Transcript
Video interview with ASML CEO Peter Wennink
Q2 2022 results
July 20, 2022

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Mr. Wennink, can you give us a quick summary of the second-quarter results?

Yes, of course. Second quarter ended with €5.4 billion in sales and about €1.3 billion in Installed Base, which is slightly ahead of our guidance. We had gross margin coming in at 49.1%, which is bit of a lower end of the guidance. It has to do with the increased inflationary effects that we have seen. Net income €1.4 billion. Very good order intake, €8.5 billion of orders. Which is a quarterly record. Now all in all, a solid quarter. However, it was not without challenges. Mainly because of supply chain challenges. Supply chain constraints, parts not coming in on time. But we managed the quarter.

Q3 and Full Year 2022

What is your guidance for the third quarter?

Like I said, what we saw in the second quarter, which is basically an acceleration of supply chain constraints, is actually also happening in Q3. And I think it will happen throughout the remainder of the year. Which will mean that in the third quarter we will see more fast shipments than we planned. This will also be true throughout the remainder of the year. Now we have to remind what a fast shipment is. A fast shipment is in fact a way to reduce the cycle time by cutting or not doing certain tests in our factory, which could lead up to one month of cycle-time reduction. Very important when the customers are waiting for those machines. So we only do those tests at the customer site, which means that the revenue recognition will move to that moment in time. Which means, yes we will have more fast shipments. So we will have more deferred revenue than we anticipated. So when we look at Q3 and look at the guidance of Q3, I would say it is more or less in line with the guidance we gave for Q2. So it's between €5.1 and €5.4 billion of sales. Between 49% and 50% margin and about €1.4 billion of Installed Base Management.

So are there any changes to your view for 2022?

Well first of all, 2022 we have to put this into context. 2022 the demand is still significantly higher than what we can make. This was the situation in the last quarter it's still the same. We don't see any demand reduction. But what we do see is what I said earlier, is that shipments will be indeed later. So we have more fast shipments. So we have revenue recognition delayed. Now we said a quarter ago that the impact of those fast shipments, this revenue recognition delay, was going to be about €1 billion for this year. Now where we are today, we think it's going to be €2.8 billion. So we have about €1.8 billion of more revenue recognition delays. And those delays of course translate into our 2022 sales number. So currently we think sales will grow with about 10%. Which if you do the math, will come around €20.5 billion for 2022.

Now in summary, if you look at what we said a quarter ago and where we are today. A quarter ago we said sales is going to grow 20%. Which brings you to €22.3 billion. But with €1 billion of deferred revenue recognition – because of fast shipments – where we are now, we say well it's 10% and will bring you to €20.5 billion, with €2.8 billion of deferred revenue because of fast shipments. So when you look at the business volume, the shipment value, it's effectively these quarters are basically the same. So our guidance from that point of view has not changed.

What does it all mean for the different business segments for the year?

Well when you look at EUV, we are shipping 55 systems. We said that before. However, because of those fast shipments and the revenue recognition delay, the deferred revenue, we are now looking at, which by the way are 15 EUV systems, we are now looking at a booked revenue for EUV for 40 systems. Which is about €6.4 billion in sales. Now on DUV, we see a significant number of DUV shipments. A significant increase as compared to last year. But also there we are seeing the impact of these fast shipments. So we think we'll end up around €8.6 billion in sales for DUV. Which is just over 15% increase as compared to last year. Which by the way, the previous quarter we thought it's going to be 20%. On Installed Base Management, 10% growth as compared to last year, €5.5 billion in total. So add up the €6.4 billion for EUV, €8.6 billion for DUV, €5.5 billion for Installed Base Management: €20.5 billion for 2022. Which is about a 10% increase.

So we see an increase in delayed revenue, there are concerns around inflation, how does this all impact your gross margin for the year?

We started the year with a gross margin expectation of about 53% and we corrected that in Q1 with 1 percentage point to about 52%. Largely because of the unexpected increased inflationary effects. Where we are today, we see the following. Of course, most importantly, we are deferring €1.8 billion more of revenue to 2023. Happens to be our higher margin immersion and EUV systems.

Now, next to that we're starting our systems late because of the late delivery of parts. Which means that we have fewer systems this year that can cover the fixed costs. So it's fixed cost coverage and we have to remember the fixed costs are also going up. Because we are planning and we will ship more systems next year as we see it today. So we need to invest. And last but not least, we see inflationary effects. I mean we have seen an acceleration of inflationary pressure on labor, on freight specifically, on parts. And all in all, if you then look at it, we expect that the gross margin for 2022 will end up between 49% and 50%.

Now having said that, of course we are in discussion today with our eco system partners, our suppliers and our customers, to see how we can basically fairly share the burden of all these cost increases. Looking at it, I think when you really look at 2022 and look at the lower guidance on gross margin, it's driven by these short-term effects. It's inflationary effects that we didn't plan for. It's the supply chain challenges that led to deferred revenue. It's all shorter term and of course we are in discussion with our customers to see how we can fairly share this. But I think longer term there is no reason whatsoever we see currently to change our ambition for our gross margin targets around 2025 which is between 54% and 56%.

Market outlook

Let's have a look at the market. What's your current view on the market, both in the near term and the longer term?

A good question. I think near term, clearly we see very mixed messages coming out of the customer base. With respect to consumer related products we clearly see a slowdown particularly in PCs and in smart phones. On the other hand, in the industrial space when you talk about high performance compute, talk about automotive, the demand is still very, very strong. It's also evidenced by the utilization rates of our machines that are in the installed base. Which are at a historical high and it's still the case today. But we are also seeing across different semiconductor nodes, inventories going up towards let's say pre-COVID type levels and that is pretty broad based. So all in all, it's a bit of a mixed picture shorter term.

Longer term, I think there is no denying that the digital transition that's taking place will continue. We see it very clearly in automotive. In talking to customers and customers' customers we see a quadrupling or quintupling of the semiconductor content. Lately, our customers are talking about the energy transition. You know, the renewable energy transition which is very topical these days will require semiconductors for wind and for solar and for the smart grid. On top of that, we see the internet of everything. Everything that we are seeing in terms of sensors and actuators needing semiconductors. It's happening and will not go away. On top of that, more energy efficient high-performance compute. Need more transistors. So the die are getting larger. We are needing more extra wafers.

The geopolitical situation, the technological sovereignty that countries are after is driving these big investment and subsidy programs. When you look at the announcements the competition in the foundry space will also go up. So all in all, longer term very healthy and unabated views. Good and very healthy growth. Shorter term, mixed signals.

What does it all mean for the demand for your products this year and next year?

Well let me first of all say when we look at 2022 and 2023 and you look at the order intake, €8.5 billion of order intake which is a quarterly historical high. Very engaged order discussions with our customers this quarter. We see a backlog of over €33 billion. So I think that looks very healthy. Now having said that, I think for 2022 we are of course not blind for anything that we hear with respect to inflationary pressures, probably recessionary concerns. So for 2022 I don't think it will have any real effect in terms of our shipments.

For 2023 you have to ask the question, what kind of recession are you looking at. If it's a moderate recession I think the impact will be very limited. For the simple reason that we have such a big backlog, that our customers are coming to us and say: "listen, if we see a slowdown, sure, but one thing is certain: we want your machines". And that's logical. Those machines are very critical. Long lead time. And you have to remember that of our backlog 85% is for advanced semiconductor manufacturing. High-end immersion and EUV. Now for the remaining 15% mature technology, they also need that for advanced production. So I think all in all pretty healthy.

And for 2023, if we see the supply chain constraints going away by the end of the year which we are planning for or even if it's the first part of 2023, we will definitely need our capacity that we are planning. Which is over 60 EUV systems and over 375 DUV systems. With this potential risk of a moderate recession we will need that capacity because our customers tell us. So it's going to be a good and healthy year.

Do you expect that strong demand to continue beyond 2023?
Yes absolutely. I talked about the big secular trends. These are the longer term trends and semiconductors are everywhere and it's also obvious that big societal challenges need big solutions and semiconductors go to the heart of those. So I say yes semiconductors will grow, semiconductor industry will grow, litho intensity will increase. And as a matter of fact, if we look at that we are going to just repeat what we said a quarter ago. That we do need structurally more capacity. We said by 2025 we want to have a build capacity for EUV of 90 systems and DUV of 600 systems and beyond 2025 we want to build at least 20 High-NA systems and that is still very much intact. And we are working with our suppliers to get it done. Now clearly, we will go into some more detail on those capacity numbers, on the drivers for those capacity numbers during our Capital Markets day which is on November 11 of this year.

Dividend and share buyback
Can you give us an update on your plans for the use of cash?
Yes, I think the future is very bright so our cash generation will be quite significant. But first of all, like we've always done, we will use the cash first to run our business. Secondly, then we will pay a dividend which is going to be an increasing dividend. And by the way we have decided to move from a semi-annual dividend to a quarterly dividend that we will start in Q3. An interim dividend for the first time this quarter. And any excess cash will be used for share buybacks as we have done in the past. So no change to our policy.

In summary
How would you all summarize this?
If you look at the big picture and you have to really make a distinction between the short-term issues and the long-term issues. Short term there is no denial that there are concerns. There are inflationary concerns, recessionary concerns. As it relates to ASML we have supply chain constraints that lead to fast shipments and deferral of revenue recognition. We'll deal with that. But also short term we look at an order backlog which is very strong. We look at a customer demand for 2022 that is unabated. Which can withstand any moderate recession in our opinion. And then of course we have the longer-term trends. I think the longer-term trends are as I said earlier unabated. It's obvious that the digital transformation will continue and will provide a very, very healthy growth profile for the company going forward with us and with our customers. And of course we will go into more detail November 11. We will definitely share with our stakeholders and with our investors our views as to the drivers and the capacity needs for this industry and for ASML specifically. So we're looking forward to that.