

Q3 2019 Earnings Call

Company Participants

- Roger J. M. Dassen, Executive VP, CFO & Member of the Management Board

Other Participants

- Leo de Later, Founder

Presentation

Leo de Later

Mr. Dassen, to start off with, can you give us a summary of the Third Quarter?

Questions And Answers

A - Roger J. M. Dassen {BIO 15064806 <GO>}

Sure. For Q3, we came in at EUR three billion in revenue, which is in line with guidance. Included in the EUR three billion seven shipments of EUV, including three 3400C machines where revenue has been recognized for those tools. And as you know, those are higher-margin tools. Also included in the EUR three billion EUR 661 million of installed base revenue, which is a little lower than what we expected. But we think we will catch up in Q4 on that.

In terms of gross margin, gross margin came in at 43.7%, which is nicely in line with what we guided.

If you look at net income for the quarter, we land at EUR 627 million.

So all in all, I would say a good quarter.

Q - Leo de Later

What can you say about your net bookings?

A - Roger J. M. Dassen {BIO 15064806 <GO>}

The icing on the cake for the quarter, I would say really is the bookings number. So we had EUR 5.1 billion in net bookings for the quarter, including 23 EUV tools. So that's a record number on both accounts for ASML.

Q - Leo de Later

What is your view for Q4 and the full year?

A - Roger J. M. Dassen {BIO 15064806 <GO>}

So for Q4, we guide in terms of revenue EUR 3.9 billion, which is a very high number. But it's also more or less in line with what we said before. EUR 3.9 billion -- including in the EUR 3.9 billion would be eight EUV shipments. That is a little lower than what we had demand for and also what we had basic capacity for because you might recall that we have demand and basic capacity for the year for 30 tools.

And if you add it all up, we would land at 26 tools for this year. The reason for that, as what we've indicated in the previous quarter, is that we had some issues in the supply chain. Those issues have been solved. But it did lead to a certain delay in the rest of the floor as a result of which we're going to have a few systems. So four systems really, drop into the first weeks of 2020. So EUR 3.9 billion.

On the gross margin side, our guidance is between 48% and 49%, which is a very significant improvement of gross margin over the previous quarters of this year. We've talked about the main reasons why gross margin is picking up as it is. So just to recap those main reasons, a big one there is the pricing of the 3400C. So nearly all of the EUV tools that we're going to ship in Q4 are 3400Cs. So that is a -- and they have a much better margin profile. So that's the main driver.

Second element is the EUV service revenue. We talked about that before. A significant portion of EUV service revenue is linked to wafer output. Wafer output is gradually going up, is picking up. So Q4, better than in Q3. We'll continue obviously to further improve with EUV getting into high-volume manufacturing across the board. So you will see an uptick there.

We have field upgrades at a higher level than we've seen before. That will result in a significant uptick. Also the mix that we have in our DPV sales is favorable. We have quite some immersion tools that will ship in Q4.

And finally, with this large volume, we also have a significant factory loading in Q4 as a result of which the fixed cost coverage is improving. So that's why we're looking at a very favorable development of gross margin to 48% to 49%, in that bracket.

If we then look at the full year. So if you add it all up, then for the full year, we would land approximately at EUR 11.7 billion, which is more or less in line with what we expressed as an expectation at the beginning of the year, at least at the overall revenue level.

If you look at the way it being composed, there is a significant shift even more so than what we anticipated at the beginning of the year, a significant shift to Logic. And landing for the full year at approximately what we expected at the beginning of this year. I think it's a significant fee that we're able to do that in light of what I just mentioned, the fact that we have four EUV tools that might fall into the first weeks of 2020 but also in light of the

weakness of the memory market. I think all in all, we can look at a very strong performance for ASML for the full year 2019.

Q - Leo de Later

And at the moment, what is your market outlook and your view for 2020?

A - Roger J. M. Dassen {BIO 15064806 <GO>}

So it's a little early to give quantitative expectations for 2020. But let me give you some qualitative considerations that we have looking into 2020.

Let's start with Logic. I think the Logic market is healthy. That is driven by all the things that we've been talking about for quite a while. So obviously artificial intelligence. But definitely also what you hear our customers talk about quite a bit is 5G both on the device side but also the application of the more advanced nodes in the infrastructure for 5G, which is new. So those are significant drivers of the demand there. That creates a very healthy climate for Logic.

If we look at our customers, we see them at different stages in the acceleration of their road map. But all of that really translates into good demand for our products and particularly, I would say on the EUV side.

If we look at EUV, our current expectation is that we might be looking at 35 EUV tools, all of them 3400Cs for next year. So EUV, I think is looking really good.

If we then go to the memory market. I think there is uncertainty about the point in time where the memory market will recover. There will be recovery. The question really is at what point in time will you see the recovery and at what point in time will that recovery lead to increased demand for our products. There's a specific relevance, I would say for DPV and specific relevance for the DPV revenue and gross margin. So that's why it's of interest to us, obviously.

If I look at today's market, then I think it's fair to say that the condition of the market today is not as favorable as the market condition that we assumed when we were looking at the mid-market growth scenario that we modeled at the Capital Markets Day in November of 2018. But hey, we've all been there. If the recovery is there, then you will see all of a sudden the recovery will be fast and the recovery will be strong. So I think we still have very significant options and positive options on the table for 2020.

On installed base revenue, indeed we do see a significant potential there and a significant uptick from where we are this year. That is a combination of what we discussed earlier on, which is the increase in EUV service revenue, which, again is driven by wafer output, which obviously will go up in 2020 in comparison to 2019. But also we do plan for quite some upgrades in the next couple of months and upgrades that will bring significant value to our customers. And all of that leads me to believe that the expectation for the installed base revenue in 2020 can be very favorable.

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Bloomberg Transcript

Q - Leo de Later

You just touched shortly on EUV. But where are you at present with EUV? Can you give us an update?

A - Roger J. M. Dassen {BIO 15064806 <GO>}

First off, I think we should recognize that this is a momentous quarter for EUV if you just look at everything that's happened. So first off, let's recognize that we now see the first commercial sales of devices manufactured on EUV. The manufacturers of that have publicized that in quite a substantial way. So I think EUV is there. It's in the product that you can buy today as a customer and as a consumer. I think that's a remarkable thing that we should just recognize happened in the last quarter. So that's one important thing to recognize.

Second important thing to recognize is we had the first 3400C machines shipped in Q3. Now if you add it all up, it's very clear that the confidence that our customers have in EUV has gotten to a very, very high level. If you then see that translate into the bookings that we had in the last quarter, 23 EUV bookings for Q3, I think that's testimony to the fact that the confidence levels on EUV are at a very, very high level.

And this is both for the Logic market but also for the DRAM market because a substantial number of the -- percentage of those 23 was, in fact -- is, in fact, related to DRAM. That tells you that the confidence levels in the performance that our new tool, the 3400C, generates at that point is very, very high. So I think this is an important thing to recognize where we are, an important quarter.

And just looking back, 20 years of hard work, 20 years of perseverance not just of ASML but of many believers in the ecosystem. I think this is probably the right point in time to express a big thank you to everyone who has been involved in making this happen. Then that way really was fundamental in creating a solid underpinning for a very bright future for ASML.

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