

# Letter to Shareholders



Keep Looking Ahead

## Q4 Fiscal 2023 Earnings

Quarter Ended June 30, 2023 • Reported July 27, 2023

Dear KLA Shareholders,

KLA's June quarter results exceeded expectations, demonstrating the combination of the broad strength of our portfolio, focused operational execution, and high-performing teams coming together to deliver against our financial objectives in what remains a challenging demand environment.

Revenue of \$2.355 billion finished at the upper end of the guidance range, declining 5% on a year-over-year basis, and 3% sequentially. GAAP Earnings Per Share (EPS) was \$4.97, and non-GAAP EPS was \$5.40, with each finishing at the upper end of their respective guidance ranges.

While near-term demand headwinds persist, there are some bright spots and areas of strength. In particular, automotive and other markets served by legacy nodes remain strong, demonstrating the diversification of demand and growing adoption of semiconductor technology across multiple industries. In recognition of this, in the quarter KLA announced the Semiconductor Talent and Automotive Research (STAR) initiative which launches a new collaboration with imec that will focus on developing the talent base and research infrastructure necessary to accelerate advanced semiconductor applications for the automotive industry. Legacy investment also remains strong, supporting semiconductor infrastructure and manufacturing capability to serve long-term legacy node end-market demand. Additionally, Process Control plays a critical role in enabling our customers to execute on node and technology transitions that are the focus of R&D efforts which are more resilient to near-term macro and market pressures.

KLA remains focused on supporting our customer requirements while maintaining critical R&D investments to enable our technology roadmap. Our June quarterly results are the latest example of successfully meeting or exceeding our commitments and creating value for our customers, partners, and shareholders. We are proud of how our global KLA teams continue to leverage the KLA Operating Model to excel in the marketplace.

This Shareholder Letter provides an update on our views of the current industry demand environment, summarizes the quarterly business and financial highlights for the June quarter, and presents our outlook for the September quarter.

## Semiconductor Industry Demand Environment

The semiconductor industry continues to evolve to be more strategic and diversified, as evidenced by the rapid growth of new enabling technologies such as Generative AI, 5G, IoT, Automotive Electronics, and Advanced Packaging.

Regarding the near-term semiconductor industry environment, over the past several quarters semiconductor and semiconductor capital equipment industry demand has been impacted by the broad, macro-driven slowdown in electronics markets, with analysts projecting semiconductor device revenues to decline in the high-single-digits percent in 2023. In response to this lower semiconductor demand profile, global device manufacturers have reduced or pushed out capacity growth plans, adopted supply and inventory reduction measures to preserve cash flows and bring supply and demand back into equilibrium.

We are closely monitoring our customers capacity developments, and while a resumption in sustainable growth of overall wafer fabrication equipment investment is not expected in 2023, R&D



investments remain a top priority for customers. This is important for KLA as our products are heavily relied upon during the R&D process as well as the fab ramp phase when faster time-to-yield is critical.

#### Long-Term Secular Drivers Demonstrate Strategic Value of Semiconductors

There are many fundamental drivers propelling long-term growth of the Semiconductor industry, underscoring the strategic importance of semiconductors and the semiconductor supply chain. Regionalization of semiconductor production is just beginning. The digital transformation of our lives is expanding beyond consumers to multiple end markets and technology-based services.

#### Customers Adjusting Near-Term Capex Plans in Response to Market Conditions

Near-term semiconductor industry demand has been impacted by a combination of factors due to the global economic slowdown and excess inventories. As a result, near-term semiconductor demand remains under pressure, with global device manufacturers adjusting factory utilizations and pushing out or reducing capex. We are closely monitoring these developments, but do not expect growth of overall wafer fabrication equipment investment to resume in 2023.

#### Customer R&D Investment Remains a Top Priority for Capex Investment

As the market leader in Process Control, KLA plays a critical role in enabling technology transitions in advanced semiconductor manufacturing. Despite the near-term demand and macroeconomic headwinds, customers continue to prioritize investing in technology transitions. KLA benefits from these investments as we are on the critical path to enabling advanced semiconductor device R&D, faster yield ramps and higher, more stable yields in production.

The strategic nature of semiconductors in the global economy remains high

## June 2023 Quarterly Business Highlights

1

#### KLA's Consistency Led By Execution and Market Leadership

KLA's market leadership in some of the most critical and fastest growing areas of WFE continues to fuel our growth, and we continue to execute at a high level to meet customer requirements and deliver on our financial targets.

2

#### Growth and Market Leadership in Critical Wafer and Reticle Infrastructure Fueling Relative Strength

KLA is benefitting from demand drivers in markets including silicon wafer and photomask manufacturing, which is experiencing general capacity expansion. As an example, revenues from KLA's unpatterned wafer inspection products are expected to significantly outperform the overall WFE market, delivering strong growth in 2023 in a down year for the industry.

3

#### Service Revenue Growth Demonstrates Resiliency Despite Declining Near-Term WFE Demand

Service revenue was \$539 million, up 5% year-over-year and 2% sequentially. Services is driven by our growing installed base, increasing customer adoption of long-term service agreements, and expansion of Service opportunities in the legacy nodes. KLA's Services business is unique in our industry for having nearly all our Service revenue generated from "Pure Services," or service contracts and break-fix maintenance, and does not include other revenue sources, such as equipment upgrades or sales of refurbished equipment. This speaks to the durability and resiliency of Service revenue.

4

#### KLA Continued to Deliver Strong Free Cash Flow Generation and Capital Returns

Quarterly free cash flow was \$880 million, which drove year-over-year LTM free cash flow growth up 11% to \$3.3 billion. Returning capital to shareholders through both our quarterly dividend and stock repurchase program remains a top priority. Total capital returns over the past 12 months was \$2.04 billion. Quarterly dividends and share repurchases in the June quarter were \$568.3 million, comprised of \$388.8 million in share repurchases and \$179.5 million in dividends.

1. KLA's market leadership in Process Control, which includes some of the most critical and fastest-growing segments of WFE, fuels our growth and we continue to execute at a high level to meet customer requirements and deliver on our financial targets. Quarterly revenue was \$2.36 billion. In Foundry/Logic, simultaneous investments across multiple nodes and rising capital intensity remain a long-term tailwind. KLA's focus on technology development remains a buffer against volatility in overall memory capital investment.
2. KLA is benefitting from demand drivers in markets including silicon wafer and photomask manufacturing, each of which is experiencing general capacity expansion. As an example, revenues from KLA's unpatterned wafer inspection and metrology products are expected to significantly outperform the overall WFE market, delivering strong growth in 2023 in a down year for the industry.

3. The KLA Services business grew to \$539 million in the June quarter, up 5% year-over-year and 2% sequentially. KLA Services remains on track for high single digit percent year-over-year growth in 2023, despite a meaningful correction year in WFE, and is on track to resume its targeted 12-14% annual revenue growth trajectory as a record number of new tools that have been installed over the past couple of years end the warranty period and move into service contracts. The durability and resiliency of KLA Service revenue speaks to the critical nature of KLA products and services in enabling customer success.
4. Finally, the June quarter was another excellent period from a cash flow and capital returns perspective. Quarterly free cash flow was \$880 million, which drove the last 12 months free cash flow up 11% year over year to \$3.3 billion. Total capital returns over the past twelve months were \$2.04 billion. Since our Investor Day last June and including the fully completed \$3 billion accelerated share repurchase (ASR), total capital returns have exceeded \$5 billion. Dividends and share repurchases in the June quarter were \$568.3 million, comprised of \$388.8 million in share repurchases and \$179.5 million in dividends. KLA's business model is focused on driving consistent free cash flow performance and we are committed to returning capital to shareholders via our dividend and stock repurchase programs which we see as fundamental to augmenting total shareholder returns.

Before transitioning to the financial highlights, here's a quick summary. KLA's June quarter results demonstrate our continued process control leadership and the success of our broad portfolio strategies. Our success is heavily influenced by the critical nature of KLA's products and services in enabling the continued digital transformation and proliferation of semiconductors across the global economy. Our consistent, strong execution despite challenges in the marketplace, both in terms of macroeconomic uncertainty and in shifting customer requirements, highlights the resiliency of the KLA Operating Model, the dedication of our global teams, our commitment to assertive capital allocation, and maximizing long-term total shareholder value to all our stakeholders.

At our June 2022 Investor Day, we made a case for why KLA was exceptionally well positioned at the forefront of technology innovation with a comprehensive portfolio of products to meet demanding customer requirements, balancing sensitivity and throughput. The semiconductor and electronics landscapes are constantly changing, and we continue to see more customer interest driven by technology change than ever before at the leading edge. Simultaneously, the need for increased performance and reliability requirements for legacy nodes to support evolving markets like Automotive and 5G is also essential to help deliver new capabilities.

## 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

## June 2023 Quarterly Financial Highlights

KLA delivered results at the upper end of the range of our quarter guidance and commitments, demonstrating consistent execution despite a challenging marketplace. Our continued focus on meeting customer needs while expanding market leadership, sustaining industry-leading gross and operating margins, generating strong free cash flow, and maintaining our long-term strategy of assertive capital allocation is what makes us successful.

Quarterly revenue was \$2.355 billion, towards the upper end of the guided range of \$2.125 to \$2.375 billion. Non-GAAP diluted EPS was \$5.40, also towards the upper end of the guided range of \$4.23 to \$5.43. GAAP diluted EPS was \$4.97, above the midpoint of guidance.

**\$2,355M**

Revenue

**61.2%**

Gross Margin\*

**38.1%**

Operating Margin\*

**\$743M**

Net Income\*

**\$5.40**

Diluted EPS\*

**\$4.97**

GAAP Diluted EPS

The Voyager 1035 inspector delivers higher throughput and better sensitivity for lower dose inspection of delicate photoresist layers in applications such as after develop inspection (ADI) and photocell monitoring (PCM) for EUV lithography



\* Non-GAAP metric – please refer to the appendix for reconciliation to GAAP

Non-GAAP gross margin was 61.2%, 45 basis points above the midpoint of the guidance range due to product mix as upside in the quarter was driven by higher margin products, normalizing freight expenses, and improving factory utilization as overall capacity adjusts to current demand expectations. Non-GAAP operating expenses were \$543 million, slightly higher than guidance due to adjustments in variable compensation. Total non-GAAP operating expenses comprised \$314 million in R&D and \$229 million in SG&A.

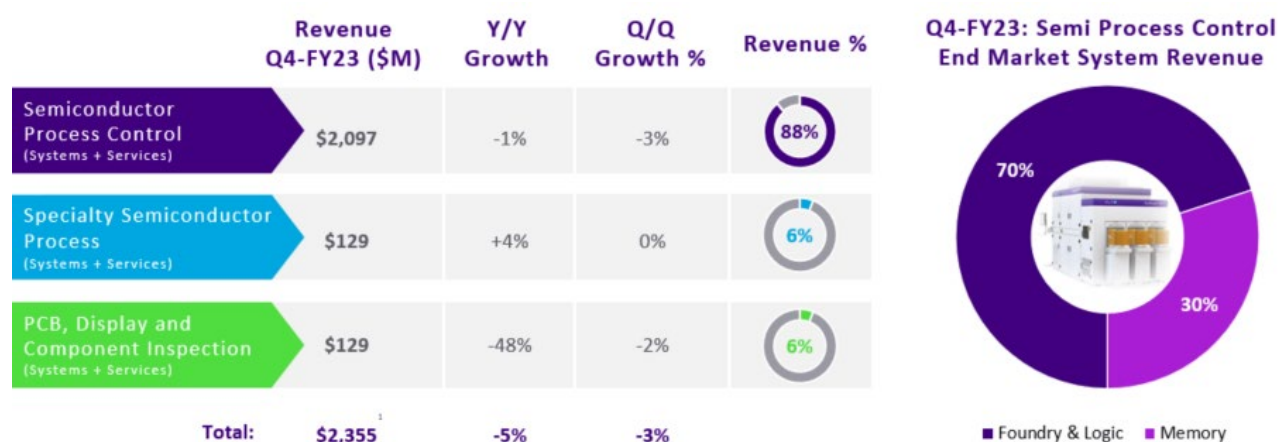
Non-GAAP operating margin was 38.1%. Other income and expense, net, was \$49 million, and the quarterly effective tax rate was 12.4%. At the guided tax rate of 13.5%, Non-GAAP EPS would have been \$0.07 lower or \$5.33.

Quarterly non-GAAP net income was \$743 million, GAAP net income was \$685 million, cash flow from operations was \$959 million, and free cash flow was \$880 million. As a result, free cash flow conversion was a strong 119% and free cash flow margin was a robust 37%. The company had approximately 137.7 million diluted weighted average shares outstanding at the end of the quarter.

## Breakdown of Revenue by Reportable Segments and End Markets

Revenue for the Semiconductor Process Control segment, including its associated Services business, was \$2.1 billion, down 1% year-over-year and 3% sequentially. The Semiconductor Process Control system customer segment mix for foundry/logic semiconductor customers was approximately 70%, and memory was approximately 30%. Within memory, almost 90% was from DRAM customers.

Revenue for our EPC group is driven by demand in automotive, 5G, and advanced packaging. Within EPC, the Specialty Semiconductor Process segment, which includes its associated Services business, generated quarterly revenue of \$129 million, growing 4% over the prior year, and flat sequentially. PCB, Display and Component Inspection revenue was \$129 million, down 2% sequentially but down 48% on a year-over-year basis. Demand in KLA's PCB, Display and Component Inspection segment is expected to remain weak for the remainder of the calendar year. This reflects the impact of slowing consumer electronics markets and excess customer inventories.



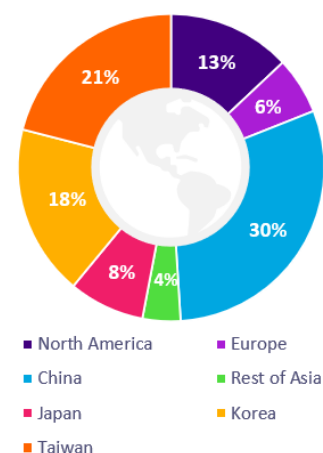
## Breakdown of Revenue by Major Products and Region

Wafer Inspection systems was down 14% year-over-year, and 7% sequentially, and was 40% of total revenue. Patterning systems, which include metrology and reticle inspection, was up 19% year-over-year and down 4% on a sequential basis to 25% of total revenue. Specialty Semiconductor Process systems grew 6% year-over-year and was up 2% sequentially at 5% of total revenue. PCB, Display and Component Inspection systems revenue fell 64% year-over-year, 6% sequentially, and remained at 3% of total revenue. Services increased 5% from a year ago levels, grew 2% sequentially, and was 23% of revenue. Other, which is consolidated into the Semiconductor Process Control segment, was 4% of total revenue.

	Revenue Q4-FY23 (\$M)	Y/Y Growth	Q/Q Growth %	Revenue %
Wafer Inspection	\$950	-14%	-7%	40%
Patterning	\$585	+19%	-4%	25%
Specialty Semi Process	\$117	+6%	+2%	5%
PCB, Display and Comp. Inspection	\$65	-64%	-6%	3%
Services	\$539	+5%	+2%	23%
Other <sup>1</sup>	\$99	+10%	+23%	4%
<b>Total:</b>	<b>\$2,355</b>	<b>-5%</b>	<b>-3%</b>	

<sup>1</sup> Included in the Semiconductor Process Control Segment

Q4-FY23  
Revenue by Region



The June quarter regional revenue split was as follows: China was 30%, Taiwan was 21%, and Korea was 18%. North America was 13% of revenue. Other regions that individually accounted for less than 10% of sales included Japan at 9%, Europe at 8%, and the rest of Asia at 4%.

## Strong Investment Grade Balance Sheet with No Material Near-Term Maturities

KLA ended the quarter with \$3.24 billion in total cash, cash equivalents and marketable securities, debt of \$5.89 billion, and a flexible and attractive bond maturity profile supported by strong investment-grade ratings from all three agencies. Our balance sheet offers us a unique capability to fund our growth strategies, organic and inorganic, and provide ongoing attractive capital returns to shareholders.



### Balance Sheet Summary<sup>1</sup> (\$M)

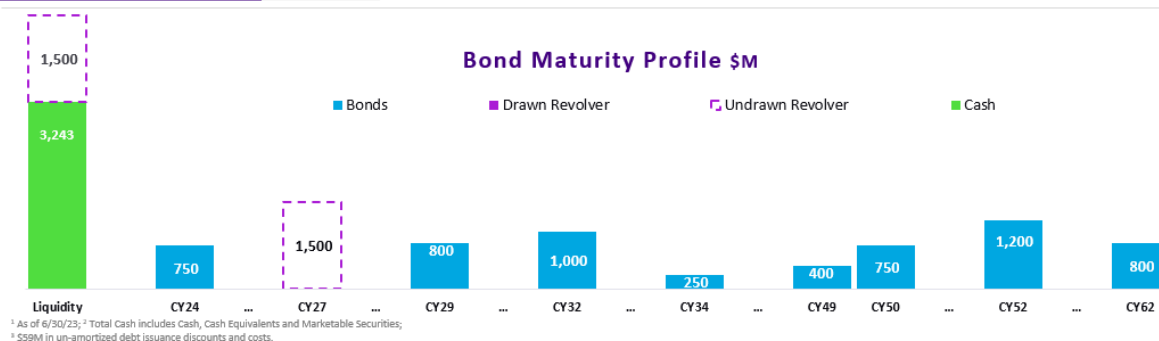
Total Cash <sup>2</sup>	\$ 3,243
Working Capital	\$ 4,629
Total Assets	\$ 14,072
Debt <sup>3</sup>	\$ 5,891
Total Shareholders' Equity	\$ 2,920

### Bond Maturity Profile

Bonds Outstanding	\$5.95B
Weighted Average Rate	4.64%
Weighted Average Maturity	19.1 years

### Investment Grade Credit Ratings

Moody's	A2
S&P	A-
Fitch	A-



## FCF Generation Fuels Consistent Capital Return to Shareholders

We have confidence in our business over the long-term and are committed to a consistent strategy of cash returns that includes both dividend growth and increasing share repurchases. KLA's capital return strategy underscores our strong track record of predictable and assertive capital deployment and remains an important differentiating element of the KLA investment thesis.



### Free Cash Flow<sup>1</sup> and FCF Margin<sup>2</sup>



<sup>1</sup> Free Cash Flow (FCF) = Cash Flow from Operating Activities minus Capital Expenditures

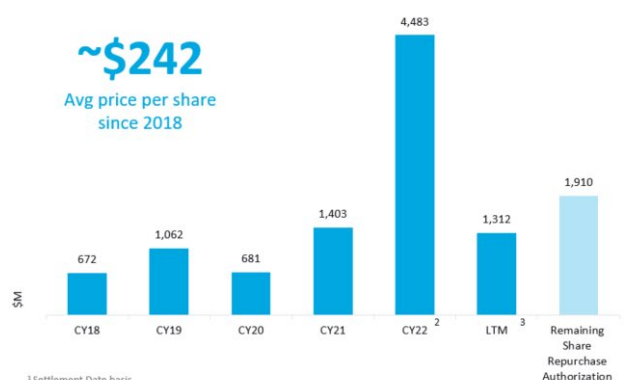
<sup>2</sup> FCF Margin defined as FCF/Revenue; Non-GAAP metric – Please refer to Appendix for reconciliation to GAAP

**Committed to long-term >85% FCF returned to shareholders through dividends and share repurchases**

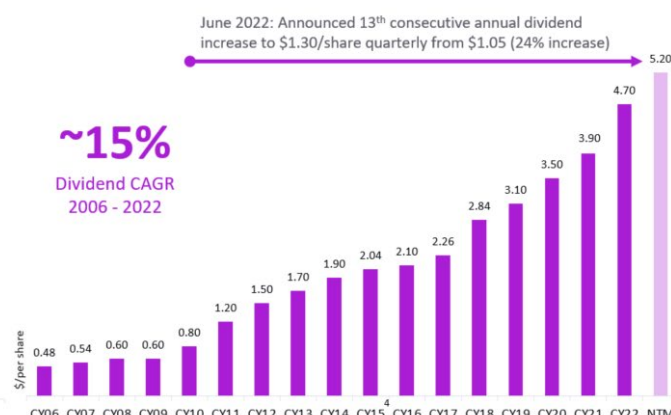
Over the last 12 months, KLA has returned \$2.04 billion to shareholders, including \$1.3 billion in share repurchases and \$733 million in dividends paid.



## Share Repurchases<sup>1</sup>



## Track Record of Dividend Increases



## Free Cash Flow and Capital Returns Highlights

KLA has an impressive history of consistent free cash flow generation, high free cash flow conversion, and strong free cash flow margins across all phases of the business cycle and economic conditions.

**\$880M**

June Quarter  
Free Cash Flow\*

**37%**

June Quarter  
FCF Margin\*

**119%**

June Quarter  
FCF Conversion\*



The 8 Series patterned wafer inspection systems detect a wide variety of defect types at very high throughput for fast identification and resolution of production process issues. The 89XX high productivity patterned wafer inspection system detects a wide variety of critical defects that affect the yield and reliability of wide bandgap (WBG) semiconductors, such as SiC and GaN and in Advanced Packaging applications.

**\$389M**

June Quarter  
Share Buyback

**\$1,312M**

LTM Share Buyback<sup>1</sup>

**\$180M**

June Quarter  
Dividends Paid

**\$733M**

LTM Dividends Paid

<sup>1</sup> Excludes \$900M of the \$3B ASR that was settled in the December 2022 quarter, as cash payment occurred in the June 2022 quarter

\* Free Cash Flow (FCF) = Cash Flow from Operating Activities minus Capital Expenditures. FCF Margin = FCF/Revenue. FCF Conversion = FCF / Non-GAAP Net Income. Non-GAAP metric. Refer to Appendix for Reconciliation to GAAP. Capital Returns = Dividends + Share Repurchases

## Outlook

Our WFE outlook for 2023 remains largely unchanged at down approximately 20% from \$95 billion in 2022. While the timing of a meaningful resumption in WFE investment growth remains unclear, we continue to see overall demand stabilizing around current business levels for our semiconductor process control systems business, and we expect this demand profile to continue through the remainder of the year.

Our 2023 WFE estimate reflects a tops-down assessment of industry demand as follows: in memory, we expect WFE investment to decline by approximately 40%, foundry/logic to decline by about 10% overall, with legacy investment outperforming the segment overall due principally to automotive, and continued demand for legacy design nodes.

KLA's primary value proposition is focused on enabling innovation through technology transitions which our customers continue to prioritize across all business environments. While capacity plans are often adjusted due to changing demand expectations, technology roadmap investments are more resilient. This adds additional confidence to our business expectations as customers align shipment slots with roadmap requirements. In this environment, we will continue to focus on meeting customer requirements, maintaining our high level of investment in R&D to advance our product roadmaps and KLA's market leadership, and delivering strong relative revenue growth and financial performance.

## September Quarter Guidance

Our September quarter guidance is as follows: total revenue is expected to be \$2.35 billion, plus or minus \$125 million. Foundry/Logic is forecasted to be approximately 70%, and memory is expected to be around 30% of Semi PC systems revenue. Within memory, DRAM is expected to be about 90% of the segment mix and NAND 10%.

We forecast non-GAAP gross margin to be roughly flat at 61% plus or minus one percentage point as product mix expectations and cost components are consistent with the prior quarter. Given our current view of a stabilizing demand environment for the remainder of 2023, we expect full year calendar gross margin to trend near 61%.

Non-GAAP operating expenses are expected to be approximately \$535 million as cost measures executed earlier in the calendar year align our current cost structure with top-line expectations. We would expect quarterly operating expenses to remain around this level for the remainder of the calendar year.

Other model assumptions for the September quarter include: Other income and expense, net, of approximately \$48 million, and an effective tax rate of approximately 13.5%. Finally, GAAP diluted EPS is expected to be \$5.02 plus or minus \$0.60, and non-GAAP diluted EPS of \$5.35 plus or minus \$0.60. EPS guidance is based on a fully diluted share count of approximately 137 million shares.

### September 2023 Quarter Guidance

<b>Revenue</b>	\$2.35B +/- \$125M	<b>Macro Assumptions</b> Semi PC Revenue By End Market <ul style="list-style-type: none"> <li>Foundry/Logic: 70%</li> <li>Memory: 30%</li> </ul> <b>Model Assumptions</b> <ul style="list-style-type: none"> <li>Non-GAAP Operating Expenses*: ~\$535M</li> <li>Other Income &amp; Expense (OIE)*, Net: ~\$48M</li> <li>Effective Tax Rate: ~13.5%</li> <li>Diluted Share Count: ~137M</li> </ul>
<b>Non-GAAP Gross Margin*</b>	61% +/- 1%	
<b>GAAP Diluted EPS</b>	\$5.02 +/- \$0.60	
<b>Non-GAAP Diluted EPS*</b>	\$5.35 +/- \$0.60	

\* Non-GAAP metric – Refer to Appendix for Reconciliation to GAAP

Driving profitable growth and delivering shareholder value

## In Conclusion

We continue to see process control's importance to technology transitions and advancements key to R&D growth and prioritization despite persistent weakness in our customers' businesses. We are also exposed to wafer and reticle infrastructure investments that are contributing to our revenue performance. As a result, KLA remains positioned for strong relative growth vs. the industry in 2023. Looking ahead, we continue to see the business environment stabilizing, and remain confident that the secular trends driving long-term semiconductor industry demand and investments in WFE remain strong and compelling. Broadening semiconductor demand and simultaneous investments supporting growing semiconductor content across multiple technology nodes remain catalysts for sustainable long-term industry growth. Multiple applications for leading-edge roadmaps are driving competitive dynamics and design challenges requiring more customer engagement and faster time to results. Technology investment and node transitions reflect the value that semiconductors and our industry have in lowering costs for our customers and enabling a broader application universe for semiconductor-based technology across multiple end-markets.

While the global economy and semiconductor industry are facing challenges, KLA is well-positioned to deliver strong relative financial performance, driven by better than market performance of our Semi PC and SPTS businesses and continued growth in Services. We remain focused on innovation as we execute our portfolio strategy to support our customers' technology roadmaps and multi-year investment plans. With the KLA Operating Model guiding our execution, we will implement our strategic objectives and drive outperformance. These objectives are also the foundation for our technology leadership and competitive differentiation. Our focus on customer success, delivering innovative and differentiated solutions and operational excellence continues to enable us to deliver industry-leading financial and free cash flow performance and deliver consistent capital returns to shareholders.

Sincerely,



**Rick Wallace**  
CEO



**Bren Higgins**  
CFO



## Appendix

### Reconciliation of Non-GAAP Financial Measures

	For the three months ended
	Jun. 30, 2023
<i>(In millions, except EPS \$ and percentages)</i>	
<b>GAAP net income</b>	<b>\$ 684.7</b>
Adjustments to reconcile GAAP net income to non-GAAP net income*	
Acquisition-related charges	a 64.6
Restructuring, severance and other charges	b 8.1
Income tax effect of non-GAAP adjustments	c (20.9)
Discrete tax items	d 6.2
<b>Non-GAAP net income</b>	<b>\$ 742.7</b>
<b>GAAP diluted EPS</b>	<b>\$ 4.97</b>
<b>Non-GAAP diluted EPS</b>	<b>\$ 5.40</b>
Shares used in diluted shares calculation	137.7
<b>GAAP income tax expense</b>	<b>\$ 90.9</b>
Adjustments to reconcile GAAP effective tax rate to non-GAAP effective tax rate*	
Income tax effect of non-GAAP adjustments	c 20.9
Discrete tax items	d (6.2)
<b>Non-GAAP income tax expense</b>	<b>\$ 105.5</b>
<b>GAAP income before income taxes</b>	<b>\$ 775.5</b>
Adjustments to reconcile GAAP income before income taxes to non-GAAP income before income taxes*	
Acquisition-related charges	a 64.6
Restructuring, severance and other charges	b 8.1
<b>Non-GAAP income before income taxes</b>	<b>\$ 848.2</b>
<b>GAAP income tax rate</b>	<b>11.7%</b>
<b>Non-GAAP income tax rate</b>	<b>12.4%</b>
<b>GAAP Other expense (income), net</b>	<b>\$ 48.7</b>
<b>Non-GAAP Other expense (income), net</b>	<b>\$ 48.7</b>

	For the three months ended
	Jun. 30, 2023
<i>(Dollars in millions)</i>	
<b>GAAP gross profit</b>	<b>\$ 1,392.2</b>
Adjustments to reconcile GAAP gross profit to non-GAAP gross profit*	
Acquisition-related charges	a 45.4
Restructuring, severance and other charges	b 2.6
<b>Non-GAAP gross profit</b>	<b>\$ 1,440.2</b>
<b>GAAP gross margin</b>	<b>59.1%</b>
Adjustments to reconcile GAAP gross margin to non-GAAP gross margin*	
Acquisition-related charges	a 1.9%
Restructuring, severance and other charges	b 0.1%
<b>Non-GAAP gross margin</b>	<b>61.2%</b>
<b>GAAP research and development ("R&amp;D") expenses</b>	<b>\$ 317.1</b>
Adjustments to reconcile GAAP R&D expenses to non-GAAP R&D expenses*	
Restructuring, severance and other charges	b (2.7)
<b>Non-GAAP R&amp;D expenses</b>	<b>\$ 314.4</b>
<b>GAAP selling, general and administrative ("SG&amp;A") expenses (1)</b>	<b>\$ 250.9</b>
Adjustments to reconcile GAAP SG&A expenses to non-GAAP SG&A expenses*	
Acquisition-related charges	a (19.1)
Restructuring, severance and other charges	b (2.8)
<b>Non-GAAP SG&amp;A expenses (1)</b>	<b>\$ 228.9</b>
<b>GAAP operating expense (1)</b>	<b>\$ 568.0</b>
Adjustments to reconcile GAAP operating expense to non-GAAP operating expense*	
Acquisition-related charges	a (19.1)
Restructuring, severance and other charges	b (5.6)
<b>Non-GAAP operating expense (1)</b>	<b>\$ 543.3</b>
<b>GAAP operating income (1)</b>	<b>\$ 824.2</b>
Adjustments to reconcile GAAP operating income to non-GAAP operating income*	
Acquisition-related charges	a 64.6
Restructuring, severance and other charges	b 8.1
<b>Non-GAAP operating income (1)</b>	<b>\$ 896.9</b>
<b>GAAP operating margin</b>	<b>35.0%</b>
<b>Non-GAAP operating margin</b>	<b>38.1%</b>

Amounts may not sum due to rounding

(1) Non-GAAP operating income and operating expenses include the effects of the changes in the Company's Executive Deferred Savings Plan Program ("EDSP"), because the changes in the EDSP liability and asset are recorded in selling, general and administrative expense in operating expenses. The expense associated with changes in the EDSP liability included in selling, general and administrative expense for the quarter ended June 30, 2023 was \$12.9 million. The gain associated with changes in the EDSP assets included in selling, general and administrative expense for the quarter ended June 30, 2023 was \$12.9 million.

\* 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

<b>Free Cash Flow Measures</b>									
		For the three months ended	For the twelve months ended						
		Jun. 30, 2023	Jun. 30, 2023	Dec 31, 2022	Jun. 30, 2022	Dec 31, 2021	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018
<i>(Dollars in millions)</i>									
Net cash provided by operating activities	\$	959.1	\$ 3,669.8	\$ 3,337.9	\$ 3,312.7	\$ 2,786.4	\$ 1,968.1	\$ 1,373.0	\$ 1,389.7
Less Capital expenditures	\$	(78.7)	\$ (341.6)	\$ (351.5)	\$ (307.3)	\$ (250.4)	\$ (200.3)	\$ (149.2)	\$ (86.5)
<b>Free cash flow</b>	<b>\$</b>	<b>880.4</b>	<b>\$ 3,328.2</b>	<b>\$ 2,986.5</b>	<b>\$ 3,005.4</b>	<b>\$ 2,536.0</b>	<b>\$ 1,767.8</b>	<b>\$ 1,223.8</b>	<b>\$ 1,303.2</b>
Free cash flow	\$	880.4	\$ 3,328.2	\$ 2,986.5	\$ 3,005.4	\$ 2,536.0	\$ 1,767.8	\$ 1,223.8	\$ 1,303.2
Revenue	\$	2,355.1	\$ 10,496.1	\$ 10,483.7	\$ 9,212.0	\$ 8,165.7	\$ 6,073.0	\$ 5,278.6	\$ 4,304.5
<b>Free cash flow margin</b>		<b>37.4%</b>	<b>31.7%</b>	<b>28.5%</b>	<b>32.6%</b>	<b>31.1%</b>	<b>29.1%</b>	<b>23.2%</b>	<b>30.3%</b>
Free cash flow	\$	880.4							
Non-GAAP net income	\$	742.7							
<b>Free cash flow conversion</b>		<b>118.6%</b>							
Net cash provided by operating activities	\$	959.1							
GAAP net income	\$	684.7							
<b>GAAP metric comparable to free cash flow conversion</b>		<b>140.1%</b>							

Amounts may not sum due to rounding

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 Guidance

### Q1 FY2024 Guidance Range:

(In millions, except per share \$ and percentages)		Low	High
<b>GAAP diluted net income per share</b>		<b>\$ 4.42</b>	<b>\$ 5.62</b>
Acquisition-related charges	a	0.45	0.45
Restructuring, severance and other charges	b	0.01	0.01
Income tax effect of non-GAAP adjustments	c	(0.13)	(0.13)
<b>Non-GAAP diluted net income per share</b>		<b>\$ 4.75</b>	<b>\$ 5.95</b>
Shares used in diluted shares calculation		137.3	137.3
<b>GAAP gross margin</b>		<b>58.0%</b>	<b>60.0%</b>
Acquisition-related charges	a	2.0%	2.0%
<b>Non-GAAP gross margin</b>		<b>60.0%</b>	<b>62.0%</b>
<b>GAAP operating expenses</b>		<b>\$ 548</b>	<b>\$ 560</b>
Acquisition-related charges	a	(17)	(17)
Restructuring, severance and other charges	b	(2)	(2)
<b>Non-GAAP operating expenses</b>		<b>\$ 529</b>	<b>\$ 541</b>

**Note:** The guidance as of July 27, 2023 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 gains, 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, including non-GAAP net income, non-GAAP net income per diluted share, non-GAAP gross margin and free cash flow, 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 to help investors compare our operating performances with our results in prior periods as well as with the performance of other companies. 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 are inherently subject to significant discretion (for example, determining which costs and expenses to exclude when calculating such a metric). 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.

The following are descriptions of the adjustments made to reconcile GAAP net income to non-GAAP net income:

- Acquisition-related charges primarily include amortization of intangible assets and transaction costs associated with our acquisitions and dispositions.
- Restructuring, severance and other charges primarily include costs associated with employee severance, acceleration of recognition of certain stock-based compensation arrangements and other compensation expenses, and other exit costs.
- Income tax effect of non-GAAP adjustments includes the income tax effects of the excluded items noted above.
- Discrete tax items consist of certain income tax expenses/benefits that, by excluding, help investors compare our operating performance with our results in prior periods as well as with the performance of other companies.

## About KLA Corporation

KLA Corporation (KLA) is the world's leading supplier of process control and yield management solutions for the semiconductor and related microelectronics industries. The company's comprehensive portfolio of products, software, analysis, services, and expertise is designed to help Integrated Circuit (IC) manufacturers manage yield throughout the entire wafer fabrication process—from Research & Development to final yield analysis. KLA offers a broad spectrum of products and services that are used by every major semiconductor manufacturer in the world. We provide advanced process control and process-enabling solutions for manufacturing wafers and reticles, integrated circuits, Packaging, printed circuit boards and flat panel displays. In close collaboration with leading customers across the globe, our expert teams of physicists, engineers, data scientists and problem-solvers design solutions that move the world forward. Additional information may be found at: [www.kla.com](http://www.kla.com).

Investors and others should note that KLA announces material financial information to investors using an investor relations website ([ir.kla.com](http://ir.kla.com)), including SEC filings, press releases, public earnings calls, and conference webcasts. These channels are used to communicate with the public about the company, products, services, and other matters.





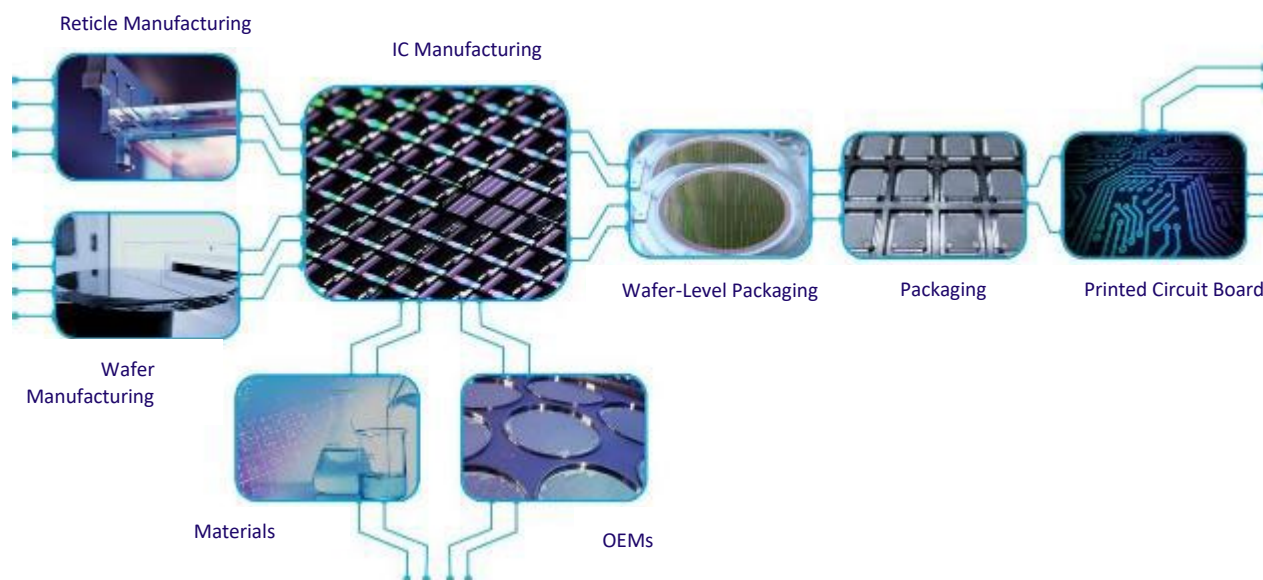
## KLA's Broad Portfolio Addresses Entire Semiconductor Ecosystem

### Semiconductor Manufacturing

- IC Manufacturing
- Wafer Manufacturing
- Reticle Manufacturing
- IC Packaging
- Printed Circuit Board

### Related Electronics Industries

- Compound Semiconductor
- Power Device
- LED
- MEMS
- Data Storage/Media Head
- Flat Panel Display
- General Purpose/Labs



### Investor Contact:

Kevin Kessel, CFA  
VP, Investor Relations & Market Analytics  
kevin.kessel@kla.com  
408-875-6627

### Media Contact:

Randi Polanich  
VP, Chief Communications Officer  
randi.polanich@kla.com  
408-875-6633

## Note on Forward-Looking Statements

Statements in this letter other than historical facts, such as statements pertaining to: (i) future industry demand for semiconductors and WFE; (ii) future development of regulatory landscape; (iii) our market position for the future; (iv) our forecast of financial measures for the following quarter and 2023; (v) our long-term financial targets and underlying assumptions; (vi) our future investment plan on R&D, technology and infrastructure; and (vii) future shareholder returns, 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: our vulnerability to a weakening in the condition of the financial markets and the global economy; risks related to our international operations; evolving BIS rules and regulations and their impact on our ability to serve certain customers in China; costly IP disputes that could result in our inability to sell or use the challenged technology; risks related to the legal, regulatory and tax environments in which we conduct our business; increasing attention to ESG matters and the resulting costs, risks and impact on our business; unexpected delays, difficulties and expenses in executing against our environmental, climate, diversity and inclusion or other ESG targets, goals and commitments; our ability to attract, retain and motivate key personnel; our vulnerability to disruptions and delays at our third-party service providers; cybersecurity threats, cyber incidents affecting our and our business partners' systems and networks; our inability to access critical information in a timely manner due to system failures; our ability to identify suitable acquisition targets and successfully integrate and manage acquired businesses; climate change, earthquake, flood, other natural catastrophic events, public health crises such as the COVID-19 pandemic or terrorism and the adverse impact on our business operations; lack of insurance for losses and interruptions caused by terrorists and acts of war, and our self-insurance of certain risks including earthquake risk; risks related to fluctuations in foreign currency exchange rate; risks related to fluctuations in interest rates and the market values of our portfolio investments; risks related to tax and regulatory compliance audits; any change in taxation rules or practices and our effective tax rate; compliance costs with federal securities laws, rules, regulations, NASDAQ requirements, and evolving accounting standards and practices; ongoing changes in the technology industry, and the semiconductor industry in particular, including future growth rates, pricing trends in end-markets, or changes in customer capital spending patterns; our vulnerability to a highly concentrated customer base; the cyclical nature of the industries we operate in; our ability to timely develop new technologies and products that successfully address changes in the industry; our ability to maintain technology advantage and protect proprietary rights; our ability to compete in the industry; availability and cost of the materials and parts used in the production of our products; our ability to operate our business in accordance with our business plan; risks related to our debt and leveraged capital structure; we may not be able to declare cash dividends at all or in any particular amount; liability to our customers under indemnification provisions if our products fail to operate properly or contain defects or our customers are sued by third parties due to our products; our government funding for R&D is subject to audit, and potential termination or penalties; we may incur significant restructuring charges or other asset impairment charges or inventory write offs; and we are subject to risks related to receivables factoring arrangements and compliance risk of certain settlement agreements with the government.. For other factors that may cause actual results to differ materially from those projected and anticipated in forward-looking statements in this press release, please refer to KLA Corporation's Annual Report on Form 10-K for the year ended June 30, 2022, and other subsequent filings with the Securities and Exchange Commission. KLA Corporation assumes no obligation to, and does not currently intend to, update these forward-looking statements.