

April 29, 2021

# Letter to Shareholders

March 2021 Quarter

**Rick Wallace**

Chief Executive Officer

**Bren Higgins**

Chief Financial Officer



## Dear KLA Shareholders,

The March 2021 quarter marked another outstanding period for our business. We delivered strong growth and meaningful operating leverage while executing our strategic vision amidst a dynamic business environment.

Quarterly revenue grew 9% sequentially and 27% year-over-year to \$1.8 billion. Non-GAAP earnings per share were \$3.85, representing 19% sequential growth, and 55% growth compared to the prior year. Free cash flow grew 47% year-over-year to a record level. These results demonstrate KLA's strong operating leverage and the benefit of our ongoing capital returns strategies in helping to drive earnings power.

KLA's March quarter results demonstrate continued momentum in our business. Calendar year-to-date, we've seen a sharp increase in business levels across each of our major markets. This is primarily due to secular demand trends driving semiconductor industry growth across a broad range of markets and applications such as 5G and cloud computing. Our customers are increasing their strategic capex investments to address these growth markets while continuing investment in leading-edge R&D efforts.

Against this backdrop of strong demand, we continue to navigate evolving customer requirements and dynamic supply chain challenges. Still, KLA has not missed a beat and continues operating at an exceptionally high level, delivering on our commitments, and staying focused on creating value for our customers, partners, and shareholders. We would be remiss if we did not mention that achieving these results would not be possible without the extraordinary contributions of our talented global teams, who always rise to the challenges of meeting our customers' needs in an increasingly complex global business environment.

Three key things enabled KLA's record results and momentum, 1) successful innovation and market leadership, 2) the resourcefulness and talent of our global workforce, and 3) the strength and resiliency of the KLA Operating Model.

This quarter's Shareholder Letter will highlight how these key success factors drive KLA's long-term success. Before we discuss those further, let's begin with our perspective on the industry demand environment:

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 enables secular demand drivers such as High-Performance Computing (HPC), Artificial Intelligence (AI), and rapid growth in new automotive electronics and 5G communications markets.

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.

These strong secular semiconductor demand trends continue to shape multiple markets and are fueled by the increasing digitization of end-markets and industries. In addition, there is a heightened focus on the strategic nature of our customers' investments around both leading-edge development, optimizing facility utilization, and regionalization.

## Industry Demand Environment

**Industry Demand Momentum Accelerating** – Industry demand for semiconductors and WFE accelerated throughout 2020. KLA benefitted with broad, diversified strength across each of our major markets, led by stepped up spending in Foundry/Logic, and strong growth in Memory. KLA now estimates WFE growing on a percentage basis in the low to mid 20's with a bias to the upside in CY21, and with growth continuing in CY22.

**Customer R&D Investment Remains Very Strategic & Resilient** – KLA helps enable critical technology transitions across Foundry/Logic and Memory. This means KLA is most levered to our customers' strategic R&D investments and leading-edge product developments. As the world-wide market leader in Process Control, KLA is on the critical path to enable the implementation for all advanced technologies.

**Increase In Secular Growth Drivers For Semiconductors** – Regionalization of semiconductors is now being added to other existing secular growth drivers for semi's which include rising data center demand, 5G infrastructure and smartphone growth, recovery in automotive, digital healthcare, the revival of PC demand to support work from home, virtual collaboration, remote learning and entertainment. Semiconductors are at the center of the digitization of more end-markets and industries than ever before.

### KLA On Track to Exceed 2023 Financial Targets and Achieve Them Ahead of Schedule

As a result, our Wafer Fab Equipment (“WFE”) forecastd has improved even further from January, reflecting the strengthening of demand we have experienced over the past couple of months, with growth continuing into calendar 2022.

In this environment, KLA is experiencing a sharp increase in customer demand for systems and support for 2021 deliveries, and our expectations for KLA revenue growth have increased from our initial assessment in January.

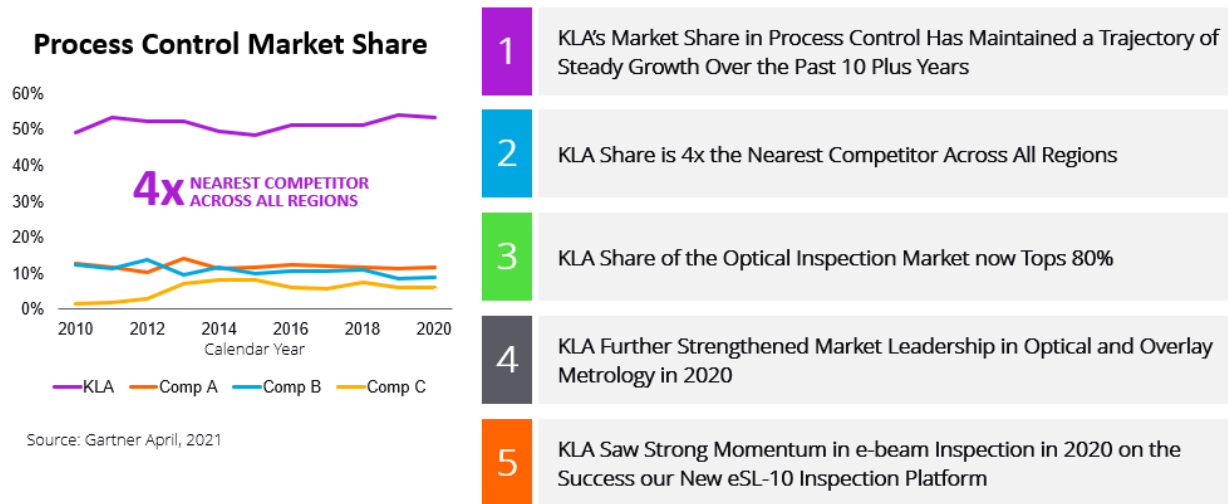
This momentum in customer investment is happening against a backdrop where process control intensity maintains its momentum, and KLA continues to drive market leadership at levels approximately 4x the nearest competitor.

Propelled by the upside we are experiencing in the underlying WFE markets, KLA’s market leadership, increasing long term Process Control intensity, our broader reach into the electronics ecosystem, and the contribution of our large and growing Services business, KLA is on track to achieve our 2023 financial targets well ahead of our original expectations.

KLA’s market leadership results from the ongoing, successful execution of the company’s customer focused strategy, which is based on investing a high level of R&D to drive differentiation with a unique portfolio of products, technologies, and strategies that addresses the most critical process control market challenges. We are pleased to continue to see the success of our strategies being validated by our customers’ purchasing decisions.

Here are some recent success stories to illustrate this point:

## 2020 Gartner Report Affirms KLA's Market Leadership



### 2020 Market Share Data Shows KLA Optical Inspection Franchise Now Tops \$1.5 Billion

The most recently published Gartner data shows that in 2020, the total Optical Inspection market grew at a rate greater than double the growth rate of the Wafer Fab Equipment market to approximately \$1.9 billion, with KLA maintaining our strong market leadership with an 83% share of this critical market for Process Control. With a portfolio of tools addressing a broad range of applications for both Patterned and Unpatterned Wafer Inspection, KLA's market leadership and the strong growth of Optical Inspection in 2020 demonstrate the important role process control plays in enabling technology transitions and development at the leading edge.

### Exciting Growth Opportunities Emerging for KLA in Automotive

Many already know that KLA is participating in the automotive electronics markets through our semiconductor, Packaging, and PCB product lines. We are excited by near-term plans to launch new versions of our process control products tailored for the automotive industry. This quarter, expect to hear more about how KLA has positioned our wafer inspection portfolio to help customers drive higher reliability, quality, and yield in automotive applications in both 200mm and 300mm production, which will help address some of the reported automotive semiconductor shortages going forward.

### KLA is Demonstrating Strong Through-Cycle Growth

Calendar year 2021 is positioned to be the sixth consecutive year of revenue growth for KLA, demonstrating the success of our diversification strategies, our market leadership in Process Control, and a large and growing contribution from our Services business.

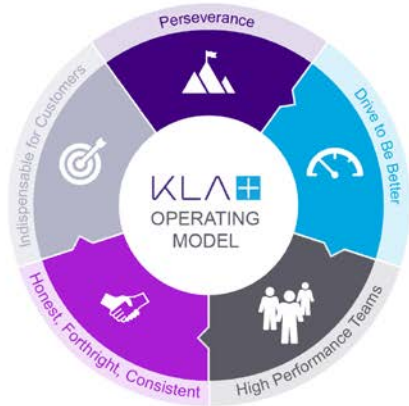
### The KLA Operating Model

One of the most important factors that drives our successful long-term market leadership is the KLA Operating Model. The KLA Operating Model codifies our corporate values and management principles, defining the core competencies and operating disciplines that drive our consistent outperformance. The KLA Operating Model is the enduring framework that we rely on to guide the execution of our long-term Strategic Objectives.

We have successfully deployed the KLA Operating Model to align the company on a consistent strategy, tie accountability to results, drive product development and commercial execution,

respond to changing market conditions, and facilitate continuous improvement. All the while ensuring KLA always operates with strong financial discipline as we pursue 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

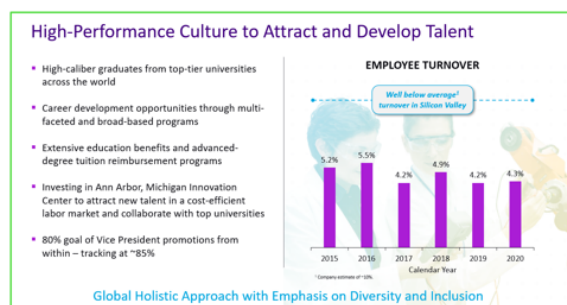
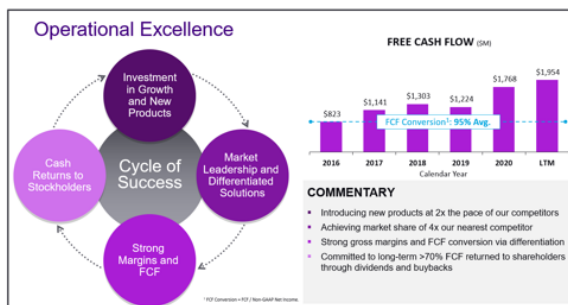
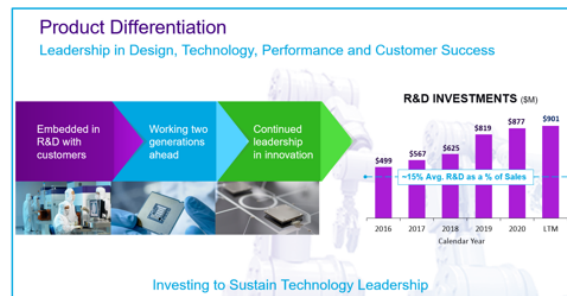
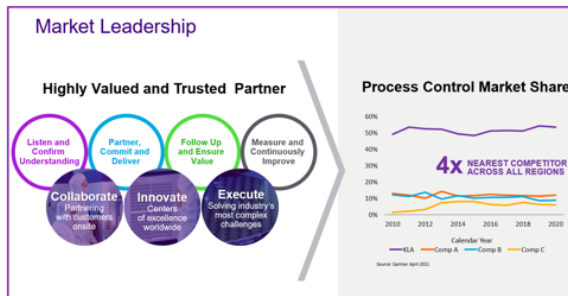
- Culture of performance and accountability
- Expectation of continuous improvement
- Superior margins driven by market leadership and differentiation

### 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 Serve As Our Guide



## March Quarter 2021 Business Highlights

1		Calendar 2021 Industry Growth Outlook Revised Upward as Demand Strengthens in Each Major End Market
2		2020 Industry Market Share Data Demonstrates KLA's Market Leadership
3		Service Business Delivers Again With Strong Double-Digit Year-over-Year Growth
4		EPC Group Benefitting from Diversification of End Demand, with Growth in Automotive, 5G, and Advanced Semiconductor Packaging
5		Record Free Cash Flow and Continuing Commitment to Returning Value to Shareholders

### **The Top 5 Highlights of the March Quarter are the Following:**

First, KLA continues to execute well and outperform expectations. We also benefited from a strong industry demand environment that saw accelerated demand in Foundry/Logic in the March quarter, with simultaneous investment across multiple nodes, and with our customers increasing their growth forecasts. In Memory, demand continues to strengthen across a broader set of customers, and our outlook shows demand momentum continuing throughout the year led by strength in DRAM, with NAND investment broadening out in the second half of the year. KLA plays an essential role in supporting our customers' drive to innovate and continue to invest in future technology nodes.

Second, Gartner's recent market share report for 2020 sized KLA's share of Process Control at over 53% for the year. KLA's market share in Process Control has maintained a steady growth trajectory over the past ten plus years. Highlights of the 2020 report show KLA continuing to strengthen our core franchise in optical inspection (the largest segment of KLA's market) and strong momentum and gains in e-beam Inspection and Optical Metrology. Increasing investment in leading edge Foundry/Logic and the accelerating adoption of EUV continue to be major factors driving equipment spending. KLA's market leadership once again demonstrates the success of our portfolio approach to solving complex customer requirements at the leading edge.

Third, our Services revenue was \$428 million in the March quarter, or 24% of total sales, with over 75% of Services revenue in our Semiconductor Process Control segment resulting from recurring contract agreements. Services is on track for another year of strong double-digit growth, driven by our growing installed base, higher utilization rates, and increasing expansion of Service opportunities in the trailing edge and the EPC group. Our Semi Process Control service business revenue continues to grow faster than the rate of growth of the installed base, growing approximately 2.8 times faster over the last five years. The mission of KLA's Service organization is to partner with our customers to maximize the value of their KLA assets. The Services team continues to do a fantastic job leveraging the KLA Operating Model to deliver at a high level. KLA's Services business is always working in close collaboration with customers and partners, which helps it continue to innovate and drive new initiatives for growth.

Fourth, this was another growth quarter for our Electronics, Packaging, and Components (EPC) group, highlighted by record quarterly bookings for the Specialty Semiconductor business. Growth was driven by automotive, 5G wireless connectivity and advanced packaging applications across various end-markets. 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 Semiconductors, and Advanced Packaging. As it relates to EPC's opportunities in the Advanced Packaging markets, KLA is strengthening our engagement with the top five semiconductor market leaders in Packaging, and we are expanding our reach with OSATs. KLA is ramping up investments in the Advanced Packaging market to drive the adoption of new technologies in this exciting growth market, in addition to new inspection products for wafer level production and assembly.

Finally, in keeping with our commitment to deliver strong and predictable capital returns to our shareholders, in the March quarter we repurchased \$273 million of our common stock and paid \$139 million in dividends, for a total capital return of \$412 million, or 71% of record Free Cash Flow of \$585 million. Last July, 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 its inception in 2006, KLA's dividend payout has grown at a CAGR of approximately 15%. We believe KLA's 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.

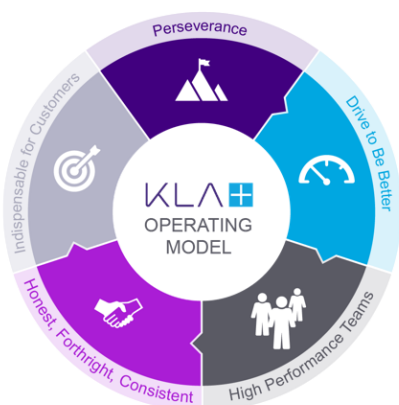
Before getting into greater detail on our financial highlights, let us briefly recap:

KLA's March 2021 results demonstrate the critical nature of KLA's products and services in enabling the digital transformation of our lives, the resiliency of our KLA Operating 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 driven by more technology innovation than ever before at the leading edge.

We believe there are multiple secular factors driving industry demand that KLA will continue to benefit from and position us to exceed our 2023 financial targets and reach them earlier than anticipated. At the same time, our strategy of driving diversified growth with strong long-term operating leverage should provide robust cash flow generation and 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

### March Quarter 2021 Financial Highlights

KLA's March quarter 2021 results highlight the soundness and strength of our ongoing strategies. 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.

Total revenue in the March quarter was \$1.804 billion, at the top of the guided range for the quarter of \$1.665 to \$1.815 billion. Non-GAAP Gross Margin was 62.9%, above the midpoint of the guided range for the quarter of 61.25% to 63.25% as stronger revenue and favorable product mix drove upside in the quarter. Non-GAAP EPS was \$3.85, at the upper end of the guided range of \$3.23 to \$3.91. GAAP EPS was \$3.66.

<b>\$1.80B</b> Revenue	<b>\$585M</b> Free Cash Flow *	<b>\$598M</b> Net Income*
<b>62.9%</b> Gross Margin*	<b>97.8%</b> FCF Conversion *	<b>\$3.85</b> NON-GAAP EPS *
<b>40.4%</b> Op. Margin*	<b>32.4%</b> FCF Margin *	<b>\$3.66</b> 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.

Non-GAAP Total Operating Expenses were \$407 million, including \$239 million of R&D expense, and \$168 million of SG&A. At KLA, technical applications support for our customers is included in SG&A



and was \$42 million in the quarter. The combination of R&D expense and technical applications represents about 70% of total operating expenses. Non-GAAP Operating Income as a percentage of revenue was very strong at 40.4%. Given higher revenue expectations for the remaining three quarters of 2021, product development requirements, particularly in programs supporting next generation reticle inspection capabilities, regionalization of additional customer engagement resources, and increased investment in our infrastructure globally, particularly in expanding our manufacturing footprint and completing our new HQ2 in Ann Arbor, Michigan, we expect non-GAAP operating expenses to be approximately \$412 million in the June quarter. We are budgeting quarterly operating expenses to increase sequentially \$3 to \$5 million per quarter over the near-term horizon. Given top-line expectations for 2021 and fueled by double-digit growth over the past two years, we expect that the business will continue to outperform our target operating model both in terms of overall profitability and operating margin leverage.

Other Interest and Expense in the March quarter was \$36 million, and the effective tax rate was 13.6%. Our long-term tax planning rate remains 13.5%, but we will continue to monitor the corporate tax discussions in the United States and will provide updates on how those would affect KLA as appropriate in the future.

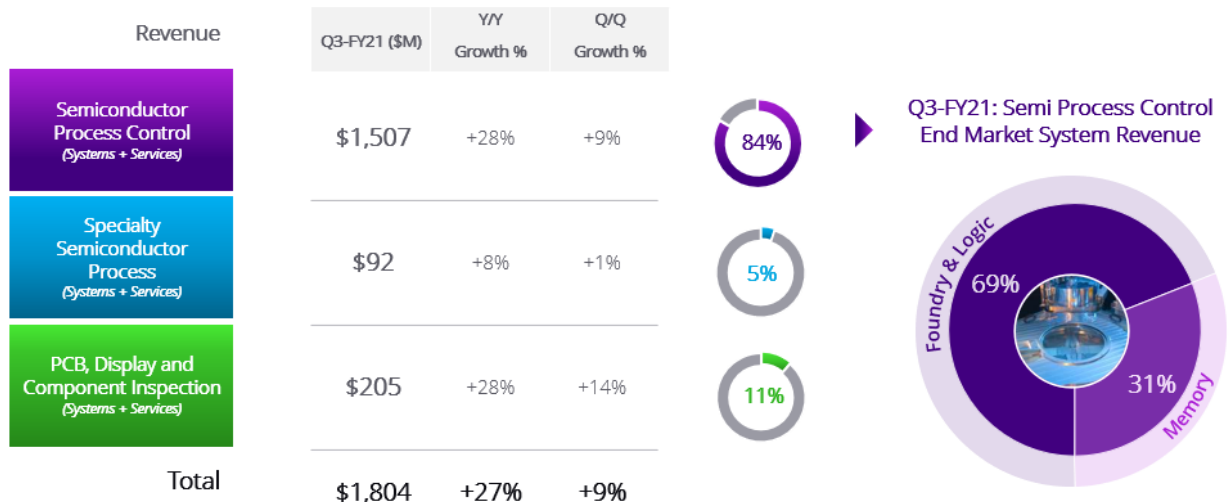
Non-GAAP net income was \$598 million, GAAP net income was \$567 million, cash flow from operations was \$646 million, and free cash flow was \$585 million. This resulted in a free cash flow conversion of nearly 100%, and a very healthy free cash flow margin of 32.4%. The company had approximately 155 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 mostly in line with our model heading into the quarter.

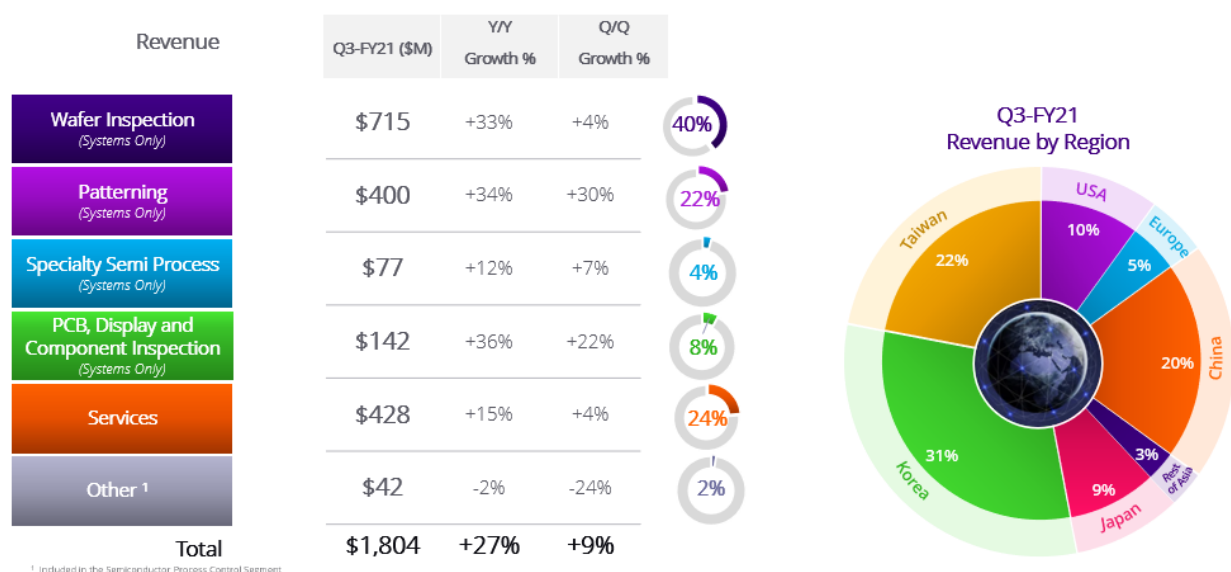
Revenue for the Semiconductor Process Control segment, including its associated Services business, was \$1.507 billion, a sequential quarterly increase of 9%, and up 28% compared with March of last year. The approximate semiconductor customer segment mix was as follows: Foundry/Logic was strong as expected at 69%, and Memory was 31%. In Memory, the business was split roughly 55% NAND and 45% DRAM.

Revenue for the Specialty Semiconductor Process segment in March was \$92 million, up 1% sequentially, and up 8% over the prior year. Demand in this segment is driven by growth in RF, Power, and Advanced Packaging. PCB, Display and Component Inspection revenue was \$205 million, up 14%, sequentially, and up 28% year-over-year with mobility markets driving strength in advanced PCB and finished component inspection.



### Breakdown of Revenue by Major Products and Region

Revenue by major product category breaks down as follows: Wafer Inspection was 40%, Patterning, which includes reticle inspection, was 22%. Specialty Semiconductor Process was 4%. PCB, Display and Component Inspection was 8%, Service was 24%, and Other, which is consolidated into the Semiconductor Process Control segment, was 2%.



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

The regional split of revenue was as follows: Korea was 31% of total sales, Taiwan was 22% and China was 20%. The US was 10%, Japan was 9%, Europe was 5%, and the rest of Asia made up 3%.

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

KLA ended the quarter with \$2.44 billion in total cash, total debt of \$3.42 billion, and a flexible and attractive bond maturity profile supported by strong investment-grade ratings from all three agencies.

## Strong Balance Sheet With No Bond Maturities Until 2024

### Balance Sheet Summary<sup>1</sup> (\$M)

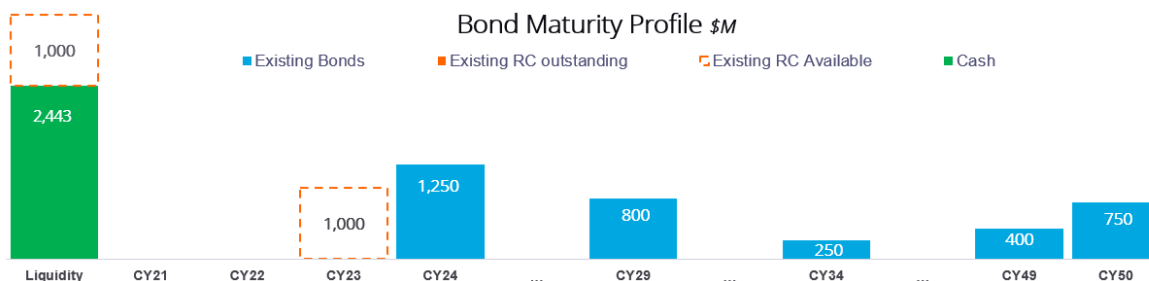
Total Cash <sup>2</sup>	\$ 2,443
Working Capital	\$ 3,376
Total Assets	\$ 9,939
Debt <sup>3</sup>	\$ 3,422
Total Shareholders' Equity	\$ 3,113

### Bond Maturity Profile

Bonds Outstanding	\$ 3,450M
Weighted Average Rate	4.37%
Weighted Average Maturity	13.7 years

### Investment Grade Credit Ratings

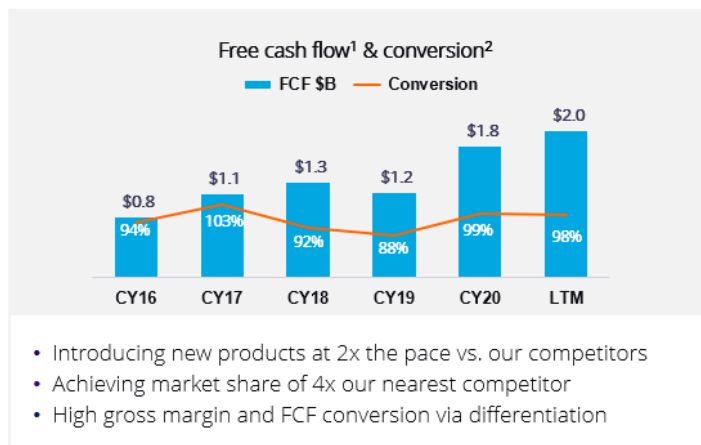
Moody's	Baa1
S&P	BBB+
Fitch	BBB+



<sup>1</sup> As of 03/31/21. <sup>2</sup> Total Cash includes Cash, Cash Equivalents and Marketable Securities. <sup>3</sup> Difference between Bonds Outstanding of \$3,450B and gross debt of \$3,422B is un-amortized debt issuance discounts and costs. KLA also has a \$20M notes payable due in CY22

## FCF Generation Fuels Consistent Capital Return to Shareholders

We have committed to a long-term strategy of cash returns to shareholders, executing a balanced approach split between dividends and share repurchases, targeting long-term returns of at least 70% of free cash flow generated.



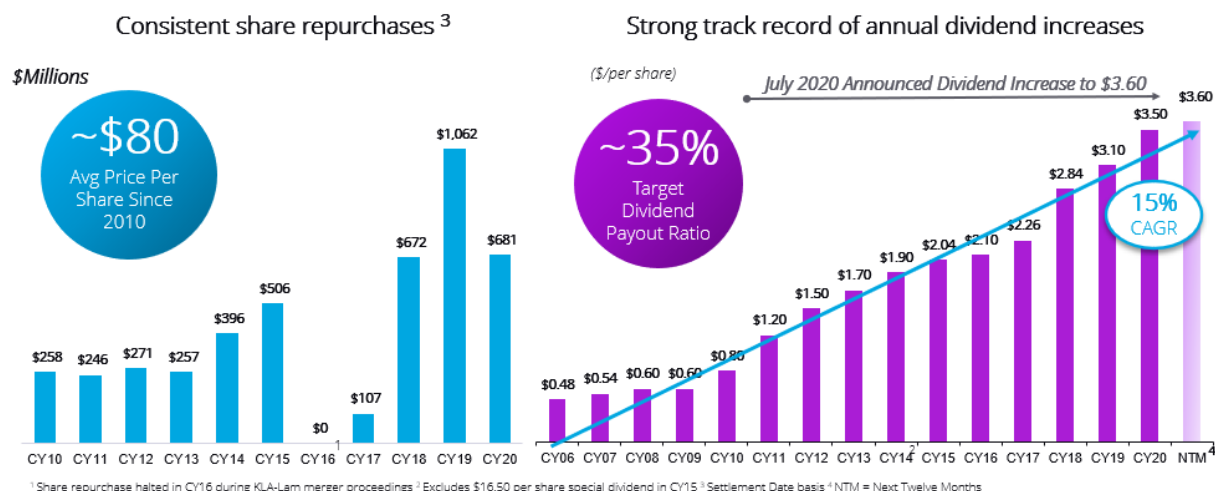
**Committed to Long-Term >70% FCF Returned to Shareholders through Dividends and Buybacks**

<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

Over the last 12 months, KLA returned \$1.2 billion to shareholders including \$553 million in dividends paid, and \$639 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. While circumstances can change, our current

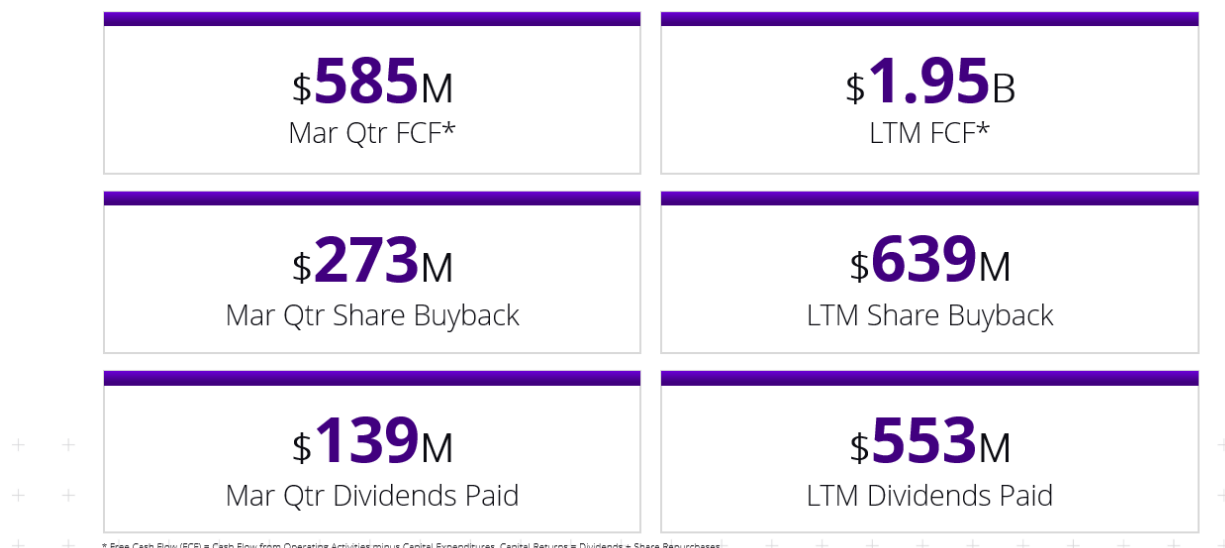
expectation is that our capital returns profile for calendar 2021 will exceed 85% of the expected free cash flow.

## Return to Shareholders Balanced Between Buybacks and Dividends



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



We repurchased \$273 million of common stock during the March quarter and paid \$139 million in dividends.

## Outlook

Our overall semiconductor demand and WFE outlook has expanded further from our view in January, where we characterized the WFE market to grow in the low teens plus or minus a few points. We are revising up our view for the WFE market to grow on a percentage basis in the low to mid 20's with a bias to the upside in calendar 2021 from approximately \$61 billion in 2020, reflecting the strengthening of demand we have experienced over the past couple of months across all customer segments.

Also, at earnings in January, we provided a high-level outlook of business levels being roughly flat quarter to quarter for calendar year 2021. Looking ahead, based on the strength of our current backlog, and sales funnel visibility over the next couple of quarters, along with expected 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 continue to improve sequentially quarter to quarter throughout the remainder of the calendar year, with the second half growing versus the first half as more KLA manufacturing capacity comes on line to support this robust customer demand environment. This growth is fueled principally by our Semiconductor Process Control business. This business is positioned well in terms of expected performance in 2021 relative to the overall WFE market.

Our June quarter guidance is as follows: Total revenue is expected to be in a range of \$1.855 billion, plus or minus \$100 million. Foundry/Logic is forecasted to be about 68% and Memory is expected to be approximately 32% of Semi Process Control systems revenue to semiconductor customers. Within Memory, DRAM is expected to be about 60% of the segment mix. We forecast non-GAAP Gross Margin to be in a range of 61% to 63% as product mix expectations normalize in the June quarter. Based on increased revenue volume and product mix expectations for 2021, we are now modeling Gross Margin to be between 62% and 62.5% in calendar year 2021. While in any given quarter the mix of our business will affect our gross margin results, the structural trends, both in terms of product cost and product positioning, remain compelling and are sustainable tailwinds going forward.

Other model assumptions for June include: Non-GAAP Operating Expenses of approximately \$412 million, Interest and Other Expense of approximately \$40 million, and an effective tax rate of approximately 13.5%. Finally, GAAP diluted EPS is expected to be in a range of \$3.20 to \$4.08 and non-GAAP diluted EPS in a range of \$3.47 to \$4.35. The EPS guidance is based on a fully diluted share count of approximately 154.5 million shares.

## June Quarter 2021 Guidance (Q4 FY2021)

	June 2021 quarter	Macro assumptions
REVENUE	\$1,755M to \$1,955M	<ul style="list-style-type: none"> <li>Semi Process Control Revenue By End Market               <ul style="list-style-type: none"> <li>Foundry/Logic: 68%</li> <li>Memory: 32%</li> </ul> </li> </ul>
NON-GAAP GROSS MARGIN*	61% to 63%	Model assumptions
GAAP EPS	\$3.20 to \$4.08	<ul style="list-style-type: none"> <li>Non-GAAP Operating Expenses:* ~\$412M</li> <li>Other Interest &amp; Expense (OIE): ~\$40M</li> <li>Effective Tax Rate: ~13.5%</li> <li>Diluted Share Count: ~154.5M</li> </ul>
NON-GAAP EPS*	\$3.47 to \$4.35	

\* Non-GAAP metric – Refer to Appendix for Reconciliation to GAAP

**Driving Profitable Growth and Delivering Shareholder Value**

### In Conclusion

In closing, the industry dynamics driving semiconductors and investments in WFE remain compelling, with solid demand across end markets and at multiple technology nodes. We are encouraged by the strength of the leading indicators of our business and our customer's multi-year plans for continued investment. KLA is executing well and we have continued confidence that we are on track to both exceed our 2023 financial targets and achieve them sooner than anticipated on the strength of higher industry demand. The KLA Operating Model positions us well to outperform and guides our strategic objectives. These objectives fuel our growth, operational excellence, and differentiation across an increasingly 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)</i>	For the three months ended		For the twelve months ended				
	March 31, 2021	March 31, 2021	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016
<b>GAAP net income attributable to KLA</b>	\$ 567,496	\$ 1,856,567	\$ 1,367,523	\$ 1,137,653	\$ 1,420,692	\$ 656,341	\$ 863,670
<i>Adjustments to reconcile GAAP net income to non-GAAP net income*</i>							
Acquisition-related charges	a 52,973	212,484	214,533	340,318	21,218	4,737	4,383
Restructuring, severance and other charges	b (1,534)	9,919	16,885	2,786	-	-	137
Debt extinguishment loss and recapitalization charges	c -	-	22,538	-	-	-	-
Goodwill and intangible asset impairment	d -	-	256,649	-	-	-	-
Merger-related charges	e -	-	-	-	-	9,308	17,051
Income tax effect of non-GAAP adjustments	f (17,866)	(68,458)	(74,196)	(97,828)	(1,229)	(4,631)	(6,169)
Discrete tax items	g (2,967)	(7,463)	(10,047)	8,465	(18,089)	441,894	(3,064)
<b>Non-GAAP net income attributable to KLA</b>	<b>\$ 598,102</b>	<b>\$ 2,003,049</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>GAAP research and development expenses ("R&amp;D")</b>							
		<b>\$ 904,159</b>	<b>\$ 880,635</b>	<b>\$ 822,928</b>	<b>\$ 624,668</b>	<b>\$ 570,202</b>	<b>\$ 503,188</b>
<i>Adjustments to reconcile GAAP R&amp;D expenses to non-GAAP R&amp;D expenses*</i>							
Acquisition-related charges	a -	-	-	(3,328)	-	-	-
Restructuring, severance and other charges	b -	(3,087)	(3,625)	(802)	-	-	(5)
Merger-related charges	e -	-	-	-	-	(3,139)	(3,767)
<b>Non-GAAP R&amp;D expenses</b>		<b>\$ 901,072</b>	<b>\$ 877,010</b>	<b>\$ 818,798</b>	<b>\$ 624,668</b>	<b>\$ 567,063</b>	<b>\$ 499,416</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	
	March 31, 2021	
<b>GAAP operating income (1)</b>	<b>\$</b>	<b>672,147</b>
<i>Adjustments to reconcile GAAP operating income to non-GAAP operating income*</i>		
Acquisition-related charges	a	52,973
Restructuring, severance and other charges	b	2,923
<b>Non-GAAP Operating income (1)</b>	<b>\$</b>	<b>728,043</b>
GAAP operating margin		37.3%
Non-GAAP operating margin		40.4%
<b>GAAP EPS</b>	<b>\$</b>	<b>3.66</b>
<i>Adjustments to reconcile GAAP EPS to non-GAAP EPS*</i>		
Acquisition-related charges	a	0.34
Restructuring, severance and other charges	b	(0.01)
Income tax effect of non-GAAP adjustments	f	(0.12)
Discrete tax items	g	(0.02)
<b>Non-GAAP EPS</b>	<b>\$</b>	<b>3.85</b>
Shares used in diluted shares calculation		155,159
<b>GAAP gross profit</b>	<b>\$</b>	<b>1,094,144</b>
<i>Adjustments to reconcile GAAP gross profit to non-GAAP gross profit*</i>		
Acquisition-related charges	a	40,309
Restructuring, severance and other charges	b	701
<b>Non-GAAP gross profit</b>	<b>\$</b>	<b>1,135,154</b>
<b>GAAP gross margin</b>		<b>60.7%</b>
<i>Adjustments to reconcile GAAP gross margin to non-GAAP gross margin*</i>		
Acquisition-related charges	a	2.2%
<b>Non-GAAP gross margin</b>		<b>62.9%</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 expenses (benefits) associated with changes in the liability included in selling, general and administrative expense for the quarter ended March 31, 2021 was \$5.7 million. The gains (losses) associated with changes in the EDSP assets included in selling, general and administrative expense for the quarter ended March 31, 2021 was \$5.8 million.

## Reconciliation of Free Cash Flow and Related Metrics

Free Cash Flow Measures (Dollars in thousands)	For the three months ended		For the twelve months ended				
	March 31, 2021	March 31, 2021	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016
Net cash provided by operating activities	\$ 646,150	\$ 2,172,248	\$ 1,968,226	\$ 1,373,031	\$ 1,389,697	\$ 1,190,475	\$ 857,780
Less Capital expenditures	(61,183)	(218,042)	(200,304)	(149,242)	(86,518)	(49,207)	(34,974)
<b>Free cash flow</b>	<b>\$ 584,967</b>	<b>\$ 1,954,206</b>	<b>\$ 1,767,922</b>	<b>\$ 1,223,789</b>	<b>\$ 1,303,179</b>	<b>\$ 1,141,268</b>	<b>\$ 822,806</b>
<b>Free Cash Flow Conversion calculation</b>							
Free cash flow	\$ 584,967	\$ 1,954,206	\$ 1,767,922	\$ 1,223,789	\$ 1,303,179	\$ 1,141,268	\$ 822,806
Non-GAAP net income attributable to KLA	598,102	2,003,049	1,793,885	1,391,394	1,422,592	1,107,649	876,008
<b>Free cash flow conversion</b>	<b>97.8%</b>	<b>97.6%</b>	<b>98.6%</b>	<b>88.0%</b>	<b>91.6%</b>	<b>103.0%</b>	<b>93.9%</b>
<b>GAAP metric comparable to Free Cash Flow Conversion</b>							
Net cash provided by operating activities	\$ 646,150	\$ 2,172,248	\$ 1,968,226	\$ 1,373,031	\$ 1,389,697	\$ 1,190,475	\$ 857,780
GAAP net income attributable to KLA	567,496	1,856,567	1,367,523	1,137,653	1,420,692	656,341	863,670
<b>GAAP metric comparable to free cash flow conversion</b>	<b>113.9%</b>	<b>117.0%</b>	<b>143.9%</b>	<b>120.7%</b>	<b>97.8%</b>	<b>181.4%</b>	<b>99.3%</b>
<b>Free Cash Flow Margin</b>							
Free cash flow	\$ 584,967						
Revenue	1,803,773						
<b>Free cash flow margin</b>	<b>32.4%</b>						
Cash paid for dividends	\$ 139,338	\$ 552,848					
Cash paid for share repurchases	273,441	638,830					
<b>Capital returns</b>	<b>\$ 412,779</b>	<b>\$ 1,191,678</b>					
<b>Capital returns as a percentage of free cash flow</b>	<b>70.6%</b>	<b>61.0%</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	\$ 3.20	\$ 4.08
Acquisition-related charges	a 0.34	0.34
Restructuring, severance and other charges	b 0.04	0.04
Income tax effect of non-GAAP adjustments	f (0.11)	(0.11)
Non-GAAP diluted net income per share	\$ 3.47	\$ 4.35
Shares used in diluted shares calculation	154.5	154.5
GAAP gross margin	58%	61%
Acquisition-related charges	a 3%	2%
Restructuring, severance and other charges	b 0%	0%
Non-GAAP gross margin	61%	63%
GAAP operating expenses	\$ 422	\$ 428
Acquisition-related charges	a (12)	(12)
Restructuring, severance and other charges	b (1)	(1)
Non-GAAP operating expenses	\$ 409	\$ 415

**Note:** The guidance as of April 29, 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

- 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) Debt extinguishment loss and recapitalization charges includes a pre-tax loss on early extinguishment of the \$500 million 4.125% Senior Notes due in November 2021.
- d) 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.
- e) 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.
- f) Income tax effect of non-GAAP adjustments includes the income tax effects of the excluded items noted in tickmarks a, b, c, d, and e.
- g) Discrete tax items in the three months ended March 31, 2021 primarily relate to a tax benefit of \$3.0 million due to a decrease in deferred tax liability on purchased intangibles relating to a decrease in the effective income tax rate in Israel. Discrete tax items in the three months ended December 31, 2020 consist primarily of a tax expense of \$4.0 million from an internal restructuring. Discrete tax items in the nine months ended March 31, 2021 primarily include the aforementioned items as well as a tax expense of \$14.0 million due to an increase in deferred tax liability on purchased intangibles relating to an increase in the United Kingdom statutory income tax rate. Discrete tax items in the three months and nine months ended March 31, 2020 include a decrease in deferred tax liability for an unrealized gain on investments held for sale by subsidiaries of the acquired Orbotech business.

## About KLA Corporation

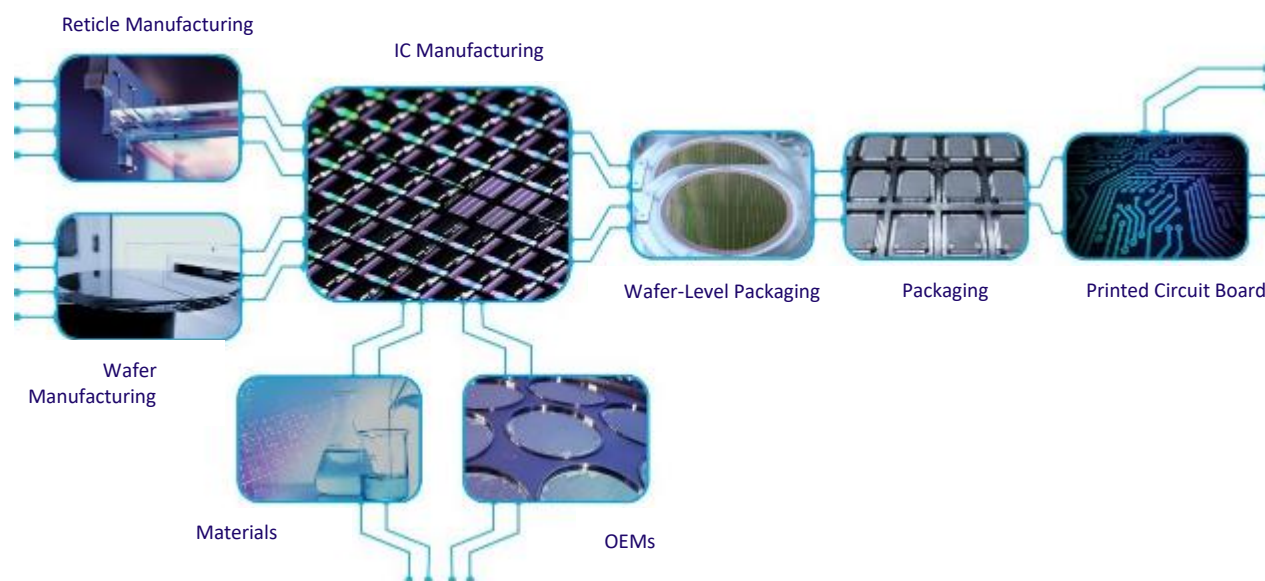
KLA Corporation (“KLA”) is the world's leading supplier of process control and yield management solutions for the semiconductor and related microelectronics industries. The company's comprehensive portfolio of products, software, analysis, services and expertise is designed to help Integrated Circuit (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) continued improvement of revenue throughout calendar year 2021; (v) levels of business activity in the quarter ending June 30, 2021 and for calendar 2021; (vi) future capital returns to shareholders; (vii) our non-GAAP operating expenses for the quarter ending June 30, 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 June 30, 2021 and revenues across customer segments in the quarter ending June 30, 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; delays and disruptions in the supply chain; 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 launched 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.