



# KLA+ Earnings

Q3 Fiscal 2021

(Quarter Ended 03/31/2021)

April 29, 2021

# 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.

# Strategic Overview and Highlights

Rick Wallace | Chief Executive Officer



# 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.

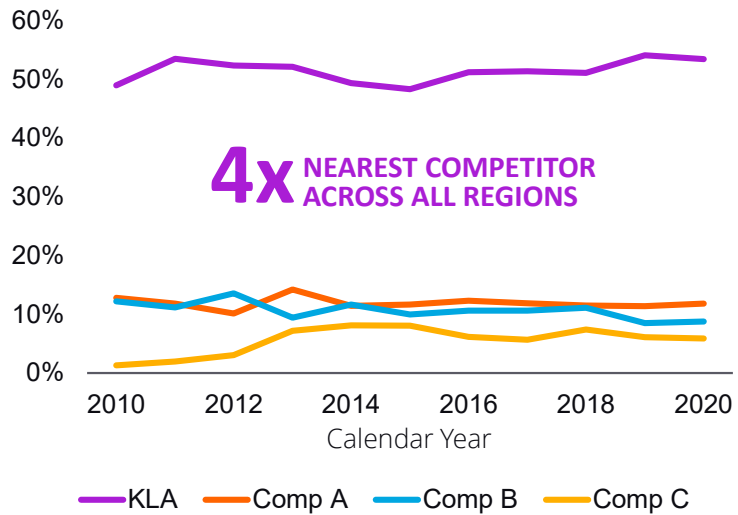
**Customer R&D Investment Remains Very Strategic & Resilient** – KLA helps enable critical technology transitions across Foundry/Logic and Memory. This means KLA is most levered to our customers' strategic R&D investments and leading-edge product developments. As the world-wide market leader in Process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

# 2020 Market Share Report Affirms KLA's Market Leadership

## Process Control Market Share



Source: Gartner April 2021

1

KLA's Market Share in Process Control Has Maintained a Trajectory of Steady Growth Over the Past 10 Plus Years

2

KLA Share is 4x the Nearest Competitor Across All Regions

3

KLA Share of the Optical Inspection Market now Tops 80%

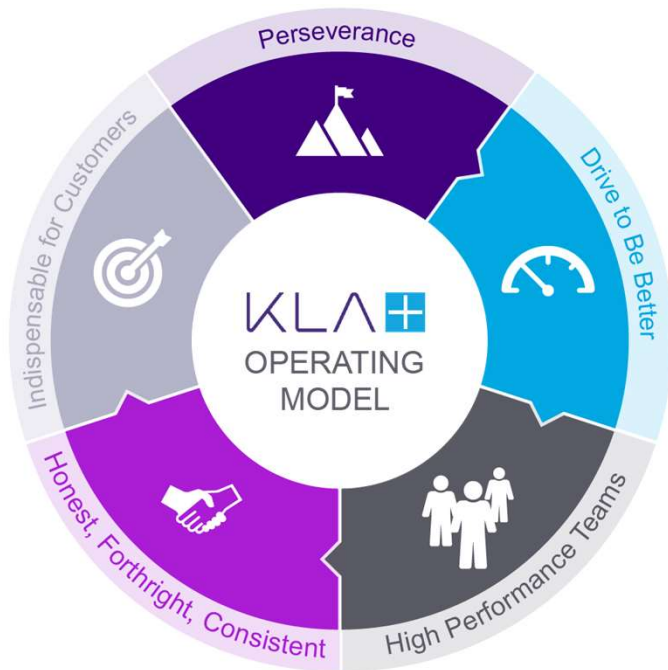
4

KLA Further Strengthened Market Leadership in Optical and Overlay Metrology in 2020

5

KLA Saw Strong Momentum in e-beam Inspection in 2020 on the Success our New eSL-10 Inspection Platform

# 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

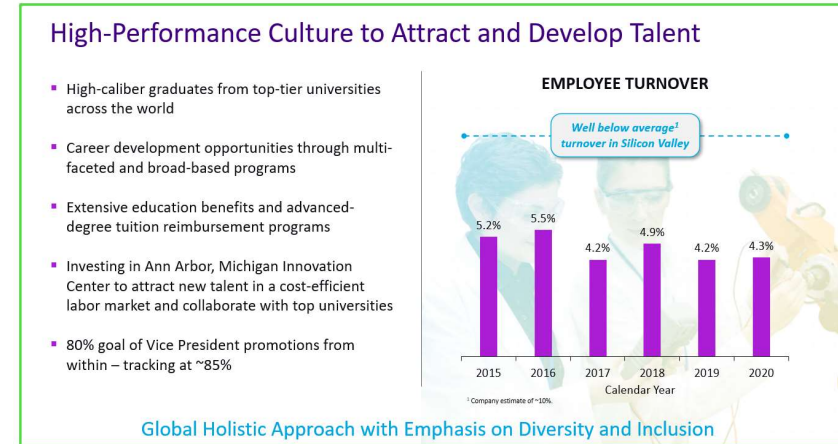
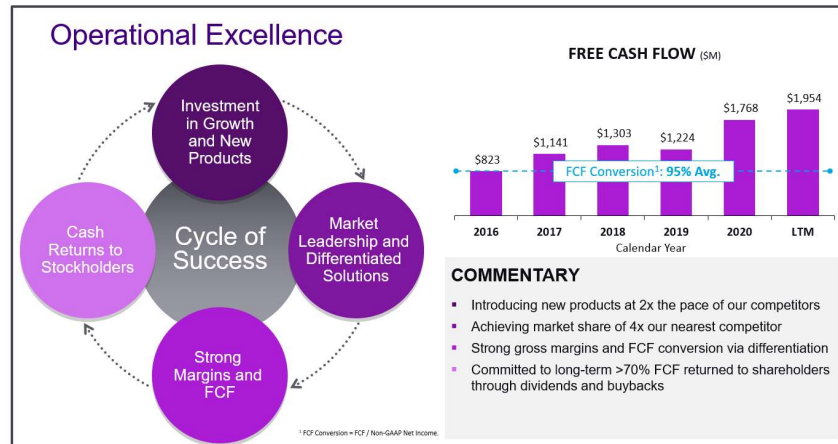
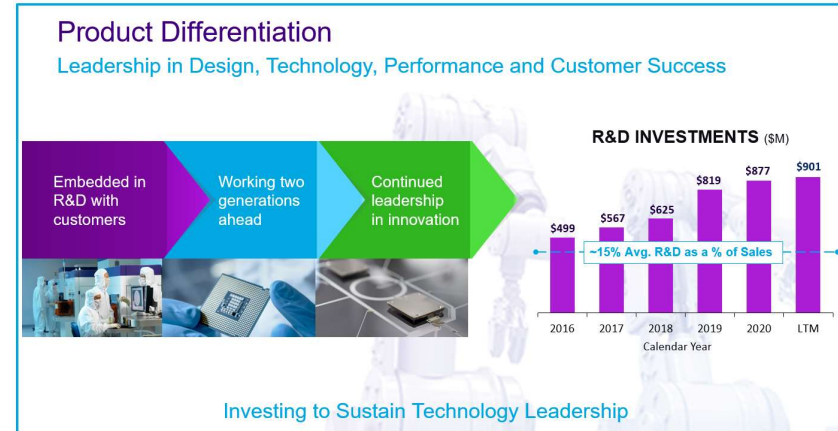
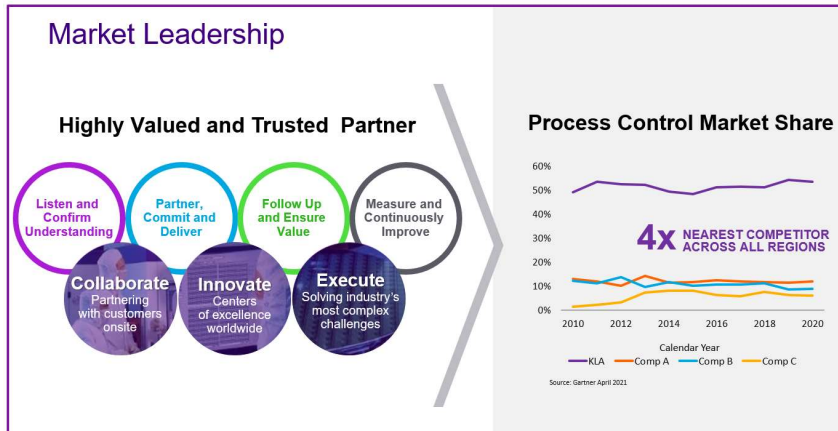
- Culture of performance and accountability
- Expectation of continuous improvement
- Superior margins driven by market leadership and differentiation

## Financial discipline and rigor

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

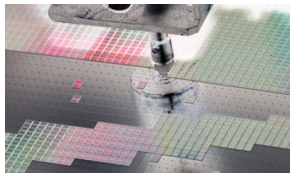
**Focused on Driving Sustainable Profitability and Growth**

# 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

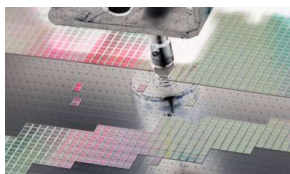


Record Free Cash Flow and Continuing Commitment to Returning Value to Shareholders



# March Quarter 2021 Business Highlights

1



**Demand Continues to Strengthen for 2021.** We saw accelerated demand in Foundry/Logic, 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.

2



**KLA Market Leadership Affirmed By Latest Market Share Report.** 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 Delivers Again With Strong Double Digit Year-over-Year Growth.** Our Services business (24% of revenue) continues to perform well, and grew 15% year-over-year, above its targeted long-term growth rate of 9% to 11%. 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. KLA's Service contract penetration rate has grown from approximately 70% to over 75% during the past year.

4



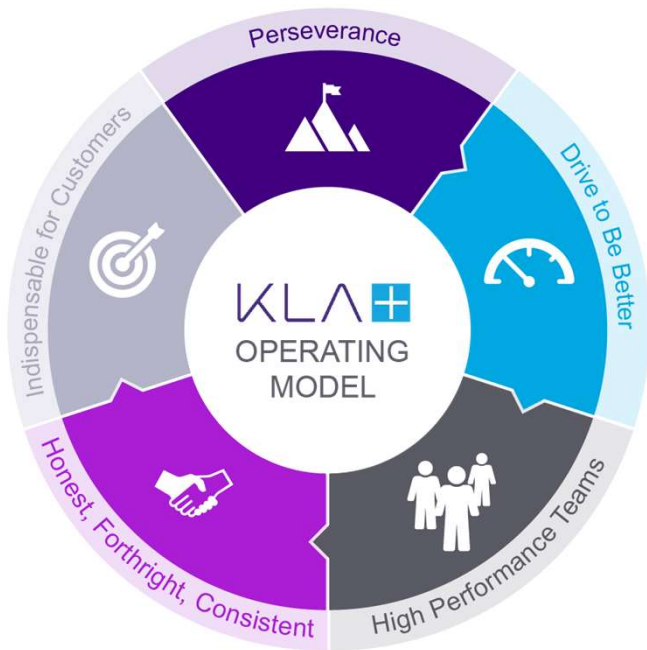
**EPC Group Benefitting from Growth Associated with 5G and Advanced Semiconductor Packaging.** This was another growth quarter for our Electronics, Packaging, and Components (EPC) group. Through EPC, KLA is now providing a more comprehensive and broader product portfolio and addressing fast-growing new markets in the electronics supply chain such as RF, automotive semiconductor, and advanced packaging.

5



**Record Free Cash Flow and Continuing our Commitment to Returning Value to Shareholders.** During the March quarter we generated a record \$585 million in free cash flow and repurchased \$273 million of our common stock and paid \$139 million in dividends. Over the past 12 months, we have returned \$1.19 billion to shareholders or 61% of Free Cash Flow, including \$553 million in dividends paid, and \$639 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



# March Quarter 2021 Financial Highlights

**\$1.80B**  
Revenue

**\$585M**  
Free Cash Flow \*

**\$598M**  
Net Income\*

**62.9%**  
Gross Margin\*

**97.8%**  
FCF Conversion \*

**\$3.85**  
NON-GAAP EPS \*

**40.4%**  
Op. Margin\*

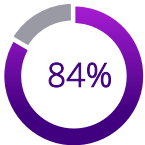
**32.4%**  
FCF Margin \*

**\$3.66**  
GAAP EPS

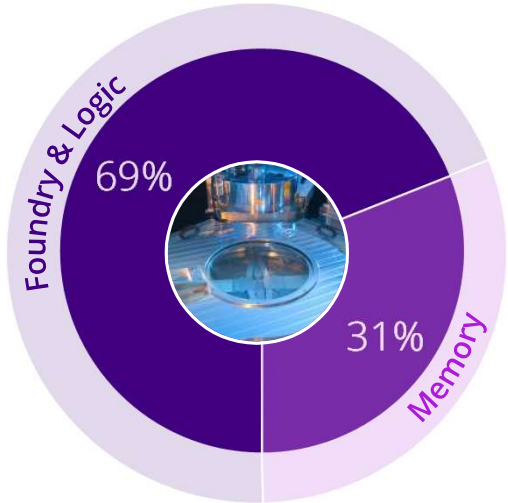
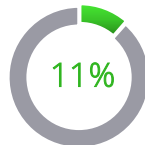
\* Non-GAAP metric – Please refer to Appendix for reconciliation to GAAP . Free Cash Flow (FCF) = Cash Flow from Operating Activities minus Capital Expenditures.

# Breakdown of Revenue by Reportable Segments & End Markets

Revenue	Q3-FY21 (\$M)	Y/Y Growth %	Q/Q Growth %
Semiconductor Process Control <i>(Systems + Services)</i>	\$1,507	+28%	+9%
Specialty Semiconductor Process <i>(Systems + Services)</i>	\$92	+8%	+1%
PCB, Display and Component Inspection <i>(Systems + Services)</i>	\$205	+28%	+14%
<b>Total</b>	<b>\$1,804</b>	<b>+27%</b>	<b>+9%</b>

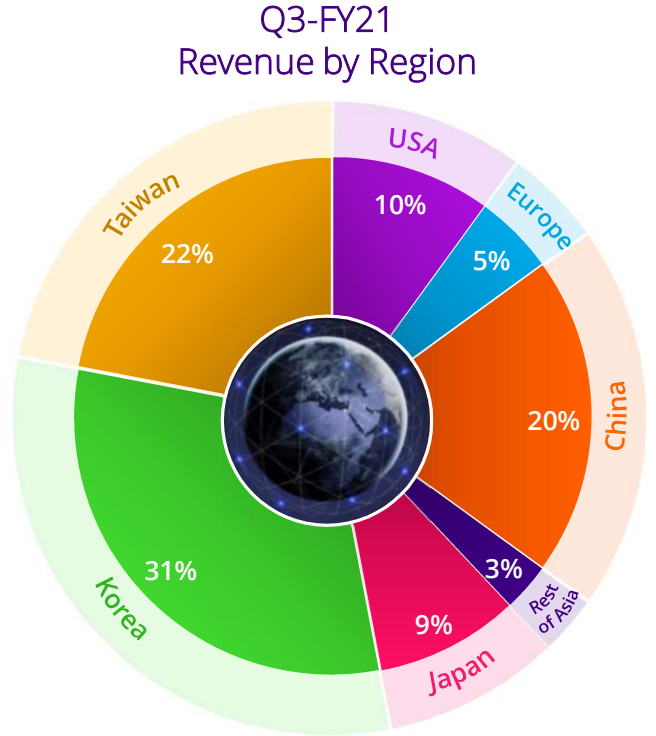
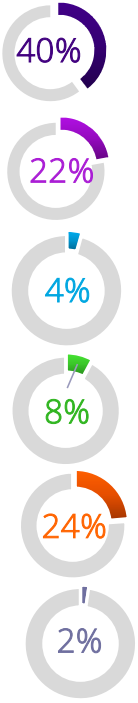


Q3-FY21: Semi Process Control End Market System Revenue



# Breakdown of Revenue by Major Products and Region

Revenue	Q3-FY21 (\$M)	Y/Y Growth %	Q/Q Growth %
Wafer Inspection <i>(Systems Only)</i>	\$715	+33%	+4%
Patterning <i>(Systems Only)</i>	\$400	+34%	+30%
Specialty Semi Process <i>(Systems Only)</i>	\$77	+12%	+7%
PCB, Display and Component Inspection <i>(Systems Only)</i>	\$142	+36%	+22%
Services	\$428	+15%	+4%
Other <sup>1</sup>	\$42	-2%	-24%
<b>Total</b>	<b>\$1,804</b>	<b>+27%</b>	<b>+9%</b>



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

# Strong Balance Sheet With No Bond Maturities Until 2024

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

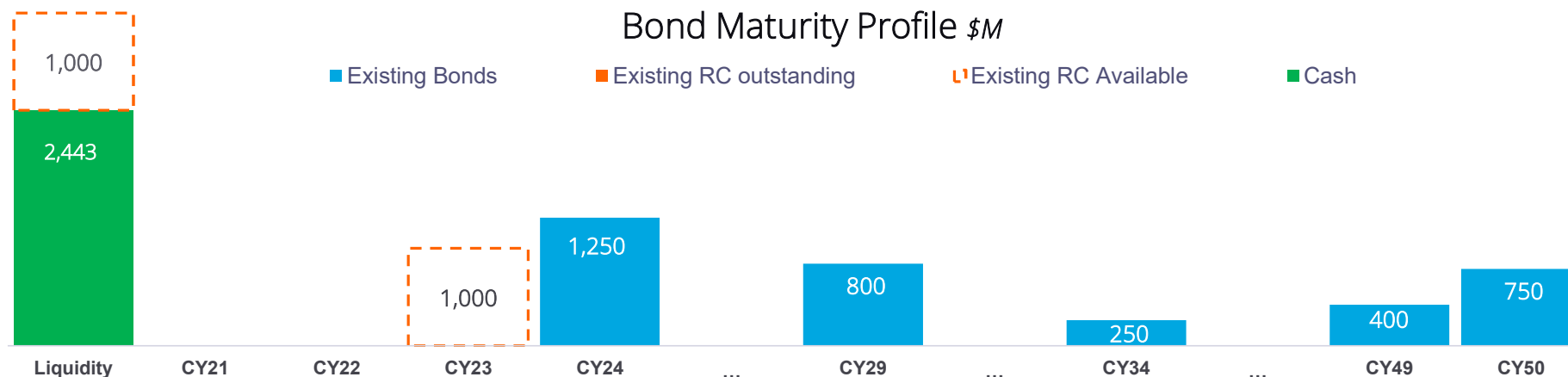
Total Cash <sup>2</sup>	\$ 2,443
Working Capital	\$ 3,376
Total Assets	\$ 9,939
Debt <sup>3</sup>	\$ 3,422
Total Shareholders' Equity	\$ 3,113

## Bond Maturity Profile

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

## Investment Grade Credit Ratings

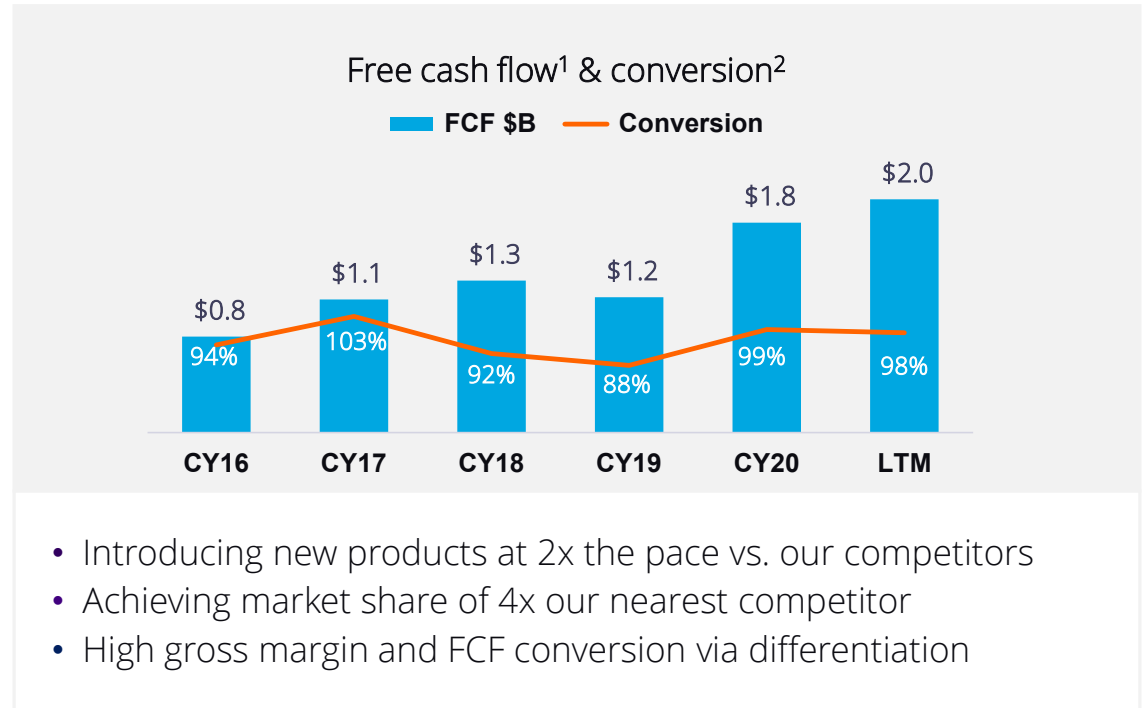
Moody's	Baa1
S&P	BBB+
Fitch	BBB+



<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



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

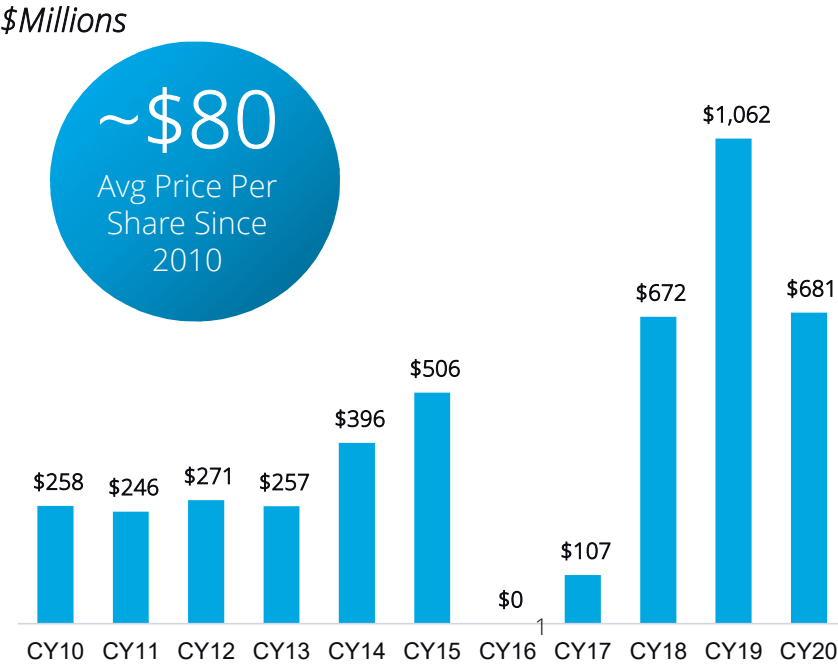
<sup>1</sup> Free Cash Flow (FCF) = Cash Flow from Operating Activities minus Capital Expenditures

<sup>2</sup> FCF Conversion defined as FCF/Non-GAAP Net Income; Non-GAAP metric – Please refer to Appendix for reconciliation to GAAP

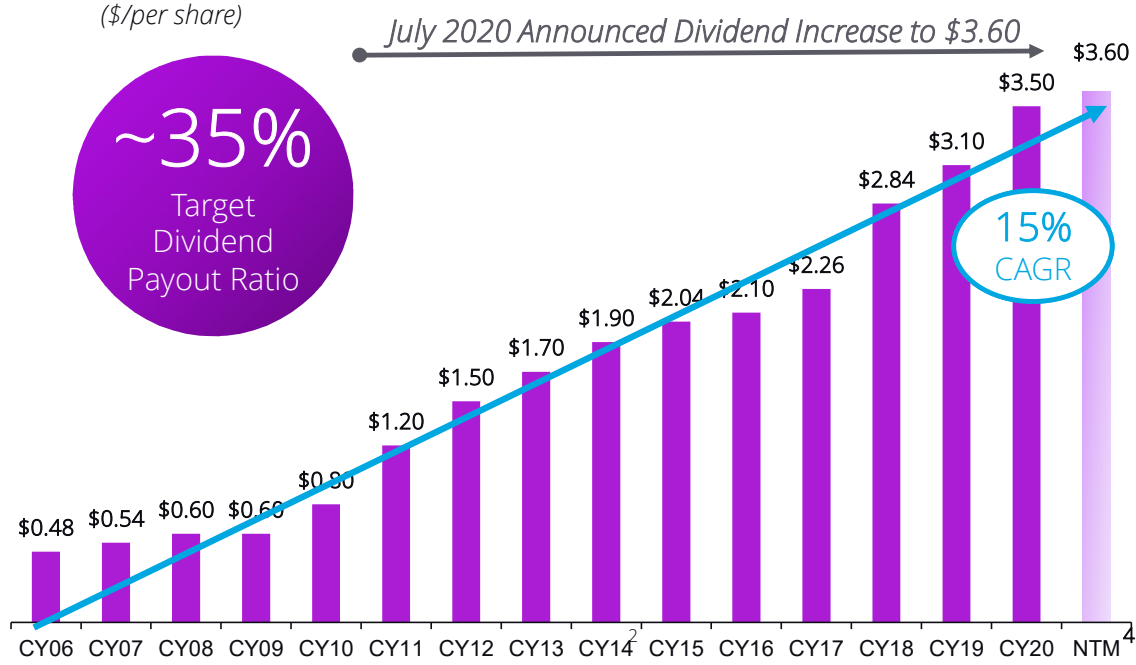


# Return to Shareholders Balanced Between Buybacks and Dividends

## Consistent share repurchases <sup>3</sup>



## Strong track record of annual dividend increases



<sup>1</sup> Share repurchase halted in CY16 during KLA-Lam merger proceedings <sup>2</sup> Excludes \$16.50 per share special dividend in CY15 <sup>3</sup> Settlement Date basis <sup>4</sup> NTM = Next Twelve Months

# Free Cash Flow (FCF) and Capital Returns Highlights

**\$585M**

Mar Qtr FCF\*

**\$1.95B**

LTM FCF\*

**\$273M**

Mar Qtr Share Buyback

**\$639M**

LTM Share Buyback

**\$139M**

Mar Qtr Dividends Paid

**\$553M**

LTM Dividends Paid

\* Free Cash Flow (FCF) = Cash Flow from Operating Activities minus Capital Expenditures. Non-GAAP metric - Refer to Appendix for Reconciliation to GAAP. Capital Returns = Dividends + Share Repurchases

# June Quarter 2021 Guidance (Q4 FY2021)

June 2021 quarter

REVENUE	\$1,755M to \$1,955M
NON-GAAP GROSS MARGIN*	61% to 63%
GAAP EPS	\$3.20 to \$4.08
NON-GAAP EPS*	\$3.47 to \$4.35

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

## Macro assumptions

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

## Model assumptions

- Non-GAAP Operating Expenses:\* ~\$412M
- Other Interest & Expense (OIE): ~\$40M
- Effective Tax Rate: ~13.5%
- Diluted Share Count: ~154.5M

**Driving Profitable Growth and Delivering Shareholder Value**

# Appendix

## Reconciliation of Financial Results



# 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
		\$ 567,496	\$ 1,856,567	\$ 1,367,523	\$ 1,137,653	\$ 1,420,692	\$ 656,341	\$ 863,670
<b>GAAP net income attributable to KLA</b>								
<u>Adjustments to reconcile GAAP net income to non-GAAP net income*</u>								
	a	52,973	212,484	214,533	340,318	21,218	4,737	4,383
	b	(1,534)	9,919	16,885	2,786	-	-	137
	c	-	-	22,538	-	-	-	-
	d	-	-	256,649	-	-	-	-
	e	-	-	-	-	-	9,308	17,051
	f	(17,866)	(68,458)	(74,196)	(97,828)	(1,229)	(4,631)	(6,169)
	g	(2,967)	(7,463)	(10,047)	8,465	(18,089)	441,894	(3,064)
		\$ 598,102	\$ 2,003,049	\$ 1,793,885	\$ 1,391,394	\$ 1,422,592	\$ 1,107,649	\$ 876,008
<b>Non-GAAP net income attributable to KLA</b>								
<b>GAAP research and development expenses ("R&amp;D")</b>			\$ 904,159	\$ 880,635	\$ 822,928	\$ 624,668	\$ 570,202	\$ 503,188
<u>Adjustments to reconcile GAAP R&amp;D expenses to non-GAAP R&amp;D expenses*</u>								
	a	-	-	-	(3,328)	-	-	-
	b	-	(3,087)	(3,625)	(802)	-	-	(5)
	e	-	-	-	-	-	(3,139)	(3,767)
			\$ 901,072	\$ 877,010	\$ 818,798	\$ 624,668	\$ 567,063	\$ 499,416
<b>Non-GAAP R&amp;D expenses</b>								

\* 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>	<b>For the three months ended</b>	
	<b>March 31, 2021</b>	
<b>GAAP operating income (1)</b>	<b>\$</b>	<b>672,147</b>
<u>Adjustments to reconcile GAAP operating income to non-GAAP operating income*</u>		
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>
<u>Adjustments to reconcile GAAP EPS to non-GAAP EPS*</u>		
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>
<u>Adjustments to reconcile GAAP gross profit to non-GAAP gross profit*</u>		
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>
<u>Adjustments to reconcile GAAP gross margin to non-GAAP gross margin*</u>		
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	For the twelve months ended						
	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

<i>(In millions, except per share amounts and percentages)</i>			
		<b>Low</b>	<b>High</b>
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.



# 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

- 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.