

Transcript

Video Interview with ASML CFO Roger Dassen

Q3 2020 results

October 14, 2020

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Mr. Dassen, to kick off, can you give us a summary of the Q3 results?

Q3 was a strong quarter. Starting with the topline: we were able to recognize €4.0 billion of revenue. Primarily driven by the fact that we were able to recognize revenue for 14 EUV systems, 10 based on shipments this quarter, 4 based on shipments in Q2 that we deferred revenue for into this quarter. Included in that number, €862 million of Installed Base revenue. At the gross margin level, 47.5% which is smack in the middle of the guidance. Which I think is particularly strong in light of the fact that we had so much EUV revenue in there. Net income €1.1 billion. If we look at the order book: €2.9 billion, which is a good number for this quarter. Included in there €595 million of EUV, which represents 4 systems. This is a net booking because in that 4 we also had a demand decline which was related to a delay in node transition.

Important also for this quarter, the fact that we were able in the first days of Q4 to have the shipment of the very first immersion system NXT: 2050i. Which is a system that presents quite some value to the customer based on the fact that it has better overlay control and also has better throughput. On the COVID situation we had no major disruptions, neither in our own operations nor in the supply chain. So all in all, a pretty good quarter.

EUV

Can you give us an update on how you are progressing with EUV and what your expectations are for the next year regarding EUV?

So first off, we are reiterating the comments that we made in the past. We really do see quarter-on-quarter improvements in customer confidence in the technology. That really translates into - if you look at Logic - into more and more layers in Logic for EUV. On the Memory side, particularly on DRAM obviously, we see that the insertion of EUV into DRAM manufacturing is becoming stronger and stronger. So really good progress on that front.

Also on the capability front we talked about the improvements in cycle time. So very much on track to reduce cycle time to 20 weeks by the end of this year. That really gives us the capacity to do 45 to 50 systems. So really good progress on that front.

If you look at shipments: all the way through Q3 we had 23 EUV shipments. If I look at the full year, we are going to be a few systems shy of 35. That is based on customer fab readiness issues that we had and also a delay in node transition, both timing wise and also in the slope of that node transition. Nonetheless, I do believe that we are approaching the €4.5 billion that

we've indicated for EUV revenue this year. You also asked about next year. Of course there are many uncertainties as everyone will appreciate. There are the uncertainties macro wise. Based on everything that is going on in the geopolitical environment. Of course there is the question related to COVID and what kind of economic recovery we're going to see.

So you know there are many uncertainties there. We also talked about the uncertainties related to node transitions, the timing thereof and also the slope of the node introduction. So of course with all that, nonetheless we do expect for next year to see a 20% improvement in the EUV revenue for 2021.

And what about EUV margin?

So still very much on track for the 40% EUV margin for the full year on EUV systems sales. Also this was the first quarter where we were able to achieve a break-even situation on EUV service margin. On both fronts, both on systems margin and also on service margin we continue to make progress, primarily by driving down the cost and also by improving the value to our customers. As we said before, I think that in a two or three-year timeframe we will see that EUV gross margin is going to approach the DUV margin.

Q4 and full year 2020

What's your view for the next quarter and the full year?

For the next quarter Q4 we guide €3.6 to €3.8 billion. Which is a little bit different in terms of composition. There is a little bit a higher portion of Memory sales in that number. In terms of gross margin we guide 50%. That's a good uptick from what we've seen in the past quarters. If you then translate that into the full year, that would mean that we actually end up at least at €13.3 billion for the full year in terms of sales. Which is very much in line actually with what we guided at the beginning of the year. Not just in terms of absolute numbers, but also in terms of composition between Logic, Memory and Installed Base revenue. Which I think is a pretty good achievement in a year that was so much dominated by all the challenges in the macro environment, particularly obviously the COVID situation. So very pleased with the fact that we were able to get to that number and again a big thank you to everyone at ASML, but also in the entire ecosystem for being fully committed to making that work.

China

Regarding the current US-China trade situation. Is ASML impacted by the US restrictions on the Chinese company SMIC? And can you give us an idea of your business in China?

Let's start there. In terms of the business that we do in China. Last year we did about €800 million of sales to indigenous Chinese customers. This year it's going to be a bit more, a little over a billion euros this year. It's a little bit skewed towards Logic this year. Obviously the customer that you are talking about is a major Logic customer.

That said we're not going to speculate or comment on specific customer situations as you will appreciate. I would say in general, we continue to serve and provide service to our customers, to the extent that we can. To the best of our abilities. But obviously within the boundaries of legal and regulatory requirements.

We are aware of the US authorities' regulations and also interpretation of regulations obviously, so we are aware of that as it relates to specific Chinese customers. If we translate that to what it means for ASML in general - for specific Chinese customers - it means that we will be able to ship DUV lithography systems from the Netherlands to such Chinese customers without an export license. But as it relates to parts or systems that are being shipped directly from the US to such customers we would need to obtain an export license for that.

Cash Flow

You earlier talked about plans to improve your Free Cash Flow, can you give us an update on this front as well as for your capital allocation?

Yes, maybe recapping what we said last time about free cash flow. As everyone knows there is significant investment in capex, which is primarily geared towards the High-NA investments that we're making, but also some other capability related investments that we're making. So that's a significant portion obviously within the free cash flow. Also in response to the COVID challenge, we made sure that we had extra inventory. So our inventory level is relatively high just to cater to that uncertainty.

And then last quarter we also spoke about the transition period we find ourselves in. On the one hand we're moving more and more in new contracts towards down payments, particularly on EUV systems. Whilst on existing contracts, which to a certain extent are a couple of years old, we still have situations where in fact we didn't have down payments, but we actually had extended payments. So we're in that transition period. I think we're going to see the first benefits of that transition kicking in in Q4. Then we'll see a continued improvement on that front in 2021.

As it relates to capital allocation, first off dividend wise we will provide an interim dividend in November of €1.20 per ordinary share. As it relates to Free Cash Flow, we have a €6 billion program over a three year period which we announced at the beginning of this year. You know that we paused executing on that at the end of Q1 in light of the COVID uncertainty and given where we are now, we will start resuming the execution of that share buyback program in Q4.

Outlook 2021

To close off, what's your view for the next year for 2021?

So for 2021, as I mentioned also when we talked about EUV, of course there are many uncertainties that we have to recognize and those uncertainties are at the macro front, so this is about the geopolitical situation that we talked about a little bit and also as I mentioned before, the type of recovery that we're seeing at the macro-economic level coming out of the COVID situation. So of course we have that uncertainty. But that said, our expectation is that we will see

a low double digit growth for 2021. Which is primarily based on a 20% improvement that I referenced earlier on, on the EUV sales number. How much of a growth that will be obviously depends on many factors.

First off, geopolitical and macro - we talked about that. More specifically, if we look at the Memory market, most of our customers believe that the inventory issue particularly on DRAM will probably have itself sorted by the end of this year. And based on that, they do expect bit growth to go up next year. That is pretty consistent also with the order intake that we see and the orders that we have and the arrangements that we have with Memory customers for next year. So from that vantage point we do believe that the uptick in Memory sales that we expect for Q4, we expect that to continue to go into next year.

On the Logic front we still expect a healthy Logic market. But of course it depends on the stuff that we talked about earlier on. The timing and the slope of the node introductions. So that will be an important part in that regard.

Installed Base: looking strong. Also there we do expect continued growth which to a certain extent is based on regular service. Which again is based on the installed base that we have. How much of a growth will again be dependent on how much we see in field upgrades.

So all in all, some uncertainty obviously as a result of all the things that we just mentioned. But I think we're still looking at a good growth year for us next year. And I think it's important to also recognize that all the uncertainty that we're talking about really is short term uncertainty. The longer term drivers of our business are clearly still there. If you look at the secular trends in our end markets, so you look at AI, you look at high-performance compute, you look all the developments around 5G. You know, they're running on all cylinders, those developments are running on all cylinders. That really drives the longer term interest in our product and they provide still a very solid underpinning for the growth expectations that we have articulated for the 2025 time frame.