



**Transcript**

**Investor Call ASML CEO Peter Wennink & CFO Roger Dassen**

**Q4.FY 2021 results**

**January 19, 2022**

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**Peter Wennink**

Welcome everyone, thank you for joining us for our fourth-quarter and full-year 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 fourth-quarter and full-year 2021 as well as provide our view of the coming quarters. Roger will start with a review of our fourth-quarter and full-year 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 fourth-quarter and full-year financial accomplishments and then provide guidance on the first quarter of 2022.

Net sales came in within guidance at 5.0 billion euros. The effects of the logistics center startup and supply chain issues communicated during our Q3 results took a bit longer than expected to resolve, affecting some DUV shipments in Q4. In order to address our customers' need for additional capacity, we completed an increased number of productivity upgrades in Q4 as a way to provide them with incremental productivity enhancements.

We shipped 12 EUV systems and recognized 1.6 billion euros revenue from 11 systems this quarter.

Net system sales of 3.5 billion euros was again more weighted towards Logic at 73 percent, with the remaining 27 percent from Memory.



Installed Base Management sales for the quarter came in at 1.5 billion euros, significantly above guidance, primarily due to software upgrades. As just mentioned, in this strong demand environment, customers continue to use productivity upgrades to increase output of their installed base.

Gross margin for the quarter was 54.2 percent and was above guidance, primarily driven by higher software productivity upgrades.

On operating expenses, R&D expenses came in at 681 million euros and SG&A expenses at 203 million euros, which was slightly above guidance.

In Q4, we had other income of 214 million euros related to the sale of the non-semiconductor businesses of Berliner Glas.

Net income in Q4 was 1.8 billion euros, representing 35.6 percent of net sales and resulting in an EPS of 4.39 euros.

Turning to the balance sheet.

We ended the fourth quarter with cash, cash equivalents and short-term investments at a level of 7.6 billion euros.

Moving to the order book, Q4 net system bookings came in at 7.1 billion euros, including 2.6 billion euros for EUV 0.33 NA systems and one EUV 0.55 NA, EXE:5000 system. Order intake was strong from both DUV and EUV, largely driven by Logic with 77 percent of the bookings and Memory accounting for the remaining 23 percent.

For the full year, net sales grew 33 percent to 18.6 billion euros.

EUV system sales in 2021 was 6.3 billion euros, which is a 41% increase from last year.

We achieved 50 percent EUV system gross margin in 2021 and continued to improve EUV service margin.

Non-EUV system sales in 2021 was 7.4 billion euros, which is a 26 percent increase from last year.

On the market segments for 2021, Logic system revenue was 9.6 billion euros, which is a 30 percent increase from last year. Memory system revenue was 4.1 billion euros, which is a 39 percent increase from last year

The Installed Base Management sales was 5.0 billion euros, which is a 35 percent increase compared to previous year.



In 2021, we had total bookings of 26.2 billion euros, more than 2x increase year on year, reflecting customers' strong demand for EUV and DUV technology.

Our R&D spending increased to 2.5 billion euros in 2021 as we continue to invest in innovation across our product portfolio. Overall R&D investments as a percentage of 2021 sales was about 14 percent, SG&A was about 4 percent of sales.

Net income for the full year was 5.9 billion euros, 31.6 percent of net sales, resulting in an EPS of 14.36 euros.

Improvements in working capital contributed to a Free Cash Flow generation of 9.9 billion euros for 2021, mainly driven by customer down payments following the very significant order intake this year. We continue to invest in support of our roadmap and planned capacity ramp. Excess cash will be returned as per our policy.

With that I would like to turn to our expectations for the first quarter of 2022.

We expect Q1 total net sales to be between 3.3 billion euros and 3.5 billion euros.

Lower guidance relative to Q4 is primarily due to a number of so-called fast shipments. These are shipments in the quarter, for both EUV and DUV, that will not complete factory acceptance testing. As we've discussed in prior quarters, fast shipments are in support of customers' desire to bring systems into production as quickly as possible. By skipping some of the testing in our factory, we can shorten the cycle time. Final testing and formal acceptance then takes place at the customer site, at which time we will recognize revenue. The value of the Q1 shipments is expected to be between 5.3 and 5.5 billion euros, which means approximately 2 billion euros of revenue is expected to be deferred to subsequent quarters.

We expect our Q1 Installed Base Management sales to be around €1.2 billion euros.

Gross margin for Q1 is expected to be around 49 percent, the lower gross margin quarter-on-quarter is primarily due to the fast shipment impact of delayed revenue and lower upgrade business compared to last quarter.

The expected R&D expenses for Q1 are around 760 million euros and SG&A is expected to come in at around 210 million euros.



Our estimated 2022 annualized effective tax rate is expected to be between 15 percent and 16 percent.

Regarding our capital return, ASML paid total dividends of 1.4 billion euros in 2021, made up of the 2020 final dividend and 2021 interim dividend.

ASML intends to declare a total dividend with respect to 2021 of 5.50 euros per ordinary share. Recognizing the interim dividend of 1.80 euros per ordinary share paid in November 2021, this leads to a final dividend proposal to the General Meeting of 3.70 euros per ordinary share. The total 2021 dividend is a 100 percent increase compared to the 2020 dividend. The 2022 Annual General Meeting of shareholders will take place on April 29, 2022 in Veldhoven.

2021 was a rather exceptional year in terms of share buybacks. ASML acquired 14.4 million shares for a total amount of 8.6 billion euros as part of our current and previous programs.

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

**Peter Wennink**

Thank you Roger.

As Roger has highlighted, we had another record year of both sales and profit. We are seeing unprecedented customer demand across all market segments, from both advanced and mature nodes, driving demand across our entire product portfolio.

Looking to 2022, after a lower Q1 revenue due to Q1 fast shipments as highlighted by Roger, we expect a significant increase in revenue for the remaining quarters. For the full year we expect a net sales increase of around 20 percent compared to 2021. Bear in mind that this 20 percent sales growth does not include revenue from 6 EUV fast shipments in Q4 of 2022. If we would take the full shipment value of these 6 EUV fast shipments into account, the growth percentage would have been 25 percent.

For our EUV business, we still expect to ship around 55 systems of which we expect revenue from 6 systems to be deferred to 2023 due to fast shipments. This translates to an expected EUV system revenue of around 7.8 billion euros in 2022.

In our DUV and Applications business, we expect growth in both immersion and dry systems, as well as continued demand for metrology and inspection systems. We are also planning fast shipments for some DUV systems but we do not expect this to impact our 2022 revenue due to inherently shorter installation times for DUV. We expect revenue growth of over 20 percent for non-EUV system revenue.



For the Installed Base Management business, service revenue will continue to scale with the growing installed base of systems. Customers will continue to look at all methods to add wafer capacity and although we saw upgrades pulled into 2021 to improve wafer output capability at our customers, we expect those types of installed base options to also stay very much in demand this year. We currently expect 2022 installed base revenue to be up around 10 percent year on year.

Looking at the market segments, given the very strong demand situation and our continued push to increase capacity we see growth in both Logic and Memory in 2022.

In Logic, we have talked for some time about the digital transformation that is underway as we move to a more connected world. The broadening application space and secular growth drivers translate to very strong demand for both advanced and mature nodes. With this continued strong demand, we expect Logic system revenue to be up more than 20 percent year on year.

In Memory, we also expect to see continued growth of our business this year. With customer expectations of DRAM bit growth in high teens this year and lithography tool utilization running at very high levels, customers need to add capacity in addition to planned technology transitions to meet demand. As DRAM customers migrate to more advanced nodes we also expect to see an increase in EUV demand for Memory. We expect 2022 Memory system revenue to be up around 25 percent year-on-year.

With this unprecedented demand exceeding our capacity, we are ramping our output capability to meet this strong demand. Of course this comes with challenges and you are even more vulnerable when running at maximum capacity as there is little room for recovery when things don't turn out as planned. Covid unfortunately is not behind us and impacts everyone including the workforce in our industry and supply chain. We also have to work through supply chain challenges of material and component shortages and COVID related supply chain disruptions. In our workforce, we have hired a significant number of people throughout last year and although we are currently at our planned workforce FTE numbers, they still need to be trained and brought up the learning curve. All of what I just mentioned needs maximum management attention, monitoring, creativity and flexibility of all our partners and stakeholders .

We are working closely with our customers to address these challenges. We are doing fast shipments, skipping some of the testing in our factory and completing the final acceptance testing at the customer site which provides more capacity as quickly as possible. This reduces cycle time in our factory and frees up cabin space in our cleanroom so we can ramp up capacity more quickly. In addition we continue to provide software upgrades which will give our customers more capacity. As I said before, we are doing our utmost to respond as best as we can to the external challenges, including COVID related absenteeism and material shortages in our supply chain.



Also, as we reported earlier in January, we had a fire just after the new year inside a part of our factory in Berlin. The fire was extinguished during the night and fortunately no persons were injured during this incident. The fire occurred in a part of one production building on the site in Berlin and the smoke partly impacted an adjacent building. We have been able to resume production in parts of these buildings already. The other buildings on the site have not been affected and are fully operational. The manufacturing of DUV components has been restarted. And although there was some disruption regarding components for DUV, we expect to remediate this in such a way that it will not affect our output and revenue plan for DUV. As to EUV, the fire affected part of the production area of the wafer clamp, which is a module in our EUV systems. Based on our current insights, we believe we can manage the consequences of this fire without significant impact on our EUV system output for 2022. All in all, while this was a very unfortunate event, we are optimistic about the current situation and are very grateful for the enormous efforts and creativity of our ASML Berlin staff.

On High-NA EUV, we are currently building the first High-NA system in our new cleanroom in Veldhoven. We received an order for an EXE:5000 in Q4, the fifth order in total for the EXE:5000 model, which provides order coverage for planned High-NA shipments in 2024. In addition, at the beginning of this year we received the first order for the EXE:5200. The EXE:5200 is ASML's next model High-NA system, which we intend to launch in 2024, after the 2023 introduction of our first High-NA system. The EXE:5200 will provide the next step for lithography performance and productivity.

Demand continues to be extremely strong even to the point where we believe we are also this year falling significantly short of the customer demand. Looking beyond 2022, global megatrends we talked about at Investor Day are broadening the application space and fueling demand for advanced and mature nodes. Growth in semiconductor end markets and increasing lithography intensity are driving demand for our products and services. We, along with our supply chain partners, are actively adding and improving significant system build capacity to meet future customer demand. In short, we are even more confident in our long-term growth opportunity.

With that we would be happy to take your questions.