

# KLA Earnings

Q1 Fiscal 2021 (Quarter Ended 9/30/2020)



October 28, 2020

# Forward-Looking Statements

Statements in this presentation other than historical facts, such as statements pertaining to: (i) industry trends; (ii) customer demand and investment strategy; (iii) growth expectations for KLA in 2021; (iv) growth of KLA's Services business in 2020; (v) anticipated dividends; (vi) sales, gross margin, GAAP EPS, Non-GAAP EPS, operating expenses, interest and other expense, effective tax rate, process control system revenue from foundry and memory customers, and diluted share count for the quarter ending December 31, 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, 2020, 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



# Industry Demand Environment

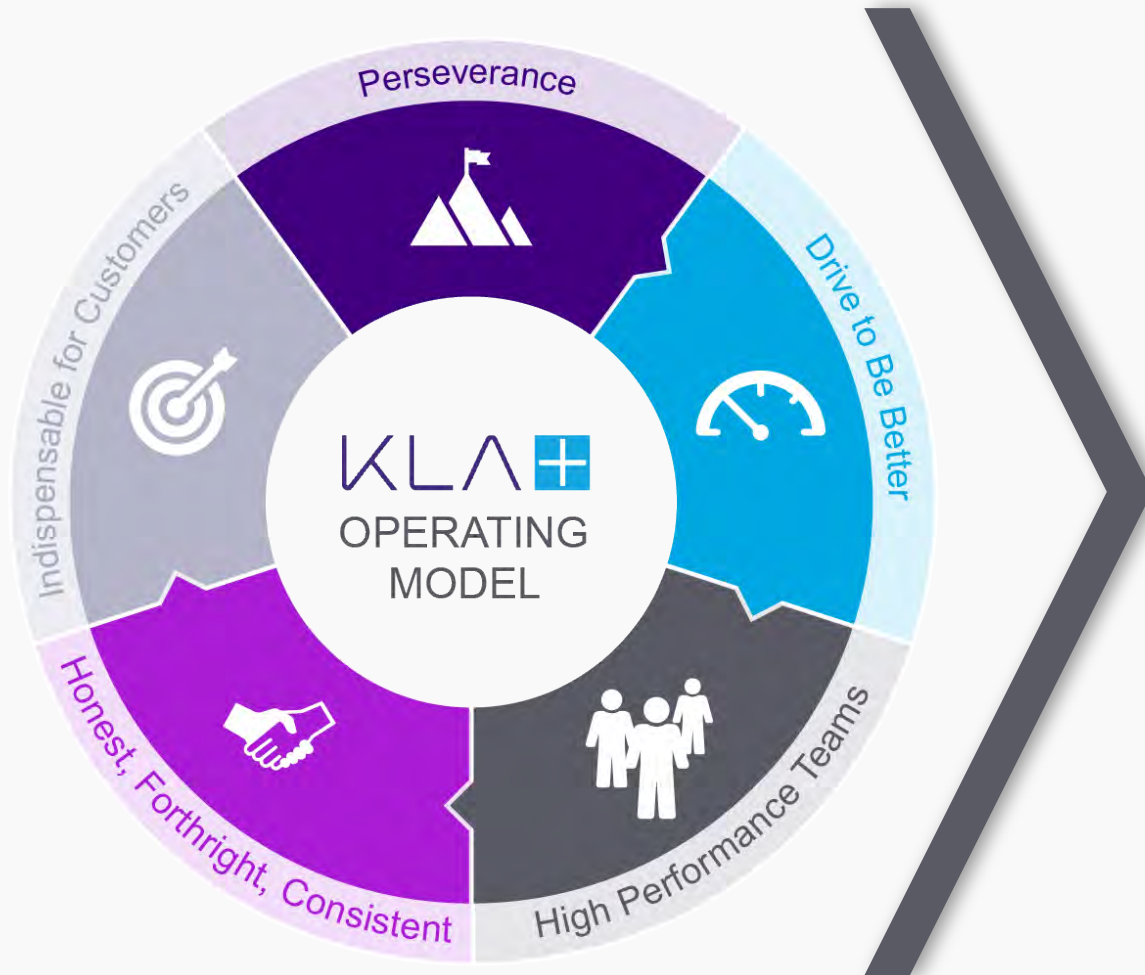
**Industry Demand is Strong** – We continue to see broad, diversified strength across each of our segments. We ended the quarter with strong backlog, reflecting the enabling role KLA plays in our customers' drive to innovate and invest in next-generation technology.

**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 smartphone growth, 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.

## KLA Remains on Track to Meet or Exceed our 2023 Financial Targets

# 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

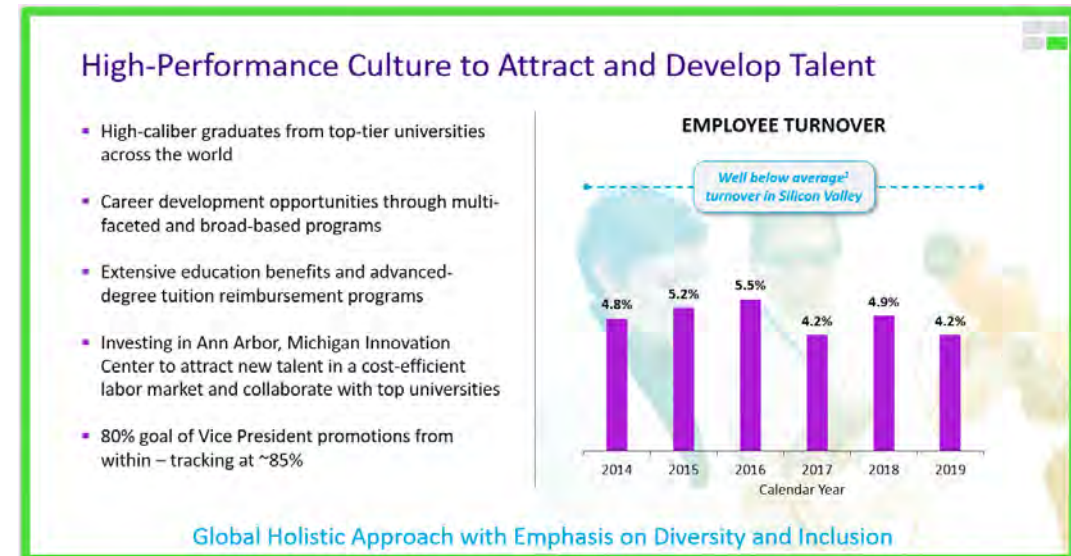
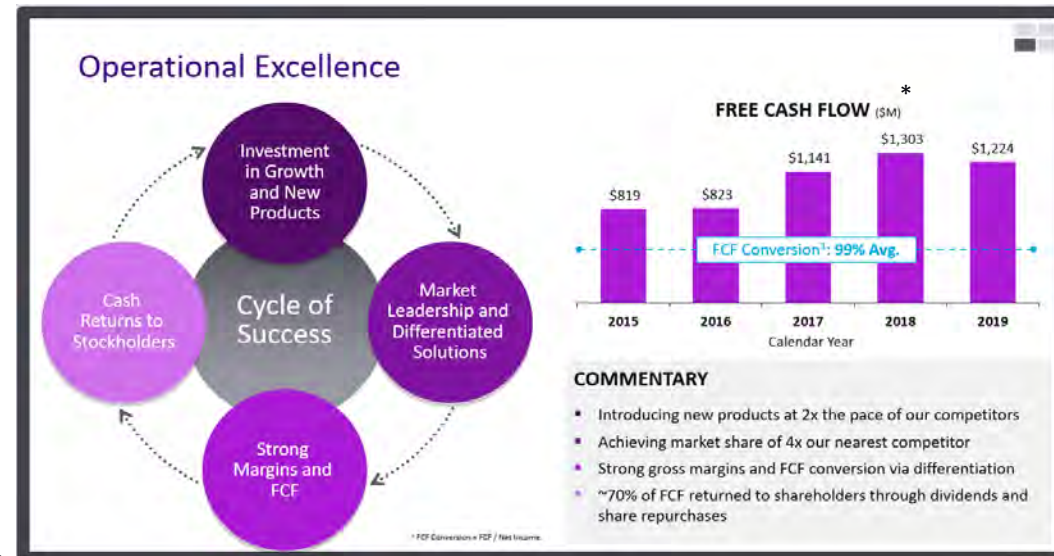
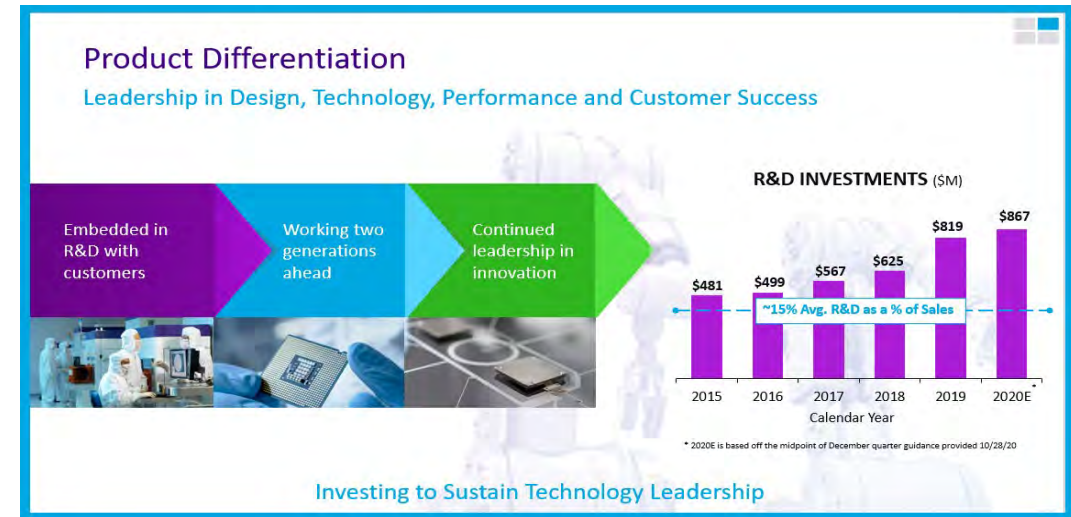
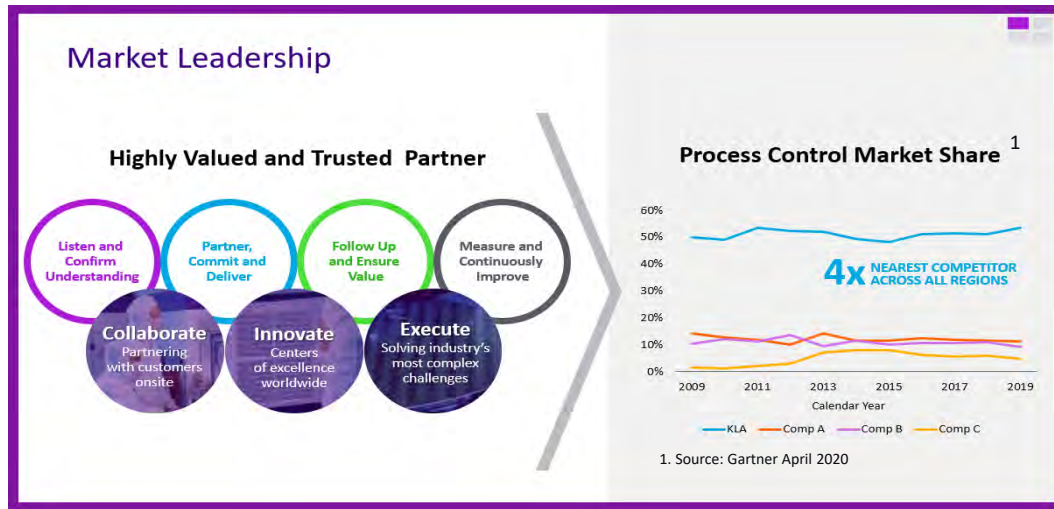
- Culture of performance and accountability
- Expectation of continuous improvement
- Superior margins driven by market leadership and differentiation

## ✓ 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

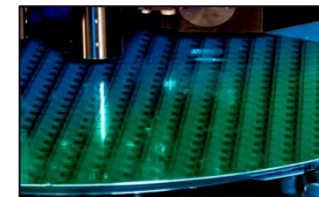
# KLA's Strategic Objectives Serve As Our Guide



\* Non-GAAP metric – Please refer to Appendix for reconciliation to GAAP.

# September Quarter 2020 Business Highlights

**1. Foundry and Logic Strength Continues, Memory Growth Expected in 2021.** We saw continued strength and breadth in **Foundry and Logic** in the September quarter, as these customers are benefitting from investment in digital infrastructure, and we expect this demand to remain healthy in 2021. **In Memory**, tool utilizations are high, and Memory customers continue to drive down device inventories and plan for higher bit growth in 2021 to meet expected improvement in end demand. 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.



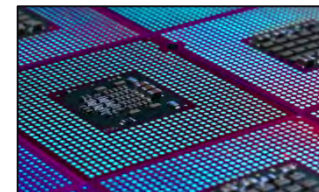
**2. KLA Continues To Win in the Marketplace.** Ended the quarter with strong backlog, demonstrating momentum in the marketplace across multiple product platforms. Fueled by new applications in our optical inspection portfolio and the success of new e-beam inspection offerings, including the eSL10 e-beam inspection platform, we are seeing strong adoption of our Patterned Wafer Inspection product suite driving our market leadership in what we expect to be a year of strong growth for Process Control relative to overall WFE. Our portfolio product strategy addresses a broad range of our customers' most complex technical challenges and is a unique differentiator for KLA.



**3. Services Business is on Track for another Year of Strong Growth.** Our Services business continues to perform well, and is positioned for double-digit growth in 2020. Several factors drive long term growth in Service, including a growing installed base, increasing complexity of our systems, tighter time to market requirements for our customers, and market expansion at trailing edge nodes. KLA's Service revenue is 25% of total quarterly revenue, and is delivering long-term growth at a rate that is double the underlying industry growth rate. This demonstrates the resiliency and predictability of Services' subscription-like annuity revenue stream.



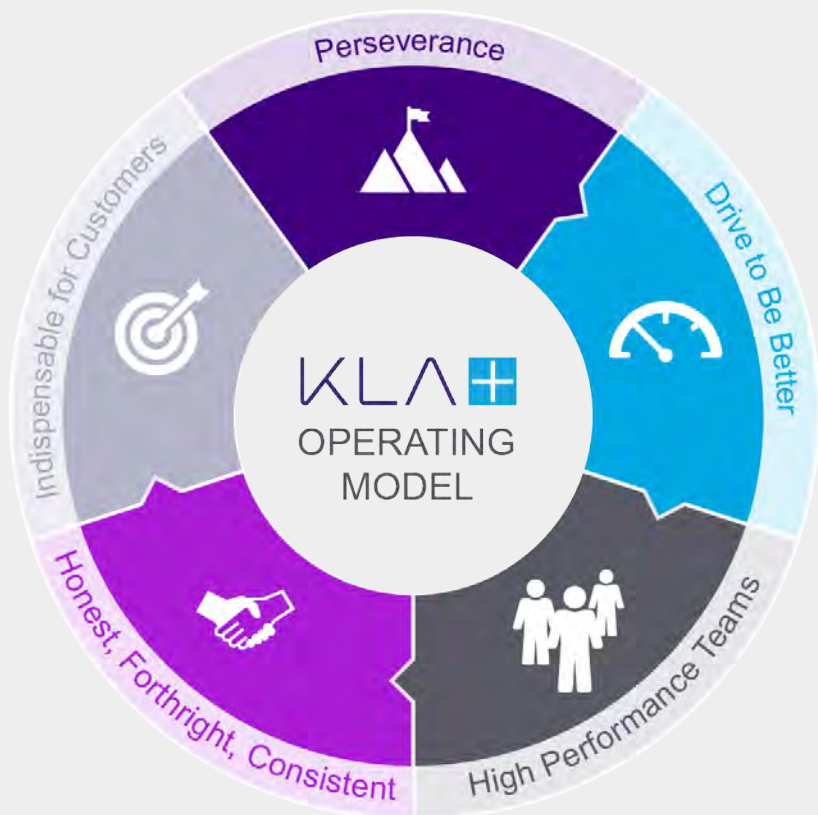
**4. EPC Group Benefitting from Secular Growth Factors Associated with 5G and Advanced Semiconductor Packaging.** September was another strong quarter for the Electronics, Packaging, and Components (EPC) group, highlighted by record demand in the PCB (Printed Circuit Board) division. The strong quarter in PCB was driven by EPC's high exposure to 5G infrastructure and the smartphone markets. The PCB business also features a strong recurring revenue component from Services, pointing to the differentiation and complexity of our product portfolio. The SPTS and ICOS divisions are also benefitting from the 5G transition along with increasingly more complex advanced semiconductor packaging.



**5. Continuing our Commitment to Returning Value to Shareholders.** During the September quarter we repurchased \$188 million of our common stock and paid \$141 million in dividends. Over the past 12 months, we have returned \$1.3 billion to shareholders or 82% of Free Cash Flow, including \$542 million in dividends paid, and \$789 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.



# 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

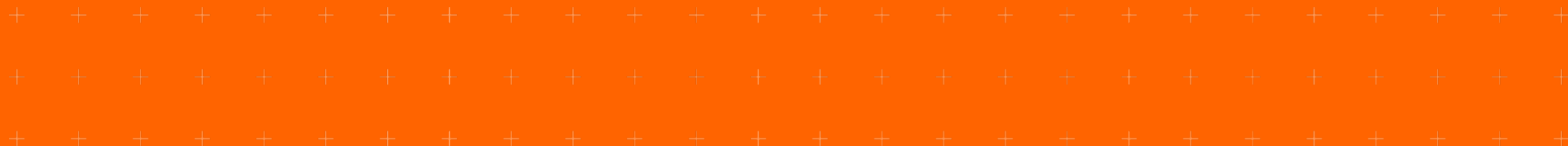
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**Track record of strong cash flow generation** supported by diversification of revenue streams; balanced capital allocation delivering superior shareholder value



# Business Performance and Guidance

Bren Higgins | Chief Financial Officer



# September Quarter 2020 Financial Highlights\*

**\$1.54B**

Revenue

**\$456M**

Free Cash Flow

**\$475M**

Net Income

**62.1%**

Gross Margin

**96.1%**

FCF Conversion

**\$3.03**

Non-GAAP EPS

**37.7%**

Op. Margin

**29.7%**

FCF Margin

**\$2.69**

GAAP EPS

\* All metrics with the exception of Revenue GAAP EPS are Non-GAAP metrics – Please refer to the appendix for reconciliation to GAAP and definition for FCF

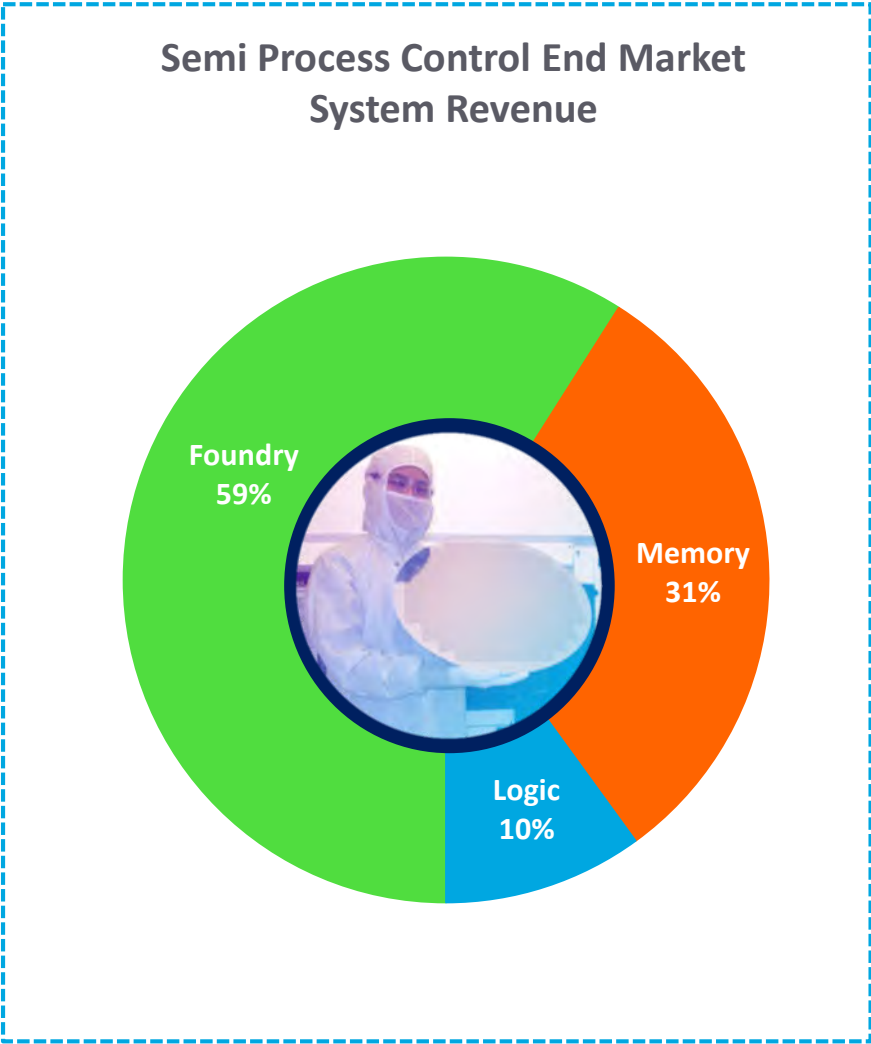
# Breakdown of Revenue by Reportable Segments and End Markets

**Semiconductor Process Control**  
*(Systems + Services)*

**Specialty Semiconductor Process**  
*(Systems + Services)*

**PCB, Display and Component Inspection**  
*(Systems + Services)*

Revenue			
Q1 - FY21(\$M)	Y/Y Growth %	Q/Q Growth %	Revenue Mix
\$1,268	+9%	+10%	82%
\$89	+29%	-11%	6%
\$181	+1%	-10%	12%
<b>Total</b>	<b>+9%</b>	<b>+5%</b>	
<b>\$1,539<sup>1</sup></b>			

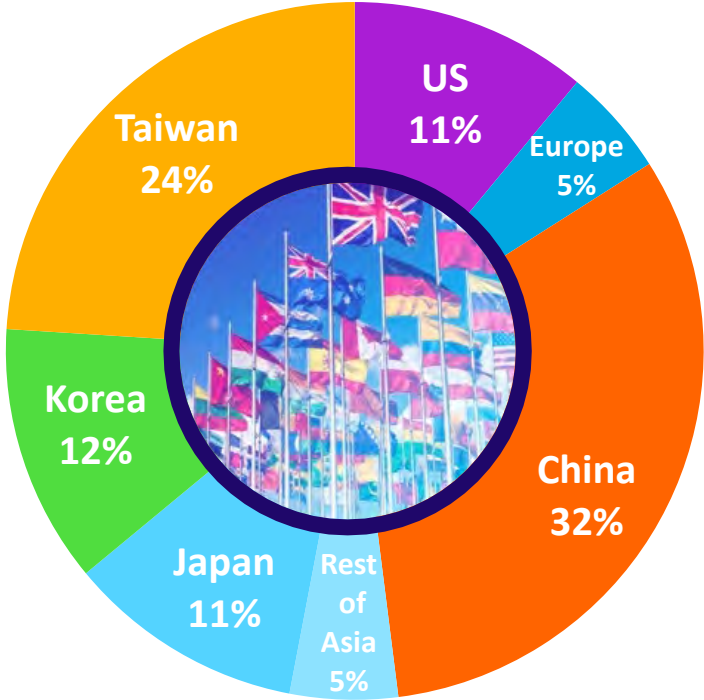


<sup>1</sup> Includes Other Revenue of \$0.1M, plus the rounding of the three segments above

# Breakdown of Revenue by Major Products and Region

	Revenue			Revenue Mix
	Q1 - FY21(\$M)	Y/Y Growth %	Q/Q Growth %	
<b>Wafer Inspection</b> <i>(Systems Only)</i>	\$520	+16%	+6%	34%
<b>Patterning</b> <i>(Systems Only)</i>	\$371	-4%	+21%	24%
<b>Specialty Semi Process</b> <i>(Systems Only)</i>	\$74	+30%	-11%	5%
<b>PCB, Display and Component Inspection</b> <i>(Systems Only)</i>	\$121	+0%	-16%	8%
<b>Services</b>	\$393	+11%	+2%	25%
<b>Other</b>	\$60	+28%	+18%	4%
<b>Total</b>	<b>\$1,539</b>	<b>+9%</b>	<b>+5%</b>	

Revenue by Region



# Strong Investment Grade Balance Sheet With No Bond Maturities Until 2024

## CONSOLIDATED BALANCE SHEET<sup>1</sup> (\$M)

Total Cash <sup>2</sup>	\$	2,043
Working Capital	\$	3,006
Total Assets	\$	9,320
Debt <sup>3</sup>	\$	3,420
Total Shareholders' Equity	\$	2,762

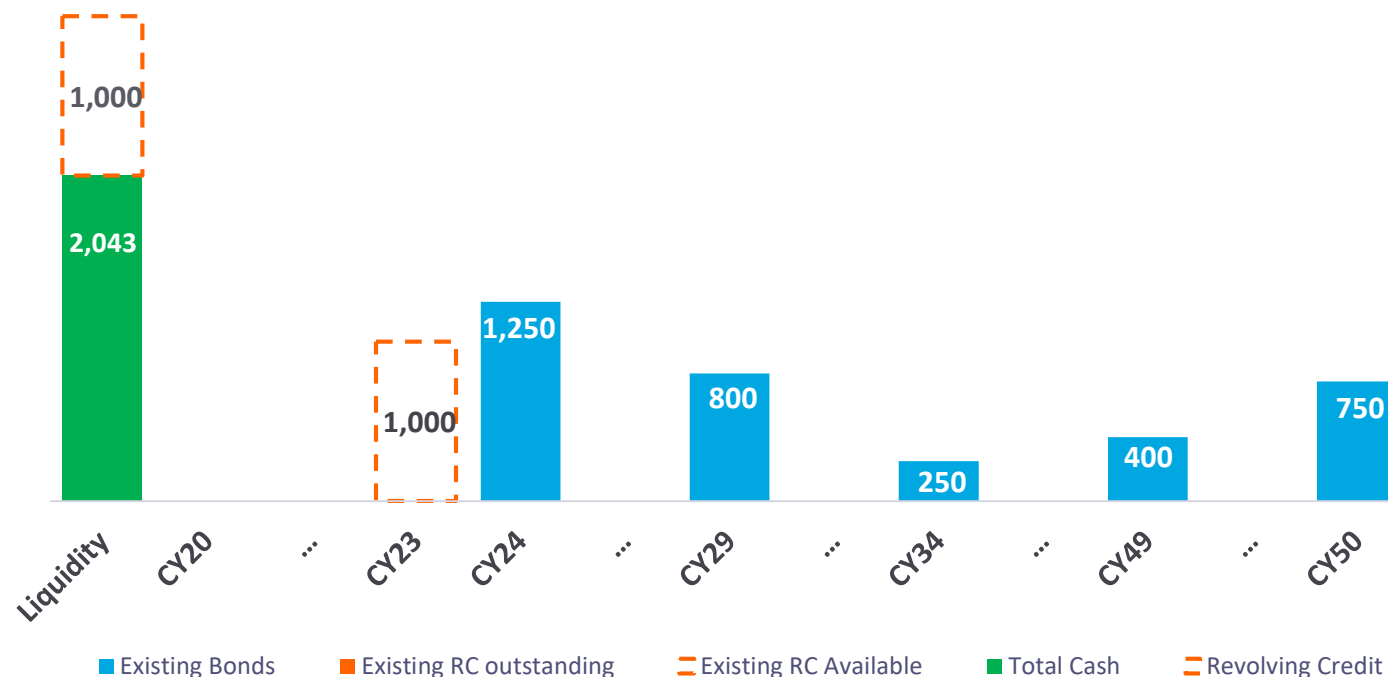
## DEBT MATURITY PROFILE

Debt Outstanding	\$	3,450M
Weighted Average Rate		4.37%
Weighted Average Life		14.2 years

## INVESTMENT GRADE CREDIT RATINGS

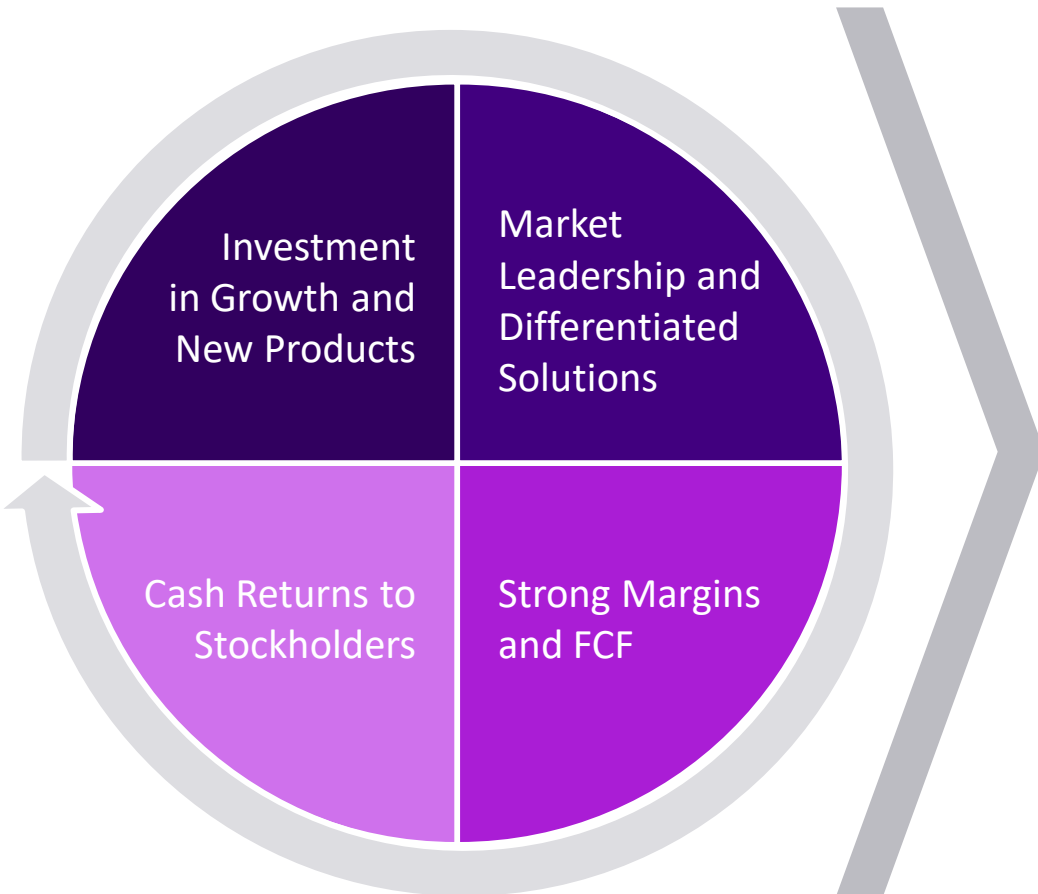
Moody's	Baa1
S&P	BBB+
Fitch	BBB+

## Bond Maturity Profile \$M

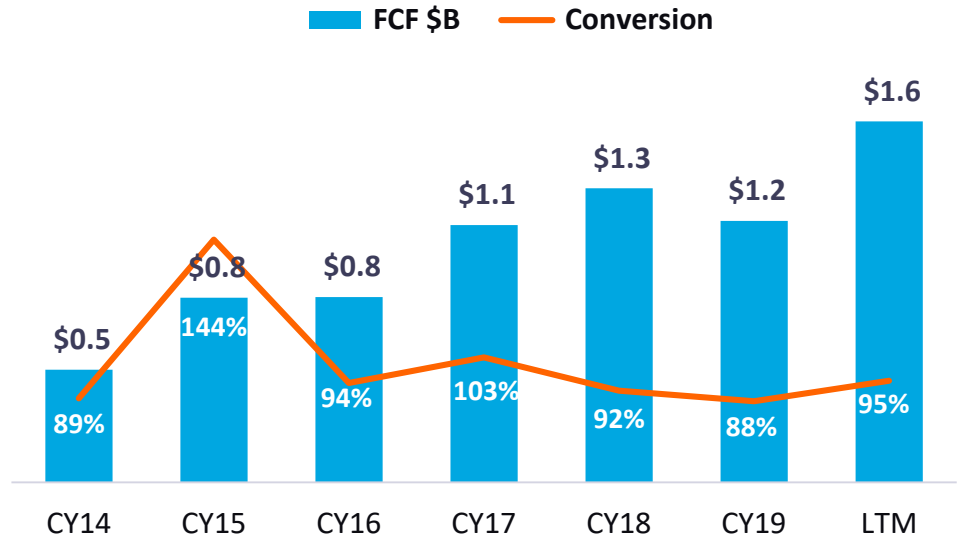


<sup>1</sup> As of 9/30/20 ; <sup>2</sup> Total Cash includes Cash, Cash Equivalents and Marketable Securities; <sup>3</sup> Difference between debt of \$3.420B and gross debt of \$3,450B is un-amortized debt issuance discounts and costs.

# FCF Generation Fuels Consistent Capital Return to Shareholders



FREE CASH FLOW<sup>1</sup> & CONVERSION<sup>2</sup>



- 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

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

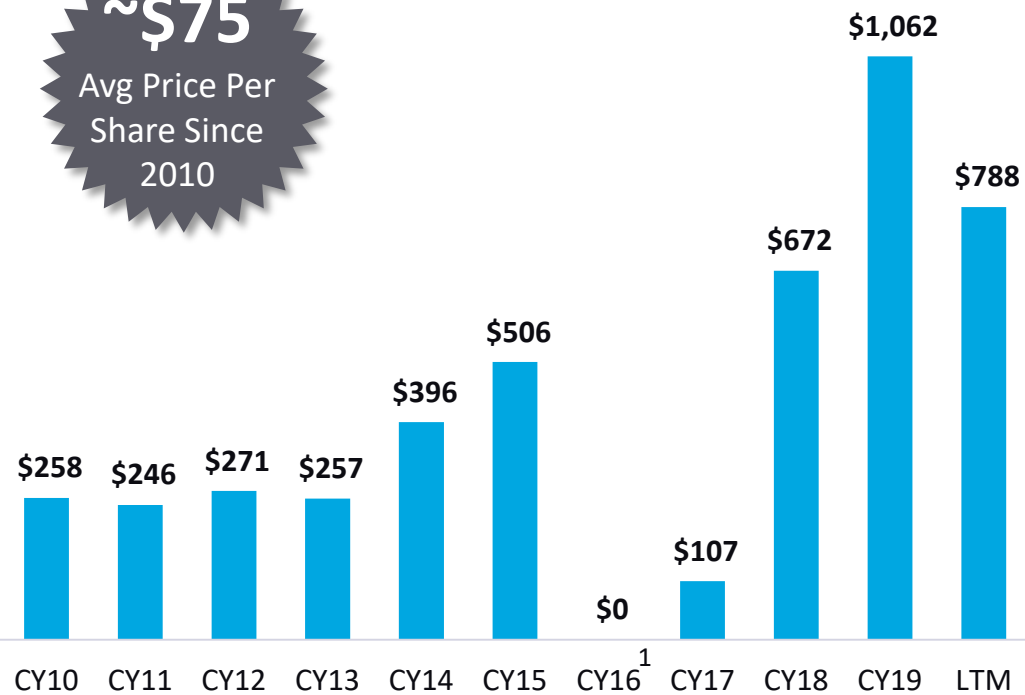


# Capital Return to Investors is Spread Across Buybacks and Dividends

## CONSISTENT SHARE REPURCHASES <sup>3</sup>

\$Millions

**~\$75**  
Avg Price Per Share Since 2010

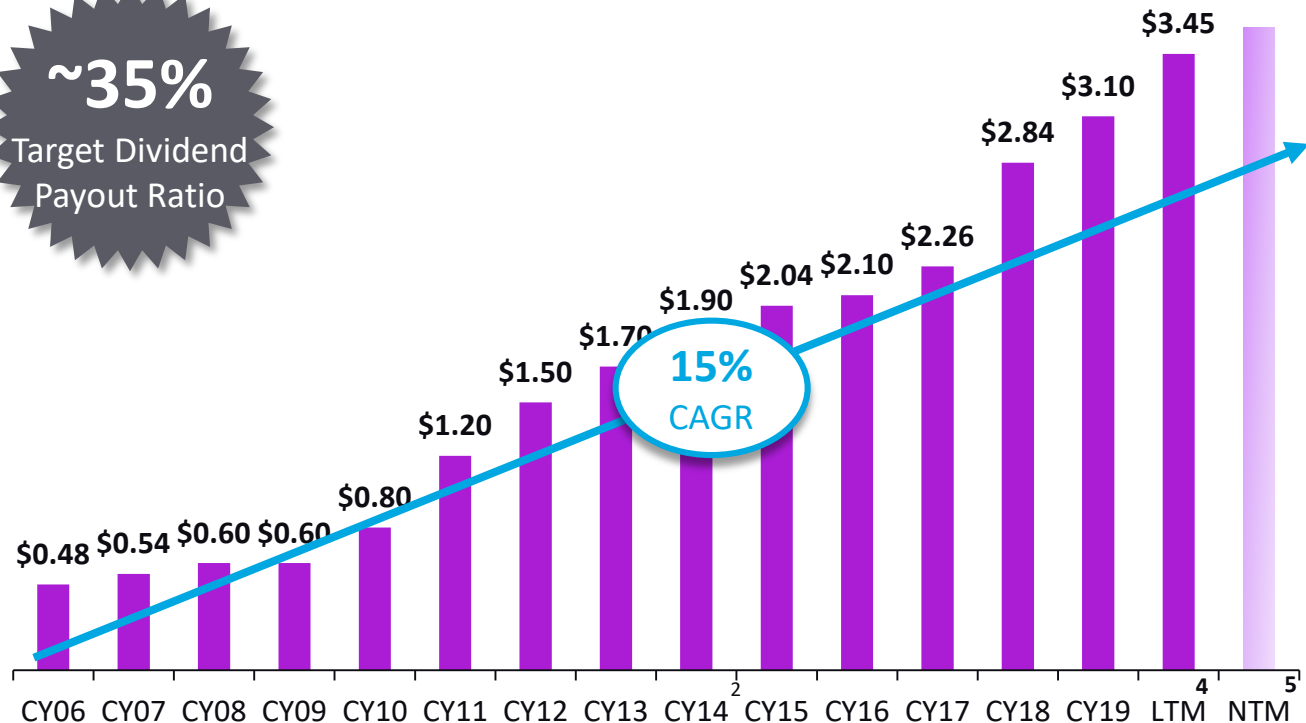


## STRONG TRACK RECORD OF ANNUAL DIVIDEND INCREASES

(\$/per share)

**~35%**  
Target Dividend Payout Ratio

Newly Announced Dividend Increase to \$3.60



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

## Free Cash Flow (FCF) and Capital Returns Highlights \*

**\$456M**

Sept Qtr FCF

**\$1.62B**

LTM FCF

**\$188M**

Sept Qtr Share Buyback

**\$1.33B**

LTM Capital Returns

**\$141M**

Sept Qtr Dividends Paid

**82%**

Capital Returns as % of FCF (LTM)

\* Capital Returns = Dividends + Share Repurchases, FCF is a Non-GAAP metrics – Please refer to the appendix for reconciliation and definition



# December Quarter 2020 Guidance (Q2 FY2021)

	DECEMBER 2020 QUARTER
REVENUE	\$1,510M to \$1,660M
GROSS MARGIN	61% to 63%
GAAP EPS	\$2.59 to \$3.23
NON-GAAP EPS	\$2.82 to \$3.46

## MACRO ASSUMPTIONS

- Semi Process Control Revenue By End Market
  - Foundry: 52%
  - Memory: 37%
  - Logic: 11%

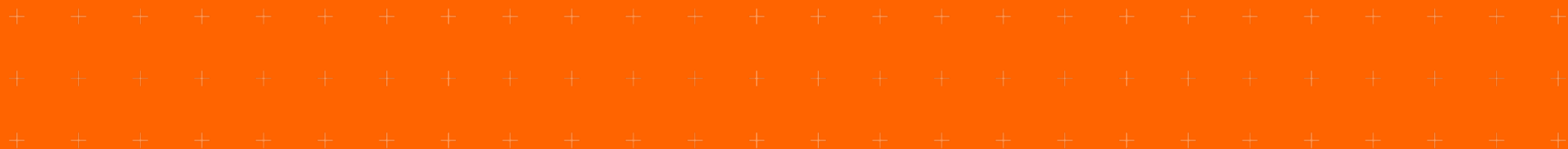
## MODEL ASSUMPTIONS

- Operating Expenses: ~\$380M
- Interest & Other Expense (OIE): ~\$42M
- Effective Tax Rate: ~13%
- Diluted Share Count: ~155M

Driving Profitable Growth and Delivering Shareholder Value

# Appendix

## Reconciliation of Financial Results



# Reconciliation of Non-GAAP Financial Measures

<i>(In thousands, except per share amounts and percentages)</i>	For the three months ended		
	September 30, 2020	June 30, 2020	September 30, 2019
<b>GAAP net income</b>	<b>\$ 420,567</b>	<b>\$ 411,253</b>	<b>\$ 346,525</b>
<u>Adjustments to reconcile GAAP net income to non-GAAP net income*:</u>			
Acquisition-related charges	a 50,475	55,937	73,363
Restructuring, severance and other charges	b 3,253	4,240	-
Income tax effect of non-GAAP adjustments	c (17,013)	(16,027)	(22,266)
Discrete tax items	d 17,487	(29,364)	-
<b>Non-GAAP net income</b>	<b>\$ 474,769</b>	<b>\$ 426,039</b>	<b>\$ 397,622</b>
GAAP net income as a percentage of revenue	27.3%	28.2%	24.5%
Non-GAAP net income as a percentage of revenue	30.9%	29.2%	28.1%
GAAP net income per diluted share	\$ 2.69	\$ 2.63	\$ 2.16
Non-GAAP net income per diluted share	\$ 3.03	\$ 2.73	\$ 2.48
Shares used in diluted shares calculation	156,442	156,183	160,131
<b>GAAP operating income</b>	<b>\$ 526,389</b>	<b>\$ 453,158</b>	<b>\$ 410,248</b>
<u>Adjustments to reconcile GAAP operating income to non-GAAP operating income*:</u>			
Acquisition-related charges	a 50,475	55,937	73,363
Restructuring, severance and other charges	b 3,492	2,298	-
<b>Non-GAAP operating income (1)</b>	<b>\$ 580,356</b>	<b>\$ 511,393</b>	<b>\$ 483,611</b>
GAAP operating income as a percentage of revenue	34.2%	31.0%	29.0%
Non-GAAP operating income as a percentage of revenue	37.7%	35.0%	34.2%

\* 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 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 September 30, 2020, June 30, 2020, and September 30, 2019 was \$13.2 million, \$28.9 million and \$1.9 million, respectively. The net gains (losses) associated with changes in the EDSP assets included in selling, general and administrative expense for the three months ended September 30, 2020, June 30, 2020, and September 30, 2019 were \$13.3 million, \$29.2 million and \$2.3 million, respectively.

# Reconciliation of Non-GAAP Financial Measures

<i>(In thousands, except percentages)</i>	For the three months ended		
	September 30, 2020	June 30, 2020	September 30, 2019
<b>GAAP gross margin</b>	<b>\$ 918,058</b>	<b>\$ 838,049</b>	<b>\$ 809,173</b>
<u>Adjustments to reconcile GAAP gross margin to non-GAAP gross margin*:</u>			
Acquisition-related charges	a 37,040	41,446	49,999
Restructuring, severance and other charges	b 636	534	-
<b>Non-GAAP gross margin</b>	<b>\$ 955,734</b>	<b>\$ 880,029</b>	<b>\$ 859,172</b>
GAAP gross margin as a percentage of revenue	59.7%	57.4%	57.2%
Non-GAAP gross margin as a percentage of revenue	62.1%	60.3%	60.8%
<b>GAAP operating expenses</b>	<b>\$ 391,669</b>	<b>\$ 384,891</b>	<b>\$ 398,925</b>
<u>Adjustments to reconcile GAAP operating expenses to non-GAAP operating expenses*:</u>			
Acquisition-related charges	a (13,435)	(14,491)	(23,364)
Restructuring, severance and other charges	b (2,856)	(1,764)	-
<b>Non-GAAP operating expenses (1)</b>	<b>\$ 375,378</b>	<b>\$ 368,636</b>	<b>\$ 375,561</b>
GAAP operating expenses as a percentage of revenue	25.5%	26.4%	28.2%
Non-GAAP operating expenses as a percentage of revenue	24.4%	25.3%	26.6%

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

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# Reconciliation of Non-GAAP Financial Measures

	For the three months ended		
	September 30, 2020	June 30, 2020	September 30, 2019
<i>(In thousands, except percentages)</i>			
<b>GAAP income before income taxes</b>	<b>\$ 483,806</b>	<b>\$ 405,069</b>	<b>\$ 371,516</b>
GAAP income tax expense	\$ 63,664	\$ (5,246)	\$ 25,120
GAAP income tax rate	13.2%	-1.3%	6.8%
<u>Adjustments to reconcile GAAP effective tax rate to non-GAAP effective tax rate*:</u>			
Acquisition-related charges	a 50,475	55,937	73,363
Restructuring, severance and other charges	b 3,253	4,240	-
<b>Non-GAAP income before income taxes</b>	<b>\$ 537,534</b>	<b>\$ 465,246</b>	<b>\$ 444,879</b>
Income tax effects of non-GAAP adjustments	c 17,013	16,027	22,266
Discrete tax item	d (17,487)	29,364	-
Non-GAAP income tax expense	\$ 63,190	\$ 40,145	\$ 47,386
Non-GAAP income tax rate	11.8%	8.6%	10.7%
<b>GAAP research and development (R&amp;D) expenses</b>	<b>\$ 219,038</b>	<b>\$ 217,100</b>	<b>\$ 210,580</b>
<u>Adjustments to reconcile GAAP R&amp;D expenses to non-GAAP R&amp;D expenses*:</u>			
Restructuring, severance and other charges	b (923)	(585)	-
<b>Non-GAAP R&amp;D expenses</b>	<b>\$ 218,115</b>	<b>\$ 216,515</b>	<b>\$ 210,580</b>

\* 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 Free Cash Flow and Related Metrics

Free Cash Flow reconciliation <i>(In thousands)</i>	For the three months ended		For the twelve months ended					
	Sept 30, 2020	Sept 30, 2020 (LTM)	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Net cash provided by operating activities	\$ 512,171	\$ 1,794,776	\$ 1,373,031	\$ 1,389,697	\$ 1,190,475	\$ 857,780	\$ 854,002	\$ 532,377
Less Capital expenditures	(55,925)	(176,034)	(149,242)	(86,518)	(49,207)	(34,974)	(34,842)	(57,514)
<b>Free cash flow</b>	<b>\$ 456,246</b>	<b>\$ 1,618,742</b>	<b>\$ 1,223,789</b>	<b>\$ 1,303,179</b>	<b>\$ 1,141,268</b>	<b>\$ 822,806</b>	<b>\$ 819,160</b>	<b>\$ 474,863</b>
Free cash flow	\$ 456,246	\$ 1,618,742	\$ 1,223,789	\$ 1,303,179	\$ 1,141,268	\$ 822,806	\$ 819,160	\$ 474,863
Non-GAAP net income attributable to KLA	474,769	1,711,975	1,391,394	1,422,592	1,107,649	876,008	570,170	531,029
<b>Free cash flow conversion</b>	<b>96.1%</b>	<b>95%</b>	<b>88%</b>	<b>92%</b>	<b>103%</b>	<b>94%</b>	<b>144%</b>	<b>89%</b>
Free cash flow	\$ 456,246							
Revenue	1,538,620							
<b>Free cash flow margin</b>	<b>29.7%</b>							
Cash paid for Dividends	\$ 141,164	\$ 541,949						
Cash paid for share repurchases	187,897	788,485						
<b>Capital returns</b>	<b>\$ 329,061</b>	<b>\$ 1,330,434</b>						
<b>Capital returns as a percentage of free cash flow</b>	<b>72%</b>	<b>82%</b>						

The Company presents free cash flow and certain related metrics as supplemental non-GAAP measures of its performance. Free cash flow is determined by adjusting GAAP net cash provided by operating activities for capital expenditures. Free cash flow conversion is defined as free cash flow divided by non-GAAP net income, and free cash flow margin is defined as free cash flow divided by revenue.

# Reconciliation of Q2 FY 2021 Guidance Range

<i>(In millions, except per share amounts and percentages)</i>	<b>Low</b>	<b>High</b>
GAAP diluted net income per share	\$ 2.59	\$ 3.23
Acquisition-related charges	a 0.32	0.32
Restructuring, severance and other charges	b 0.02	0.02
Income tax effect of non-GAAP adjustments	c (0.11)	(0.11)
Non-GAAP diluted net income per share	<u>\$ 2.82</u>	<u>\$ 3.46</u>
Shares used in net income per diluted shares calculation	<u>155.4</u>	<u>155.4</u>
GAAP gross margin as a percentage of revenue	58.5%	60.8%
Acquisition-related charges	a 2.5%	2.2%
Restructuring, severance and other charges	b 0.0%	0.0%
Non-GAAP gross margin as a percentage of revenue	<u>61.0%</u>	<u>63.0%</u>
GAAP operating expenses	\$ (394)	\$ (400)
Acquisition-related charges	a 13	13
Restructuring, severance and other charges	b 4	4
Non-GAAP operating expenses	<u>\$ (377)</u>	<u>\$ (383)</u>

**Note:** The guidance as of October 28, 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 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 including non-cash charges for accelerated depreciation for certain assets to be abandoned. Management believes excluding these items helps investors compare our operating performance with our results in prior periods.
- c) 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.
- d) Discrete tax items in the three months ended September 30, 2020 include a tax expense of \$14.0 million due to an increase in deferred tax liabilities on purchased intangibles relating to an increase in the United Kingdom statutory income tax rate as well as tax expense from a restructuring. Discrete tax items in the three months ended June 30, 2020 include a tax benefit of \$29.4 million from an internal restructuring. 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.