

# KLA+ Earnings

**Q3 Fiscal 2022**

**(Quarter Ended March 31, 2022)**

Reporting Date: April 28, 2022

# Forward-Looking Statements

Statements in this presentation other than historical facts, such as statements pertaining to: (i) future industry demand for semiconductors; (ii) WFE and KLA's growth in calendar 2022; (iii) our operating expenses and other income and expense, net, for the June quarter; (iv) future capital returns as a percentage of free cash flow; (v) expansion of services opportunities; (vi) outperformance of our SPC business; (vii) future levels of business activities; (viii) effective tax rate for the June quarter; (ix) dividend levels over the next twelve months; and (x) revenues, GAAP and non-GAAP gross margin, GAAP and non-GAAP diluted EPS, and revenues across end markets for the June quarter, 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 impact of the COVID-19 pandemic on the global economy and on our business, financial condition and results of operations, including the supply chain constraints we are experiencing as a result of the pandemic; economic, political and social conditions in the countries in which we, our customers and our suppliers operate, including rising inflation and interest rates, Russia's invasion of Ukraine and global trade policies; disruption to our manufacturing facilities or other operations, or the operations of our customers, due to natural catastrophic events, health epidemics or terrorism; ongoing changes in the technology industry, and the semiconductor industry in particular, including future growth rates, pricing trends in end-markets, or changes in customer capital spending patterns; our ability to timely develop new technologies and products that successfully anticipate or address changes in the semiconductor industry; our ability to maintain our technology advantage and protect our proprietary rights; our ability to compete with new products introduced by our competitors; our ability to attract and retain key personnel; cybersecurity threats, cyber incidents affecting our and our service providers' systems and networks and our ability to access critical information systems for daily business operations; liability to our customers under indemnification provisions if our products fail to operate properly or contain defects or our customers are sued by third parties due to our products; exposure to a highly concentrated customer base; availability and cost of the wide range of materials used in the production of our products; our ability to operate our business in accordance with our business plan; legal, regulatory and tax environments in which we perform our operations and conduct our business and our ability to comply with relevant laws and regulations; our ability to pay interest and repay the principal of our current indebtedness is dependent upon our ability to manage our business operations, our credit rating and the ongoing interest rate environment, among other factors; instability in the global credit and financial markets; our exposure to currency exchange rate fluctuations, or declining economic conditions in those countries where we conduct our business; changes in our effective tax rate resulting from changes in the tax rates imposed by jurisdictions where our profits are determined to be earned and taxed, expiration of tax holidays in certain jurisdictions, resolution of issues arising from tax audits with various authorities or changes in tax laws or the interpretation of such tax laws; and our ability to identify suitable acquisition targets and successfully integrate and manage acquired businesses. For other factors that may cause actual results to differ materially from those projected and anticipated in forward-looking statements in this press release, please refer to KLA Corporation's Annual Report on Form 10-K for the year ended June 30, 2021, and other subsequent filings with the Securities and Exchange Commission. 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



# Semiconductor Industry Demand Environment

**Semiconductor Demand Is Strong** – KLA continues to benefit from broad and diversified strength across our major markets, with growth fueled by our growing market leadership in some of the largest and fastest growing markets in Process Control. Calendar 2022 is expected to be another year of double-digit growth for the company and our industry. This is driven by strong secular growth trends for the Semiconductor and Electronics industries across a wide range of markets enabling the Data Economy.

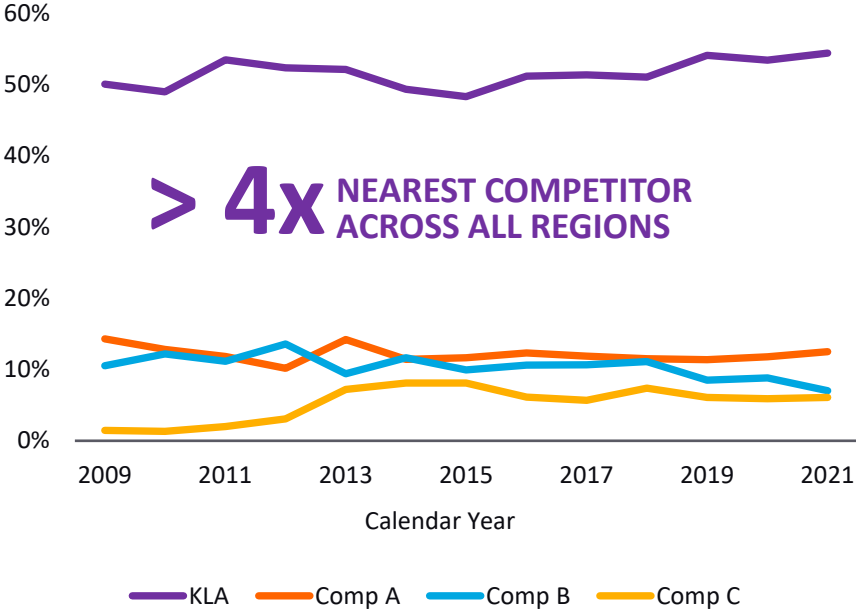
**Customer R&D Investment and Increasing Capacity Remains A Top Priority in Calendar 2022** – KLA continues to play a critical role in enabling technology transitions in advanced semiconductor manufacturing, as well as helping customers improve yields throughout the capacity growth phase. Calendar 2022 is forecasted to be another 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 Drivers Demonstrate Strategic Value of Semiconductors** – There are many fundamental drivers propelling the Semiconductor industry, underscoring the strategic importance of Semiconductors and the Semiconductor supply chain. This is also making industry cycles more durable, as digital transformation has expanded beyond consumer and smartphone to enable growth in data center, enterprise, 5G, the electrification of automotive, digital healthcare, work from home, virtual collaboration, and digital entertainment to name a few. The growing focus on regionalization of production demonstrates the strategic importance of securing semiconductor supply and protecting IP.

Growth Underscores the Strategic Nature of Semiconductors in the Data Economy

# New Market Share Report Demonstrates “Power of the Portfolio”

## Process Control Market Share



Source: Gartner April 2022

- 1 KLA’s Market Share in Process Control Has Maintained a Trajectory of Steady Growth Over the Past 15+ Years, Demonstrating the “Power of the Portfolio”
- 2 KLA’s Share is Greater than 4x the Nearest Competitor Across All Regions
- 3 KLA’s Share of the Fast-Growing Optical Inspection Remains 80%+
- 4 KLA Further Strengthened our Market Leadership in Optical Metrology and Maintained our Strong Position in Overlay Metrology in CY21, Two Additional Fastest Growing Markets in Process Control
- 5 Three of KLA’s Largest End Markets - Optical Inspection, Optical Metrology, and Overlay Metrology - each grew by 50% or more in CY21

# March Quarter 2022 Business Highlights

1



**KLA's Consistency Led By Execution and Market Leadership.** KLA's market leadership in some of the most critical and fastest growing areas of WFE continues to fuel our growth. We are benefitting from strength across nearly all our major end markets with quarterly revenue growing 27% year-over-year to \$2.3 billion. We continue to be nimble and innovative in navigating global supply challenges to meet customer requirements and our financial targets. 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.

2



**KLA's Market Leadership Demonstrates the "Power of the Portfolio"** KLA's optical metrology business continues to stand out, driven by KLA's market leadership and increasing adoption of metrology applications in leading-edge technology development and capacity monitoring. The optical metrology market is strongly leveraged to EUV and critical next-generation architectures including gate-all-around (GAA) and multi-stack 160+ layer 3D NAND. This was further illustrated in the new Gartner Market Share report, which showed 50% growth in 2021.

3



**Growing Advanced Packaging and Automotive Electronics Opportunity Highlights Synergies Across Product Groups.** KLA is intensifying our efforts in Advanced Packaging and Automotive markets, leveraging the combined portfolios of both the Semiconductor Process Control (SPC) and Electronics, Packaging and Components (EPC) Groups. Solutions include wafer-level packaging and final assembly and test products for Advanced Packaging markets, and wafer inspection systems designed to help customers achieve their zero-defect goals in Automotive applications. These collaborations continue to grow, with KLA recording our highest-ever customer engagement in terms of Wafer Inspection revenue for Automotive applications in the March quarter.

4



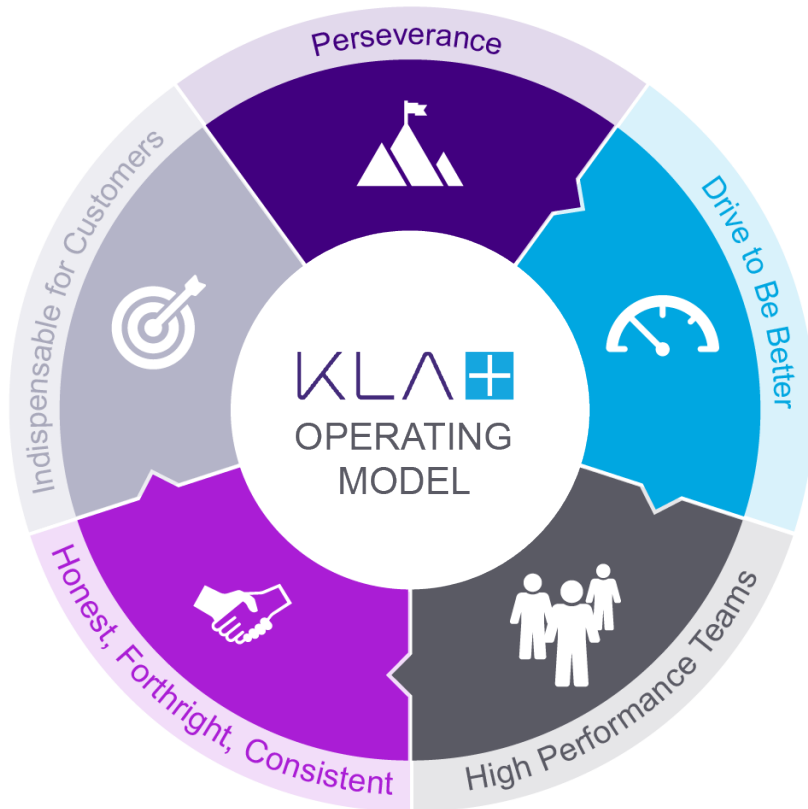
**Services Demonstrates Consistency as Double-Digit Growth Continues.** Services revenue was \$488 million, up 14% year-over-year. Services tallied a record 349 installs in the quarter, well above the prior high of 293. A remarkable achievement given travel restrictions and other complications. Services revenue is consistently outperforming the 9-11% long term target rate, driven by the rapidly growing installed base, higher utilization rates, as well as expansion of Service opportunities in legacy nodes.

5



**Company Delivered Strong Free Cash Flow Generation and Capital Returns.** Quarterly free cash flow was \$719 million, which drove LTM free cash flow growth up 37% to \$2.67 billion. We have remained focused on returning capital to shareholders via our dividend and stock repurchase program, and total capital returns over the past twelve months was \$2.31 billion, or 87% of free cash flow. Dividends and share repurchases grew materially year-over-year to \$724 million, comprised of \$565 million in share repurchases and \$159 million in dividends.

# 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

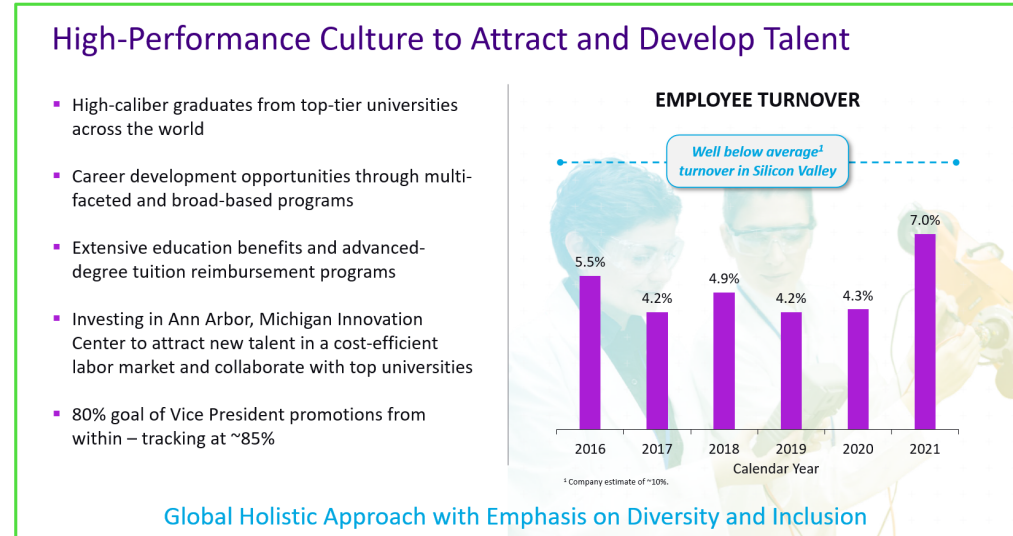
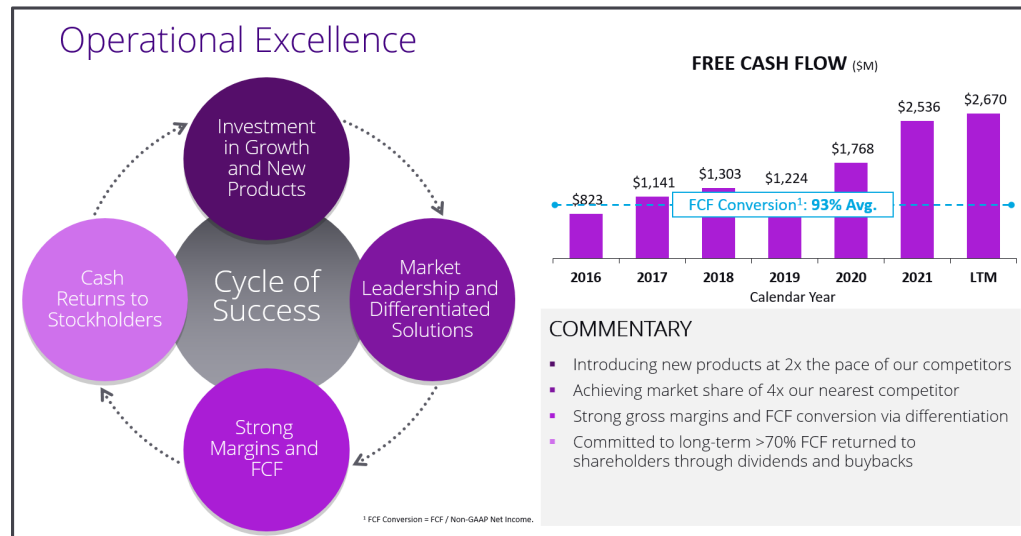
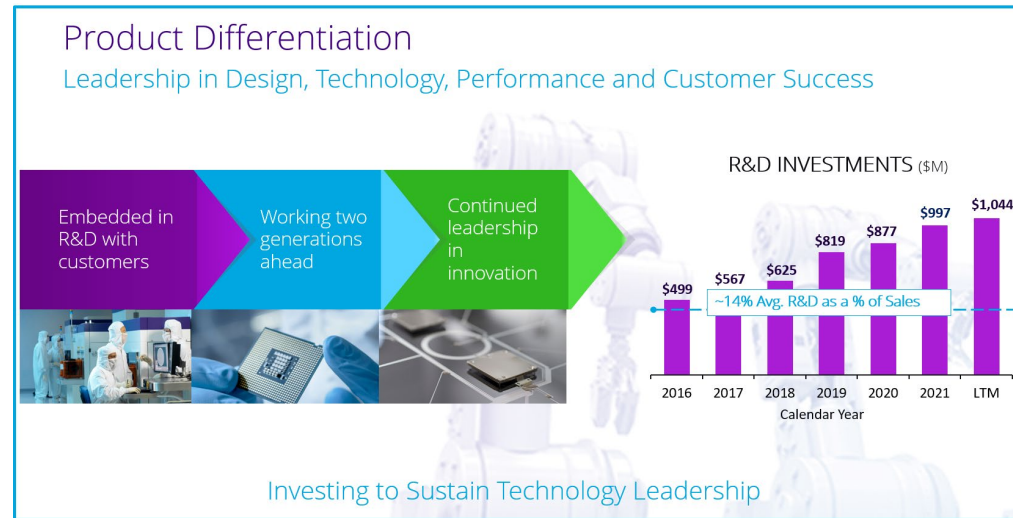
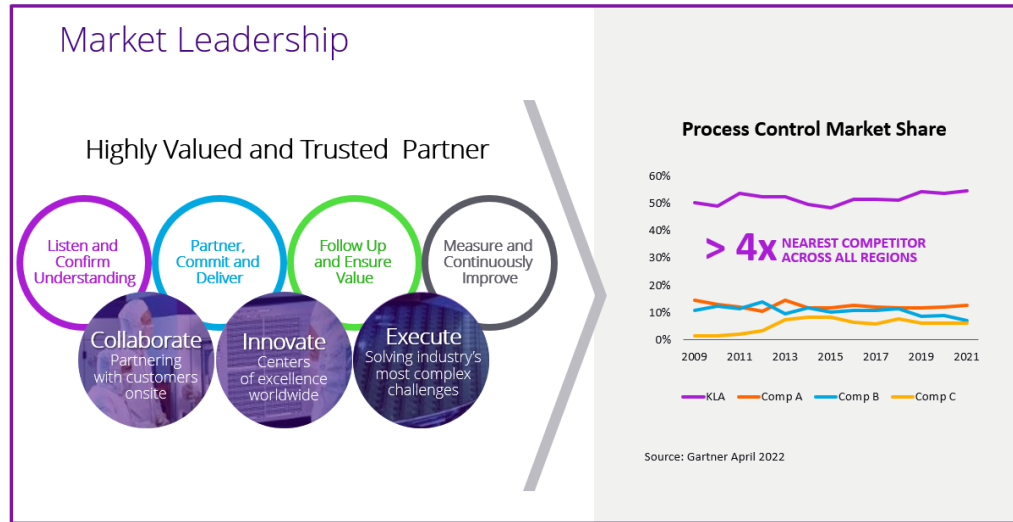
- Culture of performance and accountability
- Expectation of continuous improvement
- Superior margins driven by market leadership and differentiation

## 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



Sources: Industry data and Company estimates.





# Business Performance and Guidance

Bren Higgins | Chief Financial Officer



# March Quarter 2022 Financial Highlights

**\$2,289M**  
Revenue

**\$719M**  
Free Cash Flow\*

**\$776M**  
Net Income\*

**62.9%**  
Gross Margin\*

**31.4%**  
FCF Margin\*

**\$5.13**  
Non-GAAP Diluted EPS\*

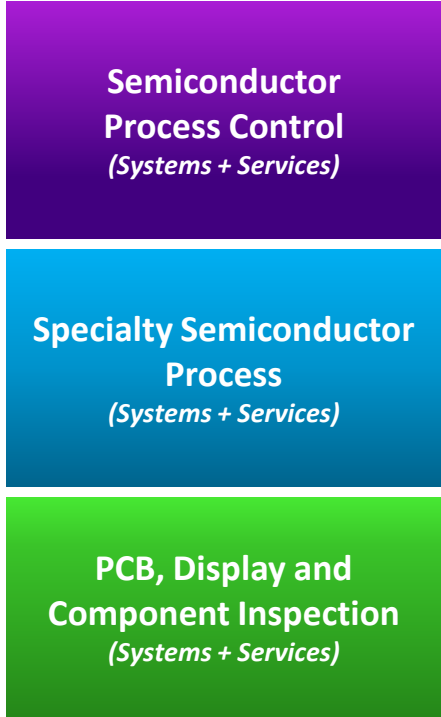
**41.7%**  
Operating Margin\*

**93%**  
FCF Conversion\*

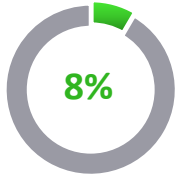
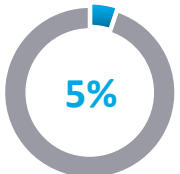
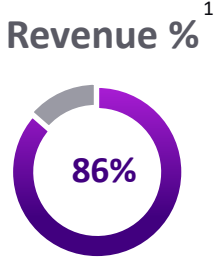
**\$4.83**  
GAAP Diluted EPS

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

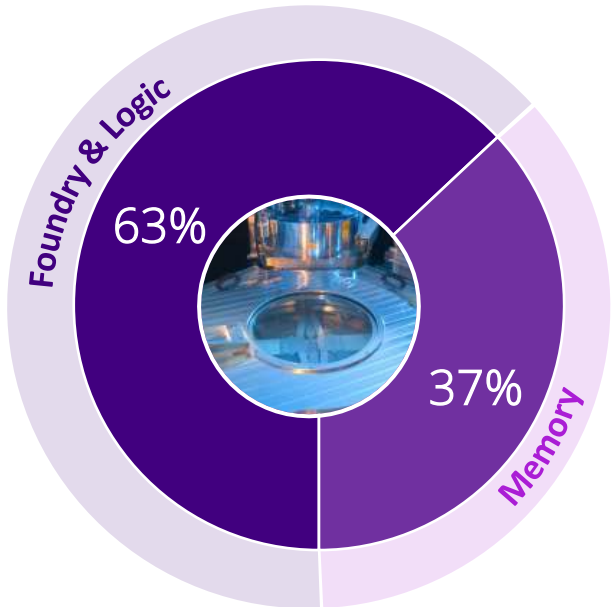
# Breakdown of Revenue by Reportable Segments & End Markets



Revenue Q3-FY22 (\$M)	Y/Y Growth %	Q/Q Growth %
\$1,979	+31%	-4%
\$117	+28%	+4%
\$193	-6%	+2%
<b>Total</b>	<b>+27%</b>	<b>-3%</b>



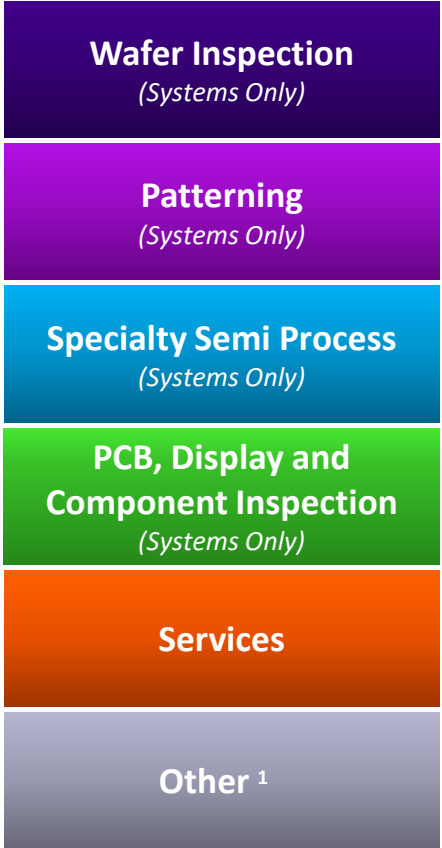
Q3-FY22: Semi Process Control End Market System Revenue



<sup>1</sup> Overall revenue percentages shown in circles not adding to 100% due to rounding

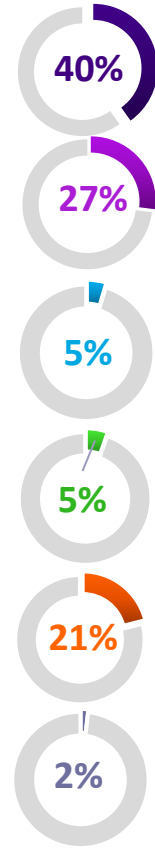
# Breakdown of Revenue by Major Product and Region

Revenue Q3-FY22 (\$M)	Y/Y Growth %	Q/Q Growth %
\$919	+29%	-17%
\$611	+53%	+20%
\$106	+38%	+1%
\$123	-13%	+1%
\$488	+14%	+7%
\$42	-2%	-26%
<b>\$2,289</b>	<b>+27%</b>	<b>-3%</b>

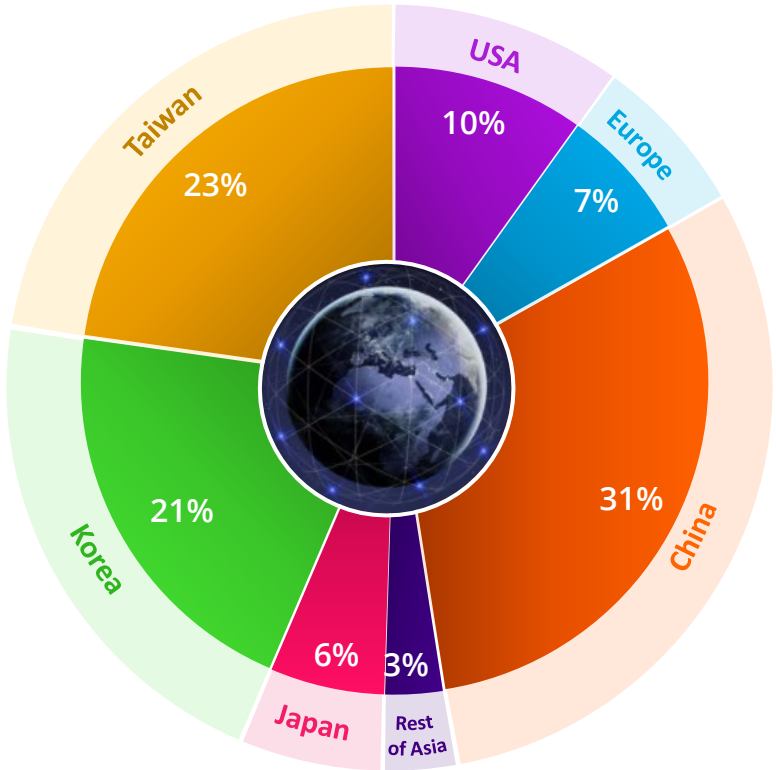


**Total**

Revenue %



**Q3-FY22  
Revenue by Region <sup>2</sup>**



<sup>1</sup> Included in the Semiconductor Process Control Segment  
<sup>2</sup> Percentages shown not adding to 100% due to rounding

# Strong Balance Sheet With No Bond Maturities Until 2024

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

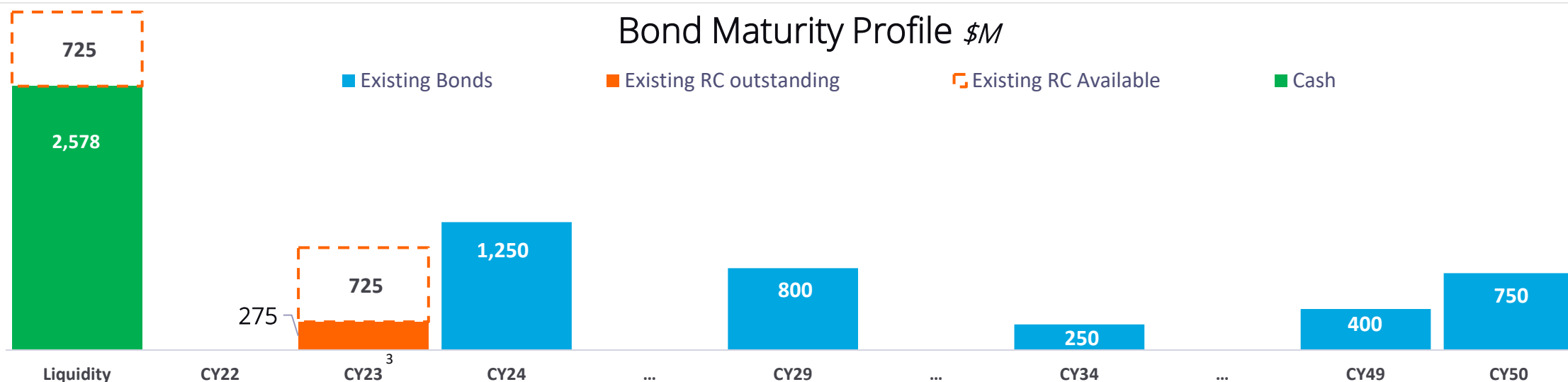
Total Cash <sup>2</sup>	\$ 2,578
Working Capital	\$ 3,754
Total Assets	\$ 12,018
Debt <sup>3</sup>	\$ 3,700
Total Shareholders' Equity	\$ 4,079

## Bond Maturity Profile

Bonds Outstanding	\$ 3,450M
Weighted Average Rate	4.37%
Weighted Average Maturity	12.7 years

## Investment Grade Credit Ratings

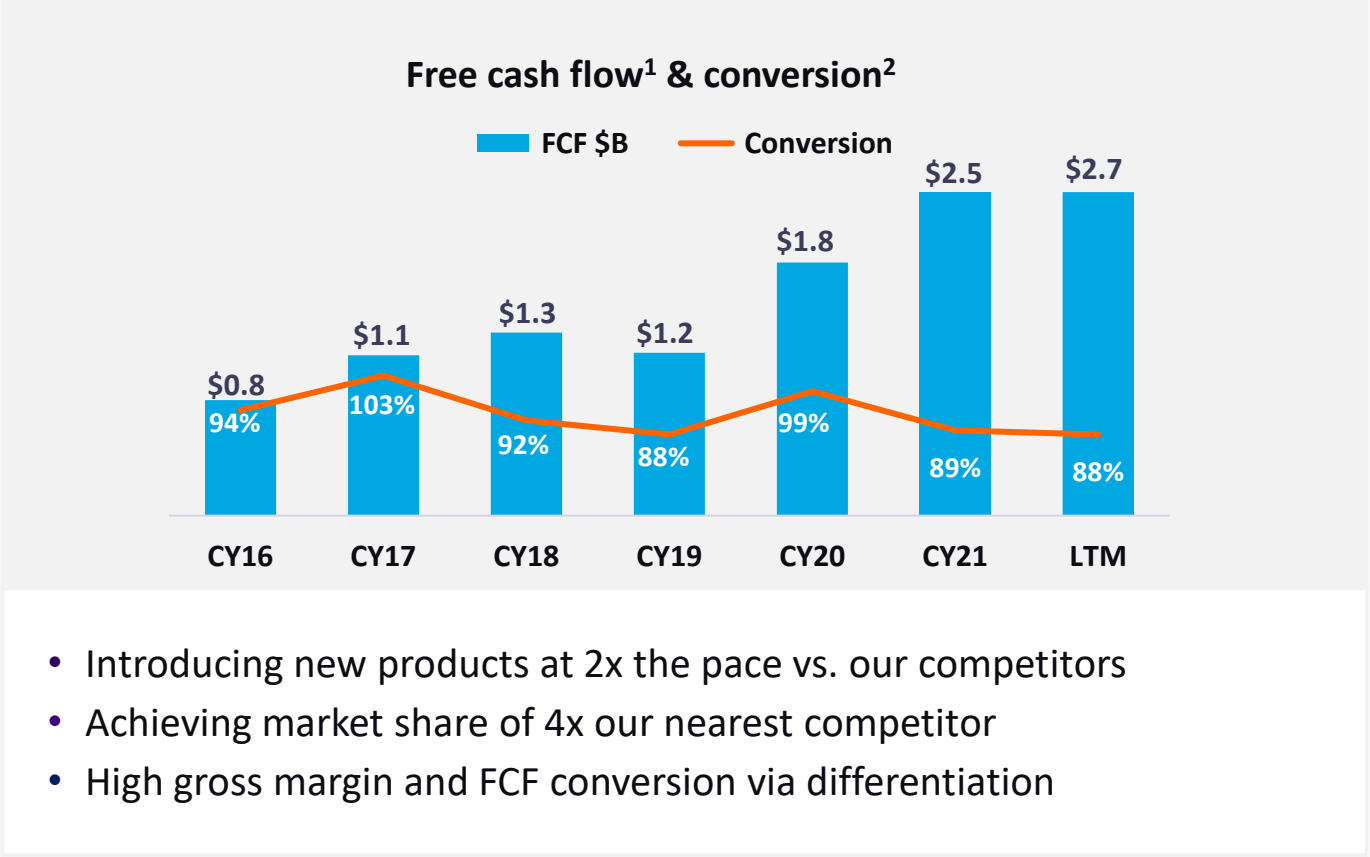
Moody's	A2
S&P	BBB+
Fitch	A-



<sup>1</sup> As of 3/31/22; <sup>2</sup> Total Cash includes Cash, Cash Equivalents and Marketable Securities;

<sup>3</sup> Includes \$275M in revolving credit facility drawings less \$25M in un-amortized debt issuance discounts and costs.

# 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

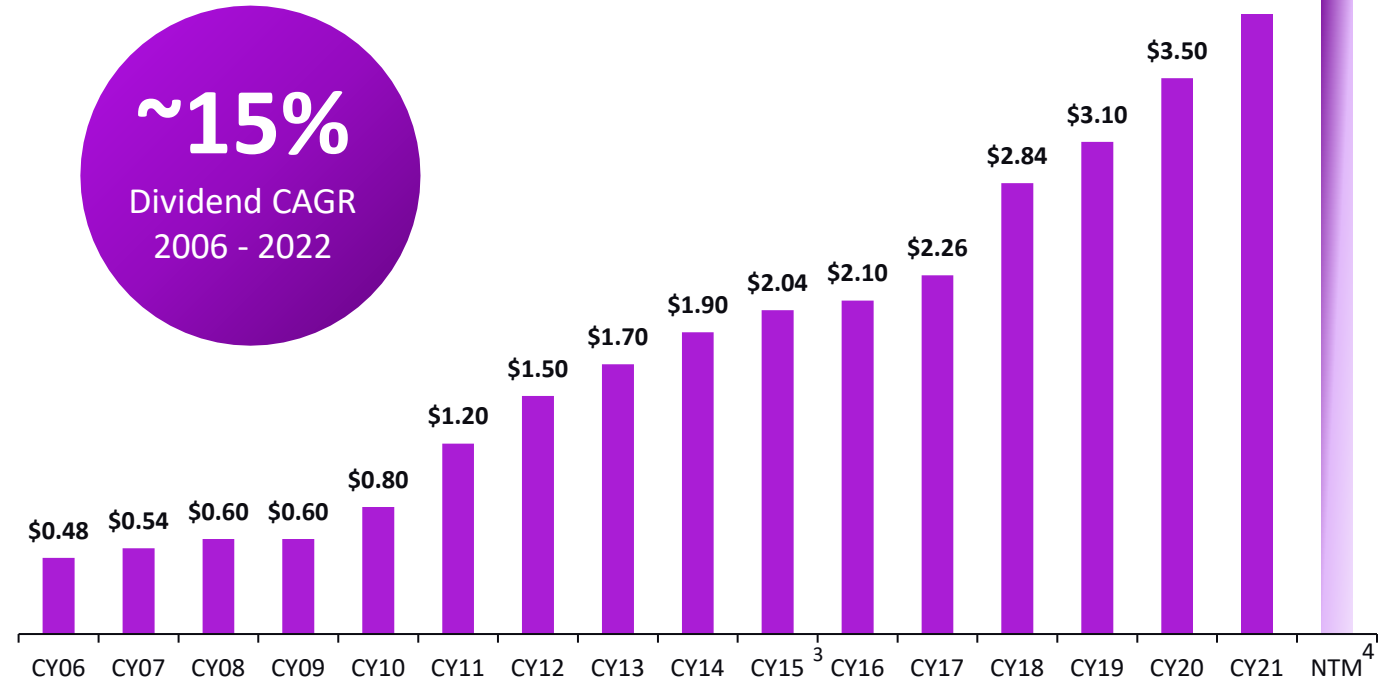
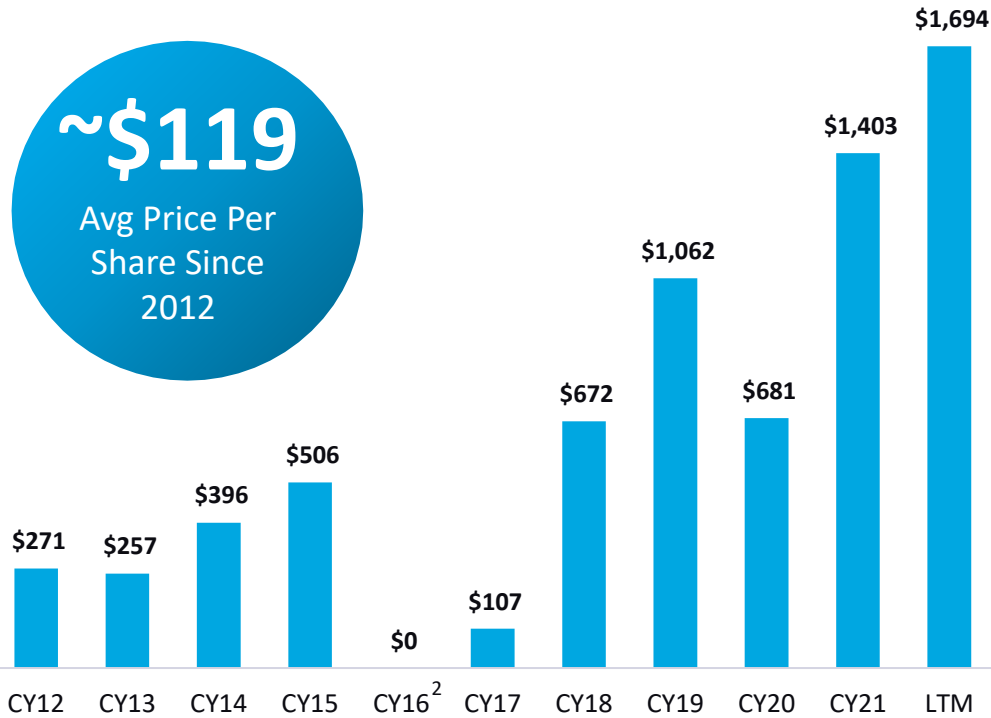
## Consistent share repurchases <sup>1</sup>

## Strong track record of annual per share dividend increases

(\$/per share)

\$Millions

July 2021: Announced Dividend Increase to \$1.05/qtr → \$4.20



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

# Free Cash Flow and Capital Returns Highlights

**\$719M**

March Qtr FCF\*

**\$2,670M**

LTM FCF\*

**\$565M**

March Qtr Share Buyback

**\$1,694M**

LTM Share Buyback

**\$159M**

Mar Qtr Dividends Paid

**\$620M**

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 2022 Guidance (Q4 FY2022)

June 2022 quarter

REVENUE	\$2,300M to \$2,550M
NON-GAAP GROSS MARGIN*	61.50% to 63.50%
GAAP DILUTED EPS	\$4.60 to \$5.70
NON-GAAP DILUTED EPS*	\$4.93 to \$6.03

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

## Macro assumptions

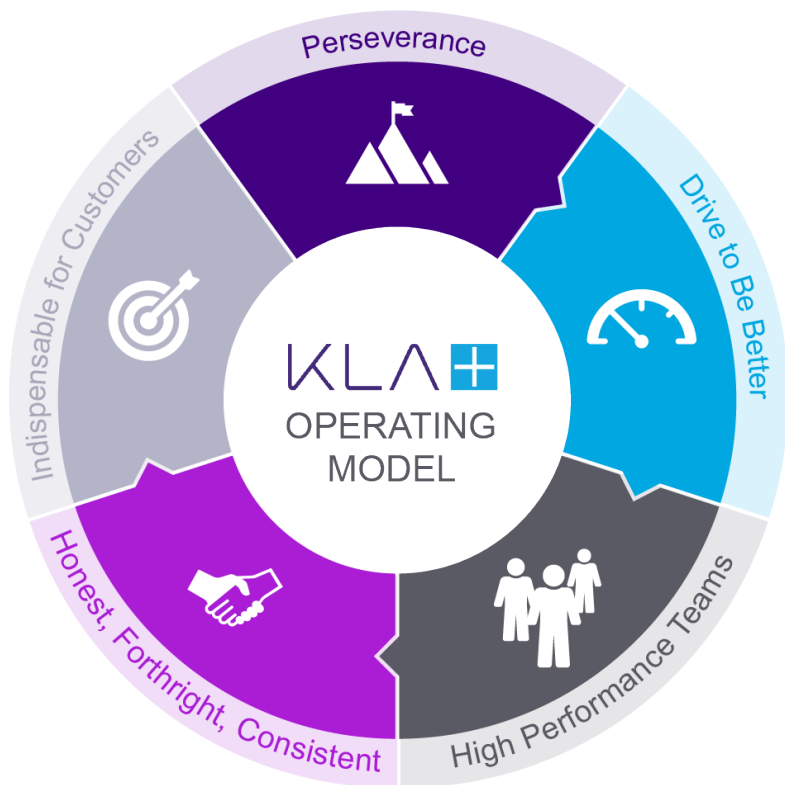
- Semi Process Control Revenue By End Market
  - Foundry/Logic: 56%
  - Memory: 44%

## Model assumptions

- Non-GAAP Operating Expenses:\* ~\$525M
- Other Income & Expense (OIE), Net: ~\$43M
- Effective Tax Rate: ~13.5%
- Diluted Share Count: ~150M

Driving Profitable Growth and Delivering Shareholder Value

# 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



# Appendix

## Reconciliation of Financial Results

# Reconciliation of Non-GAAP Financial Measures

<i>(in thousands, except per share amounts and percentages)</i>		For the three	For the twelve months ended								
		months ended	Mar 31, 2022	Mar 31, 2022	Dec 31, 2021	Mar 31, 2021	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016
			\$ 730,572	\$ 3,149,411	\$ 2,986,335	\$ 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>										
	Acquisition-related charges	a	59,898	227,413	220,488	212,484	214,533	340,318	21,218	4,737	4,383
	Restructuring, severance and other charges	b	2,513	3,996	(51)	9,919	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	(18,803)	(72,155)	(71,218)	(68,458)	(74,196)	(97,828)	(1,229)	(4,631)	(6,169)
	Discrete tax items	g	1,457	(285,907)	(290,331)	(7,463)	(10,047)	8,465	(18,089)	441,894	(3,064)
	<b>Non-GAAP net income attributable to KLA</b>		\$ 775,637	\$ 3,022,758	\$ 2,845,223	\$ 2,003,049	\$ 1,793,885	\$ 1,391,394	\$ 1,422,592	\$ 1,107,649	\$ 876,008
	<b>GAAP diluted EPS +</b>		\$ 4.83								
	<b>Non-GAAP diluted EPS +</b>		\$ 5.13								
	Shares used in diluted shares calculation +		151,186								
	<b>GAAP research and development ("R&amp;D") expenses</b>		\$ 285,189	\$ 1,049,801	\$ 1,003,569		\$ 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>										
	Acquisition-related charges	a	-	(5,962)	(5,962)		-	(3,328)	-	-	-
	Restructuring, severance and other charges	b	-	(203)	(350)		(3,625)	(802)	-	-	(5)
	Merger-related charges	e	-	-	-		-	-	-	(3,139)	(3,767)
	<b>Non-GAAP R&amp;D expenses</b>		\$ 285,189	\$ 1,043,636	\$ 997,257		\$ 877,010	\$ 818,798	\$ 624,668	\$ 567,063	\$ 499,416
	GAAP R&D expenses as a percentage of revenue		12.5%	12.1%	12.3%		14.5%	15.6%	14.5%	15.0%	15.4%
	Non-GAAP R&D expenses as a percentage of revenue		12.5%	12.1%	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

# Reconciliation of Non-GAAP Financial Measures

<i>(Dollars in thousands)</i>	For the three months ended	
	Mar 31, 2022	
<b>GAAP gross profit</b>	\$	1,396,585
<u>Adjustments to reconcile GAAP gross profit to non-GAAP gross profit*</u>		
Acquisition-related charges	a	42,576
<b>Non-GAAP gross profit</b>	\$	1,439,161
<b>GAAP gross margin</b>		61.0%
<u>Adjustments to reconcile GAAP gross margin to non-GAAP gross margin*</u>		
Acquisition-related charges	a	1.9%
<b>Non-GAAP gross margin</b>		62.9%
<b>GAAP operating income (1)</b>	\$	894,907
<u>Adjustments to reconcile GAAP operating income to non-GAAP operating income*</u>		
Acquisition-related charges	a	59,898
<b>Non-GAAP Operating income (1)</b>	\$	954,805
GAAP operating margin		39.1%
Non-GAAP operating margin		41.7%
<b>GAAP Selling, General and Administrative ("SG&amp;A") expenses (1)</b>	\$	216,489
<u>Adjustments to reconcile GAAP SG&amp;A expenses to non-GAAP SG&amp;A expenses*</u>		
Acquisition-related charges	a	(17,322)
<b>Non-GAAP SG&amp;A expenses (1)</b>	\$	199,167
<b>GAAP Operating expenses (1)</b>	\$	501,678
<u>Adjustments to reconcile GAAP operating expenses to non-GAAP operating expenses*</u>		
Acquisition-related charges	a	(17,322)
<b>Non-GAAP Operating expenses (1)</b>	\$	484,356
<b>GAAP Other expenses (income), net</b>	\$	48,622
<u>Adjustments to reconcile GAAP other expenses (income), net to non-GAAP other expenses</u>		
Restructuring, severance and other charges	b	(2,513)
<b>Non-GAAP Other expenses</b>	\$	46,109

\* 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 benefit associated with changes in the liability included in selling, general and administrative expense for the quarter ended March 31, 2022 was \$18.8 million. The net loss associated with changes in the EDSP assets included in selling, general and administrative expense for the quarter ended March 31, 2022 was \$18.7 million.

# 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							
	Mar 31, 2022	Mar 31, 2021	Mar 31, 2022	Dec 31, 2021	Mar 31, 2021	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016
	Net cash provided by operating activities	\$ 818,878	\$ 646,150	\$ 2,959,095	\$ 2,786,367	\$ 2,172,248	\$ 1,968,126	\$ 1,373,031	\$ 1,389,697	\$ 1,190,475
Less Capital expenditures	(100,304)	(61,183)	(289,535)	(250,414)	(218,042)	(200,304)	(149,242)	(86,518)	(49,207)	(34,974)
<b>Free cash flow</b>	<b>\$ 718,574</b>	<b>\$ 501,937</b>	<b>\$ 2,669,560</b>	<b>\$ 2,535,953</b>	<b>\$ 1,954,206</b>	<b>\$ 1,767,822</b>	<b>\$ 1,223,789</b>	<b>\$ 1,303,179</b>	<b>\$ 1,141,268</b>	<b>\$ 822,806</b>
<b>Free Cash Flow Conversion calculation</b>										
Free cash flow	\$ 718,574	\$ 501,937	\$ 2,669,560	\$ 2,535,953		\$ 1,767,822	\$ 1,223,789	\$ 1,303,179	\$ 1,141,268	\$ 822,806
Non-GAAP net income attributable to KLA	775,637	598,102	3,022,758	2,845,223		1,793,885	1,391,394	1,422,592	1,107,649	876,008
<b>Free cash flow conversion</b>	<b>92.6%</b>	<b>97.8%</b>	<b>88.3%</b>	<b>89.1%</b>		<b>98.5%</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	\$ 818,878	\$ 646,150	\$ 2,959,095	\$ 2,786,367		\$ 1,968,126	\$ 1,373,031	\$ 1,389,697	\$ 1,190,475	\$ 857,780
GAAP net income attributable to KLA	730,572	567,496	3,149,411	2,986,335		1,367,523	1,137,653	1,420,692	656,341	863,670
<b>GAAP metric comparable to free cash flow conversion</b>	<b>112.1%</b>	<b>113.9%</b>	<b>94.0%</b>	<b>93.3%</b>		<b>143.9%</b>	<b>120.7%</b>	<b>97.8%</b>	<b>181.4%</b>	<b>99.3%</b>
Cash paid for dividends	\$ 158,976	\$ 139,338	\$ 620,193							
Cash paid for share repurchases	564,666	273,441	1,693,994							
<b>Capital returns</b>	<b>\$ 723,642</b>	<b>\$ 412,779</b>	<b>\$ 2,314,187</b>							
<b>Capital returns as a percentage of free cash flow</b>	<b>100.7%</b>	<b>70.6%</b>	<b>86.7%</b>							
Free cash flow	\$ 718,574									
Revenue	2,288,676									
<b>Free cash flow margin</b>	<b>31.4%</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 Q4 FY 2022 Guidance Range

<i>(In millions, except per share amounts and percentages)</i>	<u>Low</u>	<u>High</u>
GAAP diluted net income per share	\$ 4.60	\$ 5.70
Acquisition-related charges	a 0.46	0.46
Income tax effect of non-GAAP adjustments	e (0.13)	(0.13)
Non-GAAP diluted net income per share	<u>\$ 4.93</u>	<u>\$ 6.03</u>
Shares used in net income per diluted shares calculation	<u>149.6</u>	<u>149.6</u>
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	<u>61.5%</u>	<u>63.5%</u>
GAAP operating expenses	\$ 543	\$ 555
Acquisition-related charges	a (23)	(23)
Restructuring, severance and other charges	b (1)	(1)
Non-GAAP operating expenses	<u>\$ 519</u>	<u>\$ 531</u>

**Note:** The guidance as of April 28, 2022 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, 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, charges related to liquidation of legal entities 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.