



# Fourth Quarter and Full Year 2020 Financial Results

MKS Instruments, Inc.  
January 28, 2021



# 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' 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.

# 2020 Themes: Resilience, Opportunity, Growth



## Resilience

- Prioritized safety and well-being of our global workforce
- Significant portion of workforce shifted to a work-from-home environment
- Responded swiftly to factory and supply chain disruptions and delivered on needs of customers



## Opportunity

- Awarded 170 new patents and grew new product releases by 48% year over year
- Secured design wins for both Semi and Advanced Markets
- Rolled out new diversity training program and implemented diversity initiatives in hiring

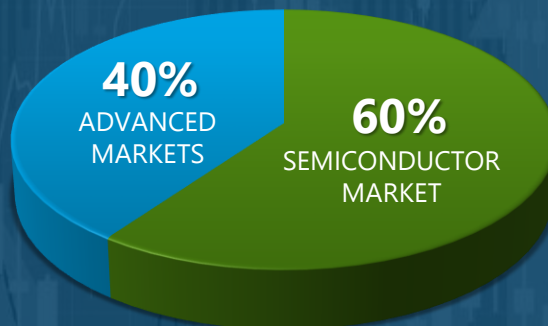


## Growth

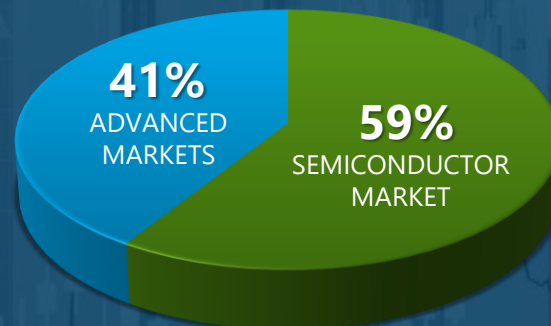
- Achieved revenue growth of +23% and non-GAAP EPS growth of +64%
- Strong Semiconductor market revenue growth of +49%
- Grew operating cash flow and free cash flow to record levels

# Q4'20 and 2020 Results

	Q4'19	Q4'20	Y/Y	2019	2020	Y/Y
REVENUE	\$500M	\$660M	+32%	\$1,900M	\$2,330M	+23%
NON-GAAP EPS	\$1.20	\$2.34	+95%	\$4.52	\$7.43	+64%
GAAP EPS	\$0.77	\$2.08	+170%	\$2.55	\$6.33	+148%



Q4'20



2020



# Q4'20 Market Highlights

## Semiconductor Market

REVENUE	<b>\$393M</b>
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Q/Q GROWTH	<b>+9%</b>
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Y/Y GROWTH	<b>+45%</b>
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- Another revenue record in Power Solutions
- Ex-Power Solutions, delivered strong sequential and year-over-year revenue growth
- Robust demand in Pressure – heated pressure measurement a key advantage
- Healthy design win activity for Dissolved Ozone and Dissolved Ammonia Systems at leading-edge foundry customers

## Advanced Markets

REVENUE	<b>\$267M</b>
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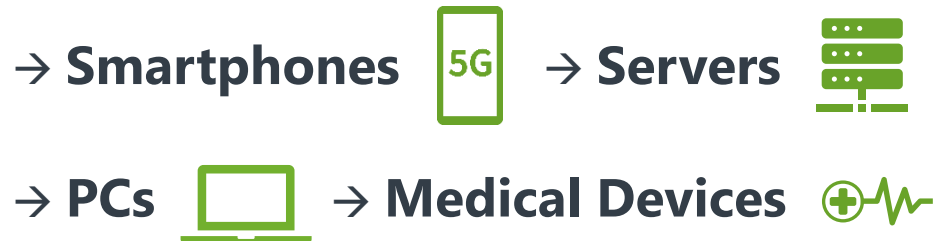
Q/Q GROWTH	<b>+16%</b>
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Y/Y GROWTH	<b>+17%</b>
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- Research market grew sequentially
- Strong demand for our Flex PCB via drilling systems
- Improvement in demand for our MLCC test systems
- Encouraging market adoption of HDI PCB via drilling tool

# Encouraged With Market Adoption Of HDI Tool

## INCREASING NEED FOR HDI PCBs



## MKS OFFERS A COMPELLING COMPETITIVE ADVANTAGE

- **THROUGHPUT:** highest capacity with ultimate flexibility and optimal energy control
- **QUALITY:** highly optimized laser-material interaction, high yield and expanded application scope
- **FOOTPRINT<sup>(1)</sup>:** 72% lighter and 30% smaller than competing solutions

<sup>(1)</sup>Company estimates.

## POSITIVE SIGNS IN THE MARKETPLACE

- In Q4, received second multi-unit order for high volume manufacturing

**This time, from an important  
HDI PCB manufacturer in Taiwan**

- Remain focused on executing playbook of converting beta systems to design wins

**Harnessing Groundbreaking Innovation to Penetrate HDI Market**

# Revenue & Select Financial Measures

	Q4'20	Q3'20	Q4'19	2020	2019
Advanced Markets	\$267M	\$231M	\$228M	\$944M	\$971M
Semiconductor Market	\$393M	\$359M	\$272M	\$1,386M	\$929M
<b>Revenue</b>	<b>\$660M</b>	<b>\$590M</b>	<b>\$500M</b>	<b>\$2,330M</b>	<b>\$1,900M</b>

## Non-GAAP Financial Measures

Gross Margin	45.7%	45.1%	43.3%	45.2%	44.1%
Operating Margin	24.7%	23.1%	18.4%	22.6%	18.1%
Interest Expense, Net	\$6M	\$6M	\$8M	\$26M	\$34M
Income Tax Rate	17.5%	17.0%	18.6%	17.5%	18.8%
Net Earnings	\$130M	\$107M	\$66M	\$411M	\$249M
Net Earnings per Diluted Share	\$2.34	\$1.93	\$1.20	\$7.43	\$4.52

## GAAP Financial Measures

Gross Margin	45.7%	44.4%	43.3%	45.0%	43.7%
Operating Margin	22.2%	19.7%	13.2%	19.5%	11.6%
Interest Expense, Net	\$6M	\$7M	\$8M	\$28M	\$39M
Income Tax Rate	17.7%	15.7%	22.6%	17.2%	21.1%
Net Income	\$116M	\$92M	\$43M	\$350M	\$140M
Net Income per Diluted Share	\$2.08	\$1.66	\$0.77	\$6.33	\$2.55

## Q4'20 Summary

- Record revenue, +12% Q/Q, +32% Y/Y, above the high end of guidance
- Record Semiconductor Market revenue +9% Q/Q, +45% Y/Y
- Record Advanced Markets revenue +16% Q/Q, +17% Y/Y
- Non-GAAP Gross Margin +60 bps Q/Q, +240 bps Y/Y
- Non-GAAP Operating Margin +160 bps Q/Q, +630 bps Y/Y
- Record non-GAAP net earnings and EPS



# Balance Sheet & Cash Flow

	Q4'20	Q3'20	Q4'19
Cash & Short-Term Investments	\$836M	\$716M	\$524M
Accounts Receivable	\$393M	\$364M	\$341M
Inventories	\$501M	\$494M	\$462M
Total Current Assets	\$1,804M	\$1,670M	\$1,434M
Total Assets	\$3,898M	\$3,751M	\$3,416M
Term Loan Principal	\$833M	\$836M	\$892M
Total Liabilities	\$1,537M	\$1,524M	\$1,393M
Stockholders' Equity	\$2,361M	\$2,227M	\$2,023M
Operating Cash Flow	\$147M	\$152M	\$77M
Free Cash Flow	\$122M	\$123M	\$58M

- Exited Q4'20 with \$836M of cash and short-term investments – reaching net cash position
- Remain focused on improving cash conversion cycle
- Record operating cash flow in 2020 of \$513M, +110% Y/Y
- Record free cash flow in 2020 of \$428M, +137% Y/Y
- Issued cash dividend in Q4'20 of \$11M or \$0.20 per share

# Q1'21 Guidance

	Q1'21	Q4'20
Revenue	\$650M +/- \$25M	\$660M

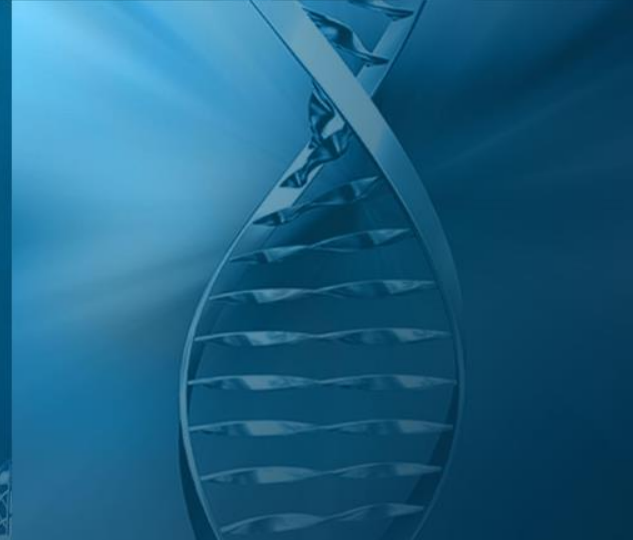
## Non-GAAP Financial Measures

Gross Margin	45.0% +/- 100 bps	45.7%
Operating Expenses	\$140M +/- \$4M	\$138M
Operating Income	\$153M +/- \$14M	\$163M
Operating Margin	23.5% +/- 130 bps	24.7%
Interest Expense, Net	\$6M	\$6M
Tax Rate	18.0%	17.5%
Net Earnings	\$120M +/- \$11M	\$130M
Net Earnings per Diluted Share	\$2.16 +/- \$0.20	\$2.34

Diluted Share Count	55.6M	55.5M
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- Semiconductor market expected to be consistent to slightly down relative to Q4'20
- Advanced Markets expected to be consistent to slightly up relative to Q4'20
- Non-GAAP gross margin reflects anticipated product mix and revenue levels
- Non-GAAP tax rate reflects anticipated geographic mix of taxable income

Q&A



# Appendix – GAAP to Non-GAAP Reconciliations

	Q4'20	Q3'20	Q4'19	2020	2019
Net income	\$ 115.6	\$ 91.7	\$ 42.7	\$ 350.1	\$ 140.4
COVID-19 related net credits (Note 1)	—	—	—	(0.9)	—
Acquisition inventory step-up (Note 2)	—	—	—	—	7.6
Inventory charge related to exit of product groups (Note 3)	—	3.9	—	3.9	—
Acquisition and integration costs (Note 4)	0.4	0.5	1.8	3.8	37.3
Amortization of debt issuance costs (Note 5)	0.2	0.2	0.2	1.5	5.1
Restructuring and other (Note 6)	2.6	3.1	2.3	9.4	7.0
Amortization of intangible assets	12.6	12.5	17.1	55.2	67.4
Asset impairment (Note 7)	1.1	—	4.7	2.3	4.7
Fees and expenses related to repricing of Term Loan Facility (Note 8)	—	—	0.1	—	6.6
Gain on sale of long-lived assets (Note 9)	—	—	—	—	(6.8)
Windfall tax benefit on stock-based compensation (Note 10)	—	(0.2)	(0.3)	(2.4)	(2.2)
Deferred tax asset write-off (Note 11)	—	—	—	3.5	—
Tax reform adjustments (Note 12)	—	—	(2.9)	—	(0.1)
Tax cost of the inter-company sale of an asset (Note 13)	—	—	5.4	—	5.4
Tax effect of Non-GAAP adjustments (Note 14)	(2.7)	(4.7)	(4.8)	(15.4)	(23.4)
Non-GAAP net earnings	\$ 129.8	\$ 107.0	\$ 66.3	\$ 411.0	\$ 249.0
Non-GAAP net earnings per diluted share	\$ 2.34	\$ 1.93	\$ 1.20	\$ 7.43	\$ 4.52
Weighted average diluted shares outstanding	55.5	55.4	55.4	55.3	55.1
Net cash provided by operating activities	\$ 147.2	\$ 152.1	\$ 77.3	\$ 513.2	\$ 244.5
Purchases of property, plant and equipment	(25.0)	(29.0)	(19.1)	(84.9)	(63.9)
Free cash flow	\$ 122.2	\$ 123.1	\$ 58.2	\$ 428.3	\$ 180.6

Dollar amounts and diluted share count in millions.

# Appendix – GAAP to Non-GAAP Reconciliations

	Q4'20	Q3'20	Q4'19	2020	2019
Gross profit	\$ 301.6	\$ 262.0	\$ 216.3	\$1,049.5	\$ 830.4
COVID-19 related net costs (Note 1)	—	—	—	0.3	—
Acquisition inventory step-up (Note 2)	—	—	—	—	7.6
Inventory charge related to exit of product groups (Note 3)	—	3.9	—	3.9	—
Non-GAAP gross profit	<u>\$ 301.6</u>	<u>\$ 265.9</u>	<u>\$ 216.3</u>	<u>\$1,053.7</u>	<u>\$ 838.0</u>
Non-GAAP gross margin	<u>45.7%</u>	<u>45.1%</u>	<u>43.3%</u>	<u>45.2%</u>	<u>44.1%</u>
Operating expenses	\$ 154.9	\$ 145.6	\$ 150.2	\$ 595.7	\$ 610.6
COVID-19 related net credits (Note 1)	—	—	—	(1.2)	—
Acquisition and integration costs (Note 4)	0.4	0.5	1.8	3.8	37.3
Restructuring and other (Note 6)	2.6	3.1	2.3	9.4	7.0
Amortization of intangible assets	12.6	12.5	17.1	55.2	67.4
Asset impairment (Note 7)	1.1	—	4.7	2.3	4.7
Fees and expenses related to repricing of Term Loan Facility (Note 8)	—	—	0.1	—	6.6
Gain on sale of long-lived assets (Note 9)	—	—	—	—	(6.8)
Non-GAAP operating expenses	<u>\$ 138.2</u>	<u>\$ 129.5</u>	<u>\$ 124.2</u>	<u>\$ 526.2</u>	<u>\$ 494.4</u>
Income from operations	\$ 146.7	\$ 116.4	\$ 66.1	\$ 453.8	\$ 219.8
COVID-19 related net credits (Note 1)	—	—	—	(0.9)	—
Acquisition inventory step-up (Note 2)	—	—	—	—	7.6
Inventory charge related to exit of product groups (Note 3)	—	3.9	—	3.9	—
Acquisition and integration costs (Note 4)	0.4	0.5	1.8	3.8	37.3
Restructuring and other (Note 6)	2.6	3.1	2.3	9.4	7.0
Amortization of intangible assets	12.6	12.5	17.1	55.2	67.4
Asset impairment (Note 7)	1.1	—	4.7	2.3	4.7
Fees and expenses related to repricing of Term Loan Facility (Note 8)	—	—	0.1	—	6.6
Gain on sale of long-lived assets (Note 9)	—	—	—	—	(6.8)
Non-GAAP income from operations	<u>\$ 163.4</u>	<u>\$ 136.4</u>	<u>\$ 92.1</u>	<u>\$ 527.5</u>	<u>\$ 343.6</u>
Non-GAAP operating margin	<u>24.7%</u>	<u>23.1%</u>	<u>18.4%</u>	<u>22.6%</u>	<u>18.1%</u>
Interest expense, net	\$ 6.4	\$ 6.5	\$ 7.8	\$ 27.7	\$ 38.7
Amortization of debt issuance costs (Note 5)	0.2	0.2	0.2	1.5	5.1
Non-GAAP interest expense, net	<u>\$ 6.2</u>	<u>\$ 6.3</u>	<u>\$ 7.6</u>	<u>\$ 26.2</u>	<u>\$ 33.6</u>

Dollar amounts in millions.



# Appendix – GAAP to Non-GAAP Reconciliations

	Q4'20			Q4'19		
	Income Before Income Tax	Provision (benefit) for Income Taxes	Effective Tax Rate	Income Before Income Tax	Provision (benefit) for Income Taxes	Effective Tax Rate
GAAP	\$ 140.5	\$ 24.9	17.7%	\$ 55.2	\$ 12.5	22.6%
Acquisition and integration costs (Note 4)	0.4	—		1.8	—	
Amortization of debt issuance costs (Note 5)	0.2	—		0.2	—	
Restructuring and other (Note 6)	2.6	—		2.3	—	
Amortization of intangible assets	12.6	—		17.1	—	
Asset impairment (Note 7)	1.1	—		4.7	—	
Fees and expenses related to repricing of Term Loan Facility (Note 8)	—	—		0.1	—	
Windfall tax benefit on stock-based compensation (Note 10)	—	—		—	0.3	
Tax reform adjustments (Note 12)	—	—		—	2.9	
Tax cost of the inter-company sale of an asset (Note 13)	—	—		—	(5.4)	
Tax effect of Non-GAAP adjustments (Note 14)	—	2.7		—	4.8	
Non-GAAP	<u>\$ 157.4</u>	<u>\$ 27.6</u>	17.5%	<u>\$ 81.4</u>	<u>\$ 15.1</u>	18.6%
	Q3'20					
	Income Before Income Tax	Provision (benefit) for Income Taxes	Effective Tax Rate			
GAAP	\$ 108.8	\$ 17.1	15.7%			
Inventory charge related to exit of product groups (Note 3)	3.9	—				
Acquisition and integration costs (Note 4)	0.5	—				
Amortization of debt issuance costs (Note 5)	0.2	—				
Restructuring and other (Note 6)	3.1	—				
Amortization of intangible assets	12.5	—				
Windfall tax benefit on stock-based compensation (Note 10)	—	0.2				
Tax effect of Non-GAAP adjustments (Note 14)	—	4.7				
Non-GAAP	<u>\$ 129.0</u>	<u>\$ 22.0</u>	17.0%			

Dollar amounts in millions.

# Appendix – GAAP to Non-GAAP Reconciliations

	2020			2019		
	Income Before Income Tax	Provision (benefit) for Income Taxes	Effective Tax Rate	Income Before Income Tax	Provision (benefit) for Income Taxes	Effective Tax Rate
GAAP	423.0	\$ 72.9	17.2%	\$ 177.8	\$ 37.4	21.1%
COVID-19 related net credits (Note 1)	(0.9)	—		—	—	
Acquisition inventory step-up (Note 2)	—	—		7.6	—	
Inventory charge related to exit of product groups (Note 3)	3.9	—		—	—	
Acquisition and integration costs (Note 4)	3.8	—		37.3	—	
Amortization of debt issuance costs (Note 5)	1.5	—		5.1	—	
Restructuring and other (Note 6)	9.4	—		7.0	—	
Amortization of intangible assets	55.2	—		67.4	—	
Gain on sale of long-lived assets (Note 9)	—	—		(6.8)	—	
Asset impairment (Note 7)	2.3	—		4.7	—	
Fees and expenses related to repricing of Term Loan Facility (Note 8)	—	—		6.6	—	
Windfall tax benefit on stock-based compensation (Note 10)	—	2.4		—	2.2	
Deferred tax asset write-off (Note 11)	—	(3.5)		—	—	
Tax reform adjustments (Note 12)	—	—		—	0.1	
Tax cost on the inter-company sale of an asset (Note 13)	—	—		—	(5.4)	
Tax effect of non-GAAP adjustments (Note 14)	—	15.4		—	23.4	
Non-GAAP	\$ 498.2	\$ 87.2	17.5%	\$ 306.7	\$ 57.7	18.8%

Dollar amounts in millions.

# Appendix – GAAP to Non-GAAP Reconciliations



## Q1'21 Guidance

		<b>Percentage Plus or Minus</b>					
GAAP and non-GAAP gross margin		45.0%	1.0%				
	<b>Amount</b>	<b>Plus or Minus</b>			<b>Amount</b>	<b>Plus or Minus</b>	<b>Per Share Plus or Minus</b>
GAAP operating expenses	\$ 156.6	\$ 4.0			\$ 106.4	\$ 11.3	\$ 1.91 \$ 0.20
Acquisition and integration costs	(0.4)	—			12.6	—	0.23 —
Restructuring and other	(3.6)	—			0.2	—	— —
Amortization of intangible assets	(12.6)	—			0.4	—	0.01 —
Non-GAAP operating expenses	<u>\$ 140.0</u>	<u>\$ 4.0</u>			3.6	—	0.06 —
					(3.0)	—	(0.05) —
					<u>\$ 120.2</u>	<u>\$ 11.3</u>	<u>\$ 2.16 \$ 0.20</u>
GAAP operating income and margin	\$ 135.9	\$ 13.8	20.9%	1.3%	Non-GAAP net earnings		
Acquisition and integration costs	0.4	—	0.1%	—	Estimated weighted average diluted shares		
Restructuring and other	3.6	—	0.6%	—			
Amortization of intangible assets	12.6	—	1.9%	—			
Non-GAAP operating income and margin	<u>\$ 152.5</u>	<u>\$ 13.8</u>	<u>23.5%</u>	<u>1.3%</u>			
GAAP interest expense, net	\$ 6.2						
Amortization of debt issuance costs	(0.2)						
Non-GAAP interest expense, net	<u>\$ 6.0</u>						

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: During the twelve months ended December 31, 2020, 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: Cost of revenues during the twelve months ended December 31, 2019 includes the amortization of the step-up of inventory to fair value as a result of the acquisition of Electro Scientific Industries, Inc. (the "ESI Acquisition").

Note 3: During the three months ended September 30, 2020 and twelve months ended December 31, 2020, we recorded inventory charges related to the exit of certain product groups.

Note 4: Acquisition and integration costs were related to the ESI Acquisition, which closed on February 1, 2019.

Note 5: 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 (each credit agreement, as defined in our Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the SEC on February 28, 2020).

Note 6: Restructuring and other costs during the three and twelve months ended December 31, 2020 and the three months ended September 30, 2020 included duplicate facility costs attributed to entering into new facility leases, costs related to the exit of certain product groups and costs related to the pending closure of a facility in Europe. Such costs for the twelve months ended December 31, 2020 were offset by an insurance reimbursement related to a legal settlement. Restructuring and other costs recorded during the three months ended December 31, 2019 resulted from the closure of a facility in Europe. Additional restructuring costs recorded during the twelve months ended December 31, 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. During the twelve months ended December 31, 2019, we also recorded a legal settlement from a contractual

obligation we assumed as part of the Newport acquisition (the "Legal Settlement").

Note 7: During the twelve months ended December 31, 2020, we recorded an asset impairment charge for the write-down of long-lived assets, related to the pending closure of a facility in Europe. During the three and twelve months ended December 31, 2020, we recorded the write-off of goodwill, related to the pending closure of a facility in Europe. During the three and twelve months ended December 31, 2019, we recorded an impairment charge related to a minority interest investment in a private company.

Note 8: We recorded fees and expenses during the three months ended December 31, 2019 related to Amendment No. 6 to our Term Loan Credit Agreement and we recorded fees and expenses during the twelve months ended December 31, 2019 related to Amendment No. 5 and Amendment No. 6 to our Term Loan Credit Agreement (each amendment as defined in our Annual Report on Form 10-K for the year ended December 31, 2019 as filed with the SEC on February 28, 2020).

Note 9: During the twelve months ended December 31, 2019, we recorded a net gain on the sale of two properties in Boulder, Colorado and three properties in Portland, Oregon.

Note 10: We recorded windfall tax benefits on the vesting of stock-based compensation.

Note 11: We recorded a write-off of a deferred tax asset related to foreign net operating losses.

Note 12: We recorded tax adjustments during the three and twelve months ended December 31, 2019 related to the 2017 U.S. Tax Cut and Jobs Act.

Note 13: During the three and twelve months ended December 31, 2019, we recorded taxes on the inter-company sales of assets.

Note 14: 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 March 31, 2021, we forecast a GAAP and Non-GAAP tax rate of approximately 18%.