

KLA Earnings

Q3 Fiscal 2020 (Quarter Ended 3/31/2020)



Keep Looking Ahead

May 5, 2020

Forward-Looking Statements

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

Strategic Overview and Highlights

Rick Wallace | Chief Executive Officer



KLA's Priorities and Actions in Response to COVID-19

1

Protecting our Colleagues and Partners – Our first priority is the health and safety of our employees, their families, and our partners. We have taken proactive measures to ensure their safety across our global footprint through our Global Crisis Management team. Above all, we remain exceptionally strong advocates for the holistic health and safety of everyone that is part of the KLA ecosystem.

2

Supporting Customer Needs – Worldwide our teams have been resourceful and committed to executing for our customers most pressing needs and challenges. Customer feedback has been outstanding in response, and we are proud of how we are executing and meeting the challenges.

3

Taking Direct Action to Support our Communities – Early on we committed \$2 million in global relief efforts through our KLA Foundation Relief Fund to benefit local non-profit organizations who are working with high-risk populations in Asia, Europe, Israel and the United States.

Keeping Employees Safe, Supporting Customers and Our Communities

Industry Demand Environment

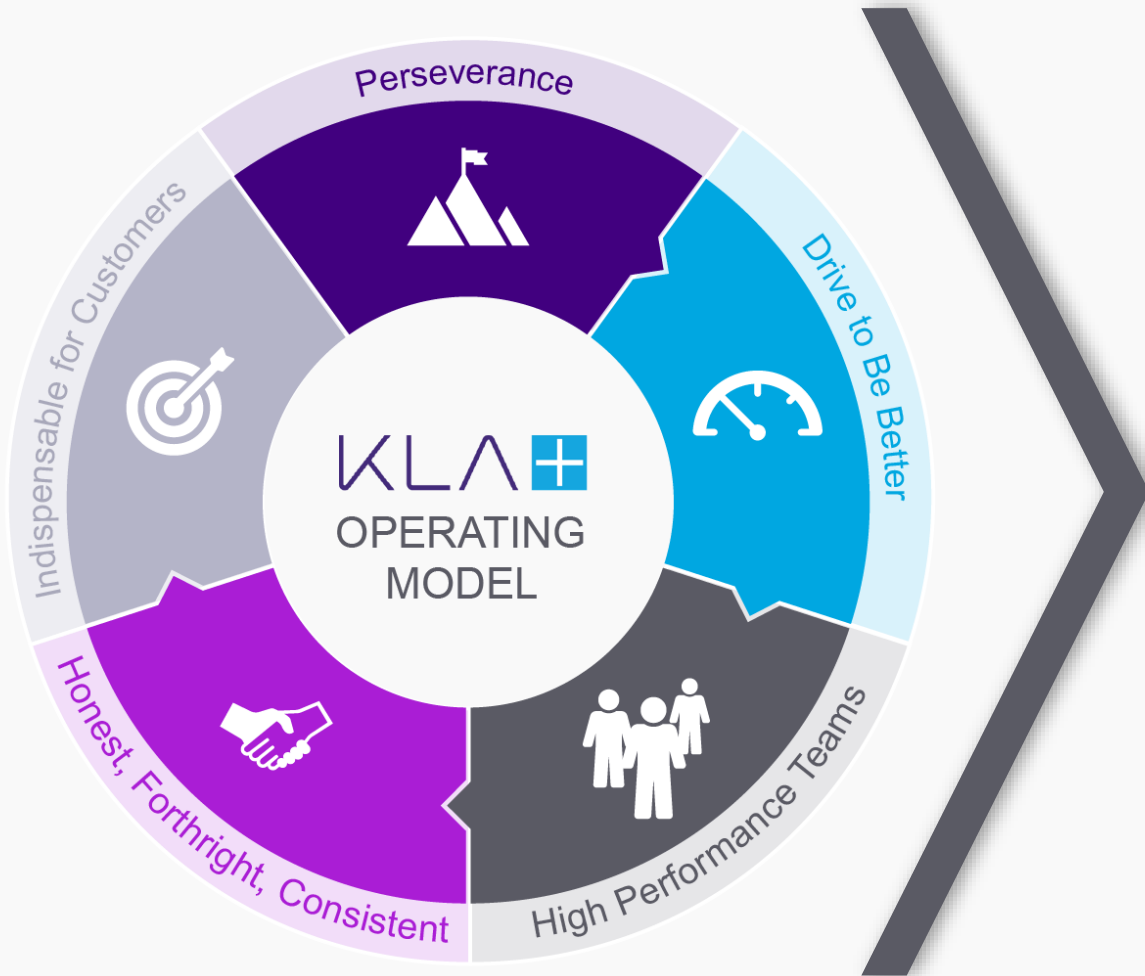
Semiconductor Equipment Demand is Strong – COVID-19 has not dampened customer demand for KLA products or services in a meaningful way. We delivered record shipments in the Semiconductor Process Control segment and total company quarterly ending backlog finished at record levels in the March quarter.

Customer Capex Investment is Strategic – 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.

COVID-19 is Accelerating Secular Growth Drivers Outlined in KLA's 2019 Investor Day – Including data and cloud service applications, productivity tools such as PCs and mobile devices, and home gaming entertainment. KLA is also supplying products essential in MEMS manufacturing and power technologies in medical applications such as smart thermometers and ventilators. Health care will be profoundly transformed by this crisis with the acceleration of technology implementation, virtual capabilities, and automation.

The COVID-19 Crisis Further Accelerates Digitization and Move to the Data Era

The KLA Operating Model



CONSISTENT STRATEGY AND EXECUTION

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



MANAGEMENT BY METRICS

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

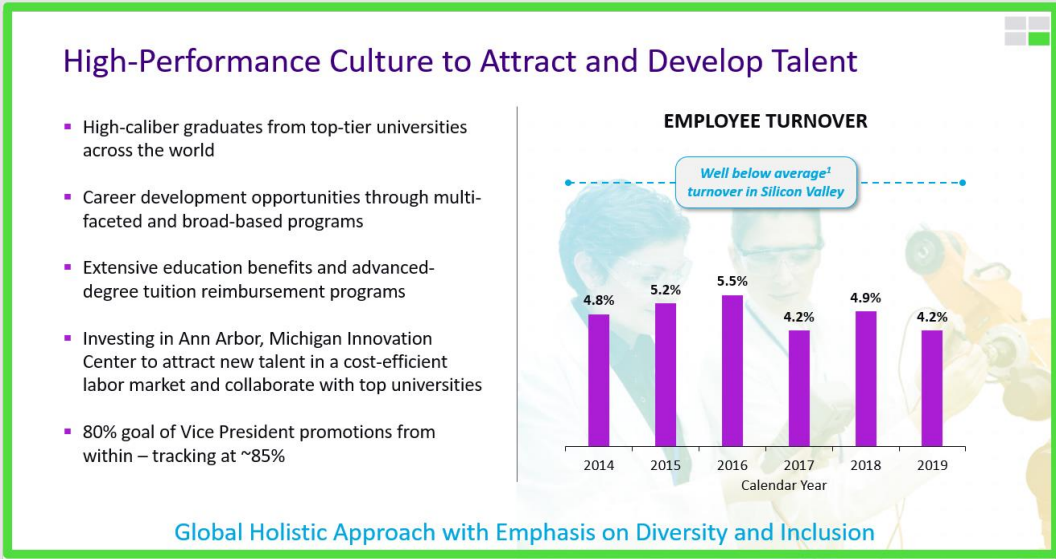
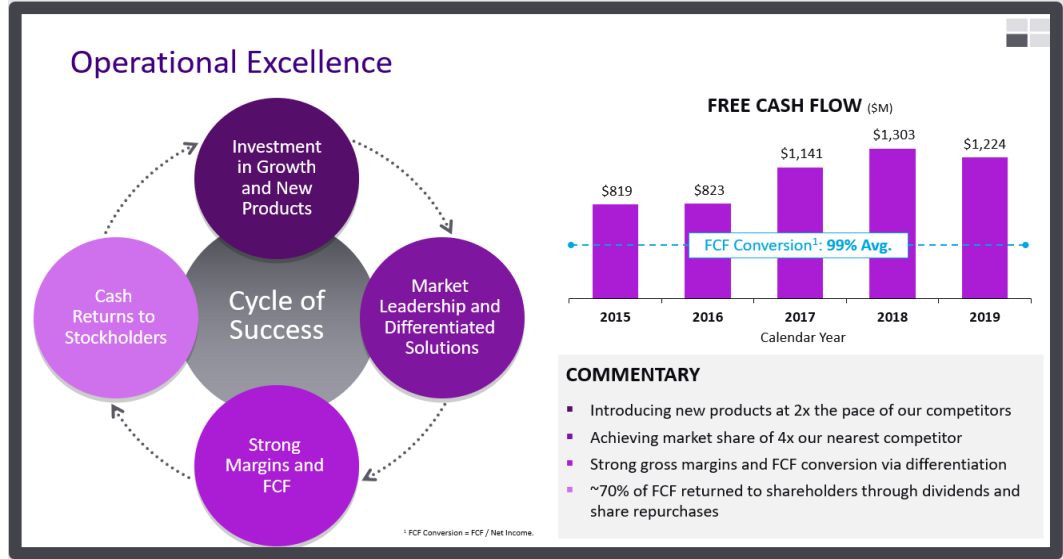
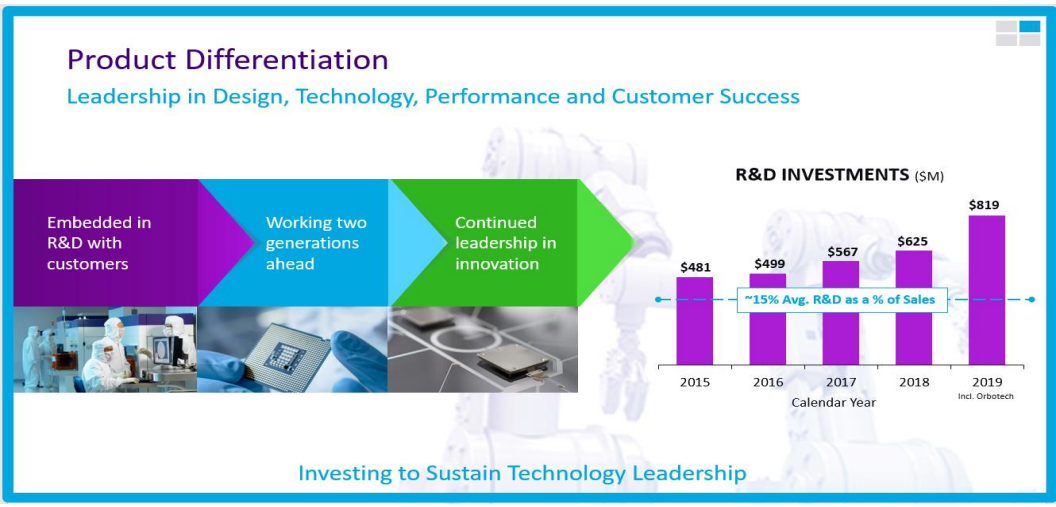
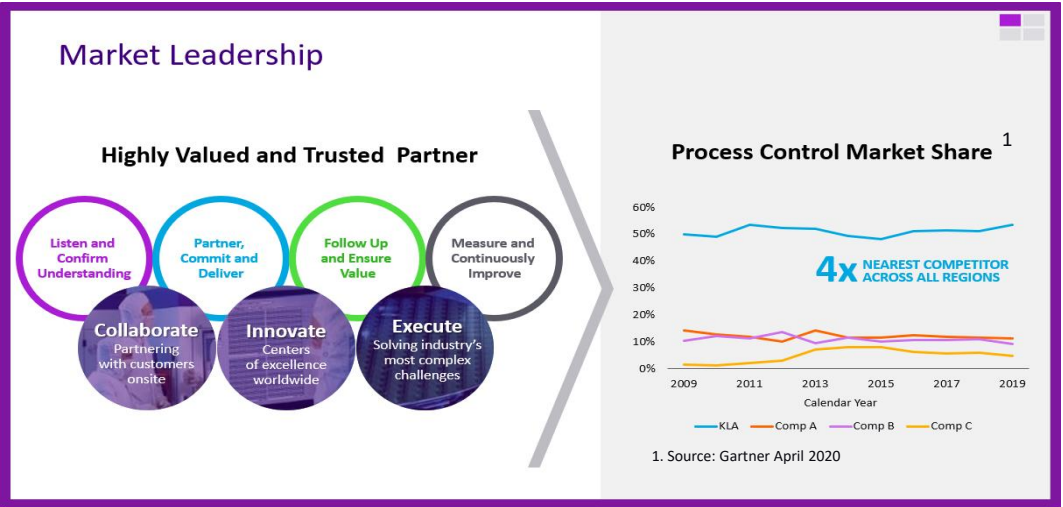


FINANCIAL DISCIPLINE AND RIGOR

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

Focused on Driving Sustainable Profitability and Growth

KLA's Four Strategic Objectives Serve As Our Guide



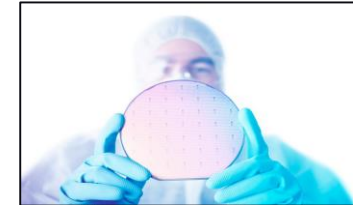
March Quarter 2020 Business Highlights

1. **Record Shipments for Semiconductor Process Control and Record Total Company Ending Backlog.** Our strong demand momentum continued across various product platforms, with particular strength in Mask Inspection, Patterned Optical Inspection (Gen5), and Films Metrology.

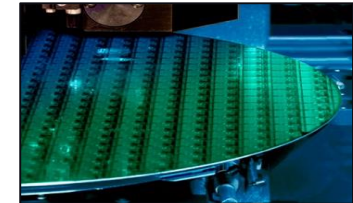


KLA Gen5 – 392x Series

2. **KLA is Winning In The Marketplace.** The newly published Gartner industry report for 2019 shows Process Control grew as a percentage of WFE, and KLA strengthened its market leadership. KLA delivered record or near-record demand in Optical Wafer Inspection, Overlay Metrology, and Mask Inspection in the year.



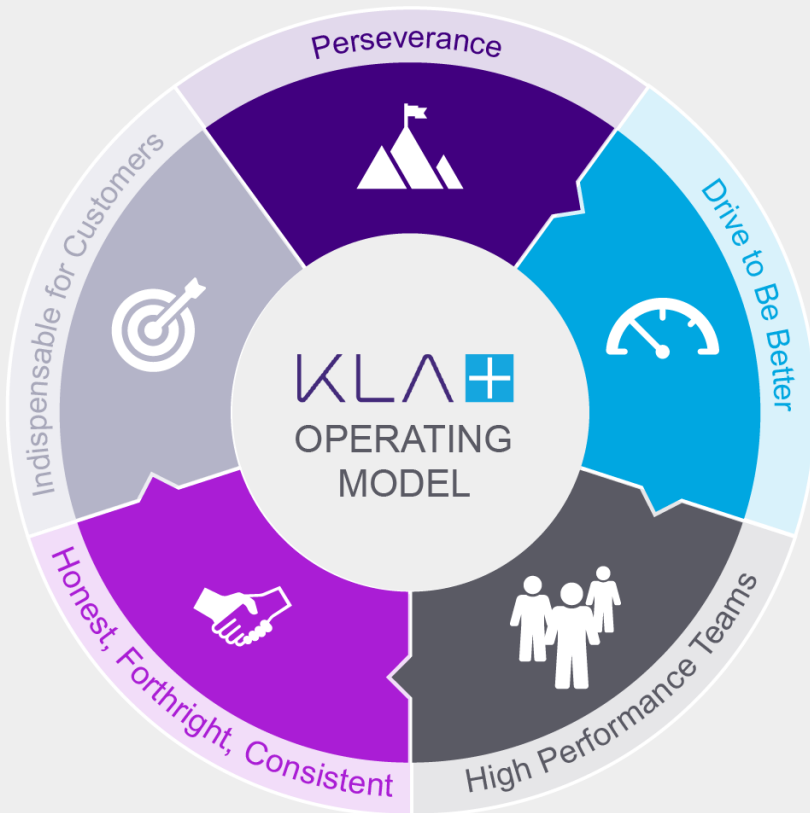
3. **Continued Strength in Foundry and Logic.** Foundry and Logic demand grew Q/Q as customers accelerate the ramp of 10-, 7- and 5 nanometer nodes, and EUV.



4. **Services Business Continues to Grow and Perform Well.** Total KLA Service revenue rose to \$373M and continues to perform well while also generating strong and predictable free cash flow.



The KLA Operating Model Continues to Guide Us Through This Crisis



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



March Quarter 2020 Financial Highlights

\$1.424B

Revenue

61.2%

Gross Margin*

\$316M

Stock Repurchase

\$0.50

GAAP EPS

34.6%

Op. Margin*

\$133M

Dividends Paid

\$2.47

NON-GAAP EPS *

\$399M

Free Cash Flow**

113%

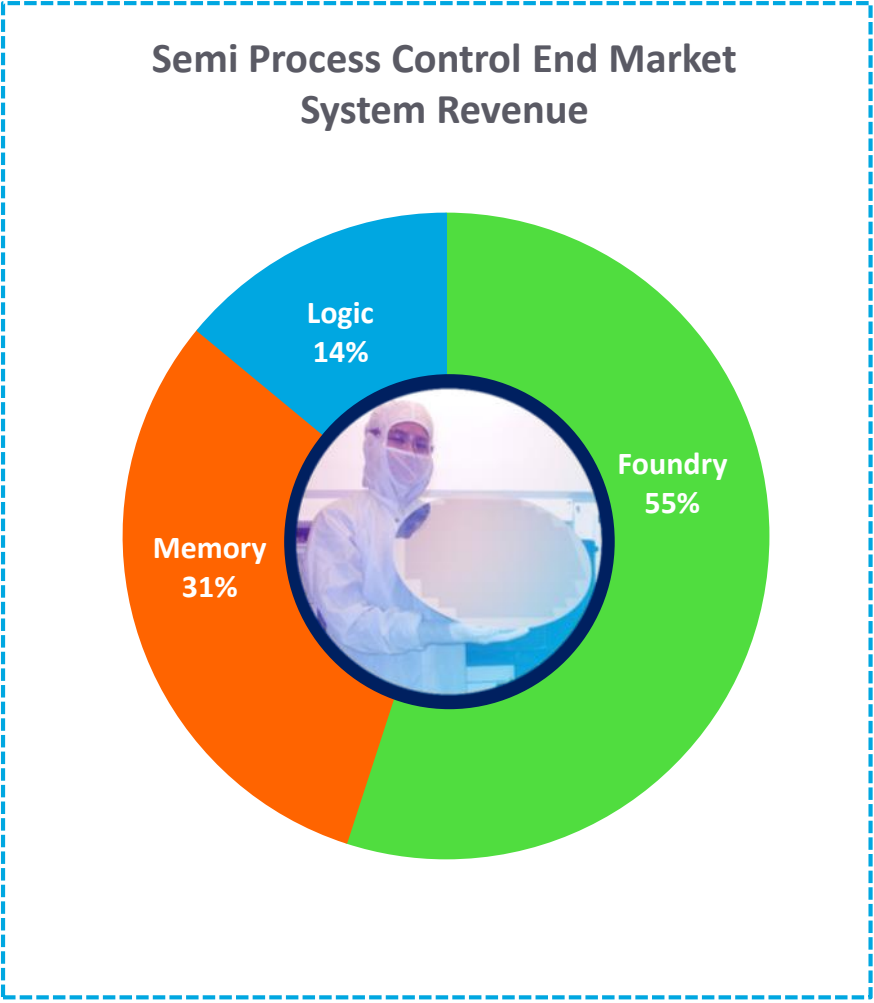
% FCF Returned

* 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

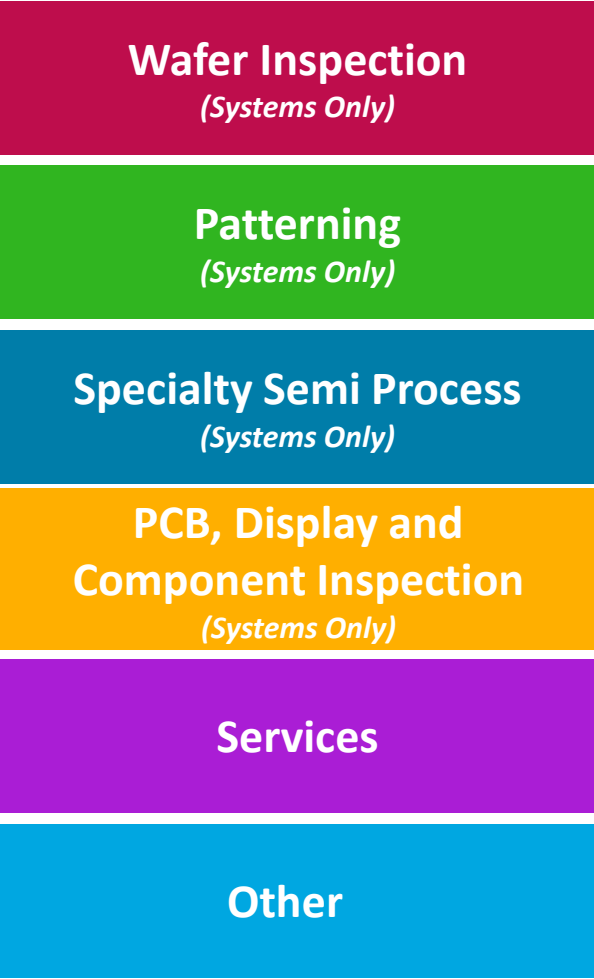
- Semiconductor Process Control**
(Systems + Services)
- Specialty Semiconductor Process**
(Systems + Services)
- PCB, Display and Component Inspection**
(Systems + Services)

Revenue		
Q1-CY20(\$M)	Q/Q Growth %	Revenue Mix
\$1,178	-6%	83%
\$85	+13%	6%
\$160	-14%	11%
\$1,424 ¹	-6%	



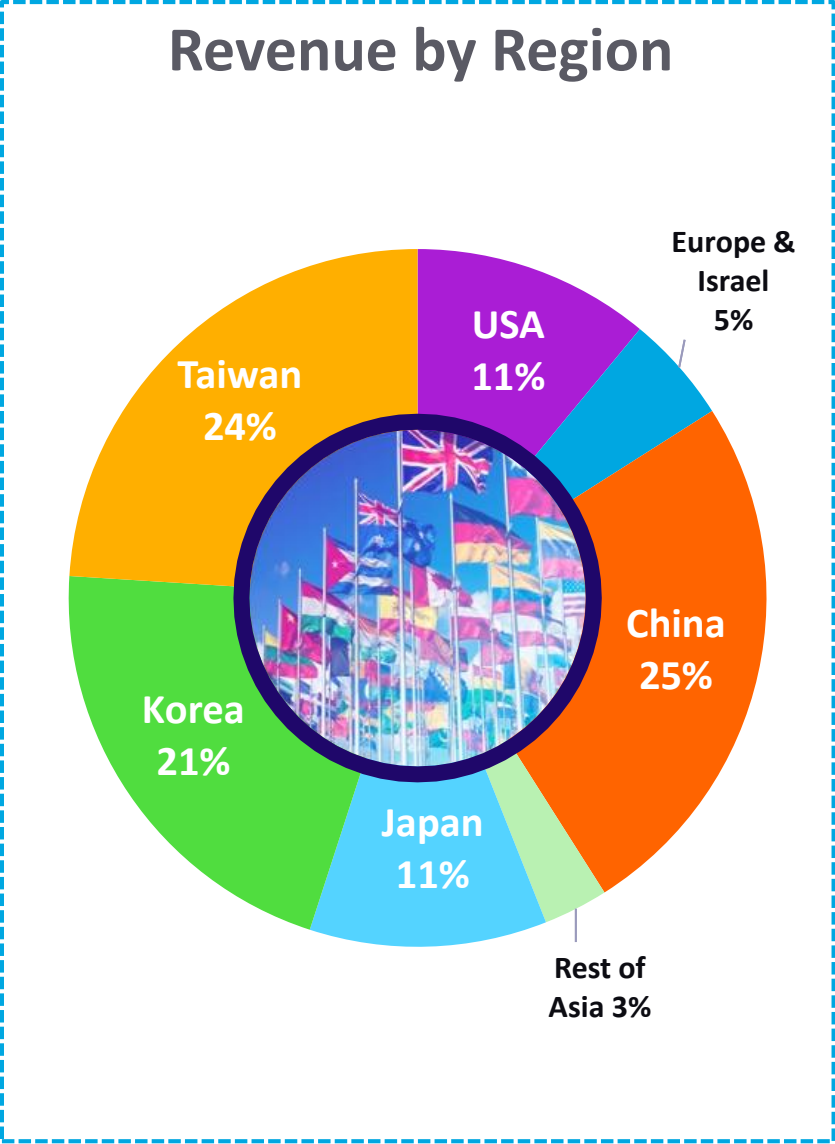
¹ Includes Other Revenue of \$1M.

Breakdown of Revenue by Major Products and Region



Total

Revenue		
Q1-CY20(\$M)	Q/Q Growth %	Revenue Mix
\$536	-12%	38%
\$299	+3%	21%
\$69	+13%	5%
\$104	-20%	7%
\$373	+2%	26%
\$43	-27%	3%
\$1,424	-6%	



Other March Quarter 2020 Income Statement Highlights

\$378M

Total Op. Expenses*

14.6%

Tax Rate*

\$215M

R&D*

\$389M

Net Income*

\$38M

Interest Expense and Other

157M

Diluted Shares

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

Strong Investment Grade Balance Sheet With No Bond Maturities Until 2024

CONSOLIDATED BALANCE SHEET¹ (\$M)

Total Cash ²	\$	1,635
Working Capital	\$	2,665
Total Assets	\$	8,846
Debt ³	\$	3,444
Total Shareholders' Equity	\$	2,325

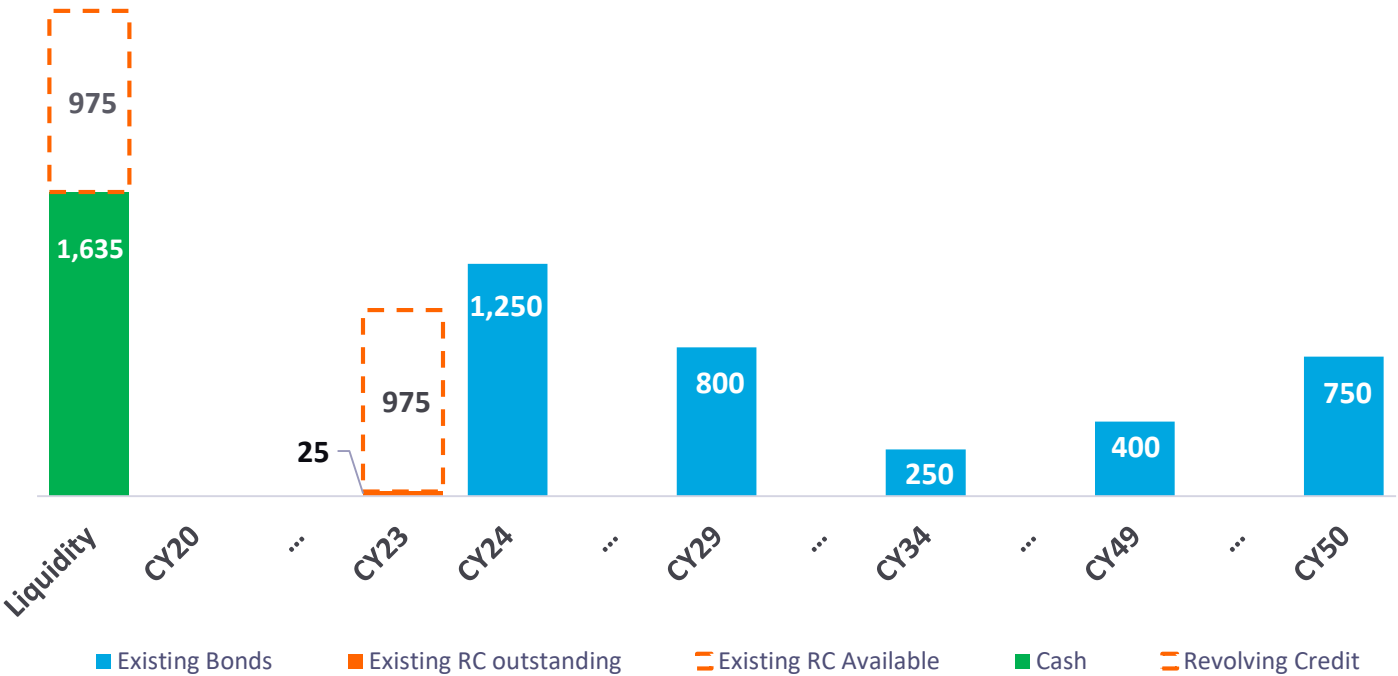
DEBT MATURITY PROFILE

Debt Outstanding ⁴	\$	3,475M
Weighted Average Rate		4.34%
Weighted Average Life		14.7 years

INVESTMENT GRADE CREDIT RATINGS

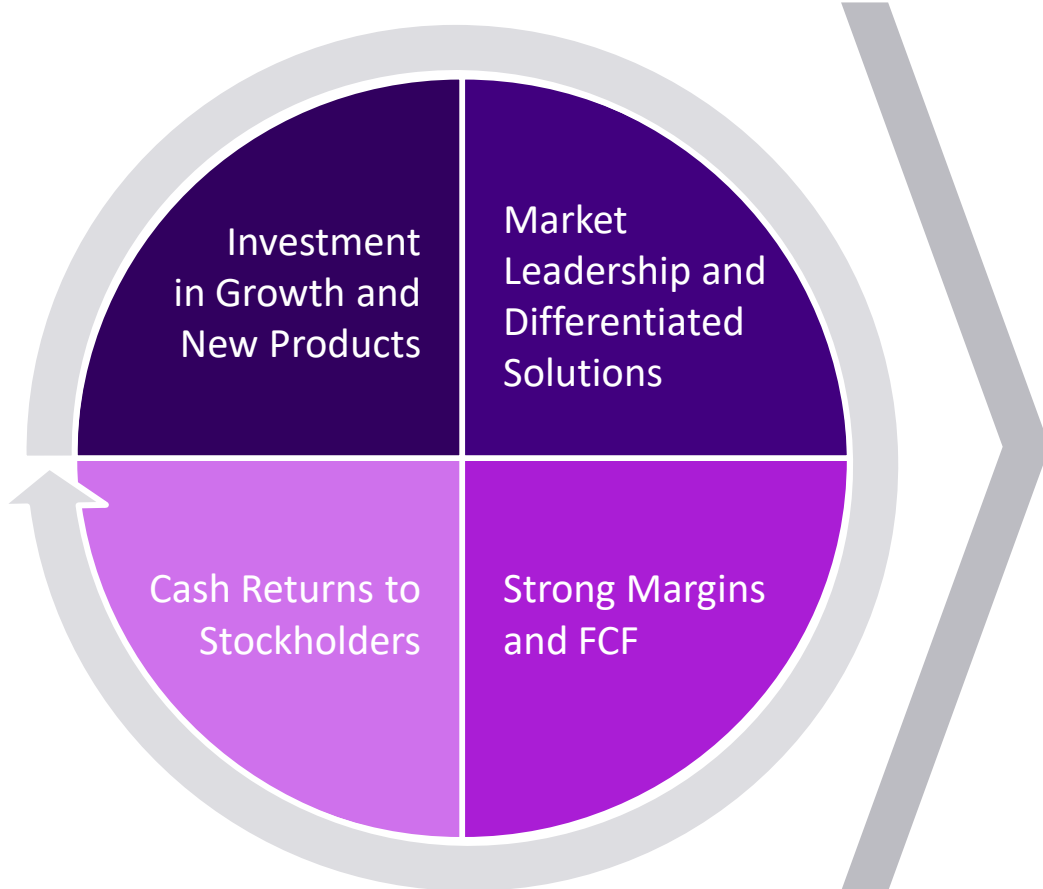
Moody's	Baa1
S&P	BBB+
Fitch	BBB+

Bond Maturity Profile ¹ \$M

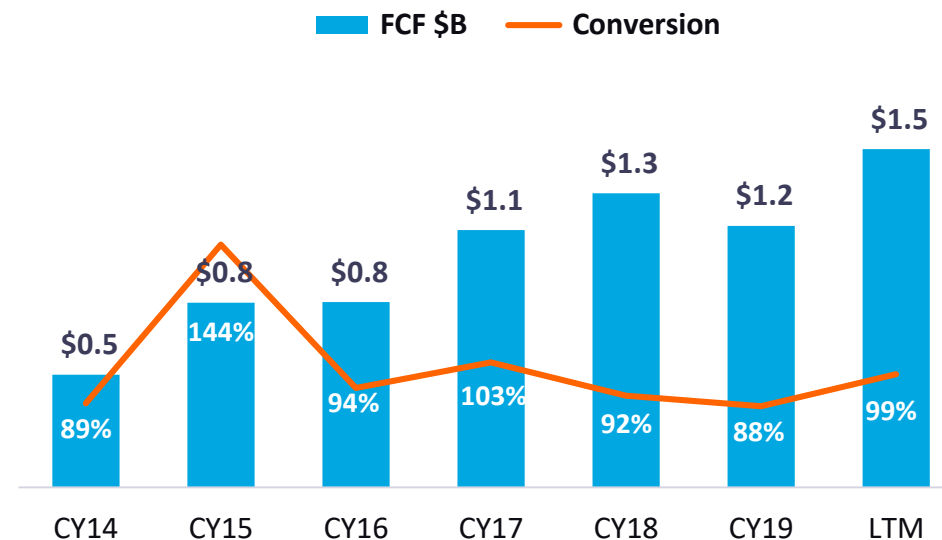


¹ As of 3/31/20; ² Total Cash includes Cash, Cash Equivalents and Marketable Securities; ³ Difference between debt of \$3.444B and gross debt of \$3.475B is un-amortized debt issuance discounts and costs; ⁴ Includes \$25M drawn from revolver.

FCF Generation Fuels Consistent Capital Return to Shareholders



FREE CASH FLOW¹ & CONVERSION²



- Introducing new products at a 2x pace vs. our competitors
- Achieving market share of 4x our nearest competitor
- High gross margin and FCF conversion via differentiation

Committed to >70% FCF Returned to Shareholders Over Long-Term Through Dividends and Buybacks

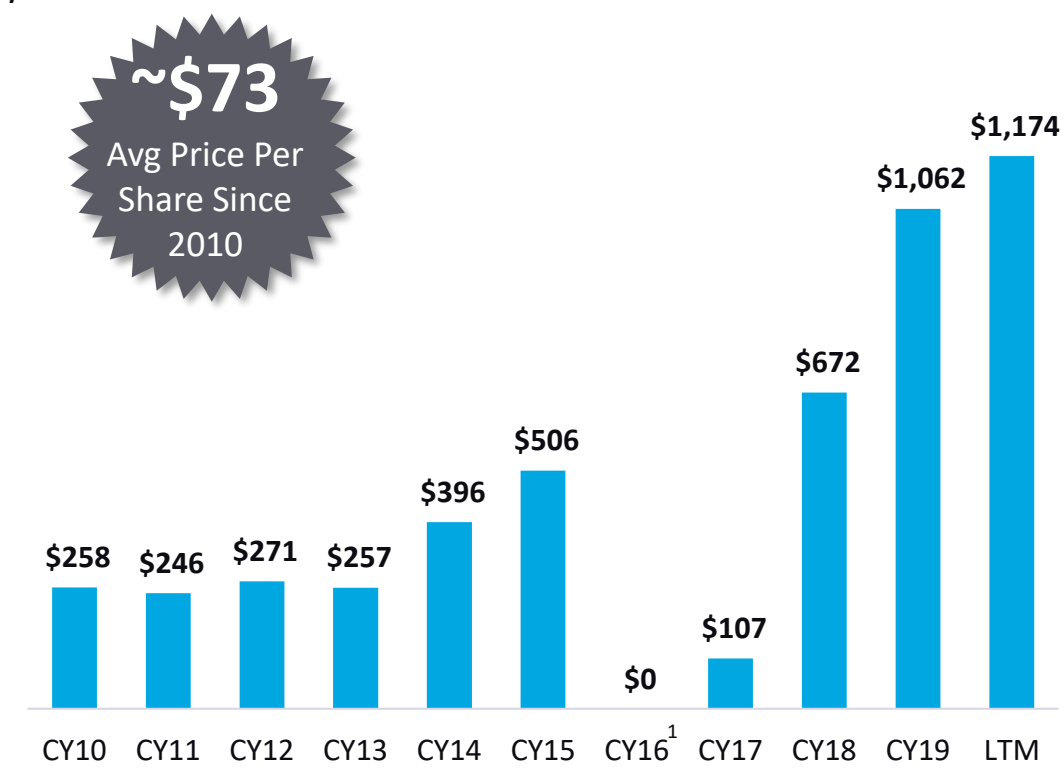
¹ Free Cash Flow (FCF) = Cash Flow from Operating Activities minus Capital Expenditures

² FCF Conversion defined as FCF/Non-GAAP Net Income; Non-GAAP metric – Please refer to Appendix for reconciliation to GAAP

Capital Return to Investors is Spread Across Buybacks and Dividends

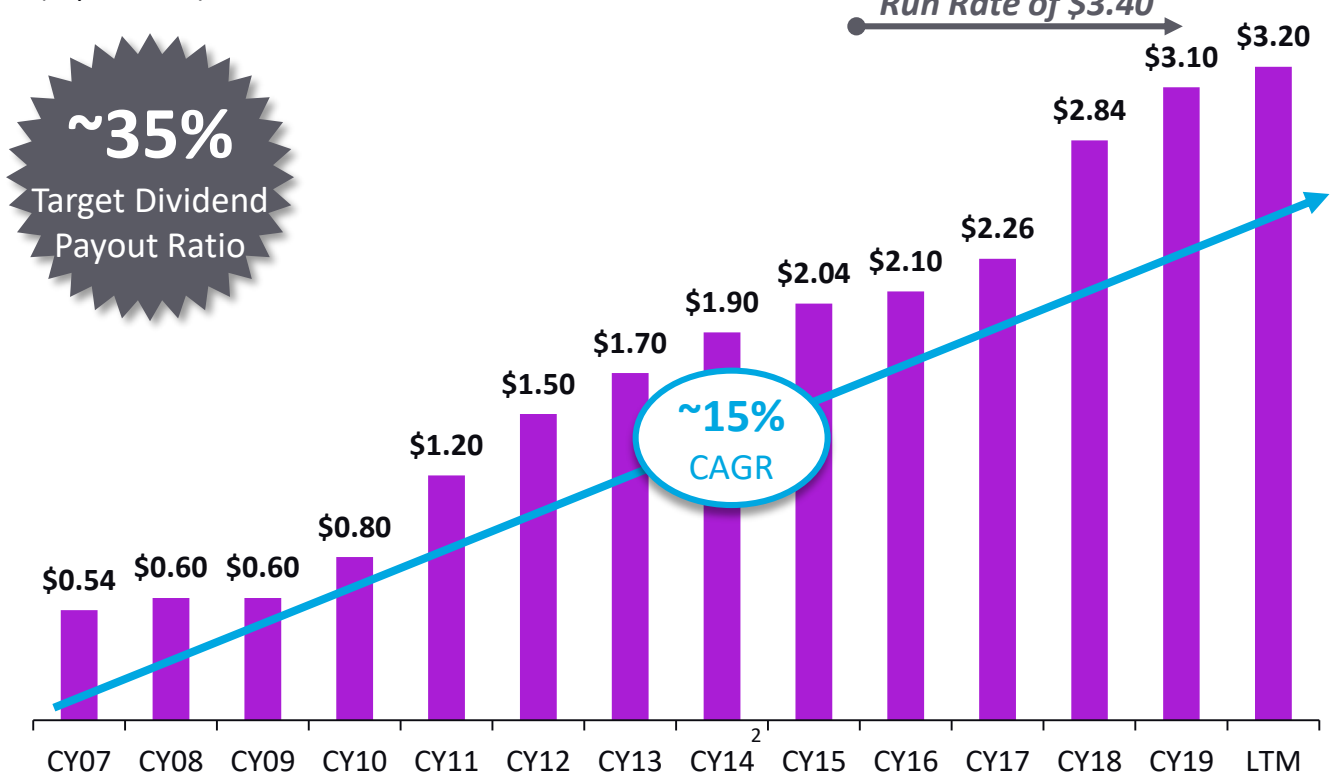
CONSISTENT SHARE REPURCHASES ³

\$Millions



STRONG TRACK RECORD OF ANNUAL DIVIDEND INCREASES

(\$/per share)



¹ Share repurchase halted in CY16 during KLA-Lam merger proceedings ² Excludes \$16.50 per share special dividend ³ Trade Date basis

June Quarter 2020 Guidance (Q4 FY2020)

	JUNE 2020 QUARTER
SALES	\$1,260M to \$1,540M
GROSS MARGIN	59.0% to 61.0%
GAAP EPS	\$1.58 to \$2.64
NON-GAAP EPS	\$1.81 to \$2.87

MACRO ASSUMPTIONS

- Widened guidance ranges due to COVID-19 uncertainty
 - Semi Process Control System Revenue from Foundry: 51%
 - Semi Process Control System Revenue from Memory: 39%
 - Semi Process Control System Revenue from Logic: 10%

MODEL ASSUMPTIONS

- Operating Expenses: ~\$380M
- Interest & Other Expense (OIE): ~\$40M
- Non-GAAP Tax Rate: ~13%
- Diluted Share Count: ~156M

Driving Profitable Growth and Delivering Shareholder Value

KLA Remains Well Positioned to Navigate Uncertainty

To summarize, as we look ahead to the balance of the year, KLA continues to be well positioned to navigate the uncharted territory we find ourselves in:

- **Strength:** We derive our strength from our strong balance sheet and liquidity and comfort from not having any material debt maturities until 2024
- **Operating:** Our strong operating performance helps us prioritize and protect our margins while simultaneously generating strong and consistent free cash flow
- **Allocation:** We will make smart capital allocation decisions, continue to invest in the important R&D to support our customers and new product launches, while maintaining our long track record of attractive capital returns to stakeholders
- **Predictability:** KLA's more predictable business benefits from our growing diversification and subscription-like services business

We are confident we can excel in managing our business to position it for a brighter future

Strength, Operating, Allocation, and Predictability

Reconciliation of Non-GAAP Financial Measures

	For the three months ended			For the nine months ended	
	March 31, 2020	December 31, 2019	March 31, 2019	March 31, 2020	March 31, 2019
<i>(In thousands, except per share amounts and percentages)</i>					
GAAP net income	\$ 78,452	\$ 380,555	\$ 192,728	\$ 805,532	\$ 957,772
<u>Adjustments to reconcile GAAP net income to non-GAAP net income*:</u>					
Acquisition-related charges	a 55,022	60,393	103,755	188,778	113,587
Restructuring, severance and other charges	b 5,432	2,786	-	8,218	-
Goodwill impairment	c 256,649	-	-	256,649	-
Loss on extinguishment of debt	d 22,538	-	-	22,538	-
Income tax effect of non-GAAP adjustments	e (23,604)	(21,505)	(21,127)	(67,375)	(21,713)
Discrete tax items	f (5,551)	-	7,482	(5,551)	(10,389)
Non-GAAP net income	\$ 388,938	\$ 422,229	\$ 282,838	\$ 1,208,789	\$ 1,039,257
GAAP net income as a percentage of revenue	5.5%	25.2%	17.6%	18.5%	28.9%
Non-GAAP net income as a percentage of revenue	27.3%	28.0%	25.8%	27.8%	31.4%
GAAP net income per diluted share	\$ 0.50	\$ 2.40	\$ 1.23	\$ 5.08	\$ 6.17
Non-GAAP net income per diluted share	\$ 2.47	\$ 2.66	\$ 1.80	\$ 7.62	\$ 6.69
Shares used in diluted shares calculation	157,172	158,620	157,182	158,586	155,310
GAAP operating income	\$ 175,964	\$ 462,831	\$ 243,295	\$ 1,049,043	\$ 1,120,473
<u>Adjustments to reconcile GAAP operating income to non-GAAP operating income*:</u>					
Acquisition-related charges	a 55,022	60,393	103,755	188,778	113,587
Restructuring, severance and other charges	b 5,432	2,786	-	8,218	-
Goodwill impairment	c 256,649	-	-	256,649	-
Non-GAAP operating income (1)	\$ 493,067	\$ 526,010	\$ 347,050	\$ 1,502,688	\$ 1,234,060
GAAP operating income as a percentage of revenue	12.4%	30.7%	22.2%	24.1%	33.8%
Non-GAAP operating income as a percentage of revenue	34.6%	34.8%	31.6%	34.6%	37.3%

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

(1) Non-GAAP operating income and operating expenses include the effects of the changes in the Company's Executive Deferred Savings Plan Program ("EDSP") and the changes in the EDSP liability and asset are recorded in selling, general and administrative expense in operating expenses. The expense (benefit) associated with change in the liability included in selling, general and administrative expense for the three months ended March 31, 2020, December 31, 2019, and March 31, 2019 was \$(29.4) million, \$12.0 million and \$19.3 million, respectively, and \$(15.5) million and \$7.0 million for the nine months ended March 31, 2020 and March 31, 2019, respectively. The gains (losses) associated with the changes in the EDSP asset included in selling, general and administrative expense for the three months ended March 31, 2020, December 31, 2019, and March 31, 2019 were \$(29.4) million, \$11.9 million and \$19.7 million, respectively, and \$(15.3) million and \$7.7 million for the nine months ended March 31, 2020 and March 31, 2019, respectively.

Reconciliation of Non-GAAP Financial Measures

(In thousands, except percentages)	For the three months ended			For the nine months ended	
	March 31, 2020	December 31, 2019	March 31, 2019	March 31, 2020	March 31, 2019
GAAP gross margin	\$ 833,806	\$ 875,835	\$ 610,366	\$ 2,518,814	\$ 2,033,877
Adjustments to reconcile GAAP gross margin to non-GAAP gross margin*:					
Acquisition-related charges	a 36,850	40,590	47,659	127,439	49,516
Restructuring, severance and other charges	b 483	831	-	1,314	-
Non-GAAP gross margin	\$ 871,139	\$ 917,256	\$ 658,025	\$ 2,647,567	\$ 2,083,393
GAAP gross margin as a percentage of revenue	58.6%	58.0%	55.6%	57.9%	61.4%
Non-GAAP gross margin as a percentage of revenue	61.2%	60.8%	60.0%	60.9%	62.9%
GAAP operating expenses	\$ 657,842	\$ 413,004	\$ 367,071	\$ 1,469,771	\$ 913,404
Adjustments to reconcile GAAP operating expenses to non-GAAP operating expenses*:					
Acquisition-related charges	a (18,172)	(19,803)	(56,096)	(61,339)	(64,071)
Restructuring, severance and other charges	b (4,949)	(1,955)	-	(6,904)	-
Goodwill impairment	c (256,649)	-	-	(256,649)	-
Non-GAAP operating expenses (1)	\$ 378,072	\$ 391,246	\$ 310,975	\$ 1,144,879	\$ 849,333
GAAP operating expenses as a percentage of revenue	46.2%	27.4%	33.5%	33.8%	27.6%
Non-GAAP operating expenses as a percentage of revenue	26.6%	25.9%	28.3%	26.3%	25.7%

* 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 nine months ended	
	March 31, 2020	December 31, 2019	March 31, 2019	March 31, 2020	March 31, 2019
<i>(In thousands, except percentages)</i>					
GAAP income before income taxes	\$ 115,199	\$ 424,927	\$ 221,390	\$ 911,642	\$ 1,064,921
GAAP income tax expense	\$ 37,190	\$ 44,622	\$ 28,745	\$ 106,932	\$ 107,232
GAAP income tax rate	32.3%	10.5%	13.0%	11.7%	10.1%
<u>Adjustments to reconcile GAAP effective tax rate to non-GAAP effective tax rate*:</u>					
Acquisition-related charges	a 55,022	60,393	103,755	188,778	113,587
Restructuring, severance and other charges	b 5,432	2,786	-	8,218	-
Goodwill impairment	c 256,649	-	-	256,649	-
Loss on extinguishment of debt	d 22,538	-	-	22,538	-
Non-GAAP income before income taxes	\$ 454,840	\$ 488,106	\$ 325,145	\$ 1,387,825	\$ 1,178,508
Income tax effects of non-GAAP adjustments	e 23,604	21,505	21,127	67,375	21,713
Discrete tax item	f 5,551	-	(7,482)	5,551	10,389
Non-GAAP income tax expense	\$ 66,345	\$ 66,127	\$ 42,390	\$ 179,858	\$ 139,334
Non-GAAP income tax rate	14.6%	13.5%	13.0%	13.0%	11.8%
GAAP research and development (R&D) expenses	\$ 215,433	\$ 220,751	\$ 184,887	\$ 646,764	\$ 504,320
<u>Adjustments to reconcile GAAP R&D expenses to non-GAAP R&D expenses*:</u>					
Acquisition-related charges	a -	-	(3,328)	-	(3,328)
Restructuring, severance and other charges	b (685)	(802)	-	(1,487)	-
Non-GAAP R&D expenses	\$ 214,748	\$ 219,949	\$ 181,559	\$ 645,277	\$ 500,992

* 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 Q4 FY 2020 Guidance Range

<i>(In millions, except per share amounts and percentages)</i>			
		Low	High
GAAP diluted net income per share		\$ 1.58	\$ 2.64
Acquisition-related charges	a	0.33	0.33
Restructuring, severance and other charges	b	0.01	0.01
Income tax effect of non-GAAP adjustments	e	(0.11)	(0.11)
Non-GAAP diluted net income per share		\$ 1.81	\$ 2.87
Shares used in net income per diluted shares calculation		156.1	156.1
GAAP gross margin as a percentage of revenue		56.0%	58.5%
Acquisition-related charges	a	2.9%	2.4%
Restructuring, severance and other charges	b	0.1%	0.1%
Non-GAAP gross margin as a percentage of revenue		59.0%	61.0%
GAAP operating expenses		\$ (393)	\$ (399)
Acquisition-related charges	a	15	15
Restructuring, severance and other charges	b	1	1
Non-GAAP operating expenses		\$ (377)	\$ (383)

Note: The guidance as of May 5, 2020 represents our best estimate considering the information known as of the date of issuing the guidance. We undertake no responsibility to update the above in light of new information or future events. Refer to the forward looking statements for important information. Also Refer to “Reconciliation of Non-GAAP Financial Measures – Explanation of Non-GAAP Financial Measures” for detailed descriptions and information about each reconciling item.

Reconciliation of Non-GAAP Financial Measures

Explanation of Non-GAAP Financial Measures:

To supplement our condensed consolidated financial statements presented in accordance with GAAP, we provide certain non-GAAP financial information, which is adjusted from results based on GAAP to exclude certain costs and expenses, as well as other supplemental information. The non-GAAP and supplemental information is provided to enhance the user's overall understanding of our operating performance and our prospects in the future. Specifically, we believe that the non-GAAP information provides useful measures to both management and investors regarding financial and business trends relating to our financial performance by excluding certain costs and expenses that we believe are not indicative of our core operating results. The non-GAAP information is among the budgeting and planning tools that management uses for future forecasting. However, because there are no standardized or generally accepted definitions for most non-GAAP financial metrics, definitions of non-GAAP financial metrics (for example, determining which costs and expenses to exclude when calculating such a metric) are inherently subject to significant discretion. As a result, non-GAAP financial metrics may be defined very differently from company to company, or even from period to period within the same company, which can potentially limit the usefulness of such information to an investor. The presentation of non-GAAP and supplemental information is not meant to be considered in isolation or as a substitute for results prepared and presented in accordance with United States GAAP.

- a) Acquisition-related charges primarily include amortization of intangible assets and other acquisition-related adjustments including adjustments for the fair valuation of inventory and backlog, and transaction costs associated with our acquisitions, primarily Orbotech. Management believes that the expense associated with the amortization of acquisition-related intangible assets is appropriate to be excluded because a significant portion of the purchase price for acquisitions may be allocated to intangible assets, and exclusion of these expenses allows comparisons of operating results that are consistent over time for both KLA's newly acquired and long-held businesses. Management believes that the other acquisition-related expenses are appropriate to be excluded because such costs would not have otherwise been incurred in the periods presented. Management believes excluding these items helps investors compare our operating performances with our results in prior periods as well as with the performance of other companies.
- b) Restructuring, severance and other charges primarily include costs associated with employee severance, acceleration of certain stock-based compensation arrangements, and other exit costs. Management believes excluding these items helps investors compare our operating performance with our results in prior periods.
- c) Goodwill impairment includes non-cash expense recognized as a result of the company's annual testing for goodwill impairment performed in the third quarter of the fiscal year. The impairment charge resulted from the downward revision of financial outlook for the acquired Orbotech business as well as the impact of elevated risk and macroeconomic slowdown driven by the COVID-19 pandemic. Management believes that it is appropriate to exclude the impairment charge as it is not indicative of ongoing operating results and therefore limits comparability. Management also believes excluding this item helps investors compare our operating performance with our results in prior periods as well as with the performance of other companies.
- d) Loss on extinguishment of debt includes a pre-tax loss on early extinguishment of the \$500 million 4.125% Senior Notes due in November 2021. Management believes it is appropriate to exclude this loss as it is not indicative of ongoing operating results and therefore limits comparability and excluding this loss helps investors compare our operating results with our results in prior periods as well as with performance of other companies.
- e) Income tax effect of non-GAAP adjustments includes the income tax effects of the excluded items noted above. Management believes that it is appropriate to exclude the tax effects of the items noted above in order to present a more meaningful measure of non-GAAP net income.
- f) Discrete tax items in the three and nine months ended March 31, 2020 include a decrease in deferred tax liability for an unrealized gain on investments held by subsidiaries of the acquired Orbotech business. Discrete tax items in the three and nine months ended March 31, 2019 include tax impacts of and the income tax effects of an income tax expense from the enacted tax reform legislation through the Tax Cuts and Jobs Act (the "Act"), which was signed into law on December 22, 2017, of which the impact is primarily related to the provisional tax amounts recorded for the transition tax on accumulated foreign earnings and the re-measurement of certain deferred tax assets and liabilities as a result of the enactment of the Act. Management believes excluding these items helps investors compare our operating performance with our results in prior periods as well as with the performance of other companies.