ASML

Transcript
Investor Call ASML CEO Peter Wennink & CFO Roger Dassen
Q2 2022 results
July 20, 2022

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Peter Wennink
Welcome everyone, thank you for joining us for our second-quarter 2022 results conference call. I hope all of you and your families are still healthy and safe.

Before we begin the Q & A session Roger and I would like to provide an overview and some commentary on the second-quarter 2022 as well as provide our view of the coming quarters. Roger will start with a review of our second-quarter 2022 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 second-quarter financial accomplishments and then provide guidance on the third quarter of 2022.

Net sales came in at 5.4 billion euros, slightly above our guidance.

We shipped 14 EUV systems and recognized 2.0 billion euros revenue from 12 systems this quarter.

Net system sales of 4.1 billion euros which was driven by Logic at 71 percent, and remaining 29 percent from Memory.

Installed Base Management sales for the quarter came in at 1.3 billion euros, above guidance.

Gross margin for the quarter came in at 49.1 percent, which is at the lower end of our guidance primarily due to increasing inflationary costs.

On operating expenses, R&D expenses came in at 789 million euros and SG&A expenses at 222 million euros, as guided.

Net income in Q2 was 1.4 billion euros, representing 26.0 percent of net sales and resulting in an EPS of 3.54 euros.

Turning to the balance sheet. We ended the second quarter with cash, cash equivalents and short-term investments at a level of 4.4 billion euros.

Moving to the order book, Q2 net system bookings came in at a record 8.5 billion euros, reflecting the continued strong customer demand for both advanced and mature nodes. Strong order intake of 5.4 billion euros for EUV 0.33 NA and EUV 0.55 NA systems and 3.1 billion euros for non-EUV systems. Total net system bookings was driven by Logic with 60 percent of the bookings and Memory accounting for the remaining 40 percent.

With that I would like to turn to our expectations for the third quarter of 2022.

We are experiencing increasing supply chain constraints which resulted in delayed system starts and requires us to increase the number of fast shipments in Q3 in order to supply our customers with systems in production as quickly as possible. With more fast shipments planned in the quarter, it will increase the amount of revenue delayed to subsequent quarters.

We expect Q3 total net sales to be between 5.1 billion euros and 5.4 billion euros. This excludes around 1.1 billion euros of net delayed revenue for Q3 as a result of more fast shipments at the end of Q3 than at the end of Q2.

We expect our Q3 Installed Base Management sales to be around 1.4 billion euros.

Gross margin for Q3 is expected to be between 49 percent and 50 percent, similar to prior quarter.

The expected R&D expenses for Q3 are around 810 million euros and SG&A is expected to come in at around 235 million euros.

Our estimated 2022 annualized effective tax rate is expected to be between 15 percent and 16 percent.

In Q2, ASML paid a final dividend of 3.70 euro per ordinary share. Together with the interim dividend paid in 2021, this resulted in a total dividend for 2021 of 5.50 euro per ordinary share. We plan to grow our dividend and will move from a bi-annual to a quarterly dividend payout starting in Q3 this year. This will provide more timely return of cash to our investors and more evenly balance our cash across the year. The first quarterly interim dividend over 2022 will be 1.37 euro per ordinary share and will be made payable on August 12, 2022.

In Q2 2022 we repurchased around 2.3 million shares for a total amount of around 1.2 billion euros. Total shares bought under the 2021-2023 program until end of Q2 is around 12.4 million shares for a total amount of around 7.9 billion euros.

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

Peter Wennink
Thank you Roger.

As Roger has highlighted, revenue and profitability for the quarter basically came within guidance. We expect sales in Q3 to be in a similar guided range as Q2 as increasing supply constraints drive more fast shipments and delay revenue recognition to subsequent quarters.

Looking at the more near-term market dynamics, we see a couple of mixed messages. Some customers are indicating they are seeing signs of slowing demand in certain consumer driven market segments, primarily PCs and smartphones. Other market segments like high performance computing and automotive are still seeing strong demand. Litho tool utilization at our customers is still at very high levels while we are also seeing chip inventory levels trending towards pre-COVID levels. The demand for our systems still significantly exceeds supply this year and we see no change to this demand picture. We are planning to ship a record number of systems but we are faced with an increasing number of supply constraints, which, as it seems today, are likely to continue throughout the year. In an effort to recover from these delays, we are increasing the number of fast shipments to get systems to customers as quickly as possible. As a reminder, a fast shipment process skips some of the testing in our factory. Final testing and formal acceptance then takes place at the customer site. This leads to a deferral of revenue recognition for those shipments until formal customer acceptance but does provide our customers with earlier access to wafer output capacity. As fast shipments delay revenue recognition to subsequent quarters, we are seeing more delayed revenue that will move into next year.

The value of fast shipments in 2022 leading to revenue recognition in 2023 is expected to increase from around 1 billion euros, as previously communicated, to around 2.8 billion euros, an increase of 1.8 billion euros. This then also leads to 1.8 billion euros lower revenue recognition in 2022 and we therefore now expect year-on-year revenue growth of around 10 percent.
As a reminder, we began the year expecting a revenue growth of around 20 percent, or approximately 22.3 billion euros, and 1 billion euros value of fast shipments at the end of this year.

We are now expecting a revenue growth of around 10 percent, which is approximately 20.5 billion euros, and 2.8 billion euros value of fast shipments at the end of the year. The total business volume for 2022 is essentially unchanged.

For our EUV business, we still expect to ship 55 systems this year. As a result of the higher number of fast shipments, we now expect recognized EUV revenue this year on 40 systems to be around 6.4 billion euros, which is similar to revenue last year. Compared to last quarter's view, the number of EUV fast shipments in 2022 that will now be recognized as revenue in 2023 has increased by 9 systems to a total of 15 systems with a sales value of around 2.4 billion euros.

In our DUV and Applications business, we still expect significant growth in both immersion and dry systems, as well as continued strong demand for metrology and inspection systems. Due to a higher number of fast shipments on DUV systems, we now expect a revenue of around 8.6 billion euros or an increase of over 15 percent.

For the Installed Base Management business, service revenue will continue to scale with the growing installed base of systems. Customers will continue to look for upgrade opportunities to improve the performance of systems in their fabs but will be limited by high utilization levels which will dictate their ability to install upgrades. We still expect 2022 installed base revenue to grow around 10 percent year-on-year.

Regarding the market segments, there has been no change in customer demand. As the majority of the additional 1.8 billion euros of delayed revenue is EUV and therefore relates to the Logic segment, we now expect Logic system revenue to be up around 5 percent year-on-year and Memory system revenue to be up around 20 percent year-on-year.

On gross margin, we started the year with an expectation of a gross margin for 2022 of around 53 percent and adjusted this to 52 percent last quarter due to increased inflationary costs. There are a few developments that have a further impact on our expected gross margin for the year.

First, the higher delayed revenue, an increase of 1.8 billion euros, relates to our higher margin EUV and immersion systems. Secondly, the supply chain issues lead to delayed system starts and therefore we will have lower fixed cost coverage on a lower number of system starts this year compared to what we had planned last quarter. Fixed costs also increased due to our plans to ramp capacity faster in preparation for what still seems to be a good growth year in 2023. And finally, strong inflationary effects relating to material costs, freight and labor continue to impact our cost of sales.

The combination of these effects result in an expected 2022 gross margin between 49 and 50 percent. We are currently in discussions with our customers and suppliers to find a fair way to share in these inflationary cost increases. It is important to emphasize that the reasons for the lower margin guidance are a result of short-term shocks in our ecosystem and can be adjusted over time in collaboration with our ecosystems partners. Therefore, our longer term gross margin ambition of 54 to 56 percent in 2025, as communicated during Investor Day last year is still valid.

Longer term, if we look at the secular drivers, the global megatrends driving our industry are still in place and fueling demand for both advanced and mature nodes. The expanding application space for semiconductors and secular trends are driving long-term structural demand. The growth in the automotive market is very strong as semiconductor content scales with increasing automation and electrification. Customers are also indicating increasing demand for semiconductors as part of the green energy transition and build out of the smart grid. The demand for more mature technology nodes is furthermore driven by the internet of things fueling the demand for sensors, power IC's and actuators. Customers are seeing very strong growth due to demand from high performance computing applications. As applications require higher performance at a lower power, we see the energy efficient path to transistor growth driving the need for larger die sizes. Finally, there are a number of fabs being planned or already in progress driven primarily by technological sovereignty investments and subsidy schemes next to increased foundry competition. Growth in semiconductor end markets and increasing lithography intensity are pushing the demand for our products and services. This is evident in our quarterly order flow of over 6 billion euros the past 5 quarters and a record order intake of 8.5 billion euros this past quarter. Our backlog has grown to over 33 billion euros and we expect continued high order intake this quarter. Almost 85 percent of this backlog is for EUV and immersion which is planned for advanced nodes. Demand for our products this year and next continues to exceed supply.

There is clear concern in the market regarding recessionary fears and the impact this could have on demand. Of course, if we were to go into a significant recession, we would not be immune to this but we don't expect our 2022 business to be impacted. Also for 2023, given our backlog we believe that we are well covered. Customers keep stressing that they will not cut capex for litho despite current market conditions and uncertainties. So, assuming we have the supply chain issues addressed by the end of the year, or early next year, we are still positive that we should be able to turn the envisaged capacity for 2023 of more than 60 EUV systems and more than 375 DUV systems into another healthy growth year for ASML.

As mentioned in April, we are actively engaging with our supply chain to add capacity so that we will be able to have a shipment capacity in 2025 of around 90 EUV 0.33 NA systems and around 600 DUV systems. We're also discussing with our supply chain partners to secure a shipment capacity of around 20 EUV 0.55 High NA systems in the medium term. Our 2025 capacity targets as well as updates to our longer term scenarios will be addressed at our Investor Day later this year.

In summary, although we are currently experiencing obvious supply chain challenges, we are still working to maximize output to meet the strong customer demand by means of fast shipments. We still expect demand to exceed supply this year and next. Even though there are currently clear macro-economic concerns we expect strong continued demand for semiconductors in support of the ongoing digital transformation. We are working to increase our capacity next year with a plan to further increase this by 2025 as communicated last quarter. We remain confident in the opportunity this provides for our future growth which we plan to update you during our Investor Day on November 11th. Really hope to see you there.

With that we would be happy to take your questions.