

Q2 2019 Earnings Call

Company Participants

- Peter T. F. M. Wennink, President, CEO & Chairman of the Management Board

Other Participants

- Leo de Later, Analyst

Presentation

Leo de Later

So can you give us a summary of the results for the Second Quarter?

Questions And Answers

A - Peter T. F. M. Wennink {BIO 1852674 <GO>}

I think the Second Quarter was a good quarter, a solid quarter. With our sales of EUR 2.6 billion, we came well within the guidance. Gross margin, 43%, a bit higher than we guided. Those were the results of some more manufacturing efficiencies in EUV. But also very important some more -- great field sales. Those were sales that were higher than we anticipated. That was with good margins and, of course, that was a result of the -- what we saw in Q1, where we had a very low average field sales because of the lack of components due to a fire at the supplier.

All in all, ended up with a net income of EUR 476 million. Of course, up, that's because of, of course, good gross margins. But also a long-term tax benefit.

From a order point of view, solid order intake, a good order intake, EUR 2.8 billion, which includes 10 EUV systems. And we shipped, by the way, 7 EUV systems in the Second Quarter. So all in all, I think it's a quarter that we can be very satisfied with.

Q - Leo de Later

Let's have a look at the semiconductor markets. There still seems to be some softness in the memory market. What's your view?

A - Peter T. F. M. Wennink {BIO 1852674 <GO>}

Yes, I think that's clear softness. That's the result, I think, of -- not only, I think, in the 3D NAND and in DRAM, of some very significant investments over the past couple of years

and a decelerated growth in the end market. I mean the end markets are growing less than we anticipated six months ago. So that creates softness.

Last quarter, we said that memory sales, DRAM and NAND together will be about 20% lower than last year. I think, currently, with the further softness that we're seeing, it's probably, this year, going to be about 30% lower.

Now put it into perspective, 30% lower sales, about EUR 3.1 billion in memory sales this year. But as we said last quarter, it's about EUR 1 billion in there, which we call strategic, which are the memory ramps of the Chinese customers, plus EUV. Those will happen. So if you subtract that EUR 1 billion from EUR 3.1 billion, you get EUR 2.1 billion. And that issue really compared -- those are the capacity shipments, the bit capacity shipments, less than 45% down as compared to 2018.

Of that EUR 2.1 billion, we shipped EUR 1.2 billion in the first half. So EUR 900 million, the second half. Is there some risk, still, to memory sales? Well it's a soft business so, potentially, there could be some risk still left.

Q - Leo de Later

With regard to the Logic market, it appears that Logic is strengthening. Can you elaborate?

A - Peter T. F. M. Wennink {BIO 1852674 <GO>}

Yes. I think Logic is actually very healthy. Last quarter, we said that the Logic market for 2019 -- or our Logic sales for 2019 would be about 50% up from 2018. Now what we see today, it's like more like 65%. So we see an increase in the demand for Logic from our customers. And that's really driven by the technology transition.

You think about it, it's 7-nanometer, it's 10-nanometer in microprocessors, 7-nanometer Logic and beyond. And that's really driven by those technology transitions that are driving the things that we're all looking for. And as our customers tell us, also things like 5G. So these things are all happening. So it means that, this year, Logic sales will be significantly up and also up as compared to last quarter. Now we know memory is down as compared to last quarter. But all in all, it compensates. So our total view of sales 2019 has not really changed.

Q - Leo de Later

And in EUV, how are you progressing with EUV?

A - Peter T. F. M. Wennink {BIO 1852674 <GO>}

Yes, I think a couple things there. I think good news is that on the productivity side, we're meeting our productivity targets at ASML. We have run now our 3400C version at more than 170 wafers per hour, which is good, which is actually our target number. And we've run -- perhaps even more importantly, we've run the 3400C number now also under

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production conditions, memory production conditions of our customers and achieving more than 2,000 wafers per day.

So from a productivity point of view, good progress. I think from an EUV demand point of view, very much also driven by what we see in Logic, which is the 7-nanometer and beyond transitions. They are happening. So the EUV demand for this year, 30 units, of which 40%, 12 units, we need to ship in Q4, we're going to ship 7 in Q3. So that is -- that's very clearly there. The demand is there. If there's any risk, I would say 40% ramp in the Fourth Quarter of everything we need to ship to customers this year only in Q4 put some pressure on the supply chain, yes? So if there's any risk to the 30 number and it's probably some supply chain issues that might pop up once we start executing the shipments.

So all in all, pretty good, happy. When we look at the order intake also in Q2, 10 EUV shipments, it's just a proof of the fact the end demand is there.

Q - Leo de Later

And what's your view on the Third Quarter and the full year?

A - Peter T. F. M. Wennink {BIO 1852674 <GO>}

Well we look at the Third Quarter, we expect about EUR 3 billion of sales. Gross margin, anywhere between 43% and 44%. But -- which includes 7 EUV systems. I think for the Q4 -- when you look at the total sales, we said earlier -- I said earlier, total sales 2019 will -- remains at our targeted level. Logic, a bit more up; Memory, a bit more down. That means that Q4 is going to be a very strong quarter, a very strong quarter in terms of sales. But also a strong quarter in terms of gross margin. I think we will see trending in Q4 the gross margin up to the 50% level that we are targeting for 2020. And driven by, I think, 4 main elements. One is, of course, the fact that it's a high-volume quarter, a lot of emerging systems. It's good margins there.

We see also good loading. I mean, in the Fourth Quarter, we have a good factory coverage. We see the introduction of the 3400C. So basically, that's a higher-priced system. And last but not least, we will see the first EUV service income coming in.

So all in all, I think the year will be a good year if you think about this. People look at 2019 in terms of wafer fab equipment sales. Now the general expectations will be down this year in the wafer fab equipment. But not for ASML. 2019 looks another growth year for us. And we're happy with that.

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