



Transcript
Investor Call ASML CEO Peter Wennink & CFO Roger Dassen
Q4 & FY 2022 results
January 25, 2023

Q4 & FY 2022 results

Peter Wennink

Welcome everyone, thank you for joining us for our fourth-quarter and full year 2022 results conference call.

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 2022 as well as provide our view of the coming quarters.

Roger will start with a review of our fourth-quarter and full year 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 fourth-quarter and full year financial accomplishments and then provide guidance on the first quarter of 2023.

Let me start with our fourth quarter accomplishments.

Net sales came in at 6.4 billion euros, around the mid-point of our guidance.

We shipped 18 EUV systems and recognized 2.3 billion euros revenue from 13 systems this quarter.

Net system sales of 4.7 billion euros which was again driven by Logic at 64 percent, with the remaining 36 percent coming from Memory.

Installed Base Management sales for the quarter came in at 1.7 billion euros, which was higher than guided due to additional upgrade revenue.

Gross margin for the quarter came in at 51.5 percent, which is above our guidance, primarily due to the pull in of additional upgrade business as well as an insurance settlement from ASML Berlin fire which occurred in early 2022.

On operating expenses, R&D expenses came in at 906 million euros, above our guidance due to higher depreciation. SG&A expenses were 280 million euros, higher than guided due to increased IT and recruiting spending as part of our headcount growth plan.



Net income in Q4 was 1.8 billion euros, representing 28.2 percent of net sales and resulting in an EPS of 4.60 euros.

Turning to the balance sheet. We ended the fourth quarter with cash, cash equivalents and short-term investments at a level of 7.4 billion euros.

Moving to the order book, Q4 net system bookings came in at 6.3 billion euros, which is made up of 3.4 billion euros for EUV bookings and 2.9 billion euros for non-EUV bookings. These values also include inflation corrections. Non-EUV bookings are a combination of DUV and Metrology & Inspection. Net system bookings in the quarter were driven by Logic with 66 percent of the bookings while Memory accounted for the remaining 34 percent.

Looking at the full year, net sales grew 14 percent to 21.2 billion euros. EUV system sales grew 12 percent to 7.0 billion euros realized from 40 systems while in total we shipped 54 EUV systems in 2022. DUV system sales grew 13 percent to 7.7 billion euros. Our Metrology & Inspection system sales grew 28 percent to 660 million euros. Looking at the market segments for 2022, Logic system revenue was 10.0 billion euros, which is a 4 percent increase from last year. Memory system revenue was 5.5 billion euros, which is a 34 percent increase from last year. Installed Base Management sales was 5.7 billion euros, which is a 16 percent increase compared to previous year.

At the end of 2022 we finished with a backlog of 40.4 billion euros, an increase of 67 percent compared to the end of 2021.

Our R&D spending increased to 3.3 billion euros in 2022, as we continue to invest in innovation across our full product portfolio. Overall, R&D investments as a percentage of 2022 sales were about 15 percent. SG&A increased to 946 million euros in 2022, which was about 4 percent of sales.

Net income for the full year was 5.6 billion euros, 26.6 percent of net sales, resulting in an EPS of 14.14 euros.

Improvements in working capital contributed to a free cash flow generation of 7.2 billion euros for 2022, 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 to our shareholders, through a combination of dividends and share buybacks.

With that I would like to turn to our expectations for the first quarter of 2023.

We expect Q1 net sales to be between 6.1 billion euros and 6.5 billion euros. Per customers' requests, we prioritized resources towards the acceleration of DUV shipments at the end of 2022. As a result, we expect lower revenue in Q1 and higher revenue in the following quarters.

We expect our Q1 Installed Base Management sales to be around 1.5 billion euros.



Gross margin for Q1 is expected to be between 49 percent and 50 percent, the lower margin, relative to last quarter, is primarily due to lower upgrade revenue and DUV mix effect.

The expected R&D expenses for Q1 are around 965 million euros and SG&A is expected to be around 285 million euros. The higher R&D guidance is primarily due to additional headcount and labor cost increases. These investments are in support of our continuous innovation as we further extend our DUV, EUV and Applications roadmap and at the same time work to improve our installed base performance. Higher SG&A is mainly due to additional headcount and IT spending.

Our estimated 2023 annualized effective tax rate is expected to be between 15 percent and 16 percent.

In Q4, ASML paid a quarterly interim dividend of 1.37 euro per ordinary share.

The third quarterly interim dividend will be 1.37 euro per ordinary share and will be made payable on February 15, 2023. Recognizing this interim dividend and the two interim dividends of 1.37 euro per ordinary share paid in 2022, this leads to a final dividend proposal to the General Meeting of 1.69 euro per ordinary share.

In Q4 2022 we purchased around 0.6 million shares for a total amount of around 300 million euros. ASML announced a new share buyback program, during our Investor Day on November 11, 2022, to be executed by December 31, 2025. We intend to purchase shares up to an amount of 12.0 billion euros.

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 year of record sales in a dynamic environment. Demand remains strong and we finished the year with a record backlog.

Looking to 2023, there continues to be a lot of uncertainty in the market due to a number of global macro concerns around inflation, rising interest rates, recession and the geopolitical environment, including export controls. Customers are still seeing demand weakness in consumer driven end-markets, the most notable being PCs and smartphones, with some indications of softening or lower growth rates in data center demand, while demand strength continues in other end-markets such as automotive and industrial.



Customers are telling us they expect a rebalancing of semiconductor inventories over the first half of 2023, with business expected to rebound in the second half of the year. A potential driver of this recovery in the second half of the year could also be the post-COVID opening of China. This could have a positive effect on both supply and demand. To help rebalance inventory levels, customers are running their lithography systems at lower utilization levels and some have also lowered their capex plans for this year.

Based on this, we concluded that most of our customers have made the assessment that the duration of a potential recession is significantly shorter than our average delivery lead time. On top of this, lithography investments are strategic in nature which means that the demand for our systems remains strong. For instance, this year demand still exceeds our capacity and we enter the year with a backlog of 40.4 billion euros, so our focus will still be on maximizing system output. We've experienced several quarters of very strong bookings which now provides backlog coverage significantly beyond 2023, which is almost twice the expected 2023 system sales.

Based on discussions with our customers and continued improvements in the capability of our supply chain we are planning to increase our output capability this year. We are planning to ship around 60 EUV systems and around 375 DUV systems in 2023, with around 25 percent of the DUV systems to be immersion. We still plan a significant number of fast shipments this year which under the current way of working will result in a similar amount of delayed revenue out of 2023 that came into 2023.

Looking at the growth of the business for the full year 2023 compared to 2022, we expect EUV revenue growth of around 40 percent and non-EUV revenue growth of around 30 percent. For the Installed Base Management business we expect year over year revenue growth of around 5 percent. As we are coming off a strong growth year in 2022 and customers are adjusting their utilization levels, we currently expect to see a slightly lower demand in our upgrade business in 2023.

In summary, for the full year 2023, based on how we see the world today, we expect another year of strong growth with a net sales increase of over 25 percent and a slight improvement in gross margin.

On the geopolitical front, as it relates to export control, this continues to be a geopolitical discussion with different government entities, a process where ASML is obviously not in control although we continue the discussion with governments to make sure that consequences of proposals are well understood. As of today, export control policy related to lithography equipment has not changed. We are still not able to ship EUV systems to China but are able to ship DUV as well as Metrology and Inspection systems to China. As our prime minister recently stated, this is a multinational discussion, not only with the US, but with several countries. He reiterated that multiple companies in the semiconductor industry, including their supply chains, are involved and that the matter is complex and sensitive, it needs careful handling, with precision. He reminded us that there are a lot of interests at stake and it is important to find the right balance. We will therefore not speculate about a possible outcome but will have to wait for the outcome of ongoing government discussions.



Looking longer term, we talked at our Investor Day last year about global megatrends where the broadening application space is fueling demand for advanced and mature nodes. Secular growth drivers in semiconductor end-markets and increasing lithography intensity on future technology nodes are driving the demand for our products and services. ASML and its supply chain partners are actively adding capacity to meet future customer demand, as confirmed at Investor Day with our capacity plans of 600 DUV, 90 EUV low NA systems by 2025-2026 and 20 EUV High-NA systems by 2027-2028.

Also presented during our Investor Day last November, we see an opportunity based on different market scenarios to reach an annual revenue in 2025 between 30 billion and 40 billion euros and in 2030 an annual revenue between 44 billion and 60 billion euros.

As part of our long-term growth opportunity we also remain committed to our ambitious ESG sustainability goals. On February 15, 2023, our 2022 Annual Report will be published. As part of this report, we plan to provide you with an update on how we collaborate with our stakeholders to deliver on the ambitions of our ESG Sustainability Strategy which we can summarize as follows: Our ambition is to achieve carbon neutrality with net zero emissions in our operations, scope 1 and 2, by 2025. We aim to achieve net zero emissions in our supply chain, scope 3, by 2030 and net zero emissions from the use of our products by our customers, scope 3, by 2040. In addition, our goal is also to have zero waste from operations to landfill or incineration by 2030.

From a social perspective, our ambition is to ensure that responsible growth benefits everyone. To maintain our fast pace of innovation and ensure our long-term success as a company, we need to attract and retain the best talent and provide the best possible employee experience. We aim to be a valued and trusted partner, improving the quality of life for all people in our communities.

In summary, while there is a lot of near-term uncertainty in current environment, our customers' demand for our products continues to exceed supply. We are working to increase our capacity to meet our customers' future demand and remain fully confident in the opportunity this provides for our future growth.

With that we would be happy to take your questions.



Forward Looking Statements

This document and related discussions contain statements that are forward-looking within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, including statements with respect to plans, strategies, expected trends, including trends in semiconductor end markets and technology industry and business environment trends, statements with respect to demand and capacity, plans to increase capacity and capacity goals, outlook, backlog, bookings and orders, expected financial results, including expected net sales, gross margin, R&D costs, SG&A costs and estimated annualized effective tax rate for Q1 and full year 2023, expected shipments in 2023 including expected shipments of EUV and DUV systems, expected growth in EUV, non-EUV and IBM sales in 2023, statements made at our 2022 Investor Day including revenue and gross margin opportunity for 2025 and 2030, statements with respect to fast shipments including estimates of amounts of deferred revenue not yet recognized and expected timing of recognition of such deferred revenue for fast shipments, including deferred revenue from fast shipments in 2022 expected to be recognized in 2023, expected customer demand trends including expected rebound in second half of the year, statements about the market and macroeconomic trends including global megatrends, long-term growth opportunity, statements with respect to the geopolitical situation and export control policy and restrictions, statements with respect to capital allocation policy including plans to return significant amounts of cash through growing dividends and buybacks and statements with respect to the Q4 interim and final 2022 dividend and statements with respect to share buyback programs, aim to improve ESG sustainability KPIs and upgrade ESG sustainability strategy and other non-historical statements. You can generally identify these statements by the use of words like “may”, “will”, “could”, “should”, “project”, “believe”, “anticipate”, “expect”, “plan”, “estimate”, “forecast”, “potential”, “intend”, “continue”, “target”, “future”, “progress”, “goal” and variations of these words or comparable words. These statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our business and our future financial results and readers should not place undue reliance on them. Forward-looking statements do not guarantee future performance and involve a number of substantial known and unknown risks and uncertainties. These risks and uncertainties include, without limitation, economic conditions, product demand and semiconductor equipment industry capacity, worldwide demand and manufacturing capacity utilization for semiconductors, trends in the semi-conductor industry, the impact of general economic conditions including the impact of the current macroeconomic uncertainty in the market and in consumer confidence, inflation, rising interest rates, geopolitical developments, the risk of a recession, demand for our customers’ products, performance of our systems, the impact of the COVID-19 outbreak and measures taken to contain it on us, our suppliers, the global economy and financial markets, the impact of the Russian military actions in the Ukraine and measures taken in response on the global economy and global financial markets and other factors that may impact ASML’s financial results, including customer demand and ASML’s ability to obtain parts and components for its products and otherwise meet demand, the success of technology advances and the pace of new product development and customer acceptance of and demand for new products, production capacity and our ability to increase capacity to meet demand, the impact of inflation, the number and timing of systems ordered, shipped and recognized in revenue, and the risk of order cancellation or push out, supply chain capacity and constraints and logistics and constraints on our ability to produce systems to meet demand, the timing of recognition of deferred revenue from fast shipments and impact on our results, the impact of the gas shortage on us and our suppliers, our ability to enforce patents and protect intellectual property rights and the outcome of intellectual property disputes and litigation, availability of raw materials, critical manufacturing equipment and qualified employees, trade environment, import/export and national security regulations and orders and their impact on us including the impact of the recently updated US export regulations, changes in exchange and tax rates, available liquidity and liquidity requirements, our ability to refinance our indebtedness, available cash and distributable reserves for, and other factors impacting, dividend payments and share repurchases, results of the share repurchase programs, our ability to meet ESG goals and improve ESG KPIs and upgrade ESG strategy and other risks indicated in the risk factors included in ASML’s Annual Report on Form 20-F for the year ended December 31, 2021 and other filings with and submissions to the US Securities and Exchange Commission. These forward-looking statements are made only as of the date of this document. We undertake no obligation to update any forward-looking statements after the date of this report or to conform such statements to actual results or revised expectations, except as required by law.