

ASML reports €4.0 billion net sales and €1.0 billion net income in Q2 2021
Net sales now expected to grow by around 35% in 2021

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

Peter Wennink

Welcome everyone, thank you for joining us for our Q2 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 second quarter as well as provide our view of the coming quarters. Roger will start with a review of our Q2 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 second-quarter financial accomplishments and then provide guidance on the third quarter of 2021.

Net sales came in within guidance at 4.0 billion euros. The guided lower revenue was due to a number of systems in the quarter that did not receive factory acceptance testing due to customers' desire to bring systems into production as quickly as possible. Therefore, revenue will be recognized in subsequent quarters after completion of acceptance testing at customer site.

We shipped 10 EUV systems and recognized 1.3 billion euros revenue from 9 systems this quarter. Two EUV systems shipped this quarter without factory acceptance testing so revenue will be recognized in the subsequent quarter after customer site acceptance. For the system we shipped in Q1 without factory acceptance testing, we were able to complete site acceptance test and recognize revenue in Q2. Again, the net result is 9 EUV revenue systems in Q2.

Net system sales of 2.9 billion euros was again more weighted towards Logic at 72 percent, with the remaining 28 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 1.1 billion euros, above guidance, due to increased upgrade business as customers continue to pull forward software upgrades that can quickly increase productivity of systems in this high semiconductor demand environment.

Gross margin for the quarter was 50.9 percent and was above guidance primarily due to the additional software upgrade business and one-off revenue accounting releases.

On operating expenses, R&D expenses came in at 634 million euros and SG&A expenses at 172 million euros, which was slightly lower than our guidance.

Net income in Q2 was 1.0 billion euros, representing 25.8 percent of net sales and resulting in an EPS of 2.52 euros.

Turning to the balance sheet.

We ended the second quarter with cash, cash equivalents and short-term investments at a level of 5.4 billion euros.

Moving to the order book, Q2 net system bookings came in at a record 8.3 billion euros, including 4.9 billion euros for EUV systems. The very strong order intake for both EUV and DUV is a reflection of the global demand environment across all markets. Order intake was largely driven by Logic with 71 percent of the bookings, and Memory accounting for the remaining 29 percent. The majority of EUV orders continue to come from Logic customers but we also had our largest EUV order intake for DRAM this quarter, coming from multiple customers.

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

We expect Q3 total net sales to be between 5.2 billion euros and 5.4 billion euros.

We expect our Q3 Installed Base Management sales to be around €1.0 billion euros.

Gross margin for Q3 is expected to be between 51 percent and 52 percent.

The expected R&D expenses for Q3 are around 645 million euros and SG&A is expected to come in at around 180 million euros. R&D expenses for 2021 are expected to be around 14 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 around 15 percent.

In Q2, ASML paid a final dividend of 1.55 euro per ordinary share or 639 million euros. Together with the interim dividend paid in 2020, this results in a total dividend for 2020 of 2.75 euros per ordinary share. This is a 15 percent increase compared to the 2019 dividend.

In Q2 2021, ASML purchased 3.6 million shares under the 2020 - 2022 program for a total amount of around 2.0 billion euros.

As part of ASML's financial policy to return excess cash to its shareholders through growing dividends and share buybacks, ASML announces a new share buyback program which will start on July 22, 2021 and is to be executed by 31 December 2023. As part of this program, ASML intends to repurchase shares up to an amount of 9 billion euros, of which we expect a total of up to 0.45 million shares will be used to cover employee share plans. ASML intends to cancel the remainder of the shares repurchased. The new program will replace the previous 6 billion euros share buyback program 2020 through 2022, under which ASML has repurchased approximately 11.7 million shares for an approximate amount of 5.2 billion euros, and which will not be completed for the full amount in light of the new share buyback program.

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 good quarter in both sales and profitability. We are seeing continued strong demand from our customers across all market segments, from both advanced and mature nodes, driving demand across our entire product portfolio.

Compared to last quarter where we expected an annual sales growth rate towards 30 percent, we now expect revenue to be up around 35 percent this year. The higher sales growth comes from our ability to increase output in our factories and in the supply chain as we work to meet the strong customer demand.

Looking at the different market segments and changes from last quarter, we now expect stronger growth rates across all markets. In Logic, global demand continues to be strong across a broad application space in both advanced and mature nodes. Compared to last quarter where we expected 2021 Logic revenue to be up 30 percent year on year, we now expect Logic to be up around 35 percent this year.

In Memory, customers see tight supply-demand dynamics continuing into next year. Compared to last quarter where we expected 2021 Memory revenue to be up 50 percent year on year, we now expect Memory revenue to be up around 60 percent this year.

In our Installed Base business, for the second quarter in a row, our upgrade business has been stronger than guided. Customers are looking to upgrades to provide the fastest path to increase their wafer output capability. Compared to last quarter where we expected 2021 Installed Base revenue to be up 10 percent year on year, we now expect Installed Base revenue to be up around 15 percent this year.

As we continue to strengthen our outlook on the year, the majority of the increase is coming from our DUV business. We have increased our planned factory output to meet customers growing demand and now expect higher growth in DUV in 2021. While keeping in mind the minimum stocking levels, the increased output was partly due to the usage of service inventory at ASML and its suppliers.

On EUV, we continue to push our manufacturing capability and have been able to realize a limited increase in output. We now expect EUV revenue growth of around 35 percent year on year, an increase from the 30 percent communicated last quarter. We also shipped our first 3600D systems in Q2 which will deliver a 15 to 20 percent higher productivity capability than our 3400C systems. The vast majority of the EUV systems in the second half will be 3600D systems, contributing to increased wafer capacity in our customers' fabs.

To summarize this year, taking into account the planned system output improvements in the second half, we now expect sales growth of about 35 percent and a gross margin between 51 and 52 percent, for the full year.

Looking beyond 2021, if you read the papers you can see the three trends we highlighted last quarter continue to drive semiconductor and equipment demand. Chip shortages, partly due to decisions made during the global pandemic, first reported in the automotive industry have since moved to other industries. This is causing a more cyclical or catch-up driven demand that we expect will likely continue into next year.

More importantly, secular growth from the digital transformation that is underway as the world becomes more connected, not only machine to people, people to machine but also machine to machine. The expanding application space, with secular drivers such as 5G, AI, high-performance and distributed computing, is fueling a rapidly growing demand for semiconductors. This demand is not only for leading edge devices required to power these high-performance applications but it also requires a wide array of applications using other technology to support the build out of the digital infrastructure. Computing is also rapidly moving to the edge where sensing technologies require connected compute technologies that are often mature in nature.

Lastly, the push for technological sovereignty as countries and regions are planning to establish or expand regional semiconductor manufacturing capabilities in an attempt to manage geographical semiconductor manufacturing risks. This will likely create some level of inefficiency in the semiconductor supply chain and thus additional equipment demand although we believe that this potential inefficiency will be managed rationally by a few very large manufacturers which are crucial in building this additional infrastructure.

We expect these trends to continue for the next several years, which fuels long-term demand for both Logic and Memory and drives demand for our entire product portfolio.

For EUV, future demand growth is primarily driven by Logic, with increasing EUV layer counts and stronger wafer demand on advanced nodes. We are also seeing growing demand for EUV in Memory as customers are ramping EUV in volume production with plans to implement EUV on future nodes across three DRAM customers. With the strong order intake this quarter, this brings our total backlog to 17.5 billion euros, which includes EUV of 10.9 billion euros - which is a reflection of the very healthy market environment we are in today and covers approximately 80 percent of the planned EUV output for 2022.

Future DUV demand is driven by the growing wafer demand in both Memory and Logic. We see both advanced and mature nodes increasing over time. Immersion is required for the more advanced nodes in Memory and Logic, with dry technology required for both advanced and mature technology. We see the DUV demand, certainly for dry products, being stronger for longer.

In order to meet our customers' increasing long term demand, we are working hard with our supply chain to increase our capacity. We continue to drive down manufacturing cycle times, both in our factory and in our supply chain. Jointly with our suppliers, we are looking across the supply chain to determine where we need to add people, equipment or buildings to increase our output capability for EUV as well as DUV. Each of these activities have different time horizons to materialize.

For DUV, in response to market demand, we will need to increase our capacity in 2022 and beyond and have therefore started to execute plans to significantly increase our capacity, primarily with dry systems. This is needed since we will not be able next year to again use the surplus inventories of DUV modules and parts to fuel our sales, as we will do in 2021. It's a bit too early to provide specific details on our capacity plans for the coming years as we have not yet confirmed the targeted capacity increases with our key suppliers, but we will provide an update as soon as we have finalized these plans.

For EUV, we are planning our supply chain for a capacity of around 55 EUV systems in 2022 and are looking to further increase the capacity to over 60 EUV systems in 2023. In addition to increasing our system capacity, we are also driving our product roadmap to deliver higher productivity systems to increase effective wafer capacity. All of our planned shipments in 2022 will be the higher productivity 3600D systems.

In summary, chip demand is very strong and we are working to maximize output to meet customer demand. The secular growth trends as part of the digital transformation to a more connected world is fueling future demand across all market segments at both the advanced and mature nodes, which only increases our confidence in our long-term growth outlook.

We plan to provide an update on our future scenarios at our Investor Day on September 29th, so please book the date.

With that we would be happy to take your questions.