

KLA Earnings

Q2 Fiscal 2021 (Quarter Ended 12/31/2020)



February 3, 2021

Forward-Looking Statements

Statements in this presentation other than historical facts, such as statements pertaining to: (i) our ability to meet or exceed our 2023 financial targets; (ii) foundry/logic strength in 2021 and memory growth in 2021; (iii) future capital returns to shareholders; (iv) diluted shares outstanding for the quarter ending March 31, 2021; (v) our long-term effective tax planning rate; and (vi) revenues, GAAP and non-GAAP gross margin and GAAP and non-GAAP diluted EPS, diluted shares outstanding and non-GAAP operating expenses for the quarter ending March 31, 2021 and percentage of revenues across customer segments in the quarter ending March 31, 2021; 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.

Strategic Overview and Highlights

Rick Wallace | Chief Executive Officer



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

The KLA Operating Model



✓ CONSISTENT STRATEGY AND EXECUTION

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

✓ MANAGEMENT BY METRICS

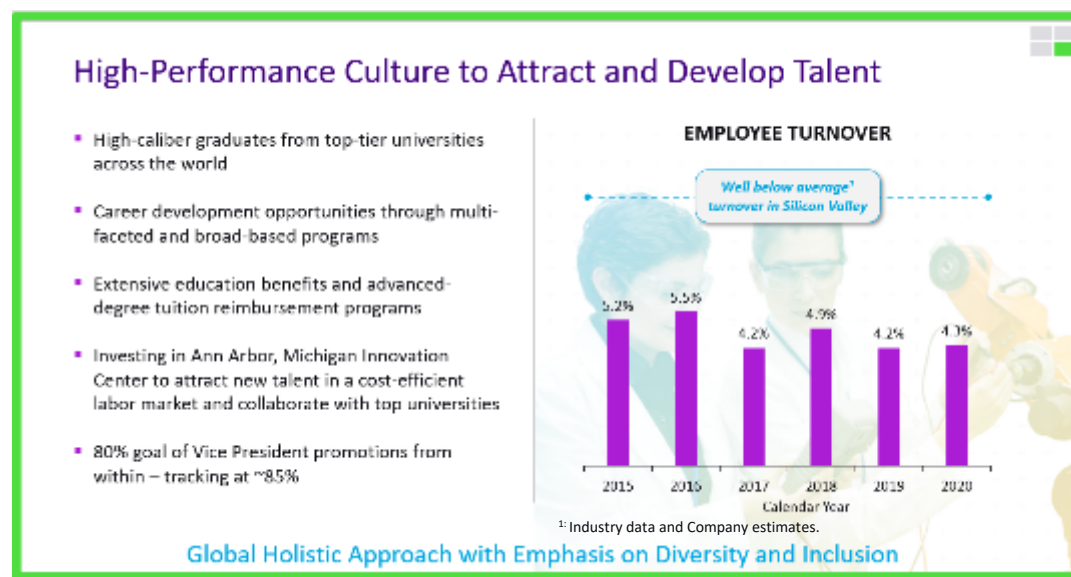
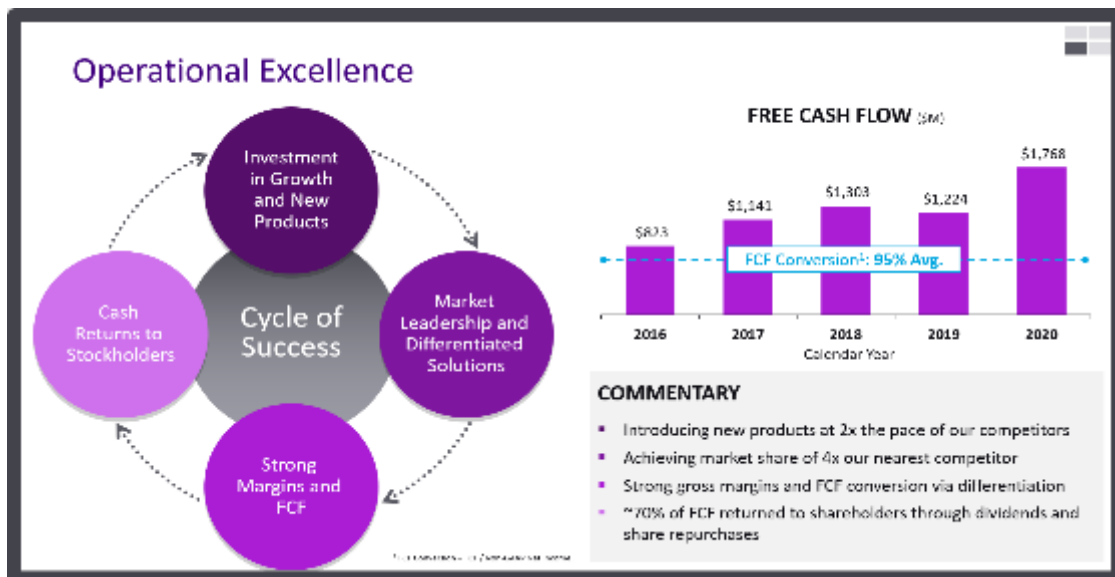
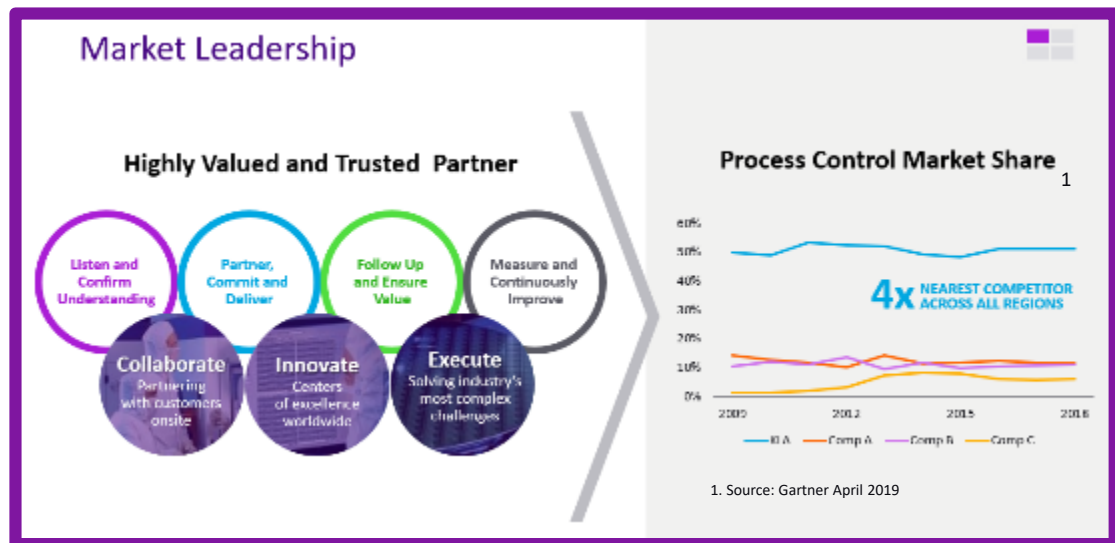
- Culture of performance and accountability
- Expectation of continuous improvement
- Superior margins driven by market leadership and differentiation

✓ FINANCIAL DISCIPLINE AND RIGOR

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

Focused on Driving Sustainable Profitability and Growth

KLA's Four Strategic Objectives Serve As Our Guide



December Quarter 2020 Business Highlights

1. **Foundry/Logic Strength Continues, Memory Growth Expected in 2021.** We saw continued strength and breadth in Foundry/Logic, as these customers are benefitting from investment in digital infrastructure, and we expect this demand to remain healthy in 2021. In Memory, tool utilizations are high, and Memory customers continue to drive down device inventories and plan for higher bit growth in 2021 to meet demand.



2. **KLA Continues to Win in the Marketplace.** We ended the quarter with strong backlog, demonstrating momentum in the marketplace across multiple product platforms. Fueled by new applications in our optical inspection portfolio and the success of new e-beam inspection offerings, we are seeing strong adoption of our market leading Process Control products. Our product portfolio strategy addresses a broad range of our customers' most complex technical challenges and is a unique differentiator for KLA.



3. **Services Business Strong With Record Profitability.** Our Services business (25% of revenue) continues to perform well, and grew 15% in calendar 2020. Improved long term growth in Service is being driven by a growing installed base, increasing complexity of our systems, tighter time to market requirements for our customers, and market expansion at trailing edge nodes. We have seen KLA's Service contract penetration rate has grown from ~70% to 75%+ over the past year.



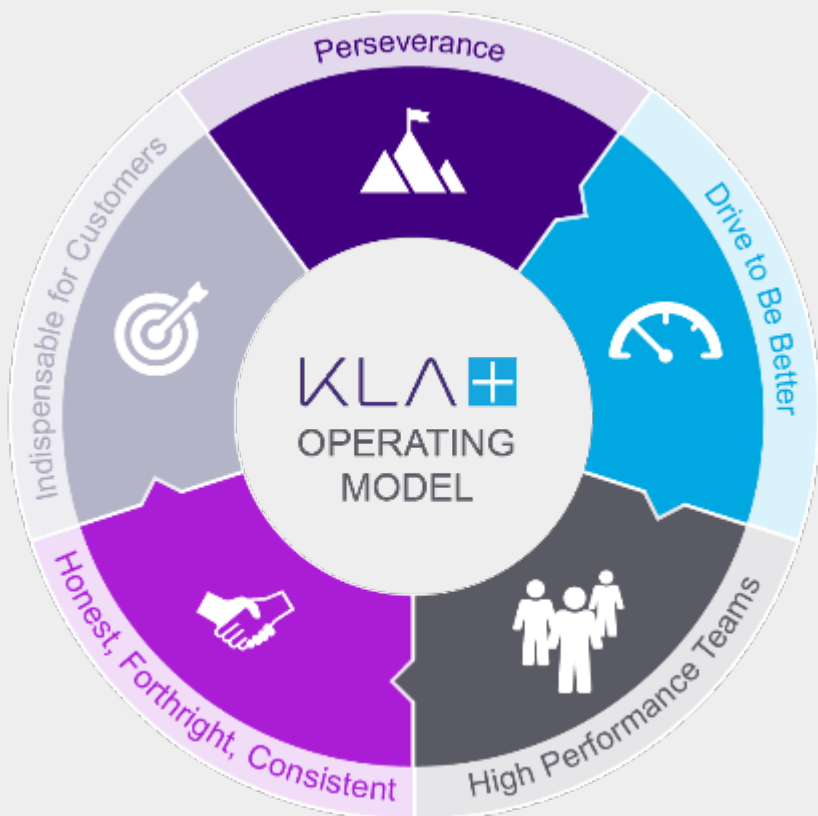
4. **EPC Group Benefitting from Growth Associated with 5G and Advanced Semiconductor Packaging.** 2020 was an exceptional year for the newly established Electronics, Packaging, and Components (EPC) group, with this business delivering record results. Through EPC, KLA is now providing a more comprehensive and broader product portfolio and addressing fast-growing new markets in the electronics value chain, such as RF, automotive, advanced connectivity, and display.



5. **Continuing our Commitment to Returning Value to Shareholders.** During the December quarter we repurchased \$177 million of our common stock and paid \$140 million in dividends. Over the past 12 months, we have returned \$1.23 billion to shareholders or 70% of Free Cash Flow, including \$547 million in dividends paid, and \$681 million in share repurchases.



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

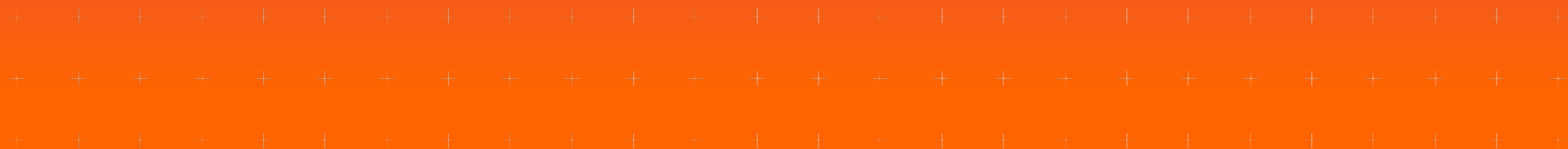
Experienced and energized leadership team utilizing the **KLA Operating Model** to instill a high-performance culture driving efficiency and operating performance

5

Track record of strong cash flow generation supported by diversification of revenue streams; balanced capital allocation delivering superior shareholder value

Business Performance and Guidance

Bren Higgins | Chief Financial Officer



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

December Quarter 2020 Financial Highlights

\$1.65B

Revenue

\$502M

Free Cash Flow**

\$504M

Net Income*

61.8%

Gross Margin*

99.6%

FCF Conversion**

\$3.24

NON-GAAP EPS*

38.0%

Op. Margin*

30.4%

FCF Margin**

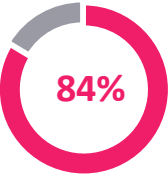
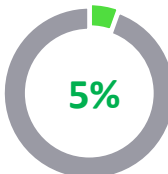
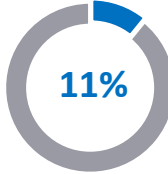
\$2.94

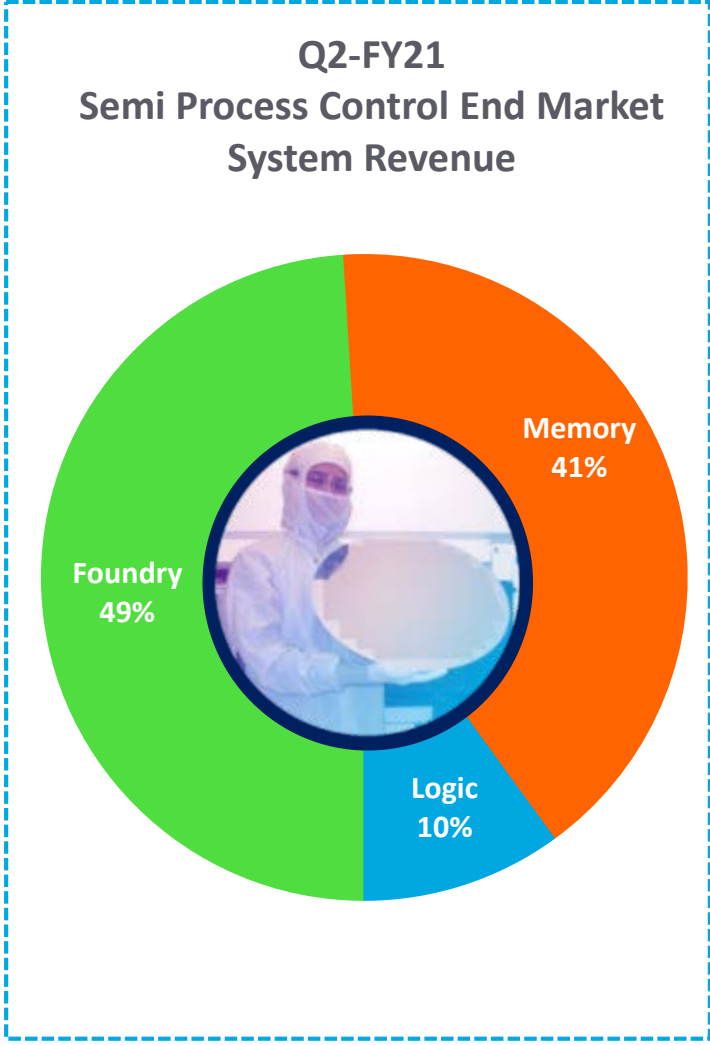
GAAP EPS

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

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

Breakdown of Revenue by Reportable Segments and End Markets

Revenue						
	Q2 -FY21 (\$M)	Y/Y Growth %	Q/Q Growth %	Revenue Mix	CY20 (\$M)	YoY Growth %
Semiconductor Process Control <i>(Systems + Services)</i>	\$1,380	+11%	+9%	 84%	\$4,983	+15%
Specialty Semiconductor Process <i>(Systems + Services)</i>	\$91	+21%	+2%	 5%	\$365	+24%
PCB, Display and Component Inspection <i>(Systems + Services)</i>	\$179	-4%	-1%	 11%	\$723	+12%
Total	\$1,651 ¹	+9%	+7%		\$6,073 ¹	+15%



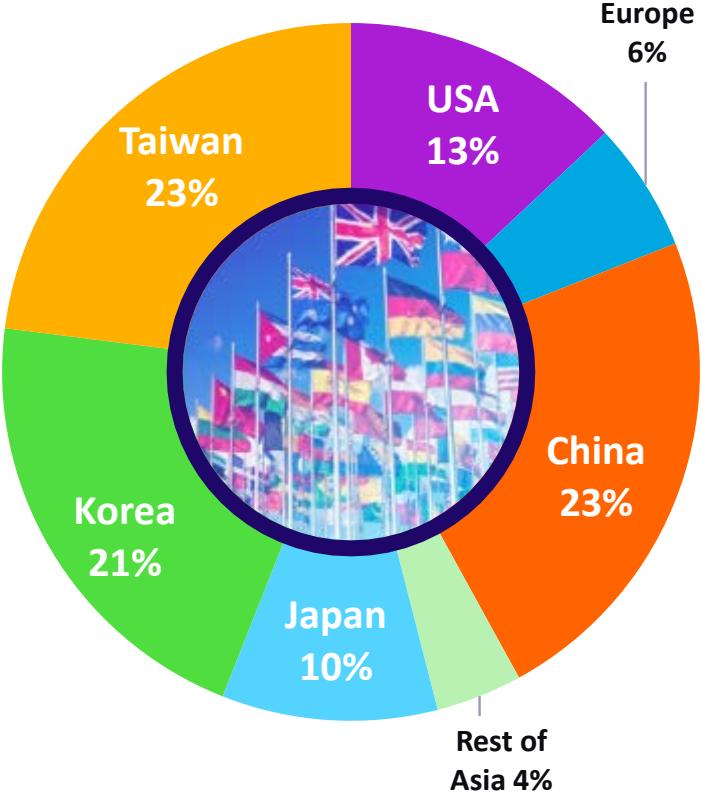
¹ Includes Other Revenue of \$0.4M/\$1.5M for Q2-FY21, plus the rounding of the three segments above

Breakdown of Revenue by Major Products and Region

Revenue

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

Q2-FY21 Revenue by Region



¹ Included in the Semiconductor Process Control Segment

Strong Investment Grade Balance Sheet With No Bond Maturities Until 2024

CONSOLIDATED BALANCE SHEET¹ (\$M)

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

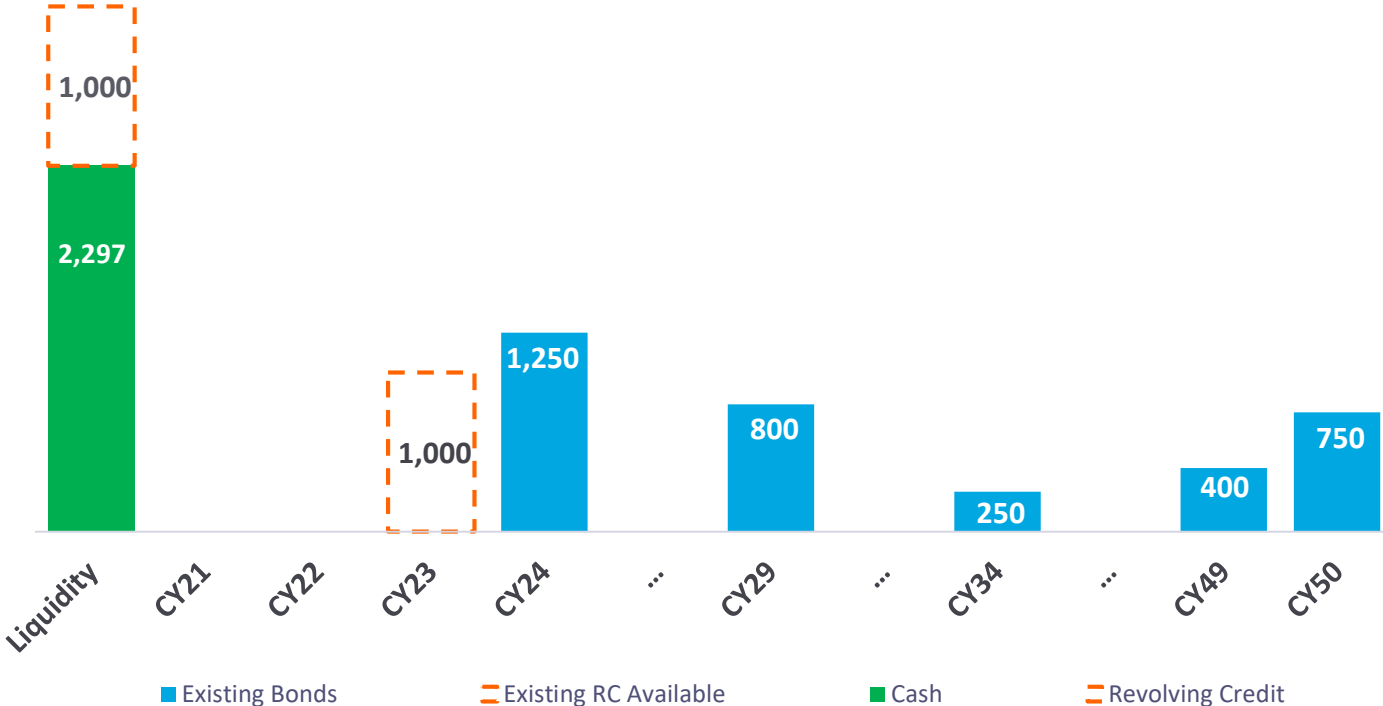
DEBT MATURITY PROFILE

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+

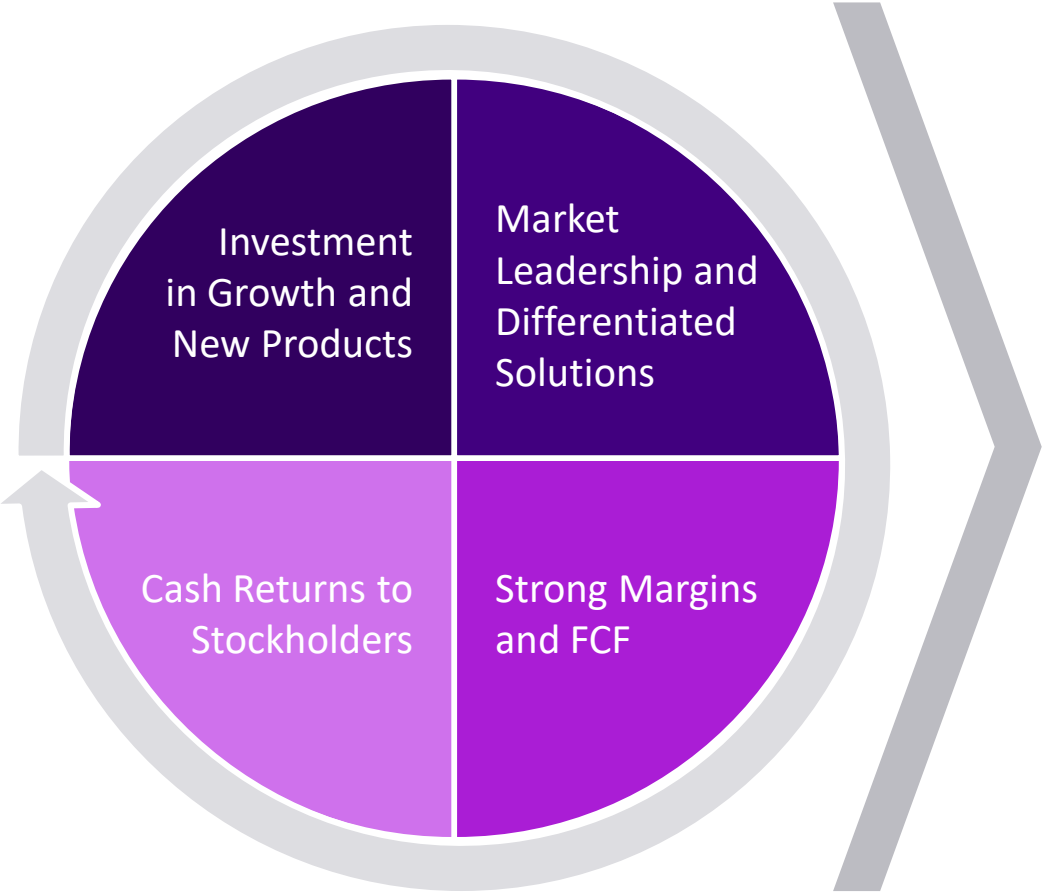
Bond Maturity Profile \$M



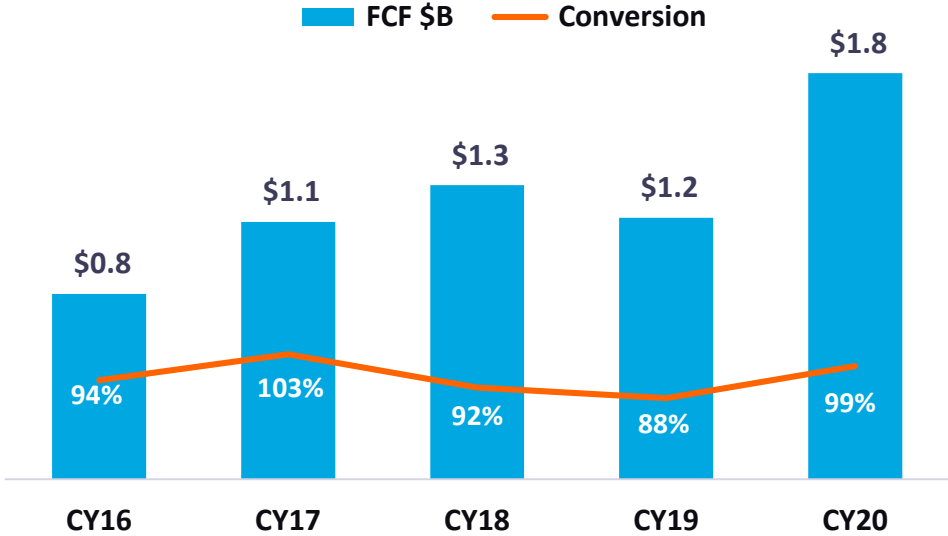
¹ As of 12/31/20; ² Total Cash includes Cash, Cash Equivalents and Marketable Securities; ³ Difference between debt of \$3.461B and gross debt of \$3,490B is un-amortized debt issuance discounts and costs. KLA also has a \$20M notes payable due in both CY21 and CY22.



FCF Generation Fuels Consistent Capital Return to Shareholders



FREE CASH FLOW¹ & CONVERSION²



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

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

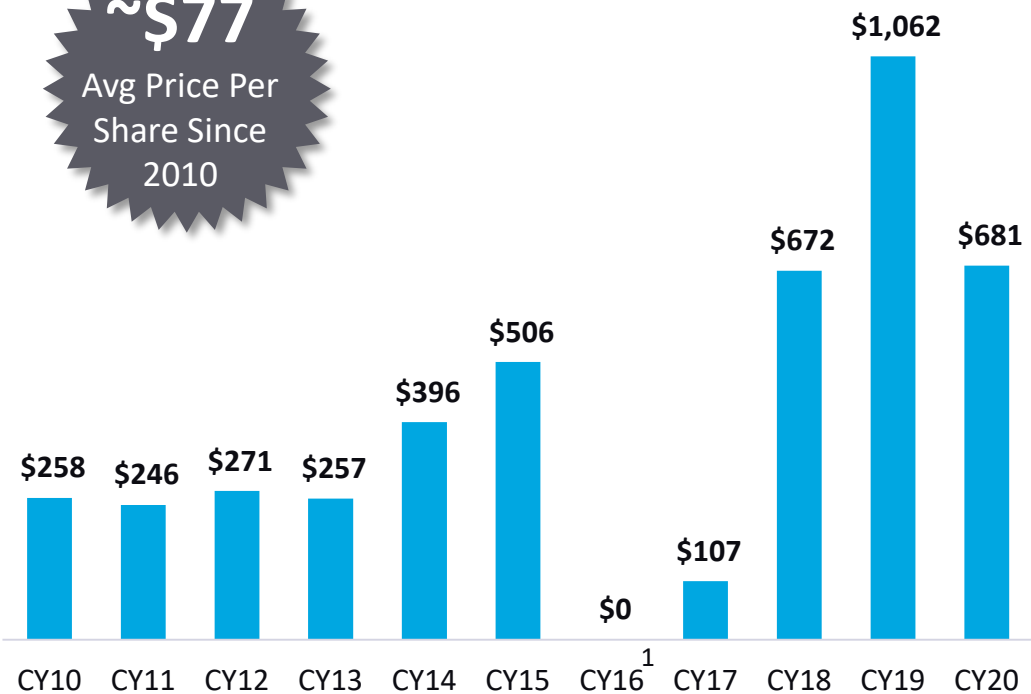
¹ Free Cash Flow (FCF) = Cash Flow from Operating Activities minus Capital Expenditures
² FCF Conversion defined as FCF/Non-GAAP Net Income; Non-GAAP metric – Please refer to Appendix for reconciliation to GAAP

Capital Return to Investors is Spread Across Buybacks and Dividends

CONSISTENT SHARE REPURCHASES ³

\$Millions

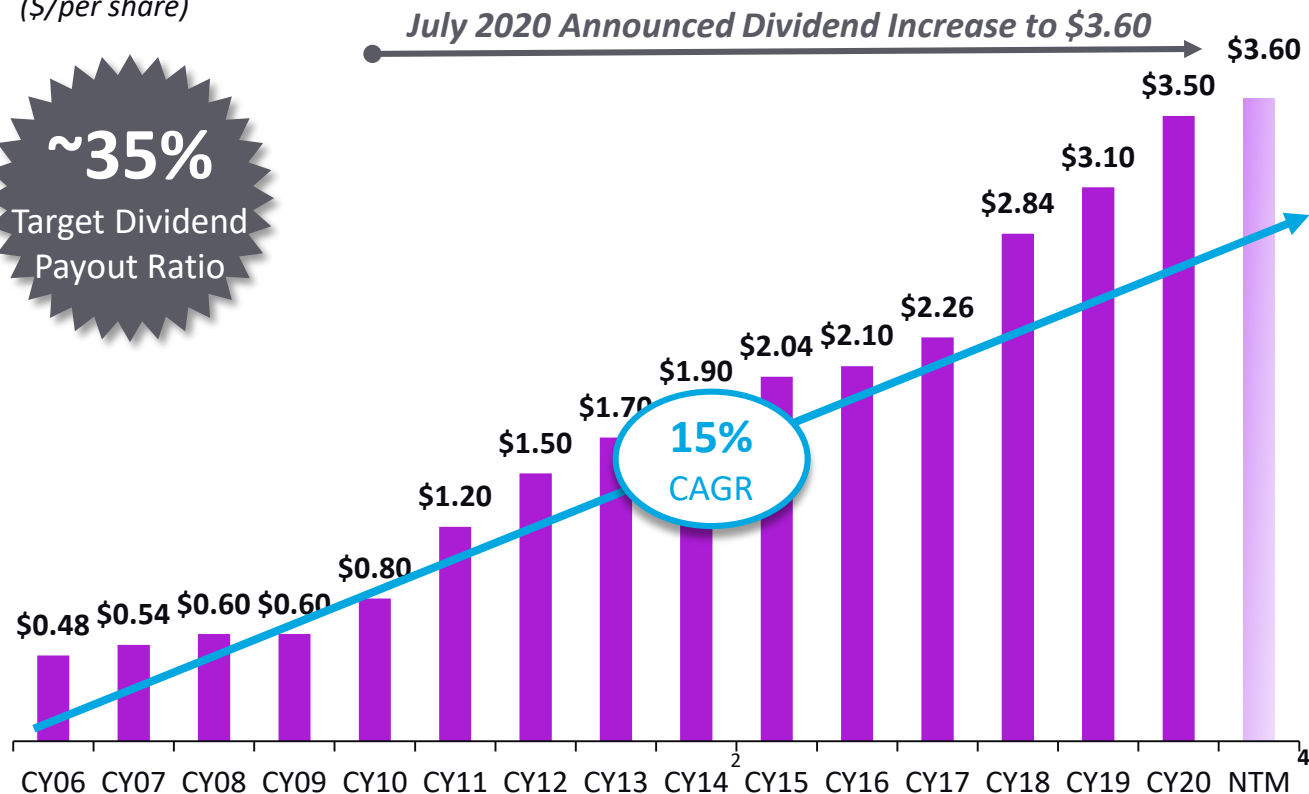
~\$77
Avg Price Per Share Since 2010



STRONG TRACK RECORD OF ANNUAL DIVIDEND INCREASES

(\$/per share)

~35%
Target Dividend Payout Ratio



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

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

March Quarter 2021 Guidance (Q3 FY2021)

	MARCH 2021 QUARTER
REVENUE	\$1,665M to \$1,815M
NON-GAAP GROSS MARGIN	61.25% to 63.25%
GAAP EPS	\$2.98 to \$3.66
NON-GAAP EPS	\$3.23 to \$3.91

MACRO ASSUMPTIONS

- Semi Process Control Revenue By End Market
 - Foundry/Logic: 68%
 - Memory: 32%

MODEL ASSUMPTIONS

- Non-GAAP Operating Expenses: ~\$400M
- Other Interest & Expense (OIE): ~\$43M
- Effective Tax Rate: ~13.5%
- Diluted Share Count: ~155M

Driving Profitable Growth and Delivering Shareholder Value

Appendix

Reconciliation of Financial Results



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
GAAP net income attributable to KLA	\$	457,251	\$ 1,367,523	\$ 1,137,653	\$ 1,420,692	\$ 656,341	\$ 863,670	\$ 530,761
<u>Adjustments to reconcile GAAP net income to non-GAAP net income*:</u>								
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)	-
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
GAAP research and development (R&D) expenses			\$ 880,635	\$ 822,928	\$ 624,668	\$ 570,202	\$ 503,188	\$ 491,637
<u>Adjustments to reconcile GAAP R&D expenses to non-GAAP R&D expenses*:</u>								
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)	-
Non-GAAP R&D expenses			\$ 877,010	\$ 818,798	\$ 624,668	\$ 567,063	\$ 499,416	\$ 481,158

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

Reconciliation of Non-GAAP Financial Measures

<i>(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, 2019
GAAP operating income (1)	\$	570,164	\$ 1,725,675	\$ 1,385,274
Adjustments to reconcile GAAP operating income to non-GAAP operating income*:				
Acquisition-related charges	a	53,099	471,182	340,318
Restructuring, severance and other charges	b	4,647	15,869	2,786
Non-GAAP operating income (1)	\$	627,910	\$ 2,212,726	\$ 1,728,378
GAAP operating margin		34.5%	28.4%	26.2%
Non-GAAP operating margin		38.0%	36.4%	32.7%
GAAP EPS				
Adjustments to reconcile GAAP EPS to non-GAAP EPS*:	\$	2.94	\$ 8.76	\$ 7.14
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
Non-GAAP EPS	\$	3.24	\$ 11.47	\$ 8.72
Shares used in diluted shares calculation		155,560	156,339	159,468
GAAP gross profit	\$	981,137	\$ 3,571,050	\$ 2,961,024
Adjustments to reconcile GAAP gross profit to non-GAAP gross profit*:				
Acquisition-related charges	a	38,738	154,074	214,053
Restructuring, severance and other charges	b	765	2,418	831
Non-GAAP gross profit	\$	1,020,640	\$ 3,727,542	\$ 3,175,908
GAAP gross margin		59.4%		
Adjustments to reconcile GAAP gross margin to non-GAAP gross margin*:				
Acquisition-related charges		2.4%		
Non-GAAP gross margin		61.8%		

* 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 <i>(In thousands, except percentages)</i>	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)	(86,518)	(49,207)	(34,974)	(34,842)
Free cash flow	\$ 501,937	\$ 1,767,822	\$ 1,223,789	\$ 1,303,179	\$ 1,141,268	\$ 822,806	\$ 819,160
Free Cash Flow Conversion calculation							
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
Free cash flow conversion	99.6%	98.5%	88.0%	91.6%	103.0%	93.9%	143.7%
GAAP metric comparable to Free Cash Flow Conversion							
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
GAAP metric comparable to free cash flow conversion	122.7%	143.9%	120.7%	97.8%	181.4%	99.3%	160.9%
Free Cash Flow Margin							
Free cash flow	\$ 501,937	\$ 1,767,822					
Revenue	1,650,870	6,073,047					
Free cash flow margin	30.4%	29.1%					
Cash paid for dividends	\$ 139,584	\$ 546,837					
Cash paid for share repurchases	177,492	681,384					
Capital returns	\$ 317,076	\$ 1,228,221					
Capital returns as a percentage of free cash flow	63.2%	69.5%					

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

<i>(In millions, except per share amounts and percentages)</i>	<u>Low</u>	<u>High</u>
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	<u>\$ 3.23</u>	<u>\$ 3.91</u>
Shares used in net income per diluted shares calculation	<u>155.2</u>	<u>155.2</u>
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	<u>61.25%</u>	<u>63.25%</u>
GAAP operating expenses	\$ (412)	\$ (418)
Acquisition-related charges	a 13	13
Restructuring, severance and other charges	b 2	2
Non-GAAP operating expenses	<u>\$ (397)</u>	<u>\$ (403)</u>

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.

Reconciliation of Non-GAAP Financial Measures

Explanation of Non-GAAP Financial Measures:

To supplement our Condensed Consolidated Financial Statements presented in accordance with GAAP, we provide certain non-GAAP financial information, which is adjusted from results based on GAAP to exclude certain costs and expenses, as well as other supplemental information. The non-GAAP and supplemental information is provided to enhance the user's overall understanding of our operating performance and our prospects in the future. Specifically, we believe that the non-GAAP information, including non-GAAP net income attributable to KLA, non-GAAP net income per diluted share attributable to KLA 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.