May 5, 2020

# KLA Corporation Reports Fiscal 2020 Third Quarter Results

## - Record shipments for the quarter driven by record demand in our Semiconductor Process Control segment;

## - Quarterly revenue of $1.42 billion finished at the midpoint of original guidance, and featured record quarterly Service revenue;

## - GAAP EPS was $0.50, and non-GAAP EPS finished above the midpoint of the range of guidance at $2.47. GAAP EPS was impacted by a $256.6 million goodwill impairment charge related to our acquisition of Orbotech, or $1.63 per share after taxes.

MILPITAS, Calif., May 5, 2020 /PRNewswire/ --KLA Corporation (NASDAQ: KLAC) today announced operating results for its third quarter of fiscal year 2020, which ended on March 31, 2020, and reported GAAP net income attributable to KLA of $78 million and GAAP earnings per diluted share attributable to KLA of $0.50 on revenues of $1.42 billion.

Logo: https://mma.prnewswire.com/media/806571/KLA_Corporation_Logo.jpg

"KLA delivered solid results in the March quarter, demonstrating strong demand for KLA's products and services coupled with exceptional execution across our global operations, while facing the unprecedented challenges associated with COVID-19," commented Rick Wallace, president and chief executive officer of KLA Corporation. "KLA's performance in the March quarter highlights how the KLA operating model provides a strong and resilient framework for us to predictably deliver on our commitments and support our customers. KLA is performing well under extraordinary conditions. In this environment, our first priority is to preserve and protect the health and safety of our employees and their families, while we maintain our long-term strategy and operate in a way that preserves our flexibility to deliver the essential products and services our customers both demand and require."

| GAAP Results | | | |
|---|---|---|---|
| | **Q3 FY 2020** | **Q2 FY 2020** | **Q3 FY 2019** |
| Revenues | $1,424 million | $1,509 million | $1,097 million |
| Net Income Attributable to KLA | $78 million | $381 million | $193 million |
| Earnings per Diluted Share Attributable to KLA | $0.50 | $2.40 | $1.23 |

| Non-GAAP Results | | | |
|---|---|---|---|
| | **Q3 FY 2020** | **Q2 FY 2020** | **Q3 FY 2019** |
| Net Income Attributable to KLA | $389 million | $422 million | $283 million |
| Earnings per Diluted Share Attributable to KLA | $2.47 | $2.66 | $1.80 |

A reconciliation between GAAP operating results and non-GAAP operating results is provided following the financial statements included in this release. Non-GAAP results

include the impact of recurring stock-based compensation, but exclude the impact of acquisitions or pending acquisitions, goodwill impairment, restructuring, severance and other charges, loss on extinguishment of debt, and certain discrete tax items. KLA will discuss the results for its fiscal year 2020 third quarter, along with its outlook, on a conference call today beginning at 2 p.m. PT. A webcast of the call will be available at: www.kla.com.

**About KLA:**

KLA Corporation ("KLA") develops industry-leading equipment and services that enable innovation throughout the electronics industry. 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 (KLAC-F).

**Use of Non-GAAP Financial Information**

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

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

**Note Regarding Forward-Looking Statements:**

This release contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements, including statements regarding the industry outlook on growth, are subject to risks and uncertainties. For the factors that may cause actual results to differ materially from those projected and anticipated in the forward-looking statements in this release, please refer to KLA's annual report on Form 10-K for the year ended June 30,

2019, subsequently filed quarterly reports on Form 10-Q and other filings with the Securities and Exchange Commission (including, without limitation, the risk factors described therein). Except as otherwise specifically indicated, the information included in this release is as of the date it is delivered. KLA assumes no obligation to, and does not currently intend to, update these forward-looking statements.

**KLA Corporation**
**Condensed Consolidated Unaudited Balance Sheets**

| (In thousands) | March 31, 2020 | June 30, 2019 |
|---|---|---|
| **ASSETS** | | |
| Cash, cash equivalents and marketable securities | $ 1,634,531 | $ 1,739,385 |
| Accounts receivable, net | 1,119,263 | 990,113 |
| Inventories | 1,264,130 | 1,262,500 |
| Other current assets | 300,541 | 323,077 |
| Land, property and equipment, net | 497,743 | 448,799 |
| Goodwill | 2,043,129 | 2,211,858 |
| Deferred income taxes, non-current | 207,958 | 206,141 |
| Purchased intangible assets, net | 1,437,844 | 1,560,670 |
| Other non-current assets | 340,807 | 265,973 |
| Total assets | $ 8,845,946 | $ 9,008,516 |
| **LIABILITIES, NON-CONTROLLING INTEREST AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 243,234 | $ 202,416 |
| Deferred system revenue | 336,383 | 282,348 |
| Deferred service revenue | 214,238 | 206,669 |
| Current portion of long-term debt | — | 249,999 |
| Other current liabilities | 859,419 | 827,054 |
| Total current liabilities | 1,653,274 | 1,768,486 |
| Non-current liabilities: | | |
| Long-term debt | 3,443,937 | 3,173,383 |
| Deferred tax liabilities | 647,220 | 702,285 |
| Deferred service revenue | 100,375 | 98,772 |
| Other non-current liabilities | 675,944 | 587,897 |
| Total liabilities | 6,520,750 | 6,330,823 |
| Stockholders' equity: | | |
| Common stock and capital in excess of par value | 2,019,071 | 2,017,312 |
| Retained earnings | 376,656 | 714,825 |
| Accumulated other comprehensive income (loss) | (88,294) | (73,029) |
| Total KLA stockholders' equity | 2,307,433 | 2,659,108 |
| Non-controlling interest in consolidated subsidiary | 17,763 | 18,585 |
| Total stockholders' equity | 2,325,196 | 2,677,693 |
| Total liabilities and stockholders' equity | $ 8,845,946 | $ 9,008,516 |

**KLA Corporation**
**Condensed Consolidated Unaudited Statements of Operations**

| (In thousands, except per share amounts) | Three Months Ended March 31, 2020 | Three Months Ended March 31, 2019 | Nine Months Ended March 31, 2020 | Nine Months Ended March 31, 2019 |
|---|---|---|---|---|
| Revenues: | | | | |
| Product | $ 1,051,096 | $ 793,224 | $ 3,253,621 | $ 2,474,652 |
| Service | 372,868 | 304,087 | 1,093,210 | 835,817 |
| Total revenues | 1,423,964 | 1,097,311 | 4,346,831 | 3,310,469 |
| Costs and expenses: | | | | |
| Costs of revenues | 590,158 | 486,945 | 1,828,017 | 1,276,592 |
| Research and development | 215,433 | 184,887 | 646,764 | 504,320 |
| Selling, general and administrative | 185,760 | 182,184 | 566,358 | 409,084 |
| Goodwill impairment | 256,649 | — | 256,649 | — |
| Interest expense | 39,231 | 31,187 | 120,053 | 84,087 |
| Loss on extinguishment of debt | 22,538 | — | 22,538 | — |
| Other expense (income), net | (1,004) | (9,282) | (5,190) | (28,535) |
| Income before income taxes | 115,199 | 221,390 | 911,642 | 1,064,921 |
| Provision for income taxes | 37,190 | 28,745 | 106,932 | 107,232 |
| Net income | 78,009 | 192,645 | 804,710 | 957,689 |
| Less: Net loss attributable to non-controlling interest | (443) | (83) | (822) | (83) |
| Net income attributable to KLA | $ 78,452 | $ 192,728 | $ 805,532 | $ 957,772 |
| Net income per share attributable to KLA: | | | | |
| Basic | $ 0.50 | $ 1.23 | $ 5.12 | $ 6.20 |
| Diluted | $ 0.50 | $ 1.23 | $ 5.08 | $ 6.17 |
| Weighted-average number of shares: | | | | |
| Basic | 156,067 | 156,349 | 157,356 | 154,561 |
| Diluted | 157,172 | 157,182 | 158,586 | 155,310 |

**KLA Corporation**
**Condensed Consolidated Unaudited Statements of Cash Flows**

| | Three Months Ended March 31, | |
|---|---|---|
| **(In thousands)** | **2020** | **2019** |
| Cash flows from operating activities: | | |
| Net income | $ 78,009 | $ 192,645 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 81,990 | 73,445 |
| Loss on extinguishment of debt | 22,538 | — |
| Goodwill impairment | 256,649 | — |
| (Gain) loss on unrealized foreign exchange and other | (5,950) | 73 |
| Stock-based compensation expense | 31,270 | 34,193 |
| Changes in assets and liabilities, net of assets acquired and liabilities assumed in business acquisitions: | | |
| Accounts receivable | 73,103 | (72,796) |
| Inventories | (11,640) | (1,893) |
| Other assets | (23,899) | (3,068) |
| Accounts payable | (12,904) | (590) |
| Deferred system revenue | 89,280 | 32,105 |
| Deferred service revenue | 10,691 | (15,371) |
| Other liabilities | (125,591) | (75,149) |
| Settlement of treasury lock agreement | (21,518) | — |
| Net cash provided by operating activities | 442,028 | 163,594 |
| Cash flows from investing activities: | | |
| Acquisition of non-marketable securities | — | (630) |
| Business acquisitions, net of cash acquired | (70) | (1,806,496) |
| Capital expenditures | (43,445) | (25,956) |
| Purchases of available-for-sale securities | (156,173) | — |
| Proceeds from sale of available-for-sale securities | 69,034 | 40,920 |
| Proceeds from maturity of available-for-sale securities | 133,819 | 60,298 |
| Purchases of trading securities | (46,784) | (30,328) |
| Proceeds from sale of trading securities | 45,407 | 27,289 |
| Net cash (used in) provided by investing activities | 1,788 | (1,734,903) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of debt, net of issuance costs | 742,004 | 1,186,263 |
| Proceeds from revolving credit facility | — | 900,000 |
| Repayment of debt | (721,033) | (902,474) |
| Common stock repurchases | (315,995) | (200,029) |
| Payment of dividends to stockholders | (133,327) | (113,581) |
| Issuance of common stock | 672 | — |
| Tax withholding payments related to equity awards | (4,958) | (381) |
| Payment of contingent consideration payable | — | (513) |
| Net cash used in financing activities | (432,637) | 869,285 |
| Effect of exchange rate changes on cash and cash equivalents | (4,868) | 205 |
| Net increase (decrease) in cash and cash equivalents | 6,311 | (701,819) |
| Cash and cash equivalents at beginning of period | 939,864 | 1,793,982 |
| Cash and cash equivalents at end of period | $ 946,175 | $ 1,092,163 |
| Supplemental cash flow disclosures: | | |
| Income taxes paid | $ 91,972 | $ 51,885 |
| Interest paid | $ 35,176 | $ 3,856 |
| Non-cash activities: | | |
| Issuance of common stock for the acquisition of Orbotech Ltd. - financing activities | $ — | $ 1,330,786 |
| Contingent consideration payable - financing activities | $ 303 | $ 6,740 |
| Dividends payable - financing activities | $ 1,388 | $ 6,494 |
| Unsettled common stock repurchase - financing activities | $ — | $ 5,988 |
| Accrued debt issuance costs - financing activities | $ 193 | $ 2,530 |
| Accrued purchase of land, property and equipment - investing activities | $ 17,137 | $ 6,370 |

**KLA Corporation**
**Segment Information (Unaudited)**

The following is a summary of results for each of our four reportable segments and reconciliation to total revenues for the indicated periods:

| (In thousands) | Three Months Ended March 31, 2020 | Three Months Ended March 31, 2019 | Nine Months Ended March 31, 2020 | Nine Months Ended March 31, 2019 |
|---|---|---|---|---|
| Revenues: | | | | |
| Semiconductor Process Control | $ 1,177,777 | $ 914,305 | $ 3,588,839 | $ 3,078,277 |
| Specialty Semiconductor Process[(1)] | 85,083 | 84,388 | 229,328 | 84,388 |
| PCB, Display and Component Inspection[(1)] | 160,411 | 98,462 | 525,242 | 148,187 |
| Other[(1)] | 469 | 151 | 3,217 | 151 |
| Total revenues for reportable segments | 1,423,740 | 1,097,306 | 4,346,626 | 3,311,003 |
| Corporate allocation and effects of foreign exchange rates | 224 | 5 | 205 | (534) |
| Total revenues | $ 1,423,964 | $ 1,097,311 | $ 4,346,831 | $ 3,310,469 |

(1) Revenues in the three and nine months ended March 31, 2019 include the results of Orbotech business acquired on Feb. 20, 2019.

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

**Reconciliation of GAAP Net Income to Non-GAAP Net Income**

| | | Three Months Ended March 31, 2020 | Three Months Ended Dec. 31, 2019 | Three Months Ended March 31, 2019 | Nine Months Ended March 31, 2020 | Nine Months Ended March 31, 2019 |
|---|---|---|---|---|---|---|
| GAAP net income attributable to KLA | | $ 78,452 | $ 380,555 | $ 192,728 | $ 805,532 | $ 957,772 |
| Adjustments to reconcile GAAP net income to non-GAAP net income: | | | | | | |
| 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 attributable to KLA | | $ 388,938 | $ 422,229 | $ 282,838 | $ 1,208,789 | $ 1,039,257 |
| GAAP net income (loss) per diluted share attributable to KLA | | $ 0.50 | $ 2.40 | $ 1.23 | $ 5.08 | $ 6.17 |
| Non-GAAP net income per diluted share attributable to KLA | | $ 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 |

**Pre-tax impact of GAAP to non-GAAP adjustments included in Condensed Consolidated Unaudited Statements of Operations**

| | Acquisition - Related Charges | Restructuring, Severance and Other Charges | Goodwill Impairment | Debt Extinguishment Loss | Total pre-tax GAAP to non-GAAP Adjustments |
|---|---|---|---|---|---|
| **Three months ended March 31, 2020** | | | | | |
| Costs of revenues | $ 36,850 | $ 483 | $ — | $ — | $ 37,333 |
| Research and development | — | 685 | — | — | 685 |
| Selling, general and administrative | 18,172 | 4,264 | — | — | 22,436 |
| Goodwill impairment | — | — | 256,649 | — | 256,649 |
| Loss on extinguishment of debt | — | — | — | 22,538 | 22,538 |
| Total in three months ended March 31, 2020 | $ 55,022 | $ 5,432 | $ 256,649 | $ 22,538 | $ 339,641 |
| **Three months ended Dec. 31, 2019** | | | | | |
| Costs of revenues | $ 40,590 | $ 831 | $ — | $ — | $ 41,421 |
| Research and development | — | 802 | — | — | 802 |
| Selling, general and administrative | 19,803 | 1,153 | — | — | 20,956 |
| Total in three months ended Dec. 31, 2019 | $ 60,393 | $ 2,786 | $ — | $ — | $ 63,179 |
| **Three months ended March 31, 2019** | | | | | |
| Costs of revenues | $ 47,659 | $ — | $ — | $ — | $ 47,659 |
| Research and development | 3,328 | — | — | — | 3,328 |
| Selling, general and administrative | 52,768 | — | — | — | 52,768 |
| Total in three months ended March 31, 2019 | $ 103,755 | $ — | $ — | $ — | $ 103,755 |

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 Dec. 22, 2017, of which the impact is primarily related to the provisional tax amounts recorded for the transition tax on accumulated foreign earnings and the re-measurement of certain deferred tax assets and liabilities as a result of the enactment of the Act. Management believes excluding these items helps investors compare our operating performance with our results in prior periods as well as with the performance of other companies.

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