



KLA Corporation (KLAC)

Updated August 1st, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$756	5 Year CAGR Estimate:	1.9%	Market Cap:	\$102B
Fair Value Price:	\$538	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	08/22/24 ¹
% Fair Value:	140%	5 Year Valuation Multiple Estimate:	-6.6%	Dividend Payment Date:	08/28/24 ²
Dividend Yield:	0.8%	5 Year Price Target	\$791	Years Of Dividend Growth:	14
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating:	Sell

Overview & Current Events

KLA Corporation is a supplier to the semiconductor industry. The company supplies process control and yield management systems for semiconductor producers such as TSMC, Samsung and Micron. KLA was created in 1997, through a merger between KLA Instruments and Tencor Instruments, and has grown through a range of acquisitions since then. The company is headquartered in Milpitas, CA.

KLA Corporation reported its fourth quarter (fiscal 2024) earnings results on July 24. The company reported revenues of \$2.57 billion for the quarter, which represents an increase of 9% compared to the prior year's quarter. This revenue increase was stronger than what the analyst community had expected, as KLA's top line beat the analyst consensus by \$60 million. KLA's revenue increase can be explained by the fact that some of the semiconductor companies that are among KLA's customers have been investing more in new manufacturing capacity in the recent past.

KLA generated earnings-per-share of \$6.60 during its fiscal fourth quarter, which beat estimates by \$0.50, and which was up 22% compared to the previous year's quarter. In fiscal 2024, KLA generated earnings-per-share of \$23.76, and it is expected that the company will earn almost \$30 per share this year, in 2025.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$2.98	\$4.66	\$5.94	\$7.50	\$8.46	\$10.35	\$14.55	\$21.17	\$25.33	\$23.76	\$29.90	\$43.93
DPS	\$2.00	\$2.08	\$2.14	\$2.52	\$3.00	\$3.40	\$3.75	\$4.20	\$5.20	\$5.80	\$5.80	\$9.34
Shares³	158	156	157	156	156	156	155	149	138	136	135	125

KLA grew its earnings-per-share by ~20% annually between 2010 and 2021, although growth has been quite uneven. During 2009 the company reported net losses, and it has reported year-over-year earnings declines several times since then. Growth has seemingly stabilized during the last couple of years. From 2015 to 2019 the company reported strong results, and during fiscal 2020 the company hit new record profits.

KLA Corporation's earnings-per-share growth has historically come from a mix of revenue growth, margin improvements, and share repurchases. The revenue growth outlook remains strong, as KLA has been able to grow its sales considerably during the last couple of quarters. The majority of KLA's revenues come from product sales, but service revenues are becoming increasingly important. This is a positive in the long run, as a higher rate of recurring service revenues should help KLA's top line become less cyclical.

The semiconductor industry profits from massive tailwinds such as the Internet of Things, big data, autonomous driving, and cloud computing. These trends drive demand for chips, which means that companies such as Samsung and TSMC are increasing capacity to be able to meet demand, which fuels their demand for KLA's products. Global memory markets recovering from a period of low prices helps KLA. KLA has also made several acquisitions in the past, which have added to its growth, such as the \$3.4 billion takeover of Orbotech.

¹ Estimated date

² Estimated date

³ In Millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	22.8	13.6	14.1	13.6	14.4	18.7	22.1	15.2	19.1	34.8	25.3	18.0
Avg. Yld.	2.9%	3.3%	2.5%	2.9%	2.5%	1.8%	1.2%	1.3%	1.1%	0.7%	0.8%	1.2%

KLA currently trades at around 25 times net earnings, based on estimates for the current fiscal year, which is substantially higher than our fair value estimate. We believe that shares have significant downside potential towards a price to earnings multiple of around 18, which would be more in-line with how KLA Corporation was valued in the past.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	67.1%	44.6%	36.0%	33.6%	35.5%	32.9%	25.8%	19.8%	20.5%	24.4%	19.4%	21.3%

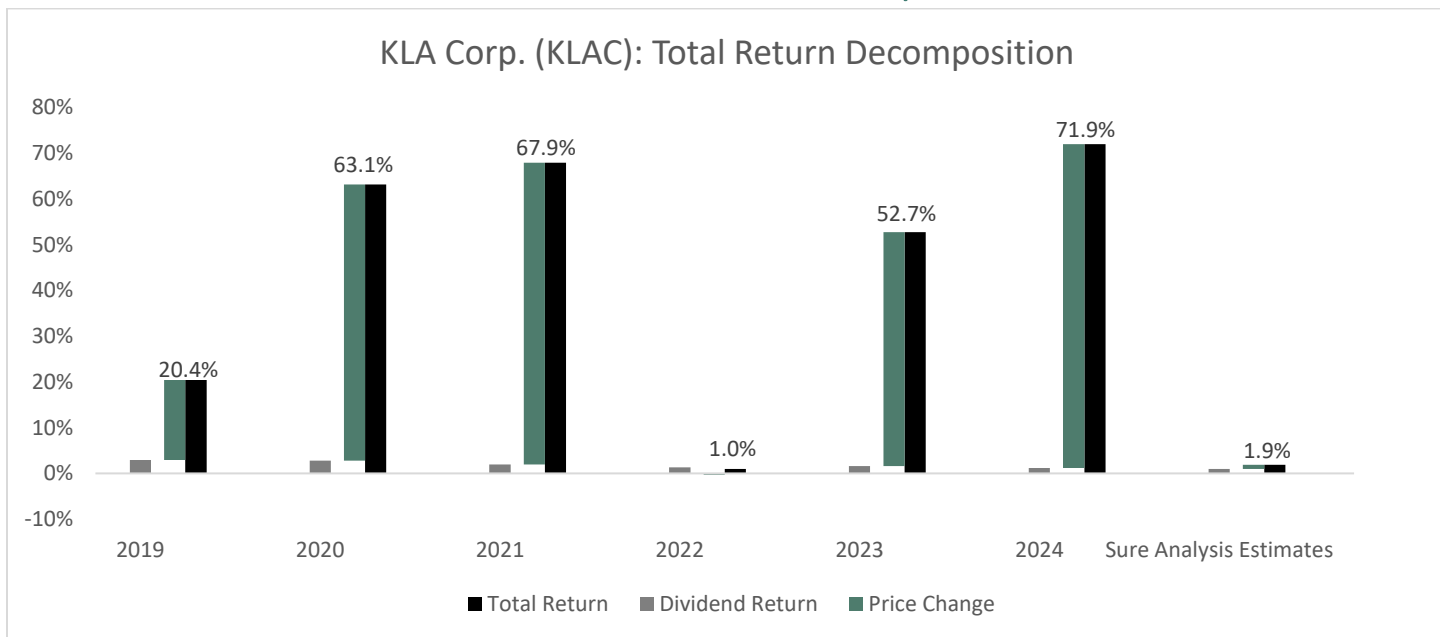
KLA did not raise its dividend during the last financial crisis, but since then the dividend has been raised very consistently. KLA was not profitable during 2009, but the company chose to maintain its dividend nevertheless. The payout ratio looks highly sustainable, although the cyclical nature in KLA's earnings could make the payout ratio rise substantially during another global economic downturn that hurts chip markets massively.

KLA is a key supplier to the largest semiconductor companies, and therefore a relevant part of this large industry that is extremely important to our modern way of life. KLA is the market leader in the process control sector. Its scale and size give it advantages over competitors when it comes to receiving big contracts, and through better economies of scale, KLA also has the ability to achieve higher margins than smaller peers. KLA's business is cyclical, as lower spending by semiconductor manufacturers during market downturns hurts KLA.

Final Thoughts & Recommendation

As an important supplier to the global semiconductor industry, KLA benefits from megatrends that increase worldwide demand for chips, such as Artificial Intelligence. KLA should be able to capitalize on these trends by growing its earnings-per-share meaningfully in the future. Because shares trade well above fair value, the total return outlook is unfortunately far from strong today. We rate KLA Corporation a sell at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,929	2,814	2,984	3,480	4,037	4,569	5,806	6,919	9,212	10,496
Gross Profit	1,696	1,599	1,821	2,194	2,591	2,700	3,357	4,147	5,619	6,278
Gross Margin	57.9%	56.8%	61.0%	63.0%	64.2%	59.1%	57.8%	59.9%	61.0%	59.8%
SG&A Exp.	385	407	379	388	442	599	734	730	860	986
D&A Exp.	83	81	67	58	63	233	348	333	363	415
Operating Profit	772	661	960	1,279	1,540	1,389	1,759	2,488	3,654	3,995
Operating Margin	26.4%	23.5%	32.2%	36.7%	38.1%	30.4%	30.3%	36.0%	39.7%	38.1%
Net Profit	583	366	704	926	802	1,176	1,217	2,078	3,322	3,387
Net Margin	19.9%	13.0%	23.6%	26.6%	19.9%	25.7%	21.0%	30.0%	36.1%	32.3%
Free Cash Flow	711	560	728	1,041	1,162	1,022	1,626	1,953	3,005	3,328
Income Tax	152	68	154	247	654	121	102	283	167	402

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	5,536	4,826	4,962	5,532	5,639	9,009	9,280	10,271	12,597	14,072
Cash & Equivalents	631	838	1,108	1,153	1,404	1,016	1,234	1,435	1,585	1,928
Accounts Receivable	493	585	613	571	652	990	1,107	1,305	1,812	1,753
Inventories	656	618	699	733	932	1,263	1,311	1,575	2,147	2,877
Goodwill & Int. Ass.	363	347	340	368	374	3,773	3,437	3,196	3,514	3,214
Total Liabilities	1,867	4,405	4,273	4,206	4,018	6,331	6,599	6,895	11,198	11,153
Accounts Payable	103	103	107	147	169	202	264	342	443	371
Long-Term Debt	745	3,190	3,058	2,930	2,237	3,423	3,470	3,443	6,661	5,891
Shareholder's Equity	3,669	421	689	1,326	1,621	2,659	2,665	3,378	1,401	2,920
LTD/E Ratio	0.20	7.57	4.44	2.21	1.38	1.29	1.30	1.02	4.75	2.02

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	10.8%	7.1%	14.4%	17.6%	14.4%	16.1%	13.3%	21.3%	29.1%	25.4%
Return on Equity	16.3%	17.9%	127%	91.9%	54.4%	54.9%	45.7%	68.8%	139%	157%
ROIC	13.5%	9.1%	19.1%	23.1%	19.8%	23.6%	19.9%	32.0%	44.7%	40.2%
Shares Outstanding	165	158	156	157	156	156	156	155	149	138
Revenue Per Share	17.42	17.19	19.04	22.10	25.65	29.11	36.75	44.51	60.78	74.85
FCF Per Share	4.23	3.42	4.64	6.61	7.38	6.51	10.29	12.57	19.83	23.73

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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