MKS Instruments, Inc.
Third Quarter 2020 Financial Results
October 28, 2020

Safe Harbor for Forward-Looking Statements

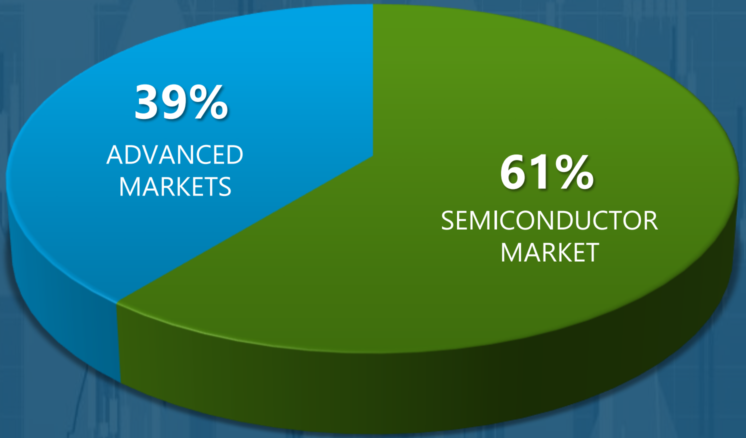
This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and 21E of the Securities Exchange Act of 1934 regarding the future financial performance, business prospects and growth of MKS Instruments, Inc. (“MKS” or the “Company”). These statements are only predictions based on current assumptions and expectations. Any statements that are not statements of historical fact (including statements containing the words “will,” “projects,” “intends,” “believes,” “plans,” “anticipates,” “expects,” “estimates,” “forecasts,” “continues” and similar expressions) should be considered to be forward-looking statements. Actual events or results may differ materially from those in the forward-looking statements set forth herein. Among the important factors that could cause actual events to differ materially from those in the forward-looking statements are the conditions affecting the markets in which MKS operates, including the fluctuations in capital spending in the semiconductor industry and other advanced manufacturing markets, fluctuations in sales to our major customers, the impact of the COVID-19 pandemic on the global economy and financial markets, including any restrictions on MKS’ operations and the operations of MKS’ customers and suppliers resulting from public health requirements and government mandates, the terms of our term loan, competition from larger or more established companies in MKS’ markets, MKS’ ability to successfully grow our business and particularly that of Electro Scientific Industries, Inc.’s business, the challenges, risks and costs involved with integrating the operations of the companies we have acquired, potential fluctuations in quarterly results, dependence on new product development, rapid technological and market change, acquisition strategy, manufacturing and sourcing risks, volatility of stock price, international operations, financial risk management, and the other factors described in MKS’ most recent Annual Report on Form 10-K for the year ended December 31, 2019 and any subsequent Quarterly Reports on Form 10-Q, as filed with the SEC. MKS is under no obligation to, and expressly disclaims any obligation to, update or alter these forward-looking statements, whether as a result of new information, future events or otherwise after the date of this presentation.

Use of Non-GAAP Financial Measures

This presentation includes financial measures that are not in accordance with U.S. generally accepted accounting principles ("Non-GAAP financial measures"). These Non-GAAP financial measures should be viewed in addition to, and not as a substitute for, MKS' reported GAAP results, and may be different from Non-GAAP financial measures used by other companies. In addition, these Non-GAAP financial measures are not based on any comprehensive set of accounting rules or principles. MKS management believes the presentation of these Non-GAAP financial measures is useful to investors for comparing prior periods and analyzing ongoing business trends and operating results. Please see the Appendix entitled "GAAP to Non-GAAP Reconciliations" at the end of this presentation for reconciliations of our Non-GAAP financial measures to the comparable GAAP financial measures.

Q3’20 Results

	Q2’20	Q3’20
REVENUE	$544M	$590M
NON-GAAP EPS	$1.62	$1.93
GAAP EPS	$1.33	$1.66



Q3'20 Market Highlights

Semiconductor Market

REVENUE	$359M
Q/Q GROWTH	+12%

- Record revenue in Power Solutions business, which has grown more than 110% Y/Y for the first three quarters of 2020
- Several large orders for Remote Plasma Sources for ALD and PECVD applications
- Several additional design wins in our "World Class Optics" initiative

Advanced Markets

REVENUE	$231M
Q/Q GROWTH	+4%

- Sequential growth in Research & Defense and Life & Health Sciences markets offset seasonal decline in Flex PCB drilling applications
- Revenue from Research market grew more than 30% Q/Q led by university reopenings across North America and EMEA.
- First multi-unit order for our HDI PCB via drilling tool.

Drivers of Precision Laser Processing in Advanced Electronics

- Expansion of devices that require precision laser processing
- Increase in the number of electronic components per device
- Expansion in the types of laser-based processes being deployed for precision manufacturing

Revenue & Select Financial Measures

	Q3'19	Q2'20	Q3'20
Advanced Markets	$239M	$223M	$231M
Semiconductor Market	$223M	$321M	$359M
Revenue	**$462M**	**$544M**	**$590M**
Non-GAAP Financial Measures			
Gross Margin	44.3%	45.3%	45.1%
Operating Margin	17.6%	21.6%	23.1%
Interest Expense, Net	$9M	$7M	$6M
Income Tax Rate	15.6%	18.5%	17.0%
Net Earnings	$62M	$89M	$107M
Net Earnings per Diluted Share	$1.12	$1.62	$1.93
GAAP Financial Measures			
Gross Margin	44.3%	45.3%	44.4%
Operating Margin	14.4%	18.5%	19.7%
Interest Expense, Net	$12M	$7M	$7M
Income Tax Rate	14.4%	20.2%	15.7%
Net Income	$47M	$74M	$92M
Net Income per Diluted Share	$0.86	$1.33	$1.66

Q3'20 Summary

- Record revenue +8% Q/Q, +28% Y/Y, above the high end of guidance
  - Record Semiconductor Market revenue +12% Q/Q
  - Advanced Markets revenue +4% Q/Q
- Non-GAAP Gross Margin slightly below the midpoint of our guidance
- Non-GAAP Operating Margin +150 bps Q/Q and +550 bps Y/Y
- Income tax rate reflected lower U.S. mix of taxable income
- Non-GAAP EPS of $1.93, +19% Q/Q, +72% Y/Y

Balance Sheet & Cash Flow

	Q3'19	Q2'20	Q3'20
Cash & Short-Term Investments	$475M	$607M	$716M
Accounts Receivable	$328M	$381M	$364M
Inventories	$463M	$490M	$494M
Total Current Assets	$1,360	$1,570M	$1,670M
Total Assets	$3,355	$3,631M	$3,751M
Term Loan Principal	$895M	$838M	$836M
Total Liabilities	$1,381	$1,504M	$1,524M
Stockholders' Equity	$1,974	$2,127M	$2,227M
Operating Cash Flow	$61M	$139M	$152M
Free Cash Flow	$44M	$118M	$123M

- Exited Q3'20 with $716M of cash and short-term investments
- Net leverage ratio of 0.2x at the end of Q3'20
- Issued cash dividend in Q3'20 of $11M or $0.20 per share
- Generated record operating and free cash flow in Q3'20 and Q2'20

Q4'20 Guidance

	Q3'20	Q4'20
Revenue	$590M	$600M +/- $25M
Non-GAAP Financial Measures		
Gross Margin	45.1%	45.5% +/- 100 bps
Operating Expenses	$129M	$133M +/- $4M
Operating Income	$136M	$140M +/- $13M
Operating Margin	23.1%	23.3% +/- 130 bps
Interest Expense, Net	$6M	$6M
Tax Rate	17.0%	17.0%
Net Earnings	$107M	$111M +/- $11M
Net Earnings per Diluted Share	$1.93	$2.00 +/- $0.20
Diluted Share Count	55.4M	55.4M

- Semiconductor Market demand expected to remain strong
- Advanced Markets demand expected to remain consistent with Q3'20
- Non-GAAP gross margin reflects anticipated product mix and revenue levels
- Non-GAAP tax rate reflects projected geographic mix of income

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Q&A

Appendix – GAAP to Non-GAAP Reconciliations

	Q3'19	Q2'20	Q3'20
Gross profit	$ 205.0	$ 246.3	$ 262.0
COVID-19 related net costs (Note 1)	—	0.3	—
Inventory charge related to exit of product groups (Note 2)	—	—	3.9
Non-GAAP gross profit (Note 12)	$ 205.0	$ 246.6	$ 265.9
Non-GAAP gross margin (Note 12)	44.3%	45.3%	45.1%
Operating expenses	$ 138.2	$ 145.5	$ 145.6
COVID-19 related net credits (Note 1)	—	(1.2)	—
Acquisition and integration costs (Note 3)	2.1	0.7	0.5
Restructuring and other (Note 5)	1.5	3.3	3.1
Amortization of intangible assets	17.0	13.8	12.5
Fees and expenses related to repricing of Term Loan (Note 6)	0.6	—	—
Gain on sale of long-lived assets (Note 7)	(6.8)	—	—
Non-GAAP operating expenses (Note 13)	$ 123.8	$ 127.7	$ 129.5
Income from operations	$ 66.8	$ 100.8	$ 116.4
COVID-19 related net credits (Note 1)	—	(0.9)	—
Inventory charge related to exit of product groups (Note 2)	—	—	3.9
Acquisition and integration costs (Note 3)	2.1	0.7	0.5
Restructuring and other (Note 5)	1.5	3.3	3.1
Amortization of intangible assets	17.0	13.8	12.5
Fees and expenses related to repricing of Term Loan (Note 6)	0.6	—	—
Gain on sale of long-lived assets (Note 7)	(6.8)	—	—
Non-GAAP income from operations (Note 14)	$ 81.2	$ 117.7	$ 136.4
Non-GAAP operating margin (Note 14)	17.6%	21.6%	23.1%

	Q3'19	Q2'20	Q3'20
Interest expense, net	$ 12.3	$ 6.9	$ 6.5
Amortization of debt issuance costs (Note 4)	3.1	0.2	0.2
Non-GAAP interest expense, net	$ 9.2	$ 6.7	$ 6.3
Net income	$ 47.4	$ 73.7	$ 91.7
COVID-19 related net costs and credits (Note 1)	—	(0.9)	—
Inventory charge related to exit of product groups (Note 2)	—	—	3.9
Acquisition and integration costs (Note 3)	2.1	0.7	0.5
Amortization of debt issuance costs (Note 4)	3.1	0.2	0.2
Restructuring and other (Note 5)	1.5	3.3	3.1
Amortization of intangible assets	17.0	13.8	12.5
Fees and expenses related to repricing of Term Loan (Note 6)	0.6	—	—
Gain on sale of long-lived assets (Note 7)	(6.8)	—	—
Windfall tax benefit on stock-based compensation (Note 8)	0.3	(1.4)	(0.2)
Deferred tax asset write-off (Note 9)	—	3.5	—
Tax reform adjustments (Note 10)	0.1	—	—
Tax effect of non-GAAP adjustments (Note 15)	(3.7)	(3.6)	(4.7)
Non-GAAP net earnings (Note 11)	$ 61.6	$ 89.3	$ 107.0
Non-GAAP net earnings per diluted share (Note 11)	$ 1.12	$ 1.62	$ 1.93
Diluted share count	55.2	55.3	55.4

Dollar amounts and diluted share count in millions.

Appendix – GAAP to Non-GAAP Reconciliations

	Q3'19			Q3'20		
	Pre-Tax Income	Provision (benefit) for Income Taxes	Tax Rate	Pre-Tax Income	Provision (benefit) for Income Taxes	Tax Rate
GAAP	$ 55.4	$ 8.0	14.4%	$ 108.8	$ 17.1	15.7%
Inventory charge related to exit of product groups (Note 2)	—	—		3.9	—	
Acquisition and integration costs (Note 3)	2.1	—		0.5	—	
Amortization of debt issuance costs (Note 4)	3.1	—		0.2	—	
Restructuring and other (Note 5)	1.5	—		3.1	—	
Amortization of intangible assets	17.0	—		12.5	—	
Fees and expenses related to repricing of Term Loan (Note 6)	0.6	—		—	—	
Gain on sale of long-lived assets (Note 7)	(6.8)	—		—	—	
Windfall tax benefit on stock-based compensation (Note 8)	—	(0.3)		—	0.2	
Tax reform adjustments (Note 10)	—	(0.1)		—	—	
Tax effect of non-GAAP adjustments (Note 15)	—	3.7		—	4.7	
Non-GAAP	$ 72.9	$ 11.3	15.6%	$ 129.0	$ 22.0	17.0%

	Q2'20		
	Pre-Tax Income	Provision (benefit) for Income Taxes	Tax Rate
GAAP	$ 92.4	$ 18.7	20.2%
COVID-19 related net credits (Note 1)	(0.9)	—	
Acquisition and integration costs (Note 3)	0.7	—	
Amortization of debt issuance costs (Note 4)	0.2	—	
Restructuring and other (Note 5)	3.3	—	
Amortization of intangible assets	13.8	—	
Windfall tax benefit on stock-based compensation (Note 8)	—	1.4	
Deferred tax asset write-off (Note 9)	—	(3.5)	
Tax effect of non-GAAP adjustments (Note 15)	—	3.6	
Non-GAAP	$ 109.5	$ 20.2	18.5%

Dollar amounts in millions.

Appendix – GAAP to Non-GAAP Reconciliations

	Q3'19	Q2'20	Q3'20
Net cash provided by operating activities	$ 60.7	$ 139.0	$ 152.1
Purchases of property, plant and equipment	(16.5)	(20.9)	(29.0)
Free cash flow	$ 44.2	$ 118.1	$ 123.1

	Q4'20 Guidance	
	Amount	Plus or Minus
GAAP operating expenses	$ 149.6	$ 4.0
Acquisition and integration costs	(0.5)	—
Restructuring and other	(3.5)	—
Amortization of intangible assets	(12.6)	—
Non-GAAP operating expenses	$ 133.0	$ 4.0

	Amount	Plus or Minus	Percentage	Plus or Minus
GAAP operating income and margin	$ 123.3	$ 13.3	20.5%	1.3%
Acquisition and integration costs	0.5	—	0.1%	—
Restructuring and other	3.5	—	0.6%	—
Amortization of intangible assets	12.6	—	2.1%	—
Non-GAAP operating income and margin	$ 139.9	$ 13.3	23.3%	1.3%

GAAP interest expense, net	$ 6.2
Deferred financing cost	(0.2)
Non-GAAP interest expense, net	$ 6.0

	Q4'20 Guidance			
	Amount	Plus or Minus	Per Share	Plus or Minus
GAAP net income and net income per diluted share	$ 97.1	$ 11.1	$ 1.75	$ 0.20
Amortization of intangible assets	12.6	—	0.23	—
Deferred financing cost	0.2	—	—	—
Acquisition and integration costs	0.5	—	0.01	—
Restructuring and other costs	3.5	—	0.06	—
Tax effect of non-GAAP adjustments (Note 15)	(2.9)	—	(0.05)	—
Non-GAAP net earnings and net earnings per diluted share	$ 111.0	$ 11.1	$ 2.00	$ 0.20
Diluted share count				55.4

Dollar amounts and diluted share count in millions.

Appendix – GAAP to Non-GAAP Reconciliations

Non-GAAP financial measures adjust GAAP financial measures for the items listed below. These Non-GAAP financial measures should be viewed in addition to, and not as a substitute for, MKS' reported GAAP results, and may be different from Non-GAAP financial measures used by other companies. In addition, these Non-GAAP financial measures are not based on any comprehensive set of accounting rules or principles. MKS management believes the presentation of these Non-GAAP financial measures is useful to investors for comparing prior periods and analyzing ongoing business trends and operating results.

Note 1: We recorded COVID-19 related costs and credits that were direct, incremental and not expected to recur. The amounts consisted of payroll-tax credits for maintaining our workforce during the pandemic, offset by shift premiums and bonuses.

Note 2: We recorded an inventory charge related to the exit of certain product groups.

Note 3: Acquisition and integration costs were primarily related to our acquisition of Electro Scientific Industries, Inc., which closed on February 1, 2019.

Note 4: We recorded additional interest expense related to the amortization of debt issuance costs related to our Term Loan Credit Agreement and our ABL Credit Agreement.

Note 5: Restructuring and other costs during the three months ended September 30, 2020 and June 30, 2020, included duplicate facility costs attributed to entering into new facility leases, costs related to the exit of certain product line and costs related to the pending closure of a facility in Europe. Restructuring and other costs recorded during the three months ended September 30, 2019 consisted primarily of severance costs related to an organization-wide reduction in workforce, the consolidation of service functions in Asia and the movement of certain products to low cost regions.

Note 6: We recorded fees and expenses during the three months ended September 30, 2019 related to Amendment No. 6 to our Term Loan Credit Agreement.

Note 7: During the three months ended September 30, 2019, we recorded a net gain on the sale of two of our buildings in Boulder, CO and three of our buildings in Portland, OR.

Note 8: We recorded windfall tax benefits on the vesting of stock-based compensation.

Note 9: We recorded a write-off of a deferred tax asset related to foreign net operating losses.

Note 10: We recorded tax adjustments during the three months ended June 30, 2019 resulting from additional guidance provided by tax authorities with respect to the 2017 U.S. tax reforms.

Note 11: Non-GAAP net earnings and Non-GAAP net earnings per diluted share amounts exclude net credits related to the COVID-19 pandemic, an inventory charge related to the exit of certain product groups, acquisition and integration costs, amortization of debt issuance costs, restructuring and other costs, amortization of intangible assets, fees and expenses related to repricings of, and amendments to, our Term Loan Credit Agreement, a gain on the sale of long-lived assets, windfall tax adjustments related to stock compensation expense, a deferred tax write-off, tax reform adjustments and the related tax effect of these adjustments to reflect the expected full year effective tax rate in the related period.

Note 12: The Non-GAAP gross profit amount and Non-GAAP gross margin percentages exclude net costs related to the COVID-19 pandemic and an inventory charge related to the exit of certain product lines.

Note 13: Non-GAAP operating expenses exclude acquisition and integration costs, restructuring and other costs, amortization of intangible assets, net credits related to the COVID-19 pandemic, fees and expenses related to repricings of our Term Loan Credit Agreement and a gain on the sale of long-lived assets.

Note 14: Non-GAAP income from operations and Non-GAAP operating margin percentages exclude net credits related to the COVID-19 pandemic, an inventory charge related to the exit of certain product groups, acquisition and integration costs, restructuring and other costs, amortization of intangible assets, fees and expenses related to repricings of our Term Loan Credit Agreement and a gain on the sale of long-lived assets.

Note 15: Non-GAAP adjustments are tax effected at applicable statutory rates resulting in a difference between the GAAP and Non-GAAP tax rates. For the three months ending December 31, 2020, we forecast a GAAP tax rate of approximately 17% and a non-GAAP tax rate of approximately 17% based on forecasted non-GAAP adjustments for the three months ending December 31, 2020, which include the related tax effects of acquisition and integration costs, restructuring and other, amortization of intangible assets and deferred financing costs.