

ASML reports €11.8 billion sales and €2.6 billion net income in 2019

Strong EUV demand and Installed Base business support expected growth in 2020

ASML announces share buyback program up to €6 billion and proposes 14% annualized dividend increase

VELDHOVEN, the Netherlands, January 22, 2020 - ASML Holding N.V. (ASML) today's Investor Call - 2019 fourth-quarter and full-year results.

Peter Wennink

Welcome everyone, thank you for joining us for our Q4 and full-year 2019 annual results conference call.

Before we begin the Q & A session Roger and I would like to provide an overview and some commentary on the fourth quarter and full-year 2019, as well as provide our view of the coming quarters. Roger will start with a review of our Q4 and full-year 2019 financial performance with 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.

Roger Dassen

Thank you Peter and welcome everyone.

I will first highlight some of the fourth-quarter and full-year financial accomplishments and then provide our guidance for the first-quarter of 2020.

Q4 results were basically in line with our guidance. Net sales came in at 4.0 billion euros.

Net system sales of 3.1 billion euros was heavily weighted towards Logic at 83 percent, with the remaining 17 percent from Memory, clearly showing the continued strength of Logic business as well as the ongoing digestion phase of the Memory business. We reported EUV system sales of 922 million euros from 8 shipments.

Installed Base Management sales for the quarter came in at 906 million euros.

Gross margin for the quarter was 48.1 percent.

Overall operating expenses came in above our guidance, with R&D expenses at 516 million euros and SG&A expenses at 148 million euros. Higher than guided SG&A is due to additional employee benefit costs and costs related to our IT implementation.

Turning to the balance sheet, 186 million euros worth of shares were repurchased in Q4. We ended last quarter with cash, cash equivalents and short-term investments at a level of 4.7 billion euros. This amount is significantly higher than anticipated with most of the cash coming in in the December period.

Moving to the order book, Q4 system bookings came in at 2.4 billion euros, including 1.1 billion euros for nine EUV systems. Logic order intake was 79 percent of the total value with the remaining 21 percent from Memory, again reflecting the continued strong Logic demand for leading edge lithography.

Net income in Q4 was 1,134 million euros, representing 28.1 percent of net sales and resulting in an EPS of 2.70 euros.

For the full year, net sales grew 8 percent to 11.8 billion euros.

The Installed Base Management sales was 2.8 billion euros, which was a small increase compared to previous year.

In 2019, we booked 6.2 billion euros of EUV orders, which is more than 50 percent of the total bookings value for the year, reflecting customers' strong demand for EUV technology.

We continue to invest in the future of ASML and increased R&D spend to 2.0 billion euros in 2019. The increase was primarily driven by the acceleration of our EUV roadmap (low and High-NA program). Overall R&D investments, as a percentage of 2019 sales, was about 17 percent, and SG&A was about 4 percent of sales.

In addition, ASML invested 886 million euros in CAPEX, supporting our long-term growth opportunities, primarily around High-NA capacity and infrastructure.

Net income for the full year was 2.6 billion euros, resulting in 21.9 percent of net sales and an EPS of 6.16 euros.

With that I would like to turn to our expectations for the first-quarter of 2020.

We expect Q1 total net sales between 3.1 billion euros and 3.3 billion euros.

We expect our Q1 Installed Base Management sales to be around 950 million euros, driven by strong demand for field upgrades, especially EUV.

Gross margin for Q1 is expected to be between 46 percent and 47 percent. The lower gross margin, relative to the strong Q4 number, is primarily due to DUV mix effect, fewer immersion and more dry systems, with some positive EUV mix effect. The expected R&D expenses for Q1 are around 550 million euros and SG&A is expected to come in at around 140 million euros. Our estimated 2020 annualized effective tax rate is around 13 percent.

Regarding our capital return, ASML paid total dividends of 1.3 billion euros, made up of the 2018 dividend and 2019 interim dividend, and purchased 410 million euros worth of shares in 2019.

Through December 31, 2019, ASML has acquired 9.0 million shares under the 2018-2019 program for a total amount of 1.6 billion euros.

Supported by our long-term business plan, ASML will submit a proposal at the 2020 Annual General Meeting of Shareholders (AGM) to declare a total dividend for 2019 of 2.40 euros per ordinary share. Recognizing the interim dividend of 1.05 euros paid in November 2019, this leads to a final dividend of 1.35 euros to be paid in the second quarter. This is a 14 percent increase compared to the 2018 dividend. The 2020 Annual General Meeting of Shareholders, will take place on April 22 in Veldhoven.

ASML announces a three-year share buyback program of up to 6.0 billion euros, to be executed in 2020-2022. ASML intends to cancel these shares after repurchase, with the exception of up to 0.4 million shares, which will be used to cover employee share plans.

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

Peter Wennink

Thank you, Roger.

As Roger has highlighted, we had a very strong quarter resulting in another solid year of growth, driven by Logic and EUV. We were able to achieve an 8 percent top line growth despite an overall industry decline of around 10 percent, due to a weak Memory market. This is a reflection of our Logic customers' drive to continue to innovate and invest in technology for future nodes. For 2020, we currently expect a year of double-digit growth in both sales and profitability, primarily driven by EUV and Installed Base business.

Major innovation drivers such as artificial intelligence, 5G, high-performance compute, autonomous driving and big data are creating new end user applications. These applications require more high-performance Logic, fueling increased demand for leading edge nodes. This is evident in several customer announcements regarding ramp plans for their 7/5nm nodes, which will drive another strong Logic year and increased demand for EUV.

In the Memory market, customers have indicated they are seeing signs of demand recovery in some market channels and improvements in memory chip pricing also support this view. As customers have lowered litho tool utilization to reduce wafer output throughout the weak memory demand period, they will first use this underutilization to return to normal supply levels, which will take some time. Subsequently this will also trigger equipment demand albeit a bit later than the supply demand recovery for memory devices. Taking the slope of the recovery of our litho equipment utilization as a proxy, it seems likely that we will see stronger litho equipment demand from Memory in the second half of the year.

We expect significant growth in our Installed Base business. Services business will continue to scale as our installed base grows and we will also see EUV contribute to service revenue as these systems start running wafers in volume manufacturing now. We expect significant demand for upgrades, particularly in EUV, as customers utilize upgrades as a quick way to increase capacity.

In EUV, it was a breakthrough year with the technology now starting in high volume production and producing consumer products that are available in the market. As we continue to execute on our accelerated EUV roadmap, we were able to ship our first NXE:3400C in 2019, which provides higher productivity, translating to increased customer value, delivering higher ASP and improved gross margins. We shipped six 3400C systems in Q4, of the eight EUV systems total we shipped in the quarter, bringing the total to 26 EUV systems and full year sales of around 2.8 billion euros in 2019. Increasing customer confidence in EUV is translating into more layers in Logic production as well as expanding to new markets with the adoption in Memory.

For full-year 2020, we plan for EUV sales of around 4.5 billion euros on 35 systems. We continue to see demand building for next years' shipments and expect a healthy order flow to continue. In order to fulfill the expected strong demand increase, we are working on cycle time reduction to enable a capacity of 45-50 systems next year. 2021 is shaping up to be a very busy year.

Regarding our current outlook for the year, we expect 2020 to be another growth year as mentioned before. Although it is too early to provide quantitative expectations let me make a few qualitative comments. Major innovation drivers in applications that require high performance Logic are driving increased demand at the advanced nodes. Logic demand is currently strong and we expect this demand to remain healthy, primarily driven by EUV. As previously communicated, we expect a sales of 4.5 billion euros (on 35 systems) this year, which translates to a EUV sales growth of approximately 60 percent. Memory is showing early signs of recovery and although there is still uncertainty around exact timing of recovery it is likely we will see stronger demand in the second half of the year. Taking this into account, we expect a stronger second half with strengthening sales throughout the year.

In summary, 2019 was another great year with continued positive momentum in EUV, as well as solid demand across our product portfolio. We expect another growth year supported by healthy Logic demand, a likely recovery of the Memory market, with increased sales from our Installed Base business as well as demand for EUV. The positive industry momentum around innovation and expanding new markets further strengthen our confidence in 2021 outlook and our 2025 growth scenarios.

With that we would be happy to take your questions.