



Keep Looking Ahead

# Q4 Fiscal 2022 Earnings

Quarter Ended June 30, 2022 • Reported On July 28, 2022

# Forward Looking Statements

Statements in this presentation other than historical facts, such as statements pertaining to: (i) future industry demand for semiconductors; (ii) WFE and KLA's growth in calendar 2022 and the growth in operating expenses through the end of 2022; (iii) our 2026 financial model; (iv) growth rate of the semiconductor industry through 2026; (v) dividend levels over the next twelve months; and (vi) revenues, GAAP and non-GAAP gross margin, GAAP and non-GAAP diluted EPS, revenues across end markets, non-GAAP operating expenses, OIE, net, effective tax rate and diluted share count for the September quarter, 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 impact of the COVID-19 pandemic on the global economy and on our business, financial condition and results of operations, including the supply chain constraints we are experiencing as a result of the pandemic; economic, political and social conditions in the countries in which we, our customers and our suppliers operate, including rising inflation and interest rates, Russia's invasion of Ukraine and global trade policies; disruption to our manufacturing facilities or other operations, or the operations of our customers, due to natural catastrophic events, health epidemics or terrorism; 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 ability to timely develop new technologies and products that successfully anticipate or address changes in the semiconductor industry; our ability to maintain our technology advantage and protect our proprietary rights; our ability to compete with new products introduced by our competitors; our ability to attract and retain key personnel; cybersecurity threats, cyber incidents affecting our and our service providers' systems and networks and our ability to access critical information systems for daily business operations; 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; exposure to a highly concentrated customer base; availability and cost of the wide range of materials used in the production of our products; our ability to operate our business in accordance with our business plan; legal, regulatory and tax environments in which we perform our operations and conduct our business and our ability to comply with relevant laws and regulations; our ability to pay interest and repay the principal of our current indebtedness is dependent upon our ability to manage our business operations, our credit rating and the ongoing interest rate environment, among other factors; instability in the global credit and financial markets; our exposure to currency exchange rate fluctuations, or declining economic conditions in those countries where we conduct our business; changes in our effective tax rate resulting from changes in the tax rates imposed by jurisdictions where our profits are determined to be earned and taxed, expiration of tax holidays in certain jurisdictions, resolution of issues arising from tax audits with various authorities or changes in tax laws or the interpretation of such tax laws; and our ability to identify suitable acquisition targets and successfully integrate and manage acquired businesses. 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, 2021, 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.

# Semiconductor Industry Demand Environment

## Semiconductor Demand Is Strong

KLA continues to benefit from broad and diversified strength across our major markets, with growth fueled by our growing market leadership in some of the largest and fastest growing markets in Process Control. Calendar 2022 is expected to be another year of double-digit growth for the company and strong relative performance vs. the WFE industry. This is driven by strong secular growth trends for the Semiconductor and Electronics industries across a wide range of markets enabling the Data Economy.

## Customer R&D Investment and Increasing Capacity Remains A Top Priority in Calendar 2022

KLA continues to play a critical role in enabling technology transitions in advanced semiconductor manufacturing, as well as helping customers improve yields throughout the capacity growth phase. Calendar 2022 is forecasted to be another year of strong growth for WFE, with customers investing in technology transitions in every segment, as well as adding new capacity. KLA benefits from these investments as we are on the critical path to enabling faster R&D development cycles, faster yield ramps and higher, more stable yields in production.

## Strong Secular Drivers Demonstrate Strategic Value of Semiconductors

There are many fundamental drivers propelling the Semiconductor industry, underscoring the strategic importance of Semiconductors and the Semiconductor supply chain. This is making industry cycles more durable, as digital transformation expands beyond consumer and smartphone to enable growth in data center, enterprise, 5G, the electrification of automotive, digital healthcare, work from home, virtual collaboration, and digital entertainment. The growing focus on regionalization of production demonstrates the strategic importance of securing semiconductor supply chains.

Growth underscores the strategic nature of semiconductors in the data economy

# The 2026E Target Model

	Prior 2023E Target Model	New 2026E Target Model	Ongoing Financial Framework
Revenue	\$7.0B - \$7.5B	\$14B +/- \$500M	~9% - 11% CAGR
Gross Margin% <sup>1</sup>	61%+	~63%	
R&D% <sup>1</sup>	~14%	~13%	
SG&A% <sup>1</sup>	~11%	~8%	
Operating Margin% <sup>1</sup>	36%+	41% - 43%	40% - 50% (Incremental)
Diluted EPS <sup>1</sup>	\$14.50 - \$15.50	\$38.00 +/- \$1.50	~1.5x Revenue Growth Rate
Capital Allocation	Target > 70% of FCF	Target > 85% of FCF	Hybrid Approach: Dividend + Repurchases

## Macro Assumptions

- CY21-CY26E semiconductor industry CAGR of ~6-7%
- WFE grows faster than Semi revs
- ~55-60% foundry/logic, ~40-45% memory mix
- Process Control market grows > WFE

## Business Assumptions

- Intensity/market share gain at leading edge
- Increasing exposure to legacy markets
- New market penetration

<sup>1</sup>Non-GAAP measure

Focused on driving consistent, profitable growth and delivering shareholder value

# June Quarter 2022 Business Highlights

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

1

KLA continues to deliver strong relative performance vs. peers, as our market leadership in some of the largest and fastest growing areas of WFE continues to fuel growth. Given that, KLA is positioned to be one of the fastest growing Tier 1 equipment suppliers in CY22. In Foundry/Logic, simultaneous investments across multiple nodes and rising capital intensity continues to be a tailwind. In Memory, although certain market leaders have scaled back capacity investment due to consumer demand and macro-related issues, demand remains strong and is broad-based across multiple customers. Demand for KLA's products remains strong as customers prioritize technology development investment.

2

## **Market Leadership in Wafer Inspection Enables Critical Technology Transitions**

KLA's Wafer Inspection business once again delivered impressive results in the June quarter, as Wafer Inspection systems revenue grew 20% sequentially and 49% on a year-over-year basis, driven by KLA's market leadership and increasing adoption of Wafer Inspection applications in leading-edge technology development. KLA's Wafer Inspection business is strongly leveraged to EUV investment and critical next-generation logic device architectures such as Gate-All-Around (GAA).

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## **Record Quarterly Revenue for Electronics, Packaging and Components (EPC) Group**

KLA delivered record quarterly revenue in our Electronics, Packaging and Components (EPC) business. As we discussed at our June 2022 Investor Day, KLA is intensifying our efforts in Advanced Packaging and Automotive electronics, leveraging the combined portfolios of both the Semiconductor Process Control and EPC groups. We are broadening our product portfolio and developing a comprehensive suite of products and technologies that include wafer-level packaging and final assembly and test products for Advanced Packaging markets, and a portfolio of inspection systems and process tools designed to help customers achieve their zero-defect goals.

4

## **Services Demonstrates Consistency and Increases Long-Term Growth Target**

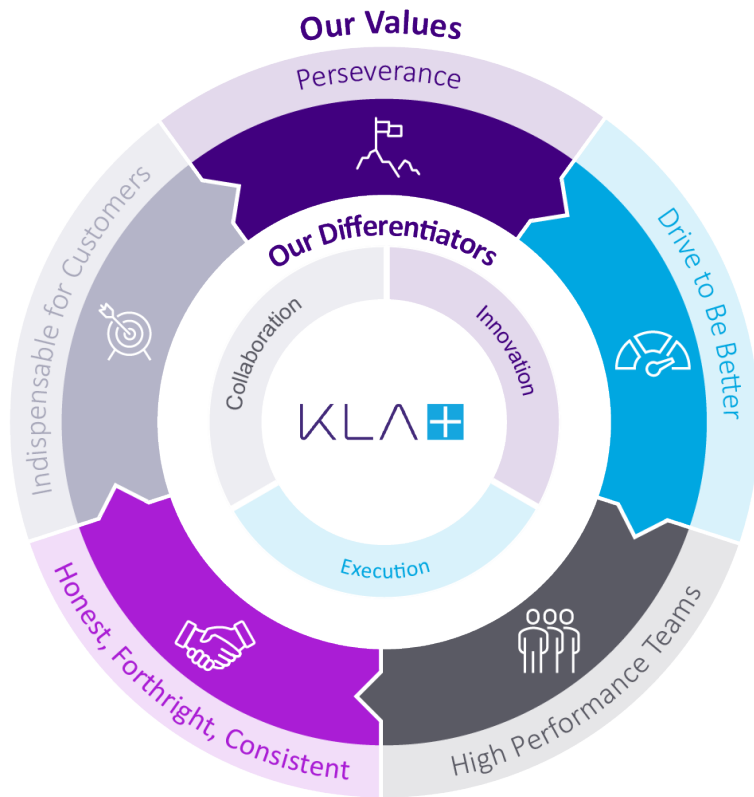
Services revenue was \$512 million, up 15% year-over-year. At our June 2022 Investor Day, KLA unveiled a new 12-14% revenue growth rate for Services through CY26, driven by the rapidly growing installed base, increasing customer adoption of long-term service agreements, higher utilization rates, and expansion of Service opportunities in legacy nodes. KLA's Services business stands out among our peers as 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.

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## **KLA Delivers Another Strong Quarter of Free Cash Flow Generation, Boosts Capital Returns Target to >85%**

The June quarter was another exceptional period for KLA in terms of free cash flow and capital returns. We generated quarterly free cash flow of \$746 million, for 82% year-over-year growth. Total free cash flow grew 54% to \$3.01 billion in the twelve months ended June 30, 2022. At our June 2022 Investor Day, we announced a \$6 billion share repurchase program (\$3 billion of which was an ASR) and 24% increase in our quarterly dividend level. We also increased our capital returns target to >85% of free cash flow. We have remained focused on returning capital to shareholders via our dividend and stock repurchase programs, and total capital returns over the past twelve months was \$5.51 billion, or 183% of free cash flow. Dividends and share repurchases grew materially year-over-year to \$3.63 billion, comprised of \$3.47 billion in share repurchases and \$158 million in dividends.

# 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 Quarter 2022 Income Statement Highlights

**\$2,487M**

Revenue

**62.4%**

Gross Margin\*

**41.8%**

Operating Margin\*

**\$867M**

Net Income\*

**\$5.81**

Non-GAAP Diluted EPS\*

**\$5.40**

GAAP Diluted EPS

KLA's Gen5 Broadband Plasma Optical Patterned Wafer Inspection Platform

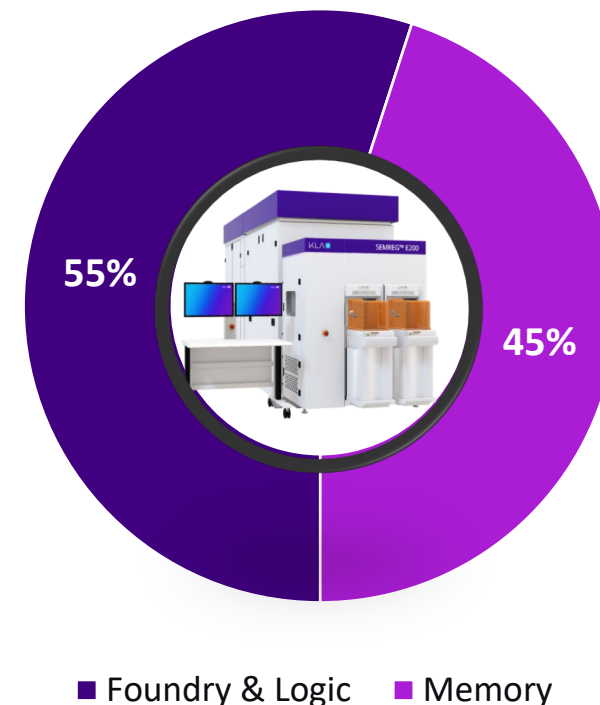


\* Non-GAAP metric – please refer to the appendix for reconciliation to GAAP

# Breakdown of Revenue by Reportable Segments and End Markets

	Revenue Q4-FY22 (\$M)	Y/Y Growth	Q/Q Growth %	Revenue %
<b>Semiconductor Process Control</b> (Systems + Services)	\$2,114	+34%	+7%	85%
<b>Specialty Semiconductor Process</b> (Systems + Services)	\$124	+27%	+6%	5%
<b>PCB, Display and Component Inspection</b> (Systems + Services)	\$249	+1%	+29%	10%
<b>Total:</b>	<b>\$2,487</b>	<b>+29%</b>	<b>+9%</b>	

## Q4-FY22: Semi Process Control End Market System Revenue

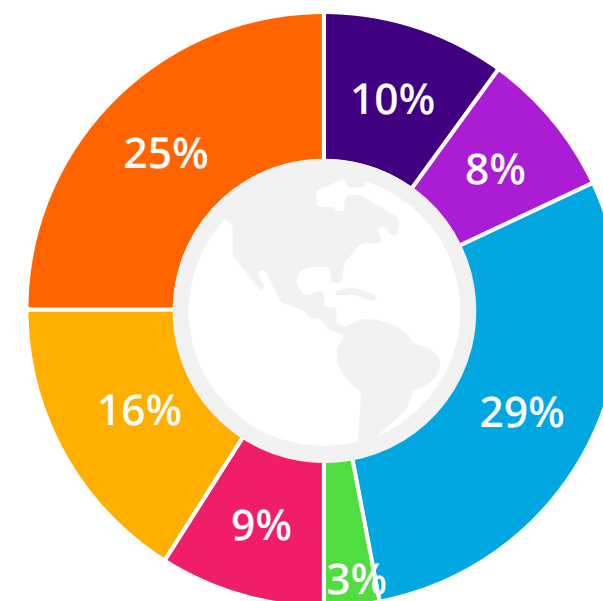




# Breakdown of Revenue by Major Product and Regions

	Revenue Q4-FY22 (\$M)	Y/Y Growth	Q/Q Growth %	Revenue %
Wafer Inspection	\$1,104	+49%	+20%	44%
Patterning	\$491	+15%	-20%	20%
Specialty Semi Process	\$111	+36%	+5%	4%
PCB, Display and Comp. Inspection	\$179	-3%	+45%	7%
Services	\$512	+15%	+5%	21%
Other <sup>1</sup>	\$90	+87%	+116%	4%
<b>Total:</b>	<b>\$2,487</b>	<b>+29%</b>	<b>+9%</b>	

Q4-FY22  
Revenue by Region



- North America
- Europe
- China
- SEA
- Japan
- Korea
- Taiwan

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

# Strong Balance Sheet With No Bond Maturities Until 2024

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

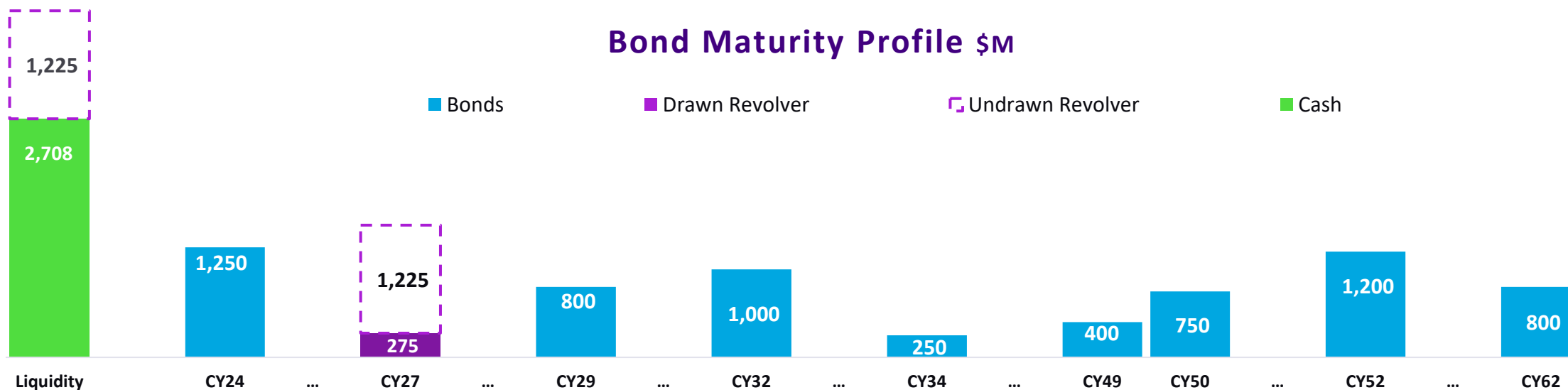
Total Cash <sup>2</sup>	\$ 2,708
Working Capital	\$ 4,298
Total Assets	\$ 12,597
Debt <sup>3</sup>	\$ 6,661
Total Shareholders' Equity	\$ 1,399

## Bond Maturity Profile

Bonds Outstanding	\$6,450M
Weighted Average Rate	4.65%
Weighted Average Maturity	18.8 years

## Investment Grade Credit Ratings

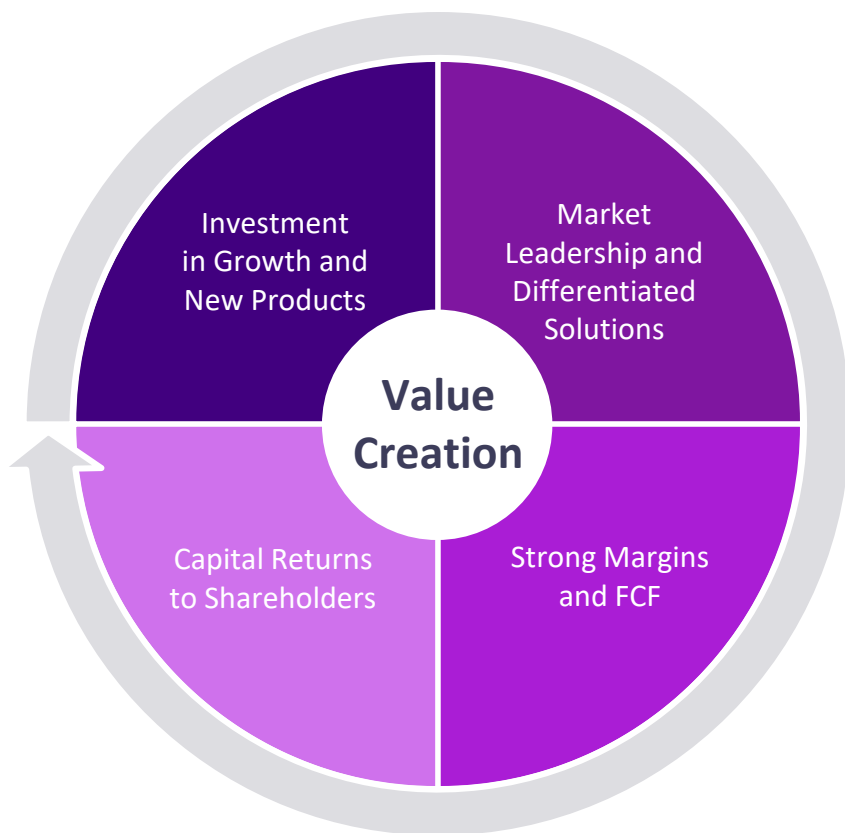
Moody's	A2
S&P	A-
Fitch	A-



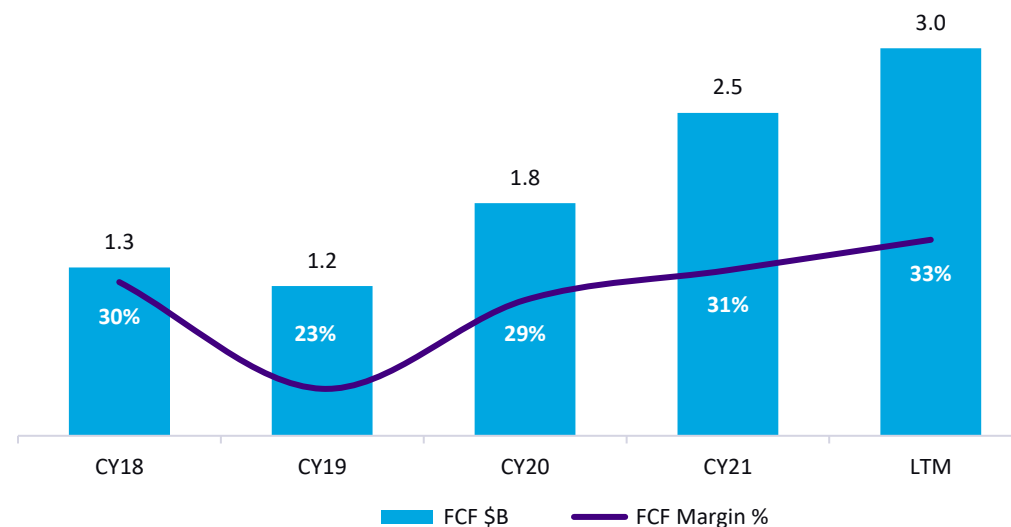
<sup>1</sup> As of 6/30/22; <sup>2</sup> Total Cash includes Cash, Cash Equivalents and Marketable Securities;

<sup>3</sup> Includes \$275M in revolving credit facility (Revolver) drawings less \$64M in un-amortized debt issuance discounts and costs.

# FCF Generation Fuels Consistent Capital Return to Shareholders



## 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

# Return to Shareholders Across Both Share Repurchases & Dividends

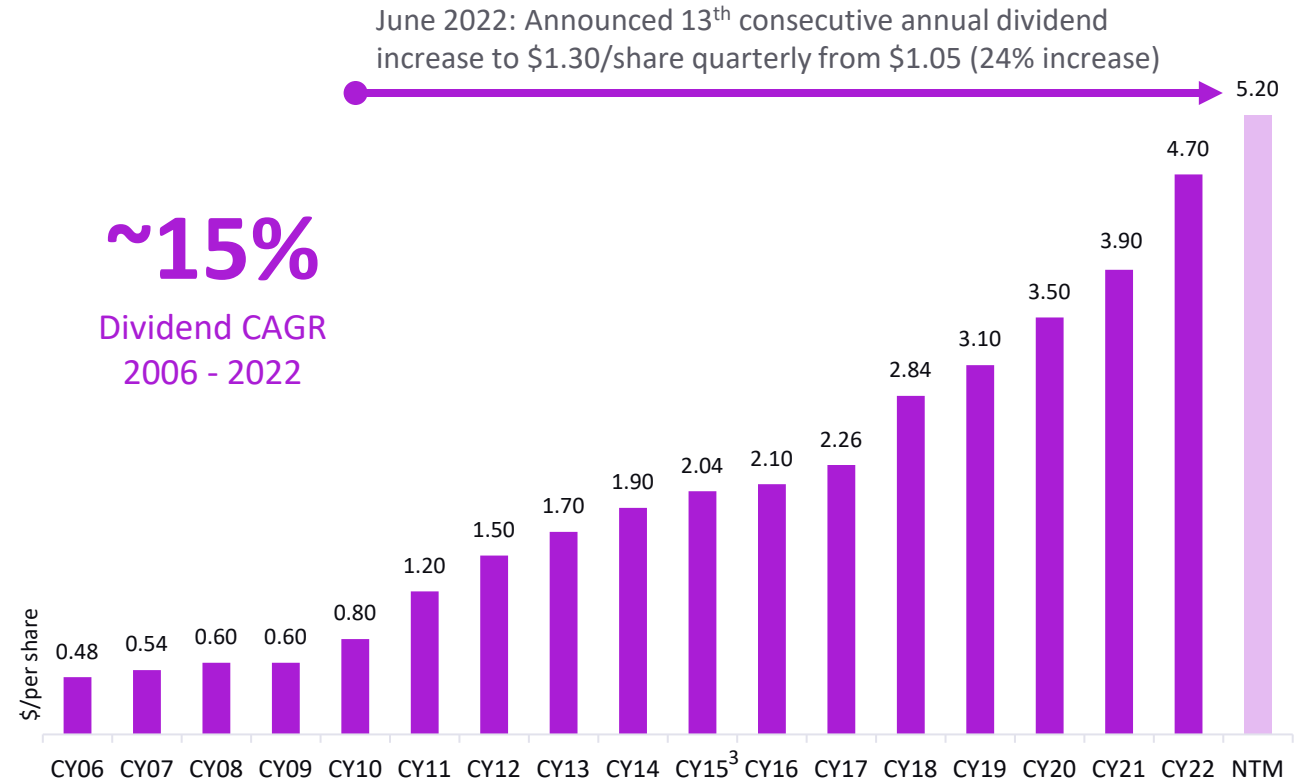
## Share Repurchases<sup>1</sup>



<sup>1</sup>Settlement Date basis | <sup>2</sup> Executed in June 2022, to be completed in December 2022 quarter, subject to market conditions

<sup>3</sup> Excludes \$16.50 per share special dividend in CY15 | <sup>4</sup> Excludes ASR

## Track Record of Dividend Increases



# Free Cash Flow and Capital Returns Highlights

**\$746M**

Free Cash Flow\*

**30.0%**

FCF Margin\*

**86%**

FCF Conversion\*



Surfscan SP-7; The latest generation in KLA's market-leading unpatterned wafer inspection portfolio

**\$3,474M**

June Quarter Share Buyback<sup>1</sup>

**4,868M**

LTM Share Buyback<sup>1</sup>

**\$158M**

June Quarter Dividends Paid

**\$639M**

LTM Dividends Paid

\* 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

<sup>1</sup> Includes \$900 million Forward Contract for Accelerated Share Repurchases – Refer to Appendix for Reconciliation to GAAP. Capital Returns = Dividends + Share Repurchases

# September Quarter 2022 Guidance (Q1 FY2023)

## September 2022 Qtr Guidance

<b>Revenue</b>	\$2,475M to \$2,725M
<b>Non-GAAP Gross Margin*</b>	62% to 64%
<b>GAAP Diluted EPS</b>	\$5.28 to \$6.38
<b>Non-GAAP Diluted EPS*</b>	\$5.70 to \$6.80

### Macro Assumptions

Semi PC Revenue By End Market

- Foundry/Logic: 64%
- Memory: 36%

### Model Assumptions

- Non-GAAP Operating Expenses\*: ~\$530M
- Other Income & Expense (OIE)\*, Net: ~\$75M
- Effective Tax Rate: ~13.5%
- Diluted Share Count: ~143M

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

Driving profitable growth and delivering shareholder value

# Appendix

## Reconciliation Financial Results

# Reconciliation of Non-GAAP Financial Measures

<i>(in millions, except per share amounts)</i>		For the three	For the twelve months ended					
		months ended	Jun 30, 2022	Jun 30, 2022	Dec 31, 2021	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018
			\$ 805.4	\$ 3,321.8	\$ 2,986.3	\$ 1,368.0	\$ 1,137.7	\$ 1,420.7
	<b>GAAP net income attributable to KLA</b>							
	<u>Adjustments to reconcile GAAP net income to non-GAAP net income*</u>							
	Acquisition-related charges	a	64.5	238.8	220.5	214.0	340.3	21.2
	Restructuring, severance and other charges	b	2.8	5.5	(0.1)	16.0	2.8	-
	Debt extinguishment loss	c	-	-	-	23.0	-	-
	Goodwill and intangible asset impairment	d	-	-	-	257.0	-	-
	Income tax effect of non-GAAP adjustments	e	(19.5)	(74.7)	(71.2)	(74.2)	(97.8)	(1.2)
	Discrete tax items	f	13.5	(286.0)	(290.3)	(10.0)	8.4	(18.1)
	<b>Non-GAAP net income attributable to KLA</b>		<b>\$ 866.7</b>	<b>\$ 3,205.4</b>	<b>\$ 2,845.2</b>	<b>\$ 1,793.8</b>	<b>\$ 1,391.4</b>	<b>\$ 1,422.6</b>
	<b>GAAP diluted EPS</b>		<b>\$ 5.40</b>					
	<b>Non-GAAP diluted EPS</b>		<b>\$ 5.81</b>					
	Shares used in diluted shares calculation		149.1					

\* 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 Non-GAAP Financial Measures

<i>(Dollars in millions)</i>	For the three months ended Jun 30, 2022	For the three months ended Jun 30, 2022	
<b>GAAP gross profit</b>	<b>\$ 1,508.2</b>	<b>GAAP Selling, General and Administrative ("SG&amp;A") expenses (1)</b>	<b>\$ 236.8</b>
<u>Adjustments to reconcile GAAP gross profit to non-GAAP gross profit*</u>		<u>Adjustments to reconcile GAAP SG&amp;A expenses to non-GAAP SG&amp;A expenses*</u>	
Acquisition-related charges	a \$ 44.3	Acquisition-related charges	a \$ (20.1)
<b>Non-GAAP gross profit</b>	<b>\$ 1,552.5</b>	<b>Non-GAAP SG&amp;A expenses (1)</b>	<b>\$ 216.7</b>
<b>GAAP gross margin</b>	<b>60.6%</b>	<b>GAAP Operating expenses (1)</b>	<b>\$ 533.7</b>
<u>Adjustments to reconcile GAAP gross margin to non-GAAP gross margin*</u>		<u>Adjustments to reconcile GAAP operating expenses to non-GAAP operating expenses*</u>	
Acquisition-related charges	a 1.8%	Acquisition-related charges	a \$ (20.1)
<b>Non-GAAP gross margin</b>	<b>62.4%</b>	Restructuring, severance and other charges	b \$ -
 		<b>Non-GAAP Operating expenses (1)</b>	<b>\$ 513.6</b>
<b>GAAP operating income (1)</b>	<b>\$ 974.5</b>	 	
<u>Adjustments to reconcile GAAP operating income to non-GAAP operating income*</u>		<b>GAAP Other expenses (income), net</b>	<b>\$ 24.8</b>
Acquisition-related charges	a \$ 64.5	<u>Adjustments to reconcile GAAP other expenses (income), net to non-GAAP other expenses*</u>	
<b>Non-GAAP Operating income (1)</b>	<b>\$ 1,039.0</b>	 	
 		<b>GAAP research and development ("R&amp;D") expenses</b>	<b>\$ 296.9</b>
GAAP operating margin	39.2%	<u>Adjustments to reconcile GAAP R&amp;D expenses to non-GAAP R&amp;D expenses*</u>	
Non-GAAP operating margin	41.8%	Acquisition-related charges	a -
		<b>Non-GAAP R&amp;D expenses</b>	<b>\$ 296.9</b>

\* 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 benefit associated with changes in the liability included in selling, general and administrative expense for the quarter ended June 30, 2022 was \$36.4 million. The net loss associated with changes in the EDSP assets included in selling, general and administrative expense for the quarter ended June 30, 2022 was \$36.3 million.

# Reconciliation of Free Cash Flow and Related Metrics

Free Cash Flow Measures <i>(Dollars in millions)</i>	For the three months ended		For the twelve months ended					
	Jun 30, 2022	Jun 30, 2021	Jun 30, 2022	Dec 31, 2021	Jun 30, 2021	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018
Net cash provided by operating activities	\$ 819.2	\$ 465.6	\$ 3,312.7	\$ 2,786.4	\$ 2,185.0	\$ 1,968.1	\$ 1,373.0	\$ 1,389.7
Less Capital expenditures	\$ (73.1)	\$ (55.4)	\$ (307.8)	\$ (250.4)	\$ (231.6)	\$ (200.3)	\$ (149.2)	\$ (86.5)
<b>Free cash flow</b>	<b>\$ 746.1</b>	<b>\$ 410.2</b>	<b>\$ 3,004.9</b>	<b>\$ 2,536.0</b>	<b>\$ 1,953.4</b>	<b>\$ 1,767.8</b>	<b>\$ 1,223.8</b>	<b>\$ 1,303.2</b>
Free cash flow	\$ 746.1		\$ 3,005.4	\$ 2,536.0		\$ 1,767.8	\$ 1,223.8	\$ 1,303.2
Revenue	\$ 2,486.7		\$ 9,211.9	\$ 8,165.7		\$ 6,073.0	\$ 5,278.6	\$ 4,304.5
<b>Free cash flow margin</b>	<b>30.0%</b>		<b>32.6%</b>	<b>31.1%</b>		<b>29.1%</b>	<b>23.2%</b>	<b>30.3%</b>
<b>Free Cash Flow Conversion calculation</b>								
Free cash flow	\$ 746.1							
Non-GAAP net income attributable to KLA	\$ 866.7							
<b>Free cash flow conversion</b>	<b>86.1%</b>							
<b>GAAP metric comparable to Free Cash Flow Conversion</b>								
Net cash provided by operating activities	\$ 819.2							
GAAP net income attributable to KLA	\$ 805.4							
<b>GAAP metric comparable to free cash flow conversion</b>	<b>101.7%</b>							
Cash paid for dividends	\$ 157.6	\$ 139.3	\$ 638.5		\$ 559.4			
Cash paid for share repurchases	\$ 2,573.6	\$ 299.8	\$ 3,967.8		\$ 938.6			
Cash paid for forward contract	\$ 900.0	\$ -	\$ 900.0		\$ -			
<b>Capital returns</b>	<b>\$ 3,631.2</b>	<b>\$ 439.0</b> <sup>^</sup>	<b>\$ 5,506.3</b>		<b>\$ 1,498.0</b>			
<b>Capital returns as a percentage of free cash flow</b>	<b>486.7%</b>	<b>107.0%</b>	<b>183.2%</b>		<b>76.7%</b>			

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

<sup>^</sup> Amounts may not sum due to rounding

# Reconciliation of Guidance

## Q1 FY2023 Guidance Range:

<i>(In millions, except per share amounts and percentages)</i>		Low	High
GAAP diluted net income per share		\$ 5.28	\$ 6.38
Acquisition-related charges	a	0.48	0.48
Restructuring, severance and other charges	b	0.10	0.10
Income tax effect of non-GAAP adjustments	e	(0.16)	(0.16)
Non-GAAP diluted net income per share		\$ 5.70	\$ 6.80
Shares used in diluted shares calculation		-	-
GAAP gross margin		60.2%	62.3%
Acquisition-related charges	a	1.8%	1.7%
Non-GAAP gross margin		62.0%	64.0%
GAAP operating expenses		\$ 548	\$ 560
Acquisition-related charges	a	(23)	(23)
Restructuring, severance and other charges	b	(1)	(1)
Non-GAAP operating expenses		\$ 524	\$ 536

**Note:** The guidance as of July 28, 2022 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.

## Note Regarding Reconciliations of Long-term Forecasts:

This presentation includes certain forward-looking non-GAAP financial measures, including gross margin, R&D as a percent of sales, SG&A as a percent of sales, operating margin and diluted EPS, in forecasts for calendar year 2023 and calendar year 2026. The reconciliations for these non-GAAP measures to the most directly comparable GAAP measures are not presented because of the inherent difficulty in predicting, with a reasonable degree of certainty, the occurrence, financial impact and timing of items that would be expected to impact GAAP results but would not impact non-GAAP adjusted results, such as acquisition costs, restructuring costs and discrete taxable events, without unreasonable efforts. These reconciling items could significantly impact, either individually or in the aggregate, the corresponding GAAP measures.

# 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, including non-GAAP net income attributable to KLA, non-GAAP net income per diluted share attributable to KLA, non-GAAP R&D expenses, non-GAAP gross margin, non-GAAP operating margin, non-GAAP operating expenses, Free Cash Flow, FCF Conversion and FCF Margin, 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 attributable to KLA to non-GAAP net income attributable to KLA:

- 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.
- b) Restructuring, severance and other charges primarily include costs associated with employee severance, acceleration of certain stock-based compensation arrangements, interest expense on unrecognized tax benefits, charges related to liquidation of legal entities and other exit costs.
- c) Debt extinguishment loss includes a pre-tax loss on early extinguishment of the \$500 million 4.125% Senior Notes due in November 2021.
- d) 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.
- e) Income tax effect of non-GAAP adjustments includes the income tax effects of the excluded items noted above.
- f) 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.



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