Transcript
Investor Call ASML CEO Peter Wennink, CFO Roger Dassen, CBO Christophe Fouquet
Q1 2024 results, April 17, 2024

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Peter Wennink
Welcome everyone, thank you for joining us for our first-quarter 2024 results conference call.

Before we begin the Q & A session Roger, Christophe and I would like to provide an overview and some commentary on the first-quarter 2024 as well as provide our view of the coming quarters.

Roger will start with a review of our first-quarter 2024 financial performance with added comments on our short-term outlook. I will briefly reflect on the current market environment and then hand over to Christophe to complete the introduction with some additional comments on the future business outlook.

Roger.

Roger Dassen
Thank you Peter and welcome everyone.

I will first review the first-quarter 2024 financial accomplishments and then provide guidance on the second quarter of 2024.

Let me start with our first-quarter accomplishments.

Total net sales came in at 5.3 billion euros, at the midpoint of guidance.

We shipped 12 EUV systems and recognized 1.8 billion euros revenue from 11 systems this quarter.

Net system sales of 4.0 billion euros which was driven by Logic at 63 percent, with the remaining 37 percent coming from Memory.

Installed Base Management sales for the quarter came in at 1.3 billion euros, as guided.

Gross margin for the quarter came in at 51.0 percent, which is above our guidance, primarily driven by product mix, more immersion and EUV systems, and some one-offs.

On operating expenses, R&D expenses came in at 1.032 billion euros and SG&A expenses came in at 273 million euros, both slightly lower than guided due to a shift in spend to later in the year.

Net income in Q1 was 1.2 billion euros, representing 23.1 percent of total net sales and resulting in an EPS of 3.11 euros.

Turning to the balance sheet. We ended the first quarter with cash, cash equivalents and short-term investments at a level of 5.4 billion euros, which is lower than previous quarter.

We ended Q1 with negative free cash flow, primarily driven by lower down payments and higher inventory, relative to last quarter. In the current environment, as customers work to return to profitability and strengthen cash position, we continue to provide some support for our customers. The higher inventory is a result of the increased material intake, including High NA, as part of planned capacity ramp in preparation for stronger demand next year.

Moving to the order book, Q1 net system bookings came in at 3.6 billion euros, which is made up of 656 million euros for EUV bookings and 2.9 billion euros for non-EUV bookings. Net system bookings in the quarter were driven by Memory at 59 percent and Logic for the remaining 41 percent of the bookings.

There is quite a bit of speculation around order numbers so I will make a few comments here.
In the past six months we've had orders of almost 13 billion euros, which is quite significant. As we've said in the past, our order flow can be lumpy and may not be evenly distributed over the year. Although we don't guide orders, an order rate a bit over 4 billion euros per quarter for the final 3 quarters of the year would provide full order coverage at the end of 2024 for a 2025 sales number that would be at the mid-point of 2022 investor day scenarios.

At the end of Q1 2024 we finished with a backlog of around 38 billion euros.

With that I would like to turn to our expectations for the second quarter of 2024.

We expect Q2 total net sales to be between 5.7 billion euros and 6.2 billion euros.

We expect our Q2 Installed Base Management sales to be around 1.4 billion euros.

The relatively low first half of the year, compared to the expected strong second half, is in line with the expected industry recovery from the downturn.

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

The expected R&D expenses for Q2 are around 1,070 million euros and SG&A is expected to be around 295 million euros.

Our estimated 2024 annualized effective tax rate is expected to be between 16 percent and 17 percent.

In Q1, ASML paid a quarterly interim dividend of 1.45 euros per ordinary share.

Recognizing the three interim dividends of 1.45 euro per ordinary share paid in 2023 and 2024, this leads to a final dividend proposal to the Annual General Meeting of 1.75 euro per ordinary share, which will result in a total dividend for the year 2023 of 6.10 euros per ordinary share, which is a 5.2 percent increase compared to 2022.

In Q1 2024 we purchased around 0.5 million shares for a total amount of around 400 million euros.

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

Peter Wennink
Thank you Roger.

As Roger has highlighted, a relatively slow Q1 as start to the year is consistent with our guidance and expectations coming out of a downturn.

Overall semiconductor inventory levels continue to improve trending towards more healthy levels. We also see continued improvements in lithography tool utilization levels at both Logic and Memory customers. All in line with the industry's continued recovery from the downturn.

Looking at the market segments, we see a similar environment as communicated last quarter with demand momentum from AI-related applications. Memory demand is primarily driven by DRAM technology node transitions in support of advanced memories such as DDR5 and HBM.
Logic customers continue to digest the significant capacity additions made over the past year.

As many of you know, next week, April 24, is the General Meeting of Shareholders and my last working day at ASML. Although this is not a big surprise anymore, it is still a big event for me, Martin and our families. It has been an enormous privilege to have been able to serve the company and its many stakeholders for so long. I have thoroughly enjoyed virtually every moment of it and the many interactions I have had with many of you, including these conference calls, believe it or not. I hope I will see some of you some day, some time and wish you all good health, a prosperous and happy life.

With that I would like to turn it over to Christophe.

Christophe Fouquet
Thank you Peter.

First of all thank you for the last 10 years leading ASML and making it the great company we know today. I think some of our audience have been with you for the 40 plus quarters you lead as CEO but probably not many for the nearly 100 quarterly calls over your past 25 years in ASML. I am sure everyone on the call will miss you as much as we all will at ASML.
I am myself very honored and privileged to succeed Peter and I am very much looking forward to working with all of you.

ASML

As Peter mentioned, our view on the market segments for 2024 has not changed relative to what we stated last quarter. We expect Memory revenue growth this year primarily driven by technology transitions in support of advanced memory technology. We see lower Logic revenue this year, relative to last year, as customers digest litho capacity installed over the past year.

Turning to our businesses. For EUV, we continue to expect revenue growth in 2024. We plan to recognize revenue on a similar number of EUV 0.33NA systems as 2023. In addition, we expect revenue from one to two High NA systems.

On our 0.33 NA systems, we shipped the first NXE:3800E this quarter for qualification at the customer. The 3800E has the capability to deliver a significant increase in performance with a productivity of 220 wafers per hour, which is a 37 percent increase over the NXE:3600D, in its final configuration. The NXE:3800E also brings imaging and overlay improvements which will make it the future tool of choice for memory and logic advanced nodes. Those performance increases will deliver better value for our customers, including cost of ownership, and will translate into higher ASPs and improved margins for ASML. EUV customers plan to transition to the NXE:3800E this year. As a result, the majority of our low NA EUV shipments in the second half of the year will be this systems.

Regarding High NA, or 0.55 NA EUV, we shipped our first system to a customer and this system is currently under installation. We started to ship the second system this month and its installation is also about to start. During the SPIE industry conference in February, we announced first light on our High NA system located in our joint ASML-IMEC High NA lab in Veldhoven. We have since achieved first images, with a new record resolution below 10nm and expect to start exposing wafers in the coming weeks. All High NA customers will use this system for early access to process development.

The customer interest for our system lab is high as this system will help both our Logic and Memory customers prepare for High NA insertion into their roadmaps. Relative to 0.33 NA, the 0.55 NA system provides finer resolution enabling an almost 3x increase in transistor density, at a similar productivity, in support of sub-2nm Logic and sub-10nm DRAM nodes.

We expect our non-EUV business to be down in 2024, primarily driven by lower immersion system sales, relative to 2023.

For our Installed Base business, based on our view today, we expect a similar level of revenue compared to last year. As the recovery becomes more clear this year, customers may look to upgrade their systems in preparation for 2025 and this could provide future business opportunity this year.

Our outlook for the full year is unchanged with similar revenue compared to 2023. In line with the industry’s continued recovery from the downturn, we expect a stronger second half relative to the first half of the year. We view 2024 as a transition year and continue to make investments this year both in capacity ramp and in technology to be ready for the upturn in the cycle.

Looking longer term, while there are still significant uncertainties, primarily driven by the macro environment, it appears we are passing through the bottom of this specific cycle and we expect an industry recovery over the course of 2024. Based on discussions with our customers and supported by our strong backlog, we expect 2025 to be a strong year driven by a number of factors as mentioned last quarter.

First, the secular growth drivers in semiconductor end markets which we have previously discussed, such as energy transition, electrification and AI. The expanding application space, along with increasing lithography on future technology nodes, drives demand for both advanced and mature nodes.

Second, the industry expects to be in the middle of a cyclical upturn in 2025.

And last, as mentioned earlier, we need to prepare for the significant number of new fabs that are being built across the globe, in some instances clearly supported by several government incentive plans. These fabs are spread geographically, are strategic for our customers and are scheduled to take our tools.

It is essential that we keep our focus on the future and build capacity in preparation for further long-term growth as we discussed in the market scenarios for 2025 and 2030 during our Investor Day in November 2022. We plan to update our view during our Investor Day this year on November 14, 2024.

In summary, although there is near term uncertainty, we remain confident in our long-term growth opportunity.

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 the semiconductor industry and end markets and business environment trends, including expected demand, lithography tool utilization, semiconductor inventory levels, bookings and order coverage at certain bookings levels, expected recovery in the semiconductor industry and expected turn in the cycle and expected timing thereof, plans to increase capacity, outlook and expected financial results, including expected results for Q2 2024, including net sales, IBM sales, gross margin, R&D costs, SG&A costs, expected results for full year 2024, including expectations with respect to revenue and gross margin and estimated annualized effective tax rate, expectations with respect to sales by market segment, EUV, DUV and IBM sales and margins and expected drivers thereof, and other full year 2024 expectations, expectations with respect to expected financial performance in 2025 and expected drivers thereof, statements made at our 2022 Investor Day, including revenue and gross margin opportunity for 2025 and 2030, statements with respect to export control policy and regulations and expected impact on us, our expectation to return significant amounts of cash to shareholders through growing dividends and share buybacks, including the amount of shares intended to be repurchased under our share repurchase program and statements with respect to dividends, statements with respect to expected performance and capabilities of our systems and customer plans 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”, “opportunity” 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, customer demand and semiconductor equipment industry capacity, worldwide demand for semiconductors and semiconductor manufacturing capacity, lithography tool utilization and semiconductor inventory levels, general trends and consumer confidence in the semiconductor industry, the impact of general economic conditions, including the impact of the current macroeconomic uncertainty on the semiconductor industry, the impact of inflation, interest rates, geopolitical developments, the impact of pandemics, the performance of our systems, the success of technology advances and the pace of new product development and customer acceptance of and demand for new products, our production capacity and ability to adjust capacity to meet demand, supply chain capacity, constraints and logistics, timely availability of parts and components, raw materials, critical manufacturing equipment and qualified employees, constraints on our ability to produce systems to meet demand, the number and timing of systems ordered, shipped and recognized in revenue, risks relating to fluctuations in net bookings, the risk of order cancellation or push outs and restrictions on shipments of ordered systems under export controls, risks relating to the trade environment, import/export and national security regulations and orders and their impact on us, including the impact of changes in export regulations and the impact of such regulations on our ability to obtain necessary licenses and to sell our systems and services to certain customers, 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, the number of shares that we repurchase under our share repurchase programs, our ability to enforce patents and protect intellectual property rights and the outcome of intellectual property disputes and litigation, our ability to meet ESG goals and execute our ESG strategy, other factors that may impact ASML’s business or financial results, and other risks indicated in the risk factors included in ASML’s Annual Report on Form 20-F for the year ended December 31, 2023 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.