

ASML reports €2.4 billion net sales at 45.1% gross margin in Q1 2020

Strong order intake and currently no change in demand

ASML refrains from guidance due to increased uncertainty in current environment

VELDHOVEN, the Netherlands, April 15, 2020 - ASML Holding N.V. (ASML) today's Investor Call – 2020 first-quarter results.

Peter Wennink

Thank you Skip and welcome everyone, thank you for joining us for our Q1 2020 results conference call. I hope all of you and your families are healthy and safe. Before we start our normal quarterly results review, I would like to first talk about the topic on everyone's mind, which is the COVID-19 pandemic and the situation.

These are unprecedented and challenging times, the COVID-19 pandemic affects us all. Our primary goal at ASML continues to be to ensure, as best as we can, that our colleagues and their families stay safe. Our second goal is to ensure that we continue to serve our customers and to secure the delivery of our product roadmap, including the continuity of our supply.

We have been taking, and continue to take, precautionary measures to limit the risks. Most of our non-manufacturing employees now work from home and travel is restricted. In China, our colleagues are returning to the office but also there we remain vigilant.

In our own facilities, we have implemented restricted access to our manufacturing facilities worldwide, and in particular our cleanrooms, to ensure our colleagues can work safely. We put in place measures to help ensure isolation between shifts. We have also implemented additional safety and cleaning protocols to minimize contamination risks. We work closely with our customers, suppliers and partners to share information and determine best practices.

We see a lot of creativity, resilience and dedication at ASML and the industry overall as we work to manage through this crisis.

To date, we have experienced limited impact on ASML's manufacturing capability, although there have been additional challenges with absenteeism, transportation and support logistics that we have had to manage. Some of the quarantine requirements have had an impact on our efficiency, while travel restrictions have posed a challenge for installs and major upgrades. We are working with our customers to plan ahead and find creative solutions such as the use of remote monitoring, augmented reality solutions and diagnostic technologies to aid in the service and repair of systems.

With regards to our supply chain, some of our suppliers have experienced temporary closures resulting from governmental lock down and shelter in place orders. At this stage, we have either been able to work around these temporary disruptions or the closure has been resolved. We are managing risks via alternative sourcing and again a lot of creativity. We are closely monitoring the status and will use safety stock as much as possible to ensure minimum interruption. At this point in time we have been able to find solutions for these challenges.

Regarding customer demand, we have currently not seen a reduction in demand this year and we have seen a strong order intake. I will talk more on this later.

On cash management, although we have a very healthy balance sheet as well as flexibility in our cost structure, we feel it is prudent to preserve cash should this situation continue for an extended period of time. Not just for our own operations, but also in order to be able to support our suppliers as best we can in these extraordinary circumstances. Roger will talk more on the detailed actions.

You will all understand that in this environment it is difficult to determine how things will develop, how long it will last and the impact this will have on the global GDP development that can affect our entire industry.

We are taking the necessary steps in terms of safety, risk mitigation, and financial measures to best manage through these challenging times. It is very encouraging to see the creativity, resilience and dedication at ASML and the industry overall.

Now, I would like to turn our normal quarterly results process. Before we begin the Q & A session Roger and I would like to provide an overview and some commentary on the first quarter. Roger will start with a review of our Q1 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 hope you are all safe and healthy.

I will first review the first-quarter financial results and then make some comments on the second quarter of 2020. I will also provide more detail around measures we are taking with regards to cash management.

Net sales came in at 2.4 billion euros, below our original guidance of 3.1 to 3.3 billion euros, which was primarily related to COVID-19 impact.

Net system sales of 1.6 billion euros was again heavily weighted towards Logic at 73 percent, with the remaining 27 percent from Memory, clearly showing the continued strength of Logic business. We actually shipped four EUV systems in Q1 but were only able to recognize revenue on two systems, which I will explain in more detail later.

Installed Base Management sales for the quarter came in at 857 million euros. This was around 100 million euros lower than guided due to lack of access to machine time as well as a delay in acceptance of upgrades, we expect these upgrades to translate to revenue in Q2

Let me provide a bit more detail on the items that occurred in the quarter that resulted in a system revenue shift of around 700 million euros, consisting of a DUV related revenue shift over 200 million euros and EUV related revenue shift of over 500 million euros, primarily related to COVID-19 impact:

First, we experienced some delays in DUV shipments to customers in Wuhan, China, as well as other customers due to operational and travel restrictions regarding COVID-19. We are working with our customers to prepare for these shipments in the next quarters.

Second, we experienced some issues in our supply chain as a result of a temporary disruption from EUV component suppliers that encountered operational restrictions due to COVID-19 regulations. These supply chain issues have been solved for now. Also, we experienced longer than initially planned EUV cycle times for the first NXE:3400C models in final configuration, primarily driven by the complex deployment of in-line tin refill as part of the modular vessel. Cycle time related to this aspect is now being reduced every week and we are on track to achieving the aspired cycle time reduction envisaged for the end of this year. As you know this is an important element in achieving the capability of 45-50 EUV tools in 2021 and beyond. As a result of the longer than expected cycle times, as well as COVID-19 related supply issues, we saw some delays in EUV shipments for the quarter resulting in fewer system shipments than originally planned.

Third, due to concerns around the continued ability to ship systems in the current circumstances, some customers have asked us to expedite the delivery of EUV systems in the quarter by shipping the systems before the normal Factory Acceptance Tests (FAT). The implication of this is a delay in our revenue recognition as final acceptance will now take place after successful installation at the customer site.

We expect the revenue that we were not able to recognize for Q1 as a result of the issues listed above, to shift to Q2 and Q3 of this year.

Gross margin for the quarter was 45.1 percent, also below our original guidance primarily due to a combination of delayed field upgrades as well as delayed DUV systems revenue, related to COVID-19 impact.

Overall operating expenses came within guidance, with R&D expenses at 544 million euros and SG&A expenses at 130 million euros.

Turning to the balance sheet, 507 million euros worth of shares were repurchased in Q1. We ended last quarter with cash, cash equivalents and short-term investments at a level of 4.1 billion euros.

Moving to the order book, Q1 system bookings came in at a strong 3.1 billion euros, including 1.5 billion euros from eleven EUV systems. Logic order intake was 66 percent of the total value with the remaining 34 percent from Memory, again reflecting the continued strong Logic demand for leading edge lithography for this year and next year, but also indicating a recovery of the demand for Memory.

Net income in Q1 was 391 million euros, representing 16 percent of net sales and resulting in an EPS of 0.93 euros.

With that I would like to make some comments on Q2 of 2020.

As Peter mentioned, we have not seen a reduction in demand this year and we continue to see a strong order intake, up around 28 percent from Q4.

Based on current plans, without any COVID interruption, Q2 can be a strong shipment quarter with revenue up potentially over 50 percent from Q1, and a significant improvement of gross margin. We are still planning to execute to current plan.

However, due to significant uncertainty in this COVID-19 environment, we decided it is prudent to refrain from giving formal guidance for Q2.

Finally, on cash management, although we have a very healthy balance sheet as well as flexibility in our cost structure, we, like many of our peers and customers, are dependent on the short- and longer-term implications of the COVID-19 outbreak. Due to these uncertainties, we feel it is prudent to preserve cash should this situation continue for an extended period of time. Not just for our own operations, but also in order to be able to support our suppliers as best we can in these extraordinary circumstances.

We have decided not to execute any share buybacks in Q2 2020. This decision follows the pause in the execution of the program in the first quarter, after having already performed share buybacks under the new program for an amount of approximately 507 million euros. The previously announced three-year share buyback program of up to 6.0 billion euros, to be executed 2020-2022, is still in place.

We have also implemented measures to limit our growth in the workforce. Non-business critical vacancies have been put on hold. We continue to hire for business-critical positions. This way, our workforce will grow less than originally planned this year.

We are also postponing any non-business critical OPEX and CAPEX. However, we will continue to invest in the development of future technology roadmaps, including High-NA, at an unadjusted pace, in order to allow our customers the continuation of their roadmaps once the situation has been normalized.

As communicated last quarter, ASML has submitted a proposal at the 2020 Annual General Meeting of Shareholders (AGM) to declare a total dividend for 2019 of 2.40 euros per ordinary share. Recognizing the interim dividend of 1.05 euros paid in November 2019, this leads to a final dividend payment of 1.35 euros to be paid in the second quarter. This is a 14 percent increase compared to the 2018 dividend. The 2020 Annual General Meeting of Shareholders, will take place on April 22 in Veldhoven.

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

Peter Wennink

Thank you, Roger.

As Roger has highlighted, our order intake is strong and we have not yet seen any significant pushouts or cancellations this year.

Many investments of our customers are strategic and support their technology roadmaps, a lifeline for our leading-edge customers. These strategic investments are therefore primarily related to leading edge equipment, such as EUV and high-end Immersion scanners, requiring longer lead times and qualification schedules. This was also confirmed recently by leading-edge customers that have also told us that they see an unabated demand for leading-edge devices, at least throughout this year. Keep in mind, the lead time and qualification of lithography systems are the longest in the fab and customers will not want to jeopardize any adjustments to their technology or capacity ramps that will negatively affect their ability to keep serving their leading-edge customers.

As the current situation is very fluid, we are meeting with our customers on a more frequent basis to understand any changes they may be seeing regarding demand outlook. In general most customers are still indicating that they are continuing relatively normal fab operations so far. Logic customers are currently continuing to ramp their 7/5nm node in support of end market applications like 5G, AI and high-performance compute. There are also some positive signs being reported on data center demand as well as demand for notebook and communication infrastructure driven by the significant increase in work from home and virtual learning activities. These applications drive the demand for both logic and memory. However, it can also be expected that consumer related electronics demand (for example smartphones) may be under stress, in addition to the potential negative impact the COVID-19 crisis will have on GDP.

We expect Installed Base business to continue to scale with growing installed base numbers and we will also see EUV contribute to service revenue as these systems start running wafers in volume manufacturing. We currently have plans for upgrades at several customers however with the realization there is supply and demand risk in the current environment.

Our bookings show an increase in Memory over the prior quarter driven by DUV, while Logic continues to show a transition from DUV to EUV ordering as customer confidence in EUV increases, translating into more layers in Logic production.

On EUV, along with the industry, ASML continues to make progress on ramping EUV technology in high volume manufacturing, as was recently showcased at the SPIE lithography conference in February.

Our customers continue to adopt and ramp EUV in high volume manufacturing in both Logic and Memory. One of our Memory customers recently announced that they have successfully shipped one million of the industry's first 10nm-class DRAM modules based on EUV technology. They also stated EUV will be fully deployed in future generations of DRAM, starting with its fourth-generation 10nm-class (D1a) next year.

We continue to target EUV revenue of around €4.5 billion from 35 systems this year, thereby assuming that we will not face any significant supply/ demand risks as mentioned before. On margins for EUV, we continue to drive profitability in both the systems as well as the service business. We are still on track to achieve at least 40 percent system gross margin this year and break even with our EUV service business by the end of year.

Increased customer confidence in EUV technology is translating to strong EUV demand in both Logic and Memory. This is reflected in the strong order flow in the first quarter in support of our 2021 output. As mentioned in earlier calls, we are currently working towards a capacity of 45-50 systems in 2021, which we feel can be achieved through reductions in cycle time.

We continue to make progress on our next generation EUV technology, High-NA, and are on track to ship the initial development systems in 2022.

Now, regarding our outlook on the quarter and on the year. Based on current customer demand plans and without any COVID interruption, Q2 can be a strong shipment quarter, with significant improvement of GM, as Roger mentioned. We are currently in execution of this plan. On the full year, customer demand is currently strong as well and the current shipment plans would position us well for another year of growth.

However, there is significant uncertainty about how the current COVID-19 crisis will impact the global GDP development, end markets, our manufacturing capability and supply chain. In light of these risks and uncertainties we decided it is prudent to refrain from giving formal guidance for Q2 and for the full year 2020.

These are unprecedented and challenging times, but we will get through it. The world looks a lot different today than it did three months ago. So it is hard to make predictions and we are certainly not adding opinions. We continue to look at the facts, day by day and act accordingly. We are taking the necessary steps for the safety of our employees, the community and our customers, as well as the necessary risk mitigation and financial steps.

I would like to also take the opportunity to thank the entire ASML team, their families, as well as our many partners, who have stepped up in these demanding times in support of our company and our stakeholders. I have seen great examples of teamwork and incredible creativity to make sure that we can continue our work, serving our customers while keeping our people and partners safe.

Despite the fact that the current environment provides clearly near-term challenges and uncertainties, the positive industry momentum around innovation and expanding new markets further strengthens our confidence in our future growth scenarios.

With that we would be happy to take your questions.