Third Quarter 2023 Financial Results

MKS Instruments, Inc.
November 2, 2023

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 Section 21E of the Securities Exchange Act of 1934 regarding the future financial performance, business prospects and growth of MKS Instruments, Inc. ("MKS", the "Company", "our", or "we"). 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 that we make are the need to generate sufficient cash flows to service and repay the substantial indebtedness we incurred in connection with our acquisition of Atotech Limited ("Atotech" and such transaction, the "Atotech Acquisition"), which we completed in August 2022; the terms of our existing credit facilities under which we incurred such debt; our entry into the chemicals technology business through the Atotech Acquisition, in which we do not have experience and which may expose us to significant additional liabilities; the risk that we are unable to integrate the Atotech Acquisition successfully or realize the anticipated synergies, cost savings and other benefits of the Atotech Acquisition; the ongoing assessment of the ransomware incident we identified on February 3, 2023, including legal, reputational, financial and contractual risks resulting from the incident, and other risks related to cybersecurity, data privacy and intellectual property; competition from larger, more advanced or more established companies in our markets; the ability to successfully grow our business and the businesses of Atotech and Electro Scientific Industries, Inc., which we acquired in February 2019, and financial risks associated with those and potential future acquisitions, including goodwill and intangible asset impairments; manufacturing and sourcing risks, including those associated with limited and sole source suppliers and the impact and duration of supply chain disruptions, component shortages, and price increases; changes in global demand and the impact of COVID-19 or any other pandemic, including with respect to such supply chain disruptions, component shortages and price increases; risks associated with doing business internationally, including geopolitical conflicts, trade compliance, regulatory restrictions on our products, components or markets, particularly the semiconductor market, and unfavorable currency exchange and tax rate fluctuations, which risks become more significant as we grow our business internationally and in China specifically; conditions affecting the markets in which we operate, including fluctuations in capital spending in the semiconductor, electronics manufacturing and automotive industries, and fluctuations in sales to our major customers; disruptions or delays from third-party service providers upon which our operations may rely; the ability to anticipate and meet customer demand; the challenges, risks and costs involved with integrating or transitioning local and international operations of the companies we have acquired; risks associated with the attraction and retention of key personnel; potential fluctuations in quarterly results; dependence on new product development; rapid technological and market change; acquisition strategy; volatility of stock price; risks associated with chemical manufacturing and environmental regulation compliance; risks related to defective products; financial and legal risk management; and the other important factors described in MKS' Annual Report on Form 10-K for the year ended December 31, 2022 and any subsequent Quarterly Reports on Form 10-Q, as filed with the U.S. Securities and Exchange Commission. 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. Amounts reported in this presentation are preliminary and subject to finalization prior to the filing of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2023.

Notes on 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 results under U.S. generally accepted accounting principles (“GAAP”), 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.

MKS is not providing a quantitative reconciliation of forward-looking Non-GAAP gross margin, operating expenses, operating income, operating margin, interest expense, net (for the fourth quarter of 2023 only), income tax rate, net earnings, net earnings per diluted share and Adjusted EBITDA to their most directly comparable GAAP financial measures because it is unable to estimate with reasonable certainty the ultimate timing or amount of certain significant items without unreasonable efforts. These items include, but are not limited to, acquisition and integration costs, amortization of intangible assets, ransomware remediation costs, restructuring and other expense, goodwill and intangible asset impairments, excess and obsolescence inventory charges, debt refinancing, prepayments of term loan principal, and the income tax effect of these items. These items are uncertain, depend on various factors, including, but not limited to, our acquisition of Atotech Limited (“Atotech”) in August 2022 (the “Atotech Acquisition”), timing of ransomware remediation, and interest rate and refinancing environment, and could have a material impact on GAAP reported results for the relevant period.

Combined Company Financial Information

All references to “combined company” financial measures reflect the combined results of MKS and Atotech but are not calculated in accordance with Article 11 of Regulation S-X. In addition, except as otherwise indicated, Atotech financial information for periods up until the Atotech Acquisition has been adjusted from International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”) to GAAP and includes adjustments to conform to the accounting policies of MKS.

MKS has not identified material differences in Atotech’s net revenue under GAAP and Atotech’s historical reported net revenue under IFRS. Net revenues by end market for Atotech are based on MKS' understanding of end market uses for Atotech products and services.

For further information regarding Non-GAAP financial measures and the calculation of certain combined company financial information, please refer to the appendix at the end of this presentation. In addition, for a detailed breakout of reported and combined company revenues by end-market, please visit the Net Revenues by End Market presentation available under Events & Presentation on the Investor Relations section of MKS' website at investor.mks.com.

Q3'23 Market Highlights

Semiconductor

REVENUE	$367M
Q/Q GROWTH	-17%
Y/Y GROWTH(1)	-32%

- Relatively flat Q/Q when excluding the impact of the ransomware event in Q1'23
- Demand for our critical vacuum subsystems for deposition and etch applications remained muted
- Photonics demand remained resilient for lithography, metrology and inspection

Electronics & Packaging

REVENUE	$243M
Q/Q GROWTH	8%
Y/Y GROWTH(1)	-16%

- Q3 seasonally higher due to consumer electronics production
- Slightly higher PCB and Package Substrate production ahead of the Golden Week holidays in Asia
- Shipments of HDI laser drilling for low-earth orbit ("LEO") satellite communications space

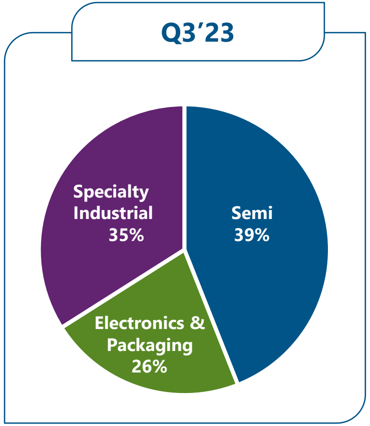
Specialty Industrial

REVENUE	$322M
Q/Q GROWTH	-5%
Y/Y GROWTH(1)	2%

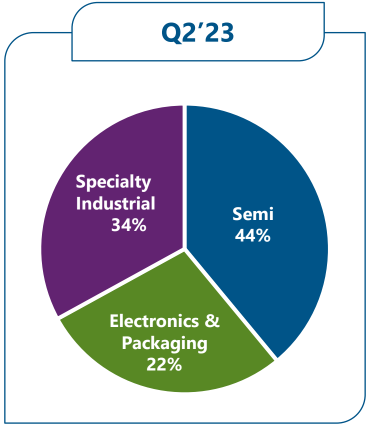
- Relatively flat Q/Q when excluding the impact of the ransomware event in Q1'23
- Modest weakness in Solar and LED applications
- General Metal Finishing for Automotive remained stable on sequential basis

(1) See Slide 3 for additional information regarding the calculation of combined company results of MKS and Atotech. Year-over-year percentages compare the net revenue of MKS for Q3'23 with the combined company net revenue of MKS and Atotech for Q3'22.

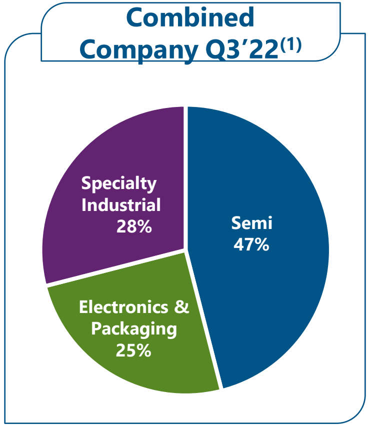
Revenue



Consumables & Service 42%



Consumables & Service 38%



Consumables & Service 37%

				Q3'23 vs Q3'22[1]					
	Q3'23	Q2'23	Q3'22[1]	Total Change	FX	Pd	Change Excluding FX & Pd	Ransomware Recovery	Change Excluding FX, Pd & Ransomware Recovery
Semiconductor	$ 367	$ 440	$ 536	-32%	0%	0%	-32%	3%	-35%
Electronics & Packaging	$ 243	$ 225	$ 289	-16%	-2%	-5%	-9%	0%	-10%
Specialty Industrial	$ 322	$ 338	$ 317	2%	0%	-1%	2%	3%	-1%
	$ 932	**$ 1,003**	**$ 1,141**	-18%	0%	-1%	-17%	2%	-19%

[1] For comparability, figures for Q3’22 combine the revenue of MKS and Atotech for the full period. See Slide 3 for additional information regarding the calculation of combined company results of MKS and Atotech.
“Total Change” represents the percentage change in net revenues. “FX”, “Pd” and “Ransomware Recovery” reflect the estimated impact of foreign exchange rates, palladium prices and recovery of revenue from the ransomware incident identified in Q1’23, on net revenues, respectively. “Change Excluding FX & Pd” is the difference between “Total Change” and “FX” and “Pd.” “Change Excluding FX, Pd & Ransomware Recovery” is the difference between “Total Change” and “FX”, “Pd” and “Ransomware Recovery.”

Revenue & Select Financial Measures

	Q3'23	Q2'23	Q3'22
Semiconductor	$367M	$440M	$536M
Electronics & Packaging	$243M	$225M	$166M
Specialty Industrial	$322M	$338M	$253M
Revenue	$932M	$1,003M	$954M
Non-GAAP Financial Measures			
Gross Margin	47.1%	46.9%	44.9%
Operating Margin	21.8%	22.6%	25.1%
Interest Expense, Net	$83M	$79M	$36M
Income Tax Rate	14.2%	35.5%	18.0%
Net Earnings	$98M	$88M	$167M
Net Earnings per Diluted Share	$1.46	$1.32	$2.74
Adjusted EBITDA	$235M	$254M	$268M
Adjusted EBITDA Margin	25.2%	25.3%	28.0%
GAAP Financial Measures			
Gross Margin	45.7%	46.9%	40.8%
Operating Margin	12.6%	(169.1%)	12.4%
Interest Expense, net	$89M	$84M	$79M
Income Tax Rate	(75.3%)	1.2%	85.5%
Net Income (Loss)	$39M	$(1,769M)	$6M
Net Income (Loss) per Diluted Share	$0.58	$(26.47)	$0.09

Q3'23 SUMMARY

- Recovered substantially all of the remaining revenue impacted by the ransomware incident in Q1'23
- Non-GAAP gross margin exceeded high end of guidance range due to efficient factory utilization, disciplined cost management and favorable product mix
- Non-GAAP operating margin and adjusted EBITDA margin exceeded expectations
- Atotech cost synergies reached annualized rate of nearly $45 million exiting the third quarter
- Non-GAAP tax rate favorable to expectations, reflective of successful tax planning initiatives since the closing of Atotech

Amounts for Q3'22 are reported actuals rather than Combined Company.

Balance Sheet & Cash Flow

	Q3'23	Q2'23
Cash & Short-Term Investments	$860M	$758M
Accounts Receivable	$618M	$631M
Inventories	$1,009M	$1,036M
Total Current Assets	$2,775M	$2,728M
Total Assets	$9,140M	$9,230M
Term Loan Principal	$5,047M	$5,086M
Total Liabilities	$6,664M	$6,735M
Stockholders' Equity	$2,476M	$2,495M
Operating Cash Flow	$160M	$(59M)
Free Cash Flow	$142M	$(77M)

Q3'23 SUMMARY

- Free cash flow increased from strong cost control and a sequential improvement in working capital
- Net leverage ratio of 4.6x at September 30, 2023
- On a credit agreement defined basis, consolidated total net leverage ratio was 4.2x at September 30, 2023
- Issued cash dividend of $15 million or $0.22 per share

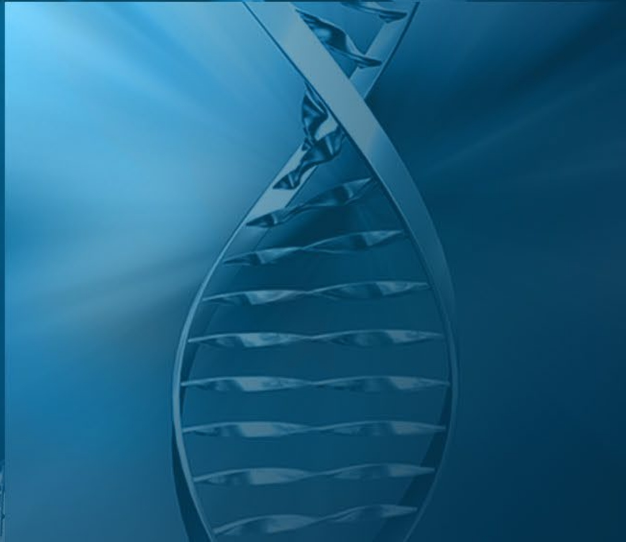
Q4’23 Guidance

	Q4’23	Q3’23 Actual
Revenue	$840M +/- $40M	$932M
Non-GAAP Financial Measures		
Gross Margin	45.5% +/- 100 bps	47.1%
Operating Expenses	$235M +/- $5M	$236M
Operating Income	$147M +/- $21M	$203M
Operating Margin	17.5% +/- 175 bps	21.8%
Interest Expense, Net	$80M	$83M
Income Tax Rate	16%	14.2%
Net Earnings	$57M +/- $18M	$98M
Net Earnings per Diluted Share	$0.85 +/- $0.27	$1.46
Adjusted EBITDA	$185M +/- $20M	$235M
Diluted Share Count	67.1M	67.1M

Q4’23 SUMMARY

- Revenue guidance for fourth quarter of 2023 by end-market:
  - Semiconductor – $320M +/- $15M
  - Electronics & Packaging – $205M +/- $10M
  - Specialty Industrial – $315M +/- $15M
- Non-GAAP gross margin reflects anticipated product mix and revenue levels
- Non-GAAP operating expenses relatively in-line with third quarter levels
- Non-GAAP net interest expense expected to be about $80 million, reflecting current interest rates, recent successful USD Term Loan B repricing and recent $100 million voluntary debt prepayment on Term Loan A
- Non-GAAP 2023 tax rate estimated at 19%
- Non-GAAP tax rate beyond 2023 estimated to be in the low 20s at this time. We will provide formal update to tax rate model on fourth quarter 2023 earnings call

Q&A



Appendix – GAAP to Non-GAAP Reconciliations

	Q3'23	Q2'23	Q3'22
Net (loss) income	$ 39	$ (1,769)	$ 6
Excess and obsolete charge from discontinued product line (Note 1)	13	—	—
Acquisition inventory step-up (Note 2)	—	—	39
Acquisition and integration costs (Note 3)	3	5	31
Restructuring (Note 4)	1	11	5
Amortization of intangible assets	68	76	47
Goodwill and intangible asset impairments (Note 5)	—	1,827	—
Gain on sale of long-lived assets (Note 6)	(2)	—	—
Amortization of debt issuance costs (Note 7)	6	5	43
Ransomware incident (Note 8)	2	4	—
Reversal of indefinite reinvestment assertion (Note 9)	—	—	30
Tax effect of Non-GAAP adjustments (Note 10)	(32)	(72)	(34)
Non-GAAP net earnings	$ 98	$ 88	$ 167
Non-GAAP net earnings per diluted share	$ 1.46	$ 1.32	$ 2.74
Weighted average diluted shares outstanding	67.1	67.0	61.1
GAAP gross profit	$ 426	$ 470	$ 390
GAAP gross margin	45.7%	46.9%	40.8%
Excess and obsolete charge from discontinued product line (Note 1)	13	—	—
Acquisition inventory step-up (Note 2)	—	—	39
Non-GAAP gross profit	$ 439	$ 470	$ 429
Non-GAAP gross margin	47.1%	46.9%	44.9%
Net cash provided by (used in) operating activities	$ 160	$ (59)	$ 199
Purchases of property, plant and equipment	(18)	(18)	(26)
Free cash flow	$ 142	$ (77)	$ 173

	Q3'23	Q2'23	Q3'22
Operating expenses	$ 308	$ 2,166	$ 272
Acquisition and integration costs (Note 3)	3	5	31
Restructuring (Note 4)	1	11	5
Goodwill and intangible asset impairments (Note 5)	—	1,827	—
Ransomware incident (Note 8)	2	4	—
Amortization of intangible assets	68	76	47
Non-GAAP operating expenses	$ 236	$ 243	$ 189
Income (loss) from operations	$ 118	$ (1,696)	$ 118
Operating margin	12.6%	-169.1%	12.4%
Excess and obsolete charge from discontinued product line (Note 1)	13	—	—
Acquisition inventory step-up (Note 2)	—	—	39
Acquisition and integration costs (Note 3)	3	5	31
Restructuring (Note 4)	1	11	5
Amortization of intangible assets	68	76	47
Goodwill and intangible asset impairments (Note 5)	—	1,827	—
Gain on sale of long-lived assets (Note 6)	(2)	—	—
Ransomware incident (Note 8)	2	4	—
Non-GAAP income from operations	$ 203	$ 227	$ 240
Non-GAAP operating margin	21.8%	22.6%	25.1%
Interest expense, net	$ 89	$ 84	$ 79
Amortization of debt issuance costs (Note 7)	6	5	43
Non-GAAP interest expense, net	$ 83	$ 79	$ 36

in millions other than per diluted share amounts

Appendix – GAAP to Non-GAAP Reconciliations

	Q3'23	Q2'23	Q3'22
Net (loss) income	$ 39	$ (1,769)	$ 6
Interest expense, net	89	84	79
(Benefit) provision for income taxes	(17)	(22)	34
Depreciation	25	25	17
Amortization of intangible assets	68	76	47
EBITDA	$ 205	$ (1,606)	$ 183
Excess and obsolete charge from discontinued product line (Note 1)	13	—	—
Stock-based compensation	13	13	10
Acquisition inventory step-up (Note 2)	—	—	39
Acquisition and integration costs (Note 3)	3	5	31
Restructuring (Note 4)	1	11	5
Goodwill and intangible asset impairments (Note 5)	—	1,827	—
Gain on sale of long-lived assets (Note 6)	(2)	—	—
Ransomware incident (Note 8)	2	4	—
Adjusted EBITDA	$ 235	$ 254	$ 268
Adjusted EBITDA margin	25.2%	25.3%	28.0%

in millions

Appendix – GAAP to Non-GAAP Reconciliations

	Q3'23			Q2'23		
	Income Before Income Tax	(Benefit) Provision for Income Taxes	Effective Tax Rate	(Loss) Income Before Income Tax	(Benefit) Provision for Income Taxes	Effective Tax Rate
GAAP	$ 23	$ (17)	75.3%	$ (1,791)	$ (22)	1.2%
Excess and obsolete charge from discontinued product line (Note 1)	13	—		—	—	
Acquisition and integration costs (Note 3)	3	—		5	—	
Restructuring (Note 4)	1	—		11	—	
Amortization of intangible assets	68	—		76	—	
Goodwill and intangible asset impairments (Note 5)	—	—		1,827	—	
Gain on sale of long-lived assets (Note 6)	(2)	—		—	—	
Amortization of debt issuance costs (Note 7)	6	—		5	—	
Ransomware incident (Note 8)	2	—		4	—	
Tax effect of Non-GAAP adjustments (Note 10)	—	32		—	72	
Non-GAAP	$ 114	$ 16	14.7%	$ 137	$ 49	35.5%

	Q3'22		
	Income Before Income Tax	Provision for Income Taxes	Effective Tax Rate
GAAP	$ 40	$ 34	85.5%
Acquisition and integration costs (Note 3)	31	—	
Acquisition inventory step-up (Note 2)	39	—	
Restructuring (Note 4)	5	—	
Amortization of intangible assets	47	—	
Amortization of debt issuance costs (Note 7)	43	—	
Reversal of indefinite reinvestment assertion (Note 9)	—	(30)	
Tax effect of Non-GAAP adjustments (Note 10)	—	34	
Non-GAAP	$ 204	$ 37	18.0%

in millions

Appendix – GAAP to Non-GAAP Reconciliations

Estimated annualized interest expense reduction from repricing and prepayment	
Annualized GAAP interest expense reduction	$ 20
Amortization of deferred financing costs	(1)
Annualized Non-GAAP interest expense reduction	$ 19

in millions

Appendix – Reconciliation of Net Leverage Ratios

	Q3'23	Q2'23	Q1'23	Q4'22	Total
Net income (loss)	$ 39	$ (1,769)	$ (42)	$ 54	$ (1,722)
Interest expense, net	89	84	82	83	338
(Benefit) provision for income taxes	(12)	(22)	(37)	11	(60)
Depreciation	25	25	26	27	103
Amortization of intangible assets	68	76	81	69	294
Stock-based compensation	13	13	18	13	57
Acquisition and integration costs	3	5	6	11	25
Restructuring	1	11	1	1	14
Ransomware incident	2	4	7	—	14
Excess and obsolete charge from discontinued product line	13	—	—	—	13
Gain on sale of long-lived assets	(2)	—	—	—	(2)
Goodwill and intangible asset impairments	—	1,827	—	—	1,827
Acquisition inventory step-up	—	—	—	13	13
Adjusted EBITDA (Note 11)	$ 235	$ 254	$ 142	$ 282	$ 913
Net debt as of September 30, 2023 (Note 12)					$ 4,187
Net leverage ratio (Note 13)					**4.6x**
Other credit agreement adjustments (Note 14)	$ 29	$ 24	$ 18	$ 20	$ 92
Credit agreement defined adjusted EBITDA (Note 15)	$ 264	$ 278	$ 160	$ 302	$ 1,004
Credit agreement defined net debt as of September 30, 2023 (Note 12)					$ 4,247
Credit agreement consolidated total net leverage ratio (Note 16)					**4.2x**

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. Totals presented may not sum and percentages may not recalculate using figures presented due to rounding.

Note 1: We recorded an excess and obsolescence inventory charge related to a product line that is being discontinued.

Note 2: Costs of revenues during the three and nine months ended September 30, 2022 include the amortization from the step-up of inventory to fair value as a result of the Atotech Acquisition.

Note 3: Acquisition and integration costs primarily related to the Atotech Acquisition.

Note 4: Restructuring costs during the three months ended September 30, 2023 and June 30, 2023 and the nine months ended September 30, 2023 primarily related to severance costs due to global cost-saving initiatives. Restructuring costs during the three months ended September 30, 2022 primarily related to executive payments made related to the Atotech Acquisition. Restructuring costs during the nine months ended September 30, 2022 primarily related to executive payments made related to the Atotech Acquisition and severance costs due to a global cost-saving initiative and the closure of two facilities in Europe.

Note 5: During the three months ended June 30, 2023, we noted softer industry demand, particularly in the personal computer and smartphone markets and concluded there was a triggering event at our Materials Solutions Division, which represents the former Atotech business, and Equipment Solutions Business, which represents the former Electro Scientific Industries business and is a reporting unit of our Photonics Solutions Division. We performed a quantitative assessment which resulted in an impairment of $1.3 billion for our Materials Solutions Division and $0.5 billion for our Equipment Solutions Business.

Note 6: We recorded a gain on the sale of a minority interest investment in a private company.

Note 7: We recorded additional interest expense related to the amortization of debt issuance costs associated with our term loan facility.

Note 8: We recorded costs, net of recoveries, associated with the ransomware incident we identified on February 3, 2023. These costs were primarily comprised of various third-party consulting services, including forensic experts, restoration experts, legal counsel, and other information technology and accounting professional expenses, enhancements to our cybersecurity measures, and costs to restore our systems and access our data.

Note 9: We no longer intend to indefinitely reinvest earnings of our foreign subsidiaries after the Atotech Acquisition. Additional income tax expense was recorded to reflect an estimate of withholding taxes that would be due on repatriation of prior period earnings.

Note 10: Non-GAAP adjustments are tax effected at applicable statutory rates resulting in a difference between the GAAP and Non-GAAP tax rates.

Note 11: Adjusted EBITDA is not intended to reflect measures used under the Company's credit agreement.

Note 12: Net debt as of September 30, 2023 is principal outstanding on MKS' credit agreement of $5,047 million less cash and short-term investments of $860 million. Credit agreement defined net debt as of September 30, 2023 is principal outstanding on MKS' credit agreement of $5,047 million less cash and short-term investments up to a cap of $800 million.

Note 13: Net leverage ratio is net debt as of September 30, 2023 divided by trailing 12-month adjusted EBITDA at September 30, 2023.

Appendix – GAAP to Non-GAAP Reconciliations

Note 14: Other credit agreement adjustments for adjusted EBITDA includes deductions and addbacks for other income and expense, interest income, excess and obsolete inventory charges, customer bad debt charges, severance costs and expected future cost savings from cost reduction initiatives in each case as provided under the Company's credit agreement.

Note 15: Credit agreement defined adjusted EBITDA is used to measure financial covenant compliance under the Company's credit agreement applicable to Term Loan A and the revolving credit facility.

Note 16: Credit agreement consolidated total net leverage ratio is credit agreement defined net debt as of September 30, 2023 divided by trailing 12-month credit agreement defined adjusted EBITDA at September 30, 2023.