

Transcript

Video Interview ASML CFO Roger Dassen – Results Q1 2019

April 17, 2019

Results

The first quarter was above expectations. Can you give us a summary of the first quarter?

It was a modest quarter in absolute terms, but indeed above guidance both at the net sales level and at the gross margin level. If we look at the net sales level, we recorded EUR 2.2 billion in net sales, which is EUR 100 million more than we showed in our guidance, which is primarily related to the shipment of one additional EUV system. At the gross margin level 41.6 percent, which is better than the 40 percent that we guided. In spite of the fact that we had one incremental EUV system and that is primarily related to the fact that we had a better mix for our DUV business. Finally, the net income came in at EUR 355 million, which is favorably impacted by one-off tax benefits.

Market & Outlook

There still seems to be uncertainty in the market. What is your view on the semiconductor market and what is your take on the outlook for the remainder of 2019?

You're right, there is volatility in the market. Primarily as a result of macroeconomic developments and that obviously has an impact on the semiconductor market as well and creates some uncertainty there. If we talk to our customers - and based on those conversations - in fact we believe that our perspective on 2019 is largely unchanged. We talked a lot about this in the last quarter and you might recall what we said at that point in time. We said as it comes to Logic, we believe that's going to be 50 percent up and Memory 20 percent down and as it relates to our installed base revenue, we believe that's going to see growth at single digit.

Can you elaborate on Memory and Logic? First of all, what about Logic?

We said last time we think 2019 is really a Logic year and that expectation is primarily based on what our customers are doing. We see significant technology transitions at our Logic customers and that really drives this impression that 2019 is going to be a good Logic year. Because those transitions - based on the conversations that we have - will happen. Could there be one or two systems more or less? Of course. But the direction of travel is there. I think that is a very solid underpinning for our Logic business this year and that's why we believe the risk profile in our Logic business is fairly low.

What about Memory?

Let's look at what we said last time about Memory. We said Memory we believe is going to be 20 percent down and that translates into approximately EUR 3.6 billion of revenue in our Memory systems business. I think it would be good to just look at the EUR 3.6 billion and break it down into a number of components. Because there is a number of elements in the EUR 3.6 billion that are actually unrelated to the global demand for Memory. Those two components are: First, the demand for our systems by domestic Chinese players. As you know, those are strategic investments that are actually unrelated to the current global demand for Memory. So that's one strategic component. The other strategic component is that we see customers preparing for the introduction of EUV in DRAM and that's a strategic decision. Based on conversations again with our customers we see that that's actually happening. So we would say that for those two components we believe the risk profile is fairly low. Those two components account for approximately EUR 1.0 billion taken together. So that brings you down from EUR 3.6 billion total system sales in Memory, to EUR 2.6 billion. If you compare that EUR 2.6 billion that is contingent upon the global demand for Memory in contrast to the number that we had last year, it is actually 30 percent down. So that's

a good reflection of the uncertainty that exists in the market and that's totally factored in into our perspective for this year. So EUR 2.6 billion is the remaining portion related to the global demand for Memory. Of those EUR 2.6 billion we already recorded EUR 700 million in the first quarter. So that leaves you with EUR 1.9 billion remaining for the three quarters to come and that's the part related to the global demand and maybe the uncertainty in the global demand. So I would say that the risk profile there is a little bit higher, but also the opportunity there is higher. It will be very much dependent on how the situation, particularly on DRAM, is going to manifest itself in the remainder of this year. But all in all, I think it is important to recognize that this EUR 3.6 billion has different components with different risk profiles associated with it.

Margin Development

What can you say about the margin development through the year?

The margin that we see for Q2 - we guide between 41 and 42 percent which is more or less in line with where we were in Q1. On a revenue basis between EUR 2.5 and 2.6 billion. That's where we're looking at. We have significant programs in place and significant developments to expect to see the gross margin really develop favorably in the course of the second half. The first one is the introduction of the NXE:3400C machine in the second half, which has a significantly better margin profile than the current machines. The second category is the service revenue and the service margin on EUV. That's very important and we talked about that last quarter as well. As you know, at this stage we have significant cost because we're helping our customers gear up for EUV and for insertion of EUV into high-volume manufacturing. So we have the cost at this stage, but we don't have the revenue because the wafer output of course is still very modest. That will kick in in the second half, because then we will see EUV in high-volume manufacturing. That will drive up the revenue and also we have programs in place to bring down the cost of EUV service. Those two combined will have a significant positive impact on the EUV service margin. The third category is installed base revenue. In installed base revenue we see good potential for increase there and also in the high margin pieces of that. And then we also see better development of the mix, particularly the mix in our DUV business in the second half. Finally, because we will see a higher output level in the second half that will also lead to better factory loading and as a result of that better fixed costs coverage. So all those measures taken together will lead to a significant improvement of the gross margin in the second half and we believe will very nicely position us for our goal of having a gross margin in 2020 which is going to exceed 50 percent.

EUV Update

Let's have a look at EUV. How are you progressing with EUV?

We shipped four systems in the first quarter. We took three orders and we expect to ship another six systems in the second quarter. All in all, on track for total shipments for the year of 30. As you know, all of this really is in the context of a number of our customers who are putting EUV into high-volume manufacturing. Starting this year for Logic and then also introducing EUV into DRAM manufacturing. Good news is that this quarter we had the first set of NXE:3400C optics in our factory. Those optics will enable transmission of 170 wafers per hour throughput and that we believe will make it possible to have EUV enable shrink and cost-effective shrink both in DRAM and in Logic. That's what we're on track for and we will have the first shipments of this NXE:3400C machine in the second half of this year.