

August 3, 2020

Letter to Shareholders

June 2020 Quarterly Letter

Rick Wallace

Chief Executive Officer

Bren Higgins

Chief Financial Officer



Dear KLA Shareholders,

On behalf of all of us at KLA, we hope you and your families are safe and in good health, and we thank you for your continued interest and support of our company.

In many ways, our performance in the June quarter once again highlights how the KLA Operating Model and long-term Strategic Objectives provide a dependable framework to guide our execution and help us consistently deliver on our commitments.

Thanks to the dedication, engagement, and perseverance of our global workforce in the face of the challenges posed by the COVID-19 pandemic, KLA delivered strong results in the June 2020 quarter. Revenue and non-GAAP EPS each finished above the mid-point of our guidance ranges, demonstrating strong consistent demand from customers, exceptional execution by our teams, and the enduring strength and resiliency of the KLA Operating Model under today's extraordinary circumstances.

In this quarter's shareholder letter, we provide a brief update on our priorities related to COVID-19, share our vision for KLA's path forward, the growth opportunities that lie ahead, and highlight how KLA's sustainable competitive advantages help us consistently deliver strong results.

To lead off, we want to remind everyone of our priorities related to COVID-19.

Our Priorities Related to COVID-19

1

Health and Safety of our Employees – Our first priority is the health and safety of our employees, their families, and our partners. We continue to take proactive measures to ensure their safety across our global footprint. Risk mitigation processes have been successfully established without significant business disruption, or meaningfully impacting manufacturing operations or long-term R&D development projects.

2

Supporting Customer Needs – Worldwide our teams have never lost sight of what our customers need. Our teams have been exceptionally resourceful and committed to executing for our customers most pressing needs and challenges. Customer feedback has been outstanding and KLA is delivering on its customer commitments.

3

Investment in the Long-Term – Our R&D investments and projects remain a top priority and will help ensure a bright future. We are gratified by the effectiveness of our business continuity actions which have allowed R&D activities to adapt and continue during this pandemic.

First, we continue to take proactive measures to ensure the health and safety of our employees, their families, and our partners. We have implemented work from home policies for our global workforce and established rigorous health and safety protocols for manufacturing and customer-facing resources. These processes have been successfully established without significant business disruption, or meaningfully impacting manufacturing operations or long-term R&D development projects. We expect these standards to be the "new normal" until such time as the pandemic is no longer a threat to our business operations and our most valuable resources, our people. We continue to benchmark health and safety protocols across our global footprint and adjust as appropriate for local conditions.

Our actions to date have been successful and effective as reflected in our strong financial results in the first half of calendar 2020, and more importantly, in our safety record to this point in this pandemic.

Second, our worldwide teams have never lost sight of what our customers need. Our teams have been exceptionally resourceful and committed to executing for our customers most pressing needs and challenges. Customer feedback has been outstanding and KLA is consistently delivering on its customer commitments. For our global employee base, we recognize that this crisis also extends well beyond a disruption to their work life and we are focused on continuing to ensure that we are supporting them in any way we can.

Lastly, investment in the long-term remains an important priority for us. We are confident that our R&D investments and projects will help ensure our future is bright. We are gratified by the effectiveness of our business continuity actions which have allowed our R&D activities to adapt and continue during this pandemic.

Now, turning to the industry demand environment where the COVID-19 pandemic has not dampened customer demand for KLA products or services. In fact, quite the opposite, it is accelerating growth in many areas. For instance, in the June quarter we saw broad diversified strength across each of our segments. Semiconductor Process Control was modestly above plan, multiple EPC businesses set records, and our Services businesses achieved record installations. We also ended the quarter with our second highest overall company backlog level in history. In total, this reflects the enabling role KLA plays in our customers' drive to innovate and invest in next-generation technology.

Industry Demand Environment

Industry Demand is Strong – In the June quarter we saw broad diversified strength across each of our segments. Semiconductor Process Control was ahead of plan, multiple EPC businesses set records, and Services had record installations. This resulted in KLA ending the quarter with our second highest total company backlog.

Customer R&D Investment Remains Very Strategic & Resilient – KLA is most levered to our customers' strategic R&D investments and product roadmaps for leading-edge technologies across Foundry, Logic, and Memory. These investments are critical to our customers' long-term growth strategies and competitive positioning, and therefore tend to be more resilient.

Acceleration of the Secular Growth Drivers Outlined at 2019 Investor Day – Data center demand, 5G infrastructure, and the revival of PC demand to support work from home, virtual collaboration, remote learning and entertainment and gaming are driving an acceleration of the data era that translates across end-markets and industries.

COVID-19 Has Further Accelerated Digitization and the Move to the Data Era

From our point of view, driven by these demand trends and the ongoing push by our customers to invest in R&D for next generation technology, demand for our products and services is expected to remain strong in the second half of the calendar year, positioning us to outgrow our industry, despite the challenges of COVID-19, which have caused a global economic recession.

It's also important to remember that KLA is the most leveraged to our customers' strategic R&D investments and product roadmaps for leading-edge technologies across Foundry, Logic, and Memory. These investments are critical to our customers' long-term growth strategies and competitive

positioning, and therefore tend to be more resilient in challenging economic environments such as what we are experiencing today.

Today's environment continues to accelerate many of the secular industry growth drivers that we outlined in our 2019 Investor Day. Data center demand, 5G infrastructure, and the revival of PC demand to support work from home, virtual collaboration, remote learning and entertainment and gaming are driving an acceleration of the data era that translates across end-markets and industries.

We are seeing this acceleration in our own business, adopting new digital productivity tools to improve collaboration with teams and customers. We've also increased investment to accelerate digitalization of our global enterprise. For example, in the Services business, we are working closely with our customers to expand remote service technologies to augment our in-country service and installation engineers.

One thing that remains a constant for us through any and all market environments is the KLA Operating Model. The Operating Model codifies our corporate values and management principles, which defines the critical core competencies and operating disciplines that drive our performance. The KLA Operating Model is the enduring framework that we rely on to guide the execution of our long-term Strategic Objectives.

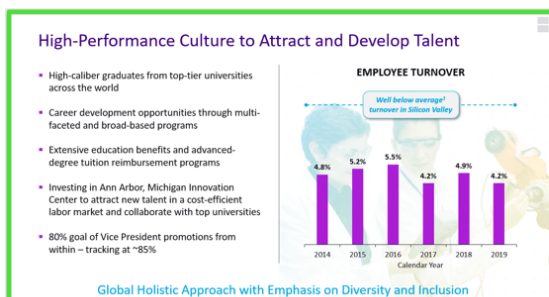
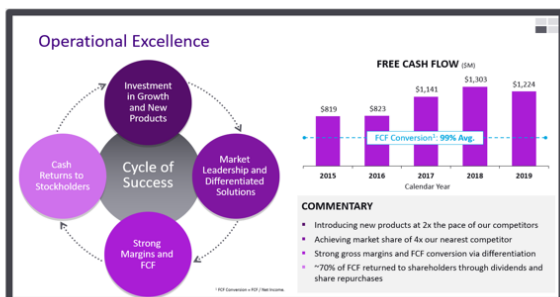
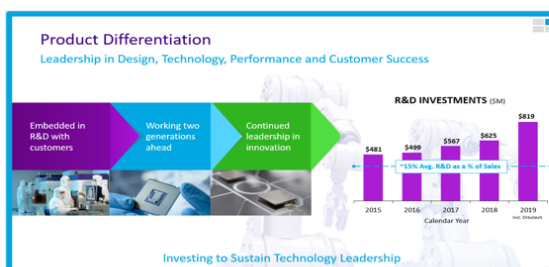
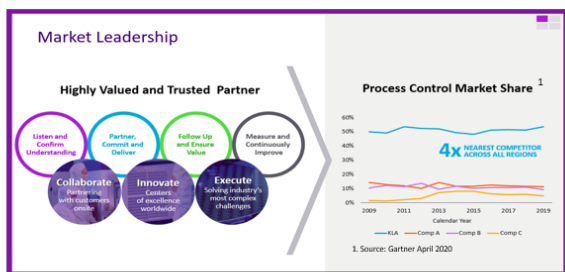
The KLA Operating Model



Focused on Driving Sustainable Profitability and Growth

We deploy the KLA Operating Model to align the company on a consistent strategy, tie accountability to results, drive product development execution, and facilitate continuous improvement while ensuring the company always operates with strong financial discipline as we pursue our long-term performance and profitability objectives.


KLA's Strategic Objectives Serve As Our Guide





Here are five highlights that stood out the most during this past quarter.


June Quarter 2020 Business Highlights


- Foundry and Logic Strength Continues, Memory Growth Expected in Second Half of CY20.** We saw continued strength in Foundry and Logic in the June quarter, and our revenue forecast for the balance of CY20 shows relatively balanced levels of business from these customers. In addition, business from Memory customers is improving somewhat in 2H'CY20 with higher business levels and more customer breadth expected in the December quarter with momentum continuing into CY21. The strength in demand we are seeing across the board reflects KLA's essential role in supporting our customers' drive to innovate and continue to invest in future technology nodes.


- KLA Continues To Win In The Marketplace.** KLA ended the June quarter with near-record backlog, demonstrating the critical nature of our business in enabling development of advanced technologies, and strong product demand in the marketplace across multiple platforms, including new products such as the recently announced eSL10 e-beam inspection platform, which is experiencing strong customer acceptance.


- Services Business is on Track for another Year of Strong Growth and Healthy Free Cash Flow Generation.** KLA's Service business set a new record in terms of systems installed in the quarter and contract penetration has steadily risen from 70%+ to 75%+. This has helped fuel the continuous growth of Service revenue and keeps it on track to deliver CY20 growth in the range of our long term 9% to 11% annual growth target. Our Services business benefits from the resiliency and predictability of its annual subscription-like annuity, even in the current challenging environment.


- Record Results for Recently Announced EPC Group Highlight Success of M&A and Diversification.** KLA's approach to M&A focuses on companies with leading positions in their respective markets that feature complementary technologies and services to augment our own market-leading product portfolio. Guided by the KLA Operating System, we then assertively integrate these businesses, applying operational discipline and organizational processes to drive synergies. We are on pace to realize cost synergies from the Orbotech acquisition above original targets.


- Announced Eleventh Consecutive Dividend Increase.** The Board of Directors has approved the 11th consecutive increase in our dividend with a \$0.05 quarterly increase to \$0.90 per share. The annual dividend run-rate increases \$0.20 to \$3.60 per share. KLA's dividend payout has grown at a CAGR of approximately 15% since inception.



First, we saw continued strength in Foundry and Logic in the June quarter, and our revenue forecast for the remainder of 2020 shows relatively balanced levels of business from these customers. In addition, business from Memory customers is improving somewhat in the second half of 2020 versus the first half with higher business levels and more customer breadth expected in the December quarter with that momentum continuing into 2021. The strength in demand we are seeing across the board in our business today reflects KLA's essential role in supporting our customers' drive to innovate and continue to invest in future technology nodes.

Second, KLA ended the June quarter with near-record total company backlog, demonstrating momentum in the marketplace across multiple product platforms in both the Semiconductor Process Control and EPC groups. Newly launched products such as the well-received eSL10 e-beam inspection platform, help drive our market leadership. Originally discussed at our 2019 Investor Day, KLA's eSL10 e-beam platform is the first of a family of new e-beam technologies planned for our future product roadmap and re-entry into the e-beam marketplace. KLA's e-beam inspection platform works seamlessly with our optical inspection platforms through built-in connectivity offering customers the best performance at the lowest overall cost of ownership. This combination is a unique differentiator built on KLA's fundamental product strategy of focusing product development on solving complex technical challenges with a portfolio approach.

Third, our Services business continues to perform well and remains on track for growth and healthy free cash flow generation once again this calendar year. The Services business set a new record for system installations in the quarter, leveraging our new remote access technologies to meet unprecedented levels of customer demand while successfully addressing the challenges of COVID-19. Several factors drive long term growth in our Services business, including a growing installed base, increasing complexity of our systems, and market expansion at trailing edge nodes. As a result, we see robust service contract penetration, which has steadily risen from 70%+ contract penetration to 75%+ over the past several quarters and delivering a growing recurring revenue stream. KLA's Service revenue is now 26% of total quarterly revenue, and we are forecasting Service revenue growth in 2020 in line with our long term annual 9% to 11% target. This demonstrates the resiliency and predictability of Services' subscription-like annuity revenue stream.

Fourth, the newly formed Electronics, Packaging, and Components (EPC) group delivered record results in the June quarter and finished above our internal forecasts. EPC comprises the Orbotech PCB (Printed Circuit Board) and FPD (Flat Panel Display) businesses as well as ICOS Component Inspection and Specialty Semiconductor Process (SPTS) divisions. Global demand trends such as 5G, artificial intelligence (AI) and the Internet of Things (IoT) continue to drive growth across key industries in mobile, data center, and virtual connectivity applications. The strong demand momentum in these markets is leading to innovation across specialty semiconductor process, advanced packaging and PCB manufacturing to enable new capabilities while supporting increasing quality requirements in manufacturing. KLA is playing a key role in enabling growth of these new markets.

Within EPC, we achieved a key milestone with SPTS delivering record quarterly revenue of \$100 million in the June quarter, including service. SPTS continues to benefit from its leadership position in PVD and Etch process solutions for fast-growing Specialty Semiconductor applications such as MEMS, Sensors, Power, and RF devices, as well as in the Advanced Packaging market. We expect 2020 to be a year of double-digit growth for SPTS, driven by expanding RF demand to support 5G investment. Similarly, we can credit the strong quarter in our PCB and Component businesses, to their high exposure to 5G and high-performance computing markets. PCB also had a record quarter including service, driven by improved market positioning supporting 5G infrastructure and handsets.

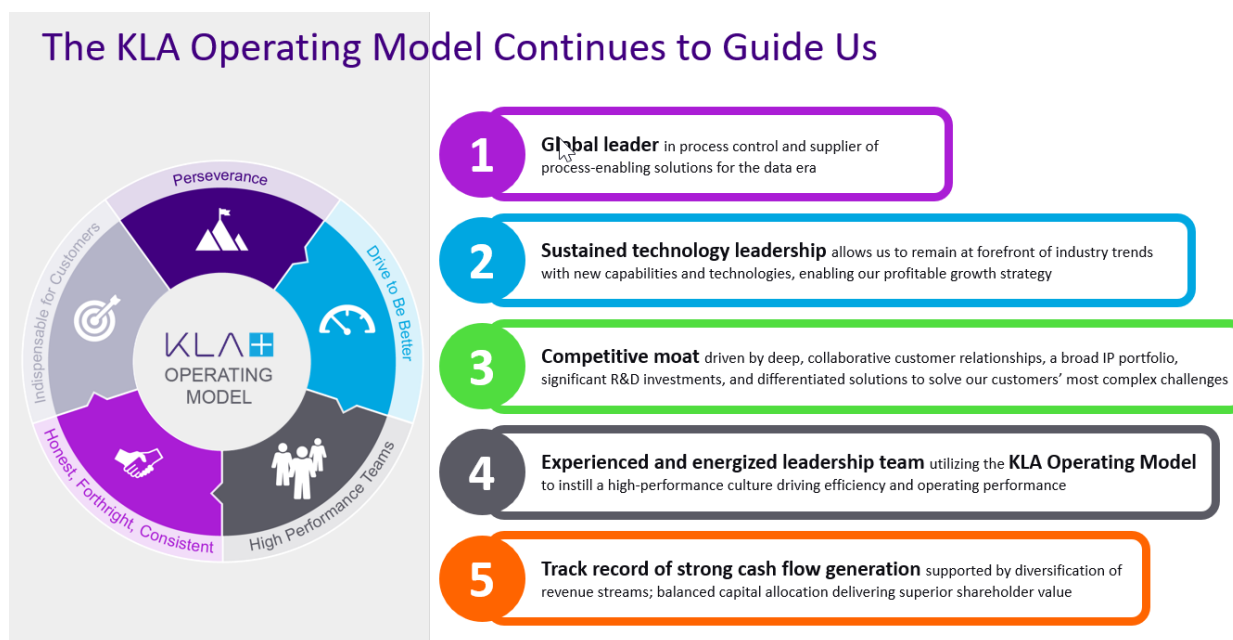
The strong results for EPC are coming about 18 months post the acquisition of Orbotech, and we are very pleased to see this successful demonstration of our strategic growth strategies bearing fruit. We are also on pace to achieve cost synergies from the Orbotech acquisition above the original targets. KLA's approach to M&A is to focus on companies with leading positions in their respective markets that feature complementary technologies and services to augment our own market-leading product portfolio. We then assertively integrate these businesses, applying product and technology

development discipline and operational processes guided by the KLA Operating Model to drive growth, the realization of deal synergies, service business focus, and efficiency improvements to position the business for operating leverage. In addition, we also leverage KLA’s model for customer and ecosystem collaborations to enable coordinated strategies across KLA’s product solutions, senior level accountability, and to identify new product opportunities to enable revenue synergies in the future.

Finally, in keeping with our commitment to deliver strong and predictable capital returns to our shareholders, today we announced our Board of Directors has approved our 11th consecutive dividend increase. The increase raises our quarterly dividend by \$0.05 to \$.90 per share for an annual run-rate dividend of \$3.60 per share. It’s worth noting that KLA’s dividend payout has grown at a CAGR of approximately 15% since inception.

Before getting into greater detail on our financial highlights, let’s briefly summarize. KLA’s focus on innovation and execution, combined with market share leadership and robust free cash flow have helped us successfully navigate through these challenging times. We believe the secular factors driving industry demand and our 2023 targets remain firmly intact and will drive diversified growth with strong long-term operating leverage that positions our business to be even stronger and more resilient in the future.

The KLA Operating Model Continues to Guide Us



KLA’s June quarter results highlight both the soundness and strength of our ongoing strategy. We are demonstrating our ability to meet customer needs and expand our market leadership, while growing operating profits, generating strong free cash flow, and maintaining our robust capital returns strategies.

June Quarter 2020 Financial Highlights

\$1.46B

Revenue

\$411M

Free Cash Flow**

\$426M

Net Income

60.3%

Gross Margin*

96.5%

FCF Conversion

\$2.73

NON-GAAP EPS *

35.0%

Op. Margin*

28.2%

FCF Margin

\$2.63

GAAP EPS

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

Total revenue was \$1.46 billion. Non-GAAP Gross Margin was 60.3%, slightly above the midpoint of the guided range for the quarter of 59% to 61%. Gross margins were impacted negatively by higher freight costs associated with the impact of COVID-19.

Non-GAAP EPS was \$2.73, towards the high-end of the guided range of \$1.81 to \$2.87. GAAP EPS was \$2.63.

Total Operating Expenses were \$369 million, including \$217 million of R&D expense, and \$152 million of SG&A. Operating expenses continue to be lower than modeled due to lower travel expenses, a slower hiring pace than originally planned, and faster synergy realization in our acquired businesses. Non-GAAP Operating margin was 35%. Other Interest and expense in the June quarter was \$46 million, higher than modeled due to a write-down in our investment portfolio.

The non-GAAP tax rate was 8.6% and below our 13% long-term tax planning rate, due mostly to positive capital market impact on investment income in the company's employee deferred compensation program and other discrete tax items in the quarter.

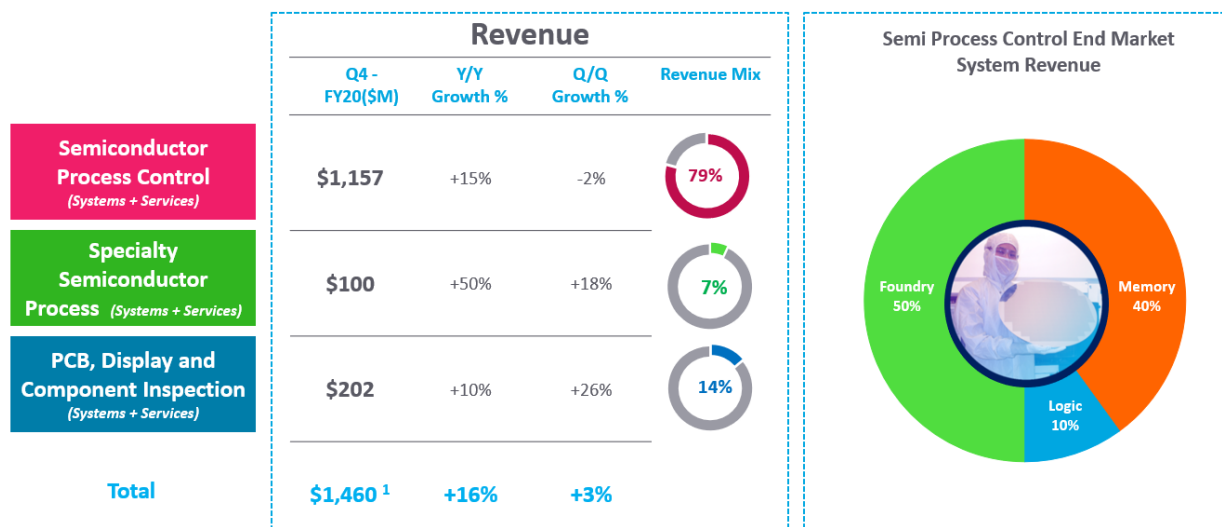
Non-GAAP Net income was \$426 million and free cash flow was \$411 million. This resulted in a free cash flow conversion of 96.5% and a free cash flow margin of 28.2%. The company had approximately 156 million diluted weighted average shares outstanding.

Breakdown of Revenue by Reportable Segments and End Markets

Our segment revenue was mostly in-line with our expectations with most of the performance above the midpoint coming from the SPTS and PCB businesses. Revenue for the Semiconductor Process Control segment, including its associated Service business was \$1.16 billion and modestly above our plan. Foundry was once again strong at approximately 50% of Semiconductor Process Control systems revenue. Logic was about 10% of semiconductor systems revenue and Memory customers were roughly flat at 40% in the June quarter. Within Memory, the business was evenly split about 50/50 between DRAM and NAND.

Revenue for the Specialty Semiconductor Process segment was a record \$100 million, up 18% sequentially and 50% year-over-year, driven by strength in RF, MEMS, and advanced packaging.

PCB, Display and Component Inspection revenue was also a record at \$202 million, up 26% sequentially and 10% year-over-year and above internal plans.

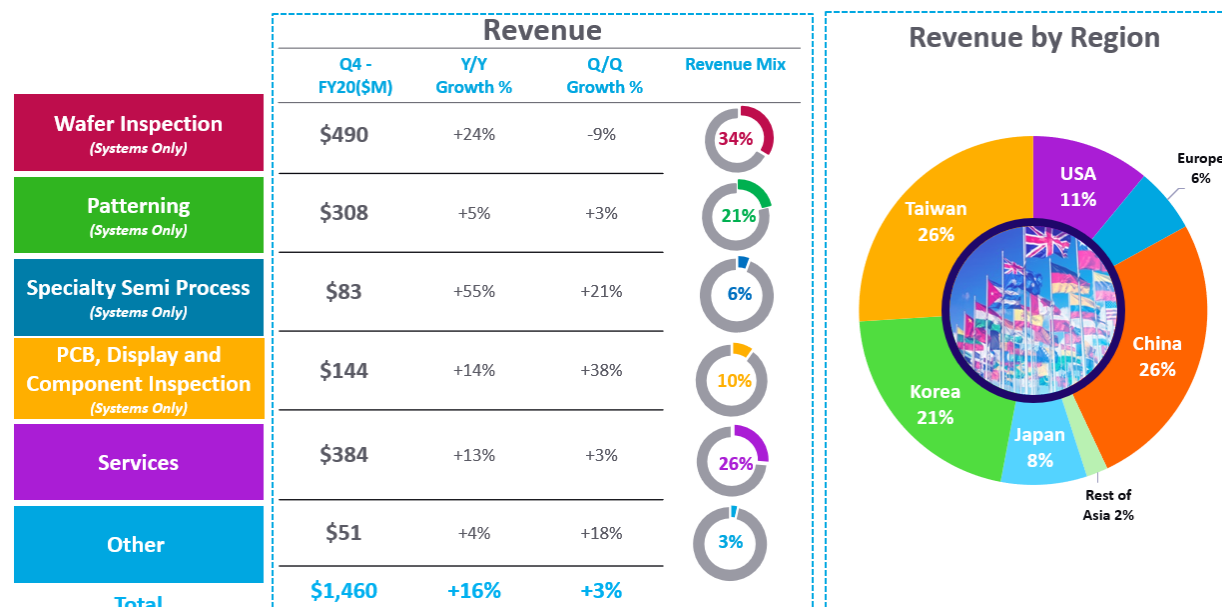


¹ Includes Other Revenue of \$0.4M, plus the rounding of the three segments above

Breakdown of Revenue by Major Products and Region

The distribution of revenue by major product category: Wafer inspection was 34%, Patterning, which includes reticle inspection, was 21%. Wafer inspection and patterning are part of Semiconductor Process Control. Specialty Semiconductor Process was 6%. PCB, Display and Component Inspection revenue was 10%. Service was 26%, and Other was 3%.

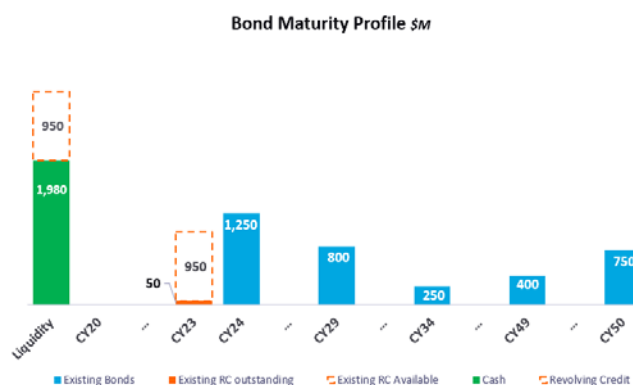
The Regional split of revenue was as follows: China was 26%, Taiwan was 26%, Korea was 21%, the US was 11%, Japan was 8%. Europe (including Israel) was 6%, and the rest of Asia was 2%.



Strong Investment Grade Balance Sheet with No Bond Maturities Until 2024

KLA ended the quarter with \$2.0 billion in cash, total debt of \$3.5 billion, and a flexible and attractive bond maturity profile supported by investment-grade ratings from all three agencies.

CONSOLIDATED BALANCE SHEET ¹ (\$M)	
Total Cash ²	\$ 1,980
Working Capital	\$ 3,024
Total Assets	\$ 9,280
Debt ³	\$ 3,470
Total Shareholders' Equity	\$ 2,681
DEBT MATURITY PROFILE	
Debt Outstanding ⁴	\$ 3,500M
Weighted Average Rate	4.33%
Weighted Average Life	14.3 years
INVESTMENT GRADE CREDIT RATINGS	
Moody's	Baa1
S&P	BBB+
Fitch	BBB+

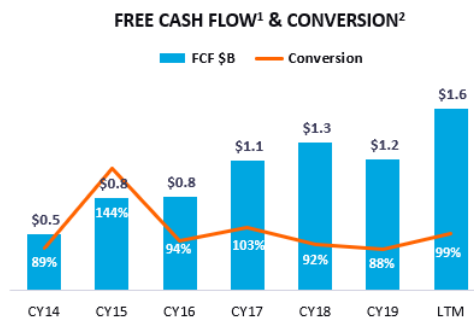


¹ As of 6/30/20; ² Total Cash includes Cash, Cash Equivalents and Marketable Securities; ³ Difference between debt of \$3,470M and gross debt of \$3,500M is un-amortized debt issuance discounts and costs; ⁴ Includes \$0M drawn from revolver.

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 total returns of 70% or more of Free Cash Flow.

FCF Generation Fuels Consistent Capital Return to Shareholders



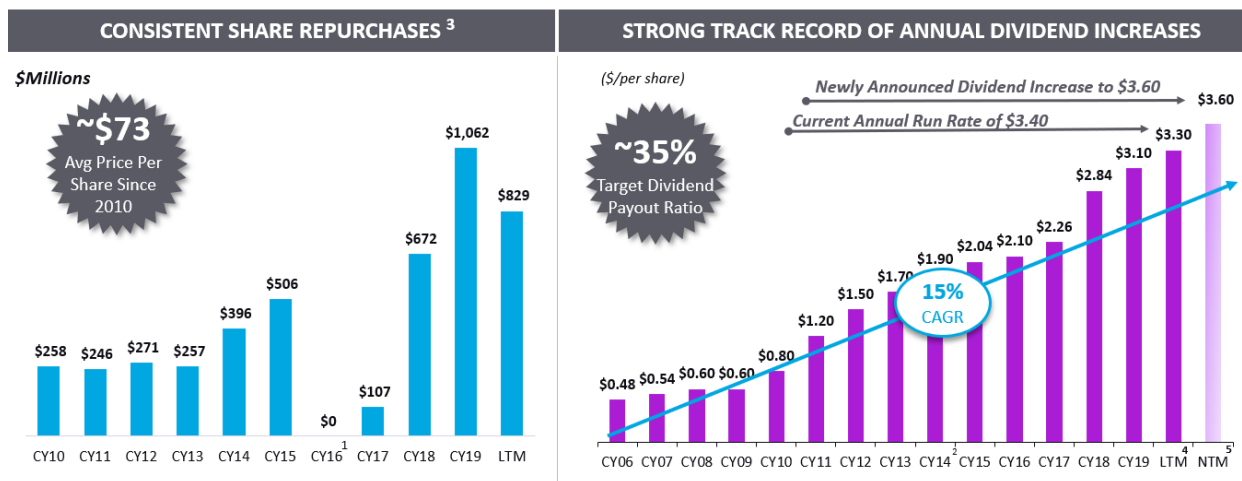
- Introducing new products at a 2x pace vs. our competitors
- Achieving market share of 4x our nearest competitor
- High gross margin and FCF conversion via differentiation

Committed to a Minimum of >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

Over the past 12 months, we have returned \$1.35 billion to shareholders or 83% of Free Cash Flow, including \$522 million in dividends paid, and \$829 million in share repurchases. We believe our track record of delivering strong capital returns is a key component of the KLA Investment Thesis and offers predictable and compelling value creation for our shareholders.

Capital Return to Investors is Spread Across Buybacks and Dividends



¹ Share repurchase halted in CY16 during KLA-Lam merger proceedings ² Excludes \$16.50 per share special dividend ³ Settlement Date basis ⁴ LTM = Last Twelve Months ⁵ NTM = Next Twelve Months

Free Cash Flow was \$411 million in the June quarter, free cash flow conversion was 96.5%, and free cash flow margin was 28.2%. KLA has a history of consistent free cash flow generation, high free cash flow conversion, and strong free cash flow margins. KLA's business model generates strong free cash flow and is very resilient across the various phases of the business cycle and economic conditions.

Free Cash Flow (FCF) and Capital Returns Highlights

\$411M

June Qtr FCF

28.2%

June Qtr FCF Margin

\$1.63B

LTM FCF

\$1.35B

LTM Capital Returns*

\$133M

June Qtr Dividends Paid

83%

Capital Returns* as % of FCF (LTM)

* Capital Returns = Dividends + Share Repurchases

During the quarter we paid \$133 million in dividends. As we mentioned above, our Board approved our 11th consecutive annual increase in our quarterly dividend. The increase raises our annual dividend run-rate by \$0.20 to \$3.60 per share. KLA's dividend payout has grown at a CAGR of approximately 15% since inception. We did not repurchase any shares during the quarter. We have approximately \$1 billion remaining under our current share repurchase authorization and expect to continue our share repurchase program during the September quarter.

Outlook

As it relates to guidance for the September quarter, we would like to start out by saying that our operations teams have done a great job of mitigating the supply chain challenges and disruptions related to COVID-19. Although we are carrying more inventory to mitigate unanticipated disruptions should they occur. The extra measures we have taken to maintain flexibility and continuity of supply for critical components in our supply chain have definitely been effective, as demonstrated by KLA's strong results for both our March and June quarters that either met or exceeded the midpoint of guidance ranges.

With that said, we are narrowing our guidance ranges, as we generally see consistency in the current operating environment.

The demand profile today for the second half of the year is firming and we now anticipate that the second half will grow versus the first half of 2020. For the calendar year we expect a faster than market growth year for our semiconductor process control business, and growth for the total company in line with or above our long-term revenue growth target range.

Regarding the expected impact of changes to U.S. export rules that went into effect at the end of June, we are complying fully with all regulations and have seen minimal impact to our business to-date. It is difficult to predict how near-term dynamics related to the potential impact of new U.S. restrictions planned to be implemented in mid-September for certain technologies will play out for KLA in the short run. However, when you consider our increased diversification as well as the global nature of end-market demand, overall discipline in balancing supply and demand in the industry, and the secular growth drivers such as 5G, high performance computing, and AI that are driving the digital economy, the demand for semiconductors will continue to grow and fuel future innovation. As the worldwide market leader in Process Control, KLA is in the critical path to enabling this growth.

With that, guidance for the September quarter is as follows: Total revenue is expected to be in a range of \$1.480 billion plus or minus \$75 million. Foundry is forecasted to be about 61% of Semi Process Control system revenue, depicting the strength we continue to see amongst the foundry customer base. Memory is expected to be approximately 31%. Logic is expected to be about 8%.

We forecast Non-GAAP Gross Margin to be in a range of 60.5% to 62.5% as product mix is more favorable vs. the June quarter. The market reception to new product offerings in our semiconductor process control business has been strong and as outlined at our Investor Day back in September, the company has made solid progress on our plans of driving cost and efficiencies on new product platforms and leveraging scale derived by our worldwide service infrastructure.

Other model assumptions include: Operating Expense of approximately \$375 million, Interest and Other Expense of approximately \$42 million, and a non-GAAP tax rate of approximately 13%.

Finally, GAAP diluted EPS is expected to be in a range of \$2.18 to \$2.82 and non-GAAP diluted EPS in a range of \$2.42 to \$3.06. The EPS guidance is based on a fully diluted share count of approximately 156 million shares.

September Quarter 2020 Guidance (Q1 FY2021)

	SEPTEMBER 2020 QUARTER	MACRO ASSUMPTIONS
REVENUE	\$1,405M to \$1,555M	<ul style="list-style-type: none"> Less COVID-19 Uncertainty Reflected in Narrower Ranges Semi Process Control Revenue By End Market <ul style="list-style-type: none"> Foundry: 61% Memory: 31% Logic: 8%
GROSS MARGIN	60.5% to 62.5%	MODEL ASSUMPTIONS
GAAP EPS	\$2.18 to \$2.82	<ul style="list-style-type: none"> Operating Expenses: ~\$375M Interest & Other Expense (OIE): ~\$42M Effective Tax Rate: ~13% Diluted Share Count: ~156M
NON-GAAP EPS	\$2.42 to \$3.06	

Driving Profitable Growth and Delivering Shareholder Value

In Conclusion

Notwithstanding potential new headwinds from the COVID-19 pandemic, our outlook for customer demand in the Semiconductor Process Control business remains virtually unchanged today from what we expected at the beginning of this year. We are driving our supply chain and our factories to meet current customer expectations for deliveries.

We continue to run our business to maintain the flexibility to respond to any demand scenario. Our customers are expected to continue to progress their technology roadmaps across all segments, and KLA products are critical to those transitions. We expect investments to continue in this area at a normalized pace independent of the macro environment.

In closing, we have adapted to a challenging environment, we are executing well and have even more confidence that we are on track to meet or exceed our 2023 target model, both in terms of top-line growth and profitability. We are encouraged by the strength and resiliency of the KLA Operating Model, which guides our strategic objectives. These objectives fuel our growth, operational excellence, and differentiation across an increasingly more diverse product and service offering. They also underpin our sustained technology leadership, deep competitive moat, and strong track record of free cash flow generation and capital returns to shareholders.

Sincerely,

Rick Wallace
CEO



Bren Higgins
CFO



Appendix

Reconciliation of Non-GAAP Financial Measures

(In thousands, except per share amounts and percentages)	For the three months ended			For the twelve months ended	
	June 30, 2020	March 31, 2020	June 30, 2019	June 30, 2020	June 30, 2019
GAAP net income	\$ 411,253	\$ 78,452	\$ 217,845	\$ 1,216,785	\$ 1,175,617
Adjustments to reconcile GAAP net income to non-GAAP net income*:					
Acquisition-related charges	a 55,937	55,022	102,807	244,715	216,394
Restructuring, severance and other charges	b 4,240	5,432	-	12,458	-
Goodwill impairment	c -	256,649	-	256,649	-
Loss on extinguishment of debt	d -	22,538	-	22,538	-
Income tax effect of non-GAAP adjustments	e (16,027)	(23,604)	(32,930)	(83,402)	(54,643)
Discrete tax items	f (29,364)	(5,551)	983	(34,915)	(9,406)
Non-GAAP net income	\$ 426,039	\$ 388,938	\$ 288,705	\$ 1,634,828	\$ 1,327,962
GAAP net income as a percentage of revenue	28.2%	5.6%	17.3%	21.0%	25.7%
Non-GAAP net income as a percentage of revenue	29.2%	27.3%	22.9%	28.2%	29.1%
GAAP net income per diluted share	\$ 2.63	\$ 0.50	\$ 1.35	\$ 7.70	\$ 7.49
Non-GAAP net income per diluted share	\$ 2.73	\$ 2.47	\$ 1.78	\$ 10.35	\$ 8.46
Shares used in diluted shares calculation	156,183	157,172	161,937	158,005	156,949
GAAP operating income	\$ 453,158	\$ 175,964	\$ 268,900	\$ 1,502,201	\$ 1,389,373
Adjustments to reconcile GAAP operating income to non-GAAP operating income*:					
Acquisition-related charges	a 55,937	55,022	102,807	244,715	216,394
Restructuring, severance and other charges	b 2,298	5,432	-	10,516	-
Goodwill impairment	c -	256,649	-	256,649	-
Non-GAAP operating income (1)	\$ 511,393	\$ 493,067	\$ 371,707	\$ 2,014,081	\$ 1,605,767
GAAP operating income as a percentage of revenue	31.0%	12.4%	21.4%	25.9%	30.4%
Non-GAAP operating income as a percentage of revenue	35.0%	34.6%	29.5%	34.7%	35.1%

* 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 as recorded in selling, general and administrative expense in operating expenses. The expense (benefit) associated with changes in the liability included in selling, general and administrative expense for the three months ended June 30, 2020, March 31, 2020, and June 30, 2019 was \$28.9 million, \$(29.4) million and \$6.6 million, respectively, and \$13.3 million and \$13.6 million for the years ended June 30, 2020 and June 30, 2019, respectively. The gains (losses) associated with the changes in the EDSP asset included in selling, general and administrative expense for the three months ended June 30, 2020, March 31, 2020, and June 30, 2019 were \$29.2 million, \$(29.4) million and \$7.0 million, respectively, and \$13.9 million and \$14.7 million for the years ended June 30, 2020 and June 30, 2019, respectively.

(In thousands, except percentages)	For the three months ended			For the twelve months ended	
	June 30, 2020	March 31, 2020	June 30, 2019	June 30, 2020	June 30, 2019
GAAP gross margin	\$ 838,049	\$ 833,806	\$ 665,650	\$ 3,356,863	\$ 2,699,527
Adjustments to reconcile GAAP gross margin to non-GAAP gross margin*:					
Acquisition-related charges	a 41,446	36,850	75,805	168,885	125,321
Restructuring, severance and other charges	b 534	483	-	1,848	-
Non-GAAP gross margin	\$ 880,029	\$ 871,139	\$ 741,455	\$ 3,527,596	\$ 2,824,848
GAAP gross margin as a percentage of revenue	57.4%	58.6%	52.9%	57.8%	59.1%
Non-GAAP gross margin as a percentage of revenue	60.3%	61.2%	58.9%	60.8%	61.8%
GAAP operating expenses	\$ 384,891	\$ 657,842	\$ 396,750	\$ 1,854,662	\$ 1,310,154
Adjustments to reconcile GAAP operating expenses to non-GAAP operating expenses*:					
Acquisition-related charges	a (14,491)	(18,172)	(27,002)	(75,830)	(91,073)
Restructuring, severance and other charges	b (1,764)	(4,949)	-	(8,668)	-
Goodwill impairment	c -	(256,649)	-	(256,649)	-
Non-GAAP operating expenses (1)	\$ 368,636	\$ 378,072	\$ 369,748	\$ 1,513,515	\$ 1,219,081
GAAP operating expenses as a percentage of revenue	26.4%	46.2%	31.5%	31.9%	28.7%
Non-GAAP operating expenses as a percentage of revenue	25.3%	26.6%	29.4%	26.1%	26.7%

* 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 as recorded in selling, general and administrative expense in operating expenses. The expense (benefit) associated with changes in the liability included in selling, general and administrative expense for the three months ended June 30, 2020, March 31, 2020, and June 30, 2019 was \$28.9 million, \$(29.4) million and \$6.6 million, respectively, and \$13.3 million and \$13.6 million for the years ended June 30, 2020 and June 30, 2019, respectively. The gains (losses) associated with the changes in the EDSP asset included in selling, general and administrative expense for the three months ended June 30, 2020, March 31, 2020, and June 30, 2019 were \$29.2 million, \$(29.4) million and \$7.0 million, respectively, and \$13.9 million and \$14.7 million for the years ended June 30, 2020 and June 30, 2019, respectively.

(In thousands, except percentages)	For the three months ended			For the twelve months ended	
	June 30, 2020	March 31, 2020	June 30, 2019	June 30, 2020	June 30, 2019
GAAP income before income taxes	\$ 405,069	\$ 115,199	\$ 231,310	\$ 1,316,711	\$ 1,296,231
GAAP income tax expense	\$ (5,246)	\$ 37,190	\$ 13,982	\$ 101,686	\$ 121,214
GAAP income tax rate	-1.3%	32.3%	6.0%	7.7%	9.4%
Adjustments to reconcile GAAP effective tax rate to non-GAAP effective tax rate*:					
Acquisition-related charges	a 55,937	55,022	102,807	244,715	216,394
Restructuring, severance and other charges	b 4,240	5,432	-	12,458	-
Goodwill impairment	c -	256,649	-	256,649	-
Loss on extinguishment of debt	d -	22,538	-	22,538	-
Non-GAAP income before income taxes	\$ 465,246	\$ 454,840	\$ 334,117	\$ 1,853,071	\$ 1,512,625
Income tax effects of non-GAAP adjustments	e 16,027	23,604	32,930	83,402	54,643
Discrete tax item	f 29,364	5,551	(983)	34,915	9,406
Non-GAAP income tax expense	\$ 40,145	\$ 66,345	\$ 45,929	\$ 220,003	\$ 185,263
Non-GAAP income tax rate	8.6%	14.6%	13.7%	11.9%	12.2%
GAAP research and development (R&D) expenses	\$ 217,100	\$ 215,433	\$ 206,710	\$ 863,864	\$ 711,030
Adjustments to reconcile GAAP R&D expenses to non-GAAP R&D expenses*:					
Acquisition-related charges	a -	-	-	-	(3,328)
Restructuring, severance and other charges	b (585)	(685)	-	(2,072)	-
Non-GAAP R&D expenses	\$ 216,515	\$ 214,748	\$ 206,710	\$ 861,792	\$ 707,702

* 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 Q1 FY 2021 Guidance Range

<i>(In millions, except per share amounts and percentages)</i>	Low	High
GAAP diluted net income per share	\$ 2.18	\$ 2.82
Acquisition-related charges	a 0.33	0.33
Restructuring, severance and other charges	b 0.02	0.02
Income tax effect of non-GAAP adjustments	e (0.11)	(0.11)
Non-GAAP diluted net income per share	\$ 2.42	\$ 3.06
Shares used in net income per diluted shares calculation	156.6	156.6
GAAP gross margin as a percentage of revenue	57.8%	60.0%
Acquisition-related charges	a 2.6%	2.4%
Restructuring, severance and other charges	b 0.1%	0.1%
Non-GAAP gross margin as a percentage of revenue	60.5%	62.5%
GAAP operating expenses	\$ (388)	\$ (394)
Acquisition-related charges	a 14	14
Restructuring, severance and other charges	b 2	2
Non-GAAP operating expenses	\$ (372)	\$ (378)

Note: The guidance as of August 3, 2020 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 the 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 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. 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 (for example, determining which costs and expenses to exclude when calculating such a metric) are inherently subject to significant discretion. 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.

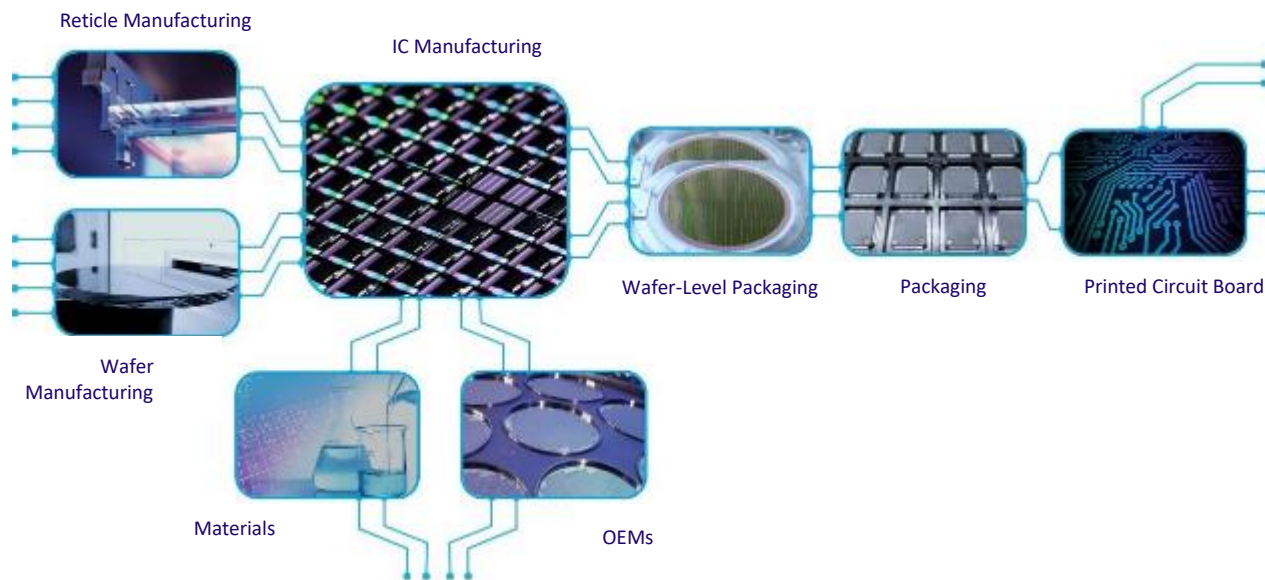
- Acquisition-related charges primarily include amortization of intangible assets and other acquisition-related adjustments including adjustments for the fair valuation of inventory and backlog, and transaction costs associated with our acquisitions, primarily Orbotech. Management believes that the expense associated with the amortization of acquisition-related intangible assets is appropriate to be excluded because a significant portion of the purchase price for acquisitions may be allocated to intangible assets, and exclusion of these expenses allows comparisons of operating results that are consistent over time for both KLA's newly acquired and long-held businesses. Management believes that the other acquisition-related expenses are appropriate to be excluded because such costs would not have otherwise been incurred in the periods presented. Management believes excluding these items helps investors compare our operating performances with our results in prior periods as well as with the performance of other companies.
- Restructuring, severance and other charges primarily include costs associated with employee severance, acceleration of certain stock-based compensation arrangements, and other exit costs. Management believes excluding these items helps investors compare our operating performance with our results in prior periods.
- 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. Management believes that it is appropriate to exclude the impairment charge as it is not indicative of ongoing operating results and therefore limits comparability. Management also believes excluding this item helps investors compare our operating performance with our results in prior periods as well as with the performance of other companies.
- Loss on extinguishment of debt includes a pre-tax loss on early extinguishment of the \$500 million 4.125% Senior Notes due in November 2021. Management believes it is appropriate to exclude this loss as it is not indicative of ongoing operating results and therefore limits comparability and excluding this loss helps investors compare our operating results with our results in prior periods as well as with performance of other companies.
- Income tax effect of non-GAAP adjustments includes the income tax effects of the excluded items noted above. Management believes that it is appropriate to exclude the tax effects of the items noted above in order to present a more meaningful measure of non-GAAP net income.
- Discrete tax items in the three and twelve months ended June 30, 2020 include a tax benefit from an internal restructuring and a decrease in deferred tax liability for an unrealized gain on investments held by subsidiaries of the acquired Orbotech business. Discrete tax items in the three and twelve months ended June 30, 2019 include tax impacts of and the income tax effects of an income tax expense from the enacted tax reform legislation through the Tax Cuts and Jobs Act (the "Act"), which was signed into law on December 22, 2017, of which the impact is primarily related to the provisional tax amounts recorded for the transition tax on accumulated foreign earnings and the re-measurement of certain deferred tax assets and liabilities as a result of the enactment of the Act. Management believes excluding these items helps 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.

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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