

KLA Corporation

Ignore push-out noise, trends solidly on track, reiterate Buy

Reiterate Rating: BUY | PO: 740.00 USD | Price: 641.69 USD

Drivers supporting late CY24/25 WFE recovery in place

We look past below consensus FQ3 guide of \$2.3bn (\$2.45bn expected) related to a modest delay in the ramp of a new leading-edge facility (we believe Samsung's fab in Texas), which created an estimated ~\$200mn headwind in the current quarter. While revenue from the project could be realized late CY24/25, KLAC is still in a position to benefit from other customer programs and should deliver strong sequential growth through the calendar year (our JunQ outlook of ~\$2.475bn returns KLAC to Street expectations pre-call). More importantly, WFE fundamentals are improving, with KLAC forecasting CY24 WFE TAM flat/up modestly off of mid-\$80bn base in CY23. We see notable industry upside starting in 2H24/CY25 on rebounding demand in memory (NAND reinvestment, DRAM/HBM demand) and leading edge foundry/logic (precipice of ramp of multiple 5nm/3nm/2nm programs). Net-net, we tweak sales/EPS estimates +0%-1% and reiterate our Buy rating as well as our \$740 PO on unchanged 26x CY25E P/E.

Likes: Improving WFE, Services strength, China stability

1) Stabilizing WFE environment puts KLAC in position to grow in CY24 after a down year in CY23 (equipment sales down est. double-digits YoY), and notable growth drivers from gate-all-around (GAA) transition (could add 3-4 points to process control intensity), AI-related high-bandwidth memory production growth still in early stages; 2) Services in CY24 expected to grow at higher end of 12%-14% long-term guide (vs. 7%-8% growth last year), helping further support revenue growth; 3) While China concentration high (41% of sales in DecQ), KLAC comments of stable regional demand encouraging after strong trailing edge buildouts, and echoes similar sentiment conveyed by LRCX.

Risks: Customer pushout, product mix, valuation

1) MarQ miss seemingly related to unforeseen project delays, and while we expect KLAC to recover revenue in ~12 months, we acknowledge this could create investor concerns on visibility into other new projects; 2) While services supporting topline stability, near-term revenue mix limits gross margin upside around 61.5%-62%; 3) Our 26x CY25E target multiple is at high end of historical 10x-27x trading range, but KLAC through-cycle stability, now operating as a best-in-class cash generator, with FCF margin now in the mid-30s.

Estimates (Jun) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	21.16	25.37	23.12	26.82	30.98
GAAP EPS	21.92	24.25	20.29	25.71	29.83
EPS Change (YoY)	45.4%	19.9%	-8.9%	16.0%	15.5%
Consensus EPS (Bloomberg)			23.65	26.62	31.99
DPS	4.20	5.20	5.80	6.67	7.67
Valuation (Jun)					
P/E	30.3x	25.3x	27.8x	23.9x	20.7x
GAAP P/E	29.3x	26.5x	31.6x	25.0x	21.5x
Dividend Yield	0.7%	0.8%	0.9%	1.0%	1.2%
EV / EBITDA*	20.9x	18.8x	21.1x	18.8x	16.9x
Free Cash Flow Yield*	3.4%	3.8%	3.5%	4.0%	4.6%

* For full definitions of *IQmethod*SM measures, see page 12.

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Timestamp: 26 January 2024 12:21AM EST

26 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	9,763.8	9,659.8
2025E Rev (m)	10,478.1	10,637.5
2026E Rev (m)	11,561.9	11,618.7
2024E EPS	23.30	23.12
2025E EPS	25.88	26.82
2026E EPS	30.90	30.98

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Stock Data

Price	641.69 USD
Price Objective	740.00 USD
Date Established	23-Jan-2024
Investment Opinion	B-1-7
52-Week Range	355.88 USD - 658.78 USD
Mrkt Val (mn) / Shares Out (mn)	87,226 USD / 135.9
Free Float	99.7%
Average Daily Value (mn)	586.19 USD
BofA Ticker / Exchange	KLAC / NAS
Bloomberg / Reuters	KLAC US / KLAC.OQ
ROE (2024E)	98.0%
Net Dbt to Eqty (Jun-2023A)	90.7%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

*Glossary in back of note

iQprofileSM KLA Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	39.2%	38.4%	31.3%	33.3%	34.5%
Return on Equity	134.3%	164.8%	98.0%	91.1%	83.8%
Operating Margin	52.1%	47.8%	45.0%	43.7%	42.7%
Free Cash Flow	3,005	3,328	3,068	3,525	3,974

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	1.0x	1.1x	1.1x	1.1x
Asset Replacement Ratio	0.8x	0.8x	0.9x	1.0x	1.0x
Tax Rate	4.8%	10.6%	13.1%	12.2%	12.4%
Net Debt-to-Equity Ratio	282.5%	90.7%	60.3%	42.3%	28.5%
Interest Cover	23.6x	22.9x	21.2x	23.7x	26.5x

Income Statement Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	9,212	10,496	9,660	10,637	11,619
% Change	33.1%	13.9%	-8.0%	10.1%	9.2%
Gross Profit	6,688	7,177	6,519	6,932	7,403
% Change	55.4%	7.3%	-9.2%	6.3%	6.8%
EBITDA	4,262	4,725	4,212	4,717	5,255
% Change	40.3%	10.9%	-10.9%	12.0%	11.4%
Net Interest & Other Income	(165)	(189)	(180)	(181)	(181)
Net Income (Adjusted)	3,205	3,558	3,143	3,558	3,989
% Change	41.8%	11.0%	-11.6%	13.2%	12.1%

Free Cash Flow Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	3,322	3,401	2,759	3,410	3,841
Depreciation & Amortization	363	415	392	424	463
Change in Working Capital	(305)	10	24	(97)	(98)
Deferred Taxation Charge	(330)	(298)	(136)	0	0
Other Adjustments, Net	262	142	389	214	234
Capital Expenditure	(307)	(342)	(360)	(425)	(465)
Free Cash Flow	3,005	3,328	3,068	3,525	3,974
% Change	53.9%	10.7%	-7.8%	14.9%	12.7%
Share / Issue Repurchase	(4,755)	(1,187)	(1,720)	(2,351)	(2,651)
Cost of Dividends Paid	(639)	(733)	(771)	(885)	(988)
Change in Debt	3,222	(787)	0	0	0

Balance Sheet Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,708	3,243	3,782	4,071	4,407
Trade Receivables	1,812	1,753	1,820	2,018	2,190
Other Current Assets	2,649	3,376	3,392	3,321	3,279
Property, Plant & Equipment	850	1,032	1,304	1,729	2,194
Other Non-Current Assets	4,578	4,668	4,443	4,443	4,443
Total Assets	12,597	14,072	14,741	15,582	16,512
Short-Term Debt	0	0	750	750	750
Other Current Liabilities	2,871	3,743	3,827	3,857	3,887
Long-Term Debt	6,661	5,891	5,143	5,143	5,143
Other Non-Current Liabilities	1,666	1,519	1,523	1,523	1,523
Total Liabilities	11,198	11,153	11,243	11,272	11,303
Total Equity	1,399	2,920	3,498	4,310	5,209
Total Equity & Liabilities	12,597	14,072	14,741	15,582	16,512

* For full definitions of iQmethodSM measures, see page 12.

Company Sector

Semiconductor Capital Equipment

Company Description

KLA-Tencor is a leading supplier of process control and yield management solutions for semiconductor and related nanoelectronics industries. KLAC's comprehensive portfolio of inspection and metrology products, and related service and software, helps integrated circuit manufacturers manage yield throughout the entire semiconductor fabrication process. KLA's products and services are used by the vast majority of bare wafer, IC, lithography reticle, and disk manufacturers around the world.

Investment Rationale

We believe KLAC's importance as a key enabler of new manufacturing technologies is underappreciated as it provides the equipment needed to inspect/monitor chips for defects. The necessity for its systems has made KLAC's business less cyclical and more profitable than its peers, resulting in more stable FCF and shareholder returns. KLAC is also a beneficiary of increasingly complex chip design. KLAC will also benefit from stronger WFE trends as capacity remains tight.

Stock Data

Average Daily Volume 913,502

Quarterly Earnings Estimates

	2023	2024
Q1	7.06A	5.74A
Q2	7.38A	6.16A
Q3	5.49A	5.26E
Q4	5.40A	5.96E

Summary of model changes

Exhibit 1: Summary of estimates changes

We change our CY23/24E sales by +2%/+0% and EPS by +3%/+1% to \$22.47/\$24.06

Sales (\$mn)				EPS (Non-GAAP)			
	OLD	NEW	delta		OLD	NEW	delta
1Q24	\$2,397	\$2,397	\$0	1Q24	\$5.74	\$5.74	\$0.00
2Q24	\$2,450	\$2,487	\$36	2Q24	\$5.86	\$6.16	\$0.30
3Q24E	\$2,455	\$2,300	(\$155)	3Q24E	\$5.87	\$5.26	(\$0.60)
4Q24E	\$2,461	\$2,476	\$15	4Q24E	\$5.85	\$5.96	\$0.12
FY2024E	\$9,764	\$9,660	(\$104)	FY2024E	\$23.30	\$23.12	(\$0.18)
YoY%	-7.0%	-8.0%	-1.1%	YoY%	-8.2%	-8.9%	-0.8%
1Q25E	\$2,526	\$2,582	\$56	1Q25E	\$6.05	\$6.38	\$0.33
2Q25E	\$2,577	\$2,676	\$100	2Q25E	\$6.30	\$6.77	\$0.47
3Q25E	\$2,650	\$2,675	\$25	3Q25E	\$6.63	\$6.80	\$0.17
4Q25E	\$2,726	\$2,705	(\$21)	4Q25E	\$6.91	\$6.87	(\$0.04)
FY2025E	\$10,478	\$10,637	\$159	FY2025E	\$25.88	\$26.82	\$0.94
YoY%	7.3%	10.1%	1.5%	YoY%	11.1%	16.0%	3.6%
1Q26E	\$2,813	\$2,831	\$19	1Q26E	\$7.34	\$7.43	\$0.09
2Q26E	\$2,944	\$2,952	\$8	2Q26E	\$7.93	\$7.96	\$0.03
3Q26E	\$2,917	\$2,900	(\$17)	3Q26E	\$7.88	\$7.70	(\$0.17)
4Q26E	\$2,888	\$2,935	\$47	4Q26E	\$7.76	\$7.89	\$0.13
FY2026E	\$11,562	\$11,619	\$57	FY2026E	\$30.90	\$30.98	\$0.08
YoY%	10.3%	9.2%	0.5%	YoY%	19.4%	15.5%	0.3%
CY2024E	\$10,019	\$10,034	\$15	CY2024E	\$24.06	\$24.36	\$0.30
YoY%	4.0%	3.7%	0.2%	YoY%	7.1%	7.0%	1.2%
CY2025E	\$11,133	\$11,163	\$31	CY2025E	\$28.79	\$29.05	\$0.26
YoY%	11.1%	11.3%	0.3%	YoY%	19.7%	19.3%	0.9%
CY2026E	\$11,999	\$12,070	\$70	CY2026E	\$33.05	\$33.18	\$0.13
YoY%	7.8%	8.1%	0.6%	YoY%	14.8%	14.2%	0.4%

Source: BofA Global Research estimates, company reports

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DecQ reported vs. expectations

Exhibit 2: Summary of DecQ earnings results vs. our/Consensus expectations

SepQ sales were \$27mn/1% above Street and EPS beat by 27c/5%

	Dec-22	Sep-23	Dec-23							
			Guidance	Street	BofA	Reported	Delta v. Street (% bps)	Delta v. Street (\$)	QoQ %	YoY %
Sales (\$mn)	\$2,984	\$2,397	\$2450 +/- \$125	\$2,460	\$2,450	\$2,487	1.1%	\$26	3.7%	-16.7%
QoQ%	9.5%	1.8%		2.6%	2.2%	3.7%				
YoY%	26.8%	-12.0%			-17.9%	-16.7%				
Segment Detail:										
Semiconductor Process Control	\$2,657	\$2,135		2143	2178	\$2,194	2.4%	\$51	2.7%	-17.4%
Specialty Semiconductor Process	\$158	\$127		128	129	\$150	17.5%	\$22	18.4%	-5.1%
PCB, Display and Component Inspection	\$170	\$136		136	143	\$143	4.9%	\$7	5.1%	-15.8%
Other	\$0	\$0		0	0	\$0	NA	\$0	NA	NA
Sales detail:										
Products	\$2,464	\$1,837			\$1,862	\$1,922	NA	\$1,922	4.6%	-22.0%
Services	\$520	\$560			\$588	\$565	NA	\$565	0.9%	8.7%
Gross Margin % (Non-GAAP)	61.0%	62.4%	61.5% +/- 1%	61.6%	61.5%	62.6%	100		17	158
Gross profit (Non-GAAP)	1,821	1,496			1,507	1,557			4.0%	-14.5%
R&D (Non-GAAP)	333	311			315	320			3.0%	-3.7%
SG&A (Non-GAAP)	223	222			224	224			0.5%	0.5%
Opex (Non-GAAP)	555	534	\$540		540	544			1.9%	-2.0%
Operating Income (Non-GAAP)	1,266	962		974	968	1,013	4.0%	\$39	5.2%	-20.0%
Operating Margin % (Non-GAAP)	42.4%	40.2%		39.6%	39.5%	40.7%	115		58	-169



Exhibit 2: Summary of DecQ earnings results vs. our/Consensus expectations

SepQ sales were \$27mn/1% above Street and EPS beat by 27c/5%

Other expense, net (Non-GAAP)	(50)	(77)	(57)	(77)	(72)	11.5%	23.2%			
Pretax income (Non-GAAP)	1,210	915		922	971	6.1%	-19.7%			
Tax expense (Non-GAAP)	162	128		125	132	2.5%	-18.7%			
Tax rate (Non-GAAP)	13.4%	14.0%	13.5%	13.5%	13.6%	-48	17			
Net Income (Non-GAAP)	1,048	786		797	839	6.7%	-19.9%			
Diluted EPS (Non-GAAP)	\$7.38	\$5.74	\$5.86 +/- \$0.60	\$5.89	\$5.86	\$6.16	4.6%	\$0.27	7.4%	-16.5%
Diluted shares (Non-GAAP)	142	137	136	136	136			-0.6%		-4.0%

Source: BofA Global Research estimates, company report, Bloomberg, Visible Alpha

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MarQ guidance vs. expectations**Exhibit 3: Summary of MarQ outlook vs. our/Consensus expectations**

MarQ sales guide was \$148mn/6% below Street and EPS missed by 57c/10%

	Dec-23	Mar-24E			
		BofA	Street	Guidance	New BofA
Sales (\$mn)	\$2,487	\$2,455	\$2,448	\$2,300 +/- \$125	\$2,300
QoQ%	3.7%	0.2%	-0.5%		-7.5%
YoY%	-16.7%	0.9%			-5.5%
Segment Detail:					
Semiconductor Process Control	\$2,194	2178	2187		\$2,007
Specialty Semiconductor Process	\$150	130	131		\$152
PCB, Display and Component Inspection	\$143	147	138		\$142
Other	\$0	0	0		\$0
Sales detail:					
Products	\$1,922	\$1,856			\$1,724
Services	\$565	\$600			\$576
Gross Margin % (Non-GAAP)	62.6%	61.5%	61.5%	61.5% +/- 1%	61.5%
Gross profit (Non-GAAP)	1,557	1,510			1,414
R&D (Non-GAAP)	320	318			320
SG&A (Non-GAAP)	224	229			225
Opex (Non-GAAP)	544	548		\$545	545
Operating Income (Non-GAAP)	1,013	963	962		870
Operating Margin % (Non-GAAP)	40.7%	39.2%	39.3%		37.8%
Other expense, net (Non-GAAP)	(42)	(45)		(\$45)	(45)
Pretax income (Non-GAAP)	971	917			825
Tax expense (Non-GAAP)	132	124			111
Tax rate (Non-GAAP)	13.6%	13.5%		13.5%	13.5%
Net Income (Non-GAAP)	839	793			713
Diluted EPS (Non-GAAP)	\$6.16	\$5.87	\$5.83	\$5.26 +/- \$0.60	\$5.26
Diluted shares (Non-GAAP)	136	135		136	136

Source: BofA Global Research estimates, company report, Bloomberg, Visible Alpha

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Balance sheet & cash flow snapshot**Exhibit 4: Summary of balance sheet and cash flow statement**

Net cash decreased slightly QoQ; inventory \$s increased QoQ

	2Q23	3Q23	4Q23	1Q24	2Q24		
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	QoQ	YoY
Total Cash	2,866	2,890	3,243	3,349	3,343	-0.2%	16.6%
ST Debt	-	-	-	-	750		
LT Debt	6,114	5,890	5,891	5,892	5,143		
Total Debt	6,114	5,890	5,891	5,892	5,893		
Net Cash	(3,247)	(3,000)	(2,648)	(2,542)	(2,550)		
Net Cash / Share	(\$22.87)	(\$21.63)	(\$19.23)	(\$18.54)	(\$18.71)	-0.9%	18.2%
Book Value / Share	\$18.34	\$19.35	\$21.21	\$21.81	\$22.34	2.4%	21.8%
Tangible Book Value / Share	(\$5.22)	(\$4.30)	(\$2.14)	(\$1.17)	\$1.26	207.3%	124.1%
Days Sales Out. (DSO)	69.6	72.6	67.7	61.9	67.5		
Days Payables Out. (DPO)	39.9	37.2	35.1	34.9	35.1		
Inventory \$	2,535	2,750	2,877	3,008	3,039	1.0%	19.8%

Exhibit 4: Summary of balance sheet and cash flow statement

Net cash decreased slightly QoQ; inventory \$s increased QoQ

Inventory Days	191.4	249.6	272.6	289.8	283.9	(6.0)	92.5
Cash Conversion days	221.1	285.0	305.3	316.8	316.3		
Cash Flow from Ops	688	1,011	959	884	622	-29.6%	-9.6%
Capex	(94)	(85)	(79)	(68)	(77)	12.9%	-18.0%
Free cash flow	595	926	880	816	545	-33.1%	-8.3%
Dividends paid	184	181	180	182	197	8.5%	6.9%
Share repurchase amount	355	478	389	455	438	-3.9%	23.3%

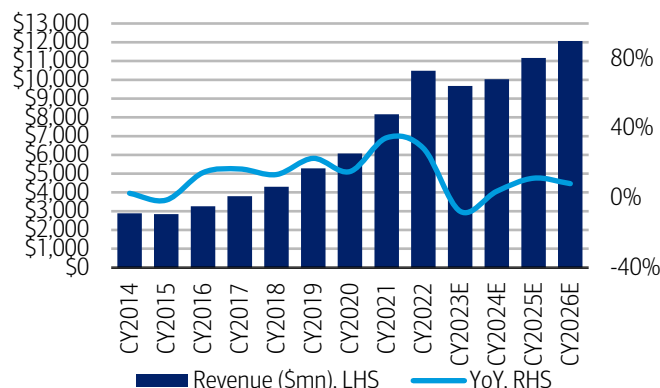
Source: BofA Global Research, company reports

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Key charts

Chart 1: KLAC annual revenue (calendar year) and YoY growth

We see KLAC annual sales rebounding beyond CY23

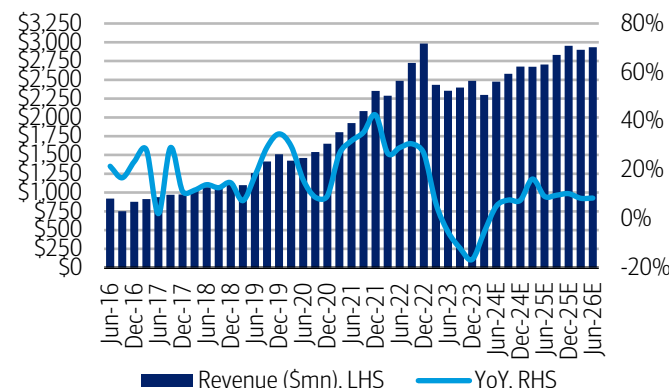


Source: BofA Global Research estimates, company report

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Chart 2: KLAC quarterly revenue and YoY growth

We expect KLAC quarterly sales troughing at \$2.3bn this FY

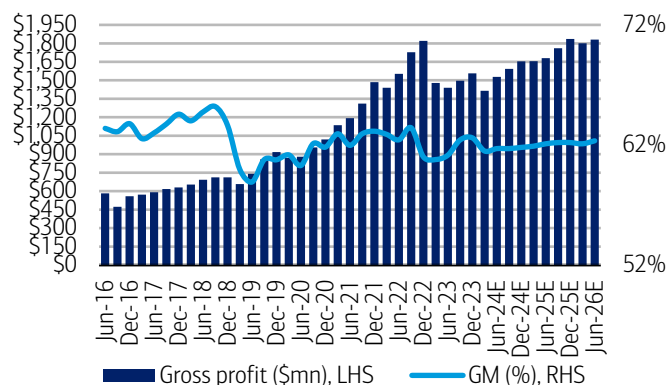


Source: BofA Global Research estimates, company report

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Chart 3: KLAC quarterly gross profit and GM%

We forecast gross margins of approx. 61.5%-62% near-term for KLAC

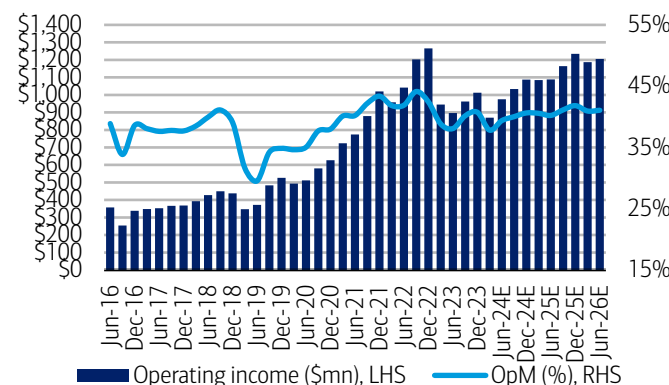


Source: BofA Global Research estimates, company report

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Chart 4: KLAC quarterly operating income and OpM%

We see op margins of ~40% long-term

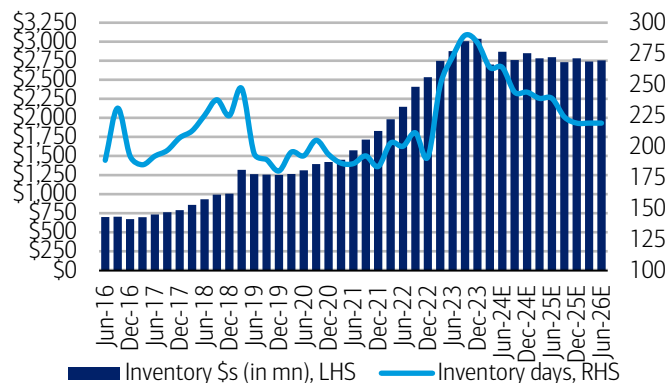


Source: BofA Global Research estimates, company report

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Chart 5: KLAC quarterly inventory dollars and days

We expect inventory days to remain in the +/- 200 days range

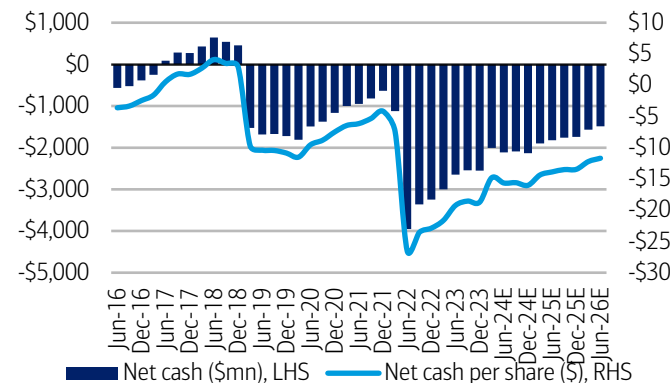


Source: BofA Global Research estimates, company report

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Chart 6: KLAC quarterly net cash and net cash per share

KLAC net cash position much lower post debt offering

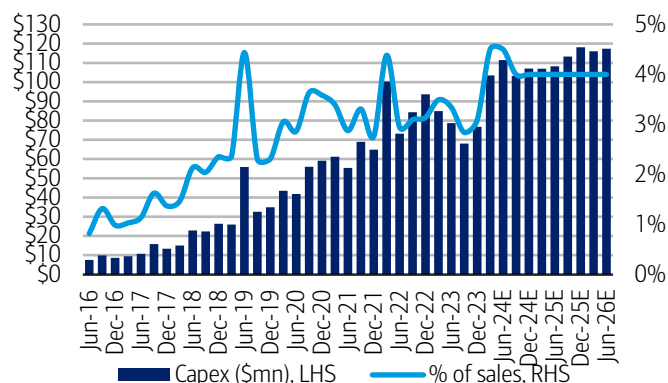


Source: BofA Global Research estimates, company report

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Chart 7: KLAC quarterly capex and % of sales

We expect capex in the 3%-5% of sales range long-term

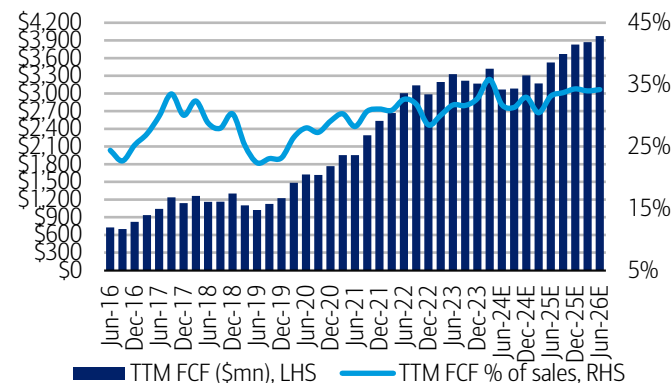


Source: BofA Global Research estimates, company report

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Exhibit 5: KLAC quarterly FCF and FCF margin %

We see improving FCF generation long-term



Source: BofA Global Research estimates, company report

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Glossary:

KLAC: KLA Corp, LRCX: Lam Research, WFE: Wafer Fab Equipment Spending, AI: Artificial Intelligence GAA: Gate-All-Around; TTM: Trailing-Twelve-Months; HBM: High Bandwidth Memory; DRAM: Dynamic Random Access Memory; NAND: Not-AND

**Exhibit 6: KLAC Income Statement (\$mn)**

KLAC reported \$2.49bn in sales and \$6.16 in EPS

FY (Jun)	1Q23 Sep-22	2Q23 Dec-22	3Q23 Mar-23	4Q23 Jun-23	1Q24 Sep-23	2Q24 Dec-23	3Q24E Mar-24E	4Q24E Jun-24E	1Q25E Sep-24E	2Q25E Dec-24E	3Q25E Mar-25E	4Q25E Jun-25E	CY2024E Dec-24	CY2025E Dec-25	CY2026E Dec-26
Total revenue	\$2,724	\$2,984	\$2,433	\$2,355	\$2,397	\$2,487	\$2,300	\$2,476	\$2,582	\$2,676	\$2,675	\$2,705	\$10,034	\$11,163	\$12,070
QoQ	9.6%	9.5%	-18.5%	-3.2%	1.8%	3.7%	-7.5%	7.7%	4.3%	3.7%	-0.1%	1.1%			
YoY	30.7%	26.8%	6.3%	-5.3%	-12.0%	-16.7%	-5.5%	5.1%	7.7%	7.6%	16.3%	9.2%	3.7%	11.3%	8.1%
Cost of goods sold	1,041	1,209	1,005	963	947	977	934	992	1,032	1,066	1,063	1,069	4,024	4,405	4,714
Gross profit (GAAP)	1,683	1,775	1,427	1,392	1,450	1,510	1,366	1,484	1,549	1,610	1,612	1,636	6,010	6,758	7,356
Gross profit (Non-GAAP)	1,728	1,821	1,479	1,440	1,496	1,557	1,414	1,528	1,593	1,654	1,656	1,680	6,189	6,933	7,531
Research & development (GAAP)	319	333	328	317	311	320	320	325	330	335	337	350	1,310	1,396	1,502
Research & development (Non-GAAP)	309	332	322	314	311	320	320	325	330	335	337	350	1,310	1,396	1,502
Selling, general & admin. (GAAP)	254	243	238	251	240	237	242	241	243	245	247	255	970	1,017	1,044
Selling, general & admin. (Non-GAAP)	217	223	212	229	222	224	225	228	230	232	234	242	914	965	992
Operating expenses (GAAP)	572	576	567	568	551	777	562	566	573	580	584	605	2,280	2,413	2,546
Operating expenses (Non-GAAP)	526	555	534	543	534	544	545	553	560	567	571	592	2,224	2,361	2,494
Operating Income (GAAP)	1,111	1,199	861	824	899	733	804	918	976	1,030	1,028	1,031	3,729	4,345	4,809
Operating income (Non-GAAP)	1,202	1,266	945	897	962	1,013	870	975	1,033	1,087	1,085	1,088	3,966	4,572	5,037
Interest expense and other, net (GAAP)	(27)	(56)	(60)	(49)	(47)	(42)	(45)	(45)	(45)	(45)	(45)	(45)	(181)	(181)	(181)
Interest expense and other, net (Non-GAAP)	(24)	(56)	(60)	(49)	(47)	(42)	(45)	(45)	(45)	(45)	(45)	(45)	(181)	(181)	(181)
Pretax income (GAAP)	1,070	1,143	801	776	852	691	759	873	931	985	983	986	3,548	4,164	4,629
Pretax income (Non-GAAP)	1,179	1,210	885	848	915	971	825	930	988	1,042	1,040	1,043	3,785	4,391	4,856
Income tax expense (GAAP)	44	164	103	91	110	109	91	106	113	121	120	121	431	513	576
Provision for income taxes (Non-GAAP)	172	162	124	106	128	132	111	126	133	141	140	141	511	593	656
Net income (GAAP)	1,026	979	698	685	741	583	668	768	818	865	863	865	3,117	3,651	4,053
Net income (Non-GAAP, incl. SBC)	1,007	1,048	761	743	786	839	713	804	855	901	900	902	3,274	3,799	4,201
GAAP Diluted EPS	\$7.20	\$6.89	\$5.03	\$4.97	\$5.41	\$4.28	\$4.93	\$5.69	\$6.10	\$6.50	\$6.53	\$6.59	\$23.20	\$27.92	\$32.01
Non-GAAP Diluted EPS (incl. SBC)	\$7.06	\$7.38	\$5.49	\$5.40	\$5.74	\$6.16	\$5.26	\$5.96	\$6.38	\$6.77	\$6.80	\$6.87	\$24.36	\$29.05	\$33.18
Net income (pf, ex items)	1,036	1,081	802	786	828	881	753	848	900	948	946	949	3,449	3,993	4,411
EPS (pf, excl. SBC)	\$7.27	\$7.61	\$5.79	\$5.71	\$6.04	\$6.47	\$5.56	\$6.29	\$6.71	\$7.12	\$7.16	\$7.23	\$25.66	\$30.54	\$34.84
Diluted shares (Non-GAAP)	143	142	139	138	137	136	136	135	134	133	132	131	134	131	127
Margins, Non-GAAP (%)															
Gross margin	63.4%	61.0%	60.8%	61.2%	62.4%	62.6%	61.5%	61.7%	61.7%	61.8%	61.9%	62.1%	61.7%	62.1%	62.4%
Operating margin	44.1%	42.4%	38.8%	38.1%	40.2%	40.7%	37.8%	39.4%	40.0%	40.6%	40.6%	40.2%	39.5%	41.0%	41.7%
Margins, GAAP (%)															
Gross margin	61.8%	59.5%	58.7%	59.1%	60.5%	60.7%	59.4%	59.9%	60.0%	60.2%	60.3%	60.5%	59.9%	60.5%	60.9%
Operating margin	40.8%	40.2%	35.4%	35.0%	37.5%	29.5%	35.0%	37.1%	37.8%	38.5%	38.4%	38.1%	37.2%	38.9%	39.8%

Source: BofA Global Research estimates, company report

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Exhibit 7: KLAC Segment Model (\$mn)

We model a return to sales growth in CY24

FY (Jun)	1Q23 Sep-22	2Q23 Dec-22	3Q23 Mar-23	4Q23 Jun-23	1Q24 Sep-23	2Q24 Dec-23	3Q24E Mar-24E	4Q24E Jun-24E	1Q25E Sep-24E	2Q25E Dec-24E	3Q25E Mar-25E	4Q25E Jun-25E	CY2024E Dec-24	CY2025E Dec-25	CY2026E Dec-26
<u>Sales (\$mn)</u>															
Semiconductor Process Control	2,398	2,657	2,172	2,097	2,135	2,194	2,007	2,177	2,275	2,366	2,366	2,390	8,825	9,888	10,726
Specialty Semiconductor Process	128	158	128	129	127	150	152	153	155	156	158	161	615	654	696
PCB, Display and Component Inspection	201	170	132	129	136	143	142	146	152	154	151	154	593	621	648
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	2,724	2,984	2,433	2,355	2,397	2,487	2,300	2,476	2,582	2,676	2,675	2,705	10,034	11,163	12,070
<u>QoQ</u>															
Semiconductor Process Control	13.4%	10.8%	-18.3%	-3.4%	1.8%	2.0%	-8.5%	8.5%	4.5%	4.0%	0.0%	1.0%			
Specialty Semiconductor Process	2.7%	23.6%	-18.8%	0.4%	-1.8%	2.0%	1.0%	1.0%	1.0%	1.0%	1.0%	2.0%			
PCB, Display and Component Inspection	-19.3%	-15.3%	-22.4%	-2.2%	5.5%	5.0%	-1.0%	3.0%	4.0%	1.5%	-2.0%	2.0%			
Other	-	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%			
Total	9.6%	9.5%	-18.5%	-3.2%	1.8%	3.7%	-7.5%	7.7%	4.3%	3.7%	-0.1%	1.1%			
<u>YoY</u>															
Semiconductor Process Control	34.8%	29.5%	9.7%	-0.8%	-10.9%	-17.4%	-7.6%	3.8%	6.5%	7.8%	17.9%	9.8%	2.6%	12.0%	8.5%
Specialty Semiconductor Process	25.3%	40.2%	9.5%	3.6%	-0.9%	-5.1%	18.0%	18.7%	22.0%	4.1%	4.1%	5.1%	15.2%	6.3%	6.4%
PCB, Display and Component Inspection	-1.0%	-9.6%	-31.5%	-48.2%	-32.2%	-15.8%	7.3%	13.1%	11.5%	7.6%	6.6%	5.5%	9.8%	4.7%	4.3%
Other	-	-	-	-	-	-	-	-	-	-	-	-	NA	NA	NA
Total	30.7%	26.8%	6.3%	-5.3%	-12.0%	-16.7%	-5.5%	5.1%	7.7%	7.6%	16.3%	9.2%	3.7%	11.3%	8.1%
<u>% of total</u>															
Semiconductor Process Control	88.0%	89.1%	89.3%	89.1%	89.1%	88.2%	87.3%	87.9%	88.1%	88.4%	88.5%	88.4%	88.0%	88.6%	88.9%
Specialty Semiconductor Process	4.7%	5.3%	5.3%	5.5%	5.3%	6.0%	6.6%	6.2%	6.0%	5.8%	5.9%	5.9%	6.1%	5.9%	5.8%
PCB, Display and Component Inspection	7.4%	5.7%	5.4%	5.5%	5.7%	5.8%	6.2%	5.9%	5.9%	5.8%	5.6%	5.7%	5.9%	5.6%	5.4%
Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: BofA Global Research estimates, company report

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**Exhibit 8: KLAC Balance Sheet (\$mn)**

We model an improving net cash position over time

Balance Sheet (\$mn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24E	4Q24E	1Q25E	2Q25E	3Q25E	4Q25E	CY2024E	CY2025E	CY2026E
FY (Jun)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24E	Jun-24E	Sep-24E	Dec-24E	Mar-25E	Jun-25E	Dec-24	Dec-25	Dec-26
Assets															
Cash and cash equivalents	1,819	1,571	1,569	1,928	1,712	1,665	2,208	2,104	2,124	2,083	2,316	2,393	2,083	2,475	2,871
Restricted cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Marketable securities	1,134	1,295	1,322	1,315	1,638	1,678	1,678	1,678	1,678	1,678	1,678	1,678	1,678	1,678	1,678
Accounts receivable, net	1,857	2,283	1,940	1,753	1,631	1,844	1,691	1,820	1,983	2,056	1,996	2,018	2,056	2,203	2,374
Deferred income taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other current assets	425	448	439	499	443	523	523	523	523	523	523	523	523	523	523
Total current assets	7,644	8,133	8,019	8,372	8,431	8,749	8,800	8,994	9,068	9,189	9,295	9,410	9,189	9,660	10,139
Property and equipment, net	913	965	984	1,032	1,060	1,089	1,192	1,304	1,407	1,514	1,621	1,729	1,514	1,961	2,443
Goodwill	2,279	2,279	2,279	2,279	2,279	2,086	2,086	2,086	2,086	2,086	2,086	2,086	2,086	2,086	2,086
Deferred income taxes, non-current	662	765	784	817	870	902	902	902	902	902	902	902	902	902	902
Purchased intangibles, net	1,131	1,065	1,000	935	872	786	786	786	786	786	786	786	786	786	786
Other assets	494	523	618	637	625	668	668	668	668	668	668	668	668	668	668
Total assets	13,124	13,729	13,684	14,072	14,137	14,281	14,435	14,741	14,918	15,146	15,359	15,582	15,146	16,064	17,025
Liabilities & Stock Equity															
Accounts payable	480	530	411	371	364	377	360	383	398	411	410	412	411	447	476
Deferred system profit	440	536	534	652	666	884	884	884	884	884	884	884	884	884	884
Unearned revenue	363	373	364	417	407	446	446	446	446	446	446	446	446	446	446
Current portion of long-term debt	-	-	-	-	-	750	750	750	750	750	750	750	750	750	750
Other current liabilities	1,856	2,044	2,109	2,303	2,381	2,114	2,114	2,114	2,114	2,114	2,114	2,114	2,114	2,114	2,114
Total current liabilities	3,139	3,483	3,419	3,743	3,818	4,571	4,554	4,577	4,592	4,605	4,604	4,606	4,605	4,642	4,671
Long-term debt	6,313	6,114	5,890	5,891	5,892	5,143	5,143	5,143	5,143	5,143	5,143	5,143	5,143	5,143	5,143
Unearned revenue	130	163	176	177	192	222	222	222	222	222	222	222	222	222	222
Other non-current liabilities	882	807	1,002	813	739	807	807	807	807	807	807	807	807	807	807
Total liabilities	11,022	11,126	11,001	11,153	11,147	11,237	11,220	11,243	11,258	11,271	11,270	11,272	11,271	11,307	11,337
Key Metrics															
Long-term debt	6,313	6,114	5,890	5,891	5,892	5,143	5,143	5,143	5,143	5,143	5,143	5,143	5,143	5,143	5,143
Total debt	6,313	6,114	5,890	5,891	5,892	5,893	5,893	5,893	5,893	5,893	5,893	5,893	5,893	5,893	5,893
Net cash	(3,359)	(3,247)	(3,000)	(2,648)	(2,542)	(2,550)	(2,007)	(2,111)	(2,090)	(2,132)	(1,899)	(1,822)	(2,132)	(1,740)	(1,344)
Net cash per share	(\$23.56)	(\$22.87)	(\$21.63)	(\$19.23)	(\$18.54)	(\$18.71)	(\$14.80)	(\$15.65)	(\$15.60)	(\$16.02)	(\$14.36)	(\$13.88)	(\$16.02)	(\$13.46)	(\$10.75)
Days sales outstanding (DSO)*	62	70	73	68	62	67	67	67	70	70	68	68	70	68	68
Days payables outstanding (DPO)	42	40	37	35	35	35	35	35	35	35	35	35	35	35	35
Days of inventory (DIO)	211	191	250	273	290	284	264	264	244	244	239	239	244	219	199
Cash conversion days (DIO+DSO-DPO)	231	221	285	305	317	316	296	296	279	279	272	272	279	252	232

Source: BofA Global Research estimates, company report

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Exhibit 9: KLAC – Cash Flow Statement

We see solid free cash flow trajectory at \$30+ a share

Cash Flow Statement (\$mn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24E	4Q24E	1Q25E	2Q25E	3Q25E	4Q25E	CY2024E	CY2025E	CY2026E
FY (Jun)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24E	Jun-24E	Sep-24E	Dec-24E	Mar-25E	Jun-25E	Dec-24	Dec-25	Dec-26
Cash Flow - Operations															
Net income	1,026	979	698	685	741	583	668	768	818	865	863	865	3,117	3,651	4,053
Depreciation and amortization	102	104	105	105	102	99	92	99	103	107	107	108	400	445	481
Deferred income taxes	(156)	(99)	(67)	24	(71)	(65)	-	-	-	-	-	-	-	-	-
Net gain on sales of mark. sec. and other inv.	-	-	-	-	-	(34)	-	-	-	-	-	-	-	-	-
Accounts receivable, net	(55)	(441)	342	105	107	(160)	153	(130)	(163)	(73)	60	(22)	(212)	(147)	(171)
Inventories	(266)	(128)	(211)	(145)	(138)	(21)	338	(169)	110	(90)	67	(16)	189	68	89
Other assets	46	(15)	(61)	(91)	(8)	(105)	-	-	-	-	-	-	-	-	-
Accounts payable	36	44	(120)	(106)	8	3	(17)	22	16	13	(1)	2	34	36	29
Deferred system profit	(73)	138	4	118	14	287	-	-	-	-	-	-	-	-	-
Other liabilities	313	88	289	197	69	(231)	-	-	-	-	-	-	-	-	-
Net cash provided by operating activities	1,011	688	1,011	959	884	622	1,281	641	935	875	1,149	992	3,732	4,277	4,724
Cash Flows - Investing															
Acquisition of non-marketable securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of businesses or assets	(27)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital expenditures, net	(84)	(94)	(85)	(79)	(68)	(77)	(103)	(111)	(103)	(107)	(107)	(108)	(425)	(447)	(483)
Proceeds from sale of real estate or assets	75	-	-	-	-	5	-	-	-	-	-	-	-	-	-
Net sales (purchases) of available for sale sec.	(230)	(291)	(365)	(431)	(523)	(445)	-	-	-	-	-	-	-	-	-
Proceeds from maturity of available-for-sale sec.	211	142	346	435	201	427	-	-	-	-	-	-	-	-	-
Purchases of trading securities	(20)	(18)	(40)	(19)	(50)	(16)	-	-	-	-	-	-	-	-	-
Proceeds from sale of trading securities	20	20	31	19	48	17	-	-	-	-	-	-	-	-	-
Net cash used for investing activities	(53)	(241)	(113)	(74)	(392)	(88)	(103)	(111)	(103)	(107)	(107)	(108)	(425)	(447)	(483)
Cash Flows - Financing															
Proceeds from debt issuance, net of costs	300	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Repayment of debt	(662)	(200)	(225)	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of common stock	0	34	-	91	-	48	-	-	-	-	-	-	-	-	-
Tax withholding payments related to RSUs	(55)	(3)	(16)	(21)	(68)	(3)	-	-	-	-	-	-	-	-	-
Common stock repurchases	(90)	(355)	(478)	(389)	(455)	(438)	(438)	(438)	(588)	(588)	(588)	(588)	(2,051)	(2,501)	(2,801)
Dividends paid	(188)	(184)	(181)	(180)	(182)	(197)	(197)	(196)	(223)	(222)	(220)	(219)	(838)	(937)	(1,043)
Net cash used for financing activities	(706)	(711)	(903)	(511)	(705)	(591)	(634)	(633)	(811)	(810)	(808)	(807)	(2,889)	(3,438)	(3,845)
Net change in cash and equivalents	234	(248)	(3)	359	(216)	(46)	543	(104)	21	(42)	234	77			
Cash and cash equivalents, beginning of period	1,585	1,819	1,571	1,568	1,928	1,712	1,665	2,208	2,104	2,124	2,083	2,316			
Cash and cash equivalents, end of period	1,819	1,571	1,568	1,928	1,712	1,665	2,208	2,104	2,124	2,083	2,316	2,393			
Free Cash Flow (FCF)	927	595	926	880	816	545	1,177	529	832	768	1,042	884	3,306	3,831	4,241
FCF/share	\$6.50	\$4.19	\$6.68	\$6.40	\$5.95	\$4.00	\$8.68	\$3.92	\$6.21	\$5.77	\$7.88	\$6.73	\$24.60	\$29.30	\$33.50
TTM FCF	3,138	2,986	3,194	3,328	3,217	3,168	3,419	3,068	3,084	3,306	3,171	3,525			
TTM FCF/Share	\$22.01	\$21.04	\$23.04	\$24.18	\$23.46	\$23.25	\$25.22	\$22.74	\$23.01	\$24.84	\$23.99	\$26.85			

Source: BofA Global Research estimates, company report

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Price objective basis & risk

KLA Corporation (KLAC)

Our PO of \$740 is based on 26x CY25E P/E, at higher end KLAC's historical range of 10x-26x. KLAC's leading profit margin and less cyclical topline supports a slightly higher multiple vs. semicap peers, in our view.

Downside risks to our PO are the cyclical nature of the semiconductor capital spending and its impact on earnings, competitive price and market share issues, particularly against Applied Materials, ability to get new products and technologies into the market in a timely manner.

Analyst Certification

I, Vivek Arya, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Semiconductors and Semiconductor Capital Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Advanced Micro Devices, Inc	AMD	AMD US	Vivek Arya
	Analog Devices Inc.	ADI	ADI US	Vivek Arya
	Applied Materials, Inc.	AMAT	AMAT US	Vivek Arya
	Arm Holdings	ARM	ARM US	Vivek Arya
	Broadcom Inc	AVGO	AVGO US	Vivek Arya
	Cadence	CDNS	CDNS US	Vivek Arya
	Camtek	CAMT	CAMT US	Vivek Arya
	KLA Corporation	KLAC	KLAC US	Vivek Arya
	Lam Research Corp.	LRCX	LRCX US	Vivek Arya
	M/A-Com	MTSI	MTSI US	Vivek Arya
	Marvell Technology Group Ltd.	MRVL	MRVL US	Vivek Arya
	Microchip	MCHP	MCHP US	Vivek Arya
	Micron Technology, Inc	MU	MU US	Vivek Arya
	Nova	NVMI	NVMI US	Vivek Arya
	NVIDIA Corporation	NVDA	NVDA US	Vivek Arya
	NXP Semiconductors NV	NXPI	NXPI US	Vivek Arya
	onsemi	ON	ON US	Vivek Arya
	Synopsys	SNPS	SNPS US	Vivek Arya
NEUTRAL				
	Advanced Energy Industries	AEIS	AEIS US	Duksan Jang
	Allegro MicroSystems	ALGM	ALGM US	Blake Friedman
	Axcelis Technologies	ACLS	ACLS US	Duksan Jang
	Coherent Corp	COHR	COHR US	Vivek Arya
	GlobalFoundries	GFS	GFS US	Vivek Arya
	Intel	INTC	INTC US	Vivek Arya
	Lattice Semiconductor	LSCC	LSCC US	Blake Friedman
	Texas Instruments Inc.	TXN	TXN US	Vivek Arya
UNDERPERFORM				
	Ambarella	AMBA	AMBA US	Vivek Arya
	Credo Technology	CRDO	CRDO US	Vivek Arya
	Lumentum Holdings	LITE	LITE US	Vivek Arya
	Qorvo Inc.	QRVO	QRVO US	Vivek Arya
	Skyworks Solutions, Inc.	SWKS	SWKS US	Vivek Arya
	Teradyne	TER	TER US	Vivek Arya
	Wolfspeed Inc	WOLF	WOLF US	Vivek Arya



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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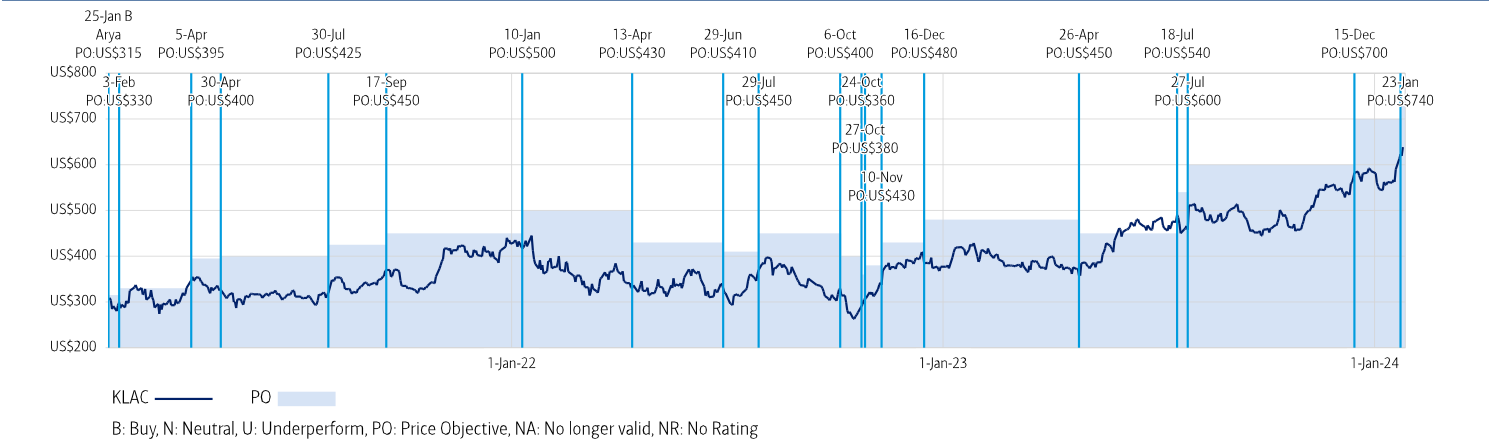
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KLA Corp (KLAC) Price Chart



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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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