



Transcript

Investor Call ASML CEO Peter Wennink & CFO Roger Dassen

Q1 2022 results

April 20, 2022

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Peter Wennink

Welcome everyone, thank you for joining us for our first-quarter 2022 results conference call. I hope all of you and your families are still 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 2022 as well as provide our view of the coming quarters. Roger will start with a review of our first-quarter 2022 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 2022.

Net sales came in at 3.5 billion euros, which is at the high end of guidance.

We shipped 9 EUV systems and recognized 591 million euros revenue from 3 systems this quarter.

Net system sales of 2.3 billion euros which was nicely balanced between Logic at 50 percent, and 50 percent from Memory.

Installed Base Management sales for the quarter came in at 1.2 billion euros, as guided.

Gross margin for the quarter came in at the guidance of 49.0 percent.

On operating expenses, R&D expenses came in at 739 million euros and SG&A expenses at 208 million euros. R&D was below guidance as spend rate in the quarter was lower than planned and will move to Q2, we still expect to be around 14 percent of sales for the year.

Net income in Q1 was 695 million euros, representing 19.7 percent of net sales and resulting in an EPS of 1.73 euros.



Turning to the balance sheet. We ended the 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 7.0 billion euros, including 2.5 billion euros for 0.33 EUV NA systems and multiple EUV 0.55 NA, EXE:5200 systems. Another very strong DUV order intake of 4.5 billion euros this quarter, reflecting the continued strong demand for advanced and mature nodes. Total net system bookings was driven by Logic with 66 percent of the bookings and Memory accounting for the remaining 34 percent.

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

We expect Q2 total net sales to be between 5.1 billion euros and 5.3 billion euros. This excludes around 800 million euros of net delayed revenue for Q2 as a result of more fast shipments at the end of Q2 than at the end of Q1.

We expect our Q2 Installed Base Management sales to be around 1.2 billion euros.

Gross margin for Q2 is expected to be between 49 percent and 50 percent. Relative to last quarter, we expect positive margin impact from higher volume for both EUV and DUV, offset by lower EUV ASP, DUV mix and continued cost pressure in the quarter.

The expected R&D expenses for Q2 are around 790 million euros and SG&A is expected to come in at around 220 million euros.

In the current environment it is also appropriate to address how we may be impacted by rising costs this year. We are not immune to rising costs, there is pressure on labor costs as the global job market for engineers is tight and there is a competition for talent. Costs related to components in the supply chain are also increasing due to higher material costs, including additional fees to secure parts. Transportation costs have increased due to rising fuel costs and changing flight routes. Energy contracts and renewable energy help limit the increased energy cost impact. We clearly see pressure on margins due to these cost increases, which we expect to translate roughly to a 1 percent impact on gross margin for full year 2022. We expect the second half of the year will be strong with expected gross margins of around 54 percent, primarily driven by higher EUV and DUV volume, as well as improved margin from Installed Base business. In summary, we currently expect gross margin to be closer to 52 percent for the full year.

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

In Q1 2022, ASML acquired 3.6 million shares for a total amount of around 2.1 billion euros as part of our current program.

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



Peter Wennink

Thank you Roger.

As Roger has highlighted, revenue and profitability for the quarter came in as guided, with system revenue balanced between Logic and Memory. We expect a step up in sales in Q2, as revenue from fast shipment systems in Q1 will be recognized. While supply chain challenges are still present, we will continue to utilize fast shipments as a means to get systems to customers as soon as possible.

Although the current macroeconomic environment creates uncertainty, we believe the fundamental growth drivers remain intact. We continue to see unprecedented customer demand across all market segments, from both advanced and mature nodes, driving demand across our entire product portfolio. We are running at maximum capacity and expect demand to exceed supply well into next year. Our view of the full year revenue therefore remains unchanged, with year-on-year growth of around 20 percent over 2021. As mentioned last quarter, this 20 percent sales growth does not include the full shipment value of systems output this year due to a number of fast shipments which will result in delayed revenue into 2023.

For our EUV business, we still expect to ship around 55 systems this year. As we plan to do fast shipments on a number of these systems, including systems in Q4, we expect some revenue to be deferred to 2023. This translates to an expected EUV system revenue of around 7.8 billion euros this year.

In our DUV and Applications business, we expect significant growth in both immersion and dry systems, as well as continued demand for metrology and inspection systems. In addition to advanced nodes, we see growing demand for DUV systems supporting mature market segments such as analog, power and sensors. These market segments are part of the secular growth drivers in support of the digital infrastructure which includes automotive and green energy applications. 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 continue to look at all methods to add wafer capacity, including productivity upgrades. In these times of very high fab utilization, some of these upgrades are hardware intensive and require systems to be taken offline for installation. Therefore, available system time will dictate their ability to install these types of upgrades. As we mentioned in previous quarters, the quickest way to add wafer capacity is to install software productivity packages. These upgrades require less system downtime and have now been installed in most of our customers' fabs. We currently expect 2022 installed base revenue to be up around 10 percent year-on-year.



Looking at the market segments in 2022, our view on growth is similar to last quarter. We still expect Logic system revenue to be up more than 20 percent year-on-year and Memory system revenue to be up around 25 percent year-on-year.

On High-NA EUV, we are making good progress and have currently started the integration of the first High-NA system in our new cleanroom in Veldhoven. We received multiple orders for our EXE:5200 system in Q1. We also received additional EXE:5200 orders this month, April. With these bookings, we now have High-NA orders from three Logic and two Memory customers. The EXE:5200 is ASML's next model High-NA system and will provide the next step for lithography performance and productivity.

The global megatrends that we talked about at our Investor Day last year are broadening the application space and providing secular growth drivers for future demand. The strong demand this year and beyond is reflected in the significant bookings over the past several quarters, resulting in a backlog of around 29 billion euros, an all-time high. We expect the strong order intake to continue as demand will continue to exceed supply also going well into next year.

With multiple countries pursuing technological sovereignty, we are now seeing a number of announcements from customers for new fabs in the coming years in support of this global trend. These announced investments are expected to have a positive impact on the medium-term demand.

As this unprecedented demand is exceeding our capacity, ASML and its supply chain partners are planning to actively add capacity to meet future customer demand as communicated during Investor Day last year. At that time, we talked about the current capacity ramp is expected to deliver an output capability of over 70 EUV 0.33NA systems and around 375 DUV systems by 2025. As mentioned last quarter, we see a need to further increase our output beyond this level in order to meet the stronger and longer market demand to support an industry that is expected to at least double by 2030. With the goal of adding more capacity, we are investigating the feasibility of increasing our annual capacity by 2025 to around 90 EUV 0.33NA systems and 600 DUV systems. For DUV, we are planning to increase capacity for both immersion and dry, with a heavier weighting towards dry. We are also discussing with our supply chain partners to secure a capacity of around 20 EUV 0.55NA systems in the medium term. Bear in mind that this relates to what we currently feel our maximum capacity goal should be and may therefore not be a final output plan. We discussed our goal recently with our supply chain partners and asked them to come back in the coming quarters with confirmation on the feasibility of our request. Once we complete this analysis, we also expect to revisit our 2025 scenarios and growth opportunities beyond 2025. We are planning to provide an update to the capital markets in the Q4 timeframe.

This is clearly a dynamic, challenging but also exciting period in our industry and it only increases our confidence in our long-term growth opportunity.

With that we would be happy to take your questions.