ASML reports €4.4 billion net sales and €1.3 billion net income in Q1 2021
Strong demand across markets drives expected sales growth towards 30% in 2021

VELDHOVEN, the Netherlands, April 21, 2021 - ASML Holding N.V. (ASML) today's Investor Call – 2021 first-quarter results.

Peter Wennink
Welcome everyone, thank you for joining us for our Q1 2021 results conference call. I hope all of you and your families are healthy and safe.

Before we begin the Q & A session Roger and I would like to provide an overview and some commentary on the first quarter as well as provide our view of the coming quarters.
Roger will start with a review of our Q1 2021 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.

Roger Dassen
Thank you Peter and welcome everyone.

I will first review the first-quarter financial accomplishments and then provide guidance on the second quarter of 2021.

Net sales came in above guidance at 4.4 billion euros primarily due to higher installed base business from upgrades.

We shipped 9 EUV systems and recognized 1.1 billion euros revenue from 7 systems this quarter. Due to the delay in one of our customer's roadmaps, we jointly decided to buy back two of their new systems and ship these to another customer this year. This was accounted for as a revenue reversal in Q1 2021. For the system shipped in Q4 2020 with a new configuration, we were able to complete site acceptance and recognized revenue this quarter. We also shipped one system this quarter without factory acceptance testing so revenue will be recognized in the subsequent quarter after customer site acceptance. Again, the net result is 7 EUV revenue systems in Q1.

Net system sales of 3.1 billion euros was again more weighted towards Logic at 78 percent, with the remaining 22 percent from Memory. The strength in Logic drives both DUV and EUV revenue. The Memory business is mainly driven by DRAM.

Installed Base Management sales for the quarter came in at 1.2 billion euros, above guidance, due to increased upgrade business as customers pull forward software upgrades that can quickly increase productivity of systems in this high semiconductor demand environment.

Gross margin for the quarter was 53.9 percent and was above guidance due primarily to the additional software upgrade business.

On operating expenses, R&D expenses came in at 623 million euros and SG&A expenses at 168 million euros, which was slightly above our guidance.

Net income in Q1 was 1.3 billion euros, representing 30.5 percent of net sales and resulting in an EPS of 3.21 euros.

Turning to the balance sheet.

We ended first-quarter with cash, cash equivalents and short-term investments at a level of 4.7 billion euros.

Moving to the order book, Q1 net system bookings came in at 4.7 billion euros, including 2.3 billion euros for EUV systems and another strong quarter of DUV demand. Order intake was largely driven by Logic with 76 percent of bookings, primarily due to EUV order intake, with Memory accounting for the remaining 24 percent,

With that I would like to turn to our expectations for the second quarter of 2021.

We expect Q2 total net sales to be between 4.0 billion euros and 4.1 billion euros, the directionally lower guidance is primarily due to shipments in the quarter, both EUV and DUV, that will not receive factory acceptance testing due to customers' desire to bring systems into production as quickly as possible. Therefore we will recognize revenue in subsequent quarter(s) after completion of acceptance testing at customer site. In addition, the Installed Base business is expected to be lower in Q2 versus Q1 as customers pulled forward installation of productivity software upgrades to quickly increase wafer capacity.

We expect our Q2 Installed Base Management sales to be around 900 million euros.

Gross margin for Q2 is expected to be around 49 percent. The lower gross margin quarter-on-quarter is mainly due to delayed revenue from immersion systems that we plan to ship without factory acceptance testing as well as lower Installed Base Management sales versus Q1.

The expected R&D expenses for Q2 are 650 million euros and SG&A is expected to come in at 175 million euros, reflecting a continued investment in the future growth of the company. In support of our aggressive product roadmaps and opportunity to pull in some of our high value product developments, we plan to increase our R&D investments, primarily in EUV, via increased development capacity. Furthermore, this increase will allow us to compensate for remote work impact. We don't expect this increase to scale at the same level as our revised revenue increase, with R&D expenses for 2021 around 14 to 15 percent of sales. We expect SG&A to remain around 4 percent of sales for 2021.

Our estimated 2021 annualized effective tax rate is expected to be between 14 percent and 15 percent.

As mentioned last quarter, ASML intends to declare a total dividend with respect to 2020 of 2.75 euros per ordinary share. This is a 15 percent increase compared to the 2019 dividend. Recognizing the interim dividend of 1.20 euro per ordinary share paid in November 2020, this leads to a final dividend proposal to the Annual General Meeting of 1.55 euro per ordinary share. The 2021 Annual General Meeting of shareholders will take place on April 29, 2021 in Veldhoven.

In Q1 2021, ASML purchased 3.5 million shares under the 2020 through 2022 program for a total amount of over 1.6 billion euros. Our expected free cash flow generation enables the opportunity for continuation of significant share buybacks in the coming quarters and we expect to complete the execution of our current Share Buyback program early.

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

Peter Wennink
Thank you, Roger.

As Roger has highlighted, we had a very strong quarter in both sales and profitability, driven by continued strength in both Logic and Memory as well as a significant demand for upgrades as customers look to bring additional capacity online as quickly as possible. The additional upgrades consisted primarily of software based productivity packages. We are seeing a significant increase in demand from our customers across all market segments and all nodes, mature and advanced, compared to three months ago and we expect another very strong year with demand across our entire product portfolio.

The steeper than expected recovery in demand for semiconductors, amplified by the COVID induced lower investments of the industry in 2020, has created significant upside to demand over the past quarter. This more cyclical demand sits on top of the secular growth from the accelerated build-up of the worldwide digital infrastructure and is fueling demand not only for advanced and mature Logic nodes but also for Memory.

In Logic, customers continue to see strong demand across a broad application space for both advanced nodes as well as mature nodes. Last quarter we expected revenue from Logic in 2021 to be up 10 percent year on year, however we now expect Logic to be up around 30 percent this year.

In Memory, the applications that are driving the strong Logic demand are also fueling demand for Memory. As we mentioned in earlier calls, the Memory recovery started last year and continues to strengthen as customers' plans to increase capacity is driving significant demand for our systems in the second half of the year. Compared to last quarter where we expected revenue from Memory in 2021 to be up 20 percent year on year, we now expect Memory revenue to be up around 50 percent this year.

On our Installed Base business, service revenue will continue to scale with the growing installed base and with increasing contribution from EUV services as these systems run more and more wafers in volume production. We are also supporting our customers with upgrades to maximize performance of their installed base. In order to meet the high demand in the current tight chip supply environment, customers are prioritizing software upgrades to quickly increase capacity, as reflected by our higher upgrade number in Q1.

Some hardware upgrades require extended machine time to be installed and in the current high demand environment customers will be less willing to take systems down which has a dampening impact on the 2021 growth profile of hardware upgrades. We therefore still expect growth of our Installed Base business of around 10 percent this year as mentioned last quarter.

On EUV, we continue to see increasing customer confidence in this technology, which is translating to expanding layer counts in Logic and increasing deployment of EUV in Memory at multiple customers evidenced by a number of customer announcements around increases in their capex plans which will include spending on EUV for advanced nodes.

To support this strong EUV demand, we are working to increase our output capability. At the same time, we are driving our product roadmap to produce higher productivity machines which will increase the effective EUV capacity per system and the wafer output capacity of our customers. We plan to transition to the NXE:3600D system in the second half of the year, which will provide customers with a 15 to 20 percent higher productivity compared to the NXE:3400C systems shipping in the first half of the year. Limited by the available modules and parts this year, we are still planning for growth of around 30 percent in EUV revenue this year.

With the expanding adoption of EUV at our customers, we see increased demand building in 2022 and beyond. We are improving our manufacturing cycle time and are planning our supply chain for a capacity of around 55 systems next year. As a reminder, all of our planned shipments in 2022 will be NXE:3600D systems with the increased productivity capability.

Our strengthened outlook on the year relative to last quarter is primarily driven by demand for DUV systems. With increased demand on leading edge nodes, as well as mature nodes running longer and ramping stronger, demand for both our immersion and dry systems is stronger than ever. We have put in place plans to increase our DUV capacity to help meet our customers' increased demands.

In our Applications business, as demand for scanners continues to increase, we expect a step up in demand for our YieldStar metrology systems, particularly in Logic. The newly released YieldStar 385 is beginning to ramp across our customer base as well. With the recovery in memory, specifically in 3D-NAND, we expect a substantial increase in e-beam inspection revenue this year.

For the industry at a high level, we see three trends driving considerable growth this year and in the years to come:

The first trend, in the shorter term there is a more cyclical or “catch-up” driven demand from decisions made in 2020 due to the global pandemic. These shortages were initially evident in the automotive market but more recently there are also indications of supply tightness impacting other market segments. We expect this to drive considerable demand for lithography systems this year and into next year.

The second, is a secular growth trend driven by the digital transformation taking place as we become a more connected world, across both people and machines. This transformation was further accelerated over the past year with the increased remote activity and reliance on technology to stay connected. These secular trends are driven by expanding end market applications such as 5G, AI and High Performance Computing. These and other mobile, distributed applications drive demand for both advanced Logic as well as more mature technology required for the services and applications that drive the growth of the digital infrastructure. Along with increased Logic demand comes increased Memory demand. This in turn drives demand across our entire product portfolio.

And the third trend, which we are starting to see now and which we will likely continue to see longer term, is the desire for more technology sovereignty which includes semiconductor and silicon based technology, leading to a geographical decoupling as different governments put initiatives in place to localize supply chains and become more self-sufficient. This inevitably will create some level of inefficiency in the semiconductor supply chain and creates additional equipment demand as more fabs are strategically built across the globe.

If you summarize the growth of the different segments and the trends just discussed, we now expect sales growth towards 30 percent this year. To achieve this growth, we are ramping up our capacity to support customer demand, resulting in a stronger second half.

With the higher revenue and increased mix of DUV and upgrades, we now expect gross margin to be between 51-52 percent this year.

For the industry as a whole, the long-term demand drivers only increase our confidence in our future growth outlook towards 2025.

We plan to provide an update on our 2025 scenarios at our Investor Day in September.

With that we would be happy to take your questions.