Cash Flow (FCF) = Cash Flow from Operating Activities minus Capital Expenditures. Capital Returns = Dividends + Share Repurchases

Total revenue in the December quarter was \$1.65 billion, at the very top of the guided range for the quarter of \$1.51 to \$1.66 billion. Non-GAAP Gross Margin was 61.8%, slightly below the midpoint of

the guided range for the quarter of 61% to 63%. Non-GAAP EPS was \$3.24, solidly above the midpoint of the guided range of \$2.82 to \$3.46. GAAP EPS was \$2.94. At the guided tax rate of 13%, Non-GAAP EPS would have been \$0.03 higher, or \$3.27.

## December Quarter 2020 Financial Highlights



Total Operating Expenses were above the guided range at \$393 million, including \$228 million of R&D expense, and \$165 million of SG&A. Non-GAAP Operating Income as a percentage of revenue was strong at 38%, and in-line with expectations. The higher operating expenses in the quarter were due in part to adjustments in variable compensation programs, as well as the timing of prototype material purchases for product development programs. Based on revenue expectations for 2021, product development requirements, particularly in programs supporting next generation reticle inspection capabilities, and the regionalization of additional customer engagement resources, we expect operating expenses to be approximately \$400 million in the March quarter, and we are budgeting quarterly operating expenses roughly within the range of \$400 - \$405 million over the near-term horizon. Given top line expectations for 2021, we expect that the business will continue to outperform its target operating model in terms of overall profitability and operating margin leverage.

Other Interest and Expense in the December quarter was \$43 million, and the effective tax rate was 13.8%. Though we always have some variability in our tax rate given the timing and impact of discrete items and the geographic distribution of revenue and profit, we believe it is prudent to adjust our long-term tax planning rate up slightly to 13.5% going forward. Of course, we are monitoring the corporate tax discussions in the United States and will provide updates on how those would affect KLA as appropriate in the future.

Non-GAAP net income was \$504 million, GAAP net income was \$457 million, cash flow from operations was \$561 million, and free cash flow was a record at \$502 million. This resulted in a free cash flow conversion of nearly 100%, and a very healthy free cash flow margin of just over 30%. The company had approximately 156 million diluted weighted average shares outstanding.



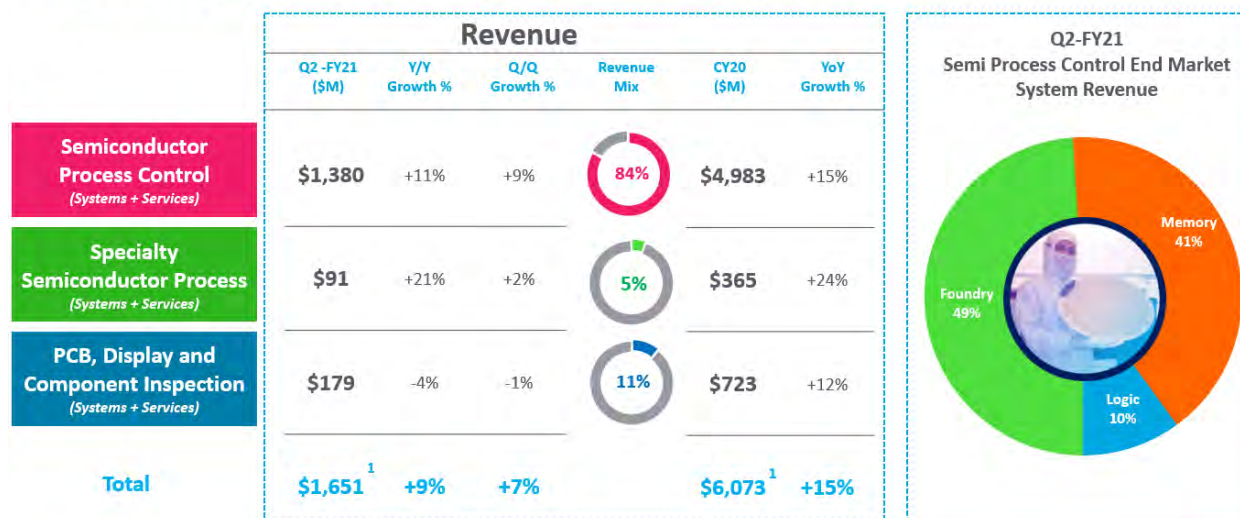
## Breakdown of Revenue by Reportable Segments and End Markets

Our segment revenue was strong in the quarter, driven by growth in our Semiconductor Process Control business. The EPC group delivered results in line with our model heading into the quarter.

Revenue for the Semiconductor Process Control segment, including its associated Service business was \$1.38 billion, a sequential quarterly increase of 9%, and up 15% for 2020. Approximate customer segment mix was as follows: Foundry was strong as expected at 49%, Logic was 10%, and Memory grew to 41% from 32% in the December quarter. Within Memory, the business was roughly 60% NAND and 40% DRAM. Going forward, we will be combining the Foundry and Logic segments into one category to remove some of the noise as to whether a customer is in one category or another given the various markets they serve, and to better align with industry reporting practices.

Revenue for the Specialty Semiconductor Process segment in December was \$91 million, up 2% sequentially, and up 24% in 2020. Demand in this segment is driven by growth in RF, MEMS, and advanced packaging. PCB, Display and Component Inspection revenue was \$179 million, down 1% sequentially, but up 12% for 2020, as strength in PCB and Component inspection offset a weaker business environment in the Display business.

## Breakdown of Revenue by Reportable Segments and End Markets



<sup>1</sup> Includes Other Revenue of \$0.4M/\$1.5M for Q2-FY21, plus the rounding of the three segments above

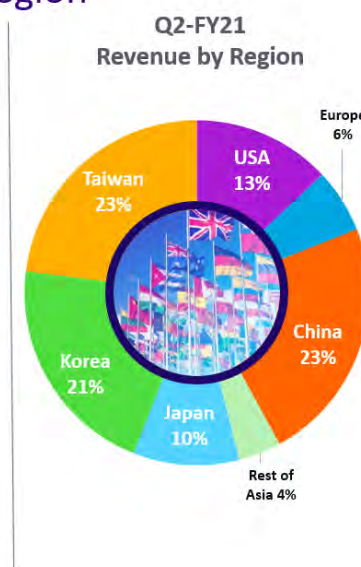
## Breakdown of Revenue by Major Products and Region

Revenue by major product category breaks down as follows: Wafer Inspection was 42%, Patterning, which includes reticle inspection, was 19%. Specialty Semiconductor Process was 4%. PCB, Display and Component Inspection was 7%, Service was 25%, and Other, which is reported in the Semiconductor Process Control segment, was 3%.

## Breakdown of Revenue by Major Products and Region

	Revenue					
	Q2-FY21 (\$M)	Y/Y Growth %	Q/Q Growth %	Revenue Mix	CY20 (\$M)	YoY Growth %
Wafer Inspection (Systems Only)	\$687	+13%	+32%	42%	\$2,232	+27%
Patterning (Systems Only)	\$307	+6%	-17%	19%	\$1,285	+3%
Specialty Semi Process (Systems Only)	\$72	+18%	-3%	4%	\$298	+20%
PCB, Display and Component Inspection (Systems Only)	\$116	-10%	-4%	7%	\$484	+9%
Services	\$413	+13%	+5%	25%	\$1,563	+15%
Other <sup>(1)</sup>	\$56	-6%	-8%	3%	\$210	-2%
<b>Total</b>	<b>\$1,651</b>	<b>+9%</b>	<b>+7%</b>		<b>\$6,073</b>	<b>+15%</b>

<sup>1</sup> Included in the Semiconductor Process Control Segment



The regional split of revenue was as follows: Taiwan was 23%, China was 23% overall, (Semi Process Control revenue for native China was 14%). Korea was 21%, the US was 13%, and Japan was 10%. Europe was 6%, and the rest of Asia was 4%.

## Strong Investment Grade Balance Sheet with no Bond Maturities until 2024

KLA ended the quarter with \$2.3 billion in total cash, total debt of \$3.46 billion, and a flexible and attractive bond maturity profile supported by investment-grade ratings from all three agencies.

### Strong Investment Grade Balance Sheet With No Bond Maturities Until 2024

#### CONSOLIDATED BALANCE SHEET<sup>1</sup> (\$M)

Total Cash <sup>2</sup>	\$ 2,297
Working Capital	\$ 3,203
Total Assets	\$ 9,815
Debt <sup>3</sup>	\$ 3,461
Total Shareholders' Equity	\$ 2,950

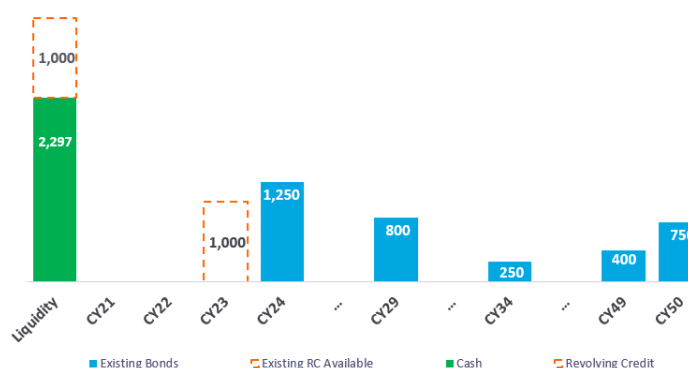
#### DEBT MATURITY PROFILE

Debt Outstanding	\$ 3,490M
Weighted Average Rate	4.35%
Weighted Average Life	13.8 years

#### INVESTMENT GRADE CREDIT RATINGS

Moody's	Baa1
S&P	BBB+
Fitch	BBB+

#### Bond Maturity Profile \$M



<sup>1</sup> As of 12/31/20. <sup>2</sup> Total Cash includes Cash, Cash Equivalents and Marketable Securities. <sup>3</sup> Difference between debt of \$3,461B and gross debt of \$3,490B is un-amortized debt issuance discounts and costs. KLA also has a \$20M notes payable due in both CY21 and CY22.

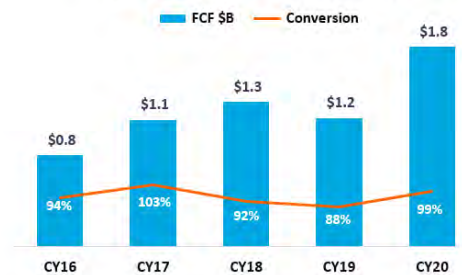
## FCF Generation Fuels Consistent Capital Return to Shareholders

We remain committed to our long-term strategy for cash returns to shareholders, executing a balanced approach split between dividends and share repurchases, targeting long term returns of 70% or more of Free Cash Flow generated.

### FCF Generation Fuels Consistent Capital Return to Shareholders



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



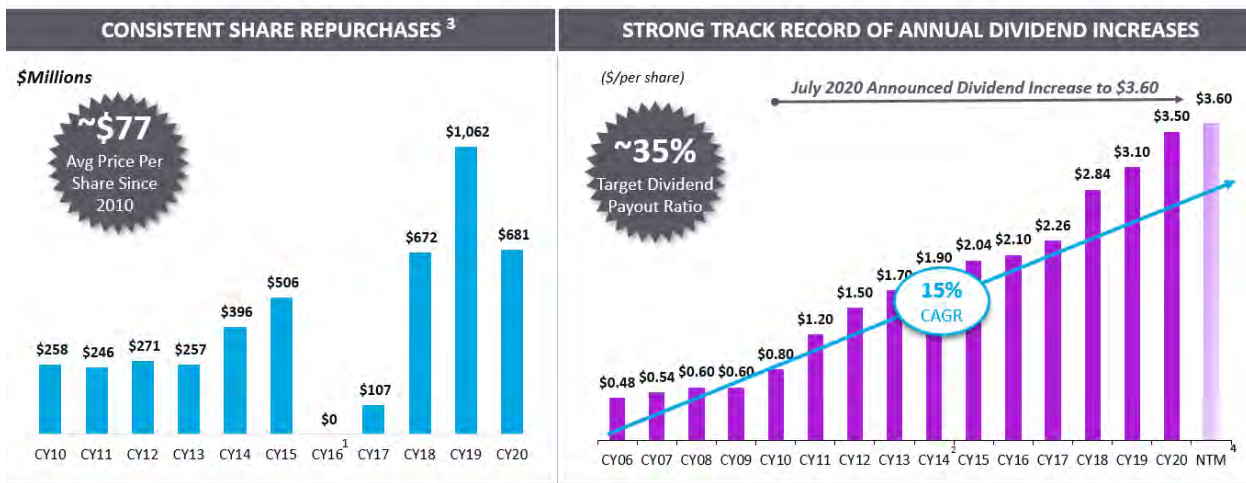
- Introducing new products at a 2x pace vs. our competitors
- Achieving market share of 4x our nearest competitor
- High gross margin and FCF conversion via differentiation

### Committed to Long-Term >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

In 2020, KLA returned \$1.2 billion to shareholders or 70% of Free Cash Flow, including \$547 million in dividends paid, and \$681 million in share repurchases. We believe our track record of delivering strong capital returns is a key component of the KLA investment thesis and offers predictable and compelling value creation for our shareholders.

### Capital Return to Investors is Spread Across Buybacks and Dividends



<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> NTM = Next Twelve Months



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

## Free Cash Flow (FCF) and Capital Returns Highlights

**\$502M**

Dec Qtr FCF \*

**\$1.77B**

CY20 FCF \*

**\$177M**

Dec Qtr Share Buyback

**\$1.23B**

CY20 Capital Returns \*

**\$140M**

Dec Qtr Dividends Paid

**70%**

CY20 Capital Returns as % of FCF \*

\* Free Cash Flow (FCF) = Cash Flow from Operating Activities minus Capital Expenditures. Capital Returns = Dividends + Share Repurchases

During the December quarter we repurchased \$177 million of common stock and paid \$140 million in dividends.

## Outlook

As we begin the new year, our view is that the wafer fab equipment (WFE) market will grow in the mid-teens, plus or minus a couple of percentage points, in 2021, off a baseline of \$59 to \$60 billion. 2021 is expected to be a year of strong demand and growth across our major end markets, with the strongest percentage growth coming in Memory, led by DRAM investment, and with Foundry/Logic delivering another year of solid growth.

Looking ahead, based on our current backlog, sales funnel visibility over the next couple quarters and product lead times, we are encouraged by the sustainability of our current demand profile for the year. As a result, we would expect the company revenue to be roughly consistent quarter to quarter across the year.

Our March quarter guidance is as follows: Total revenue is expected to be in a range of \$1.74 billion, plus or minus \$75 million. Foundry/Logic is forecasted to be about 68% of Semi Process Control systems revenue. Memory is expected to be approximately 32%. We forecast non-GAAP Gross Margin to be in a range of 61.25% to 63.25% as we expect a richer product mix, continued Services leverage and higher volume will lead to improved gross margins compared to the December quarter. Based on revenue and product mix expectations for 2021, we are modeling Gross Margins between 61.5% and 62.0% in 2021. Given the structural trends in our business in both cost and product positioning, our bias today is to the high end of this range.

Other model assumptions include: Operating Expense of approximately \$400 million, Interest and Other Expense of approximately \$43 million, and an effective tax rate of approximately 13.5%. Finally, GAAP diluted EPS is expected to be in a range of \$2.98 to \$3.66 and non-GAAP diluted EPS in a range of \$3.23 to \$3.91. The EPS guidance is based on a fully diluted share count of approximately 155 million shares.

## March Quarter 2021 Guidance (Q3 FY2021)

	MARCH 2021 QUARTER	MACRO ASSUMPTIONS
REVENUE	\$1,665M to \$1,815M	<ul style="list-style-type: none"> <li>Semi Process Control Revenue By End Market</li> <li>Foundry/Logic: 68%</li> <li>Memory: 32%</li> </ul>
NON-GAAP GROSS MARGIN	61.25% to 63.25%	MODEL ASSUMPTIONS
GAAP EPS	\$2.98 to \$3.66	<ul style="list-style-type: none"> <li>Non-GAAP Operating Expenses: ~\$400M</li> <li>Other Interest &amp; Expense (OIE): ~\$43M</li> <li>Effective Tax Rate: ~13.5%</li> <li>Diluted Share Count: ~155M</li> </ul>
NON-GAAP EPS	\$3.23 to \$3.91	

### Driving Profitable Growth and Delivering Shareholder Value

## In Conclusion

In closing, the end market dynamics driving semiconductors and investments in WFE remain compelling, with solid demand across end markets and at multiple technology nodes. 2021 is setting up to be the second consecutive year of double-digit growth for both WFE and KLA. KLA is executing well with continued confidence that we are on track to meet and likely exceed our 2023 financial targets. The KLA Operating Model positions us well to outperform and also guides our strategic objectives. These objectives fuel our growth, operational excellence, and differentiation across an increasingly more diverse product and services offering. They also underpin our sustained technology leadership, deep competitive moat, and strong track record of free cash flow generation and capital returns to shareholders.

Sincerely,

**Rick Wallace**  
CEO



**Bren Higgins**  
CFO



## Appendix

### Reconciliation of Non-GAAP Financial Measures

<i>(In thousands, except per share amounts and percentages)</i>	For the three months ended			For the twelve months ended			
	December 31, 2020	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
<b>GAAP net income attributable to KLA</b>	<b>\$ 457,251</b>	<b>\$ 1,367,523</b>	<b>\$ 1,137,653</b>	<b>\$ 1,420,692</b>	<b>\$ 666,341</b>	<b>\$ 863,670</b>	<b>\$ 530,761</b>
<b>Adjustments to reconcile GAAP net income to non-GAAP net income*:</b>							
Acquisition-related charges	a 53,099	214,533	340,318	21,218	4,737	4,383	12,396
Restructuring, severance and other charges	b 3,960	16,885	2,786	-	-	137	34,861
Goodwill impairment	c -	256,649	-	-	-	-	-
Loss on extinguishment of debt	d -	22,538	-	-	-	-	-
Merger-related charges	g -	-	-	-	9,308	17,051	8,820
Income tax effect of non-GAAP adjustments	e (17,552)	(74,196)	(97,828)	(1,229)	(4,631)	(6,169)	(16,668)
Discrete tax items	f 7,381	(10,047)	8,465	(18,089)	441,894	(3,064)	-
<b>Non-GAAP net income attributable to KLA</b>	<b>\$ 504,139</b>	<b>\$ 1,793,885</b>	<b>\$ 1,391,394</b>	<b>\$ 1,422,592</b>	<b>\$ 1,107,649</b>	<b>\$ 876,008</b>	<b>\$ 570,170</b>
<b>GAAP research and development (R&amp;D) expenses</b>		<b>\$ 880,635</b>	<b>\$ 822,928</b>	<b>\$ 624,668</b>	<b>\$ 570,202</b>	<b>\$ 503,188</b>	<b>\$ 491,637</b>
<b>Adjustments to reconcile GAAP R&amp;D expenses to non-GAAP R&amp;D expenses*:</b>							
Acquisition-related charges	a -	-	(3,328)	-	-	-	(2,000)
Restructuring, severance and other charges	b (3,625)	(802)	-	-	-	(5)	(8,479)
Merger-related charges	g -	-	-	-	(3,139)	(3,767)	-
<b>Non-GAAP R&amp;D expenses</b>		<b>\$ 877,010</b>	<b>\$ 818,798</b>	<b>\$ 624,668</b>	<b>\$ 567,063</b>	<b>\$ 499,416</b>	<b>\$ 481,158</b>

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

<i>(In thousands, except per share amounts and percentages)</i>	For the three months ended		For the twelve months ended	
	December 31, 2020	December 31, 2020	December 31, 2020	December 31, 2019
<b>GAAP operating income (1)</b>	<b>\$ 570,164</b>	<b>\$ 1,725,675</b>	<b>\$ 1,385,274</b>	
<b>Adjustments to reconcile GAAP operating income to non-GAAP operating income*:</b>				
Acquisition-related charges	a 53,099	471,182	340,318	
Restructuring, severance and other charges	b 4,647	15,869	2,786	
<b>Non-GAAP operating income (1)</b>	<b>\$ 627,910</b>	<b>\$ 2,212,726</b>	<b>\$ 1,728,378</b>	
GAAP operating margin	34.5%	28.4%	26.2%	
Non-GAAP operating margin	38.0%	36.4%	32.7%	
<b>GAAP EPS</b>				
<b>Adjustments to reconcile GAAP EPS to non-GAAP EPS*:</b>				
Acquisition-related charges	a 0.33	1.36	1.49	
Restructuring, severance and other charges	b 0.03	0.10	0.64	
Goodwill impairment	c -	1.63	-	
Loss on extinguishment of debt	d -	0.14	-	
Income tax effect of non-GAAP adjustments	e (0.11)	(0.47)	(0.59)	
Discrete tax items	f 0.05	(0.05)	0.04	
<b>Non-GAAP EPS</b>	<b>\$ 3.24</b>	<b>\$ 11.47</b>	<b>\$ 8.72</b>	
Shares used in diluted shares calculation	155,560	156,339	159,468	
<b>GAAP gross profit</b>	<b>\$ 981,137</b>	<b>\$ 3,571,050</b>	<b>\$ 2,961,024</b>	
<b>Adjustments to reconcile GAAP gross profit to non-GAAP gross profit*:</b>				
Acquisition-related charges	a 38,738	154,074	214,053	
Restructuring, severance and other charges	b 765	2,418	831	
<b>Non-GAAP gross profit</b>	<b>\$ 1,020,640</b>	<b>\$ 3,727,542</b>	<b>\$ 3,175,908</b>	
<b>GAAP gross margin</b>	<b>59.4%</b>			
<b>Adjustments to reconcile GAAP gross margin to non-GAAP gross margin*:</b>				
Acquisition-related charges	2.4%			
<b>Non-GAAP gross margin</b>	<b>61.8%</b>			

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

(1) Non-GAAP operating income and operating expenses include the effects of the changes in the Company's Executive Deferred Savings Plan Program ("EDSP") and the changes in the EDSP liability and asset are recorded in selling, general and administrative expense in operating expenses. The expense associated with changes in the liability included in selling, general and administrative expense for the three months ended December 31, 2020 and the calendar years ended December 31, 2020 and December 31, 2019 was \$22.1 million, \$34.7 million and \$39.8 million, respectively. The gains associated with the changes in the EDSP assets included in selling, general and administrative expense for the three months ended December 31, 2020 and the calendar years ended December 31, 2020 and December 31, 2019 was \$22.2 million, \$35.2 million and \$40.8 million, respectively.



## Reconciliation of Free Cash Flow and Related Metrics

Free Cash Flow reconciliation (In thousands, except percentages)	For the three months ended		For the twelve months ended				
	Dec 31, 2020	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
Net cash provided by operating activities	\$ 561,081	\$ 1,968,126	\$ 1,373,031	\$ 1,389,697	\$ 1,190,475	\$ 857,780	\$ 854,002
Less Capital expenditures	(59,144)	(200,304)	(149,242)	(86,516)	(49,207)	(34,974)	(34,842)
<b>Free cash flow</b>	<b>\$ 501,937</b>	<b>\$ 1,767,822</b>	<b>\$ 1,223,789</b>	<b>\$ 1,303,179</b>	<b>\$ 1,141,268</b>	<b>\$ 822,806</b>	<b>\$ 819,160</b>
<b>Free Cash Flow Conversion calculation</b>							
Free cash flow	\$ 501,937	\$ 1,767,822	\$ 1,223,789	\$ 1,303,179	\$ 1,141,268	\$ 822,806	\$ 819,160
Non-GAAP net income attributable to KLA	504,139	1,793,885	1,391,394	1,422,592	1,107,649	876,008	570,170
<b>Free cash flow conversion</b>	<b>99.6%</b>	<b>98.5%</b>	<b>88.0%</b>	<b>91.6%</b>	<b>103.0%</b>	<b>93.9%</b>	<b>143.7%</b>
<b>GAAP metric comparable to Free Cash Flow Conversion</b>							
Net cash provided by operating activities	\$ 561,081	\$ 1,968,126	\$ 1,373,031	\$ 1,389,697	\$ 1,190,475	\$ 857,780	\$ 854,002
GAAP net income attributable to KLA	\$ 457,251	\$ 1,367,523	\$ 1,137,653	\$ 1,420,692	\$ 656,341	\$ 863,670	\$ 530,761
<b>GAAP metric comparable to free cash flow conversion</b>	<b>122.7%</b>	<b>143.9%</b>	<b>120.7%</b>	<b>97.8%</b>	<b>181.4%</b>	<b>99.3%</b>	<b>160.9%</b>
<b>Free Cash Flow Margin</b>							
Free cash flow	\$ 501,937	\$ 1,767,822					
Revenue	1,650,870	6,073,047					
<b>Free cash flow margin</b>	<b>30.4%</b>	<b>29.1%</b>					
Cash paid for dividends	\$ 139,584	\$ 546,837					
Cash paid for share repurchases	177,492	681,384					
<b>Capital returns</b>	<b>\$ 317,076</b>	<b>\$ 1,228,221</b>					
<b>Capital returns as a percentage of free cash flow</b>	<b>63.2%</b>	<b>69.5%</b>					

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

## Reconciliation of Q3 FY 2021 Guidance Range

(In millions, except per share amounts and percentages)	Low	High
GAAP diluted net income per share	\$ 2.98	\$ 3.66
Acquisition-related charges	a 0.34	0.34
Restructuring, severance and other charges	b 0.02	0.02
Income tax effect of non-GAAP adjustments	e (0.11)	(0.11)
Non-GAAP diluted net income per share	\$ 3.23	\$ 3.91
Shares used in net income per diluted shares calculation	155.2	155.2
GAAP gross margin as a percentage of revenue	58.83%	61.03%
Acquisition-related charges	a 2.42%	2.22%
Restructuring, severance and other charges	b 0.00%	0.00%
Non-GAAP gross margin as a percentage of revenue	61.25%	63.25%
GAAP operating expenses	\$ (412)	\$ (418)
Acquisition-related charges	a 13	13
Restructuring, severance and other charges	b 2	2
Non-GAAP operating expenses	\$ (397)	\$ (403)

**Note:** The guidance as of February 3, 2021 represents our best estimate considering the information known as of the date of issuing the guidance. We undertake no responsibility to update the above in light of new information or future events. Refer to forward looking statements for important information. Also refer to "Reconciliation of Non-GAAP Financial Measures - Explanation of Non-GAAP Financial Measures" for detailed descriptions and information about each reconciling item.

**Explanation of Non-GAAP Financial Measures:**

To supplement our Condensed Consolidated Financial Statements presented in accordance with GAAP, we provide certain non-GAAP financial information, which is adjusted from results based on GAAP to exclude certain costs and expenses, as well as other supplemental information. The non-GAAP and supplemental information is provided to enhance the user's overall understanding of our operating performance and our prospects in the future. Specifically, we believe that the non-GAAP information, including non-GAAP net income attributable to KLA, non-GAAP net income per diluted share attributable to KLA and Free Cash Flow, provides useful measures to both management and investors regarding financial and business trends relating to our financial performance by excluding certain costs and expenses that we believe are not indicative of our core operating results to help investors compare our operating performances with our results in prior periods as well as with the performance of other companies. The non-GAAP information is among the budgeting and planning tools that management uses for future forecasting. However, because there are no standardized or generally accepted definitions for most non-GAAP financial metrics, definitions of non-GAAP financial metrics are inherently subject to significant discretion (for example, determining which costs and expenses to exclude when calculating such a metric). As a result, non-GAAP financial metrics may be defined very differently from company to company, or even from period to period within the same company, which can potentially limit the usefulness of such information to an investor. The presentation of non-GAAP and supplemental information is not meant to be considered in isolation or as a substitute for results prepared and presented in accordance with United States GAAP. The following are descriptions of the adjustments made to reconcile GAAP net income attributable to KLA to non-GAAP net income attributable to KLA:

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



## 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](http://www.kla.com).

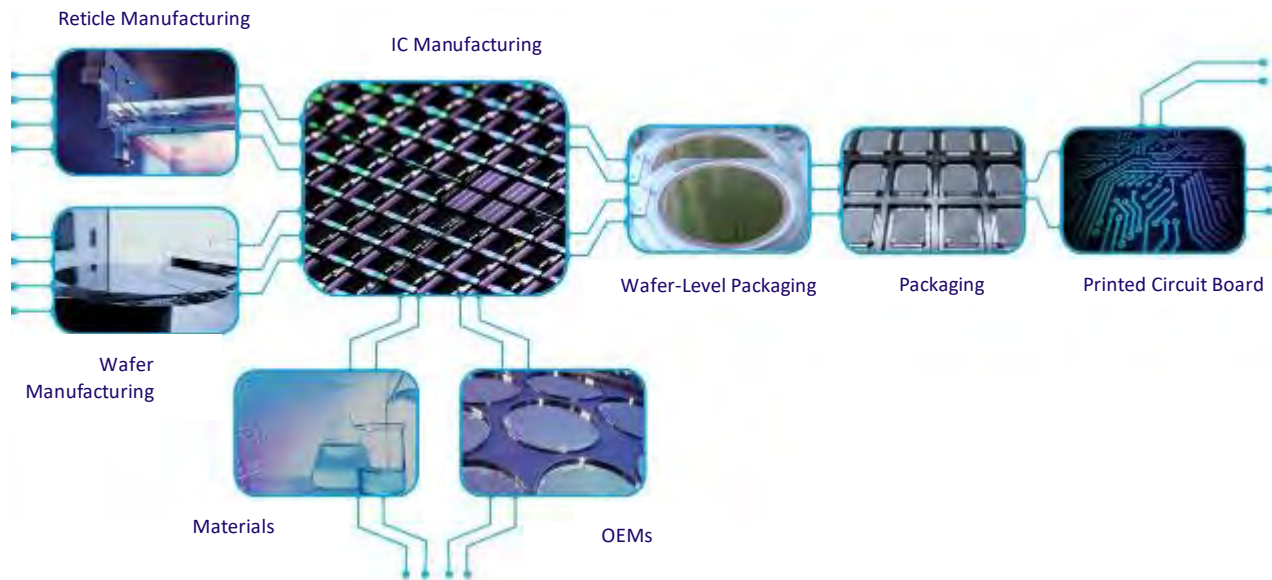
Investors and others should note that KLA announces material financial information to investors using an investor relations website ([ir.kla.com](http://ir.kla.com)), including SEC filings, press releases, public earnings calls and conference webcasts. These channels are used to communicate with the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





## KLA’s broad portfolio services the entire semiconductor ecosystem:

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



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## Note on Forward-Looking Statements

Statements in this presentation other than historical facts, such as statements pertaining to: (i) growth rates for 2021; (ii) our ability to meet or exceed our 2023 financial targets; (iii) foundry/logic strength in 2021 and memory growth in 2021; (iv) consistent revenue levels from quarter to quarter during 2021; (v) levels of business activity in the quarter ending March 31, 2021 and for calendar 2021; (vi) future capital returns to shareholders; (vii) our operating expenses for the quarter ending March 31, 2021 and near term budget; (viii) our long-term effective tax planning rate; (ix) WFE growth in 2021 and demand levels across end markets; (x) revenues, GAAP and non-GAAP gross margin and GAAP and non-GAAP diluted EPS for the quarter ending March 31, 2021 and revenues across customer segments in the quarter ending March 31, 2021; and (xi) realization of acquisition synergies; 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.