

October 29, 2018



KLA-Tencor Reports Fiscal 2019 First Quarter Results

MILPITAS, Calif., Oct. 29, 2018 /PRNewswire/ -- [KLA-Tencor Corporation](#) (NASDAQ: KLAC) today announced operating results for its first quarter of fiscal year 2019, which ended on Sept. 30, 2018, and reported GAAP net income of \$396 million and GAAP earnings per diluted share of \$2.54 on revenues of \$1,093 million.

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"KLA-Tencor delivered another outstanding quarter, demonstrating the company's technology and market leadership, and the compelling value of our diversified product and service portfolio in enabling customer success," commented President and Chief Executive Officer Rick Wallace. "We believe these factors uniquely position KLA-Tencor to continue to deliver long-term value to all our stakeholders."

| GAAP Results | | | |
|----------------------------|-----------------|-----------------|---------------|
| | Q1 FY 2019 | Q4 FY 2018 | Q1 FY 2018 |
| Revenues | \$1,093 million | \$1,070 million | \$970 million |
| Net Income | \$396 million | \$349 million | \$281 million |
| Earnings per Diluted Share | \$2.54 | \$2.22 | \$1.78 |

| Non-GAAP Results | | | |
|----------------------------|---------------|---------------|---------------|
| | Q1 FY 2019 | Q4 FY 2018 | Q1 FY 2018 |
| Net Income | \$384 million | \$348 million | \$284 million |
| Earnings per Diluted Share | \$2.46 | \$2.22 | \$1.80 |

Effective on the first day of fiscal 2019, the Company adopted Accounting Standards Update 2014-09, Revenue from Contracts with Customers ("ASC 606"). Prior periods were not retrospectively restated, and accordingly, the condensed consolidated unaudited balance sheet as of June 30, 2018, and the condensed consolidated unaudited statements of operations and cash flows for the three months ended Sept. 30, 2017 were prepared using accounting standards that were different than those in effect for the three months ended Sept. 30, 2018.

A reconciliation between GAAP operating results and non-GAAP operating results is provided following the financial statements included in this release. Non-GAAP results include the impact of stock-based compensation, but exclude the impact of acquisitions or pending acquisitions, restructuring, severance, merger and other related charges and certain discrete tax items. KLA-Tencor will discuss the results for its fiscal year 2019 first quarter, along with its outlook, on a conference call today beginning at 2:00 p.m. Pacific Time. A webcast of the call will be available at: www.kla-tencor.com.

About KLA-Tencor:

KLA-Tencor Corporation, a leading provider of process control and yield management solutions, partners with customers around the world to develop state-of-the-art inspection

and metrology technologies. These technologies serve the semiconductor and other related nanoelectronics industries. With a portfolio of industry-standard products and a team of world-class engineers and scientists, the company has created superior solutions for its customers for more than 40 years. Headquartered in Milpitas, Calif., KLA-Tencor has dedicated customer operations and service centers around the world. Additional information may be found at <http://www.kla-tencor.com>. (KLAC-F)

Use of Non-GAAP Financial Information

The non-GAAP and supplemental information provided in this press release is a supplement to, and not a substitute for, KLA-Tencor's financial results presented in accordance with United States GAAP.

To supplement KLA-Tencor's condensed consolidated financial statements presented in accordance with GAAP, the company provides certain non-GAAP financial information, which is adjusted from results based on GAAP to exclude certain costs and expenses (benefits), as well as other supplemental information. The non-GAAP and supplemental information is provided to enhance the user's overall understanding of KLA-Tencor's operating performance and its prospects in the future. Specifically, KLA-Tencor believes that the non-GAAP information provides useful measures to both management and investors regarding financial and business trends relating to KLA-Tencor's financial performance by excluding certain costs and expenses (benefits) that the company believes are not indicative of its 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 (benefits) 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.

KLA-Tencor Corporation
Condensed Consolidated Unaudited Balance Sheets

| <i>(In thousands)</i> | <u>Sept. 30, 2018</u> | <u>June 30, 2018</u> |
|--|-----------------------|----------------------|
| ASSETS | | |
| Cash, cash equivalents and marketable securities | \$ 2,780,308 | \$ 2,880,318 |
| Accounts receivable, net | 602,210 | 651,678 |
| Inventories | 993,527 | 931,845 |
| Other current assets | 144,999 | 85,159 |
| Land, property and equipment, net | 291,232 | 286,306 |
| Goodwill | 360,428 | 354,698 |
| Deferred income taxes, non-current | 222,107 | 193,200 |
| Purchased intangibles, net | 25,129 | 19,333 |
| Other non-current assets | 225,169 | 216,819 |
| Total assets | <u>\$ 5,645,109</u> | <u>\$ 5,619,356</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 154,930 | \$ 169,354 |
| Deferred system revenue | 216,427 | — |
| Deferred service revenue | 166,254 | 69,255 |
| Deferred system profit | — | 279,581 |
| Other current liabilities | 773,319 | 699,893 |
| Total current liabilities | <u>1,310,930</u> | <u>1,218,083</u> |
| Non-current liabilities: | | |
| Long-term debt | 2,237,890 | 2,237,402 |
| Deferred service revenue | 80,936 | 71,997 |
| Other non-current liabilities | 447,984 | 471,363 |
| Total liabilities | <u>4,077,740</u> | <u>3,998,845</u> |
| Stockholders' equity: | | |
| Common stock and capital in excess of par value | 596,166 | 617,999 |
| Retained earnings | 1,027,370 | 1,056,445 |
| Accumulated other comprehensive income (loss) | (56,167) | (53,933) |
| Total stockholders' equity | <u>1,567,369</u> | <u>1,620,511</u> |
| Total liabilities and stockholders' equity | <u>\$ 5,645,109</u> | <u>\$ 5,619,356</u> |

KLA-Tencor Corporation
Condensed Consolidated Unaudited Statements of Operations

| <i>(In thousands, except per share amounts)</i> | <u>Three months ended Sept. 30,</u> | |
|---|-------------------------------------|-------------------|
| | <u>2018</u> | <u>2017</u> |
| Revenues: | | |
| Product | \$ 829,227 | \$ 760,787 |
| Service | 264,033 | 208,794 |
| Total revenues | <u>1,093,260</u> | <u>969,581</u> |
| Costs and expenses: | | |
| Costs of revenues | 381,387 | 353,117 |
| Research and development | 153,530 | 146,687 |
| Selling, general and administrative | 114,438 | 107,432 |
| Interest expense and other, net | 16,337 | 26,193 |
| Income before income taxes | <u>427,568</u> | <u>336,152</u> |
| Provision for income taxes | 31,624 | 55,216 |
| Net income | <u>\$ 395,944</u> | <u>\$ 280,936</u> |
| Net income per share: | | |
| Basic | <u>\$ 2.55</u> | <u>\$ 1.79</u> |
| Diluted | <u>\$ 2.54</u> | <u>\$ 1.78</u> |
| Cash dividends declared per share | <u>\$ 0.75</u> | <u>\$ 0.59</u> |
| Weighted-average number of shares: | | |
| Basic | 155,221 | 156,826 |
| Diluted | 156,083 | 157,846 |

KLA-Tencor Corporation
Condensed Consolidated Unaudited Statements of Cash Flows

| | Three months ended | |
|---|---------------------------|---------------------|
| | Sept. 30, | |
| <u>(In thousands)</u> | <u>2018</u> | <u>2017</u> |
| Cash flows from operating activities: | | |
| Net income | \$ 395,944 | \$ 280,936 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 16,087 | 15,282 |
| (Gain) loss on unrealized foreign exchange and other | 3,005 | 2,291 |
| Other | 890 | 980 |
| Stock-based compensation expense | 16,138 | 14,031 |
| Changes in assets and liabilities, net of business acquisition: | | |
| Accounts receivable | 36,079 | (95,621) |
| Inventories | (55,738) | (20,194) |
| Other assets | (16,853) | (4,222) |
| Accounts payable | (14,765) | (8,877) |
| Deferred system revenue | (79,810) | — |
| Deferred service revenue | (13,325) | — |
| Deferred system profit | — | 28,406 |
| Other liabilities | 93,753 | 160,617 |
| Net cash provided by operating activities | <u>381,405</u> | <u>373,629</u> |
| Cash flows from investing activities: | | |
| Business acquisition, net of cash acquired | (11,787) | (710) |
| Capital expenditures | (22,330) | (15,756) |
| Purchases of available-for-sale securities | — | (191,744) |
| Proceeds from sale of available-for-sale securities | 91,238 | 50,095 |
| Proceeds from maturity of available-for-sale securities | 254,757 | 268,665 |
| Purchases of trading securities | (4,619) | (11,876) |
| Proceeds from sale of trading securities | 7,612 | 14,320 |
| Net cash provided by investing activities | <u>314,871</u> | <u>112,994</u> |
| Cash flows from financing activities: | | |
| Repayment of debt | — | (156,250) |
| Tax withholding payments related to equity awards | (26,961) | (23,628) |
| Common stock repurchases | (299,974) | (39,927) |
| Payment of dividends to stockholders | (122,757) | (100,327) |
| Net cash used in financing activities | <u>(449,692)</u> | <u>(320,132)</u> |
| Effect of exchange rate changes on cash and cash equivalents | (1,452) | 1,155 |
| Net increase in cash and cash equivalents | 245,132 | 167,646 |
| Cash and cash equivalents at beginning of period | 1,404,382 | 1,153,051 |
| Cash and cash equivalents at end of period | <u>\$ 1,649,514</u> | <u>\$ 1,320,697</u> |
| Supplemental cash flow disclosures: | | |
| Income taxes paid | \$ 24,962 | \$ 23,858 |
| Interest paid | \$ 537 | \$ 3,005 |
| Non-cash activities: | | |
| Accrued purchase of land, property and equipment - investing activities | \$ 9,242 | \$ 4,734 |
| Contingent consideration payable - financing activities | \$ 3,102 | \$ — |
| Business acquisition holdback amounts - investing activities | \$ 440 | \$ 4,780 |
| Unsettled common stock repurchase - financing activities | \$ 7,812 | \$ 848 |
| Dividends payable - financing activities | \$ 4,783 | \$ 7,011 |

KLA-Tencor Corporation
Condensed Consolidated Unaudited Supplemental Information
(In thousands, except per share amounts)

Reconciliation of GAAP Net Income to Non-GAAP Net Income

| | Three months ended | | |
|---|--------------------|-------------------|-------------------|
| | Sept. 30, 2018 | June 30, 2018 | Sept. 30, 2017 |
| GAAP net income | \$ 395,944 | \$ 348,767 | \$ 280,936 |
| <u>Adjustments to reconcile GAAP net income to non-GAAP net income:</u> | | | |
| Acquisition-related charges | a 5,551 | 3,973 | 1,587 |
| Merger-related charges | b — | — | 3,015 |
| Income tax effect of non-GAAP adjustments | c (310) | (300) | (1,599) |
| Discrete tax items | d (17,106) | (4,402) | — |
| Non-GAAP net income | <u>\$ 384,079</u> | <u>\$ 348,038</u> | <u>\$ 283,939</u> |
| GAAP net income per diluted share | <u>\$ 2.54</u> | <u>\$ 2.22</u> | <u>\$ 1.78</u> |
| Non-GAAP net income per diluted share | <u>\$ 2.46</u> | <u>\$ 2.22</u> | <u>\$ 1.80</u> |
| Shares used in diluted shares calculation | <u>156,083</u> | <u>156,822</u> | <u>157,846</u> |

Pre-tax impact of items included in Condensed Consolidated Unaudited Statements of Operations

| | Acquisition- related charges | Merger-related charges | Total pre-tax GAAP to non- GAAP adjustments |
|---|---------------------------------|---------------------------|--|
| <u>Three months ended Sept. 30, 2018</u> | | | |
| Costs of revenues | \$ 890 | \$ — | \$ 890 |
| Selling, general and administrative | 4,661 | — | 4,661 |
| Total in three months ended Sept. 30, 2018 | <u>\$ 5,551</u> | <u>\$ —</u> | <u>\$ 5,551</u> |
| <u>Three months ended June 30, 2018</u> | | | |
| Costs of revenues | \$ 729 | \$ — | \$ 729 |
| Selling, general and administrative | 3,244 | — | 3,244 |
| Total in three months ended June 30, 2018 | <u>\$ 3,973</u> | <u>\$ —</u> | <u>\$ 3,973</u> |
| <u>Three months ended Sept. 30, 2017</u> | | | |
| Costs of revenues | \$ 1,530 | \$ 405 | \$ 1,935 |
| Research and development | — | 1,147 | 1,147 |
| Selling, general and administrative | 57 | 1,463 | 1,520 |
| Total in three months ended Sept. 30, 2017 | <u>\$ 1,587</u> | <u>\$ 3,015</u> | <u>\$ 4,602</u> |

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 include amortization of intangible assets and inventory fair value adjustments, and transaction costs associated with acquisitions or pending acquisitions, including the pending acquisition of Orbotech. Management believes that the expense associated with the amortization of acquisition related intangible assets and acquisition related costs are appropriate to be excluded because a significant portion of the purchase price for acquisitions may be allocated to intangible assets that have short lives, and exclusion of these expenses allows comparisons of operating results that are consistent over time for both KLA-Tencor's newly acquired and long-held businesses. 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. Merger-related charges associated with the terminated merger agreement between KLA-Tencor and Lam Research Corporation ("Lam") primarily includes employee retention-related expenses, legal expenses and other costs. Management believes that it is appropriate to exclude these items as they are not indicative of ongoing operating results and therefore limit comparability and excluding these items helps investors compare our operating performance with our results in prior periods as well as with the performance of other companies.
- 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 item during the three months ended Sept. 30, 2018 and during the three months ended June 30, 2018 includes 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 Dec. 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.

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