Transcript
Investor Call ASML CEO Peter Wennink & CFO Roger Dassen
Q3 2022 results
October 19, 2022

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Peter Wennink
Welcome everyone, thank you for joining us for our third-quarter 2022 results conference call.

Before we begin the Q & A session Roger and I would like to provide an overview and some commentary on the third-quarter 2022 as well as provide our view of the coming quarters.

Roger will start with a review of our third-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 third-quarter financial accomplishments and then provide guidance on the fourth quarter of 2022.

Net sales came in at 5.8 billion euros, above our guidance due to faster completion of installations triggering earlier revenue recognition, a release of deferred income on a factory option which has now been accepted at customers' site as well as higher Installed Base business.

We shipped 13 EUV systems and recognized 2.2 billion euros revenue from 12 systems this quarter.

Net system sales of 4.3 billion euros which was again driven by Logic at 68 percent, and the remaining 32 percent from Memory.

Installed Base Management sales for the quarter came in at 1.5 billion euros, above guidance due to higher upgrade revenue.

Gross margin for the quarter came in at 51.8 percent, which is above our guidance, primarily due to the pull in of revenue from both the release of deferred income on a factory option as well as additional upgrade business.

On operating expenses, R&D expenses came in at 819 million euros and SG&A expenses at 236 million euros, as guided.

Net income in Q3 was 1.7 billion euros, representing 29.4 percent of net sales and resulting in an EPS of 4.29 euros.

Turning to the balance sheet. We ended the third quarter with cash, cash equivalents and short-term investments at a level of 3.4 billion euros.

Moving to the order book, Q3 net systems bookings came in at a record 8.9 billion euros, reflecting the continued strong customer demand for both advanced and mature nodes. Strong order intake of 3.8 billion euros for EUV systems, including High NA, as well as 5.1 billion euros for non-EUV systems, which is DUV and Metrology & Inspection systems. Total net system bookings was driven by Logic with 77 percent of the bookings and Memory accounting for the remaining 23 percent.

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

We expect Q4 total net sales to be between 6.1 billion euros and 6.6 billion euros. This excludes around 100 million euros of net delayed revenue for Q4 as a result of more expected fast shipments at the end of Q4 than at the end of Q3.

We expect our Q4 Installed Base Management sales to be around 1.6 billion euros.

Gross margin for Q4 is expected to be around 49 percent, the improved margin effect of higher volume relative to Q3 is more than offset by negative margin effects primarily from DUV mix, pull in of revenue recognition on higher margin factory options from Q4 into Q3 and inflation costs hitting this quarter. This translates to an expected gross margin approaching 50 percent for the full year.

The expected R&D expenses for Q4 are around 880 million euros and SG&A is expected to be around 265 million euros. The higher R&D guidance is primarily due to additional headcount and labor cost increases. Higher SG&A is mainly due to additional headcount and IT spending. There are also some small negative foreign exchange effects on both R&D and SG&A.

Our estimated 2022 annualized effective tax rate is expected to be around 15 percent.

In Q3, ASML paid a quarterly interim dividend of 1.37 euro per ordinary share.
The second quarterly interim dividend will be 1.37 euro per ordinary share and will be made payable on November 14, 2022.

In Q3 2022 we repurchased around 2.1 million shares for a total amount of around 1.0 billion euros. We have now completed our 2021-2023 share buyback program. On November 11, 2022 we will hold our Investor Day where we will provide an update on our long-term business plan, including any new share buyback program.

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 came in above guidance. We expect sales in the fourth quarter to be higher as we continue to work through supply chain issues and reduce cycle times. Relative to last quarter, we now expect stronger revenue growth for the year, with a full year 2022 sales of 21.1 billion euros, using the midpoint of the Q4 guidance. This includes a higher EUV system revenue of around 6.8 billion euros as well as higher Installed Base revenue. Due to fast shipments, we also expect delayed revenue of around 2.2 billion euros into 2023. The total business volume for 2022 is basically unchanged from the start of the year.

Looking at the current market environment, there is clearly a lot of uncertainty due to a number of global macro concerns regarding inflation, consumer confidence and a real chance of a recession. As we have shown in the past, in such an environment we need to maintain flexibility in our supply chain, in our workforce and in our manufacturing capability. You would also expect an impact on customer confidence around their capex spending. In fact, we do see some customers running at lower tool utilization levels and revising their capex plans for next year. While some customers are now adjusting the desired timing of their demand, the vast majority of our customers are still requesting shipment of their litho systems as soon as possible. This is clearly driven by the strategic nature of these litho investments in support of technology transitions, capacity additions which require time for wafer output to materialize, as well as governments' global investments in pursuit of technology sovereignty. As a matter of fact, our 2023 shipment demand is still significantly above our build and shipment capacity for next year. This is supported by the record bookings this quarter of 8.9 billion euros and our largest backlog ever of over 38 billion euros. Almost 85 percent of this backlog is for EUV and immersion which is used for advanced nodes and related wafer capacity expansions.

With regards to our supply chain, we need to continue to manage risks but over the past quarter we see the predictability of the move rates in the supply chain improving. As a result, we now foresee a further improvement in our output capability in Q4. Looking at the net sales in the quarter plus net deferred revenue from fast shipments, you see an increase in shipment value over the year. Starting with 4.9 billion euros in Q1, to 5.7 billion euros in Q2 then 6.0 billion euros in Q3, and we expect around 6.4 billion euros in Q4. Building on this progress, we feel we are well positioned to further increase our capacity next year.

Looking to next year and bearing in mind the current environment, it is too early to provide specific guidance. With demand expected to remain significantly above supply and based on discussions with our customers, we are planning to increase our system output next year. So, assuming we will have addressed the supply chain issues in the coming quarters, we are planning to ship over 60 EUV systems and over 375 DUV systems in 2023, with around 25 percent of the DUV systems being immersion.

Regarding gross margin, as Roger mentioned, we expect to approach 50 percent this year. As discussed last quarter, we are in discussions with customers to share the extraordinary inflationary costs from freight, labor as well as system components. These discussions are progressing and in general customers understand our request to share these extraordinary cost increases and as such we expect to receive a reasonable level of inflation compensation over the course of next year. Assuming successful progress on this item, based on current macro-economic conditions and inflation levels, and considering that next year we will likely have less gross margin impact from fast shipments than in 2022, we expect gross margin to improve next year. We will continue to make the required investments as we need to ramp our capacity in anticipation of medium to long term growth of our industry. Clearly these investments might put some pressure on the gross margin next year but are inevitable if we want to maintain the longer-term growth profile of the company. That said, we do see a clear gradual progress from today towards our longer-term gross margin ambition of 54 to 56 percent by 2025.

As I said before, longer term, the expanding application space for semiconductors and secular trends are driving structural demand and this is why we are actively adding capacity and are planning to further increase our EUV and DUV shipments in future years to meet customer demand. As announced earlier today, the upcoming appointment of Wayne Allan to the Board of Management as our Strategic Sourcing and Procurement Officer underscores the significance of working with our supply chain to further drive future capacity growth. Regarding our capacity for 2025 and beyond, we are actively working with our supply chain to achieve the earlier communicated targets of 90 units for 0.33 NA (Low-NA) EUV and 600 units for DUV, along with a medium-term target of 20 units for 0.55 NA (High-NA) EUV. Next month at our Investor Day on November 11 we will provide updates on how we see the changes in the end market growth driving increased demand for our litho systems, what this means for our capacity plans as well as the impact on our longer-term financial scenarios for 2025 and 2030.

Finally, with regards to the announcement earlier this month from the US government around export control restrictions, we have performed our initial assessment and expect the direct impact on ASML's overall shipment plan for 2023 to be limited. However, there could be an indirect impact due to the inability of other equipment suppliers to ship their systems. Our current expectation of such an indirect impact would be around 5 percent of our backlog. This percentage is based on the share in our backlog of purchase orders from Chinese fabs that in our current assessment are seen as meeting the technology criteria as indicated in the updated US export controls restrictions. We will continue to refine our assessment as the situation evolves. While ASML is of course fully committed to comply with all applicable regulations, the new regulations do not directly change U.S. export controls on lithography equipment. As a European based company with limited US technology in our systems, ASML can continue to ship all non-EUV lithography systems to China out of the Netherlands. Additionally, we can ship most U.S. origin spare parts to most customers in China that are working on mature nodes without a U.S. export license. The new export control rules are directed at advanced nodes, while our business in China is predominantly directed at mature nodes. Lastly, if for export control related reasons we cannot ship to more advanced fabs in China, we have more than sufficient demand for these systems elsewhere globally, as demand continues to exceed supply.

In summary, while in the current environment there is a lot of uncertainty due to macro concerns, our customers' demand for our products continues to exceed supply. We are working to increase our capacity next year with a plan to further increase this by 2025 as communicated earlier this year since we remain fully confident in the opportunity this provides for our future growth. We plan to update you on this during our Investor Day on November 11th. We certainly hope to see you there.

With that we would be happy to take your questions.

Forward Looking Statements

This document and related discussions contain statements that are forward-looking within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, including statements with respect to expected trends, including trends in end markets and technology industry and business environment trends, supply chain constraints and plan to add capacity and capacity goals, outlook and expected financial results, including bookings and orders, expected net sales, gross margin, R&D costs, SG&A costs and estimated annualized effective tax rate and full year 2022 expectations for net sales and gross margin and expected shipments in 2023, statements with respect to fast shipments and impact on expected results, gross margin ambition, statements made at our 2021 Investor Day including revenue and gross margin opportunity for 2025 and growth opportunities beyond 2025, expected annual revenue growth rate for the period of 2020-2030, and our plan to revisit the expectations presented at the 2021 Investor Day, estimates of amounts of deferred revenue not yet recognized and timing of recognition of such deferred revenue for fast shipments, including value of fast shipments in 2022 leading to deferred revenue recognition, expected shipments, plans and strategies, impact of gas shortage on us and suppliers, customer demand trends, statements about the market and macroeconomic trends and concerns regarding inflation and consumer confidence, statements with respect to dividends including the Q3 dividend and share buybacks and financial policy including statements with respect to share buyback programs, aim to improve ESG sustainability KPI's and other non-historical statements. You can generally identify these statements by the use of words like "may", "will", "could", "should", "project", "believe", "anticipate", "expect", "plan", "estimate", "forecast", "potential", "intend", "continue", "target", "future", "progress", "goal" and variations of these words or comparable words. These statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our business and our future financial results and readers should not place undue reliance on them. Forward-looking statements do not guarantee future performance and involve a number of substantial known and unknown risks and uncertainties. These risks and uncertainties include, without limitation, economic conditions, product demand and semiconductor equipment industry capacity, worldwide demand and manufacturing capacity utilization for semiconductors, the impact of general economic conditions including the impact of the current macroeconomic uncertainty in the market, inflation and consumer confidence which could potentially lead to a recession, demand for our customers' products, performance of our systems, the impact of the COVID-19 outbreak and measures taken to contain it on us, our suppliers, the global economy and financial markets, the impact of the Russian military actions in the Ukraine and measures taken in response on the global economy and global financial markets and other factors that may impact ASML's financial results, including customer demand and ASML's ability to obtain parts and components for its products and otherwise meet demand, the success of technology advances and the pace of new product development and customer acceptance of and demand for new products, production capacity and our ability to increase capacity to meet demand, the impact of inflation, the number and timing of systems ordered, shipped and recognized in revenue, and the risk of order cancellation or push out, supply chain capacity and constraints and logistics and constraints on our ability to produce systems to meet demand, the timing of recognition of deferred revenue from fast shipments and impact on our results, the impact of the gas shortage on us and our suppliers, trends in the semi-conductor industry, our ability to enforce patents and protect intellectual property rights and the outcome of intellectual property disputes and litigation, availability of raw materials, critical manufacturing equipment and qualified employees, trade environment, import/export and national security regulations and orders and their impact on us including the impact of the new US export regulations which we are continuing to assess, changes in exchange and tax rates, available liquidity and liquidity requirements, our ability to refinance our indebtedness, available cash and distributable reserves for, and other factors impacting, dividend payments and share repurchases, results of the share repurchase programs and other risks indicated in the risk factors included in ASML's Annual Report on Form 20-F for the year ended December 31, 2021 and other filings with and submissions to the US Securities and Exchange Commission. These forward-looking statements are made only as of the date of this document. We undertake no obligation to update any forward-looking statements after the date of this report or to conform such statements to actual results or revised expectations, except as required by law.