

# Letter to Shareholders



Keep Looking Ahead

## Q4 Fiscal 2022 Earnings

Quarter Ended June 30, 2022 • Reported On July 28, 2022

Dear KLA Shareholders,

KLA continues to benefit from multiple growth drivers, as we discussed in-depth at our Investor Day in New York on June 16, 2022. This quarter's performance highlights continued strong execution across multiple areas of our business. Our ability to deliver on our strategic objectives and financial targets is how we measure our success and create long-term shareholder value.

KLA's June quarter results demonstrate sustainable outperformance and the consistency of delivering on our commitments. Revenue of almost \$2.5 billion finished at the top end of the guidance range and grew 29% on a year-over-year basis and 9% sequentially. GAAP Earnings Per Share (EPS) was \$5.40, and non-GAAP EPS was \$5.81. Both were also at the top end of the guidance ranges.

Customer demand across our major product groups remains strong as long-term secular trends drive broad-based diversified growth across a range of markets. Semiconductors have become ubiquitous across multiple industries while also driving innovation and positive change. As semiconductors have become more pervasive in our home and work lives, they have also become critical to global economic growth. As a result, despite evolving macro-economic and supply chain related headwinds, demand for semiconductors is resilient. This demand continues to put pressure on the industry's ability to deliver semiconductors across multiple technology nodes, including numerous leading and legacy nodes.

Against this dynamic demand backdrop, KLA has remained focused on responding to evolving customer needs and navigating supply chain challenges. We are operating with purpose and precision as we stay focused on creating value for our customers, partners, and shareholders. The talented global KLA teams continue to leverage and hone the KLA operating model and rely on it as a critical guide to meet the challenges and rise to the opportunities of an evolving marketplace.

In today's Shareholder Letter, we provide an update on our views of the industry demand environment, review our updated long-term financial targets, summarize our quarterly business and financial highlights, and present our outlook for the September quarter.

## **Semiconductor Industry Demand Environment**

Macro-economic uncertainty and the resulting effects on consumer demand are something we are monitoring closely. As our customers have indicated, some end markets, specifically PCs and mobile devices, have softened over the past few months, and we have seen memory pricing in both segments weaken as well. While our concerns are elevated, we continue to see strong demand, beyond our ability to supply, from our customers with no material changes in our shipments profile beyond the normal facility readiness issues and customers aligning tool delivery schedules across their production lines.

As the market leader in Process Control, one of the fastest-growing segments of the overall Wafer Fab Equipment ("WFE") market, KLA remains in an enviable position when assessing the industry demand landscape. The semiconductor industry has evolved to be more strategic and has a less cyclical and more diversified end market mix, with many fundamental drivers advancing the critical nature of semiconductors throughout the global economy. Factors such as the continuing advancement of technology spurred by the economic, power, and performance benefits of being at the leading edge, increasing investment in legacy nodes as semiconductor content increases, and



innovation and growth of new enabling technologies such as Advanced Packaging are fueling long-term growth for the semiconductor equipment industry.

However, because of persistent supply chain challenges among many process-centric markets, our outlook for WFE in CY22 has tempered. We still see overall growth and are confident in our ability to deliver relative WFE outperformance. Unfortunately, numerous peers have experienced significant supply chain challenges that are gating their factory output this year. These challenges have been well publicized. Our outlook section, will expand on what this means for our WFE estimate for this calendar year.

#### **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 strong relative performance vs. the WFE 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 making industry cycles more durable, as digital transformation expands 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. The growing focus on regionalization of production demonstrates the strategic importance of securing semiconductor supply chains.

### **Growth underscores the strategic nature of semiconductors in the data economy**

Strong and diversified customer demand for semi-cap equipment continues to take place in an environment of increasing momentum for Process Control, where KLA's market leadership has strengthened even further, evidenced by our market share being greater than 4x our nearest competitor as reported by Gartner. KLA's expanding lead results from our number one market position in many of the fastest growing markets in overall WFE that exceed \$1 billion in annual revenue.

We attribute KLA's consistent and strengthening market leadership to our successful execution of the company's customer-focused strategies, including investing at a high level to drive differentiation with a unique portfolio of products and technologies that address the most critical process control challenges in the marketplace and help our customers drive their growth strategies. As we mentioned last quarter, we are pleased to see the success of our go-to-market strategies validated by our customers' purchasing decisions and reflected in the April 2022 Gartner Market Share update. Our success emphasizes the power of the portfolio strategy we employ and our cadence of new product introductions.

## **Updated Long-Term Financial Targets**

At our June 16, 2022, Investor Day in New York City ([click here for links to Investor Day materials](#)), we introduced our new long-term revenue growth targets and financial model for CY26 and increased our shareholder return target to greater than 85% of free cash flow. Consistent with this return commitment, we announced a series of capital return updates, including a significant share repurchase and dividend increase. KLA's new 9-11% revenue growth objective through CY26

features strong relative growth in each of our major business lines over that period and includes an upwardly revised long-term growth model of 12-14% CAGR in our Services business fueled by growth in the installed base, and new value-added service offerings. Our long-term model assumes a baseline semiconductor industry growth CAGR of 6 - 7% through 2026, with many forecasts today for the semiconductor market to exceed \$1 trillion by 2030.

## The 2026E Target Model

	Prior 2023E Target Model	New 2026E Target Model	Ongoing Financial Framework	
Revenue	\$7.0B - \$7.5B	\$14B +/- \$500M	~9% - 11% CAGR	<b>Macro Assumptions</b> <ul style="list-style-type: none"> <li>▪ CY21-CY26E semiconductor industry CAGR of ~6-7%</li> <li>▪ WFE grows faster than Semi revs</li> <li>▪ ~55-60% foundry/logic, ~40-45% memory mix</li> <li>▪ Process Control market grows &gt; WFE</li> </ul> <b>Business Assumptions</b> <ul style="list-style-type: none"> <li>▪ Intensity/market share gain at leading edge</li> <li>▪ Increasing exposure to legacy markets</li> <li>▪ New market penetration</li> </ul>
Gross Margin% <sup>1</sup>	61%+	~63%		
R&D% <sup>1</sup>	~14%	~13%		
SG&A% <sup>1</sup>	~11%	~8%		
Operating Margin% <sup>1</sup>	36%+	41% - 43%	40% - 50% (Incremental)	
Diluted EPS <sup>1</sup>	\$14.50 - \$15.50	\$38.00 +/- \$1.50	~1.5x Revenue Growth Rate	
Capital Allocation	Target > 70% of FCF	Target > 85% of FCF	Hybrid Approach: Dividend + Repurchases	

<sup>1</sup>Non-GAAP measure

Focused on driving consistent, profitable growth and delivering shareholder value

## Top 5 Highlights for the June 2022 Quarter

First, KLA continues to deliver strong relative outperformance versus peers, as our market leadership in some of the largest and fastest-growing markets in WFE supports our growth. As a result, KLA is positioned to be one of the fastest growing Tier 1 WFE equipment suppliers in calendar 2022. In Foundry/Logic, though most of our business is focused on the leading-edge, simultaneous investments across multiple nodes remain a tailwind. In Memory, although capacity investment is signaled to be scaled back among some market leaders due to weakening consumer demand into 2023, diversification of demand remains strong across multiple other industries. Demand for KLA's products continues to be solid as customers prioritize technology node migration investments, even as some have signaled an adjustment in capacity investment plans.

Second, our Wafer Inspection business again delivered impressive results in the June quarter, as Wafer Inspection systems revenue grew 20% sequentially and 49% on a year-over-year basis. This was driven by KLA's market leadership and increasing customer adoption of advanced Wafer Inspection applications in leading-edge technology development. KLA's Wafer Inspection business is strongly leveraged to extreme ultraviolet lithography (EUV) and evolving critical next-generation architectures, including Gate-All-Around (GAA).

Third, KLA delivered record quarterly revenue from our Electronics, Packaging and Components (EPC) business in the June quarter. As we discussed at our recent Investor Day, KLA is intensifying our efforts in Advanced Packaging and Automotive electronics, leveraging the combined portfolios of both the Semi PC and EPC Groups. As yield, quality, and reliability are all becoming increasingly

challenging, KLA is broadening its product portfolio and developing a comprehensive suite of products and technologies that include wafer-level packaging, final assembly and test products for Advanced Packaging markets, and a portfolio of inspection systems and process tools designed to help customers achieve their zero-defect goals. The portfolio includes inspection systems designed for zero defect programs such as in-line die screening, power device reliability, packaging and PCB quality.

Fourth, the KLA Services business surpassed the half-billion-dollar quarterly revenue level for the first time as revenue was \$512 million in the June quarter, up 15% year-over-year. As mentioned earlier, KLA Services introduced a new 12% to 14% long-term revenue growth target, driven by its growing installed base, increasing customer adoption of long-term service agreements, higher utilization rates, and expansion of Service opportunities in the legacy nodes. KLA's Services business also stands out among our peers as having nearly all our Service revenue generated from "Pure Services," or service contracts and break-fix maintenance, and does not include other revenue sources such as equipment upgrades or sales of refurbished equipment. This speaks to the durability and resiliency of Services revenue.

Finally, the June quarter was another exceptional period from a free cash flow and capital returns perspective. We generated quarterly free cash flow of \$746 million in the June quarter, amounting to 82% year-over-year growth. Total free cash flow grew 54% to \$3.01 billion in the twelve months ended June 30, 2022. We also announced a \$6 billion share repurchase program, of which \$3 billion has already begun to be executed via an accelerated share repurchase program (ASR), and a 24% increase in our quarterly dividend level. Additionally, we increased our long-term targeted capital returns to greater than 85% of free cash flow, up from 70%. We remain focused on returning capital to shareholders via our dividend and stock repurchase programs as we see it as fundamental to augmenting shareholder returns in KLA. Total capital returns over the past twelve months were \$5.5 billion, or 183% of free cash flow. Dividends and share repurchases grew materially year-over-year to \$3.63 billion, comprising \$3.5 billion in share repurchases and \$158 million in dividends.

1

#### **KLA's Consistency Led By Execution and Market Leadership**

KLA continues to deliver strong relative performance vs. peers, as our market leadership in some of the largest and fastest growing areas of WFE continues to fuel growth. Given that, KLA is positioned to be one of the fastest growing Tier 1 equipment suppliers in CY22.

2

#### **Market Leadership in Wafer Inspection Enables Critical Technology Transitions**

KLA's Wafer Inspection business once again delivered impressive results in the June quarter, as Wafer Inspection systems revenue grew 20% sequentially and 49% on a year-over-year basis, driven by KLA's market leadership and increasing adoption of Wafer Inspection applications in leading-edge technology development.

3

#### **Record Quarterly Revenue for Electronics, Packaging and Components (EPC) Group**

KLA delivered record quarterly revenue in our Electronics, Packaging and Components (EPC) business. As we discussed at our June 2022 Investor Day, KLA is intensifying our efforts in Advanced Packaging and Automotive electronics, leveraging the combined portfolios of both the Semiconductor Process Control and EPC groups.

4

#### **Services Demonstrates Consistency and Increases Long-Term Growth Target**

Services revenue was \$512 million, up 15% year-over-year. At our June 2022 Investor Day, KLA unveiled a new 12-14% revenue growth rate for Services through CY26, driven by the rapidly growing installed base, increasing customer adoption of long-term service agreements, higher utilization rates, and expansion of Service opportunities in legacy nodes. KLA's Services business stands out among our peers as having nearly all our Service revenue generated from "Pure Services," or service contracts and break-fix maintenance, and does not include other revenue sources such as equipment upgrades or sales of refurbished equipment.

5

#### **KLA Delivers Another Strong Quarter of Free Cash Flow Generation, Boosts Capital Returns Target to >85%**

The June quarter was another exceptional period for KLA in terms of free cash flow and capital returns. We generated quarterly free cash flow of \$746 million, for 82% year-over-year growth. At our June 2022 Investor Day, we announced a \$6 billion share repurchase program (\$3 billion of which was an ASR) and 24% increase in our quarterly dividend level. We also increased our capital returns target to >85% of free cash flow.

Before moving into the financial highlights, let's recap a few key points. KLA's June quarter results once again demonstrate sustainable outperformance, highlighting the critical nature of KLA's products and services in enabling the digital transformation in how we live and work. Our

consistent, strong execution against various challenges in the marketplace, both in terms of macro-economic uncertainty and in addressing persistent supply chain issues, highlights the resiliency of the KLA Operating Model, the dedication of our global teams, and our commitment to assertive capital allocation and delivering long-term value to our stakeholders.

As we discussed in depth at our Investor Day, KLA is exceptionally well positioned at the forefront of technology innovation with a comprehensive portfolio of products to meet demanding customer requirements, balancing sensitivity and throughput. The semiconductor and electronics landscapes are constantly changing, and we continue to see more customer interest driven by technology change than ever before at the leading edge. Simultaneously, the need for increased performance and reliability requirements for legacy nodes to support evolving markets like Automotive and 5G is also essential to help deliver new capabilities.

The KLA Operating Model positions us well for sustainable outperformance relative to the industry. It also guides our critical strategic objectives. These objectives fuel our growth, reliable operational excellence, and differentiation across an increasingly diverse product and services offering. Our strategic objectives also form the foundation for KLA’s sustained technology leadership, wide competitive moat, leading financial performance, strong free cash flow generation, and consistent capital returns to shareholders.

## The KLA Operating Model



## June Quarter 2022 Financial Highlights

KLA's June quarter 2022 results reinforce the success of our execution and strong market position. We continue to focus on meeting customer needs in a robust demand environment while expanding market leadership, growing revenue, sustaining industry-leading gross and operating margins, generating strong free cash flow, and maintaining our long-term strategy of assertive capital allocation.

Quarterly revenue was near \$2.5 billion, at the upper end of the guided range of \$2.30 to \$2.55 billion. Non-GAAP gross margin was at the midpoint of guidance at 62.4% as the various components performed primarily as expected. Non-GAAP diluted EPS was \$5.81, at the upper end of the guided range of \$4.93 to \$6.03. GAAP diluted EPS was \$5.40.

**\$2,487M**

Revenue

**62.4%**

Gross Margin\*

**41.8%**

Operating Margin\*

**\$867M**

Net Income\*

**\$5.81**

Non-GAAP Diluted EPS\*

**\$5.40**

GAAP Diluted EPS

KLA's Gen5 Broadband Plasma Optical Patterned Wafer Inspection Platform



\* Non-GAAP metric – please refer to the appendix for reconciliation to GAAP

Non-GAAP operating expenses were \$514 million, below our expectation of \$525 million for the quarter, mostly due to the timing of new employees joining the company versus our plan. In addition, we also realized a cost benefit from the strong U.S. dollar impact resulting from our global footprint. Total operating expenses comprised \$297 million in R&D and \$217 million in SG&A.

Given the strong demand backdrop, rapid expansion over the last couple of years, and our revenue expectations going forward, we expect to continue our important investment in our global infrastructure and systems to scale the leverageable KLA Operating Model to facilitate growth. Our investments include new product development programs and volume-dependent resources to support our business expansion as we position the company to execute against our long-term structural growth thesis. As a result, we expect operating expenses to be approximately \$530 million in the September quarter, and we forecast quarterly operating expenses to continue to trend higher over the balance of 2022 to support our sequential revenue growth expectations. We will 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.

Non-GAAP operating margin was once again strong at 41.8% in the June quarter, almost one point higher than the midpoint implied in the guidance provided. Other income and expense, net, was \$22 million, compared with guidance of \$43 million, with the positive variance from guidance reflecting



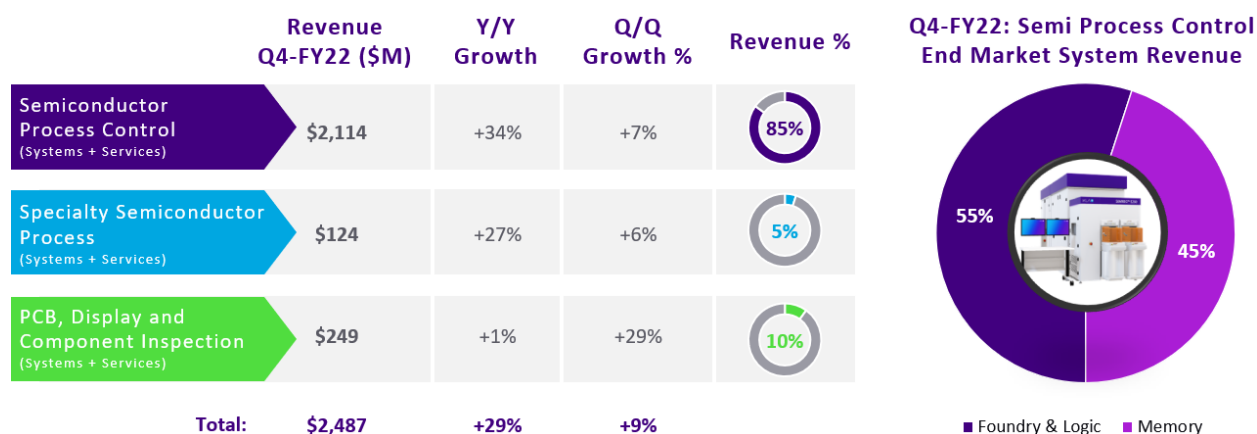
a gain on a strategic investment that was transacted in the quarter, offset by a recurring mark-to-market adjustment of a supply investment. For the September quarter, we forecast other income and expense, net at approximately \$75 million to reflect the impact of the new debt issuances in the June quarter. The quarterly effective tax rate was 14.8%, higher than the 13.5% guidance due principally to the equity market impact on deferred compensation programs. At the guided rate, non-GAAP earnings per share would have been \$0.09 higher at \$5.90. We continue to guide 13.5% as the long-term planning tax rate.

Non-GAAP net income was \$867 million, GAAP net income was \$805 million, cash flow from operations was \$819 million, and free cash flow was \$746 million, resulting in a free cash flow conversion of 86% and a free cash flow margin of 30%. The company had approximately 149 million diluted weighted average shares outstanding at the end of June.

## Breakdown of Revenue by Reportable Segments and End Markets

Revenue for the Semiconductor Process Control segment, including its associated Services business, was \$2.11 billion, up 34% year-over-year and up 7% sequentially. The approximate Semiconductor Process Control system customer segment mix for Foundry/Logic customers was approximately 55%. Memory was approximately 45%.

Revenue for our Electronics, Packaging, and Components (EPC) group continues to be driven by strength in automotive, 5G, and advanced packaging. Within EPC, the Specialty Semiconductor Process segment, which includes its associated Services business, generated revenue of \$124 million, up 27% over the prior year and up 6% sequentially. PCB, Display and Component Inspection revenue was \$249 million, up 1% year-over-year and up 29% on a sequential basis.

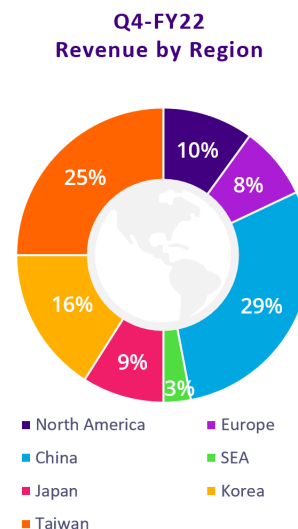


## Breakdown of Revenue by Major Products and Regions

Wafer Inspection systems grew 49% year-over-year and were 44% of total revenue. Patterning systems, which include metrology and reticle inspection, were up 15% year-over-year and were 20% of total revenue. Specialty Semiconductor Process systems grew 36% year-over-year and were 4% of total revenue. PCB, Display and Component Inspection systems revenue fell 3% year-over-year to 7% of total revenue. Services rose 15% from a year ago levels to 21% and Other, which is consolidated into the Semiconductor Process Control segment, was 4% of total sales.



	Revenue Q4-FY22 (\$M)	Y/Y Growth	Q/Q Growth %	Revenue %
Wafer Inspection	\$1,104	+49%	+20%	44%
Patterning	\$491	+15%	-20%	20%
Specialty Semi Process	\$111	+36%	+5%	4%
PCB, Display and Comp. Inspection	\$179	-3%	+45%	7%
Services	\$512	+15%	+5%	21%
Other <sup>1</sup>	\$90	+87%	+116%	4%
<b>Total:</b>	<b>\$2,487</b>	<b>+29%</b>	<b>+9%</b>	



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

The June 2022 quarter regional revenue split was as follows: China was 29%, Taiwan was 25%, and Korea was 16%. The US was 10% of revenue. Regions that accounted for less than 10% of sales included Japan at 9%, Europe at 8%, and the rest of Asia at 3%.

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

KLA ended the quarter with \$2.7 billion in total cash, debt of \$6.7 billion, and a flexible and attractive bond maturity profile supported by strong investment-grade ratings from all three agencies. In June, S&P upgraded KLA one notch to A-, citing improved scale and outlook for further profitable growth. Later in June, KLA issued \$3 billion in new debt, including \$1 billion aggregate principal amount of 4.65% Senior Notes due 2032, \$1.2 billion aggregate principal amount of 4.95% Senior Notes due 2052, and \$800 million aggregate principal amount of its 5.25% Senior Notes due 2062. Finally, after these offerings, on July 7, 2022, KLA announced the completion of a tender offer for \$500 million of 4.65% Senior notes due 2024. These actions reinforce that KLA maintains active and diligent oversight of our cost of capital, an awareness of the impact on shareholder value of the appropriate capital structure for our business, and productive capital allocation. Our strong balance sheet offers a unique capability to fund our growth strategies, organic and inorganic, and provide ongoing attractive capital returns to shareholders.

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

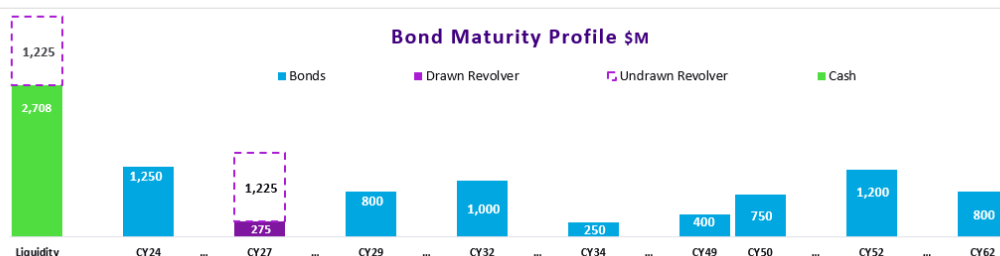
Total Cash <sup>2</sup>	\$ 2,708
Working Capital	\$ 4,298
Total Assets	\$ 12,597
Debt <sup>3</sup>	\$ 6,661
Total Shareholders' Equity	\$ 1,399

#### Bond Maturity Profile

Bonds Outstanding	\$6,450M
Weighted Average Rate	4.65%
Weighted Average Maturity	18.8 years

#### Investment Grade Credit Ratings

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



<sup>1</sup> As of 6/30/22; <sup>2</sup> Total Cash includes Cash, Cash Equivalents and Marketable Securities; <sup>3</sup> Includes \$275M in revolving credit facility (Revolver) drawings less \$64M in un-amortized debt issuance discounts and costs.

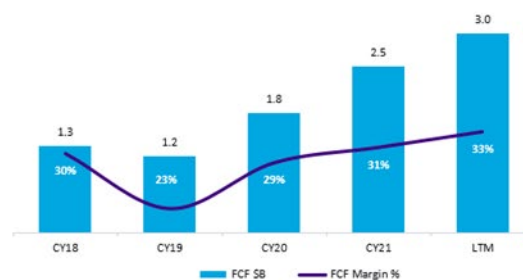
## FCF Generation Fuels Consistent Capital Return to Shareholders

As demonstrated by the new calendar 2026 financial targets and the capital returns actions announced at our recent Investor Day, KLA has confidence in our business over the long-term and is committed to a consistent strategy of cash returns that includes both dividend growth and increasing share repurchases. Consistent with this, we increased our long-term capital returns target as mentioned above. KLA’s capital return strategy underscores our strong track record of predictable and assertive capital deployment and remains an important differentiating element of the KLA investment thesis.

## FCF Generation Fuels Consistent Capital Return to Shareholders



Free Cash Flow<sup>1</sup> and FCF Margin<sup>2</sup>

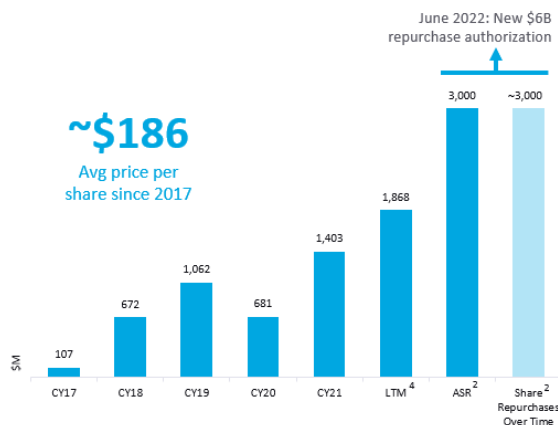


<sup>1</sup> Free Cash Flow (FCF) = Cash Flow from Operating Activities minus Capital Expenditures  
<sup>2</sup> FCF Margin defined as FCF/Revenue; Non-GAAP metric – Please refer to Appendix for reconciliation to GAAP

Committed to long-term >85% FCF returned to shareholders through dividends and share repurchases

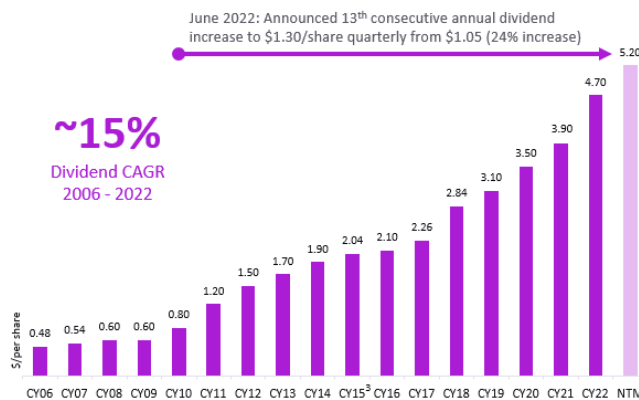
Over the last 12 months, KLA has returned \$5.5 billion to shareholders, including \$4.9 billion in share repurchases and \$639 million in dividends paid, with total capital returns amounting to 183% of free cash flow in the period.

Share Repurchases<sup>1</sup>



<sup>1</sup> Settlement Date basis | <sup>2</sup> Executed in June 2022, to be completed in December 2022 quarter, subject to market conditions  
<sup>3</sup> Excludes \$16.50 per share special dividend in CY15 | <sup>4</sup> Excludes ASR

Track Record of Dividend Increases



## Free Cash Flow and Capital Returns Highlights

KLA has an impressive history of consistent free cash flow generation, high free cash flow conversion, and strong free cash flow margins across all phases of the business cycle and economic conditions.



\* Free Cash Flow (FCF) = Cash Flow from Operating Activities minus Capital Expenditures. FCF Margin = FCF/Revenue. FCF Conversion = FCF / Non-GAAP Net Income. Non-GAAP metric  
<sup>1</sup> Includes \$900 million Forward Contract for Accelerated Share Repurchases – Refer to Appendix for Reconciliation to GAAP. Capital Returns = Dividends + Share Repurchases

## Outlook

We have adjusted our overall WFE outlook for calendar 2022 to reflect persistent supply chain challenges that are gating shipments and revenue recognition for many of our peers. We now expect the WFE market to grow in the high single digits to approximately \$95 billion in 2022, off a baseline of roughly \$87 billion in calendar 2021.

This outlook reflects the continued, broad-based strength of demand across customer segments. While we work hard to manage capacity at KLA and with our suppliers, supply chain shortages continue to constrain our ability to meet customer demand. While our supplier engagement strategy that we discussed at our Investor Day has been validated through this cycle, supplier visibility remains challenging and has not improved over the past three months. As indicated in the last couple of quarters, we continue to expect sequential growth through this calendar year and expect KLA's total revenue growth to meet or exceed the low 20 percent range, with semiconductor process control systems growing several points faster than the company average. Finally, we expect demand to continue exceeding supply during the calendar year's second half. KLA is in a position to deliver another year of sustainable outperformance in our Semi PC business which should translate to strong relative growth overall.

Looking ahead, as indicated earlier, we are concerned with the macro-economic environment and how it may affect the demand for our customers' products and their capacity plans as we move into calendar 2023. To date, the pressure from customers to deliver remains high and is driving our expectations for sequential growth through CY22. We are encouraged by the diversification and sustainability of our current demand profile and the company's operational execution. We are strategically adding capacity across our global manufacturing footprint to support our customer's growing process control requirements, our near-term outlook, and our long-term through cycle growth thesis.



## September Quarter Guidance

Our September quarter guidance is as follows: Total revenue is expected to be in a range of \$2.6 billion, plus or minus \$125 million. Foundry/Logic is forecasted to be approximately 64%, and Memory is expected to be around 36% of Semi PC systems revenue. Within Memory, DRAM is expected to be about 40% of the segment mix and NAND the other 60%. We forecast non-GAAP gross margin to be in a range of 62% to 64%.

Other model assumptions for the September quarter include: non-GAAP operating expenses of approximately \$530 million, other income and expense, net, of approximately \$75 million, and an effective tax rate of approximately 13.5%. Finally, GAAP diluted EPS is expected to be in a range of \$5.28 to \$6.38, and non-GAAP diluted EPS in a range of \$5.70 to \$6.80. The EPS guidance is based on a fully diluted share count of approximately 143 million shares.

### September 2022 Qtr Guidance

<b>Revenue</b>	\$2,475M to \$2,725M	<b>Macro Assumptions</b> Semi PC Revenue By End Market <ul style="list-style-type: none"> <li>Foundry/Logic: 64%</li> <li>Memory: 36%</li> </ul> <b>Model Assumptions</b> <ul style="list-style-type: none"> <li>Non-GAAP Operating Expenses*: ~\$530M</li> <li>Other Income &amp; Expense (OIE), Net: ~\$75M</li> <li>Effective Tax Rate: ~13.5%</li> <li>Diluted Share Count: ~143M</li> </ul>
<b>Non-GAAP Gross Margin*</b>	62% to 64%	
<b>GAAP Diluted EPS</b>	\$5.28 to \$6.38	
<b>Non-GAAP Diluted EPS*</b>	\$5.70 to \$6.80	

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

Driving profitable growth and delivering shareholder value

## In Conclusion

Despite the macro and supply chain headwinds, we see the secular trends driving semiconductor growth and investments in WFE as both durable and compelling over the long run. Broad-based customer demand and simultaneous investments supporting growing semiconductor content across technology nodes remain important trends for our industry. These are long-term secular growth drivers for the industry, as technology investment and the resumption of scaling reflects the value that semiconductors and our industry have in lowering cost for our customers and enabling a broader application universe for semiconductor-based technology across multiple end-markets. When it comes to KLA, considering our track record of execution and the power of our portfolio, we have confidence in our ability to continue to deliver sustainable outperformance throughout changing economic periods. As we look at the leading indicators for our business, including our backlog and sales funnel visibility, we continue to invest in expanding our business infrastructure and the required capabilities to support our outlook, and maintain our product development investments to enable industry growth, and support our customers' multi-year investment plans. This provides an element of stability that shores up our confidence in the demand outlook for the future. These factors, combined with the KLA Operating Model that guides our execution, position us to continue outperforming our industry as we execute our strategic objectives. These objectives fuel our growth, reliable operational excellence, and differentiation across an increasingly diverse

product and services offering. They are also the foundation for our sustained technology leadership, wide competitive moat, industry-leading financial performance, long-standing track record of robust free cash flow generation, and consistent and growing capital returns to shareholders.

Sincerely,



**Rick Wallace**  
CEO



**Bren Higgins**  
CFO

## Appendix

### Reconciliation of Non-GAAP Financial Measures

<i>(in millions, except per share amounts)</i>	For the three months ended		For the twelve months ended			
	Jun 30, 2022	Jun 30, 2022	Dec 31, 2021	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018
<b>GAAP net income attributable to KLA</b>	\$ 805.4	\$ 3,321.8	\$ 2,986.3	\$ 1,368.0	\$ 1,137.7	\$ 1,420.7
<b>Adjustments to reconcile GAAP net income to non-GAAP net income*</b>						
Acquisition-related charges	a 64.5	238.8	220.5	214.0	340.3	21.2
Restructuring, severance and other charges	b 2.8	5.5	(0.1)	16.0	2.8	-
Debt extinguishment loss	c -	-	-	23.0	-	-
Goodwill and intangible asset impairment	d -	-	-	257.0	-	-
Income tax effect of non-GAAP adjustments	e (19.5)	(74.7)	(71.2)	(74.2)	(97.8)	(1.2)
Discrete tax items	f 13.5	(286.0)	(290.3)	(10.0)	8.4	(18.1)
<b>Non-GAAP net income attributable to KLA</b>	\$ 866.7	\$ 3,205.4	\$ 2,845.2	\$ 1,793.8	\$ 1,391.4	\$ 1,422.6
<b>GAAP diluted EPS</b>	\$ 5.40					
<b>Non-GAAP diluted EPS</b>	\$ 5.81					
Shares used in diluted shares calculation	149.1					

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

<i>(Dollars in millions)</i>	For the three months ended		For the three months ended	
	Jun 30, 2022	Jun 30, 2022	Jun 30, 2022	Jun 30, 2022
<b>GAAP gross profit</b>	\$ 1,508.2		<b>GAAP Selling, General and Administrative ("SG&amp;A") expenses (1)</b>	\$ 236.8
<b>Adjustments to reconcile GAAP gross profit to non-GAAP gross profit*</b>			<b>Adjustments to reconcile GAAP SG&amp;A expenses to non-GAAP SG&amp;A expenses*</b>	
Acquisition-related charges	a \$ 44.3		Acquisition-related charges	a \$ (20.1)
<b>Non-GAAP gross profit</b>	\$ 1,552.5		<b>Non-GAAP SG&amp;A expenses (1)</b>	\$ 216.7
<b>GAAP gross margin</b>	60.6%		<b>GAAP Operating expenses (1)</b>	\$ 533.7
<b>Adjustments to reconcile GAAP gross margin to non-GAAP gross margin*</b>			<b>Adjustments to reconcile GAAP operating expenses to non-GAAP operating expenses*</b>	
Acquisition-related charges	a 1.8%		Acquisition-related charges	a \$ (20.1)
<b>Non-GAAP gross margin</b>	62.4%		Restructuring, severance and other charges	b \$ -
<b>GAAP operating income (1)</b>	\$ 974.5		<b>Non-GAAP Operating expenses (1)</b>	\$ 513.6
<b>Adjustments to reconcile GAAP operating income to non-GAAP operating income*</b>			<b>GAAP Other expenses (income), net</b>	\$ 24.8
Acquisition-related charges	a \$ 64.5		<b>Adjustments to reconcile GAAP other expenses (income), net to non-GAAP other expenses*</b>	
<b>Non-GAAP Operating income (1)</b>	\$ 1,039.0		<b>GAAP research and development ("R&amp;D") expenses</b>	\$ 296.9
<b>GAAP operating margin</b>	39.2%		<b>Adjustments to reconcile GAAP R&amp;D expenses to non-GAAP R&amp;D expenses*</b>	
<b>Non-GAAP operating margin</b>	41.8%		Acquisition-related charges	a -
			<b>Non-GAAP R&amp;D expenses</b>	\$ 296.9

\* 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 June 30, 2022 was \$36.4 million. The net loss associated with changes in the EDSP assets included in selling, general and administrative expense for the quarter ended June 30, 2022 was \$36.3 million.



## Reconciliation of Free Cash Flow and Related Metrics

Free Cash Flow Measures <i>(Dollars in millions)</i>	For the three months ended		For the twelve months ended					
	Jun 30, 2022	Jun 30, 2021	Jun 30, 2022	Dec 31, 2021	Jun 30, 2021	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018
	Net cash provided by operating activities	\$ 819.2	\$ 465.6	\$ 3,312.7	\$ 2,786.4	\$ 2,185.0	\$ 1,968.1	\$ 1,373.0
Less Capital expenditures	\$ (73.1)	\$ (65.4)	\$ (307.8)	\$ (250.4)	\$ (231.6)	\$ (200.3)	\$ (149.2)	\$ (86.5)
<b>Free cash flow</b>	<b>\$ 746.1</b>	<b>\$ 410.2</b>	<b>\$ 3,004.9</b>	<b>\$ 2,536.0</b>	<b>\$ 1,953.4</b>	<b>\$ 1,767.8</b>	<b>\$ 1,223.8</b>	<b>\$ 1,303.2</b>
Free cash flow	\$ 746.1		\$ 3,005.4	\$ 2,536.0		\$ 1,767.8	\$ 1,223.8	\$ 1,303.2
Revenue	\$ 2,486.7		\$ 9,211.9	\$ 8,165.7		\$ 6,073.0	\$ 5,278.6	\$ 4,304.5
<b>Free cash flow margin</b>	<b>30.0%</b>		<b>32.6%</b>	<b>31.1%</b>		<b>29.1%</b>	<b>23.2%</b>	<b>30.3%</b>
<b>Free Cash Flow Conversion calculation</b>								
Free cash flow	\$ 746.1							
Non-GAAP net income attributable to KLA	\$ 866.7							
<b>Free cash flow conversion</b>	<b>86.1%</b>							
<b>GAAP metric comparable to Free Cash Flow Conversion</b>								
Net cash provided by operating activities	\$ 819.2							
GAAP net income attributable to KLA	\$ 805.4							
<b>GAAP metric comparable to free cash flow conversion</b>	<b>101.7%</b>							
Cash paid for dividends	\$ 157.6	\$ 139.3	\$ 638.5		\$ 559.4			
Cash paid for share repurchases	\$ 2,573.6	\$ 299.8	\$ 3,967.8		\$ 938.6			
Cash paid for forward contract	\$ 900.0	\$ -	\$ 900.0		\$ -			
<b>Capital returns</b>	<b>\$ 3,631.2</b>	<b>\$ 439.0</b> <sup>^</sup>	<b>\$ 5,506.3</b>		<b>\$ 1,498.0</b>			
<b>Capital returns as a percentage of free cash flow</b>	<b>486.7%</b>	<b>107.0%</b>	<b>183.2%</b>		<b>76.7%</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.

<sup>^</sup> Amounts may not sum due to rounding

## Reconciliation of Guidance

### Q1 FY2023 Guidance Range:

<i>(In millions, except per share amounts and percentages)</i>	Low	High
GAAP diluted net income per share	\$ 5.28	\$ 6.38
Acquisition-related charges	a 0.48	0.48
Restructuring, severance and other charges	b 0.10	0.10
Income tax effect of non-GAAP adjustments	e (0.16)	(0.16)
Non-GAAP diluted net income per share	\$ 5.70	\$ 6.80
Shares used in diluted shares calculation	-	-
GAAP gross margin	60.2%	62.3%
Acquisition-related charges	a 1.8%	1.7%
Non-GAAP gross margin	62.0%	64.0%
GAAP operating expenses	\$ 548	\$ 560
Acquisition-related charges	a (23)	(23)
Restructuring, severance and other charges	b (1)	(1)
Non-GAAP operating expenses	\$ 524	\$ 536

**Note:** The guidance as of July 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.

### Note Regarding Reconciliations of Long-term Forecasts:

This presentation includes certain forward-looking non-GAAP financial measures, including gross margin, R&D as a percent of sales, SG&A as a percent of sales, operating margin and diluted EPS, in forecasts for calendar year 2023 and calendar year 2026. The reconciliations for these non-GAAP measures to the most directly comparable GAAP measures are not presented because of the inherent difficulty in predicting, with a reasonable degree of certainty, the occurrence, financial impact and timing of items that would be expected to impact GAAP results but would not impact non-GAAP adjusted results, such as acquisition costs, restructuring costs and discrete taxable events, without unreasonable efforts. These reconciling items could significantly impact, either individually or in the aggregate, the corresponding GAAP measures.

## 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 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, interest expense on unrecognized tax benefits, 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) Income tax effect of non-GAAP adjustments includes the income tax effects of the excluded items noted above.
- f) Discrete tax items consist of certain income tax expenses/benefits that, by excluding, help investors compare our operating performance with our results in prior periods as well as with the performance of other companies.

## 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 Research & Development to final yield analysis. KLA offers a broad spectrum of products and services that are used by every major semiconductor manufacturer in the world. We provide advanced process control and process-enabling solutions for manufacturing wafers and reticles, integrated circuits, Packaging, printed circuit boards and flat panel displays. In close collaboration with leading customers across the globe, our expert teams of physicists, engineers, data scientists and problem-solvers design solutions that move the world forward. Additional information may be found at: [www.kla.com](http://www.kla.com).

Investors and others should note that KLA announces material financial information to investors using an investor relations website ([ir.kla.com](http://ir.kla.com)), including SEC filings, press releases, public earnings calls, and conference webcasts. These channels are used to communicate with the public about the company, products, services, and other matters.





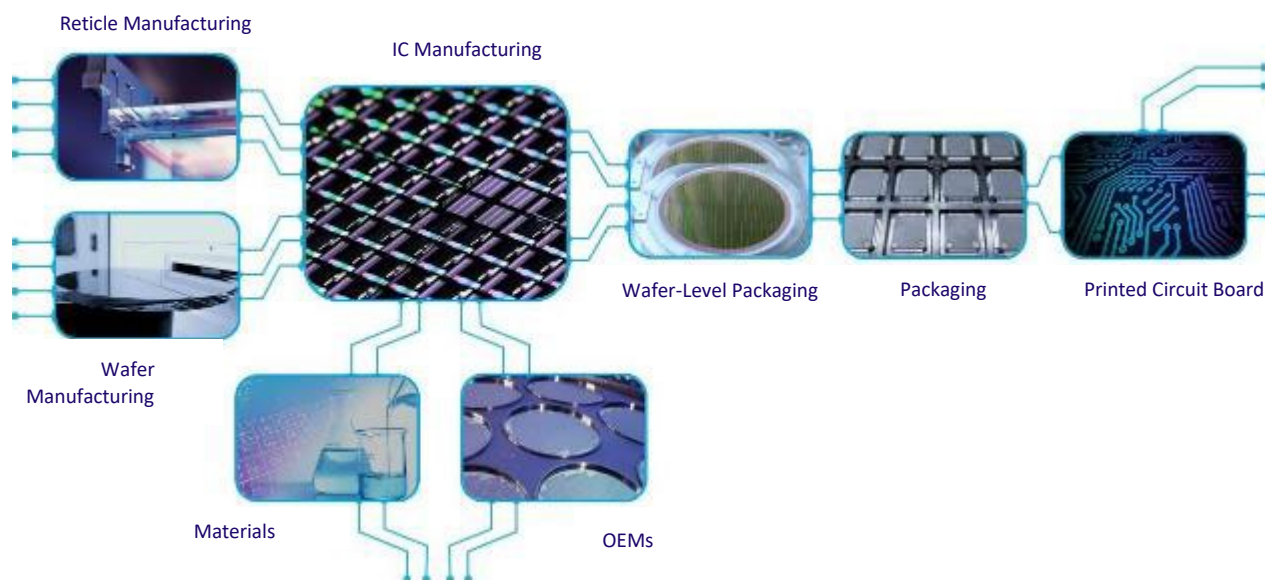
## KLA's Broad Portfolio Addresses Entire Semiconductor Ecosystem

### Semiconductor Manufacturing

- IC Manufacturing
- Wafer Manufacturing
- Reticle Manufacturing
- IC Packaging
- Printed Circuit Board

### Related Electronics Industries

- Compound Semiconductor
- Power Device
- LED
- MEMS
- Data Storage/Media Head
- Flat Panel Display
- General Purpose/Labs



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## Note on Forward-Looking Statements

Statements in this letter other than historical facts, such as statements pertaining to: (i) future industry demand for semiconductors; (ii) WFE and KLA's growth in calendar 2022 and the growth in operating expenses through the end of 2022; (iii) our long-term total revenue, service revenue and shareholder return targets; (iv) growth rate of the semiconductor industry through 2026; (v) future capital returns as a percentage of free cash flow; (vi) dividend levels over the next twelve months; and (vii) revenues, GAAP and non-GAAP gross margin, GAAP and non-GAAP diluted EPS, revenues across end markets, non-GAAP operating expenses, OIE, net, effective tax rate and diluted share count for the September 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.