Transcript
Video interview with ASML CFO Roger Dassen
Q3 2022 results
October 19, 2022

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Mr. Dassen, can you give us a summary of the third-quarter results?

Absolutely. Net sales came in at €5.8 billion which was above guidance. Included in that €5.8 billion €1.5 of Installed Base revenue. Why was it higher than guided? A number of reasons. First off, the installation time in the field is actually faster than we anticipated. That means that we get revenue faster as a result of that. So that was one big reason. Secondly, we already mentioned the Installed Base business. So that was more than we anticipated because of some field upgrades. Thirdly, in the past quarters we put a specific factory option on the machines and that factory option led to delayed revenue because first the factory option needed to demonstrate its value to the customers.
A number of key customers has now accepted that value. As a result of, that the deferred revenue that we booked in previous quarters has now been released. So it is in that combination really that the revenue was higher than we guided.

Also from a gross margin perspective, higher than we anticipated, 51.8 percent. Primarily driven by, I would say, the last two things that I just mentioned. So the deferred revenue release of the factory option and also the fact that we were able to pull-in some Installed Base business. Also the factory option that was a pull-in. Because that meant that the value is actually demonstrated earlier than we originally anticipated. So those are the main reasons why both the revenue and gross margin are higher than guided last quarter.

The net income for the quarter came in at €1.7 billion. Also very noteworthy is the net bookings. Came in at a record €8.9 billion for this quarter. Included in there €3.8 billion for EUV, including a number of High-NA orders. So all in all, I would say a strong quarter both in terms of revenue and in terms of gross margin and also in terms of order intake.

Q4 and Full Year 2022 outlook

What's your guidance for the fourth quarter and for the full year?

For the fourth quarter our guidance for sales is between €6.1 and €6.6 billion. Included in there we expect €1.6 billion for Installed Base revenue. In terms of gross margin we expect approximately 49 percent. If you then translate that into the full year 2022 at the midpoint, we would get around €21.1 billion revenue for the full year at a gross margin approaching 50 percent.

Supply chain

Can you give us an update on the current supply chain situation and your confidence in resolving these issues?

Yes. I think it is good in that context just to look at the facts. I think one fact is just to look at if you adjust the quarter revenue for the fast ship effect, if you normalize[1] that, then I think you get a good proxy how the output capacity for ASML and its supply chain really has developed itself. If you take that perspective, so you normalize the revenue for the fast ship effect, then you would see that for Q1 we were at €4.9 billion in normalized revenue. In Q2 we were at €5.7 billion. In Q3, the quarter we just completed, at €6 billion. At the midpoint that we are now guiding for Q4, we would be around €6.4 billion. So there you see a gradual uptick of the normalized revenue. Again as a good proxy of the output capability that ASML and its supply chain demonstrated.

And I think that's a good indication and good evidence of the fact that we are getting a better handle on the supply chain situation. The better handle means that we actually see the move rates in the supply chain go up and we also see the predictability of those move rates going up. We put a lot of effort into this. Working very closely with the supply chain and particularly with those suppliers that were struggling a little bit. But I think all in all, the situation is definitely progressing. I think the capacity that we now see both for ourselves and also the supply chain, the position is very nicely for what we've communicated before as the output targets and the shipment targets that we would have for next year. Which is more than 60 EUV tools and more that 375 DUV tools.

1 Normalized revenue is a non-GAAP measure. See the appendix to our investor presentation for a reconciliation to net sales under US GAAP"

There's a lot of uncertainty around the supply of natural gas. Do you see any impact of that on your business?

We definitely looked into that for our own operations. We are a very mild consumer of natural gas. So for us we have established that that risk profile is very low. We also looked at our tier 1 suppliers. Our key tier 1 suppliers and also there we have determined that either the risk is low or they are all very well prepared to deal with the situation and have developed alternatives. We looked beyond that point and we really looked into a number of sub suppliers and if there are sub suppliers that are confronted with higher risk situation around this. In those instances we are working very hard with them to work on the alternatives and just make sure that everyone is very well prepared. So clearly something we're looking into. But I think that we are making really good progress on making sure that the entire supply chain is well prepared for any eventualities in that regard.

Market outlook

Are you seeing any change in demand from your customers? With slowing consumer demand, a potential recession ahead. What does it mean for demand for your products in 2023?

It's a very valid point. It's very clear that the world is changing very rapidly and this combination of inflation on the one hand and also consumer confidence taking a hit. These are serious developments and create a lot of uncertainty. Uncertainty that is really at a very different level I would say and the macro uncertainty is at a very different level than it was even a couple of months or quarters ago. So that's clearly the case and of course in such a climate of uncertainty of consumers, inflation risks, recession risks clearly there. I think that obviously also has an impact on our customers. You see some customers actually running our tools at a utilization level which is below the record levels that we've seen before. We also see a number of our customers reducing the capex that they are forecasting and we also see now for the first time, since quite a while, that actually some customers are delaying the preferred time that they would like to get our tools. So we see those dynamics.

But I have to say the lion's share of our customers really keeps on pushing us in terms of getting the tools and getting them sooner rather than later. There is a few customers that are indicating a preference for some delay but the lion's share of the customers are really pushing and they are raising their hands to say if there is a delay someplace else, then please get the tools to us even earlier. And I think that is also evidenced by the strength of the order book. Again, we just mentioned record order intake of €8.9 billion. That gets to an order book at the end of Q3 of over €38 billion. Which is a number that we've never seen before at ASML. In there, 85 percent of that order book really is for EUV and for immersion, so really caters to the more advanced and strategic part of semiconductor manufacturing. And I think that is what is really going on. I think clearly the secular trends – as we always call them – are very much intact. I mean customers really want to make those technology transitions. They really are building capacity also beyond 2023. And also there is still this element of tech sovereignty that we've been talking about. The fact that governments want to be more self-sufficient in their semiconductor manufacturing. So those secular trends are still very much intact and I think that creates a situation that we're seeing where the lion's share of the customers are really still pushing us to get the tools sooner rather than later.

So your question on 2023. Obviously it's a bit early to be too granular and too specific but we mentioned before the over 60 EUV tools, the more than 375 DUV tools. I would say, even if indeed we are able to sustain the good momentum that we just talked about in the supply chain and provided we are not going to be confronted with some very unexpected developments on the demand side, that's still a good indication for what we are looking at in terms of shipment. So clearly uncertainty at a very different level than what we've seen before. But I think we still have some very strong dynamics going in favor of us.

And how do you prepare for these uncertainties?

Well, the key word there is flexibility and that's also something that we're working on as ASML. So to make sure that both on the supply chain as it relates to our own manufacturing capability and also in our workforce, that we have sufficient flexibility available. Both flexibility in terms of an unanticipated sudden decline in demand that we are able to collectively respond to that in the right fashion. But also making sure that we are also, when things start to pick up again, that we are able to respond to that in a very flexible way as well. So that's what we are doing. I think it's part and parcel of the capacity expansion that we're doing to execute that in a flexible way. I think in that way we do whatever it takes to be well prepared for any eventualities in that regard.

Have you seen any further increases in inflationary effects and how do you recover from the inflationary cost with regard to your gross margin next year?

We talked about it last time. Obviously the inflationary effects are there. Both on labor cost, on freight, on parts. So that's clearly going on. We also mentioned we are having good discussions with our customers on that front to kind of share the burden within the ecosystem. And I think generally there is a good appreciation of customers that they understand what we are being confronted with and there is also a good appreciation that there needs to be a mechanism to indeed share that burden. So I would expect to get benefit from that in the course of 2023 and to start seeing that compensation.

In terms of the impact that it will have on 2023. We should get some positive impact on the gross margin from that element. Also for 2023, I would expect to recover from the gross margin impact from the fast shipments. The gross margin of this year was impacted by the fact that we had these fast shipments. That impact should be significantly less in 2023 from a gross margin perspective. So those I would say would be benefits. The flip side of that is clearly inflation might continue. So there is still quite some uncertainty around the level of inflation. So it's also very hard to predict what exactly the inflation rate for next year is going to be. And also we should bear in mind: we continue to ramp. We continue to build capacity. Obviously that means that you are having cost ahead of really utilizing that capacity. That will continue to have a burden on the gross margin for next year.

So if you add it all up, I think all in all, we have the gross margin approaching 50 percent in this year. That's what we expect. You also know that we indicated for 2025 we articulated an expectation of a gross margin between 54 and 56 percent. And I think we should also next year see the gradual development from the gross margin of this year towards that objective of 54 to 56 percent that we articulated before. We should see that gradual progress actually happening.

As said there is strong demand for your products. Do think that this strong demand will continue beyond 2023 and can you elaborate on your expansion plans?

As I just mentioned, I think the secular trends are there. Clearly there is uncertainty in the short term but the secular trends are there. For all the good reasons that we just mentioned. So from that vantage point clearly we believe expanding our capacity is the right thing to do. We are in very close collaboration with our supply chain to get that done. We recently had a Supplier Day here at ASML to really talk with the suppliers about these expansion plans. About the progress that they are making. Also making sure that people learned from one another. So there is a lot of positive dynamic around that theme and a lot of alignment within the supply chain to really get to those levels that we mentioned before. Which is 90 EUV systems and 600 DUV systems around the 2025 timeframe and then medium term 20 High-NA systems.

Export controls

What is the impact of the latest export control restrictions announced by the US government? Does this impact your business in China?

I would say the direct impact on ASML is fairly limited. I should say of course we are still in the process of evaluating it. It's a very extensive document as you know. So we are still in the process of really digesting it and looking at it. Our initial appreciation is that the direct implication for us is fairly limited. So why is that? First off, as you know we are a European company. So there is not a lot of US technology in our tools. That's the first reason. Of course we will always adhere to the rule of law. So also the US export laws as they pertain to us, of course we will do whatever it takes to follow those. There is no doubt about it. But the fact that we are a European company with limited US technology in it of course creates this situation where a direct impact on us is fairly limited. We can continue to ship non-EUV lithography tools out of Europe into China.

So the direct impact on us I would say is fairly limited. Of course there could be indirect effects. Those indirect effects could be that Chinese manufacturers to the extent that they do not get other equipment that they need in their fabs for instance from the United States. Of course there could be an indirect effect on the demand for our tools. But there I would say, it is important to recognize that we are clearly still in a situation where the supply is below what the demand is. So to the extent that at a certain point in time we would be in a position that we can no longer supply certain tools to certain customers in China, the demand outside of China is still such that we would get compensation for that in the current environment from other customers.

Dividend and share buyback

To conclude, can you give us an update on your plans for the use of cash?

Yes, I would say in principle nothing changes. As you all know, the primary utilization of cash is within the business. To make sure that from an R&D perspective, capex perspective, the cash that is needed to pursue our roadmap is there. So that's still the primary purpose. Then we've also said we are looking at a dividend that we want to grow over time. The proposal for next quarter, so for Q4, we will have an interim dividend of €1.37.

You also know that what is available above that, so what's available in terms of cash over and above what we need for the business to pursue our roadmap and what is needed for this growing dividend, will be returned to shareholders by means of share buybacks. The existing share buyback program we just completed. Quite well ahead of time.

We will have our Capital Markets Day on November 11. There of course we are going to talk about how we see the 2025 and 2030 scenarios developing. How do we see demand developing, the supply situation, so what's our expectation also financially for those years 2025 and 2030. We also in that Capital Markets Day will talk about our plans for a new share buyback program. So there we will have a concrete program available and ready to discuss and present to the shareholders.

I'm very much looking forward to that. It's going to be an interesting day November 11. Amidst the uncertainty that we also talked about. To talk about the medium and the longer term and the really good prospects that we continue to see for ASML and its business. So very much looking forward to seeing all of you there. Either in person or in video. We'll see you there.

Forward Looking Statements