

January 27, 2022

Letter to Shareholders

December 2021 Quarterly Letter

Rick Wallace

Chief Executive Officer

Bren Higgins

Chief Financial Officer



Dear KLA Shareholders,

Before summarizing KLA's results for calendar year 2021¹ and for the December quarter, we'd like to first acknowledge and thank the global KLA team.

The dedication and hard work of our teams never wavered despite challenging conditions, delivering for customers, and managing around a complex global supply chain during a period of unprecedented industry shortages. It was the day-to-day drive to be better that drove KLA's market leadership, resulting in record growth and financial performance across the board for the company in the December quarter and for 2021.

KLA also delivered record returns to shareholders in 2021 through our dividend and share repurchase programs, with returns to investors totaling over \$2 billion.

KLA's strong results demonstrate our track record of relative strength in revenue growth and superior financial performance compared with semiconductor industry peers in a dynamic and growing Wafer Fab Equipment (WFE) industry, as well as the long-term value created by employing and consistently refining our KLA Operating Model.

Since our founding in 1976, KLA's mission has been focused on using our expertise and innovative thinking to overcome monumental technology challenges. KLA is advancing humanity with technologies and ideas that inspire action. Our results in the December quarter and for 2021 demonstrate ongoing success of these strategies.

Thank you to all our teams for contributing to KLA's enduring success!

2021 Recap

2021 was another year of record growth, profitability, and free cash flow for KLA, as we successfully navigated unprecedented challenges in the marketplace, responding to record demand across the vast majority of our markets while adapting to the evolving operational complexities associated with the global pandemic. Through it all, we remained focused on delivering to customer requirements and driving strong returns to shareholders in a rapidly growing industry demand environment.

In 2021, revenue grew 34% to \$8.2 billion, marking the sixth consecutive year of revenue growth. KLA's strong revenue growth in 2021 was driven by 46% growth in Semiconductor Process Control systems. In total (including Systems and Services), the Semiconductor Process Control Segment grew a healthy 39% in the year. Revenue from the Services business grew 14% in the year, with over 75% of the revenue generated from recurring "subscription-like" contracts, reflecting the growing value of advanced process control systems and Services in our product portfolio.

KLA also demonstrated strong operating leverage on our revenue growth in 2021, with non-GAAP operating profit and non-GAAP earnings per share growing 54% and 61%, respectively. Non-GAAP incremental operating margin on the revenue growth in 2021 was 57%, considerably above our target operating leverage model of 40% to 50% for the second year in a row.

¹ Throughout this letter we will refer to 2021. In all cases we are referring to calendar year, not fiscal year.

Free cash flow also grew a healthy 43% in 2021 to a record \$2.5 billion. Consistent with our long-term strategic objectives, KLA delivered on our ongoing commitment to return value to shareholders, including our 12th consecutive dividend increase announced in July 2021, along with an additional \$2 billion share repurchase program. Total returns to shareholders in 2021 (including dividends and share repurchases) topped just over \$2 billion, or approximately 79% of free cash flow.

This growth demonstrates success in strengthening our market leadership across our business that we can continue to build upon to drive adoption of KLA solutions in the critical markets we serve.

Within the Electronics, Packaging and Component Inspection, or EPC group, the Specialty Semiconductor Process segment grew 11% in 2021, and Printed Circuit Board (PCB), Display and Component Inspection grew 17% in the year.

The strong relative performance for KLA reflects our market leadership and diversification and was driven by secular industry growth trends across multiple end markets.

We ended 2021 with an exceptionally strong backlog and begin what we anticipate being the seventh consecutive year of growth for KLA. We entered 2022 executing at a high level and operating from a position of strength in our marketplace despite persistent supply chain challenges. This momentum sets the stage for KLA to continue to outperform the market, while demonstrating superior financial performance, and maintaining our robust capital returns.

December Quarter 2021 Highlights

Turning now to focus on December quarter results where we saw diversified strength across our business.

Semiconductor Industry Demand Environment

Semiconductor Demand Remains Powerful – KLA is benefiting from broad and diversified strength across each of our major markets, with growth fueled by increasing adoption of Process Control and KLA's market diversification strategies. KLA ended 2021 with record total company backlog and we see 2022 as another year of strong growth for the company and our industry, driven by semiconductor and electronics industry megatrends across a broad spectrum of markets enabling the Data Economy.

Customer R&D Investment and Increasing Capacity A Top Priority in CY22 – KLA plays a critical role in enabling technology transitions in advanced semiconductor manufacturing, as well as helping customer improve yields throughout the capacity growth phase. CY22 is shaping up to be a year of strong growth for WFE, with customers investing in technology transitions in every segment, as well as adding new capacity. KLA benefits from these investments as we are on the critical path to enabling faster R&D development cycles, faster yield ramps and higher, more stable yields in production.

Strong Secular Growth Drivers Intact – Regionalization of semiconductors has been added to other powerful existing secular growth drivers such as rising data center demand, the build out of 5G infrastructure and continued smartphone growth, the electrification of automotive, digital healthcare, work from home, virtual collaboration, remote learning, and digital entertainment. Semiconductors remain at the center of the digitization of more industries and related end-markets than ever before.

KLA Has Delivered on our 2023 Financial Targets Well Ahead of Expectations

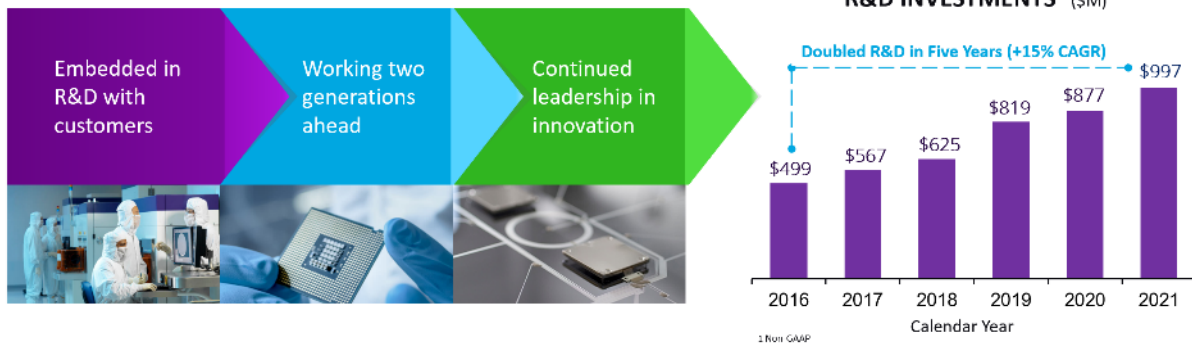
Today's demand environment continues to demonstrate accelerated adoption across a broad spectrum of semiconductor and electronics industry growth trends. Technology is transforming how we live and work, and the Data Driven Economy is fundamentally changing how businesses operate

and deliver value. This digital transformation is enabling secular demand drivers such as High-Performance Computing (HPC), Artificial Intelligence (AI), growth in new automotive electronics, and strong growth in data centers and 5G communications markets. Each of these secular trends are driving investments and innovation in advanced Memory and Logic semiconductor devices, as well as new and increasingly more complex Advanced Packaging and PCB technologies.

With our market leadership in Process Control and growth and expansion in new markets like Specialty Semiconductor Process equipment, PCB, and finished die inspection in our EPC group, KLA is essential to enabling our increasingly digital world. To make this happen, KLA continues to prioritize and invest in R&D which totaled \$1 billion in calendar 2021, double the level of five years ago and growing at a 15% compound annual growth rate (CAGR).

KLA's R&D Drives Product Differentiation

Leadership in Design, Technology, Performance and Customer Success



KLA's R&D Investments Have Doubled Over The Past Five Years

With this favorable backdrop and our demonstrated track record of investing heavily in R&D to drive product differentiation and consistently meeting or exceeding our commitments to customers and shareholders, our performance enabled KLA to outperform the 2023 long-term financial model targets two years ahead of expectations.

Let's now move along to the top highlights from the December 2021 quarter.

First, we saw continued strength and consistency in Foundry/Logic customer revenue for both leading edge and legacy technologies in the December quarter. As expected, Memory demand also grew in the period. Calendar 2022 is setting up to be another year of strong growth for WFE, and we see demand momentum throughout 2022 across our major end markets. The strength in demand we are seeing reflects KLA's essential role in supporting our customers' drive to innovate and continue to invest in future technology nodes. In Foundry/Logic, simultaneous investments across multiple nodes and rising capital intensity continues to be a tailwind. In Memory, demand remains broad-based across multiple customers, and we expect another year of double-digit growth in 2022, with NAND growing faster than DRAM. The focus of Memory investment is mainly on technology transitions; 160+ layers in NAND and 1 α /1 β DRAM, with the insertion of EUV lithography.

December Quarter 2021 Business Highlights

1		KLA's consistent record of delivering on our commitments has been led by execution and a strong portfolio, we are not immune from supply chain challenges, but we have navigated them well
2		KLA's market leadership in the largest and fastest-growing segments of Process Control is delivering strong relative growth. This is highlighted by 54% growth in Wafer Inspection systems revenue in 2021, compared with WFE growth of ~40%
3		KLA's market diversification strategies are highlighted by growth in the Electronics, Packaging, and Components (EPC) group. KLA's EPC systems revenue grew 20% in 2021. EPC diversifies our opportunity and addresses new markets such as RF, Automotive, PCB, Advanced Packaging, and Display
4		KLA's service business remains stellar, with strong 14% year-over-year growth in 2021, above its long-term target growth rate of 9% to 11%
5		KLA delivered \$746 million of free cash flow in Q4, and free cash flow grew 43% to \$2.5 billion in calendar 2021. Total capital returns grew 63% to just over \$2 billion in calendar 2021, or approximately 79% of total free cash flow. Dividends and share repurchases were \$590 million in the quarter

Second, KLA is seeing strong demand across the breadth of our industry leading optical inspection portfolio, as we have maintained our momentum in one of the fastest growing markets in WFE. Wafer Inspection systems revenue grew 54% in 2021, far outpacing the WFE market which is estimated to have grown 40%. We are experiencing strong growth across our Wafer Inspection portfolio, from Broadband Plasma, Laser Scanning, Unpatterned and Bare Wafer Inspection, Macro Inspection, and e-Beam products. This quarter we highlight Macro Inspection, which is growing at a pace of ~1.5x WFE, driven by growth in Automotive and other Specialty markets where KLA has defensible market leadership with a platform uniquely positioned to address growing technical complexity and tighter design rules.

Third, success in KLA's strategic growth and market diversification strategies are being demonstrated by growth in our Electronics, Packaging, and Components or EPC group. Systems revenue from KLA's EPC group grew 20% in 2021. With EPC, KLA is diversifying our market leadership with a portfolio of solutions addressing fast-growing new markets in the electronics value chain, including RF, Specialty Semiconductor and Automotive, PCB, Advanced Packaging, and Display.

Fourth, Services revenue grew 14% in 2021 to \$1.8 billion and continues to sustain a growth rate above its long-term target of 9% to 11%. For the quarter, Services revenue was \$457 million or 19% of total revenue. Annual Services revenue is quickly approaching \$2 billion and has grown 81% in the past three years. This growth has been driven by the rising installed base and increasing adoption of subscription-like contracts. Over 75% of Services revenue in the Semiconductor Process Control segment, and over 90% of Services in the Printed Circuit Board business comes from recurring subscription-like contracts.

Finally, the December quarter was another exceptional one from a free cash flow perspective, capping a year in which KLA generated over \$2.5 billion in free cash flow, and returned over \$2 billion to shareholders. In the December quarter, we generated strong quarterly free cash flow of \$746 million which helped drive 43% growth in free cash flow in 2021. We have also remained focused on returning capital to shareholders via our dividend and share repurchase program, which rose 63% year-over-year on a combined basis.

Before getting into greater detail on our financial highlights, let's briefly summarize. Despite the persistent disruption and continued challenges associated with the pandemic, particularly around the supply-chain and component availability, KLA is consistently delivering strong revenue growth, financial results, and returns to shareholders.

KLA is well positioned at the forefront of technology innovation with a comprehensive portfolio of products targeted at the most demanding inspection and measurement challenges in the marketplace.

ESG Update

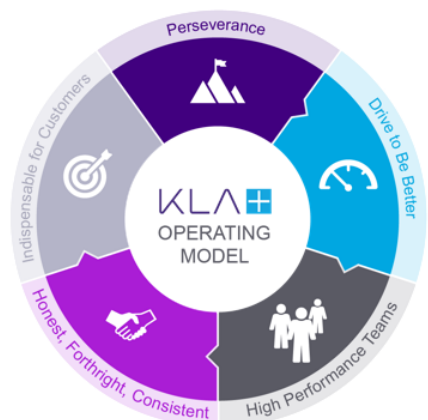
In addition to focusing on market leadership and operations excellence, KLA is committed to corporate stewardship. Here, KLA's values are reflected in efforts to reduce our environmental footprint, provide a safe and healthy workplace for employees, advance inclusion and diversity, and make positive contributions to the communities where we live and work.

On December 16, 2021 KLA announced we have set a goal to use 100% renewable electricity across our global operations by 2030. Managing the impacts of our business in terms of environmental, social and governance (ESG) stewardship is an integral part of KLA's mission to advance humanity. This includes contributing to creating a more sustainable future. Our goal to achieve 100% renewable electricity by 2030 formalizes KLA's commitment to support the transition to a clean energy economy by setting greenhouse gas (GHG) emission reduction targets and reporting climate-related information to stakeholders in alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

KLA's renewable electricity goal will help to set the company on a projected path to achieve a 46% cumulative reduction in combined Scope 1 and Scope 2 emissions by 2030 from our 2019 baseline. This goal builds upon KLA's existing efforts to procure renewable electricity to power operations.

Prior to announcing our 100% renewable electricity goal, in August we published our Global Impact Report, which highlights how KLA delivers lasting value through corporate citizenship. We have been expanding our efforts to be more holistic across the Environmental, Social and Governance (ESG) topics most relevant to our business. We have broadened our tracking and reporting to be inclusive of our full global footprint and acquired companies. KLA continues to build our long-term ESG strategy to focus on reducing climate impact, increasing disclosure, and deepening the positive impact we deliver through our business and community engagement.

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

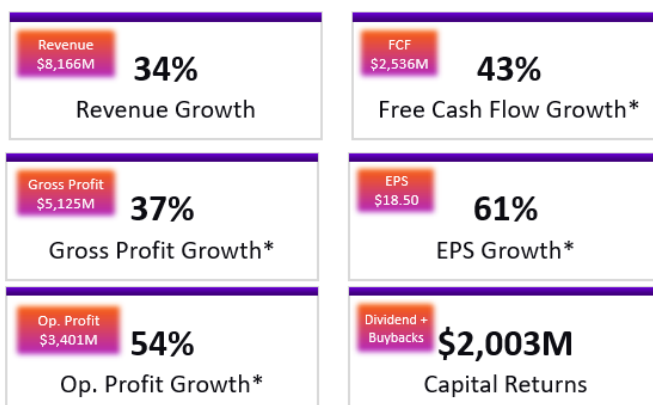
- Exert efficiency and operating discipline in our investments
- Strong track record of high returns
- Focused on enhancing shareholder value

Focused on Driving Sustainable Profitability and Growth

Record Financial Performance

KLA's December quarter and 2021 results highlight the continuation of strong execution in a dynamic and challenging market environment. 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. The December quarter capped off a year in 2021 that was defined by strong growth and profitability across multiple areas of our business. We also invested almost a billion dollars in R&D to sustain our success and \$250 million dollars in capital expenditures to grow our global infrastructure to support our industry growth thesis. All of this was accomplished while simultaneously continuing to return high levels of capital to shareholders.

Calendar Year 2021 Highlights: 6th Consecutive Year of Growth



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

* Diluted net income per share is computed independently for each of the quarters presented based on the weighted-average fully diluted shares outstanding for each quarter. Therefore, the sum of quarterly diluted net income per share information may not equal annual (or other multiple-quarter calculations of) diluted net income per share.

Delivering Strong Earnings Leverage and Capital Returns

Total revenue in the December quarter was \$2.35 billion, above the midpoint of the guided range for the quarter of \$2.225 to \$2.425 billion and up 13% sequentially. Non-GAAP Gross Margin was 63.1%, just above the midpoint of the guided range of 62% to 64%. GAAP diluted EPS was \$4.71 and non-GAAP diluted EPS was \$5.59, each within the guidance range.

December Quarter 2021 Financial Highlights

\$2,353M Revenue	43.4% Op. Margin*	\$851M Net Income*
63.1% Gross Margin*	\$746M Free Cash Flow*	\$5.59 NON-GAAP DILUTED EPS*
\$465M Operating Expenses*	88% FCF Conversion*	\$4.71 GAAP DILUTED 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 Gross Margins of 63.1% were in-line with expectations as product mix and factory expenses ended the quarter mostly as planned. KLA's gross margin reflects the value we deliver to the marketplace and our competitive differentiation. To improve on our ability to meet our customer needs, we are also making meaningful investments in our global workforce, supply chain, and factory infrastructure to position KLA to deliver our products in this growing demand environment.

Total Non-GAAP Operating Expenses were slightly below the midpoint of the guided range at \$465 million, including \$265 million of R&D expense, and \$200 million of SG&A. Non-GAAP operating income as a percentage of revenue was 43.4% in the December quarter.

KLA's innovation is fundamental to our go-to-market strategy focused on differentiated solutions. R&D is at the heart of what we do and remains a key element in driving our portfolio strategy, new product introduction cadence, and product differentiation. This in turns helps sustain our technology and market leadership.

Given the rapid growth of the business over the last couple of years and our revenue expectations going forward, we expect the company's operating expenses to continue to grow as we invest in global infrastructure and systems to scale the KLA Operating Model, as well as new product development programs and volume dependent resources to support our business expansion. Furthermore, we, as most companies, are seeing a strong labor market driving cost pressure across our global workforce and within outsourced partners. As a result, we expect operating expenses to grow sequentially to approximately \$495 million in the March quarter and we forecast sequential growth in operating expenses to continue through calendar 2022.

While operating expenses are modeled higher going forward as we will make the necessary investments to scale our business to support our long-term structural industry growth thesis, we will continue to size the company based on our target operating model, which delivers 40% to 50% incremental non-GAAP operating margin leverage on revenue growth over a normalized time horizon.

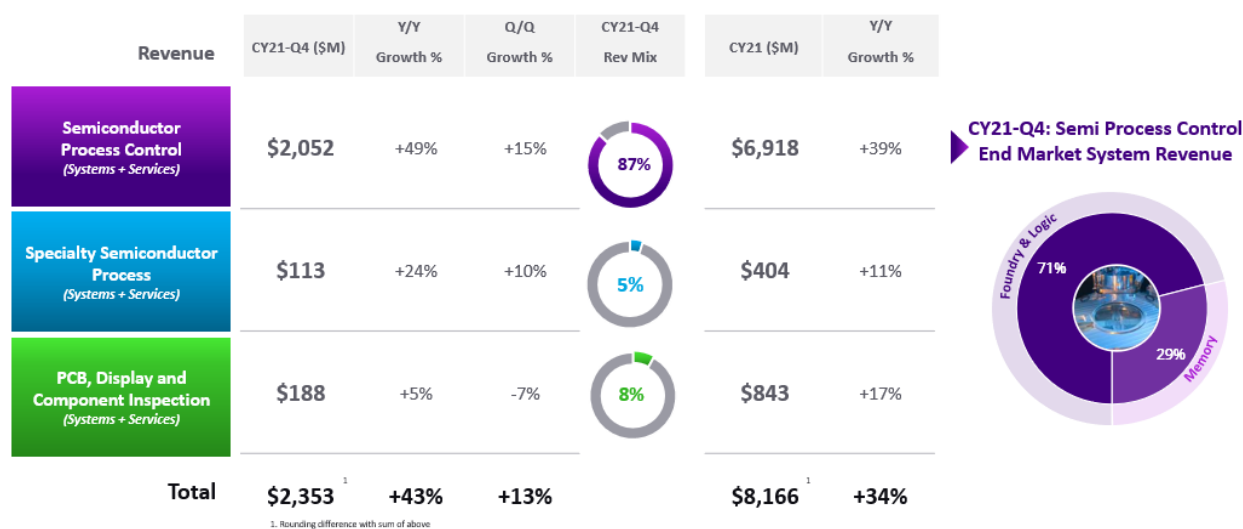
Other Interest and Expense in the December quarter was \$39 million, and the non-GAAP effective tax rate was 13.3%. Though we always have some variability in our tax rate given the timing and impact of discrete items and the geographic distribution of revenue and profit, we believe it remains prudent to maintain our long-term tax planning rate at 13.5% going forward.

Non-GAAP net income was \$851 million, GAAP net income was \$717 million, cash flow from operations was \$811 million, and free cash flow was \$746 million. This resulted in a free cash flow conversion of 88%, and a very healthy free cash flow margin of 32%. The company had approximately 152 million diluted weighted average shares outstanding exiting the quarter.

Breakdown of Revenue by Reportable Segments and End Markets

Revenue for the Semiconductor Process Control segment, including its associated Services business, was \$2.05 billion, up 49% compared with the December 2020 quarter, and up 15% sequentially. Semiconductor Process Control Systems and Services grew 39% in calendar 2021 versus calendar 2020. Foundry/Logic was 71% of the approximate Semiconductor Process Control system customer segment mix in the December quarter, and Memory was 29%. Within Memory, the business was split roughly 54% DRAM and 46% NAND.

Revenue for our EPC group continues to be driven by strength in 5G mobile and infrastructure, as well as continued demand in automotive. More specifically, the Specialty Semiconductor Process segment which includes its associated Services business generated record revenue of \$113 million, up 24% over the prior year and up 10% sequentially. Specialty Semiconductor Process Systems and Services grew 11% for calendar 2021. PCB, Display and Component Inspection revenue was \$188 million, up 5% year-over-year, but down 7% sequentially. On a full calendar year basis, it grew 17%.

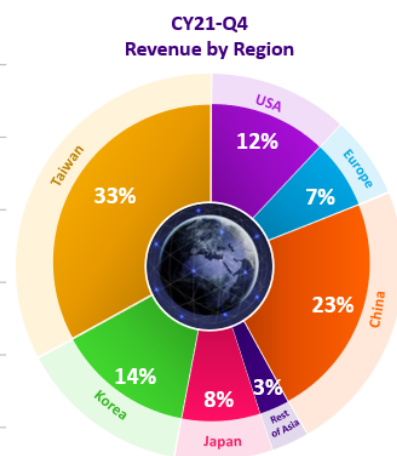


Breakdown of Revenue by Major Products and Region

Revenue by major product category breaks down as follows: Wafer Inspection was 47%, Patterning, which includes reticle inspection, was 22%. Specialty Semiconductor Process was 4%. PCB, Display and Component Inspection was 5%, Service was 19%, and Other, which is reported in the Semiconductor Process Control segment, was 2%.

Revenue	CY21-Q4 (\$M)	Y/Y Growth %	Q/Q Growth %	CY21-Q4 Rev Mix	CY21 (\$M)	Y/Y Growth %
Wafer Inspection <i>(Systems Only)</i>	\$1,104	+61%	+24%	47%	\$3,446	+54%
Patterning <i>(Systems Only)</i>	\$509	+65%	+16%	22%	\$1,776	+38%
Specialty Semi Process <i>(Systems Only)</i>	\$105	+46%	+13%	4%	\$357	+20%
PCB, Display and Component Inspection <i>(Systems Only)</i>	\$122	+5%	-12%	5%	\$586	+21%
Services	\$457	+11%	+1%	19%	\$1,783	+14%
Other ¹	\$57	+2%	-21%	2%	\$219	+4%
Total	\$2,353²	+43%	+13%		\$8,166	+34%

¹ Included in the Semiconductor Process Control Segment
² Rounding difference with sum of above



The regional split of revenue was as follows: Taiwan was 33%, China was 23% overall (Semi Process Control revenue for native China was 19%), Korea was 14%, the US was 12%, and Japan was 8%. Europe was 7%, and the rest of Asia was also 3%.

Strong Investment Grade Balance Sheet with no Bond Maturities until 2024

KLA ended the quarter with \$2.8 billion in total cash, total debt of \$3.4 billion, and a flexible and attractive bond maturity profile supported by investment-grade ratings from all three agencies.

Balance Sheet Summary¹ (\$M)

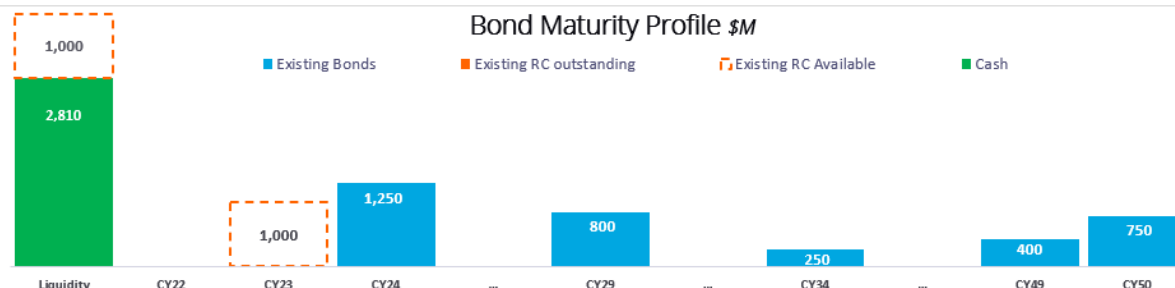
Total Cash²	\$ 2,810
Working Capital	\$ 3,925
Total Assets	\$ 11,680
Debt³	\$ 3,444
Total Shareholders' Equity	\$ 4,047

Bond Maturity Profile

Bonds Outstanding	\$ 3,450M
Weighted Average Rate	4.37%
Weighted Average Maturity	12.9 years

Investment Grade Credit Ratings

Moody's	A2
S&P	BBB+
Fitch	BBB+

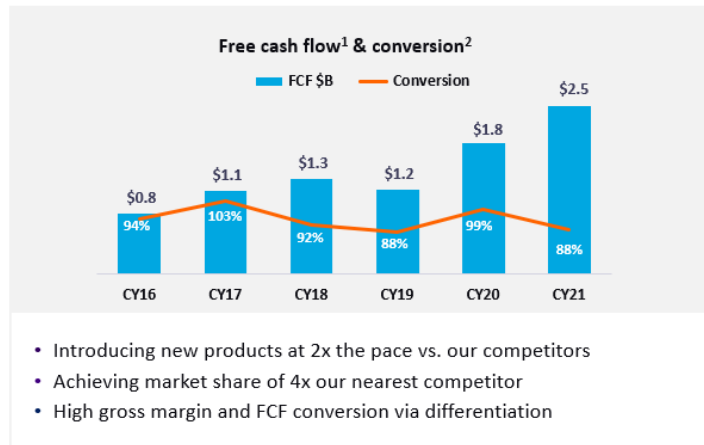
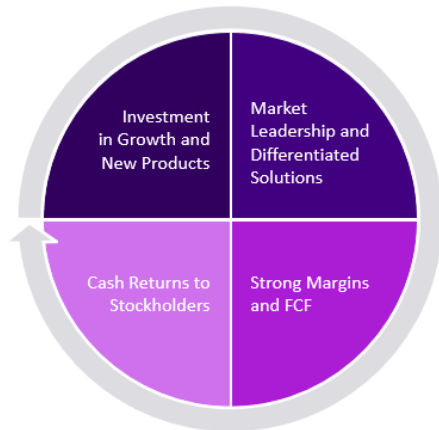


¹ As of 12/31/21; ² Total Cash includes Cash, Cash Equivalents and Marketable Securities;

³ Difference between Bonds Outstanding of \$3,450B and gross debt of \$3,424B 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 remain committed to our long-term strategy for cash returns to shareholders, executing a balanced approach split between dividends and share repurchases, targeting long-term returns of 70% or more of Free Cash Flow generated.

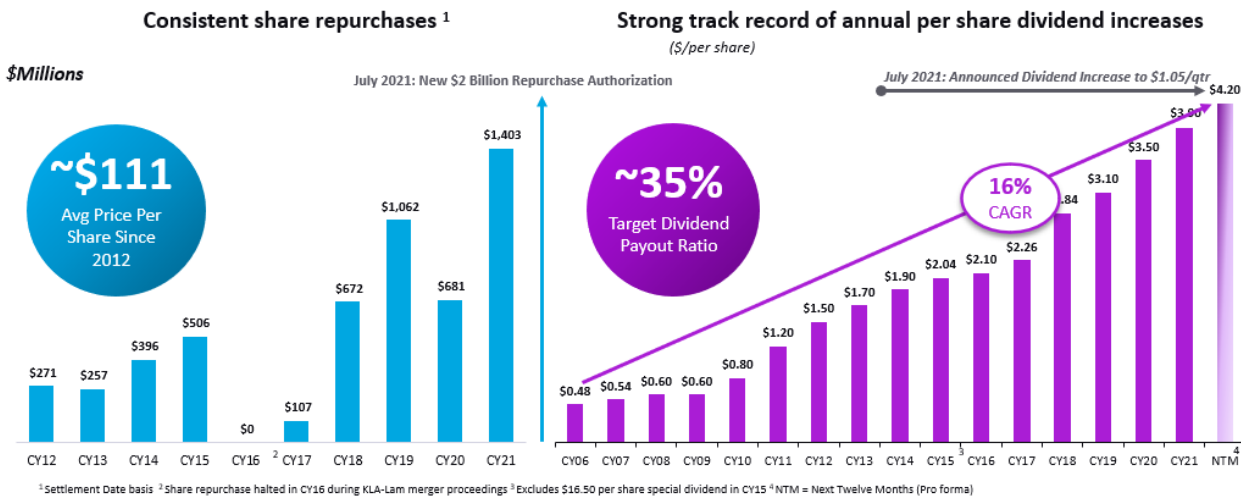


Committed to Long-Term >70% FCF Returned to Shareholders through Dividends and Buybacks

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

In 2021, KLA exceeded our long-term capital returns target, returning over \$2 billion to shareholders, including \$601 million in dividends paid, and \$1.4 billion 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.

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. During the December quarter we repurchased \$430 million of common stock and paid \$160 million in dividends.

Outlook

As we begin the new year, our view is that the WFE market will grow in the high teens, topping \$100 billion off a baseline of approximately \$86 billion for 2021. WFE demand is still constrained by the industry's ability to supply. Strong industry growth momentum in 2022 across all end-markets is expected to drive growth, with the strongest percentage growth coming from Foundry / Logic customers. In Memory, investment will be led by 3D NAND.

Looking ahead, our backlog remains strong and sales funnel visibility over the near-term horizon is good. However, rising product lead-times driven by increased supply chain constraints is limiting our near-term output. These issues are reducing our revenue expectation by 8% to 10% for the March quarter. Specifically, Covid-related disruptions at a number of single sourced suppliers have exacerbated what has already been a difficult supply situation, where these suppliers have been challenged to meet demand while running their production at max capacity. These disruptions are causing delays in parts delivery timing across multiple product platforms. In addition, numerous electronic component sourcing challenges have become more acute over the past month as these are standardized parts and in demand across multiple industries. We expect that the Covid-related impact will begin to abate shortly, and new capacity or supply alternatives are expected to become available as we move through the calendar year. While these issues can be fluid and difficult to predict in the short run, we expect the March quarter revenue to represent the low point for calendar 2022 and we remain exceedingly confident in the sustainability of our current demand profile for the year.

Given current expectations for growth in WFE and other electronic markets, we feel confident in our ability to grow throughout the year with total company revenue growth exceeding 20% and semiconductor process control systems revenue to outperform WFE growth again. Our confidence is based on current backlog levels, competitive positioning, strong customer engagement, and steps we continue to take to add capacity to address output constraints in what continues to be a robust demand environment.

Our March quarter 2022 guidance is as follows: total revenue is expected to be in a range of \$2.20 billion, plus or minus \$100 million. Foundry/Logic is forecasted to be about 59% of Semi Process Control systems revenue. Memory is expected to be approximately 41%. We forecast non-GAAP Gross Margin to be in a range of 61.5% to 63.5% as overall revenue levels decline modestly on a sequential basis and product mix dilutes gross margins by roughly 50 basis points versus the prior quarter.

To provide some color for the calendar year, given higher revenue volume ,product mix expectations across our various segments, offset by expected cost pressures within our supply chain, we are modeling Gross Margins to be approximately 63% for the year plus or minus 50 basis points.

Other model assumptions for the March quarter include: Operating Expense of approximately \$495 million, Interest and Other Expense of approximately \$41 million, and an effective tax rate of approximately 13.5%. Finally, GAAP diluted EPS is expected to be \$4.54 plus or minus \$0.45 and non-GAAP diluted EPS of \$4.80 plus or minus \$0.45 The EPS guidance is based on a fully diluted share count of approximately 151 million shares.

March Quarter 2022 Guidance (Q3 FY2022)

	March 2022 quarter
REVENUE	\$2,100M to \$2,300M
NON-GAAP GROSS MARGIN*	61.50% to 63.50%
GAAP DILUTED EPS	\$4.09 to \$4.99
NON-GAAP DILUTED EPS*	\$4.35 to \$5.25

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

Macro assumptions

- Semi Process Control Revenue By End Market
 - Foundry/Logic: 59%
 - Memory: 41%

Model assumptions

- Non-GAAP Operating Expenses:* ~\$495M
- Other Income & Expense (OIE), Net: ~\$41M
- Effective Tax Rate: ~13.5%
- Diluted Share Count: ~151M

Driving Profitable Growth and Delivering Shareholder Value

In Conclusion

We have exceptionally strong and diversified end market dynamics propelling semiconductors and the essential WFE investments required to make them. Furthermore, we are seeing revenue growth opportunities as more innovation occurs and technology complexity increases in specialty semiconductors, advanced packaging, and other electronics markets. Finally, our Services offerings continue to deliver more value to our customers in our semiconductor process control business and there are evolving opportunities to further expand our value proposition in our acquired businesses. Our record backlog is supported by solid demand across end markets and at multiple technology nodes. 2022 is setting up to be the third consecutive year of double-digit growth for WFE, and the seventh consecutive year of growth for KLA. The KLA Operating Model fuels our Strategic Objectives and positions us to outperform the industry in terms of growth and financial performance. These objectives fuel our growth, operational excellence, and differentiation across an increasingly more diverse product and services offering. They also underpin our sustained technology leadership, wide 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

	For the three months ended		For the twelve months ended				
	Dec 31, 2021	Dec 31, 2021	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016
<i>(in thousands, except per share amounts and percentages)</i>							
GAAP net income attributable to KLA	\$ 717,444	\$ 2,986,335	\$ 1,367,523	\$ 1,137,653	\$ 1,420,692	\$ 656,341	\$ 863,670
Adjustments to reconcile GAAP net income to non-GAAP net income*							
Acquisition-related charges	a	54,339	220,488	214,533	340,318	21,218	4,737
Restructuring, severance and other charges	b	-	(51)	16,885	2,786	-	137
Debt extinguishment loss	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	(16,758)	(71,218)	(74,196)	(97,828)	(4,631)	(6,169)
Discrete tax items	g	96,016	(290,331)	(10,047)	8,465	(18,089)	(3,064)
Non-GAAP net income attributable to KLA	\$ 851,041	\$ 2,845,223	\$ 1,793,885	\$ 1,391,394	\$ 1,422,592	\$ 1,107,649	\$ 876,008
GAAP diluted EPS +	\$ 4.71	\$ 19.42	\$ 8.75				
Non-GAAP diluted EPS +	\$ 5.59	\$ 18.50	\$ 11.47				
Shares used in diluted shares calculation +	152,331	153,796	156,339				
GAAP research and development ("R&D") expenses	\$ 265,031	\$ 1,003,569	\$ 880,635	\$ 822,928	\$ 624,668	\$ 570,202	\$ 503,188
Adjustments to reconcile GAAP R&D expenses to non-GAAP R&D expenses*							
Acquisition-related charges	a	-	(5,962)	-	(3,328)	-	-
Restructuring, severance and other charges	b	-	(350)	(3,625)	(802)	-	(5)
Merger-related charges	e	-	-	-	-	(3,139)	(3,767)
Non-GAAP R&D expenses	\$ 265,031	\$ 997,257	\$ 877,010	\$ 818,798	\$ 624,668	\$ 567,063	\$ 499,416
GAAP R&D expenses as a percentage of revenue	11.3%	12.3%	14.5%	15.6%	14.5%	15.0%	15.4%
Non-GAAP R&D expenses as a percentage of revenue	11.3%	12.2%	14.4%	15.5%	14.5%	14.9%	15.3%

+ In multiple-quarter calculations of diluted net income per share, the shares used are an average of the weighted average fully diluted shares outstanding for the relevant quarters. Therefore, the sum of the individual quarterly diluted net income per share amounts for the quarters may not equal the calendar year or multiple-quarter diluted net income per share presented.

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

	For the three months ended		For the twelve months ended	
	Dec 31, 2021	Dec 31, 2021	Dec 31, 2020	Dec 31, 2020
<i>(Dollars in thousands)</i>				
GAAP gross profit	\$ 1,444,468	\$ 4,962,056	\$ 3,571,050	
Adjustments to reconcile GAAP gross profit to non-GAAP gross profit*				
Acquisition-related charges	a	41,115	163,038	154,074
Restructuring, severance and other charges	b	-	230	2,418
Non-GAAP gross profit	\$ 1,485,583	\$ 5,125,324	\$ 3,727,542	
GAAP gross margin	61.4%	60.8%	58.8%	
Adjustments to reconcile GAAP gross margin to non-GAAP gross margin*				
Acquisition-related charges	a	1.7%	2.0%	2.6%
Non-GAAP gross margin	63.1%	62.8%	61.4%	
GAAP operating income (1)	\$ 965,958	\$ 3,176,685	\$ 1,725,675	
Adjustments to reconcile GAAP operating income to non-GAAP operating income*				
Acquisition-related charges	a	54,339	220,488	214,533
Restructuring, severance and other charges	b	-	4,281	15,869
Goodwill and intangible asset impairment	d	-	-	256,649
Non-GAAP Operating income (1)	\$ 1,020,297	\$ 3,401,454	\$ 2,212,726	
GAAP operating margin	41.1%	38.9%	28.4%	
Non-GAAP operating margin	43.4%	41.7%	36.4%	
GAAP Selling, General and Administrative ("SG&A") expenses (1)	\$ 213,479			
Adjustments to reconcile GAAP SG&A expenses to non-GAAP SG&A expenses*				
Acquisition-related charges	a	(13,224)		
Non-GAAP SG&A expenses (1)	\$ 200,255			
GAAP Operating expenses (1)	\$ 478,510			
Adjustments to reconcile GAAP operating expenses to non-GAAP operating expenses*				
Acquisition-related charges	a	(13,224)		
Non-GAAP Operating expenses (1)	\$ 465,286			

* 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 associated with changes in the liability included in selling, general and administrative expense for the quarter ended December 31, 2021 and the calendar years ended December 31, 2021 and 2020 were \$12.0 million, \$32.2 million and \$34.7 million, respectively. The net gains associated with changes in the EDSP assets included in selling, general and administrative expense for the quarter ended December 31, 2021 and the calendar years ended December 31, 2021 and 2020 were \$11.8 million, \$32.0 million and \$35.2 million, respectively.

Reconciliation of Free Cash Flow and Related Metrics

Free Cash Flow Measures <i>(Dollars in thousands)</i>	For the three months ended		For the twelve months ended					
	Dec 31, 2021	Dec 31, 2020	Dec 31, 2021	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016
Net cash provided by operating activities	\$ 810,798	\$ 561,081	\$ 2,786,367	\$ 1,968,126	\$ 1,373,031	\$ 1,389,697	\$ 1,190,475	\$ 857,780
Less Capital expenditures	(64,901)	(59,144)	(250,414)	(200,304)	(149,242)	(86,518)	(49,207)	(34,974)
Free cash flow	\$ 745,897	\$ 501,937	\$ 2,535,953	\$ 1,767,822	\$ 1,223,789	\$ 1,303,179	\$ 1,141,268	\$ 822,806
Free Cash Flow Conversion calculation								
Free cash flow	\$ 745,897	\$ 501,937	\$ 2,535,953	\$ 1,767,822	\$ 1,223,789	\$ 1,303,179	\$ 1,141,268	\$ 822,806
Non-GAAP net income attributable to KLA	851,041	504,139	2,845,223	1,793,885	1,391,394	1,422,592	1,107,649	876,008
Free cash flow conversion	87.6%	99.6%	89.1%	98.5%	88.0%	91.6%	103.0%	93.9%
GAAP metric comparable to Free Cash Flow Conversion								
Net cash provided by operating activities	\$ 810,798	\$ 561,081	\$ 2,786,367	\$ 1,968,126	\$ 1,373,031	\$ 1,389,697	\$ 1,190,475	\$ 857,780
GAAP net income attributable to KLA	717,444	457,251	2,986,335	1,367,523	1,137,653	1,420,692	656,341	863,670
GAAP metric comparable to free cash flow conversion	113.0%	122.7%	93.3%	143.9%	120.7%	97.8%	181.4%	99.3%
Cash paid for dividends	\$ 159,129	\$ 139,584	\$ 600,555	\$ 546,837				
Cash paid for share repurchases	429,874	177,492	1,402,769	681,384				
Capital returns	\$ 589,003	\$ 317,076	\$ 2,003,324	\$ 1,228,221				
Capital returns as a percentage of free cash flow	79.0%	63.2%	79.0%	69.5%				
Free cash flow	\$ 745,897							
Revenue	2,352,630							
Free cash flow margin	31.7%							

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.

Reconciliation of Q3 FY 2022 Guidance Range

<i>(In millions, except per share amounts and percentages)</i>	Low	High
GAAP diluted net income per share	\$ 4.09	\$ 4.99
Acquisition-related charges	a 0.37	0.37
Income tax effect of non-GAAP adjustments	e (0.11)	(0.11)
Non-GAAP diluted net income per share	\$ 4.35	\$ 5.25
Shares used in net income per diluted shares calculation	151.4	151.4
GAAP gross margin as a percentage of revenue	59.5%	61.7%
Acquisition-related charges	a 2.0%	1.8%
Restructuring, severance and other charges	b 0.0%	0.0%
Non-GAAP gross margin as a percentage of revenue	61.5%	63.5%
GAAP operating expenses	\$ 503	\$ 515
Acquisition-related charges	a (14)	(14)
Non-GAAP operating expenses	\$ 489	\$ 501

Note: The guidance as of January 27, 2022 represents our best estimate considering the information known as of the date of issuing the guidance. Any impact from acquisitions that have not closed as of December 31, 2021 are not included in these estimates. 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, non-GAAP R&D expenses, non-GAAP gross margin, non-GAAP operating margin, non-GAAP operating expenses, Free Cash Flow, FCF Conversion and FCF Margin, 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.
- 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 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 above.
- g) 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.

About KLA Corporation

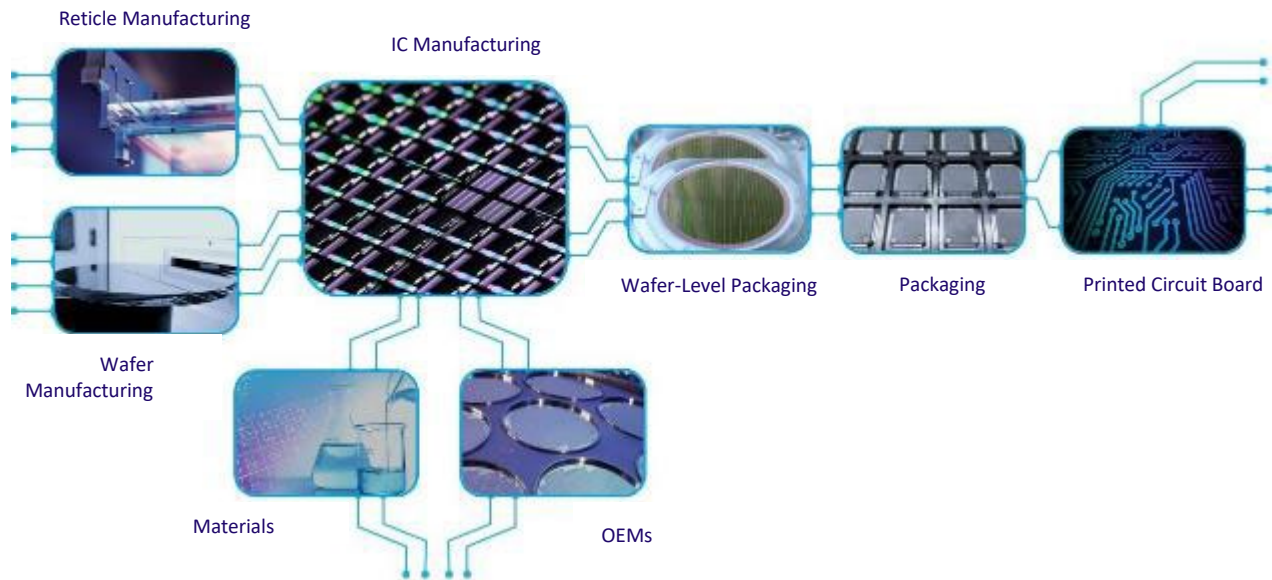
KLA Corporation (“KLA”) is the world's leading supplier of process control and yield management solutions for the semiconductor and related microelectronics industries. The company's comprehensive portfolio of products, software, analysis, services and expertise is designed to help Integrated Circuit (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.

Investors and others should note that KLA announces material financial information to investors using an investor relations website (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"> • IC Manufacturing 	<ul style="list-style-type: none"> • Compound Semiconductor
<ul style="list-style-type: none"> • Wafer Manufacturing 	<ul style="list-style-type: none"> • Power Device
<ul style="list-style-type: none"> • Reticle Manufacturing 	<ul style="list-style-type: none"> • LED
<ul style="list-style-type: none"> • IC Packaging 	<ul style="list-style-type: none"> • MEMS
<ul style="list-style-type: none"> • Printed Circuit Board 	<ul style="list-style-type: none"> • Data Storage/Media Head
	<ul style="list-style-type: none"> • Flat Panel Display
	<ul style="list-style-type: none"> • General Purpose/Labs



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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 2022; (ii) our ability to meet or exceed our 2023 financial targets ahead of expectations; (iii) continued improvement of industry demand for semiconductors and WFE; (iv) foundry/logic strength with our customers increasing their demand forecast in 2022; (v) strong demand for memory in 2022; (vi) high R&D investment; (vii) expansion of service opportunities; (viii) capital allocation; (ix) continued improvement of revenue throughout calendar year 2022; (x) levels of business activity in the quarter ending March 31, 2022 and for calendar 2022; (xi) future capital returns to shareholders; (xii) our non-GAAP operating expenses for the quarter ending March 31, 2022 and near term budget; (xiii) our effective tax planning rate for the quarter ending March 31, 2022; (xiv) WFE growth in 2022, and demand levels across end markets; and (xv) revenues, GAAP and non-GAAP gross margin and GAAP and non-GAAP diluted EPS for the quarter ending March 31, 2022 and revenues across customer segments in the quarter ending March 31, 2022; 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; cybersecurity incidents of ours and our customer's and suppliers' networks; 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's Annual Report on Form 10-K for the year ended June 30, 2021, and other subsequent filings with the Securities and Exchange Commission (including, but not limited to, the risk factors included therein). KLA assumes no obligation to, and does not currently intend to, update these forward-looking statements.