

Q4 2017 Earnings Call

Company Participants

- Peter Wennink, President & CEO

Other Participants

- Unidentified Participant, Analyst

Presentation

Unidentified Participant

Mr. Wennink, 2017 was a record year for ASML. Can you talk us through the numbers for the Fourth Quarter and for the full year?

Peter Wennink {BIO 1852674 <GO>}

Yes. The Fourth Quarter, to start with, was actually a very good quarter and we ended the quarter at EUR2.5 billion, which is EUR400 million higher than our guidance about a quarter ago. The reason is that about half of the EUR400 million has to do with the very high demand for our DPV systems. We were able to squeeze out a few more.

And the other half of the EUR400 million has to do with the revenue recognition of 2 EUV systems. They were planned to be recognized in Q1. So signed off by the customer in Q1 of 2018. But that happened in Q4, which is very good. But that also gave us EUR200 million of extra sales.

Now, with that EUR2.5 billion, we were able to grow the top line to over EUR9 billion which is 33% increase as compared to 2016 and a 44% increase of net income to over EUR2.1 billion. So all in all a fantastic year.

Unidentified Participant

What is your outlook for 2018?

Peter Wennink {BIO 1852674 <GO>}

When we look at 2018 we see growth in sales and in net profit. And it's too early to give a -- specific numbers for 2018. But I'd like to refer to what we said last quarter qualitatively. What we said then was for the non-EUV business we see at least the same good year as we saw in 2017 with some upside, some potential upside. But more importantly for EUV in 2018 we would see about EUR2.5 billion of sales.

Now having said that, of course, that included about EUR500 million of revenue recognition of deferred (net) income, which we took already EUR200 million in 2017. So EUR2.5 billion is more like EUR2.3 billion. But the difference of the EUR200 million we feel will be taken up by the potential non-EUV business that we see in 2018.

So in summary, qualitatively, same as we said last quarter with the comments I just made and a very good year in terms of sales growth and growth of net profit.

Unidentified Participant

With regard to EUV, how do you expect EUV to develop throughout the year and is there already any visibility for 2019?

Peter Wennink {BIO 1852674 <GO>}

Well if you think about EUV in 2018, you really have to look back to 2017 because, in 2017, we actually met some very important targets. So technical targets. And some commercial targets you could say. And it has to do with the fact that we reached the 125 wafer per hour productivity mark.

The availability of the machine is going up and all led to the situation where our customers really turned the corner on EUV in 2017, which I think was also evidenced by the fact that the order but now shows a significant number of EUV tools, about 28, of which 10 orders we booked in Q4.

Now that is a very strong basis for 2018. So we expect then that we will be able to ship and we will ship our production capacity, which is 20 systems. You have to add two of those systems that actually we plan to ship in 2017. We planned 12; we shipped 10 and those two, the difference, two, is now shipping in 2018. So 20 plus two is about 22 systems.

Having said that, the ramp of the EUV shipments will see an increase in shipping capacity in the second half of 2018. We've been working very hard with the supply chain to bring the capacity up and we will see in the second half of 2018 a step up in that shipment capability of the Company. So that means that EUV shipments will be backend loaded in 2018 but will be significantly up from 10 in 2017 to our current planning of 22.

Unidentified Participant

Is there anything to say yet about 2019?

Peter Wennink {BIO 1852674 <GO>}

2019 is a bit too early. But everything we are seeing today and in discussions with our customers and going through their roadmaps and their ramp up plans, we believe we will need to ship -- we will ship our production capacity, which will be 30 plus systems in 2019, which will be limited by the capability of the supply chain to ship us the components.

Unidentified Participant

As EUV becomes more mature, what does it mean for the profitability of the platform?

Peter Wennink {BIO 1852674 <GO>}

It's a good question. In 2016, we indicated that we were still significantly loss making. We had a target of being at a 0% gross margin in 2017. We actually met that target in the Fourth Quarter, which is of course not true for the entire year. That has to do with the buildup of the service infrastructure, which is quite significant.

But to give you an indication that we're absolutely on the right track; when you look at the corporate gross margin, overall gross margin in 2017 of about 45%, which is higher than in 2016 where the EUV revenue was 3.5 times higher.

So it also shows you that EUV profitability is going in the right direction and we are having the right trend to meet our corporate target in 2020 of 50% plus gross margin, whereby EUV will contribute as planned.

Unidentified Participant

What's your take on the development of the semiconductor industry this year?

Peter Wennink {BIO 1852674 <GO>}

The semiconductor industry is on fire. We see very strong demand for our leading edge logic which is the 10 nanometer ramp, which is happening as we speak. The 7 nanometer ramp is starting this year, 2018, with EUV. Memory products are extremely strong, very high memory prices both in DRAM and in NAND.

Our current estimate, also listening to our customers, of what we plan to ship in memory, for instance, in 2018 is that we will ship what the market needs. Currently, our first indication is that we will not create a lot of overcapacity in 2018 with the shipments of both memory and logic products while those markets are very strong. So all in all, it looks very positive.

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