

ASML reports €4.0 billion net sales at 47.5% gross margin in Q3 2020

Strong second half supports expected 2020 revenue of at least €13.3 billion

VELDHOVEN, the Netherlands, October 14, 2020 - ASML Holding N.V. (ASML) today's Investor Call – 2020 third-quarter results.

Peter Wennink

Welcome everyone, thank you for joining us for our Q3 2020 results conference call. I hope all of you and your families are healthy and safe.

Before we begin the Q & A session Roger and I would like to provide an overview and some commentary on the third quarter, as well as provide our view of the coming quarters. Roger will start with a review of our Q3 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 third-quarter financial results and then provide guidance on the fourth quarter of 2020.

Net sales came in above guidance at 4.0 billion euros primarily due to additional EUV system revenue.

We shipped 10 EUV systems and recognized revenue from 14 systems this quarter. For the four systems that shipped in Q2 but did not receive factory acceptance testing before shipment, we were able to complete customer site acceptance tests and recognize revenue this quarter, bringing the total to 14 EUV revenue systems in Q3. EUV system revenue this quarter was 66 percent of total system revenue, which is the first time EUV was higher than DUV system revenue. This further confirms EUV has entered the realm of high-volume manufacturing and is an integral part of our core operational activities.

Net system sales of 3.1 billion euros was again more weighted towards Logic at 79 percent, with the remaining 21 percent from Memory. The strength in Logic is driven by the high EUV revenue.

Installed Base Management sales for the quarter came in at 862 million euros, showing continued strength in our service and field option business from the beginning of the year.

Gross margin for the quarter was 47.5 percent, coming in at the mid-point of our guidance, which is a good outcome considering the significant EUV revenue.

On operating expenses, R&D expenses came in at 534 million euros and SG&A expenses at 132 million euros, which was slightly better than guided.

Net income in Q3 was 1,061 million euros, representing 26.8 percent of net sales and resulting in an EPS of 2.54 euros.

Turning to the balance sheet.

We ended third quarter with cash, cash equivalents and short-term investments at a level of 4.4 billion euros, which is the same level as last quarter.

Moving to the order book, Q3 system bookings came in at 2.9 billion euros, including 595 million euros for EUV systems. We saw some EUV demand reduction due to a delay in customer's node timing resulting in a net booking of 4 EUV systems. Order intake was largely driven by Logic with 86 percent of bookings and Memory the remaining 14 percent.

With that I would like to turn to our expectations for the fourth quarter of 2020.

We expect Q4 total net sales of between 3.6 billion euros and 3.8 billion euros.

We expect our Q4 Installed Base Management sales to be around 900 million euros, which is driven by strong demand for field upgrades and growing service revenue, with an increasing contribution from EUV service.

Gross margin for Q4 is expected to be around 50 percent, which is significantly higher than Q3, driven by higher immersion volume and improved DUV product mix.

The expected R&D expenses for Q4 are 550 million euros and SG&A is expected to come in at 140 million euros. Our estimated 2020 annualized effective tax rate is still expected to be around 14 percent.

Finally, I would like to talk about capital allocation and working capital. As mentioned last quarter, we are in a transition period with customer contracts as we work to move towards new contracts with improved payment terms. We do see some of these new contracts starting to materialize and expect to improve our free cash flow generation in the coming quarters.

The interim dividend over 2020 will be 1.20 euros per ordinary share. The ex-dividend date as well as the fixing date for the EUR/USD conversion will be November 2, 2020 and the record date will be November 3, 2020. The dividend will be made payable on November 13, 2020.

Conditions in the COVID environment have improved around our ability to operate and our assessment of our supply chain. Taking this into account, along with our improving free cash flow generation, we will resume executing share buybacks this week, in line with the plans that we have communicated earlier this year, for a total of 6 billion euro over 3 years.

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 very strong quarter with 4.0 billion euros in revenue and good profitability, driven by strong growth in Logic. We expect Q4 to be a solid finish to the year in both sales and profitability. In spite of some added macro uncertainty in the first half of the year, due to COVID-19, our view on growth this year is largely unchanged from what we believed at the start of the year. This is a clear reflection of our customers' drive to innovate and continue to invest in future technology nodes.

In Logic, customers continue to see strong demand for advanced nodes in support of the build-up of the digital infrastructure, which includes secular growth drivers, such as 5G, AI and high-performance compute. As we are still in the early stages of this digital transformation, we expect Logic demand to remain healthy and continue to drive demand for our products.

In Memory, customers are continuing to indicate they are seeing healthy demand in data centers with improving demand for consumer electronics. With customers' expectations for higher bit growth next year and taking into account the longer lead times and qualification schedules for advanced litho, we are starting to see a recovery in lithography demand for DRAM with strong growth expected in Q4 this year. Based on a continuation of this improving end market environment, we expect this memory recovery to continue into next year.

Sales to China continue to grow and accounted for 21 percent of our system revenue this quarter. We expect sales to our domestic Chinese customers to grow to above 1 billion euros this year, which includes sales to both Logic and Memory customers in China, with the mix skewed towards Logic this year but trending to higher Memory sales next year.

Regarding US export rules to China, we are aware of the requirements set by the US Commerce department for specific companies in China. As such, according to the current regulations, ASML can continue to ship DUV lithography systems from the Netherlands. ASML requires a U.S. export license for systems or parts that are shipped directly from the U.S. to the customers affected by the rules. While it is not our policy to comment on individual customers, we aim to serve and support all of our customers around the world to the best of our abilities, whilst being compliant with laws and regulations set by the jurisdictions where we operate.

On our Installed Base business, we still expect significant growth this year. Through the first three quarters we realized revenue of around 2.6 billion euros and as Roger mentioned we expect another solid quarter in Q4. Services business will continue to scale as our installed base grows, with increasing contribution from EUV service revenue as these systems run more wafers in volume manufacturing. We expect significant demand for upgrades, as customers utilize upgrades to increase capacity and improve imaging and overlay performance required on future nodes.

On EUV, although our systems are still climbing the maturity curve, we continue to see increasing customer confidence in the technology, which is translating to expanding layer counts in Logic, initial deployment of EUV in Memory, and increasing service revenue.

With 10 shipments this quarter, we have shipped 23 EUV systems year to date. With completion of customer site acceptance tests and revenue recognition of the four systems shipped last quarter, we achieved a remarkable 2.0 billion euros of EUV system revenue from 14 systems in Q3. We are still planning to manufacture 35 systems this year but due to the pace of customers' node ramps and their fab readiness, a few systems may end up being shipped early next year. Despite this potential shift of shipments to early next year, we are still targeting EUV revenue to approach 4.5 billion euros this year.

We continue to drive profitability of our EUV systems and service business. We are on track to achieve at least 40 percent system gross margins and we started to break even on service business this quarter. We will continue to drive margin improvement in both systems and service via cost reduction and delivering more value. As we said before, we expect EUV to reach margins comparable to DUV margins over the next two to three years.

We are on track with our EUV cycle time reduction plan to get to 20 weeks by the end of the year, enabling a capacity of 45 to 50 systems. With respect to demand for next year, we currently have an EUV system backlog of 6.2 billion euros exiting Q3, with around 65 percent of this backlog planned for shipment next year. While we expect more orders in Q4, we did see some EUV demand reduction for next year due to a delay in customer node timing which resulted in net bookings of 4 systems in the quarter. Although there is clear uncertainty due to the current macro environment, as well as exact timing, slope of ramp and ultimate size of customers' nodes, we currently expect EUV system revenue growth of around 20 percent next year.

In our DUV business, we qualified the first NXT:2050i in Q3, which shipped early Q4. This immersion system is based on a new version of the NXT platform where the reticle stage, wafer stage, projection lens and exposure laser all contain performance enhancements. With these innovations, the system delivers increased customer value via improved performance in overlay and productivity and are therefore critical in support of their next node introductions.

To summarize 2020, in spite of some macro uncertainty in the first half of the year, we see the year playing out quite similar to what we saw at the start of the year. We expect to end another strong year in Logic, Memory growth of over 30 percent and significant growth of over 20 percent in our Installed Base business. With this, we expect double digit growth in both sales and profitability leading to estimated revenue of at least 13.3 billion euros.

As we look to 2021, it is too early to provide any detailed guidance as we are working with customers to determine demand plans going forward. While there are still significant uncertainties, we expect another year of low double-digit growth, largely driven by our current view of expected EUV system revenue growth of around 20%. There are a number of elements that will determine the degree of growth and uncertainty.

First, it's the macro environment, nobody can predict the global economic impact of COVID and how this will impact the end markets that we serve. On top of this, there is also the geopolitical environment, predominantly the US-China dynamics, that creates additional uncertainty.

In Memory, demand will depend on the bit growth next year. Customers seem to broadly believe the inventory issues will have been normalized by the end of this year and expect stronger bit growth in 2021. We currently see stronger lithography demand for Memory next year, which is consistent with customers' comments, however the degree of growth will of course depend on continued technology transitions and how much capacity will be added. In DRAM specifically, we see support of this expectation through high utilization of our litho systems in the field at the moment. While we expect to see more EUV systems go to DRAM next year in support of 1A node, Memory is still a key driver for our DUV demand.

In Logic, we expect demand will remain healthy, however final demand will depend on timing and slope of node ramps driven by the end-demand curves. Customers are continuously recalibrating their roadmaps leading to changes in their shipment requirements, which will likely have an impact on our demand next year. The other aspect of demand timing is around the slope of the node ramps. This will be determined by how many wafers will move into each of the foundry nodes and is, as I mentioned before, a function of the health of the end-demand next year.

Lastly, on Installed Base business, we expect continued growth but the degree of growth will be more dependent on upgrade business as service business is pretty predictable and grows with installed base.

In summary, there are a lot of dynamics at play, both at the macro level, geopolitical level as well as market specific circumstances. However, the ongoing transformation of the digital infrastructure, along with the secular end market drivers, such as 5G, AI, HPC, will continue to fuel demand for advanced process nodes both in Logic and Memory, which drives demand for our products. Therefore, although we are currently going through a period of near-term uncertainty, the long-term demand drivers only increase our confidence in our future growth outlook towards 2025.

With that we would be happy to take your questions.