Transcript
Investor Call ASML CEO Peter Wennink & CFO Roger Dassen
Q1 2023 results
April 19, 2023

Q1 2023 results
Peter Wennink
Welcome everyone, thank you for joining us for our first-quarter 2023 results conference call.

Before we begin the Q & A session Roger and I would like to provide an overview and some commentary on the first-quarter 2023 as well as provide our view of the coming quarters.

Roger will start with a review of our first-quarter 2023 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 2023.

Let me start with our first quarter accomplishments.

Net sales came in at 6.7 billion euros, which was above our guidance due to higher than expected EUV and DUV revenue from faster installation and earlier acceptance of systems in the quarter.

We shipped 9 EUV systems and recognized 2.9 billion euros revenue from 17 systems this quarter.

Net system sales were 5.3 billion euros which was again driven by Logic at 70 percent, with the remaining 30 percent coming from Memory.

Installed Base Management sales for the quarter came in at 1.4 billion euros, which was lower than guided due to less upgrade revenue.

Gross margin for the quarter came in at 50.6 percent, which is above our guidance primarily driven by additional EUV and DUV immersion revenue in the quarter, which more than outweighed the impact of lower than expected upgrade business.

On operating expenses, R&D expenses came in at 948 million euros, which was below our guidance primarily due to exchange rate effects and some one-offs. SG&A expenses were 260 million euros, also lower than guided primarily due to lower IT spending and timing of headcount additions.

Net income in Q1 was 2.0 billion euros, representing 29.0 percent of net sales and resulting in an EPS of 4.96 euros.

Turning to the balance sheet. We ended the first quarter with cash, cash equivalents and short-term investments at a level of 6.7 billion euros.

Moving to the order book, Q1 net system bookings came in at 3.8 billion euros, which is made up of 1.6 billion euros for EUV bookings and 2.2 billion euros for non-EUV bookings, these values also include inflation corrections. Net system bookings in the quarter were driven by Logic with 79 percent of the bookings while Memory accounted for the remaining 21 percent.
Bookings are lower than in previous quarters which is not unexpected given the current environment, particularly taking into account our backlog at end of Q1 of around 39 billion euros, which is almost two times this year's system sales.

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

We expect Q2 net sales to be between 6.5 billion euros and 7.0 billion euros.

We expect our Q2 Installed Base Management sales to be around 1.3 billion euros.

Gross margin for Q2 is expected to be between 50 percent and 51 percent.

The expected R&D expenses for Q2 are around 990 million euros and SG&A is expected to be around 275 million euros. The higher R&D guidance is primarily due to investments in support of our continuous innovation as we further extend our product roadmaps and improve our installed base performance. Higher SG&A is mainly due to additional headcount and associated infrastructure support.

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

In Q1, ASML paid a quarterly interim dividend of 1.37 euro per ordinary share.
Recognizing the three interim dividends of 1.37 euro per ordinary share each paid in 2022 and 2023, this leads to a final dividend proposal to the General Meeting of 1.69 euro per ordinary share, this will result in a total dividend for the year 2022 of 5.80 euros per ordinary share, which is a 5.5 percent increase compared to 2021.

In Q1 2023 we purchased around 0.7 million shares for a total amount of around 400 million euros.

In the current uncertain market environment, it is prudent that we continue to manage to higher levels of cash as the entire value chain will likely create some pressure on our free cash flow.

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

Peter Wennink
Thank you Roger.

As Roger has highlighted, we had a good first quarter, above our guidance, in a very dynamic environment.

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 continue to see demand weakness in consumer driven end markets, causing the industry to actively reduce inventory and lower the utilization of their production base, while demand in other end markets such as automotive and industrial remains relatively strong. Specifically, memory customers are more aggressively lowering capex and are limiting wafer output to reduce inventory to more healthy levels. Logic customers are also moderating wafer output for some market segments while demand continues to be strong in other markets, especially in markets requiring more mature nodes. Despite this, both logic and memory customers are still following their technology roadmaps and continue making strategic technology investments.

As a result of this market dynamic, we do see customers making adjustments to demand timing relative to last quarter. However, we also see other customers more than willing to absorb this demand change, particularly in DUV. For example, Chinese domestic customers focusing on mid-critical and mature applications, which make up over 20 percent of our backlog at the end of Q1, are now expected to grow to a similar allocation of our system revenue this year. After taking these demand adjustments over the quarter into account, our system demand still exceeds our capacity for this year, albeit by a smaller margin than in the last quarter. As a reference, during 2022 the DUV demand was 50 percent higher than our build capacity while this gradually reduced from 30 percent at the end of Q4 2022 to 20 percent at the end of Q1 2023.

As Roger mentioned, we saw orders moderate in Q1 after several quarters of very strong bookings. A moderation in the rate at which customers are adding orders is to be expected in the current environment, especially considering the long period in which our backlog can cover shipments which extends well beyond our normal order lead times.

With regard to our total system capacity, we are still planning to ship around 60 EUV systems and around 375 DUV systems in 2023, with around 25 percent of the DUV systems being immersion. We currently see no change in our full year outlook as provided last quarter. As a reminder, we expect EUV business growth to be around 40 percent over 2022 and non-EUV business growth of around 30 percent. For the installed base business, we still expect year over year revenue growth of around 5 percent. In summary, based on our view today, we continue to expect a year of strong growth with a net sales increase of over 25 percent and a slight improvement in gross margin.

To summarize, our short to medium term business outlook is still very strong, supported by a backlog that represents almost two years of tool shipments, continuously pushing our output capacity to the maximum and further underpinning our plan to expand our capacity.

On the geopolitical front, as it relates to export control, we are still waiting for the Dutch government to publish further details on the export control restrictions. These new export controls focus on advanced chip manufacturing technology. Due to these upcoming regulations, ASML will need to apply for export licenses for shipment of the most advanced immersion DUV systems. As we said earlier, we interpret most advanced to pertain to TWINSCAN NXT:2000i and subsequent immersion systems. It will take some time for these controls to be translated into legislation and take effect. Based on the announcement last month, our expectation of the Dutch government's licensing policy, the current market developments and the way we model our longer-term scenarios, we do not expect a material effect on our 2023 financial outlook or our longer-term scenarios as announced during our Investor Day in November last year.

Despite the clear shorter term cyclical concerns, the longer-term global megatrends we talked about at Investor Day are broadening the application space and fueling demand for advanced and mature nodes. Secular growth drivers in semiconductor end markets and increasing lithography intensity on future technology nodes are driving demand for our products and services.

In summary, while there is clear uncertainty in the current environment, our customers' demand for our products continues to exceed supply. We had a good start to the year and based on our view today, we continue to expect another year of strong growth. ASML and its supply chain partners continue to work on the capacity ramp in support of our customers' demand and we remain confident in our long-term growth opportunity.

With that we would be happy to take your questions.