

# KLA Earnings

Q2 Fiscal 2020 (Quarter Ended 12/31/19)



Keep Looking Ahead

February 4, 2020

# Forward-Looking Statements

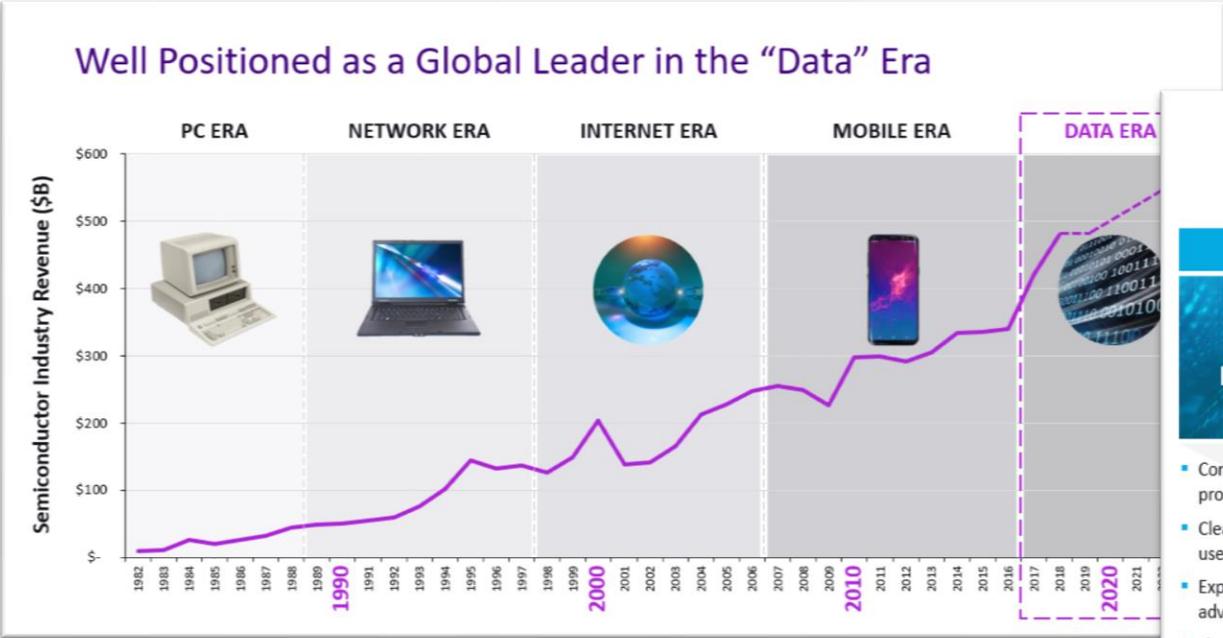
Statements in this presentation other than historical facts, such as statements pertaining to: (i) industry trends; (ii) continued foundry and logic demand; (iii) semiconductor industry CAGR; (iv) sales, gross margin, GAAP EPS, Non-GAAP EPS, operating expenses, interest and other income expense, effective tax rate, process control system revenue from foundry and memory customers, and diluted share count for the quarter ending March 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 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; 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



# KLA Benefits From Multiple Secular Growth Drivers



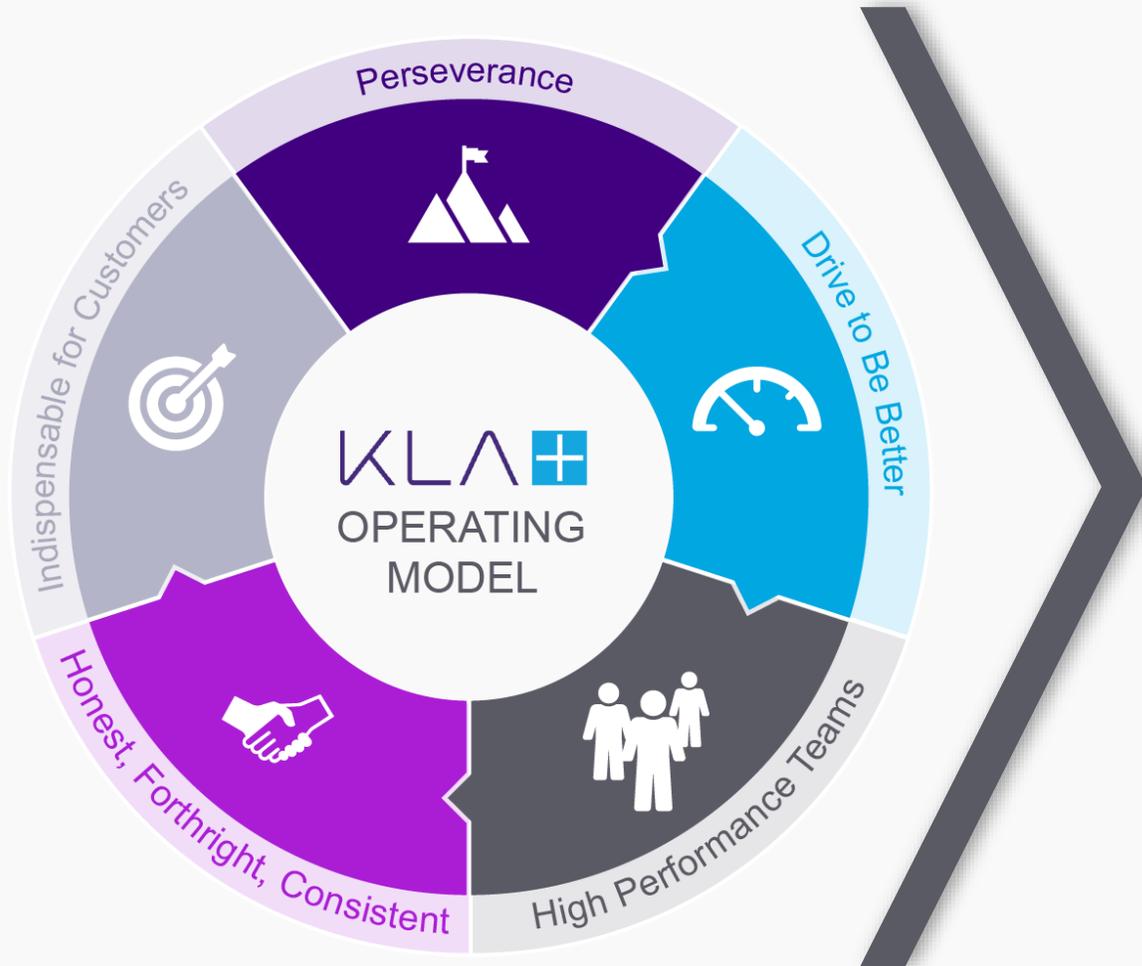
Sources: Industry data, Gartner, Yole, and Company estimates

## More Complexity & Semiconductor Devices Drive Greater Demand

MEGA TRENDS ACROSS...		...KEY INDUSTRIES		
<b>ARTIFICIAL INTELLIGENCE</b> <ul style="list-style-type: none"> <li>Core engine of KLA products' performance</li> <li>Clear opportunities as a user and supplier</li> <li>Expanding the scope of advanced logic nodes</li> <li>Significant inflections in packaging via multi-chip integration</li> </ul>	<b>5G CONNECTIVITY</b> <ul style="list-style-type: none"> <li>Embedded in technologies in the next 5 years</li> <li>Building infrastructure increases demand for KLA</li> <li>Mobile implementation in 2021E-2023E, driving new smartphone cycle</li> <li>Significant opportunities across our entire portfolio</li> </ul>	<b>MOBILE</b> <ul style="list-style-type: none"> <li>#1 consumer of semiconductor (\$100B+ / year)</li> <li>&gt;30% growth of semiconductor content in future 5G phones</li> <li>Leading with new technology inflections</li> <li>Highest process control intensity industry</li> </ul>	<b>DATA CENTER</b> <ul style="list-style-type: none"> <li>High growth industry</li> <li>Strong driver of leading-edge semiconductor</li> <li>End customers designing their own chips</li> <li>Strategic collaborations to influence semiconductor supply chain</li> </ul>	<b>AUTOMOTIVE</b> <ul style="list-style-type: none"> <li>Secular transformation with connectivity/autonomous/electrification</li> <li>Fastest growing semiconductor segment</li> <li>Highest semiconductor quality and reliability standards</li> </ul>

## KLA Employs a Product-Agnostic, Solution-Centric Approach

# 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

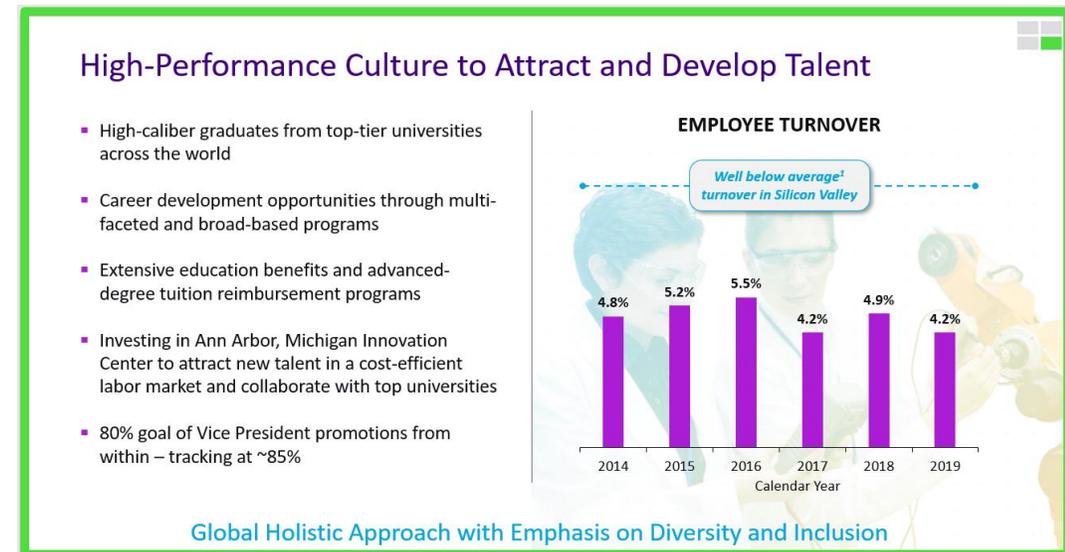
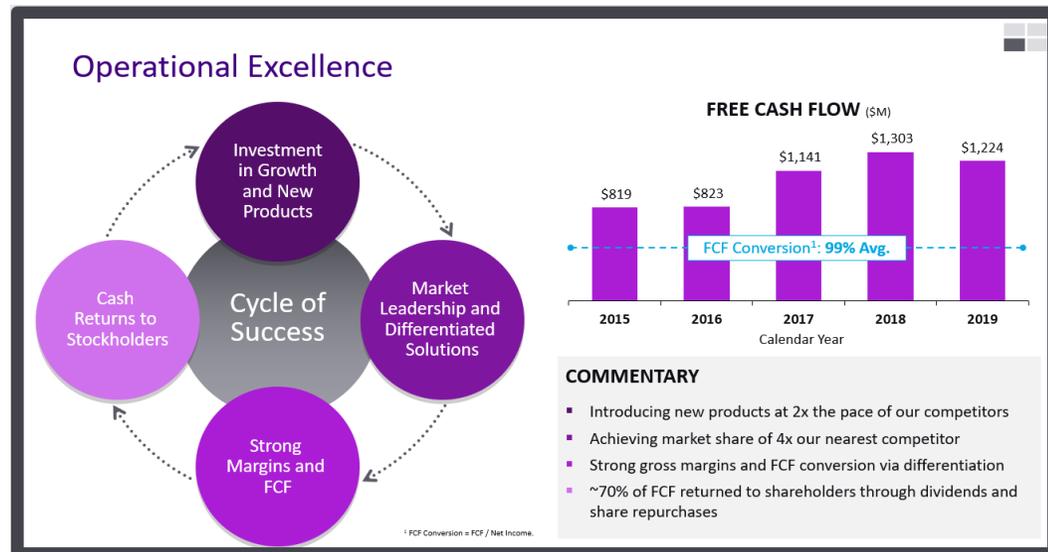
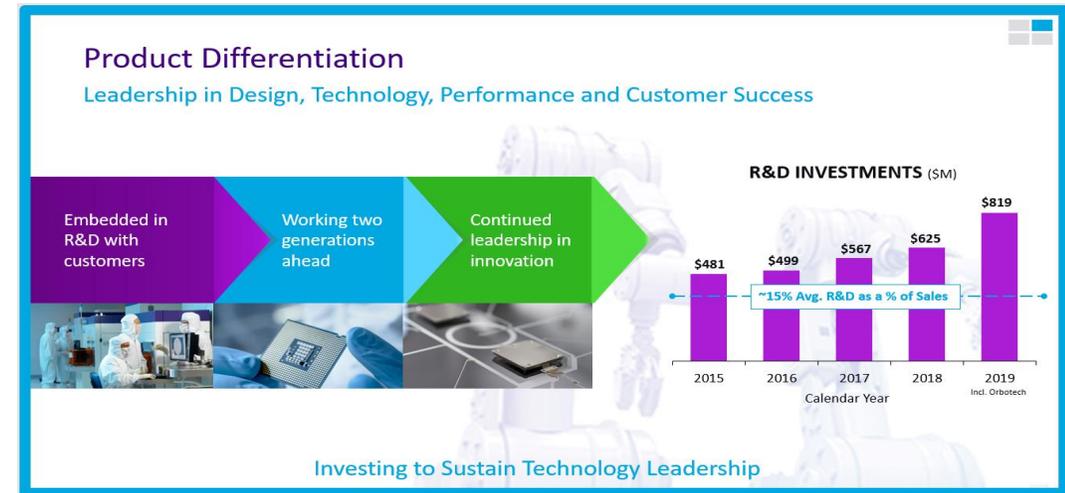
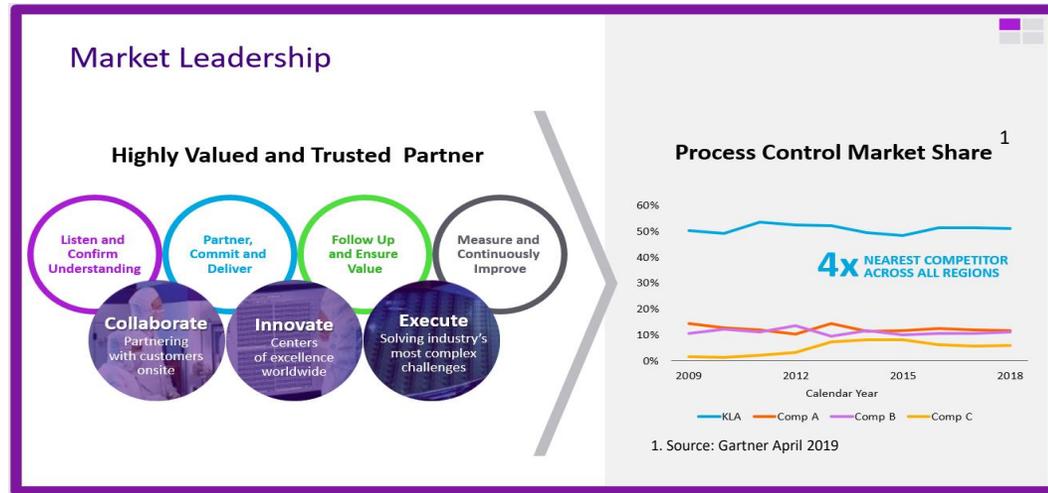
- Culture of performance and accountability
- Expectation of continuous improvement
- Superior margins driven by market leadership and differentiation

## ✓ 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 Four Strategic Objectives Serve As Our Guide



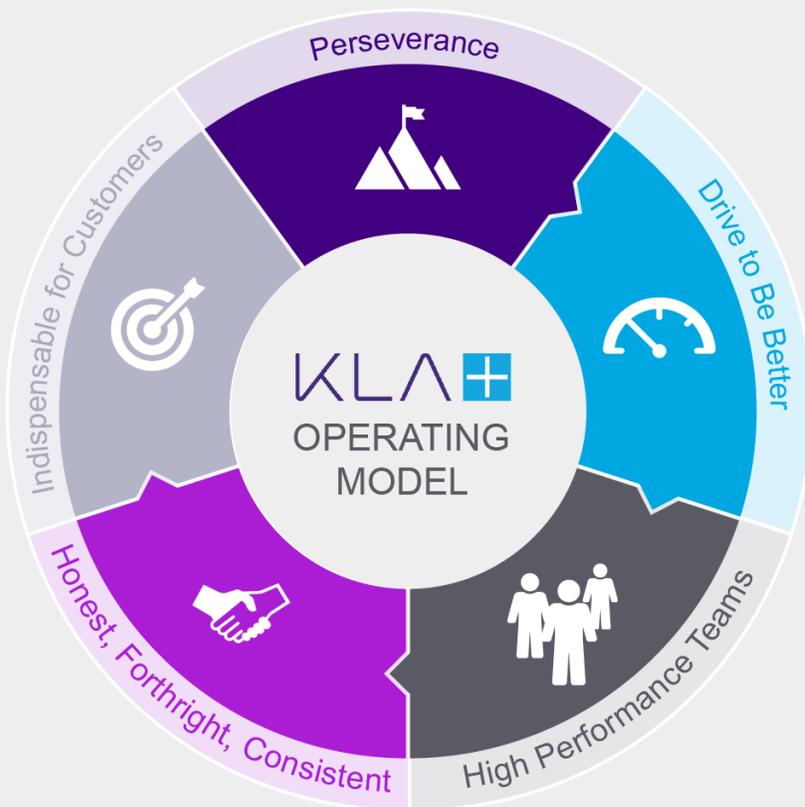
# December Quarter 2019 Business Highlights



KLA Gen5 – 392x Series

- 1. Continued Strength in Foundry and Logic.** Foundry and Logic customers increased their capex investments to accelerate the ramp of both 7 and 5 nanometer nodes, and their demand picture is expected to remain strong in calendar 2020.
- 2. Expanded Use Case for Gen5 Helping to Drive Adoption.** Seeing accelerated adoption of the flagship Gen5 optical inspection platform driven by critical yield challenges at 7nm and below, as well as adoption of EUV print check methodologies. Gen5 shipments grew nearly 3X in 2019, and we expect continued growth in Gen5 in calendar 2020.
- 3. Our New e-Beam Inspection Platform is Receiving Strong Customer Feedback.** KLA's e-Beam inspection platform works seamlessly with our Gen5 optical inspection platform through connectivity that offers customers faster time-to-results to address the smallest defects.
- 4. Delivered the Industry's First X-ray Metrology Tool.** After proving value of the technology in initial customer evaluations, we delivered the first production-ready version of the this new platform. We are now focusing on establishing new use cases with all leading memory customers.
- 5. KLA's Semiconductor Process Control Service Business Reached \$1.1 Billion in 2019.** Total KLA Service revenue (including Orbotech) eclipsed \$1.5 billion and continues to shine while generating strong free cash flow and predictability.

# The KLA Operating Model Also Drives Our Investment Thesis



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



# December Quarter 2019 Financial Highlights

**\$1.509B**

Revenue

**60.8%**

Gross Margin\*

**\$285M**

Stock Repurchase

**\$2.40**

GAAP EPS

**34.8%**

Op. Margin\*

**\$135M**

Dividends Paid

**\$2.66**

NON-GAAP EPS \*

**\$353M**

Free Cash Flow\*\*

**119%**

% FCF Returned

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

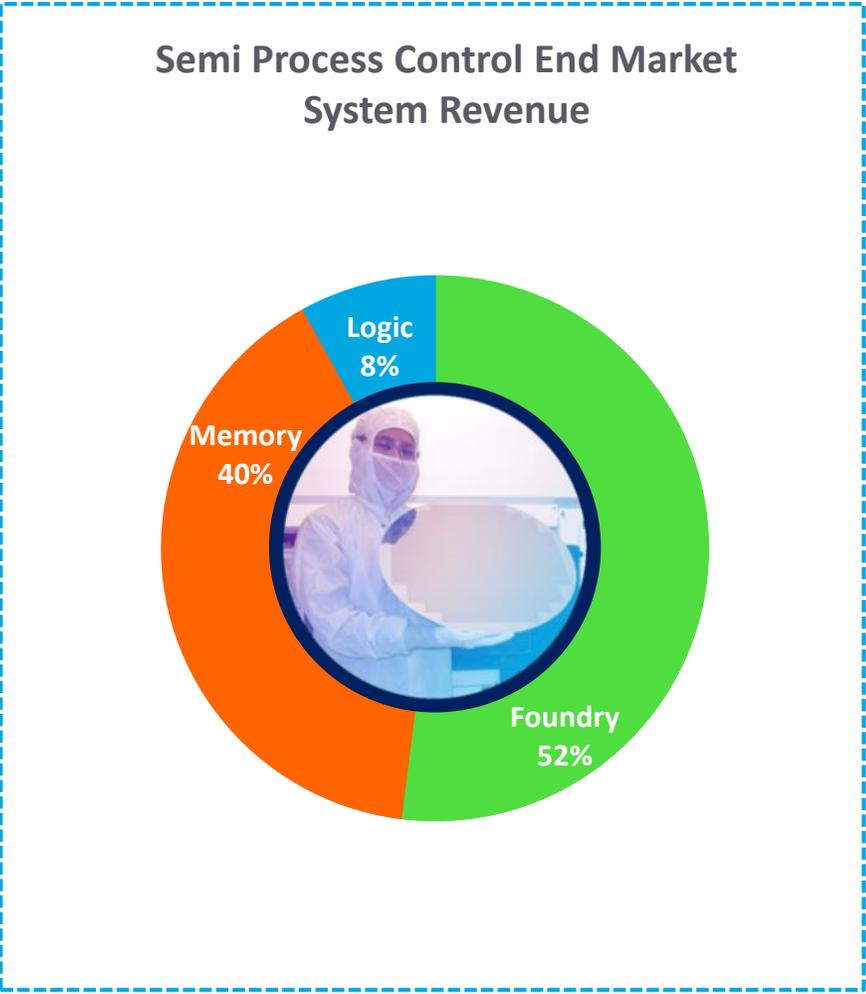
# Breakdown of Revenue by Reportable Segments and End Markets

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

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

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

Revenue		
Q4-CY19(\$M)	Q/Q Growth %	Revenue Mix
\$1,248	+7%	83%
\$75	+9%	5%
\$186	+4%	12%
<b>Total</b>	<b>+7%</b>	
<b>\$1,509 <sup>1</sup></b>		

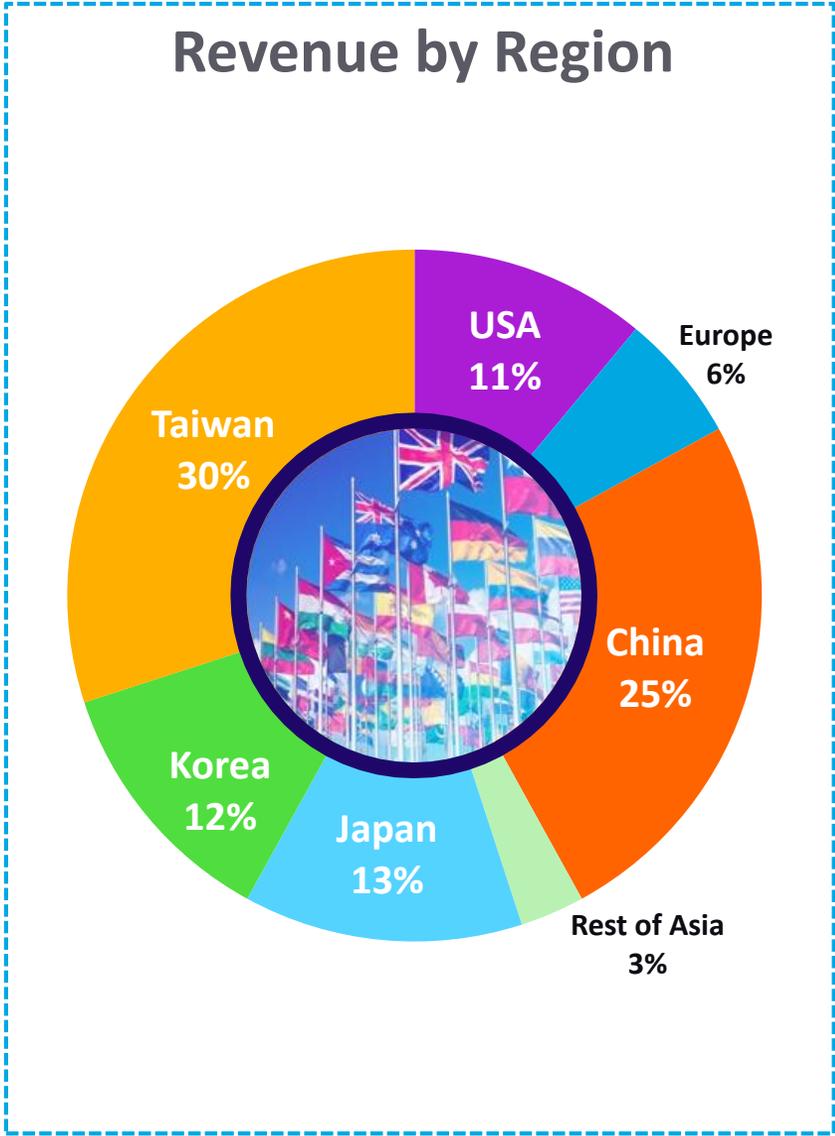


<sup>1</sup> Includes Other Revenue of \$1M.

# Breakdown of Revenue by Major Products and Region



Revenue		
Q4-CY19(\$M)	Q/Q Growth %	Revenue Mix
\$606	+35%	40%
\$289	-25%	19%
\$61	+7%	4%
\$129	+7%	9%
\$365	+3%	24%
\$59	+18%	4%
<b>\$1,509</b>	<b>+7%</b>	



**Total**

## Other December Quarter 2019 Income Statement Highlights

**\$391M**

Total Op. Expenses\*

**13.5%**

Effective Tax Rate

**\$220M**

R&D\*

**\$422M**

Net Income\*

**\$38M**

Other Income & Expense

**159M**

Diluted Shares

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

# Balance Sheet Highlights and Debt Maturities Profile

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

Total Cash <sup>2</sup>	\$	1,678
Working Capital	\$	2,659
Total Assets	\$	9,251
Debt <sup>3</sup>	\$	3,400
Total Shareholders' Equity	\$	2,688

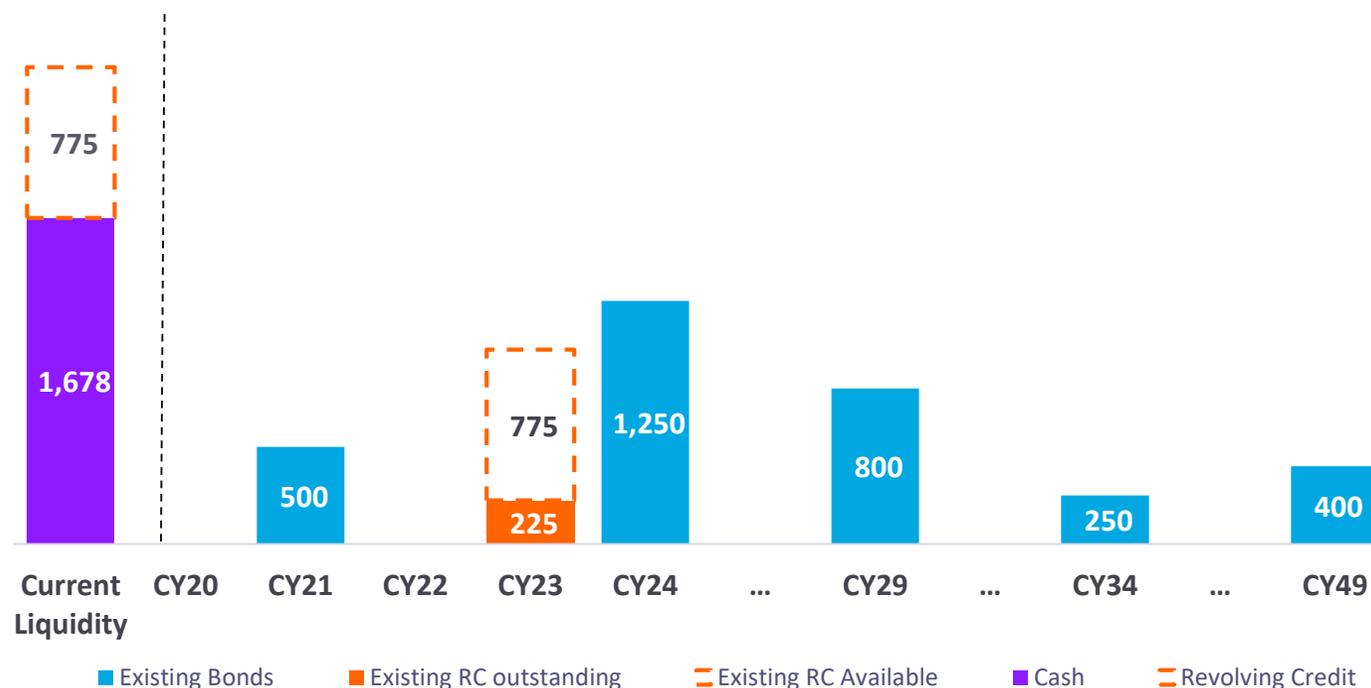
## DEBT MATURITY PROFILE

Debt Outstanding <sup>4</sup>	\$	3,425M
Weighted Average Rate		4.47%
Weighted Average Life		8.9 years

## INVESTMENT GRADE CREDIT RATINGS

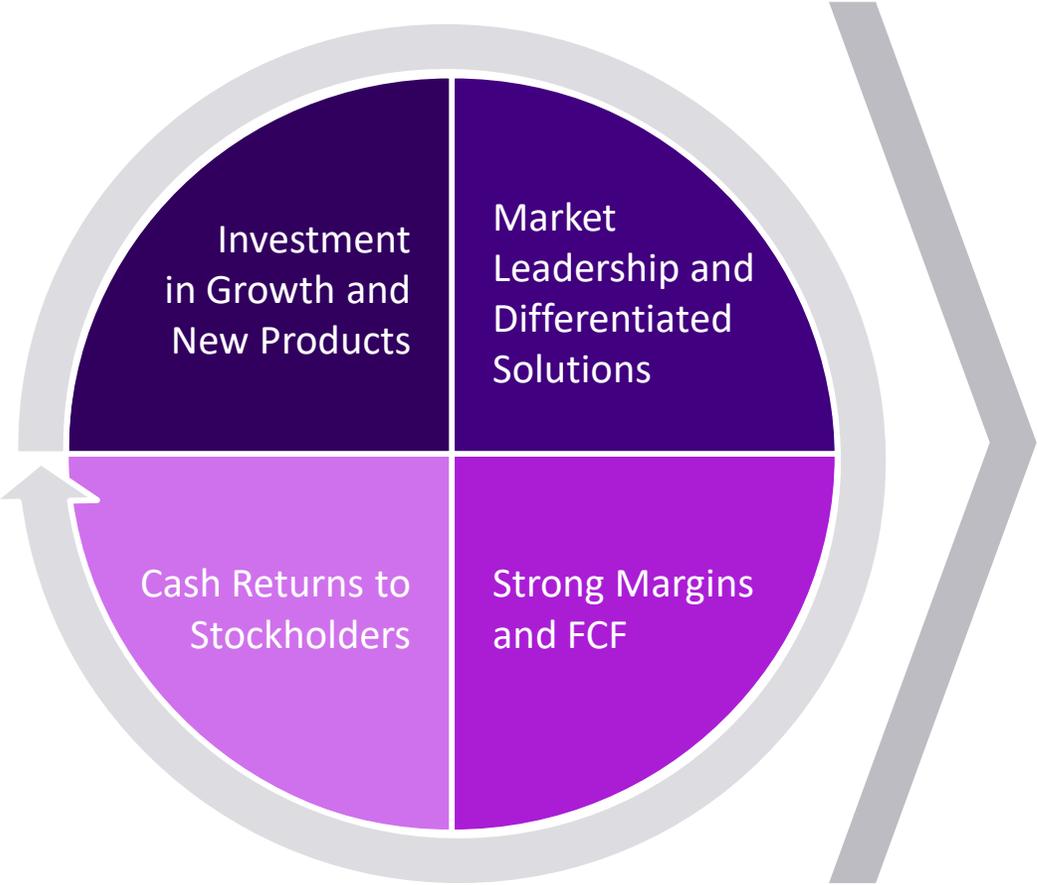
Moody's	Baa1
S&P	BBB
Fitch	BBB+

## Debt Maturity Profile \$M

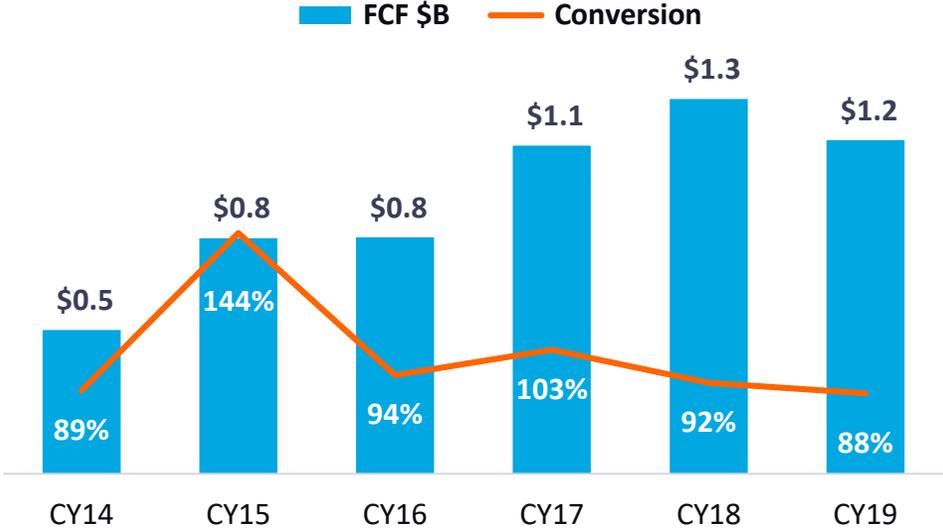


<sup>1</sup> As of 12/31/19; <sup>2</sup> Total Cash includes Cash, Cash Equivalents and Marketable Securities; <sup>3</sup> Difference between debt of \$3,400B and gross debt of \$3,425B is un-amortized debt issuance discounts and costs; <sup>4</sup> Includes \$225M drawn from revolver.

# 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

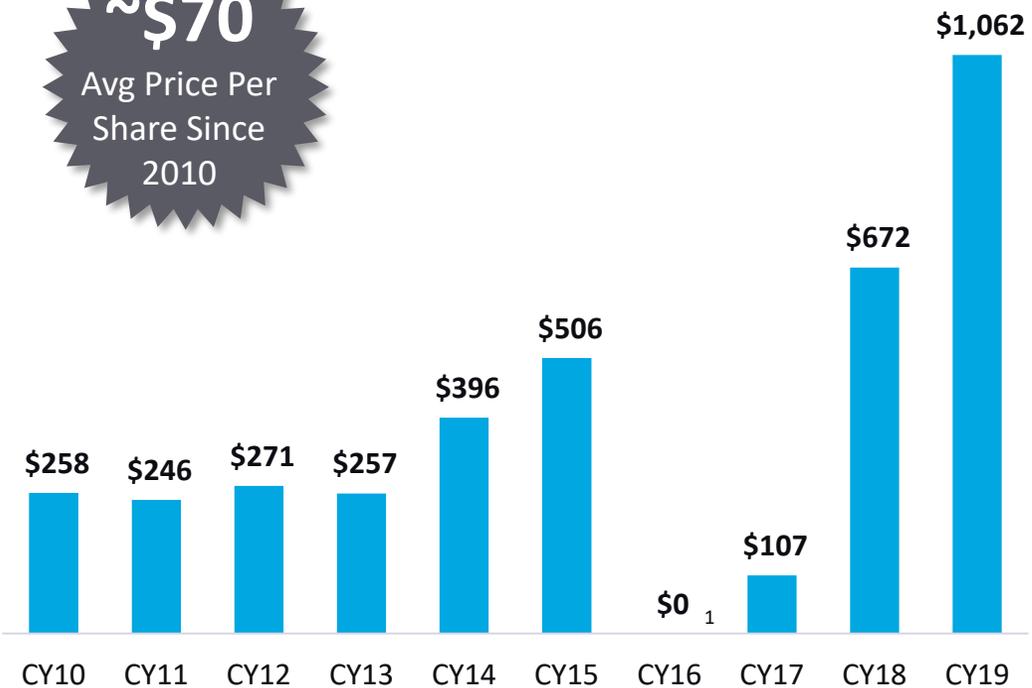
<sup>1</sup> Free Cash Flow (FCF) = Cash Flow from Operating Activities minus Capital Expenditures  
<sup>2</sup> FCF Conversion defined as FCF/Non-GAAP Net Income; Non-GAAP metric – Please refer to Appendix for reconciliation to GAAP

# Capital Return to Investors is Spread Across Buybacks and Dividends

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

\$Millions

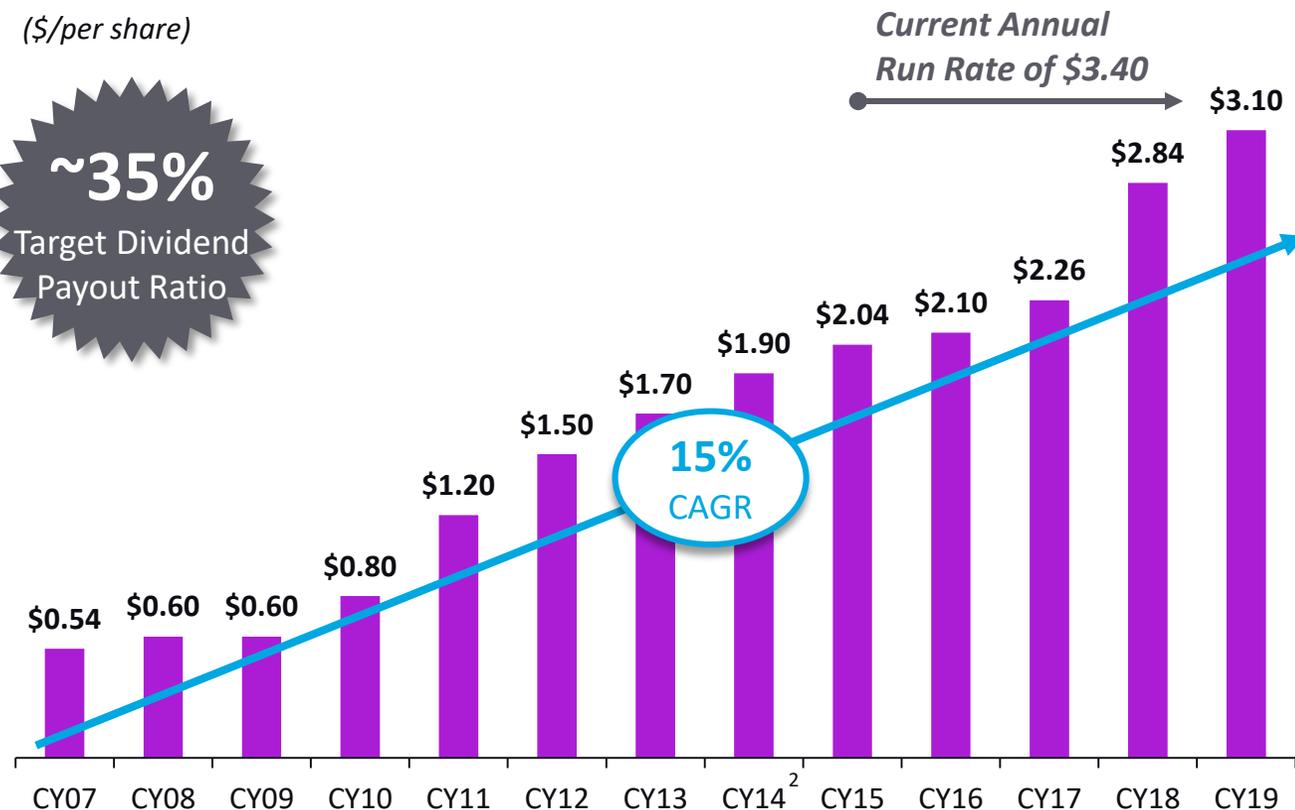
**~\$70**  
Avg Price Per Share Since 2010



## STRONG TRACK RECORD OF ANNUAL DIVIDEND INCREASES

(\$/per share)

**~35%**  
Target Dividend Payout Ratio



<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> Trade Date basis

# March Quarter 2020 Guidance (Q3 FY2020)

	MARCH 2020 QUARTER
SALES	<b>\$1.325B - \$1.525B</b>
GROSS MARGIN	<b>59.5% - 61.5%</b>
GAAP EPS	<b>\$1.79 - \$2.57</b>
NON-GAAP EPS	<b>\$2.04 - \$2.82</b>

**MACRO ASSUMPTIONS**

- Semiconductor industry CAGR of 4% - 5%
- Semi Process Control System Revenue from Foundry: 60%
- Semi Process Control System Revenue from Memory: 28%
- Guidance range widened to include adjustments for potential impact of coronavirus

**MODEL ASSUMPTIONS**

- Operating Expenses: ~\$380M-\$385M
- Interest & Other Expense (OIE): ~\$39M
- Effective Tax Rate: 13%
- Diluted Share Count: 158M

Driving Profitable Growth and Delivering Shareholder Value



# Reconciliation of Non-GAAP Financial Measures

	For the three months ended			For the six months ended	
	December 31, 2019	September 30, 2019	December 31, 2018	December 31, 2019	December 31, 2018
<i>(In thousands, except per share amounts and percentages)</i>					
<b>GAAP net income</b>	<b>\$ 380,555</b>	<b>\$ 346,525</b>	<b>\$ 369,100</b>	<b>\$ 727,080</b>	<b>\$ 765,044</b>
<u>Adjustments to reconcile GAAP net income to non-GAAP net income*:</u>					
Acquisition-related charges	a 60,393	73,363	4,281	133,756	9,832
Restructuring, severance and other related charges	b 2,786	-	-	2,786	-
Income tax effect of non-GAAP adjustments	c (21,505)	(22,266)	(276)	(43,771)	(586)
Discrete tax items	d -	-	(765)	-	(17,871)
<b>Non-GAAP net income</b>	<b>\$ 422,229</b>	<b>\$ 397,622</b>	<b>\$ 372,340</b>	<b>\$ 819,851</b>	<b>\$ 756,419</b>
GAAP net income as a percentage of revenue	25.2%	24.5%	33.0%	24.9%	34.6%
Non-GAAP net income as a percentage of revenue	28.0%	28.1%	33.2%	28.0%	34.2%
GAAP net income per diluted share	\$ 2.40	\$ 2.16	\$ 2.42	\$ 4.56	\$ 4.96
Non-GAAP net income per diluted share	\$ 2.66	\$ 2.48	\$ 2.44	\$ 5.15	\$ 4.90
Shares used in diluted shares calculation	158,620	160,131	152,648	159,314	154,389
<b>GAAP operating income</b>	<b>\$ 462,831</b>	<b>\$ 410,248</b>	<b>\$ 433,273</b>	<b>\$ 873,079</b>	<b>\$ 877,178</b>
<u>Adjustments to reconcile GAAP operating income to non-GAAP operating income*:</u>					
Acquisition-related charges	a 60,393	73,363	4,281	133,756	9,832
Restructuring, severance and other related charges	b 2,786	-	-	2,786	-
<b>Non-GAAP operating income (1)</b>	<b>\$ 526,010</b>	<b>\$ 483,611</b>	<b>\$ 437,554</b>	<b>\$ 1,009,621</b>	<b>\$ 887,010</b>
GAAP operating income as a percentage of revenue	30.7%	29.0%	38.7%	29.9%	39.6%
Non-GAAP operating income as a percentage of revenue	34.8%	34.2%	39.1%	34.5%	40.1%

\* 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 includes 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 change in the liability included in selling, general and administrative expense for the three months ended December 31, 2019, September 30, 2019, and December 31, 2018 were \$12.0 million, \$1.9 million and \$(19.8) million, respectively and \$13.9 million and \$(12.3) million, for the six months ended December 31, 2019 and December 31, 2018 respectively. The gains (losses) associated with the changes in the EDSP asset included in selling, general and administrative expense for the three months ended December 31, 2019, September 30, 2019, and December 31, 2018 were \$11.9 million, \$2.3 million and \$(19.4) million, respectively and \$14.2 million and \$(12.0) million for the six months ended December 31, 2019 and December 31, 2018 respectively.

# Reconciliation of Non-GAAP Financial Measures

<i>(In thousands, except percentages)</i>	For the three months ended			For the six months ended	
	December 31, 2019	September 30, 2019	December 31, 2018	December 31, 2019	December 31, 2018
<b>GAAP gross margin</b>	\$ 875,835	\$ 809,173	\$ 711,638	\$ 1,685,008	\$ 1,423,511
<u>Adjustments to reconcile GAAP gross margin to non-GAAP gross margin*:</u>					
Acquisition-related charges	a 40,590	49,999	967	90,589	1,857
Restructuring, severance and other related charges	b 831	-	-	831	-
<b>Non-GAAP gross margin</b>	<b>\$ 917,256</b>	<b>\$ 859,172</b>	<b>\$ 712,605</b>	<b>\$ 1,776,428</b>	<b>\$ 1,425,368</b>
GAAP gross margin as a percentage of revenue	58.0%	57.2%	63.5%	57.6%	64.3%
Non-GAAP gross margin as a percentage of revenue	60.8%	60.8%	63.6%	60.8%	64.4%
<b>GAAP operating expenses</b>	<b>\$ 413,004</b>	<b>\$ 398,925</b>	<b>\$ 278,365</b>	<b>\$ 811,929</b>	<b>\$ 546,333</b>
<u>Adjustments to reconcile GAAP operating expenses to non-GAAP operating expenses*:</u>					
Acquisition-related charges	a (19,803)	(23,364)	(3,314)	(43,167)	(7,975)
Restructuring, severance and other related charges	b (1,955)	-	-	(1,955)	-
<b>Non-GAAP operating expenses (1)</b>	<b>\$ 391,246</b>	<b>\$ 375,561</b>	<b>\$ 275,051</b>	<b>\$ 766,807</b>	<b>\$ 538,358</b>
GAAP operating expenses as a percentage of revenue	27.4%	28.2%	24.9%	27.8%	24.7%
Non-GAAP operating expenses as a percentage of revenue	25.9%	26.6%	24.6%	26.2%	24.3%

\* 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			For the six months ended	
	December 31, 2019	September 30, 2019	December 31, 2018	December 31, 2019	December 31, 2018
<i>(In thousands, except percentages)</i>					
<b>GAAP income before income taxes</b>	\$ 424,927	\$ 371,516	\$ 415,963	\$ 796,443	\$ 843,531
GAAP income tax expense	\$ 44,622	\$ 25,120	\$ 46,863	\$ 69,742	\$ 78,487
GAAP income tax rate	10.5%	6.8%	11.3%	8.8%	9.3%
<u>Adjustments to reconcile GAAP effective tax rate to non-GAAP effective tax rate*:</u>					
Acquisition-related charges	a 60,393	73,363	4,281	133,756	9,832
Restructuring, severance and other related charges	b 2,786	-	-	2,786	-
<b>Non-GAAP income before income taxes</b>	<b>\$ 488,106</b>	<b>\$ 444,879</b>	<b>\$ 420,244</b>	<b>\$ 932,985</b>	<b>\$ 853,363</b>
Income tax effects of non-GAAP adjustments	c 21,505	22,266	276	43,771	586
Discrete tax item	d -	-	765	-	17,871
Non-GAAP income tax expense	\$ 66,127	\$ 47,386	\$ 47,904	\$ 113,513	\$ 96,944
Non-GAAP income tax rate	13.5%	10.7%	11.4%	12.2%	11.4%
<b>GAAP research and development (R&amp;D) expenses</b>	<b>\$ 220,751</b>	<b>\$ 210,580</b>	<b>\$ 165,903</b>	<b>\$ 431,331</b>	<b>\$ 319,433</b>
<u>Adjustments to reconcile GAAP R&amp;D expenses to non-GAAP R&amp;D expenses*:</u>					
Restructuring, severance and other related charges	b (802)	-	-	(802)	-
<b>Non-GAAP R&amp;D expenses</b>	<b>\$ 219,949</b>	<b>\$ 210,580</b>	<b>\$ 165,903</b>	<b>\$ 430,529</b>	<b>\$ 319,433</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 Q1 CY 2020 Guidance Range

<i>(In millions, except per share amounts and percentages)</i>	<b>Low</b>	<b>High</b>
GAAP diluted net income per share	\$ 1.79	\$ 2.57
Acquisition-related charges	a 0.35	0.35
Restructuring, severance and other related charges	b 0.02	0.02
Income tax effect of non-GAAP adjustments	c (0.12)	(0.12)
Non-GAAP diluted net income per share	\$ 2.04	\$ 2.82
Shares used in net income per diluted shares calculation	157.7	157.7
GAAP gross margin as a percentage of revenue	56.6%	59.1%
Acquisition-related charges	a 2.8%	2.3%
Restructuring, severance and other related charges	b 0.1%	0.1%
Non-GAAP gross margin as a percentage of revenue	59.5%	61.5%
GAAP operating expenses	\$ (402)	\$ (407)
Acquisition-related charges	a 19	19
Restructuring, severance and other related charges	b 3	3
Non-GAAP operating expenses	\$ (380)	\$ (385)

**Note:** The guidance as of February 4, 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 related charges include costs associated with employee severance and other exit costs. 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 include charges associated with the acquisition of Orbotech as well as 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.