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Sector	Technology	Ticker	KLAC
Market Cap	95.92 B	Current Price	\$ 721.85
Beta	1.29	Target Price	\$ 365.29
Dividend Yield	0.94%	Recommendation	“SELL”/”Short”
52-Week Range	609.40–896.32	Shares Outstanding	1.32.88 Mil

Business Summary

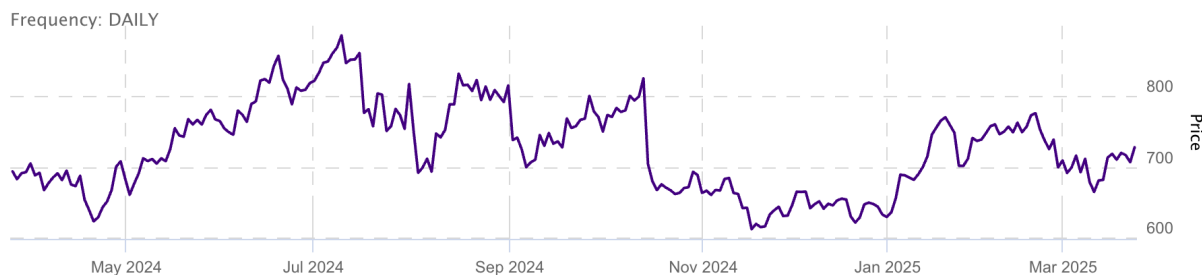
KLA Corporation is a leading producer and distributor of semiconductors. It is the largest Semiconductor wafer fabrication equipment, or WWF, manufacturer in the world. They design, manufacture, and market the process-control, process enabling, yield-management solutions for the semiconductor and related electronics industry worldwide.

Investment Thesis and Investment Risks

The growth rate is not possible to sustain for a long term in future given the highly cynical nature of semiconductor industry as well as the current geo-political situation between U.S. and China from where KLA derives majority of its revenue. Other factors also indicate that the stock is overvalued at present and with support of DCF model a recommendation of “Sell” is given. The risk associated with the company’s growth includes that uncertainty in the industry due to its cyclical nature and KLA’s profits and growth in turn depends on the other key semiconductor, semiconductor-related or electronic equipment manufacturers.

KLA Corporation

Nasdaq Global Select: KLAC



1D

5D

1M

3M

6M

1Y

2Y

5Y

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COMPANY OVERVIEW

KLA Corporation (KLA) is the world's leading supplier of process control and yield management solutions for the semiconductor and related microelectronics industries. The company's comprehensive portfolio of products, software, analysis, services, and expertise is designed to help Integrated Circuit (IC) manufacturers manage yield throughout the entire wafer fabrication process—from Research & Development to final yield analysis. KLA offers a broad spectrum of products and services that are used by every major semiconductor manufacturer in the world. KLA provide advanced process control and process-enabling solutions for manufacturing wafers and reticles, integrated circuits, Packaging, and printed circuit boards.¹

KLA was formed as KLA-Tencor Corporation in April 1997 through the merger of KLA Instruments Corporation and Tencor Instruments, two long-time leaders in the semiconductor capital equipment industry that began operations in 1975 and 1976, respectively. The Company is organized into three reportable segments: Semiconductor Process Control; Specialty Semiconductor Process; and PCB and Component Inspection.

SEMICONDUCTOR PROCESS CONTROL

Within the Semiconductor Process Control segment, the comprehensive portfolio of inspection, metrology and software products, as well as related services, help IC, wafer, reticle/mask and chemical/materials manufacturers achieve target yields throughout the entire fabrication process, from R&D to high volume production. These products and services are designed to provide comprehensive solutions to help customers accelerate development and production ramp cycles, achieve higher and more stable product yields and improve their overall profitability.²

SPECIALITY SEMICONDUCTOR PROCESS

Within the Specialty Semiconductor Process segment, KLA develop and sell advanced vacuum deposition and etch process tools, which are used by a broad range of specialty semiconductor customers, including manufacturers of microelectromechanical systems (“MEMS”), radio frequency (“RF”) communication semiconductors, and power semiconductors for automotive and industrial applications.³

¹ KLA Letter to Shareholders, December Quarter 2024 – Reported January 30, 2025

https://dl1io3yog0oux5.cloudfront.net/_3695b1767b1d7e5550a3c21cb5c3e250/klatencor/db/1117/10569/letter_to_shareholders/KLA+Corporation+Q2FY25+Shareholder+Letter.pdf

² KLA Co. Form 10-K, 2024

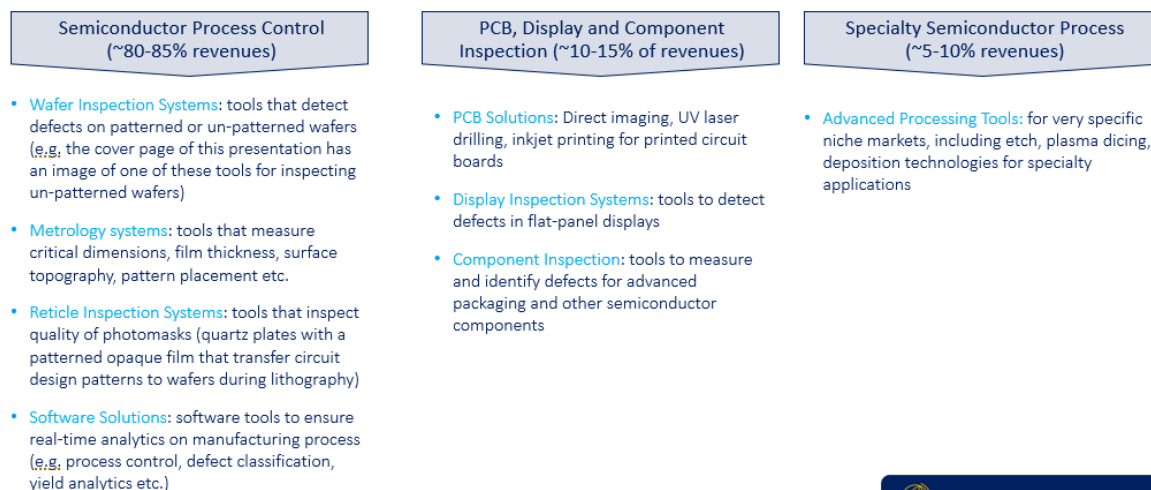
³ Ibid

PCB & COMPONENT INSPECTION

Within the PCB and Component Inspection segment, KLC sell products and services that enable electronic device manufacturers to inspect, test and measure PCBs, IC substrates and packaged ICs to verify their quality, pattern the desired electronic circuitry on the relevant substrate and perform three-dimensional shaping of metalized circuits on multiple surfaces.⁴

Furthermore, the service programs of KLA help its customers in all business sectors to maintain the high performance and productivity of the products offered to them by KLA through its flexible service options. The highly trained service team of KLA collaborate with its customers to determine the best products and services to meet its customer's technology and business requirements.

KLAC products occupy a mission critical niche within the semiconductor manufacturing process – the steps involved in measuring and detecting defects that optimize efficiency
Summary of KLAC product segments



COMPETITIVE ADVANTAGES

The size and location of the field sales, service engineering, application engineering, and marketing organization represents a competitive advantage for KLA in their server markets. KLA also recognized its competitive advantage as its people and the technology they develop. KLA competitive advantage and future business success is also attributed to its ability to accurately predict evolving industry standards, develop and introduce new products and solutions that successfully address changing customer needs, win market acceptance of these

⁴ Ibid

new products and solutions and manufacture these new products in a timely and cost-effective manner. Some criteria that provide KLA the competitive advantage in comparison to its competitor includes –

1. Measurement and Inspection Equipment as part of product offerings

KLA has measurement and inspection equipment as its product offering within its PCB and Component Inspection Segment that enables the device manufacturer to inspect, test, and measure the PCBs, IC substrates and the packaged ICs to verify their quality. However, most of their competitor specialize in only process equipment products, which gives KLA the competitive advantage over its competitor.

2. Global partnerships and Customer Base

To maintain the competitive advantage, KLA invest significant financial resources to offer broad range of products to customers, to maintain customer services, and invest heavily in product R&D. KLA has its largest customers the leading semiconductor, semiconductor-related and electronic device manufacturers in Asia, the U.S. and Europe including Taiwan Semiconductor Manufacturing Co. Ltd. and Samsung Electronics Co., Ltd.

KLA's Broad Portfolio Addresses Entire Semiconductor Ecosystem

Semiconductor Manufacturing	Related Electronics Industries
• IC Manufacturing • Wafer Manufacturing • Reticle Manufacturing • IC Packaging • Printed Circuit Board	• Compound Semiconductor • Power Device • LED • MEMS • Data Storage/Media Head • General Purpose/Labs

Source: 2025 KLA Co. Q2, 2025 Letter to Shareholders Presentation

INDUSTRY COMPETITION

KLA has many competitors in the Semiconductor sector including companies like Applied Materials, Inc., ASML Holding N.V., Hitachi High-Technologies Corporation, Onto Innovation, Inc. and Lasertec, Inc., KLA may be in a disadvantageous position if its competitor were able to independently develop similar or functionally competitive technology. The possibility of introduction of integrated products by the competitors that also offer inspection and metrology functionality in addition to managing other semiconductor manufacturing processes is a threat to KLA.

MARKET SHARE

Company Name	Ticker	Revenue (In Mil)	Market Share
ASML Holdings N.V.	ASML	\$ 31,654	7.26%
Applied Materials Inc.	AMAT	\$ 27,635	6.34%
Ase Tech. Holding Co.	ASX	\$ 19,004	4.36%
KLA Co.	KLAC	\$ 10,846	2.85%
ON Semiconductor Co.	ON	\$ 7,082	1.62%
Onto Innovation Inc.	ONTO	\$ 987.31	0.23%

*Data for Q4, 2024⁵

KLA holds a significant market share in the semiconductor manufacturing industry. The Net income of KLA in Q4 2024 grew Y/Y by 41.54% while most of its competitors experience a contraction in the net income by -4.26%. KLA holds a dominant share particularly in the metrology/inspection equipment of around 54.4%, almost x4 than the nearest competitor due to the strong specialization of KLC in this equipment and the increasing need of semiconductor metrology/inspection equipment by the customers of KLA. It is significant to note that most of the market share is captured by Samsung Electronics Co. Ltd. (55.43%) and Taiwan Semiconductor Manufacturing Co. Ltd. which are also the largest customers of KLA.

GROWTH DRIVERS

The semiconductor equipment industry has been experiencing multiple growth drivers bolstered due to the increasing demand for semiconductors to support the computational power and connectivity for new technologies such as Artificial Intelligence and 5G wireless technology as well as the due to the increasing investment by the companies in legacy nodes. The pace of digitalization and growth of virtual engagement was driven extremely due to the COVID-19 related restrictions, work from home activities, and advances made in the healthcare and industrial applications. There is more than ever increase in demand of the memory chips due to increasing adoption of electric vehicles and intelligence in automobile as well which is spurred by the requirements of AI.

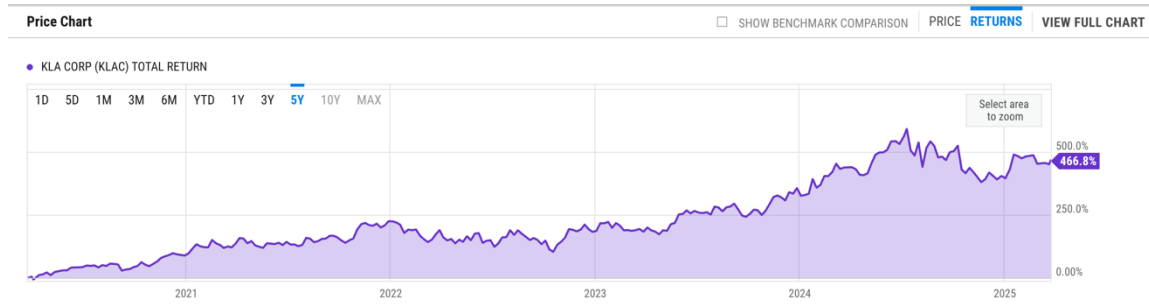
The key elements that attribute to the growth of KLA Co. includes –

1. Process control Solutions

The two most important product offering of KLA includes the Defect inspection and review systems, which identifies the defects in chips in the early stages of manufacturing process, and Inspection and Metrology machines, which precisely measures the physical properties

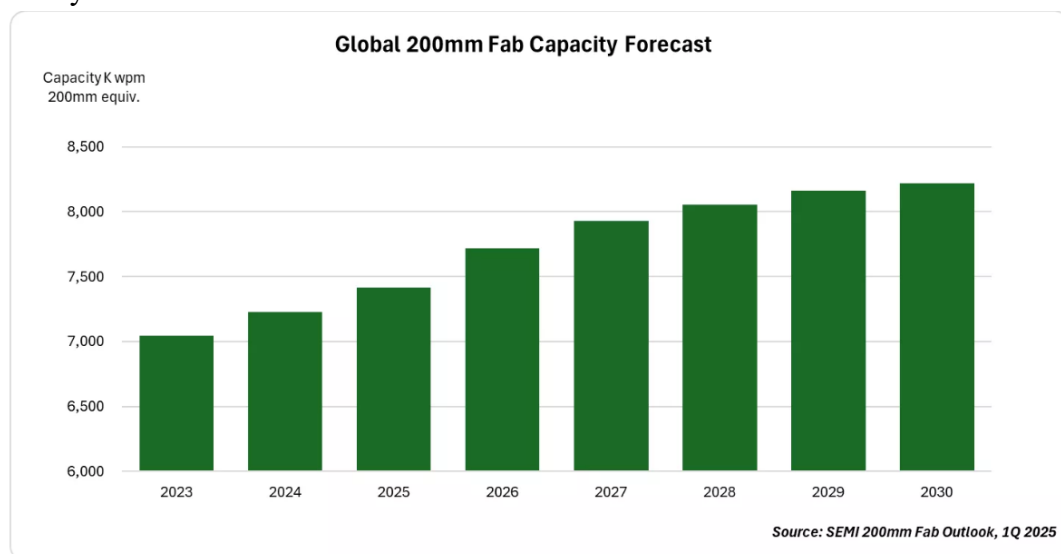
⁵ <https://csimarket.com/stocks/competitionNO9.php?&code=KLAC>

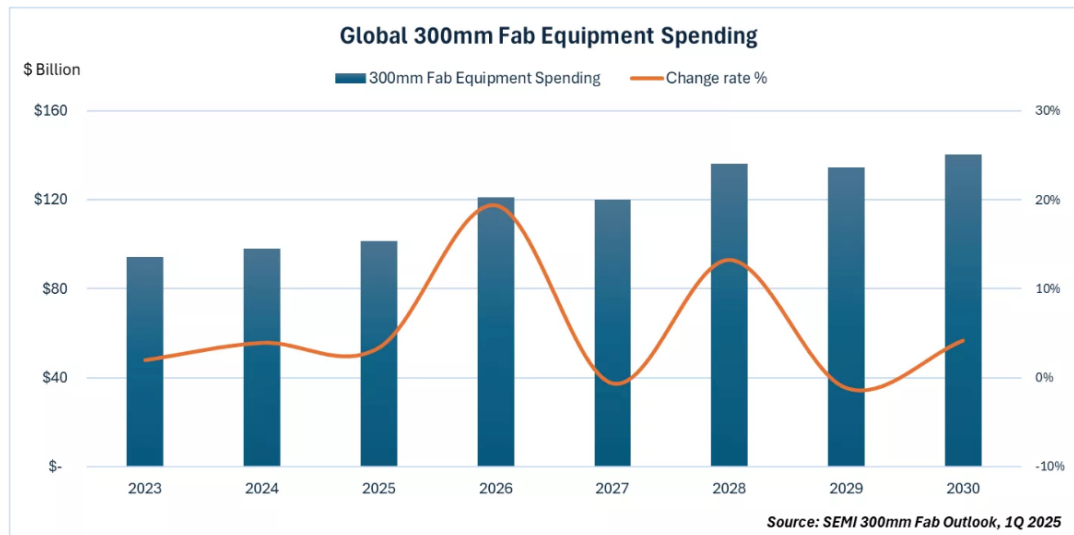
of the chip, such as the size and shape of patterns, thickness and alignment of different layers, and the electro-optical properties of the chip. These tools are helpful in improving the chip yield, i.e. the percentage of working chips divided by the total number of possible chips. The KLA's equipment are vital as they help its customer to increase the chip yield because if the chip yield is too low, it can negatively impact the profitability. This is the main reason why the stock of KLA has been nearly 460% over the last five years.



2. Technology shift

Generative AI, high-performance computing, cloud computing, and sophisticated AI-powered mobile devices have driven the demand for advanced semiconductors. Chip manufacturers primarily use two wafer circumferences to make chips: 200 mm and 300 mm. The increased electrification of automobiles and proliferation of 5G technology, IOT, Cloud and AI-powered devices has driven the need for more 200 mm and 300 mm wafer semiconductor manufacturing plants. Semi's 300 mm equipment spending forecasts rising from 4% in 2024 to 20% in 2026. KLA's process control equipment is vital for the manufacturing of 200 mm wafers by the semiconductor companies as larger wafer sizes often mean more defects and potentially incur more cost of production, which in turn increases the demand for inspection equipment to find defects early on and help to prevent the low-yield wafers.





The continuous growth of AI, high-performance computing, and automotive applications fueling the investment in 300 mm fabs. Further increase in the demand for advanced logic and memory chips, coupled with the increasing adoption of wireless and ubiquitous computing technologies, is driving significant investment in advanced 300 mm fabs.⁶ With increased investment in 300 mm fabs by chip manufactures comes the increase in demand for the KLA process control equipment.

RECENT NEWS

[KLA Ranks 10th on Yahoo Finance's list of best performing semiconductor stocks in 2025⁷](#)

KLA share price has rallied around 20% so far in 2025 and the share price was supported by the strong Q2 FY 2025 results in which the revenue has been of \$3.08 billion and rose almost 23.7% year on year. Analyst remained positive on the stock with overall growth driven by the AI-led demand.

[Tech sector most exposed to risk from geopolitical escalations between U.S. and China⁸](#)

The tariffs imposed by the Trump administration will add risk to chips and consumer stocks. The biggest impact will come down on the end demand as if the price of the final products will be increased due to tariffs, then the negative impact will flow upstream to all the chip companies.

⁶ <https://www.semi.org/en/products-services/market-data/300mm-fab-outlook>

⁷ Yahoo! Finance News

⁸ Ibid.

KLA Second Quarter 2025 Earnings: Revenue beats Expectations⁹

Revenue exceeded the analyst estimates by 4.4% but the EPS missed the estimates by 18%. The revenue for KLA Co. is forecasted to grow 7.3% p.a. on average for the next 3 years, compared to a 18% growth forecast for the overall Semiconductor industry in the U.S.

KLA declares regular Cash Dividend¹⁰

The quarterly cash dividend of \$ 1.70 per share on its common stock was declared.

KLA unveils Comprehensive IC Substrate Portfolio for new era of advanced Semiconductor Packaging¹¹

The company introduced the industry's widest breadth of process control and process-enabling solutions for IC Substrate (ICS) manufacturing. With this the KLA now has combined expertise in front-end semiconductors, packaging, and IC Substrates that will help its customers to achieve breakthrough in packaging interconnect density for chips targeting high-performance applications.

INVESTMENT THESIS

The recommendation the “Buy” or “Sell” KLA Co. stock at this price will require through consideration of its fundamental drivers as well as the financial performance of the company relative to the entire sector performance.

FUNDAMENTAL DRIVERS

They fundamental drivers for a company like KLA co. dealing with semiconductors will depends on the following key factors –

1. Digitization

The semiconductor industry had a double digit (19%) growth and overall sales of US \$ 627 billion, which beat the estimate sales of US \$611 billion. The widely accepted aspirational goal for the chip sale is of US \$ 1 trillion by 2030. The industry is assumed to reach US \$2 trillion if it continues to grow at a compound rate of 7.5% by 2040. One driver for the industry sale has been the demand for Generative AI chips: a mix of CPUs, GPUs, data center communication chips, memory, power chips, and more. In terms of end markets, PC sales are expected to grow in 2025 by over 4% to about 273 million units after being flat at around 262 million units over 2023 and in 2024. However, the smartphone sales are expected to grow at low single digits in 2025 (and beyond). The two markets are essential

⁹ Ibid.

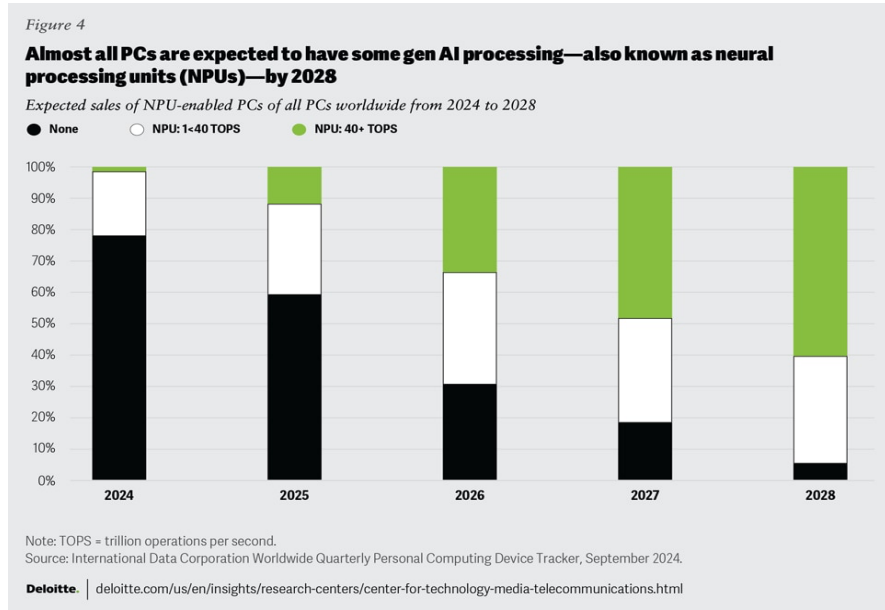
¹⁰ KLA Co. Press release, Feb 13, 2025, 4:18 PM EST

¹¹ KLA Co. Press release, Oct 15, 2024, 4:30 PM EST

for the semiconductor industry.¹² The industry performance has certainly driven in part by the digitization trends that will not be going away anytime soon.

Trends driving the industry includes-

- 5G
- IoT
- EVs
- Robotics
- Automation
- AR/VR
- Predictive Healthcare
- AI
- Smart/home /work/city



2. Dependency on Equipment Companies

The after- steps of chip manufacturing process includes

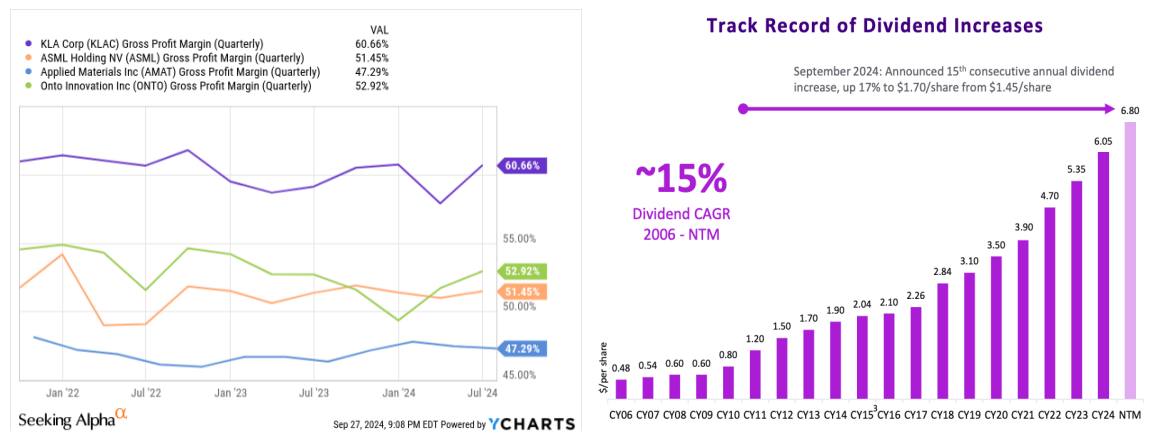
- Disposition, where the silicon is combined with other materials
- Etch, where the chip is cleaned or polished
- Diagnostics, where the quality of the chip is verified.

These stages are where KLA has a dominant market share and is among the top competitors: Applied Materials, Lam Research, and Tokyo Electron. KLA Co. has over half of the market share in diagnostics. An equipment company as KLA have grown faster than the overall market. ASML, KLA, Applied Material, and LAM averaged 9.39% revenue CAGR between 2008 and 2020 whereas the overall industry averaged 7.98% CAGR during this time. As the complexities of semiconductors increases, the Equipment company benefits more which is the reason for growth of KLA as well. The higher chip-yield is a necessity for companies to remain profitable and thus it bolsters the demand of KLA which has over half of the market share in metrology/inspection equipment which is used for verifying the quality of the chip. The Wafer inspection systems and Metrology system is part of KLA's Semiconductor Process Control Business unit which accounts for almost 80-85% of the total revenue and the dependency of companies on such products and services puts KLA at an advantage.

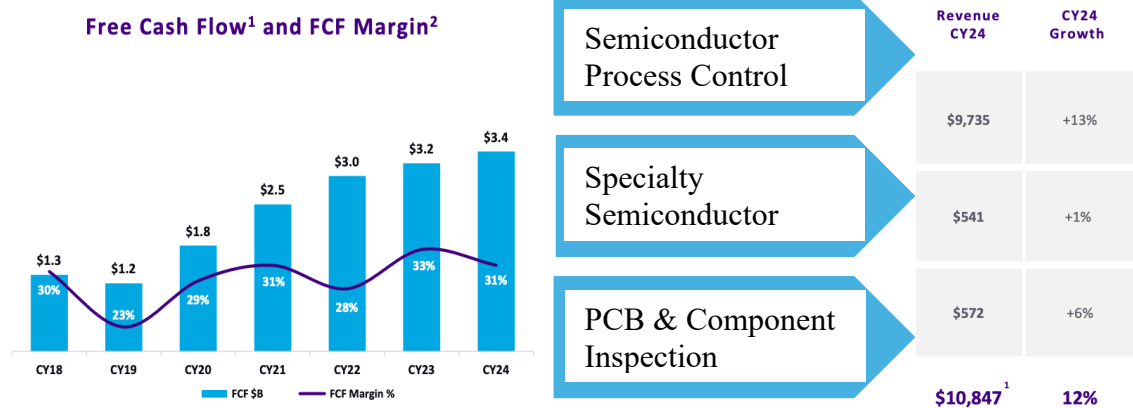
¹² [2025 Global Semiconductor Industry Outlook Report by Deloitte](#)

3. Financial performance

Historically, KLA has performed exceptionally good, especially in the last decade with a CAGR of over 14%. The operating margins has also averaged around 35% since 2016 and the ROIC has averaged 54% since 2020. The June Quarter gross margin for KLA was 60.65%, the highest amongst its competitors. KLA also has an impressive history of its dividend growth with a CAGR of around 15% over the last 17 years which boost confidence among investors as well.



KLA also has an impressive Free Cash flow and over 25% in FCF margins in over last 5 years. The company also has a long-term commitment of returning 85% of FCF to shareholders through dividends payouts and share repurchase.¹³



However, it is to be noted that the most buybacks for KLA occurred in 2022 when the stock price ranged from \$ 250 to the low \$ 400 throughout the year. It is a common practice where the investors can loosely use the buyback yield, the repurchase of outstanding shared over the company's market cap to determine the stock's valuation.

¹³ [KLA Q2 Fiscal 2025 Earnings Presentation, Reported January 30,2025](#)

MACROECONOMIC ENVIRONMENT

The business model of KLA depends on the capital expenditure of semiconductor, semiconductor-related and electronic device manufacturers. The capital expenditure by these customers of KLA is driven by the current and anticipated demand for ICs, products utilizing ICs and other electronic components. Therefore, the business of KLA is cynical with respect to the capital equipment procurement practices of semiconductor, semiconductor-related and electronic device manufacturers and it is significantly impacted by the invest pattern of such manufacturers in different global markets. Downturn in semiconductor or other industries, or slowdown in the worldwide economy as well as customer consolidation, could possibly have a material adverse effect on the profitability of KLA. The key macro-economic factor that can impact the performance of KLA will include –

1. Export Restrictions

There has been imposition of license requirement for especially for Chinese-based customers where an export license will be required for certain U.S. semiconductor and high-performance computing technology (including wafer fab equipment) and for the use of such technology by the end users in China. This can impact the future business of KLA negatively as there is no assurance that such export licenses will be granted.

2. Supply-chain disruptions

KLA perform the system design, assembly, and in-house testing but utilize an outsourcing strategy to manufacture the other components and major subassemblies. The principal manufacturing activities occur in the U.S., Singapore, Israel, Germany, United Kingdom, Italy, and China. In such circumstances, any disruption within the supplier's often complex supply chains can potentially disrupt the scheduled deliveries to KLA's customers and can also damage the customer relationships, resulting in an adverse effect on KLA's results.

FINANCIAL ANALYSIS

The income projections have been made considering the expected growth in the Information technology sector as well as the historical performance of the semiconductor industries while keeping in mind the growth drivers for KLA in this competitive landscape. The income statement is annexed as Annexure I along with the income projections for next three years, which is very close to the consensus estimates. The EPS for the projected years are also close to the consensus estimates. Historically as well the Revenue for KLA has growth significantly from \$ 6.07 Billion in 2020 to \$ 10.84 Billion in 2024 as well as its stock price from \$ 143.7 as on March 30, 2020, to \$ 721.9 as on March 25, 2025.

The company has experienced phenomenal growth over the past five years and the growth has been mostly driven by its customer's increasing demand which is fueled by the accelerated adoption of EUV technology as well as massive investments in tech space.

The following figure shows the annual revenue of the company in last 10 years and what has been the year-on-year change in the revenue.

Annual Revenue (2015 – 2024)

Year	Revenue	Change
2024 ⓘ	\$10.84 B	12.15%
2023 ⓘ	\$9.67 B	-7.75%
2022 ⓘ	\$10.48 B	28.39%
2021 ⓘ	\$8.16 B	34.46%
2020 ⓘ	\$6.07 B	15.05%
2019 ⓘ	\$5.27 B	22.63%
2018 ⓘ	\$4.30 B	13.34%
2017 ⓘ	\$3.79 B	16.53%
2016 ⓘ	\$3.25 B	14.45%
2015 ⓘ	\$2.84 B	-1.3%

Highlights of the recent Quarter and financial performance depicted in following picture -

December 2024 Quarter Income Statement Highlights

Q2-FY25 Revenue by Region

Growth

\$3.1B **+24%**
Revenue Y/Y

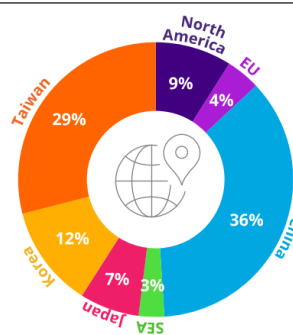
Profitability

61.7% **42.3%**
Non-GAAP Gross Margin Non-GAAP Op. Margin

Free Cash Flow & Capital Returns

December 2024 Quarter

\$757M **25%** **\$650M** **\$227M**
Free Cash Flow FCF Margin Share Buyback Dividends Paid



Reportable Segment and End Markets (Systems and Services)

	Q2-FY25	Y/Y Growth	Q/Q Growth	Rev. %
Semiconductor Process Control	\$2,755M	↑ +26%	↑ +7%	90%
Specialty Semiconductor Process	\$160M	↑ +7%	↑ +25%	5%
PCB and Component Inspection	\$161M	↑ +13%	↑ +17%	5%

+ VALUATION AND PRICE TARGET

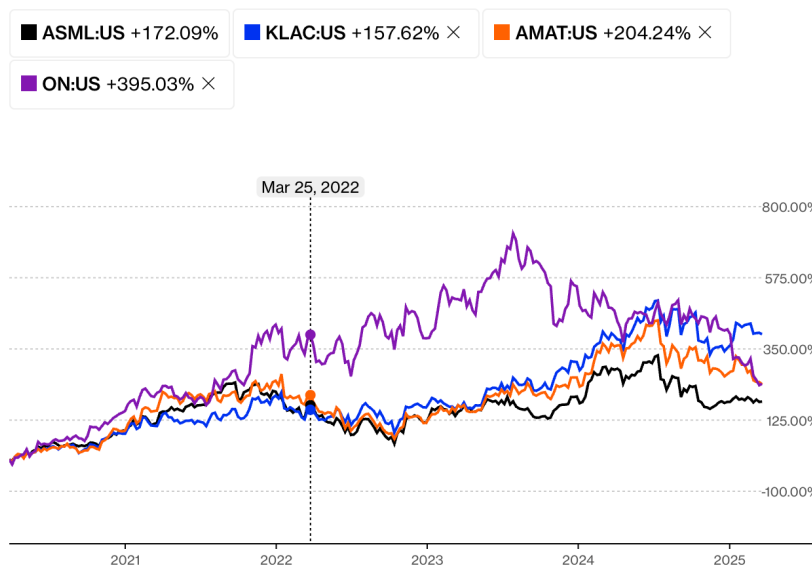
Below is the comparison of KLA's profitability ratio relative to the Industry, Sector and S&P 500 -

Margins	KLAC	Industry	Sector	S&P 500
Gross Margin	59.68%	61.6%	57.76%	46.43%
Operating Margin	31.05%	17.63%	24.21%	15.57%
Net Margin	29.58%	14.97%	19.2%	9.62%

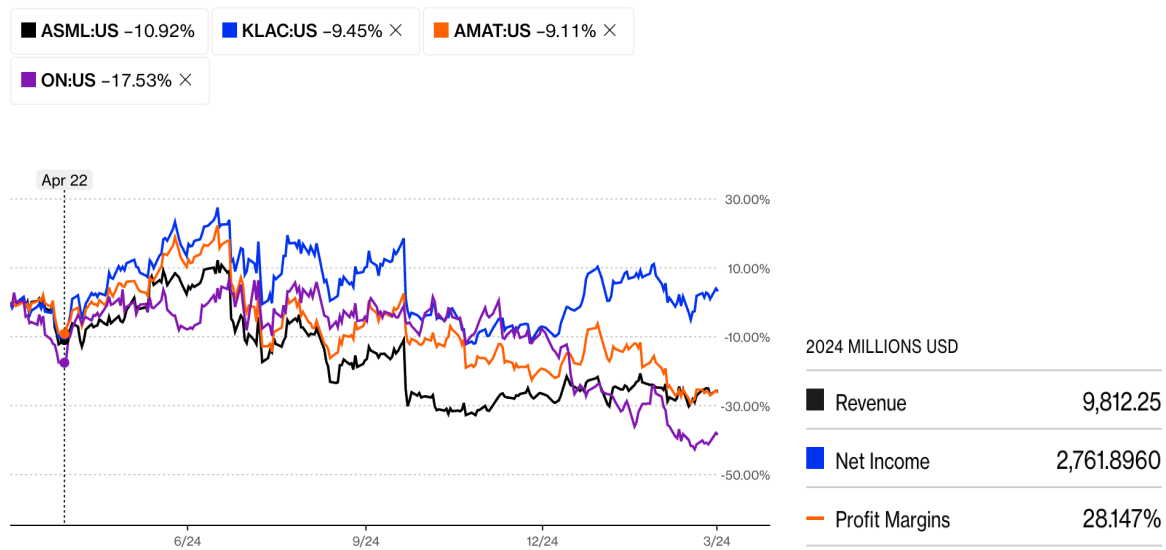
*Margin average for Q4 TTM

Below is the comparison of KLA with its major competitors –

Comparable	KLAC	ASML	AMAT	ASX (TSE)	ON
Revenue growth	12.15%	2.56%	4.34%	-	-14.19%
Net Income	3.21B	7.57 B	6.34B	-	1.57 B
Gross Profit Margin	59.68%	51.28%	47.73%	16.18%	45.41%
Operating M.	38.22%	31.92%	29.22%	6.96%	26.85%
EPS	27.46	21.22	8.90	5.49	3.95
P/E	30.62	31.79	17.26	21.43	11.47
P/B	26.99	12.05	6.70	2.16	2.18
P/S	8.93	9.39	4.57	1.17	2.73
Stock Price	\$ 721.85	\$ 726.74	\$ 154.84	\$ 9.76	\$ 45.31



The below chart shows the change in the stock price of ASML, KLAC, AMAT, & ON and it can be observed that the highest surge has been in the price of KLAC over the last 1 year. And if compared in the last 5 years the largest surge has been in the price of ON Semi however that stock price has been trading at a low price.



Appendix II contains the Discounted Cash Flow model and the related assumptions. Based on the DCF model, the implied value of the stock is \$ 365.29 which is at 49% on the downside compared to its current value. As per the sensitivity table (Appendix III) even in the best-case scenario the stock price should be priced at \$549.88. According to GF Value rank, the current valuation level of KLA appears to be very high. As of 25 March, 2025 the GF value rank for KLA is 3. A higher score indicates a stock with a relatively low valuation and substantial potential for outperformance. Conversely, a lower score often reflects stocks that are either highly overvalued or deeply undervalued, both of which tend to underperform.¹⁴ Based on this it can be interpreted that the KLA stock is highly overvalued. Furthermore, as noted before investors can loosely use the buyback yield, i.e. the repurchase of outstanding shares over the company's market cap; to determine the stock's valuation and in case the stock's historical buyback yield is historically high, the market may undervalue it. Opposite to that if the stock's buyback yield is lower than its historical. Mean, the market may overvalue it and in the case of KLA the company's buyback yield at the end of June 2024 is 1.88%, compared to its mean buyback yield of 2.42% over the last five years, which also suggests that the market has overvalued the stock.

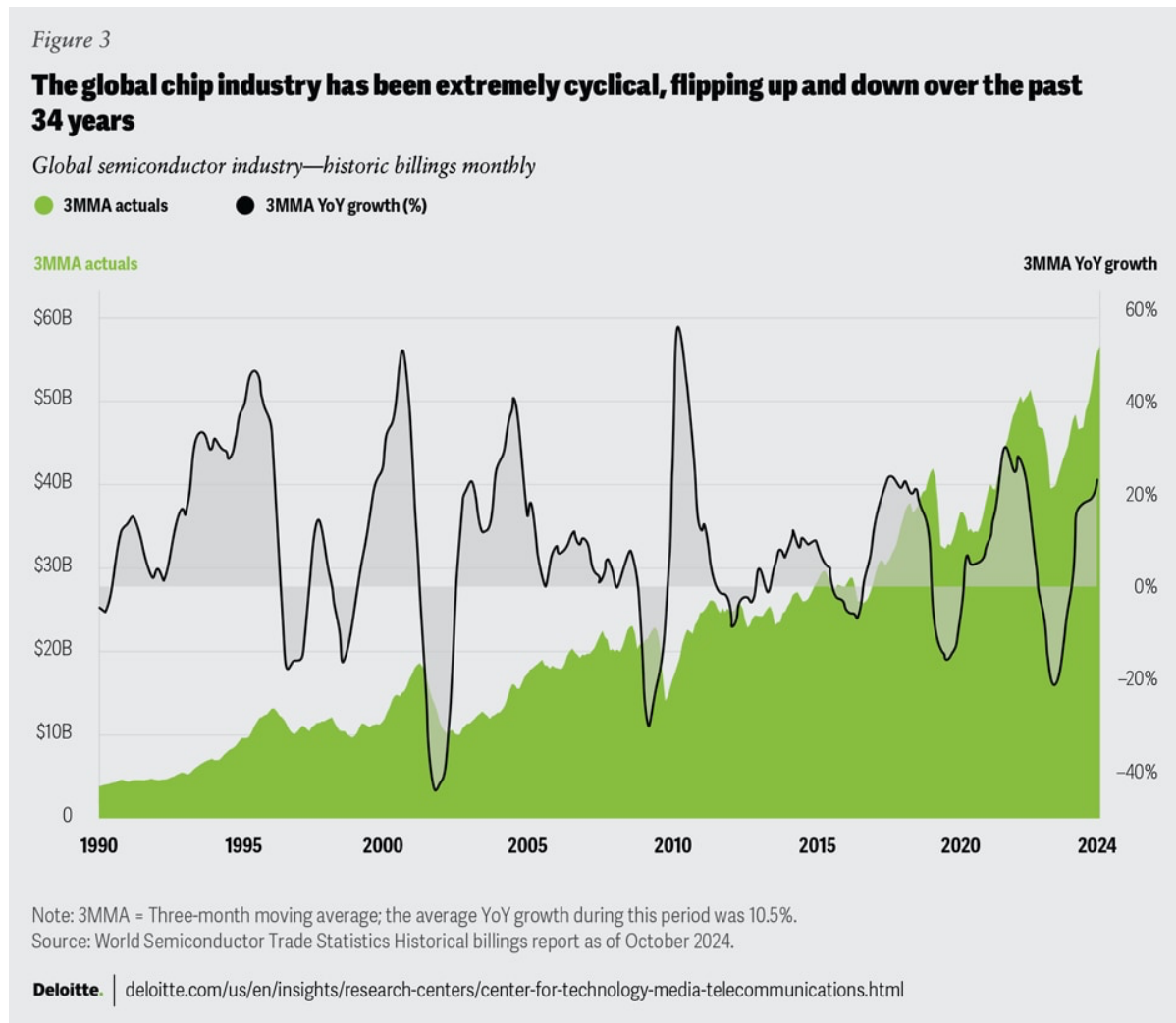
The target price was calculated with the discount rate of 10% and terminal growth rate of 5%. Based on the high-risk and low-risk scenario, the estimate of the cost of capital has been estimated to be between 7% to 13%. And as per the sensitivity analysis, the implied stock price for KLA ranges from \$268.78 to \$ 549.88

¹⁴ [Gurufocus Value Rank](#)

RISKS

Highly cyclical nature of Semiconductor Industry

It is worth noting that the chip industry is notoriously cyclical. The cyclicity of the industry makes it challenging to accurately predict the future revenue and the related future expenses. The industry has flipped from growth to shrinkage almost nine times in the last 34 years.



Risk related to international Operations, such as tariffs or similar trade impairments

KLA has a significant Chinese exposure which can pose to be a major risk. China accounts for almost 44% of KLA's revenue and Taiwan accounts for an additional 20%-25%. Any severe conflict between China and Taiwan can impact almost 64% to 69% of its revenue. Irrespective of that, the Chinese revenue is either way at risk due to the geopolitical tension and disagreements between Chinese and U.S. government.

CONCLUSION

KLA has been in an advantageous situation since last couple years and that as enabled the company to grow exponentially as well as the stock price to surge almost 4x its price in the last 5 years. Things only gets complicated because of the cyclonical nature of the industry in which the KLA operates in along with the dependency on China and Taiwan for earning majority of its revenue. For all these reasons and the analysis done before it can be suggested that the KLA stock is overvalued and in it will not be wise to expect similar growth in the stock price in the next 5 years at least. For these reasons I will personally hold the recommendation to “SELL” or “Short” the stock which is suggestive of being overvalued.

The changing macro-economic environment can seriously hamper the growth of a company like that of KLA because the impact of tariffs on China and the new regulatory compliances which may disrupt the sophisticated supply chain of the semiconductor industry. It is worth noting that as of late 2024, a key part of the export restrictions from the U.S. and allies is having an effect as the restrictions are posing a barrier and preventing the Chinese companies from making advanced-node chips at scale and with acceptable yields.

Further the reliance to make this recommendation is also placed on the DFC model in which the Implied share price is of \$ 365.39 against the current trading price of \$721.85, a downside of almost 49% from its current price. A brief analysis of KLA with its competitors also gives a mixed pictures where the competitor has an overall higher revenue and related ratios higher than that of KLA, however the stock price is not even close to what is the current stock price of KLA.

APPENDIX

Appendix I – Income Statement

KLAC	FY 2027 E	FY2026 E	FY2025 E	FY 2024	FY2023	FY2022	FY2021	FY2020
	13512.65	12356.79	11875.88					
Revenue	13479.68	12481.18	11774.70	9812.25	10496.06	9211.88	6918.73	5806.42
Cost of Revenue	5257.07	4867.66	4592.13	3928.07	4218.31	3592.44	2772.17	2449.56
Gross Profit	8222.60	7613.52	7182.57	6070.00	6467.00	5788.58	4304.79	3527.60
Operating expense								
Research and development	1617.56	1497.74	1412.96	1278.98	1296.72	1105.25	928.49	863.86
Selling, general and administrative	1213.17	1123.31	1059.72	969.50	986.32	860.00	729.60	734.15
Impairment of goodwill and purchased intangible assets				289.47	-	-	-	256.64
Loss on extinguishment of debt				-	13.28	-	-	22.53
Other expense (income), net	-134.80	-124.81	-117.75	-155.07	-104.72	4.60	-29.30	2.60
Total operating expenses	2695.94	2906.02	2692.65	2537.96	2283.05	1965.26	1658.09	1854.66
Operating income	5257.07	4867.66	4592.13	3896.62	3994.70	3898.51	2705.07	2295.21
Interest expense	336.99	312.03	294.37	311.25	296.94	160.33	157.33	160.27
Income before income taxes	4920.08	4555.63	4297.77	3190.03	3789.19	3489.23	2360.45	1316.71
Provision for income taxes	639.61	592.23	558.71	428.13	401.83	167.17	283.1	101.68
Net Income from Cont Ops	4280.47	3963.40	3739.06	2761.89	3387.35	3322.06	2077.35	1215.02
Less: Net Income attributable to non-controlling interest	67	62	59	0	74	253	-939	-1760
Net Income attributable to KLA	4213.07	3900.99	3680.18	2761.89	3387.27	3321.8	2078.29	1216.78
EPS								
Basic	32.27	29.88	28.19	20.41	24.28	22.07	13.49	7.76
Diluted	31.10	28.80	27.17	20.28	24.15	21.92	13.37	7.7
Consensus - GAAP	31.88	31.62	29.15					
Shares Outstanding								
Basic	130.55	130.55	130.55	135.35	139.48	150.49	154.08	156.79
Diluted	135.45	135.45	135.45	136.19	140.24	151.56	155.43	158
Revenue	8%	6%	20%	-6.51%	13.94%	33.14%	19.16%	
Expenses as % of Revenue								
Gross Margin	61%	61%	61%	61.86%	61.61%	62.84%	62.22%	60.75%
Research and development	12%	12%	12%	13.03%	12.35%	12.00%	13.42%	14.88%
Selling, general and administrative	9%	9%	9%	9.88%	9.40%	9.34%	10.55%	12.64%
Interest Expense	2.50%	2.50%	2.50%	3.17%	2.83%	1.74%	2.27%	2.76%
Other expense (income), net	-1%	-1%	-1%	-1.58%	-1.00%	0.05%	-0.42%	0.04%
Operating Margin	39.00%	39.00%	39.00%	39.71%	38.06%	42.32%	39.10%	39.53%
Net income attributable to non-controlling interests % of Revenue	0.50%	0.50%	0.50%	0.00%	0.71%	2.75%	-13.57%	-30.31%
Tax Rate	13%	13%	13%	13.42%	10.60%	4.79%	11.99%	7.72%

Appendix II – DCF Model

				Terminal Discount Rate			10.0%				
				Terminal FCF Growth			5.0%				
(In Millions)											
Year	2025 E	2026 E	2027 E	2028 E	2029 E	2030 E	2031 E	2032 E	2033 E	2034 E	2035 E
Revenue	11,774.70	12481.18	13,479.68	14,153.66	14,861.34	15,604.41	16,384.63	17,203.86	18,064.06	18,967.26	19,915.62
% Growth		6%	8%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Operating Income	4592.133	4867.66	5257.07	4953.78	5201.47	5461.54	5734.62	6021.35	6322.42	6638.54	6970.47
Operating Margin	39%	39%	39%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%
Interest Expense (Income)	294.37	312.03	336.99	345.35	362.62	380.75	399.78	419.77	440.76	462.80	485.94
Interest % of Sales	2.50%	2.50%	2.50%	2.44%	2.44%	2.44%	2.44%	2.44%	2.44%	2.44%	2.44%
Income before taxes	4297.77	4555.63	4920.08	4608.43	4838.85	5080.80	5334.84	5601.58	5881.66	6175.74	6484.53
Taxes	558.71	592.23	639.61	645.18	677.44	711.31	746.88	784.22	823.43	864.60	907.83
Tax Rate	13%	13%	13%	14%	14%	14%	14%	14%	14%	14%	14%
Net Income from Cont Ops	3739.06	3963.40	4280.47	3963.25	4161.41	4369.48	4587.96	4817.36	5058.22	5311.14	5576.69
Less: Net Income attributable to non-controlling interest	59	62	67	70.4	73.9	77.6	81.4	85.5	89.8	94.3	99.0
% of Revs	0.5%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Net Income	3680.18	3901.40	4213.47	3892.90	4087.55	4291.92	4506.52	4731.85	4968.44	5216.86	5477.70
% Growth		6%	8%	-8%	5%	5%	5%	5%	5%	5%	5%
Add Depreciation/Amort	176.62	187.22	202.20	212.30	222.92	234.07	245.77	258.06	270.96	284.51	298.73
% of Sales	1.5%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Plus/(minus) Changes WC	318.78	160.14	59.91	-212.30	-209.12	-205.98	-202.89	-199.85	-196.85	-193.90	-190.99
% of Sales	2.7%	1.3%	0.4%	-1.50%	-1.50%	-1.50%	-1.50%	-1.50%	-1.50%	-1.50%	-1.50%
Subtract Cap Ex	-353.24	-374.44	-404.39	-424.61	-445.84	-468.13	-491.54	-516.12	-541.92	-569.02	-597.47
Capex % of Sales	-3%	-3%	-3%	-3%	-3%	-3%	-3%	-3%	-3%	-3%	-3%
Free Cash Flow	3184.79	3554.05	3951.37	3892.90	4073.75	4263.84	4463.64	4673.64	4894.33	5126.25	5369.96
% Growth		11.6%	11.2%	-1.5%	4.6%	4.7%	4.7%	4.7%	4.7%	4.7%	4.8%
NPV of Cash Flows	26,801	55%									
NPV of Terminal Value	21,739	45%									
Projected Equity Value	48,540	100%									
Free Cash Flow Yield	3.3%										
Current P/E	26.06	24.59	22.76								
Projected P/E	23.49	22.72	19.61								
Current EV/EBITDA	20.40	19.25	17.82								
Projected EV/EBITDA	22.68	21.30	19.42								
Shares Outstanding	132.88										
Current Price	\$ 721.85										
Implied Equity Value/Share	\$ 365.29										
Upside/(Downside) to DCF	-49%										
Debt	5880										
Cash	4504										
Cash/Share	33.9										

Appendix III – Sensitivity Table

\$	365.29	7%	8%	9%	10%	11%	12%	13%
	3%	538.14	464.58	407.58	362.18	325.21	294.56	268.78
	4%	541.08	466.92	409.48	363.74	326.50	295.65	269.69
	5%	544.01	469.26	411.37	365.29	327.80	296.73	270.61
	6%	546.95	471.60	413.27	366.85	329.09	297.82	271.53
	7%	549.88	473.94	415.17	368.41	330.38	298.90	272.44

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