



Transcript

Video interview with ASML CFO Roger Dassen

Q1 2023 results

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Mr. Dassen, can you give us a summary of the first quarter results 2023?

Sure, net sales for the quarter came in at €6.7 billion. Higher than guided. Primarily as a result of higher EUV and DUV revenue. Both driven by faster installation in the field of our systems and also driven in a number of cases by earlier acceptance of the tool by our customers.

Included in the €6.7 billion is €1.4 billion of Installed Base revenue. That is lower than we guided and that is primarily the result of lower upgrade demand from our customers.

Fast shipment, obviously a topic that we have been talking about quite a bit in previous quarters. As you might recall, we had €3.0 billion of delayed revenue from shipments coming out of Q4 into Q1. At the end of Q1 we have about €1.5 billion of delayed revenue that is going to be recognized in subsequent quarters. Why lower? Why €1.5 billion versus the €3.0 billion? A couple of reasons. One reason is actually what I discussed earlier on. Which is the earlier acceptance of the customer and the faster installation. But also as you might recall, we said that in Q4 we really prioritized shipment over system starts. Why was that? A, because customers were asking for that. They wanted to have the tools earlier. And secondly, also for operational efficiency reasons.

Gross margin for the quarter, 50.6%. Again higher as a result of the things I just mentioned. So higher because of higher EUV revenue and higher immersion revenue. A little bit compensated by the fact that we had lower upgrade business. So that gets you to the 50.6%.

Net income for the quarter, €2.0 billion. The order intake for the quarter at €3.8 billion. That's lower than what you would have seen in previous quarters. But quite frankly that was expected. A, given the current business environment and also given the fact that we are still looking at an order book at the end of this quarter of €39 billion. Which is give and take two times the system sales that we expect for this year.

Q2 and Full Year 2023

What's your guidance for Q2?

Guidance for Q2, net sales we expect to be between €6.5 and €7 billion. Installed Base revenue as part of that, approximately €1.3 billion. We expect the gross margin for the quarter between 50% and 51%.



Have there been any changes in the business environment?

We continue to see the macro trends that we talked about last time. So higher interest rates, inflation, fear of recession in some parts of the world and the geopolitical attention. They continue to be there. If you then translate that to the semiconductor space, we do see in certain end-market segments that the industry is trying to manage the inventory levels down.

So how does that translate into litho demand is then the question. What we notice is that some major customers are indeed delaying the timing of their demand for certain tools. So that happens. Whilst we see other customers actually picking up that shift. In that sense for us, we still end up in the situation that supply is still the main constraint that we have. So the demand is still higher than supply. Albeit at a slightly lower cushion level if you like than we had last quarter. But it is clearly still there. So the number one objective for us is still to make sure that we optimize supply and that indeed we can deliver and that we can live up to the expectations that are out there.

If you then look specifically at the different segments for both Memory and Logic customers, we do see customers making the strategic investments for technology transitions. That is clearly happening. For Memory customers we do see them limiting their capex, lowering their wafer output which clearly is driving towards lowering the inventory level in the entire system. We see some of that behavior also in certain segments of Logic. But quite frankly, we also in Logic see in certain segments demand remains very, very strong. Particularly I would say in the space of mature nodes and then particularly where that requires DUV. Specifically as it relates to China. As you would have seen, China accounted for about 8% of system sales in Q1. We also told you last time that domestic China accounts for more than 20% in our backlog and that continues to be the case for the backlog at the end of Q1. So I think it's reasonable to assume that we will see a commensurate allocation to Chinese customers for the entire year. So that means that you will see a significant pick up of the sales into domestic China for the quarters to come this year.

How do all these developments translate into your outlook?

I would say the outlook for 2023 essentially remains unchanged. As we said before, we expect that we are going to ship around 60 EUV systems, around 375 DUV systems of which about 25% immersion and that continues to be our expectation. That translates into the growth numbers that we gave you last time. Which is 40% growth in EUV, 30% growth in the non-EUV business and around 5% increase in the Installed Base business. That all translates into a growth expectation for the year in comparison to 2022 of more than 25%. Underlying assumption there is that the fast shipment value that we received from 2022 in 2023 will be similar to what we see getting out of 2023 into 2024. So about a €3.0 billion number. That would be the underlying assumption for that expectation.



Export controls

With the recent communication from the Dutch government on export controls, can you provide an update on the expected impact to your DUV business?

We are still waiting for the final detailed guidance from the Dutch authorities. But as we said before, this is really geared towards advanced semiconductor manufacturing. That's what it is looking at. What this does for us is that we expect that we will require export licenses for advanced immersion tools. Our interpretation of advanced immersion tools would be for the NXT:2000 and subsequent versions.

What do we expect this will do? Well, if you look at some of the circumstances. So if we look at what the Dutch government published so far, our interpretation of the export license rules, if you look at the current climate, but also if you look at the way we model our expectations on a go forward basis. That's really based on worldwide demand for litho. It's not based on geographic distribution. Based on that, we believe the impact on our guidance for 2023 or on the scenarios that we modelled both for 2025 and 2030 we do not expect that impact to be material on those expectations.

Gross margin

Let's have a look at gross margin. Are there any changes to your expectations for gross margin this year?

In essence what we said last quarter is the guidance that we would still provide. Which is that we expect gross margin to end up slightly higher than what we had in 2022. Again just as a reminder to put some taste to that.

On EUV we expect a higher number of shipments. We mentioned about 60 shipments before and we expect that to have a positive impact on gross margin. On DUV same story there. We expect a higher number of DUV revenue in this year. And that would be a positive. A slight negative would be the mix within DUV. But nonetheless for DUV we expect the gross margin on balance to be slightly up from last year.

Installed Base business, there we expect the gross margin to be going down a little bit. That's because, as we discussed earlier on, that we expect the upgrade business to be a little less than last year.

We also talked quite a bit about inflation. From quite a few customers we are getting inflation compensation. So that's a good thing. But inflation continues to be there so I still expect a small drag if you like on the gross margin number as a result of inflation. Very importantly, as we continue to build towards increasing capacity. So we still have the 90 EUV capacity we're looking for by the 2025 timeframe and the 600 DUV capacity that we are aiming for.

So we continue to prepare for that. We also are preparing for the introduction of High-NA. All the preparatory work that is going on there. That continues to be a drag on the gross margin.



So if you take all of those elements together that leads to our expectation of a slight improvement of the gross margin in comparison to last year. Once again, that positions us very nicely for the expectations that we guided earlier on in terms of gross margin by 2025 between 54% and 56% and between 56% and 60% by 2030.

Capital allocation

Can you update us on your capital allocation plans?

We continue to expect significant generation of cash in the years to come and the policy hasn't changed. The policy, just as a reminder, whatever cash is being generated first off we will apply that to the business needs. So whatever capex that we would need, that will be funded from the free cashflow that is being generated by the business. And then whatever remains will be available to the shareholders. That will be available through a combination of growing dividends and then whatever is available would be allocated to share buybacks.

If you look at the current environment and the current environment in the semiconductor industry that we talked about earlier on. You do see that all the elements, all the players in the value chain, they are really managing their cash quite diligently. So I think it's fair to assume that that will have some negative impact on our free cash flow generation in the year. And also in the current environment, we believe it is prudent that we maintain a higher level of cash than you would typically see us do. So that's a combination that we are looking at.

As it relates to dividend. We paid an interim dividend in Q1 of €1.37 per ordinary share. As it relates to the year 2022 that was the third interim dividend that we paid for the same amount. So three times €1.37. That means that we are going to propose to the AGM to pay a final dividend of €1.69 per ordinary share.

Longer-term outlook

What are your expectations on demand and your business beyond 2023?

You know, at the Investor Day last year we very much talked about the mega trends. So what are the mega trends that are going on. I think the implications that we derived from that were a broadening application space of semiconductors. Those secular trends that we discussed there they continue to fuel the demand for our systems. They continue to fuel the demand for service. All of that is very clearly intact.

That also means that we continue to drive the capacity expansions that we've talked about before. 90 EUV, 600 DUV systems. So we continue to be on that track, working very, very closely with our supply chain to get that done. We believe with that capacity expansion and with the very strong secular growth drivers that we will be able to capture the opportunities and the growth opportunities that the market and the macro environment is going to present us on a go forward basis.