

KLA Corporation (KLAC)

Constructive on the business but more selective on the stock

FQ1 2027 Earnings Review
Period ended 2026-09-30
Reported 2026-10-28

1 | KEY RESULTS VS. CONSENSUS

Metric	Reported	Consensus	vs. Cons.
Revenue	\$4.136 billion	\$4.04 billion	+2.4%
Diluted EPS (adjusted)	\$1.22	\$1.05	+16.2%
SEGMENT REVENUE			
Semiconductor Process Control	\$3.754 billion	-	-
Specialty Semiconductor Process	\$139.5 million	-	-
PCB and Component Inspection	\$242.2 million	-	-

Diluted EPS (adjusted) comparison is the prior quarter's reported \$1.05; the results notice supplied no consensus EPS estimate.

2 | GUIDANCE AND OUTLOOK

December guidance: \$4.7 billion of revenue, plus or minus \$200 million; adjusted EPS of \$1.44, plus or minus \$0.11. Expected 2H 2026 revenue growth over 1H rose to approximately 25% from 20%. Reaffirmed calendar 2026 advanced packaging systems revenue: approximately \$1.1 billion. December's implied adjusted operating margin is approximately 47.4%, despite a 20-basis-point gross-margin decline. Recovery toward the 63% to 64% gross-margin model is positioned for middle-to-late 2027 and into 2028. Annual capital spending: approximately \$600 million to \$800 million.

3 | EARNINGS ANALYSIS

EQUIPMENT DROVE THE BEAT. Revenue beat consensus by 2.4% but remained within the prior guidance range. Product revenue of \$3.285 billion beat its \$3.19 billion consensus by approximately 3.0%; services beat by 0.8%. Products contributed approximately 94% of sequential growth, and Semiconductor Process Control generated more than the entire sequential increase as Specialty Semiconductor Process declined. China accounted for approximately 95% of consolidated sequential growth, while revenue outside China was approximately flat. Management expects China's December revenue share to decline toward 27% to 29%, so December requires a substantial acceleration outside China.

CLEAN EARNINGS, WEAKER CASH. The operating beat was principally volume-driven. Of the approximately \$95 million of operating outperformance, roughly \$85 million came from additional revenue at the guided gross margin, approximately \$8 million from gross-margin outperformance, and approximately \$2 million from lower operating expenses. Tax help was little and net other expense ran higher than planned. Record free cash flow of \$1.336 billion converted 83.4% of adjusted net income but missed the \$1.73 billion consensus by 22.8%; capital spending explained about 24% of that shortfall. Inventory absorbed approximately \$434 million and receivables approximately \$179 million.

LEVERAGE OUTRUNS GROSS MARGIN. Adjusted operating margin reached a record 46.1% while gross margin was 62.7%: revenue grew 13.1% sequentially against operating-expense growth below 1%. Incremental operating margins exceeded the long-term 40% to 50% framework, but that favorable shipment-to-expense relationship should not be extrapolated indefinitely. Memory input inflation constrains gross margin, and existing backlog cannot readily be repriced; engineering savings and value-based pricing recover costs gradually, and advanced packaging exposure can dilute gross margin even as dollar profits grow.

LIQUIDITY SUPPORTS A QUALIFIED OUTLOOK. Cash and marketable securities of approximately \$4.74 billion compare with approximately \$5.95 billion of bond principal, with no near-term refinancing constraint. Shareholder returns of approximately \$1.24 billion were approximately 93% of free cash flow, before approximately \$239 million of equity-award withholding payments. Specialized optical components and customer cleanroom and power readiness constrain revenue conversion. Management's expectation to outgrow the 2027 equipment market is not formal consolidated revenue guidance.

BACKLOG IS NOT GUARANTEED REVENUE. Further backlog growth came without a new balance, cancellation profile or recognition schedule. Sales-funnel visibility is not contracted backlog, and backlog is not guaranteed revenue.

4 | KEY READ-THROUGHS

MEMORY PRICING STRENGTH EXTENDS BEYOND HBM
Micron (MU), SK hynix (000660) | Positive | High fundamental significance
Persistent memory costs in KLA's image-processing systems provide buyer-side evidence that pricing strength extends beyond HBM; elevated realized prices support memory manufacturers' revenue and gross profit. Approximately 12-month equipment lead times and delayed customer facilities postpone additional saleable supply. This corroborates producers' earlier disclosures rather than creating a new catalyst; KLA identified no memory vendor. Micron had already described constrained supply through 2027 and 2028.

GREENFIELD DRAM SPENDING SUPPORTS A BROADER EQUIPMENT CYCLE
Lam (LRCX), Applied Materials (AMAT), ASML (ASML) | Positive | High significance
A wafer equipment market exceeding \$200 billion in 2027 and greenfield DRAM investment support deposition, etch and lithography demand; greenfield fabs require broader installations than line upgrades. KLA confirms an existing industry upgrade rather than introducing a new spending threshold. Suppliers do not automatically inherit KLA's expected outperformance, which also reflects inspection intensity and recovery of supply-constrained shipments. Applied's November 12 outlook is the clearest forthcoming catalyst.

INSPECTION SPENDING CAN OUTGROW PACKAGING OUTPUT
Camtek (CAMT), Onto Innovation (ONTO) | Positive | High significance
KLA's advanced packaging process control growth above 70%, nearly 2x market growth, supports a larger inspection budget per package: more control locations and demanding sensitivity requirements increase equipment content. Camtek and Onto have verified exposure through Hawk and Dragonfly G5. The forecast was established in July, and KLA's growth cannot transfer directly to specialists with different applications. Camtek reports November 4; Onto reports November 9.

KLA'S HIGHER-END PACKAGING ADOPTION CHALLENGES THE VALUATION CASE FOR PROTECTED SPECIALIST MARKETS
Camtek (CAMT), Onto Innovation (ONTO) | Negative | Moderate and potentially material over time
Laser scanning and selected Gen4 adoption let KLA reuse front-end R&D in higher-value packaging applications, increasing competition for incremental business and constraining protected-pricing assumptions. Approximately 100-nanometer KLA requirements are not directly comparable with specialists' approximately 150-nanometer capabilities. No current revenue loss or quantified earnings reduction is established; the risk concerns future platform selections. Specialists retain differentiated throughput, measurement functions and target applications.