ASML reports EUR 10.9 billion net sales and EUR 2.6 billion net income in 2018
ASML expects sales growth in 2019 despite challenging environment and proposes to raise dividend by 50%

VELDHOVEN, the Netherlands, January 23, 2019 - ASML Holding N.V. (ASML) today's Investor Call - 2018 fourth-quarter and full year results.

Peter Wennink
Thank you Skip. Good morning / good afternoon ladies and gentlemen and thank you for joining us for our Q4 and 2018 annual results conference call.

Before we begin the Q & A session Roger and I would like to provide an overview and some commentary on the fourth quarter and full year 2018, as well as provide our view of the coming quarters. Roger will start with a review of our Q4 and full year financial performance with added comments on our short-term outlook. I will complete the introduction with some additional comments on the current business environment and on our future business outlook.

Roger if you will.

Roger Dassen
Thank you Peter and welcome everyone.

I will first highlight some of the fourth-quarter and full-year financial accomplishments and then provide our guidance for the first-quarter of 2019.

Q4 net sales came in at 3.14 billion Euros, slightly higher than our guidance.

Net system sales of 2.42 billion Euros was more weighted towards Logic at 60 percent, with the remaining 40 percent from Memory. We shipped 6 EUV systems and recognized EUV revenue of 579 million Euros from five shipments. One system was shipped to a collaborative research center (IMEC) and was not recorded as revenue, which we mentioned last quarter.

Installed Base Management sales for the quarter came in at 719 million Euros.

Gross margin for the quarter was 44.3 percent, which was negatively impacted by the Nikon settlement, without this charge the gross margin was 48.5 percent.

We signed a memorandum of understanding with Nikon to settle our legal dispute over alleged patent infringements that was initiated by Nikon. Therefore, we recorded a provision in our 2018 accounts, which has a negative impact of 131 million Euros on gross margin in 2018.

Overall R&D and SG&A expenses came in a little higher than guided, with R&D expenses at 442 million Euros and SG&A expenses at 135 million Euros.

Turning to the balance sheet, 345 million Euros worth of shares were repurchased in Q4. This leaves around 1.35 billion Euros of the 2018/2019 share buyback remaining. We ended last quarter with cash, cash equivalents and short-term investments at a level of 4.03 billion Euros, which was higher than expected due to early payments by multiple customers at the end of the year.

Moving to the order book, Q4 system bookings came in at 1.59 billion Euros. Logic order intake was 80 percent of total value with the remaining 20 percent from Memory. We took five new EUV orders in the quarter.

For the full-year, our net sales grew 22 percent to a record of 10.9 billion Euros. Net installed base management sales was similar to last year at 2.68 billion Euros. We shipped 18 EUV systems, with a total EUV system sales of 1.9 billion Euros, representing a significant growth over 2017.

Our gross margin for 2018 was 46.0 percent, which would have been 47.2 percent without the Nikon settlement charges. We made considerable improvements on our gross margin in 2018 and remain on track to achieving overall gross margins exceeding 50 percent in 2020, as confirmed during our Investor Day in November last year.

We continue to invest in the long-term future of ASML and increased R&D from 1.26 billion Euros in 2017 to 1.58 billion Euros in 2018. The increase was primarily driven by the acceleration of our EUV roadmap. Overall R&D investments as a percentage of 2018 revenue was about 14 percent and SG&A was about 4.5 percent of revenue, both similar to 2017 as a percentage of revenue. Net income for the full year grew 25 percent to a record of 2.6 billion Euros, resulting in 23.7 percent of net sales and an EPS of 6.10 Euros.

With that I would like to turn to our expectations for the first-quarter of 2019.

We expect Q1 total net sales of about 2.1 billion Euros. The lower revenue guidance is due to a combination of revenue pull into Q4 2018 as well as a reduction in shipments due to a fire at one of our suppliers, ProDrive, and some system demand change.

As announced in a press release on December 3rd last year, there was a fire at one of our suppliers of electronics components and modules. This resulted in a loss of work in progress as well as some inventory. Due to the integral cycle time of about one quarter for these modules, our first quarter sales will be negatively impacted by around 300 million Euros, which we expect to largely recover in Q2. We expect the remainder to be recovered in second half.

Our total net sales forecast for Q1 includes around 300 million Euros of EUV system revenue. We currently expect to ship 3 EUV systems in Q1.

We expect our Q1 Installed Base Management revenue to be around 600 million Euros, which is primarily due to lower field upgrades as a result of the ProDrive fire.

Gross margin for Q1 is expected to be around 40 percent. The lower gross margin is due to a combination of mix, lower field upgrades, factory loading and EUV service burden. The mix relates to a reduction in higher margin immersion systems and field upgrades as a result of the ProDrive fire and some system demand change. With lower system sales there is also a reduction in factory loading which has a negative impact on gross margins. As our EUV install base continues to grow, we must expand our service infrastructure to support these systems in the field, which is an increased burden on gross margins until we start collecting service revenue later this year. We see the impact from these items continuing in Q2, with an expected recovery in second half. The positive margin recovery in the second half will be driven by higher revenue, thus improved factory loading, as well as increased field upgrades and we will start shipping the higher margin NXE:3400C in addition to realizing EUV service revenue. We expect to move towards our 2020 target of >50 percent gross margin as we exit the year.

The higher R&D expenses for Q1 of around 480 million Euros are due to an acceleration of the NXE:3400 roadmap and growing investment in the high NA EUV program. SG&A is expected to come in at around 130 million Euros, which is similar to prior quarter.

Although we are currently going through a period of uncertainty in the industry we look forward to our growth opportunity in 2019.

As we remain confident in our long-term growth, we will propose a 50 percent increase in our dividend to 2.10 Euros per share at our annual shareholder meeting which takes place on April 24th in Veldhoven. The dividend payment is valued at around 880 million Euros.

With that I'd like to turn the call back over to Peter.

Peter Wennink

Thank you, Roger.

As Roger has highlighted, we had another good quarter closing a great year for us, with record demand from our memory and logic customers combined across our product portfolio. While the current geopolitical landscape and economic environment are creating volatility in the markets and uncertainty on the near-term demand, as mentioned before, we still expect overall growth in 2019.

At the very end of last year, we saw the continued slowdown of memory end market demand as well as some demand reduction in the logic end markets, primarily driven by the mobile and server markets. And this translated into pushouts of our planned shipments to both memory and logic customers from the first half of 2019 in their attempt to regain balance of supply against demand.

The NAND market, as mentioned in prior quarters, remains in an oversupply situation and is going through a digestion phase after a period of significant 2D to 3D conversions, yield improvements and wafer capacity additions.

DRAM is experiencing softening of bit demand, largely driven by decreased demand in mobile market as well as some inventory correction in the server market. Although this has resulted in some pushouts of planned shipments by memory customers in first half of 2019, customers have indicated that they believe there will be a recovery in the second half of the year as they expect that inventory levels will be managed down swiftly.

In logic, while we see some softening in DUV demand which is primarily driven by the mobile market, we still expect strong demand in support of the ramp of 10 and 7nm nodes. We also expect to see strong growth in EUV demand supporting customers' ramp of 7/7+nm nodes as well as transition to the 5nm node.

Although future developments in the macro environment can impact our current view, we currently expect logic demand to increase around 50 percent year over year and memory to be down around 20 percent year over year. We still expect single digit percentage growth of Installed Base revenue. In summary, 2019 will be a growth year, largely driven by logic.

On the ASML product side let me start with an update of our EUV business.

- In EUV, we continue to make solid progress as evident in the positive public comments from our logic and memory customers on the use of EUV in their most advanced nodes. Logic customers are installing systems in support of volume manufacturing for their 7/5nm nodes. DRAM customers are also working on qualifying EUV for their future nodes. This year we expect the first commercial EUV enabled chip to reach the consumer market. In 2018, we demonstrated >145 wafers per hour and we are accelerating our EUV roadmap to deliver 170 wafers per hour on our NXE:3400C with first shipments planned in the second half of 2019. The NXE:3400C will also include a number of innovations that will further improve availability. As Roger mentioned, we shipped 6 systems in Q4, which translates to a total of 18 EUV shipments in 2018. With the 5 orders booked this quarter, our shipment plan of 30 systems for 2019 is covered.

- In DUV, we shipped 189 new systems in 2018, an increase of 17 percent over 2017. We were able to further increase our output in support of demand from both logic and memory customers. We continued ramping our latest immersion system, NXT:2000i, with a record time to achieve mature customer yields.

- Our Applications portfolio has continued to see strong adoption in all market segments. Our latest YieldStar system continues to gain adoption at memory customers, following the strong adoption we saw in logic. Integrated products using the combined technology of HMI and ASML are being evaluated at multiple customer sites to help improve customers' yield and time to market.

To summarize 2018, our fourth quarter came in slightly above our guidance and we nearly achieved 11 billion Euros in sales for the year, which was a milestone originally set for 2020. Although 2018 was a very good year from a financial perspective, I think it was also a milestone year in terms of technology innovation across all of our products. This not only provides our customers with higher value solutions, but it also fuels our future growth.

Turning to 2019, we currently see some uncertainty in the market but after a long period of strong capacity investments, driven by healthy demand over the past years, it is normal to see a period of digestion, which we expect in first half of 2019. With regards to the markets we serve, our customers responded quite late in Q4 to slowing demand in their end markets by delaying deliveries of litho systems from the first half of 2019 to balance supply and demand. We now see our first half of 2019 lower than the second half of 2018, with the reduction being roughly an equal split between memory and logic. The fundamental drivers of high performance compute, with associated high performance memory and data storage, are still in place and our customers clearly indicate the need for a strong shipment pattern in the second half of 2019 in support of their 2020 business potential. The demand in the second half of 2019 could therefore be 50% higher than the first half of the year. For 2019, the logic segment is expected to be the growth driver, investing strongly in technology transitions as well as production capacity for their advanced nodes. As we have consistently done in prior slow downs, we sustain or even accelerate our investments in R&D to deliver on the leading-edge technology when the market turns up which has been and will be the key driver to secure our long-term growth. We expect to increase our investments in R&D to 1.9 billion Euros for 2019. We reiterate that we see market demand that supports yet another year of growth for ASML in 2019 with significantly stronger demand in second half of the year. As Roger explained, we see similar development in our profitability, with lower gross margin expected in the first half of 2019 improving towards our 2020 target of over 50 percent as we exit the year.

Despite some uncertainty in the current environment, we remain very confident about our sales and profit targets for 2020 and beyond as we communicated during our Investor Day in November last year. We are happy to underline this confidence by our proposal of a 50 percent increase in our dividend.

With that we would be happy to take your questions.