ASML reports EUR 2.6 billion sales at 43.0% gross margin in Q2
Stronger Logic compensates for Memory weakness; 2019 total sales view unchanged

VELDHOVEN, the Netherlands, July 17, 2019 - ASML Holding N.V. (ASML) today's Investor Call - 2019 second-quarter results.

Peter Wennink

Good morning / good afternoon ladies and gentlemen and thank you for joining us for our Q2 2019 results conference call.

Before we begin the Q & A session Roger and I would like to provide an overview and some commentary on the second quarter, as well as provide our view of the coming quarters. Roger will start with a review of our Q2 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 want.

Roger Dassen
Thank you Peter and welcome everyone.

I will first highlight some of the second-quarter accomplishments and then provide our guidance for the third-quarter of 2019.

Q2 net sales came in at 2.57 billion Euros, within our guidance.
Net system sales of 1.85 billion Euros was more weighted towards Logic at 61 percent, with the remaining 39 percent from Memory, representing a similar split as the previous quarter. We reported EUV system revenue of 764 million Euros on 7 shipments, which was one more than guided.

Installed Base Management sales for the quarter came in at 717 million Euros, which was a bit higher than guided.

Gross margin for the quarter was 43.0 percent, which was above guidance due to better EUV manufacturing results and higher field upgrade sales, more than compensating the negative mix effect in comparison to Q1.

Overall R&D and SG&A expenses came in as guided, with R&D expenses at 487 million Euros and SG&A expenses at 123 million Euros.

Turning to the balance sheet, 884 million Euros was paid as dividend and 15 million Euros worth of shares were repurchased in Q2. We ended last quarter with cash, cash equivalents and short-term investments at a level of 2.34 billion Euros.

Moving to the order book, Q2 system bookings came in at 2.83 billion Euros, which is 100 percent up from Q1 bookings, mainly driven by EUV, where we took 10 new orders in the quarter. Logic order intake was 67 percent of total value with the remaining 33 percent from Memory, again reflecting the strong logic demand expected this year.

Net income in Q2 was 476 million Euros, representing 18.5 percent of net sales and an EPS of 1.13 Euros. This was positively impacted by higher gross margin and a one-time tax benefit.

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

We expect Q3 total net sales of around € 3.0 billion Euros.
Our total net sales forecast for Q3 includes around € 750 million Euros of EUV system revenue, on 7 planned shipments.

We expect our Q3 Installed Base Management revenue to be around € 700 million Euros.

Gross margin for Q3 is expected to be between 43 percent and 44 percent, which is slightly higher than Q2. The expected improvement in margin due to expected higher volume will be partially offset by customer configuration mix. We continue to expect significant improvements in gross margin in the fourth-quarter driven by higher system sales, improved product mix, increased field upgrades, shipment of higher margin NXE:3400C systems, as well as contribution of EUV service revenue.
This will enable us to achieve a gross margin for Q4, which approaches our 2020 target of over 50 percent.

The expected R&D expenses for Q3 are around 495 million Euros and SG&A is expected to come in at around 125 million Euros. Our estimated 2019 annualized effective tax rate is around 9 percent, because of a one-time tax benefit in 2019. We still expect our long-term effective tax rate to be 14 percent.

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

Peter Wennink

Thank you, Roger.

As Roger has highlighted, although it was another modest but decent quarter, results came in at or above guidance and we expect further strengthening in the coming quarters. The macroeconomic environment continues to provide market volatility which translates to a level of uncertainty in the semiconductor industry. Demand for memory remains soft while excess inventories are being worked down in the supply chain. Some of the second half memory demand risk that we discussed last quarter has meanwhile materialized and resulted in system push outs this year into 2020. This memory weakness has been compensated by strengthening of logic demand such that our view of 2019 total sales remains unchanged. As such we expect 2019 to be a growth year with sales and profitability increasing throughout 2019.

In memory, the market continues to digest the high level of capacity additions put in place over the past few years. This digestion started last year and was exacerbated by decelerating macro-economic growth. This will likely extend throughout most of this year. Based on lower demand from our memory customers, we now see our memory sales down around 30 percent, year on year, versus 20 percent indicated last quarter. As discussed last quarter, we see two contributing components of memory demand this year. We have characterized one as strategic, which we expect will happen largely independent of market conditions. This includes both early Chinese domestic memory ramp and EUV for DRAM. This component is valued at approximately 1 billion euros, which we believe has low risk of push outs. The second is the bit supply component which we previously indicated as having a higher risk. If you remove the strategic component from our estimated 2019 memory demand, you get a lithography spend for memory bit supply of around 2.1 billion euros, which is around 45 percent lower than the comparable spend in 2018.

As we have already shipped around 1.2 billion euros to memory bit supply in the first half of the year, this leaves around 900 million euros in the second half of the year targeted for memory bit supply, which has an inherently higher risk profile than the strategic investments in memory. On the positive side, our memory customers continue to indicate they are making significant reductions in wafer output to an extent we haven't seen in previous downturns. This reduction in spend and lower wafer output will help in reaching a more normalized supply demand balance.

Logic will clearly be our growth driver in 2019 with the majority of the demand linked to new technology transitions and advanced node additions. We are seeing increased demand from our customers, driven by accelerated ramp of 7nm node and beyond supporting, amongst others, the introduction of 5G technology. With this strengthening, we now expect our logic business to be up around 65 percent for the year, relative to last year, which is 15 percentage points up from the 50 percent communicated last quarter.

Along with increased system demand in the second half, we also expect stronger demand for field upgrades which translates to low single digit percentage growth of Installed Base Management revenue.

Let me now turn to the ASML product side and update you on our EUV business.

In EUV, we recently demonstrated >170 wafers per hour on our first NXE:3400C system. We have also run >2000 wafers per day under customer memory production conditions. This is a significant milestone in that it confirms the required capability for memory production which means that our focus will be on stability and uptime to secure our customers' ramp plans. We plan to ship the first NXE:3400C system in Q3 with a higher number of C systems planned in Q4. As Roger mentioned, we shipped 7 EUV systems in Q2, one more than guided, and received ten orders.

As a confirmation of the potential of the NXE:3400C for cost-effective high-volume memory production, we received a number of EUV orders this quarter for systems slated for use in memory. Customers are aggressively bringing new technology to the market, which reflects on the solid demand for 30 systems this year. The demand for NXE:3400C systems has proven to be high. Our 2019 shipment plan is significantly skewed towards the second half of the year and to Q4 specifically. Next to the back loaded plan, we are also transitioning to a new scanner model, as I said earlier the 3400C, for which suppliers need to ramp their production. Taking both of these into account, there is risk of a few systems planned for Q4 moving into the first weeks of 2020. This risk has been taken into account in our comments regarding our full year 2019 sales outlook. In any case, the strong demand for the NXE:3400C, as well as the continued progress in the ramp of our production capacity, is clear.

In summary, despite uncertainty in the current environment, we continue to see a stronger second half with a strengthening of both sales and profitability quarter on quarter. Logic will be the primary driver of growth this year and demand has further strengthened from last quarter as customers accelerate the ramp of their advanced nodes. Memory demand has more uncertainty and has further weakened since last quarter. However, as mentioned before the stronger logic demand compensates for the weaker memory demand. In total, our overall sales outlook for the year remains unchanged and we expect 2019 to be another growth year.

With that we would be happy to take your questions.