

ASML reports € 3.0 billion sales at 43.7% gross margin in Q2

23 EUV orders reiterate customers' manufacturing plans in Logic and Memory

VELDHOVEN, the Netherlands, October 16, 2019 - ASML Holding N.V. (ASML) today's Investor Call - 2019 third-quarter results.

Peter Wennink

Welcome everyone, thank you for joining us for our third-quarter 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 third quarter, as well as provide our view of the coming quarters. Roger will start with a review of our Q3 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.

So Roger if you want.

Roger Dassen

Thank you Peter and welcome everyone.

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

Q3 net sales came in at € 3.0 billion, as guided. Net system sales of € 2.3 billion was heavily weighted towards Logic at 79 percent, with the remaining 21 percent from Memory, clearly showing the current strength of Logic business and the digestion mode of Memory business. We reported EUV system sales of € 743 million from 7 shipments as guided.

Installed Base Management sales for the quarter came in at € 661 million, which was a bit lower than guided, we expect this will be captured in a higher Q4 Installed Base sales.

Gross margin for the quarter was 43.7 percent, nicely within the range we guided.

Overall R&D and SG&A expenses came in as guided, with R&D expenses at € 493 million and SG&A expenses at € 129 million.

Turning to the balance sheet, € 154 million worth of shares were repurchased in Q3. We ended last quarter with cash, cash equivalents and short-term investments at a level of € 2.1 billion.

Moving to the order book, Q3 system bookings came in at a record € 5.1 billion, mainly driven by EUV, where we received 23 new orders in the quarter both from Logic and Memory customers. Logic order intake was 73 percent of the total value with the remaining 27 percent from Memory, again reflecting the strong Logic demand.

Net income in Q3 was € 627 million, representing 21 percent of net sales and resulting in an EPS of € 1.49.

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

We expect Q4 total net sales of around € 3.9 billion, which would represent another record year with approximately € 11.7 billion of sales.

Our total net sales forecast for Q4 includes around € 950 million of EUV system sales, from 8 planned shipments. Four systems originally planned in Q4 will now ship in early 2020, due to temporary supply constraints in the NXE:3400C ramp.

We expect our Q4 Installed Base Management sales to be around € 850 million, which is almost € 200 million higher than Q3, driven by strong demand for field upgrades.

Gross margin for Q4 is expected to be between 48 percent and 49 percent, which is significantly higher than Q3. The expected improvement in margin is due to higher system volume, higher ASP for NXE:3400C model, DUV product mix, higher EUV service sales and higher field upgrade sales.

The expected R&D expenses for Q4 are around € 500 million and SG&A is expected to come in at around € 135 million. Our estimated 2019 annualized effective tax rate is around 7%, due to several tax benefits in 2019. We still expect our long-term effective tax rate to be 14 percent.

Regarding our capital return. ASML announces that it has revised its capital return policy to provide for dividend payments on a semi-annual basis. ASML's dividend proposals will continue to be subject to the availability of distributable profits or retained earnings and other factors, such as future liquidity requirements.

The interim dividend over 2019 will be € 1.05 per ordinary share. The ex-dividend date as well as the fixing date for the EUR/USD conversion will be November 4, 2019 and the record date will be November 5, 2019. The dividend will be made payable on November 15, 2019.

In January 2018, ASML announced its intention to purchase up to € 2.5 billion of shares, to be executed within the 2018–2019 time frame. ASML intends to cancel these shares after repurchase, with the exception of up to 2.4 million shares, which will be used to cover employee share plans.

Through September 29, 2019, ASML has acquired 8.2 million shares under this program for a total consideration of € 1.4 billion. ASML does not expect to purchase the full € 2.5 billion worth of shares within the 2018-2019 time frame. In line with our policy to return excess cash to shareholders through growing annualized dividends and regularly timed share buybacks, we will decide on a new share buyback program next year.

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

Peter Wennink

Thank you, Roger.

As Roger has highlighted, it was a good quarter and provided another clear signal on the increasing customer confidence in EUV technology, as witnessed by the strong EUV order volume for both Logic and Memory manufacturing. We expect a very strong fourth quarter in both sales and profitability, again driven by Logic demand for both EUV and DUV. This further confirms 2019 to be a Logic driven year, as we indicated at the start of the year, fueled by end market applications requiring high performance compute, such as 5G and AI, which drives demand for leading edge Logic. This in turn translates to demand for both EUV and DUV in support of the most advanced nodes as customers accelerate their ramp plans for 7nm and beyond.

In Memory, the market continues to digest inventory in the supply chain and operate with reduced wafer output as they work to reach a more normalized supply demand balance. This translates into a weak demand from our Memory customers and we see a significant reduction in our Memory business this year as indicated in earlier conference calls. We expect this weaker demand environment to continue through Q4 of this year whereby the timing of the recovery still remains uncertain.

We continue to expect low single digit percentage increase in our Installed Base sales this year.

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

In EUV, customers continue to ramp this technology in volume manufacturing and have publicly announced some of their first EUV manufactured devices. We continue to make solid progress and shipped our first NXE:3400C systems this quarter for use in volume manufacturing. The NXE:3400C will deliver an increase in productivity of over 35% which will provide significant customer value and bring profitability in our EUV business more in line with the rest of the business. The higher productivity of the NXE:3400C demonstrated the required capability for Memory insertion, as evidenced by the system orders, as well as a potential increase of layer adoption in Logic. Of the seven EUV systems shipped this quarter, three were NXE:3400C systems and we plan to ship another six NXE:3400C systems next quarter, of the total eight systems planned in Q4. As Roger mentioned, there were some temporary challenges in the supply chain as we ramp our output capability and transition to a new fully configured NXE:3400C model. These supply constraints resulted in movement of a few systems, originally planned to ship in Q4, into early next year. Customers are aggressively bringing new technology to the market and with increased customer confidence around EUV technology, we are seeing strong demand for our EUV systems, as witnessed by the strong order intake of 23 systems in Q3. These systems are planned for the ramp of 7nm Logic node and beyond as well as insertion in 1Z and 1A DRAM production. To meet strong customer demand for our NXE:3400C systems, we have a production plan in place for 35 EUV systems next year, which includes the systems originally planned in 2019.

To summarize 2019, we see a strong fourth quarter, in both sales and profitability. Logic has been the primary driver of growth this year and demand has strengthened as customers accelerate the ramp of their advanced nodes. Memory demand remains weak as customers work to reduce inventory and improve fab utilization. Our overall view for the year remains largely unchanged and we confirm 2019 to be another year of growth.

Regarding our outlook for next year, it is too early to provide quantitative expectations but will make a few qualitative comments. Major innovation drivers in applications like Artificial Intelligence, 5G, Autonomous Driving and Big Data are driving a clear secular growth path in high performance Logic at the advanced nodes. Logic demand is currently strong and although different Logic customers are at different phases of accelerating their roadmap, we expect this demand to remain healthy, primarily driven by EUV, as we look into next year. As customers transition to the 7nm node and beyond, with increasing EUV layers, it is also driving strong demand for our EUV systems. As all systems are expected to be NXE:3400C systems next year, we expect to not only see an increase in unit volume but also expect to see significant growth in EUV sales next year.

These new application drivers not only require high performance Logic but also require high performance Memory to maximize value. Memory demand is more cyclical in nature and the Memory market conditions today do not yet reflect what we would call "moderate market conditions" per the scenario we used to model 2020, as was shown during our Investor Day last year. Although the Memory market is widely expected to recover next year, there is uncertainty on the timing and when it will trigger demand for wafer fab equipment additions, and more specifically demand for our DUV and Applications products. When the Memory market recovers, history has shown that the demand can change quickly, and it likely will be the case again this time.

The timing and degree of this memory recovery in combination with the current outlook for Logic demand will determine the ultimate 2020 product mix between EUV, DUV and Applications products. This not only forms the basis for another year of growth but, depending on this mix, will also determine the margin profile for the year as our EUV margin improvement is well underway but not yet at the DUV levels.

Regarding Installed Base business next year, we expect the service portion of this business to grow nicely as our Installed Base grows. As our customers start running EUV in high volume production we therefore expect to see more EUV service sales next year. There are also a large number of upgrades planned next year that we expect will drive significant growth in our upgrade business.

In summary, the positive momentum in EUV is reflected in the increasing confidence of our customers as they accelerate the adoption of EUV technology in volume manufacturing. Although there is still some short-term uncertainty around timing and degree of the memory recovery, we are optimistic on the medium to long-term secular trends which underpin the confidence we have in our 2025 growth scenarios.

With that we would be happy to take your questions.