

Transcript

Video Interview ASML CFO Roger Dassen – Results Q3 2019

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Q3 2019 Results

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

For Q3 we came in at EUR 3 billion in revenue, which is in line with guidance. Included in the EUR 3 billion seven shipments of EUV – including three NXE:3400C machines, where revenue has been recognized for those tools. As you know those are higher margin tools. Also included in the EUR 3 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 percent 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.

What can you say about your net bookings?

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

View on Q4 and Full Year

What is your view for Q4 and the full year?

For Q4 we guide in terms of revenue EUR 3.9 billion, which is a very high number but is also more or less in line with what we said before. EUR 3.9 billion including eight EUV shipments. That is a little lower than what we had demand for and also what we had basic capacity for. You might recall that we have demand and basic capacity for the year for 30 tools and if you add that all up, we would land at 26 tools for this year. The reason for that is what we have indicated in the previous quarter 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 flow as a result of which we're going to have a few systems – or 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 percent. 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 NXE:3400C. So nearly all of the EUV tools that we are going to ship in Q4 are NXE:3400Cs 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 picking up. So Q4 better than in Q3 and we will continue obviously to further improve with EUV getting into high volume manufacturing across the board. So, you know you will see an uptick there.

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

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 are looking at a very favorable development of gross margin to 48 to 49 percent, in that bracket.

If we then look at the full year - so if you add it all up – for the full year we would land at approximately 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 is 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.

Landing for the full year at approximately what we expected at the beginning of this year. I think it is a significant feat that we are able to do that, in light of 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.

Market Outlook & 2020

What is your market outlook and your view for 2020?

It is 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 and that is driven by all the things that we have been talking about for quite a while. So obviously artificial intelligence, but definitely also what you hear our customers talk about quite a bit, that 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 and 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 roadmap. 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 NXE:3400Cs, for next year. EUV is looking really good.

If we then go to the Memory market. There is uncertainty about the point in time where the Memory market will recover. There will be a 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 is a specific relevance for DUV and specific relevance for the DUV revenue and gross margin. So that's why it is of interest to us obviously. If I look at today's market I think it is 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 modelled 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. I think we still have very significant 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. Upgrades that will bring significant value to our customers. All of that leads me to believe that the expectation for the Installed Base revenue in 2020 can be very favorable.

EUV Update

We just touched shortly on EUV, but where are you at present with EUV? Can you give us an update?

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

Second important thing to recognize is, we have the first NXE:3400C machines shipped in Q3 and if you add it all up it is 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, that's testimony to the fact that the confidence levels on EUV are at a very, very high level.

This is both for the Logic market but also for the DRAM market. A substantial percentage of those 23 is in fact related to DRAM. That tells you that the confidence levels in the performance that our new tool NXE: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. Just looking back 20 years of hard work, 20 years of perseverance. Not just of ASML but of many believers in the ecosystem and 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 and in that way really was fundamental in creating a solid underpinning for a very bright future for ASML.