

Transcript

Video Interview with ASML CEO Peter Wennink

Q2 2020 results

July 15, 2020

COVID-19

Mr. Wennink, the COVID-19 situation had some impact on the previous quarter for ASML. How is the situation today and how are you managing risk?

Well, we are managing risk through our amazing ASML people. If you look at the challenges that they had to deal with, they were committed, engaged, creative. This is why I think the company is in pretty good shape. So, first of all thanks to our people.

How do we manage? You have to look at the facts. We're still procuring our parts, we're building our systems, we're shipping them, we're upgrading them, servicing our customers. You know, Q2 was not without challenges. Especially the first half. I want to make a distinction between the first half of the quarter and the second half. The first half we had some supply issues because of lockdowns, absenteeism around the world. But actually, the second half of the quarter came back to normal. Actually we're in pretty good shape. So of course, depending on any unforeseen outbreak of COVID-19 around the globe, I think we are managing well.

Q2 Results

Can you give us a summary of the Q2 results?

Q2 results were pretty good. We had €3.3 billion in sales. That could have been €3.6 billion because of the COVID situation in Q2. We had some delays in the production in the beginning of the quarter and that's why we shipped two EUV systems without FAT – Factory Acceptance Test. So the revenue will be recognized for those two systems later on in this year. If we would have been able to book those two systems as revenue, the sales would not have been €3.3 but €3.6 billion. Which is the 50% increase that we talked about three months ago. So that was good. Gross margin over 48%.

Also we indicated in the last quarter that would go up quite significantly and that was the result of, I think, the increase in DUV profitability, the upgrade business that we had and of course we're starting to generate EUV service revenue. So that was good. Net income just over €750 million. We saw a higher tax rate which was basically as a one-time prior period tax assessment that lifted it to 18%. For the remainder of the year, I think for the total year, we would guide at around 14%. On orders: €1.1 billion of orders. That might look low in comparison to the previous two quarters. Previous two quarters in aggregate was about €5.5 billion. But then you need to look at where we are from an orderbook point of view. Our orderbook is a little shy of €10 billion with 54 EUV systems. So very well prepared for the growth of the business in the remainder of the year, well into 2021.

Any updates on your products portfolio?

Yes. Also Q2 was a good quarter in that sense. Very important we shipped our first multibeam tool. It was prepared to be shipped in Q1 but because of the COVID lockdowns we couldn't ship, so we shipped in Q2. Very important, I mean it will give our customers a very significant potential in higher productivity in wafer inspection. That's one. Also very important we shipped the first dry DUV tool on NXT platform. Why is that important? Well it gives a much higher potential for productivity, which will drive the cost of dry DUV down. It is the NXT:1470, very important.

We also added a little piece to our technology product portfolio. Through a bolt-on acquisition of the shares, we signed an agreement to acquire the shares of Berliner Glas. Basically a manufacturer of very high-end ceramics and optics and optical modules. Very important for the future roadmap for EUV and for DUV. We have to go through regulatory approval but we think that can be done over the next couple of months. So that will close before the end of the year. All in all you see some good developments, very good developments in the product portfolio. Which is very important for the future of this company.

EUV

When it comes to EUV, how are you progressing with EUV?

EUV is really getting into the realm of high-volume manufacturing, HVM. It is just becoming part of our normal operational profile. In the second quarter we made good progress in shipping the modular vessel, which is a new solution to our EUV source, with in-line tin refill. Very good. I think also as from Q3 onwards, on the NXE:3400C we don't expect that we need to ship systems without a Factory Acceptance Test. So we will go back to normal revenue recognition in Q3. That's the expectation. All in all still, our EUV sales, as we said before, will be around €4.5 billion. 35 EUV systems and we're still building out our capacity to 45 to 50 systems next year. How many will we ship next year? That's, of course, also dependent on the economic development as a result of the COVID crisis. We don't know what the impact of the recession will exactly be. So we will probably get a little bit more clarity in the second half of this year what 2021 is going to look like with respect to how many EUV systems we're going to ship.

Investments

So, business looks good. Are you planning to change your capital allocation policy moving forward?

The business looks pretty good and I think where we are when you look at the roadmap of our customers, our own roadmap, the secular trend of growth of sales and profitability is clearly there.

And it means we will generate significant amounts of cash. As is very clear to everybody, our cash return policy is based on: let's use the cash first for our business, then we'll pay a growing but, in any case, stable dividend and then for the remainder we will do share buybacks. Now that is still in place. We have a share buyback program of €6 billion over the next three years.

For the short term, I think for the next couple of quarters in terms of capital allocation, we're focusing on CAPEX as we will have some more CAPEX spend in 2020 as we indicated earlier. That's for High-NA and also High-NA investment in Carl Zeiss that will extend into 2021. Because we grow, we will have more working capital, clearly because there is a growth profile of the company and we strongly believe in that. On top of that, we will see the next couple of quarters that the extended payment terms we have given our customers – those customers that actually took the tools in their early high-volume manufacturing ramp – we granted them some extended payment terms which will peak in the course of this year and they will come down significantly in 2021. That will also transition into context with our customers – not on extended payment terms, but on pre-payments. So we are negotiating now with our customers pre-payment schedules that will actually help also our cash profile. Particularly starting in 2021. So all in all, it looks pretty good.

China

Regarding the current US-China trade situation. Is ASML impacted by the recent US export control changes and restrictions on Huawei?

I think the short-term impact and the medium-term impact of the new set of regulations is very limited on us. It doesn't impact our short-term shipment profile and I think medium to long term you just need to take a little step back and look from a little higher perspective. I mean you really need to ask the question: will innovation stop because of this? Of course not. The innovation roadmaps of our customers are there. Our innovation roadmap is there. Why? Because it needs to fuel this digital infrastructure that we're currently rolling out. 5G will be there, artificial intelligence will be there, we need high-power compute, we need Memory to support that. That will not go away. And all the devices and chips will need to be made to support that. Now then, the question is which company is going to provide those devices and those types of equipment. Is it company A or company B? It doesn't really matter. The wafers will be needed and we will support the lithography systems that make sure we can make those wafers.

Outlook

Due to COVID-19 you did not provide guidance for Q2. What is your outlook for the next quarter?

For Q3 we are basically back to normal. That also means it is pretty much under control. Of course we cannot predict any local outbreak of COVID-19 which could lead to a local lockdown situation somewhere around the globe. It feels pretty much under control. That's why we also guide for Q3 between €3.6 and €3.8 billion in sales. Between 47% and 48% gross margin.

I think for the total year, it is what we said at the beginning of the year. I think our view as to 2020 really didn't change that much you know. I like to reiterate what we said at that time because it's still applicable. I think the Logic business will be approximately the same as in 2019, the same level. Memory could grow with 30% in 2020, as compared to 2019. Our Installed Base business with 20%. You can add it all up and you clearly know that 2020 will be a growth

year. A growth year in terms of topline and profitability. So all in all I think we're in a healthy situation.

Customers

When it comes to your customers, what's the situation at your customer base at present?

It's an interesting question because if you think about the industry and our customers we need to put this into the current context. The current context is: COVID-19 is there. It will clearly have an impact on the global economy. There will be a recessionary environment which will impact consumer spending, because we can all expect that unemployment will go up. Now consumer spending and consumer electronics of course have a relationship. So that will very likely have a negative effect on the end markets and I think then also indirectly on us and on our customers. That's the negative side. But the positive side is there is a very clear transition from what I would call the physical infrastructure to the digital infrastructure. Data traffic is exploding. That's also what our customers are seeing. Significant investments in data centers. In working from home infrastructure. That is very positive. So if you put it all together, you get a pretty balanced view.

And if you then translate that into the different segments that we're working in: Logic is driven by the roadmap. 7 nm is rolling out, 5 nm is being prepared for ramp next year. It is all there to support this digital infrastructure. It is pretty healthy. Then Memory, we said it also last quarter Memory is actually coming out of a downturn and we saw that trend of increase in utilization for our litho tools in the Memory space continuing. And it looks healthy and it is corroborated and also confirmed by customers who are actually looking at the market and of course seeing the potential downside in the consumer market, but clearly seeing the upside in the data infrastructure market. So that looks healthy.

It is also evidenced by our shipment profile and by the orderbook. Our Installed Base business, our Installed Base units are growing. EUV is generating service revenue. That also looks pretty healthy. EUV upgrades to the next generation of productivity are being planned, are being executed. That's what our customers need and they want it.

So all in all, if you just look at the balance of it I think we're probably – when you look at the total world economy and other types of industry – we're well placed and you can say we're in a privileged place. That shows. It shows in our financial results, it shows in the order backlog, it shows in the confidence of customers to keep executing on the roadmap. Innovation will be the name of game and it will put us through this crisis and like I said earlier, the secular growth trajectory of this company is very much intact.