

ASML reports EUR 2.2 billion sales at 41.6% gross margin in Q1

2019 view unchanged

VELDHOVEN, the Netherlands, April 17, 2019 - ASML Holding N.V. (ASML) today's Investor Call - 2019 first-quarter results.

Peter Wennink

Thank you Skip. Good morning / good afternoon ladies and gentlemen and thank you for joining us for our Q1 2019 results conference call.

Before we begin the Q & A session Roger and I would like to provide an overview and some commentary on the first quarter, as well as provide our view of the coming quarters. Roger will start with a review of our Q1 financial performance with some 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 if you will

Roger Dassen

Thank you, Peter and welcome, everyone.

I will first highlight some of the first-quarter accomplishments and then provide our guidance for the second-quarter of 2019.

Although this was a modest quarter, in absolute numbers, we did report both sales and gross margin above our guidance. Q1 net sales came in at 2.23 billion Euros, slightly above guidance driven by an additional EUV shipment in the quarter. Net system sales of 1.69 billion Euros was more weighted towards Logic at 60 percent, with the remaining 40 percent from Memory, the same split as previous quarter. We reported EUV system revenue of 371 million Euros from 4 shipments.

Installed Base Management sales for the quarter came in at 540 million Euros, which was slightly lower than guided, due to lower upgrade business.

Gross margin for the quarter was 41.6 percent, which is slightly higher than the 40% guided, due to a favorable DUV mix more than compensating for the gross margin impact of one additional EUV system.

Overall R&D and SG&A expenses came in a little lower than guided, with R&D expenses at 473 million Euros and SG&A expenses at 121 million Euros.

Turning to the balance sheet, 55 million Euros worth of shares were repurchased in Q1. We ended last quarter with cash, cash equivalents and short-term investments at a level of 3.28 billion Euros.

Moving to the order book, Q1 system bookings came in at 1.40 billion Euros. Logic order intake was 75 percent of total value with the remaining 25 percent from Memory, again reflecting the strong logic demand expected this year. We took 3 new EUV orders in the quarter.

Net income in Q1 was 355 million Euros, representing 15.9 percent of net sales and an EPS of 0.84 Euros, this was favorably impacted by a one-off tax benefit.

With that I would like to turn to our expectations for the second-quarter of 2019. We expect Q2 total net sales between 2.5 and 2.6 billion Euros. Our total net sales forecast for Q2 includes around 600 million Euros of EUV system revenue, on 6 expected shipments in Q2.

We expect our Q2 Installed Base Management revenue to be around 700 million Euros.

Gross margin for Q2 is expected to be between 41 - 42%, the lower margin EUV revenue will be compensated by higher margin non-EUV business. We continue to expect further improvements in gross margin in the second half driven by higher system sales, increased field upgrades, shipment of higher margin NXE:3400C systems, as well as contribution of EUV service revenue. This will provide a significant step towards our 2020 target of over 50%.

The expected R&D expenses for Q2 are around 485 million Euros and SG&A is expected to come in at around 125 million Euros. Our estimated 2019 annualized effective tax rate is around 11 percent, because of a one-off tax benefit in 2019. We still expect our long-term effective tax rate to be 14 percent.

As we remain confident in our long-term growth, we will propose a 50 percent increase versus last year in our dividend to 2.10 Euros per share at our annual shareholder meeting which takes place on April 24th in Veldhoven. The dividend payment is valued at around 0.9 billion Euros. We still expect to execute the remaining 1.3 billion Euros of the 2018/2019 share buyback program this year with a weighting towards the back of the year.

With that I'd like to turn the call back over to Peter.

Peter Wennink

Thank you, Roger.

As Roger has highlighted, although it was a modest quarter, the results came in above our guidance and we expect further strengthening in the coming quarters. There continues to be volatility in the market due to the macroeconomic environment, hence some uncertainty remains in the semiconductor industry. Our memory customers are going through a period of rebalancing supply and demand with an expected improvement in their business conditions over the course of the year. Our view of 2019 remains unchanged from last quarter, we continue to expect overall growth in 2019, with increasing demand for our products as we move through the year. The fundamental end market drivers clearly remain in place as expanding end market applications continue to fuel the demand for high performance compute and high-performance memory.

In memory, the NAND market continues to digest the high level of capacity additions over the past few years. This digestion started last year and will likely extend through most of this year. The DRAM market is also seeing softening in the near-term demand as they work through an inventory correction. Based on our customers' view, we continue to expect memory for our litho systems down around 20% relative to last year. Bear in mind, there is a portion of this memory demand that supports new technology as well as new domestic Chinese customers. This demand is clearly more strategic and is very likely to happen independent of near-term global bit demand. If you remove these two components from our estimated 2019 memory demand, you get a lithography spend for memory bit supply that is 30% lower than the comparable spend in 2018. This reduction in spend is significant and will help in correcting the supply demand balance. On top of this, we have seen a significant reduction in wafer output in the memory space. This quick reaction to the changes in the end market demand is clearly different from what we have seen in earlier cycles and will also help in correcting the inventory situation.

The logic segment is expected to be the growth driver in 2019, with the majority of the demand linked to technology transitions and production capacity for advanced nodes. We still expect this logic business to be up around 50%, relative to last year, driven by DUV as well as significant demand EUV.

Furthermore, we still expect single digit percentage growth of Installed Base revenue.

On the ASML product side let me start with an update of our EUV business.

- In EUV, customers are starting production of the most advanced logic processes on our NXE:3400B systems with plans to transition to higher productivity NXE:3400C systems in the second half of the year. The first set of qualified NXE:3400C optics are in our factory. These higher transmission optics will enable the higher throughput of 170 wafers per hour. We expect these systems will deliver the next level of cost effective shrink in both logic and memory. We shipped 4 EUV systems in Q1 and are on track to ship the planned 30 systems in 2019.
- In DUV, we continue to innovate in support of future nodes and new applications. Driven by a continued high level of demand for dry products, we will bring the DUV dry products to the high-performance NXT platform, starting with NXT:1470, planned for delivery mid next year. We also see increasing demand for 200mm TWINSCAN systems across all dry wavelengths and industry segments. For instance, in thin film head manufacturing, we recently received an order for a special version of the XT:1460K, which is a dry ArF platform, which is expected to enable the shrink roadmap at a leading hard disk storage manufacturer.
- In our Applications business, our computational lithography deep-learning technology has been adopted at several leading-edge customers. We continue to make progress in e-beam technology and are on track to deliver a multi-beam system for this year for R&D, with plans for commercial product shipments in 2020. With the announcement of the acquisition of Mapper's IP assets in January, more than 100 former Mapper employees accepted jobs from ASML and are now working on the development roadmap of our e-beam and Applications products.

In summary, despite uncertainty in the current environment, we continue to see market demand that supports another growth year, with strengthening of both sales and profitability quarter on quarter this year. Logic will be the primary driver of growth this year supported by technology transitions and production ramp of the most advanced nodes. As discussed, Memory includes more uncertainty, on the one hand because of the uncertainty of global bit demand but on the other hand due to fast adjustment of production capacity, and therefore presents both a risk and opportunity. Overall, our view of the business is largely unchanged from last quarter. We are on track to achieve our 2020 targets with significant growth potential beyond 2020.

With that we would be happy to take your questions.