

KLA Earnings

Q4 Fiscal 2020 (Quarter Ended 6/30/2020)



August 3, 2020

Forward-Looking Statements

Statements in this presentation other than historical facts, such as statements pertaining to: (i) industry trends; (ii) customer demand and capex investment strategy; (iii) semiconductor industry CAGR; (iv) sales, gross margin, GAAP EPS, Non-GAAP EPS, operating expenses, interest and other income expense, effective tax rate, process control system revenue from foundry and memory customers, and diluted share count for the quarter ending September 30, 2020; are forward-looking statements and subject to the Safe Harbor provisions created by the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current information and expectations, and involve a number of risks and uncertainties. Actual results may differ materially from those projected in such statements due to various factors, including but not limited to: the future impacts of the COVID-19 pandemic; the demand for semiconductors; the financial condition of the global capital markets and the general macroeconomic environment; new and enhanced product and technology offerings by competitors; push-out of deliveries or cancellation of orders by customers; the ability of KLA's research and development teams to successfully innovate and develop technologies and products that are responsive to customer demands; KLA's ability to successfully manage its costs; market acceptance of KLA's existing and newly issued products; changing customer demands; and industry transitions. For other factors that may cause actual results to differ materially from those projected and anticipated in forward-looking statements in this letter, please refer to KLA Corporation's Annual Report on Form 10-K for the year ended June 30, 2019, and other subsequent filings with the Securities and Exchange Commission (including, but not limited to, the risk factors described therein). KLA Corporation assumes no obligation to, and does not currently intend to, update these forward-looking statements.

Strategic Overview and Highlights

Rick Wallace | Chief Executive Officer



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.

Industry Demand Environment

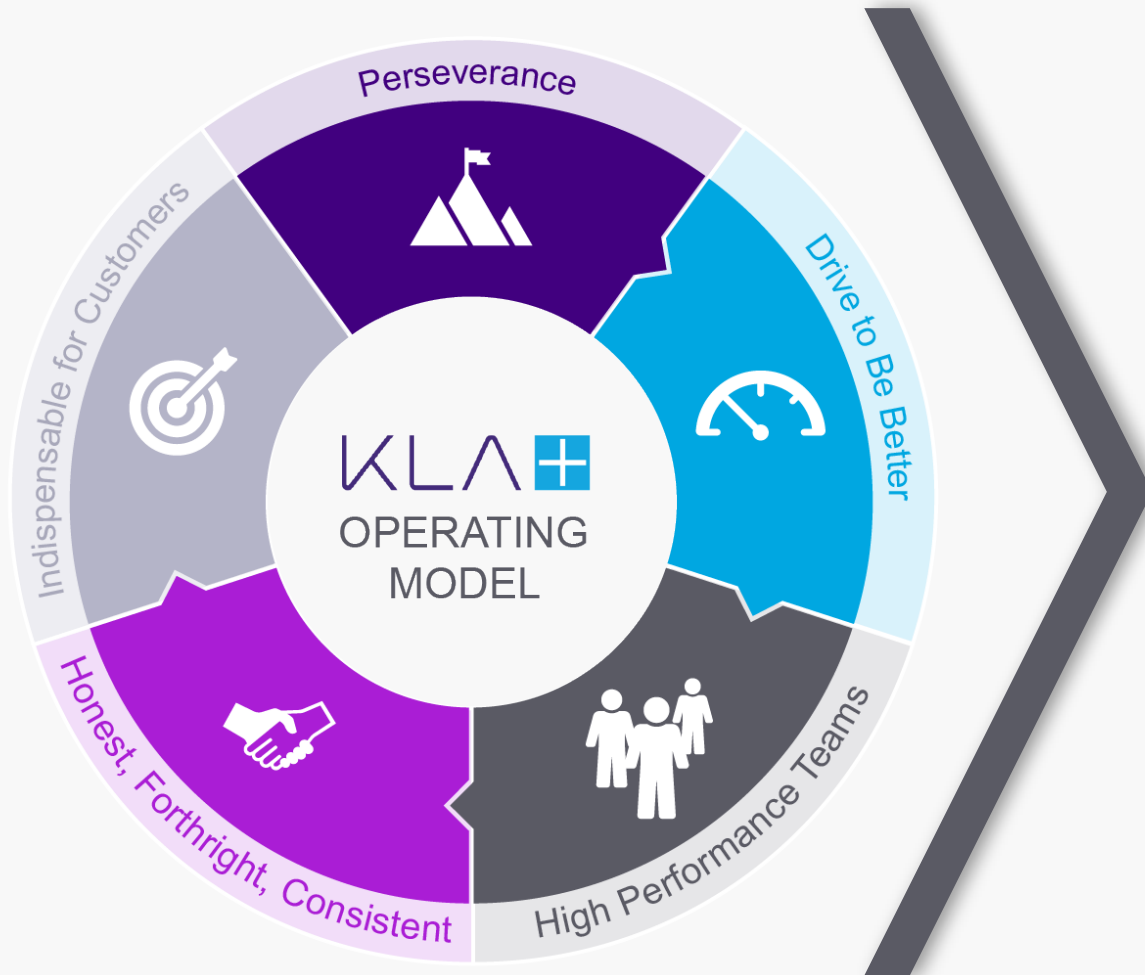
Industry Demand is Strong – In the June quarter we saw broad diversified strength across each of our segments. Semiconductor Process Control was ahead of plan, multiple EPC businesses set records, and Services had record installations. This resulted in KLA ending the quarter with our second highest total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

The KLA Operating Model



✓ CONSISTENT STRATEGY AND EXECUTION

- Application of common processes and discipline
- Cascades throughout the organization
- Strong focus on talent development

✓ MANAGEMENT BY METRICS

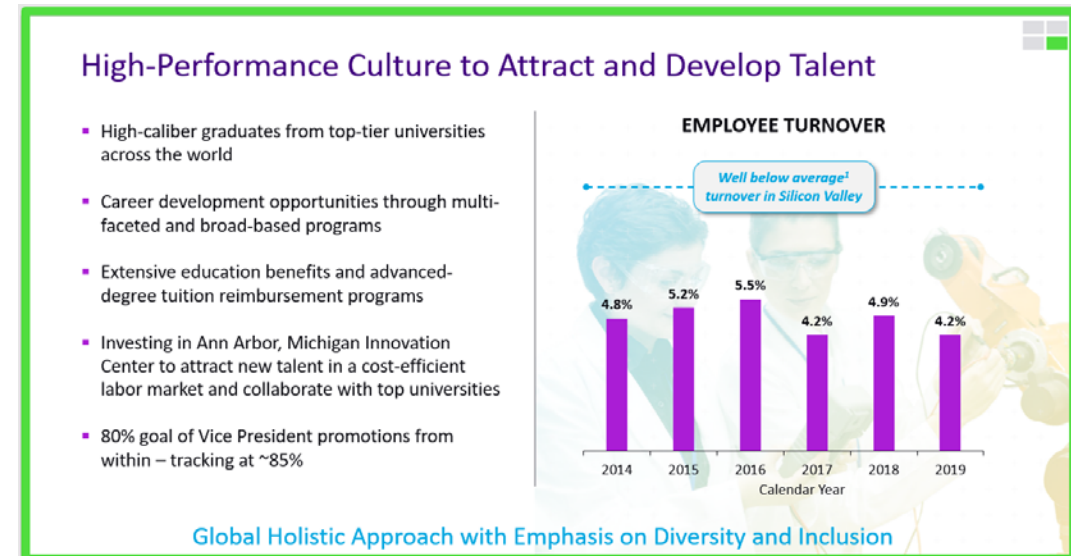
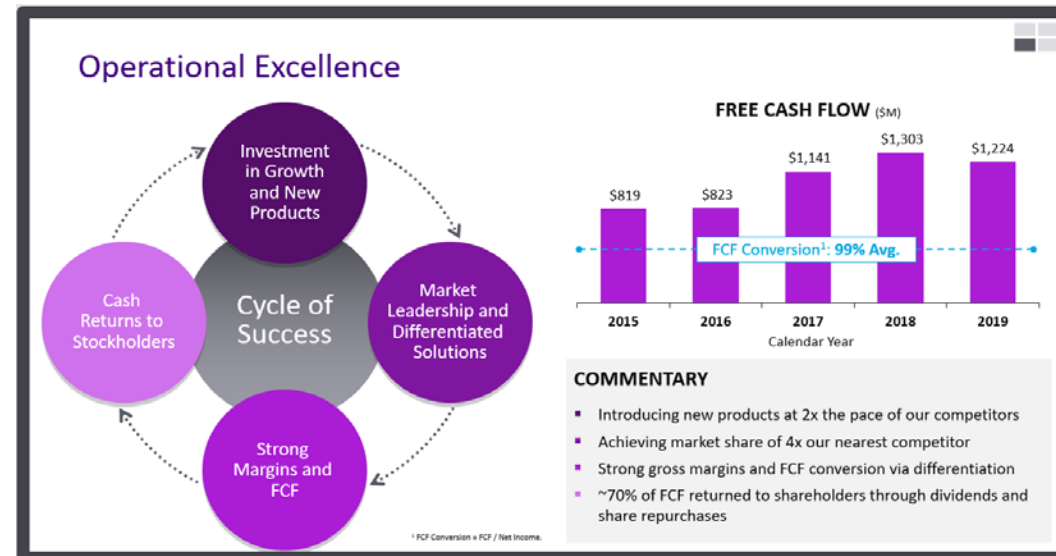
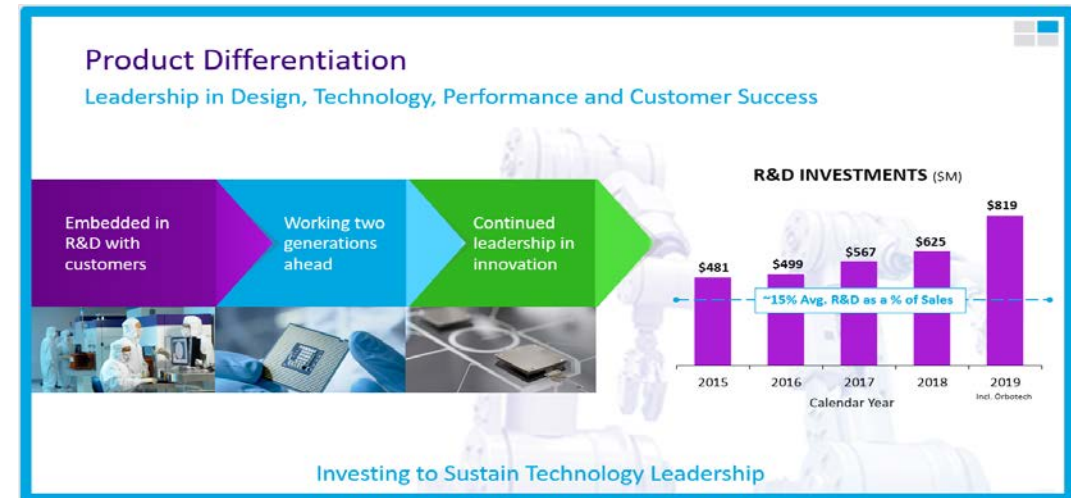
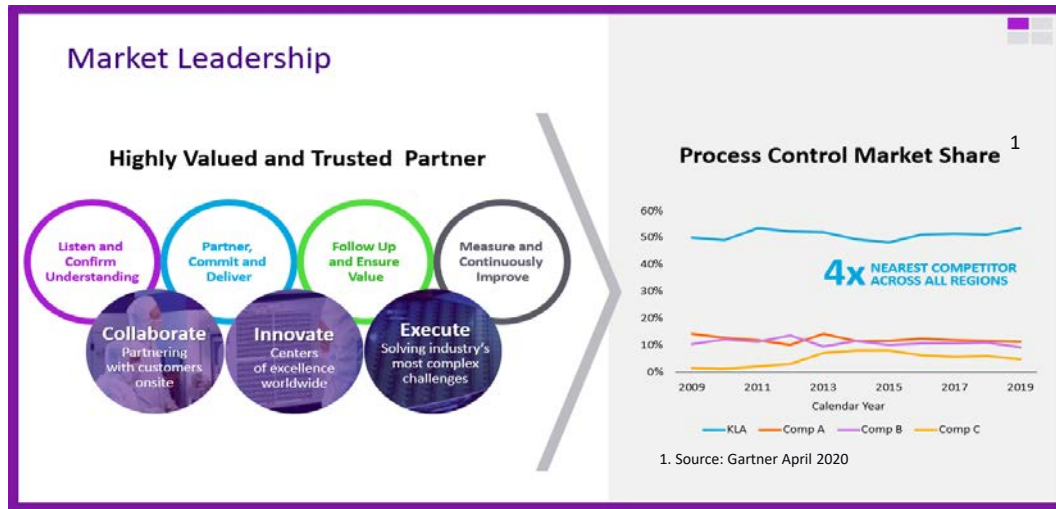
- Culture of performance and accountability
- Expectation of continuous improvement
- Superior margins driven by market leadership and differentiation

✓ FINANCIAL DISCIPLINE AND RIGOR

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

Focused on Driving Sustainable Profitability and Growth

KLA's Strategic Objectives Serve As Our Guide



June Quarter 2020 Business Highlights

1.

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.



2.

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.



3.

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.



4.

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.

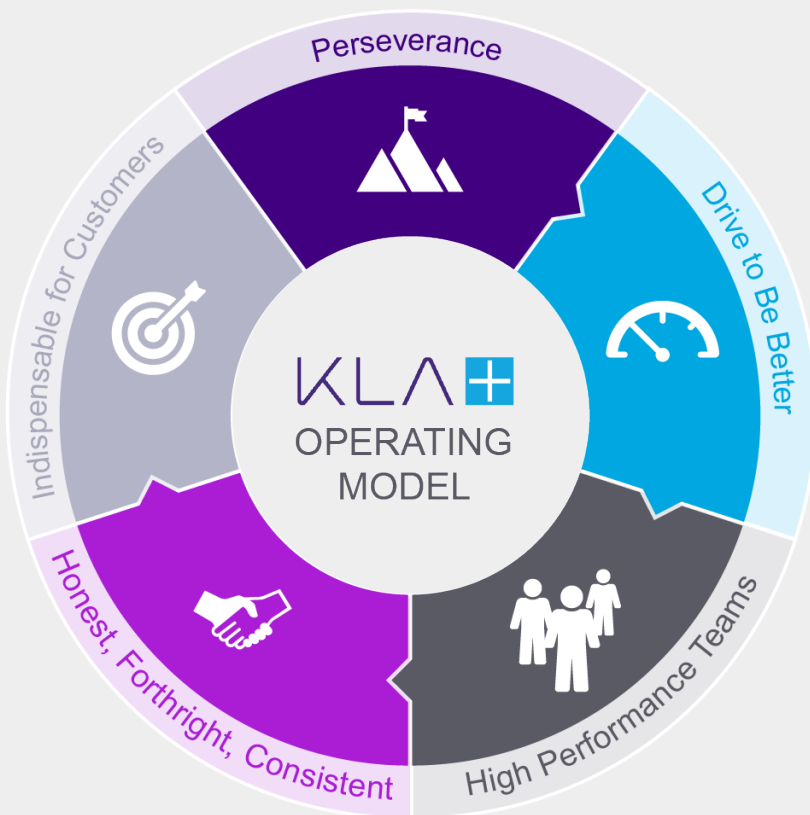


5.

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.



The KLA Operating Model Continues to Guide Us



1

Global leader in process control and supplier of process-enabling solutions for the data era

2

Sustained technology leadership allows us to remain at forefront of industry trends with new capabilities and technologies, enabling our profitable growth strategy

3

Competitive moat driven by deep, collaborative customer relationships, a broad IP portfolio, significant R&D investments, and differentiated solutions to solve our customers' most complex challenges

4

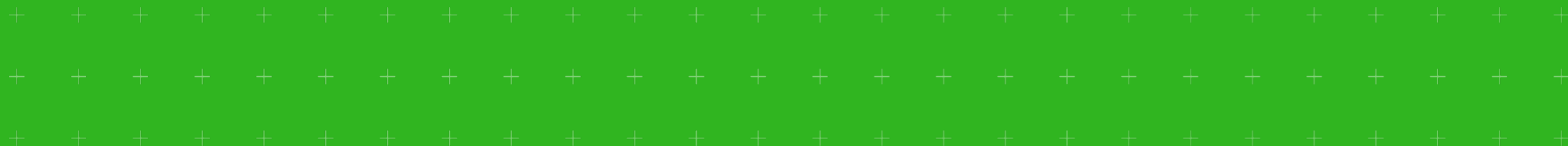
Experienced and energized leadership team utilizing the **KLA Operating Model** to instill a high-performance culture driving efficiency and operating performance

5

Track record of strong cash flow generation supported by diversification of revenue streams; balanced capital allocation delivering superior shareholder value

Business Performance and Guidance

Bren Higgins | Chief Financial Officer



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

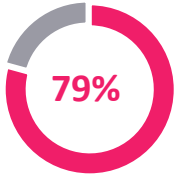
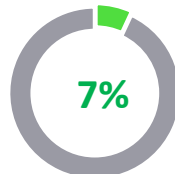
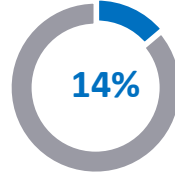
* Non-GAAP metric – Please refer to Appendix for reconciliation to GAAP ** Free Cash Flow (FCF) = Cash Flow from Operating Activities minus Capital Expenditures.

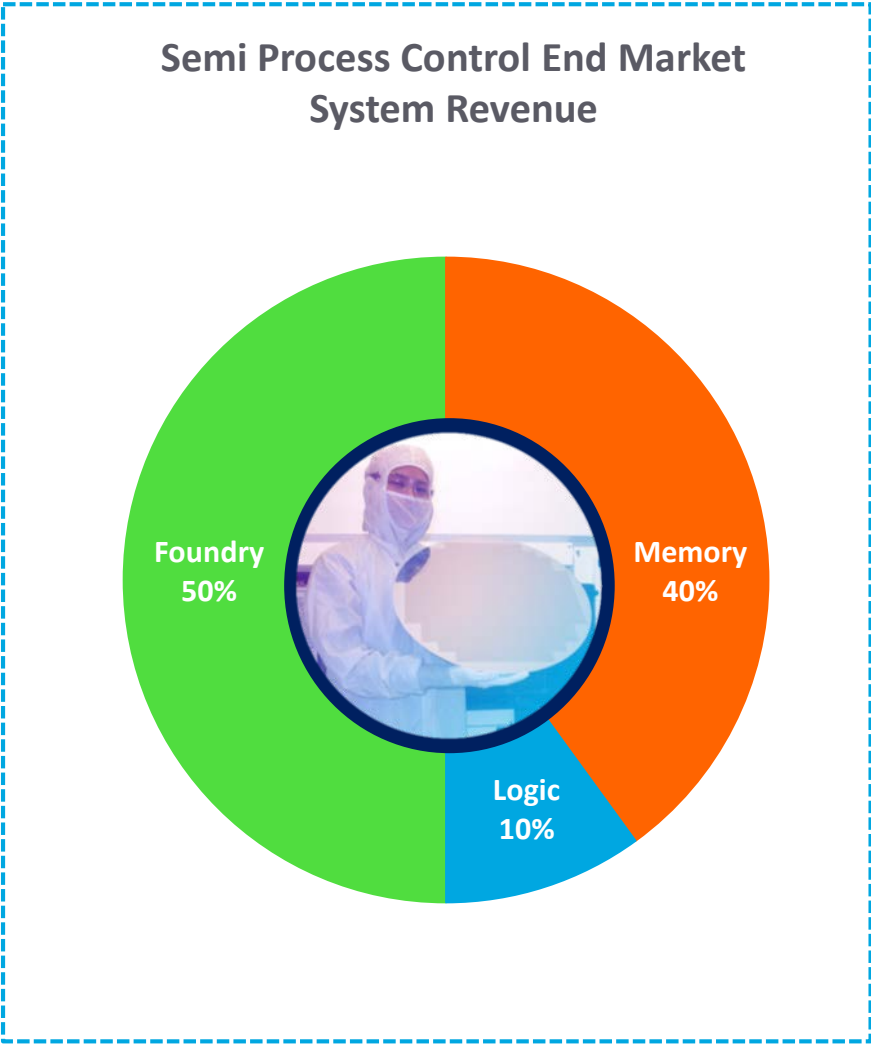
Breakdown of Revenue by Reportable Segments and End Markets

Semiconductor Process Control
(Systems + Services)

Specialty Semiconductor Process
(Systems + Services)

PCB, Display and Component Inspection
(Systems + Services)

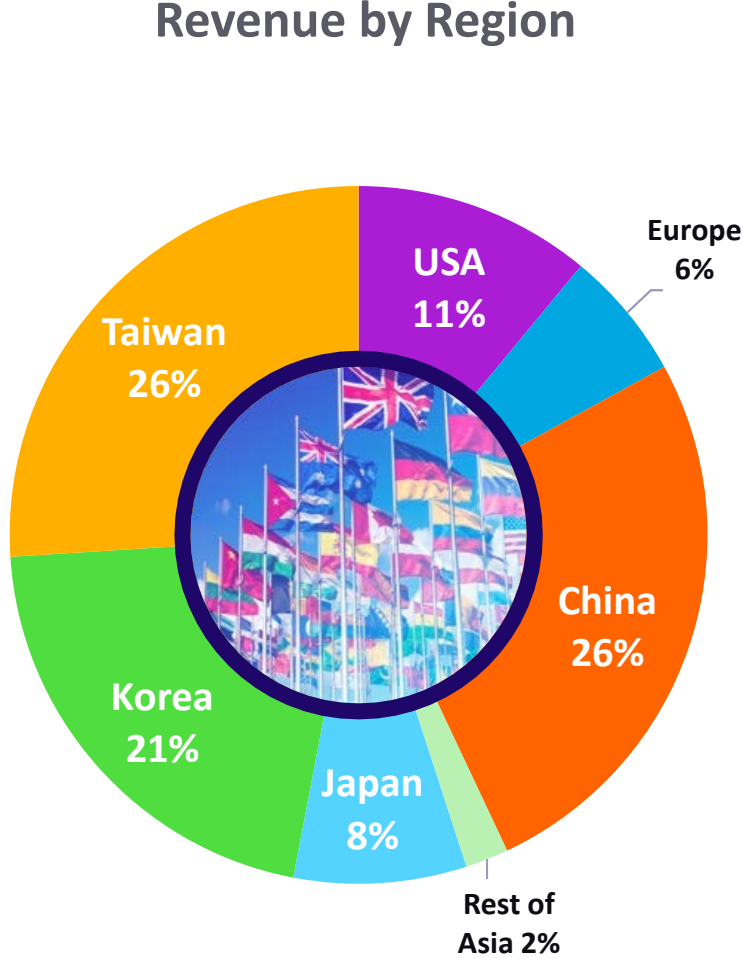
| Revenue | | | |
|----------------|----------------------------|--------------|--|
| Q4 - FY20(\$M) | Y/Y Growth % | Q/Q Growth % | Revenue Mix |
| \$1,157 | +15% | -2% |  79% |
| \$100 | +50% | +18% |  7% |
| \$202 | +10% | +26% |  14% |
| Total | \$1,460¹ | +16% | +3% |



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

Breakdown of Revenue by Major Products and Region

| | Revenue | | | Revenue Mix |
|---|----------------|--------------|--------------|-------------|
| | Q4 - FY20(\$M) | Y/Y Growth % | Q/Q Growth % | |
| Wafer Inspection <i>(Systems Only)</i> | \$490 | +24% | -9% | 34% |
| Patterning <i>(Systems Only)</i> | \$308 | +5% | +3% | 21% |
| Specialty Semi Process <i>(Systems Only)</i> | \$83 | +55% | +21% | 6... |
| PCB, Display and Component Inspection <i>(Systems Only)</i> | \$144 | +14% | +38% | 10% |
| Services | \$384 | +13% | +3% | 26% |
| Other | \$51 | +4% | +18% | 3% |
| Total | \$1,460 | +16% | +3% | |



Strong Investment Grade Balance Sheet With No Bond Maturities Until 2024

CONSOLIDATED BALANCE SHEET¹ (\$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

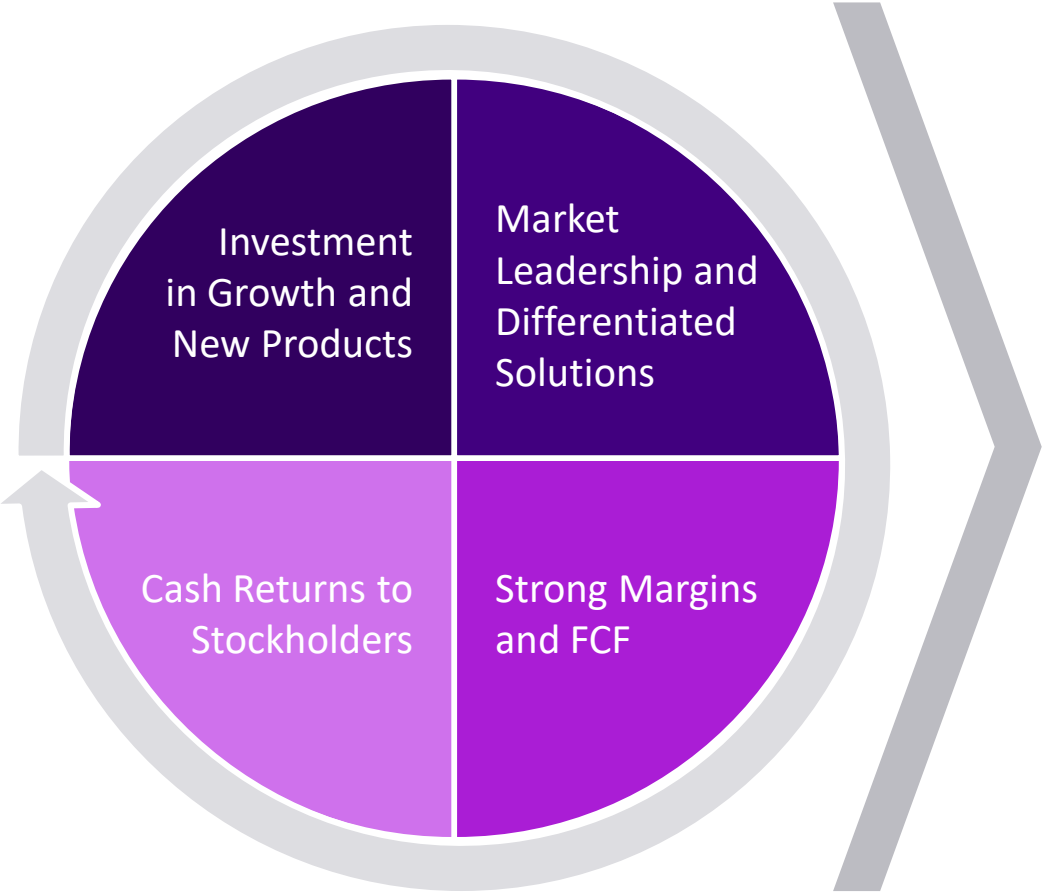
| | |
|---------|------|
| Moody's | Baa1 |
| S&P | BBB+ |
| Fitch | BBB+ |

Bond Maturity Profile \$M

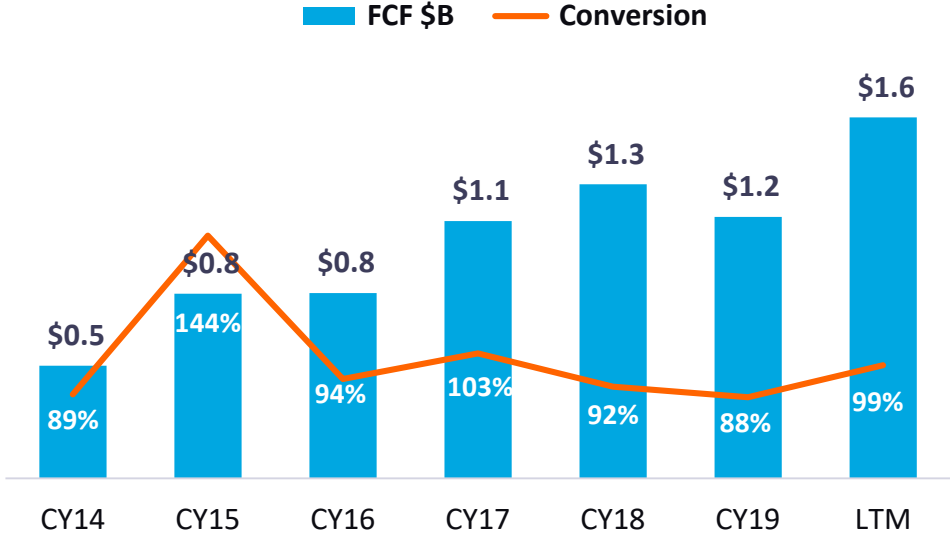


¹ As of 6/30/20; ² Total Cash includes Cash, Cash Equivalents and Marketable Securities; ³ Difference between debt of \$3.470B and gross debt of \$3,500B is un-amortized debt issuance discounts and costs; ⁴ Includes \$50M drawn from revolver.

FCF Generation Fuels Consistent Capital Return to Shareholders



FREE CASH FLOW¹ & CONVERSION²



- 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

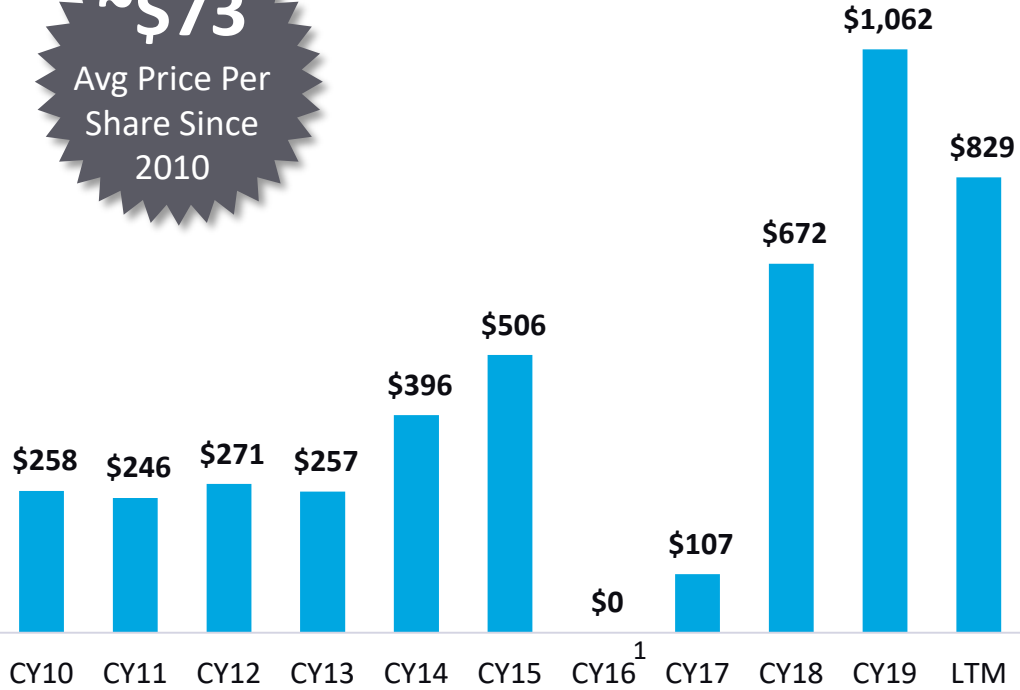
¹ Free Cash Flow (FCF) = Cash Flow from Operating Activities minus Capital Expenditures
² FCF Conversion defined as FCF/Non-GAAP Net Income; Non-GAAP metric – Please refer to Appendix for reconciliation to GAAP

Capital Return to Investors is Spread Across Buybacks and Dividends

CONSISTENT SHARE REPURCHASES ³

\$Millions

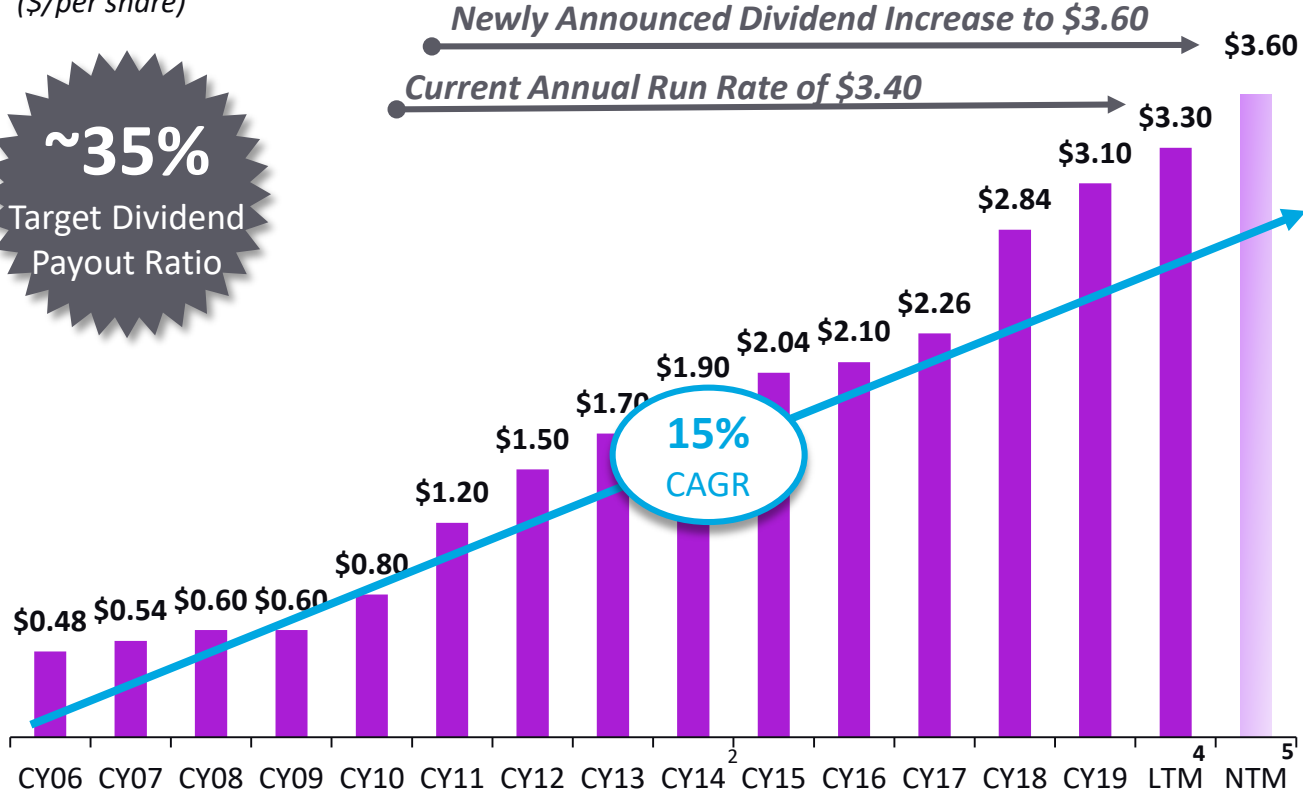
~\$73
Avg Price Per Share Since 2010



STRONG TRACK RECORD OF ANNUAL DIVIDEND INCREASES

(\$/per share)

~35%
Target Dividend Payout Ratio



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

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

September Quarter 2020 Guidance (Q1 FY2021)

| | SEPTEMBER 2020 QUARTER |
|--------------|------------------------|
| REVENUE | \$1,405M to \$1,555M |
| GROSS MARGIN | 60.5% to 62.5% |
| GAAP EPS | \$2.18 to \$2.82 |
| NON-GAAP EPS | \$2.42 to \$3.06 |

MACRO ASSUMPTIONS

- Less COVID-19 Uncertainty Reflected in Narrower Ranges
- Semi Process Control Revenue By End Market
 - Foundry: 61%
 - Memory: 31%
 - Logic: 8%

MODEL ASSUMPTIONS

- Operating Expenses: ~\$375M
- Interest & Other Expense (OIE): ~\$42M
- Effective Tax Rate: ~13%
- Diluted Share Count: ~156M

Driving Profitable Growth and Delivering Shareholder Value

Reconciliation of Non-GAAP Financial Measures

| <i>(In thousands, except per share amounts and percentages)</i> | 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% | 5.5% | 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 are 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.

Reconciliation of Non-GAAP Financial Measures

| <i>(In thousands, except percentages)</i> | 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 |
| <u>Adjustments to reconcile GAAP gross margin to non-GAAP gross margin*:</u> | | | | | |
| 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 |
| <u>Adjustments to reconcile GAAP operating expenses to non-GAAP operating expenses*:</u> | | | | | |
| 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 are 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.

Reconciliation of Non-GAAP Financial Measures

| <i>(In thousands, except percentages)</i> | 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% |
| <u>Adjustments to reconcile GAAP effective tax rate to non-GAAP effective tax rate*:</u> | | | | | |
| 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 |
| <u>Adjustments to reconcile GAAP R&D expenses to non-GAAP R&D expenses*:</u> | | | | | |
| 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> | <u>Low</u> | <u>High</u> |
|--|-----------------|-----------------|
| 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 | <u>\$ 2.42</u> | <u>\$ 3.06</u> |
| Shares used in net income per diluted shares calculation | <u>156.6</u> | <u>156.6</u> |
| | | |
| 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 | <u>60.5%</u> | <u>62.5%</u> |
| | | |
| GAAP operating expenses | \$ (388) | \$ (394) |
| Acquisition-related charges | a 14 | 14 |
| Restructuring, severance and other charges | b 2 | 2 |
| Non-GAAP operating expenses | <u>\$ (372)</u> | <u>\$ (378)</u> |

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.

- a) Acquisition-related charges primarily include amortization of intangible assets and other acquisition-related adjustments including adjustments for the fair valuation of inventory and backlog, and transaction costs associated with our acquisitions, primarily Orbotech. 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.
- b) 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.
- c) 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.
- d) 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.
- e) 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.
- f) 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.