

ASML reports €14.0 billion net sales and €3.6 billion net income in 2020

Continued growth expected in 2021 due to strong Logic demand and recovery in Memory

VELDHOVEN, the Netherlands, January 20, 2021 - ASML Holding N.V. (ASML) today's Investor Call – 2020 fourth-quarter and full-year results.

Peter Wennink

Welcome everyone, thank you for joining us for our fourth-quarter and full-year 2020 results conference call. I do hope all of you and your families are healthy and safe.

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 2020, as well as provide our view of the coming quarters.

Roger will start with a review of our fourth-quarter and full-year 2020 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 if you will.

Roger Dassen

Thank you Peter and welcome everyone.

I will first review the fourth-quarter and full-year financial accomplishments and then provide guidance on the first quarter of 2021.

Net sales came in above guidance at 4.3 billion euros primarily due to additional DUV system revenue and upgrade business opportunities.

We shipped 9 EUV systems and recognized 1.1 billion euros revenue from 8 systems this quarter. One system was shipped with a new configuration that needs to be qualified at customer site so revenue will be recognized after site acceptance test in early 2021.

Net system sales of 3.2 billion euros was again more weighted towards Logic at 72 percent, with the remaining 28 percent from Memory. The strength in Logic drives both DUV and EUV revenue. The recovery in Memory business is mainly driven by DRAM.

Installed Base Management sales for the quarter came in at 1.1 billion euros, above guidance, showing continued strength in our service and upgrade business.

Gross margin for the quarter was 52.0 percent and was above guidance due to the additional DUV immersion and upgrade business.

On operating expenses, R&D expenses came in at 556 million euros and SG&A expenses at 152 million euros, which was slightly above our guidance.

Net income in Q4 was 1.4 billion euros, representing 31.7 percent of net sales and resulting in an EPS of 3.23 euros.

Turning to the balance sheet.

We ended the fourth quarter with cash, cash equivalents and short-term investments at a level of 7.4 billion euros, which is significantly higher due to customer down payments and early payments which materialized in 2020.

Moving to the order book, Q4 net system bookings came in at 4.2 billion euros, including 1.1 billion euros for EUV systems (net 6) and a very strong DUV demand. Order intake was largely driven by Logic with 78 percent of bookings and Memory the remaining 22 percent,

For the full year, net sales grew 18 percent to 14.0 billion euros.

EUV system sales in 2020 was 4.5 billion euros, which is about a 60% increase from last year. On EUV margins, we continue to drive profitability in both the systems as well as the service business. We achieved our 40 percent system gross margin in 2020 and delivered a positive margin on EUV service. We expect the upward trend for both systems and services to continue in future years.

The Installed Base Management sales was 3.7 billion euros, which is a 30 percent increase compared to previous year.

In 2020, we had total bookings of 11.3 billion euros, reflecting customers' strong demand for EUV and DUV technology. DUV booking value was at a record 7.3 billion euros, with demand from both advanced as well as mature market technologies.

Our R&D spending increased to 2.2 billion euros in 2020. While we continue to invest in DUV and Applications product innovation, the increase was primarily driven by the acceleration of our EUV roadmap, both low and High-NA. Overall R&D investments as a percentage of 2020 sales was about 16 percent, SG&A was about 4 percent of sales.

Net income for the full year was 3.6 billion euros resulting in 25.4 percent of net sales and an EPS of 8.49 euros.

Improvements in working capital contributed to a Free Cash Flow generation of 3.6 billion euros, as we continue to invest capex in support of our roadmap and planned capacity ramp. Excess cash will be returned as per our policy.

With that I would like to turn to our expectations for the first quarter of 2021.

We expect Q1 total net sales of between 3.9 billion euros and 4.1 billion euros, which is a very strong start of the year and a reflection of the current market demand.

We expect our Q1 Installed Base Management sales to be around 950 million euros.

Gross margin for Q1 is expected to be between 50 percent and 51 percent.

The expected R&D expenses for Q1 are 620 million euros and SG&A is expected to come in at 165 million euros, reflecting a continued investment in the future growth of the company. The higher R&D is to support roadmap plans to drive further innovation of our EUV, DUV and Apps products. The SG&A increase is driven by higher IT, security costs and general organizational growth. These quarterly run rates are a good indicator for the expected full year operating expenses.

Our estimated 2021 annualized effective tax rate is expected to be between 14 percent and 15 percent.

Regarding our capital return, ASML paid total dividends of 1.1 billion euros in 2020, made up of the 2019 final dividend and 2020 interim dividend.

ASML intends to declare a total dividend with respect to 2020 of 2.75 euro per ordinary share. Recognizing the interim dividend of 1.20 euro per ordinary share paid in November 2020, this leads to a final dividend proposal to the General Meeting of 1.55 euro per ordinary share. This is a 15 percent increase compared to the 2019 dividend. The 2021 Annual General Meeting of shareholders will take place on April 29, 2021 in Veldhoven.

Through December 31, 2020, ASML acquired 3.9 million shares under the 2020 - 2022 program for a total amount of 1.2 billion euros. Given our strong cash position and positive outlook, we expect to execute a significant share buyback in Q1 2021.

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 in both sales and profitability, driven by strong Logic, recovering Memory demand and a significant step up in our Installed Base revenue. We were able to achieve an 18 percent top line growth and 37 percent growth in profitability despite some unique challenges with having to continue to run our business through the pandemic. This all thanks to our employees and partners who have done a remarkable job executing in this challenging environment. However, we continue to remain vigilant as this COVID-19 induced crisis is not behind us yet. Following a strong 2020, we currently expect another year of good growth in revenue and profitability in 2021.

In Logic, we expect another very healthy year driven by a further broadening of the application space fueled by the global digital transition. Customers continue to see strong demand for advanced nodes, which includes the secular growth drivers such as 5G, AI and HPC. In addition and also driven by the digital transformation, we are seeing a strengthening of demand for the more mature nodes, across a wide variety of markets such as consumer, automotive and industrial. While we are still very early on in the year, we think that with these demand drivers on full throttle for advanced as well as mature nodes, we expect Logic revenue to be up at least 10 percent, from an already very high number of 7.4 billion euros in 2020.

In Memory, customers have indicated that inventory levels continue to come down and expect a further tightening of supply throughout the year. As is the case with Logic, the digital transformation is also fueling memory demand across a broadening application space. Customers continue to see healthy demand in data centers with increasing memory content in consumer electronics. With customers' indicating stronger bit growth this year, for DRAM around 20 percent and for 3D-NAND around 30-35 percent, and taking into account lithography tool utilization already at high levels, we expect the recovery in lithography demand for memory to continue through this year.

Therefore, we expect Memory revenue to be up around 20 percent this year from 2.9 billion euros in 2020. Although DRAM primarily uses DUV technology today, we do expect our EUV shipments to DRAM customers to increase in the coming years.

On our Installed Base business, service revenue will continue to scale with the growing installed base. We expect an increasing in contribution from EUV service revenue as these systems run more and more wafers in volume production. Customers will continue to utilize upgrades to increase capacity and improve imaging and overlay performance required on future nodes. With this continued growth in both service and upgrade business this year, we expect Installed Base revenue to be up around 10 percent this year from 3.7 billion euros in 2020.

All in all, we have started the year with robust demand across the entire industry and across all geographical regions. This should bode well for a double-digit upside from our 2020 revenue numbers. We feel comfortable with the levels of potential growth expectations per business segment but clearly see potential upside to these numbers when we can disregard any further impact of export control regulations resulting from the current geopolitical situation.

I would now like to update you on our products and businesses, starting with EUV.

EUV is making strong progress and continues to mature as we execute our roadmap and grow our Logic and DRAM business. As Roger mentioned, we shipped 9 systems and recognized revenue on 8 systems in Q4, bringing the total to 31 systems in 2020 with a revenue of 4.5 billion euros for the year. This translates to about a 60 percent growth in EUV systems revenue year on year, reflecting the expanding use of this technology in high volume manufacturing.

Based on customers' growing EUV demand in advanced nodes we currently expect a growth of around 30 percent over last year, translating to around 5.8 billion euros in EUV system revenue for 2021. We continue to improve the EUV manufacturing cycle time to enable a capacity in our factory to meet the growing EUV demand.

We will continue to drive the EUV 0.33NA product roadmap which is aligned to our customers' node cadence. Our goal is to deliver value to our customers via performance improvements in imaging, overlay and productivity. As customers continue to shrink on future nodes, the performance improvements of our 0.33NA systems roadmap will also enable cost effective double patterning solutions before customers reach a point where they will require High-NA to reduce process complexity.

We are aligning with customers on the roadmap timing of High-NA insertion in volume production, currently estimated to be in the 2025-2026 timeframe. To meet this timeline, we will start integration of modules this year and plan to have a first qualified system in 2022. We plan initial installation of the first systems at customer site in 2023 and plan to provide a more detailed update on our High-NA program during our Investor Day this year.

In our DUV business, we are focused on meeting our customers' increasing demand for all of our DUV products by maximizing factory capacity, reducing installation cycle time and optimizing performance of systems in the field. As we mentioned earlier, the application space for Logic is expanding rapidly which also has an effect on the demand for DUV products across our entire product offering. The demand has actually been stronger than we anticipated some years ago which means that we have increased our investment in R&D to provide our customers with ever more powerful and productive litho machines to help them deal with the increasing demand and lower cost per chip challenges. Our DUV R&D plan therefore includes a significant program to bring DUV from our XT platform onto the NXT platform thereby seriously boosting productivity and lithographic performance such as CD and overlay.

In our Applications business, we had a record year for YieldStar shipments and shipped the first YieldStar 385 to a customer in Q4. The YieldStar 385 offers the latest overlay and focus metrology, with enhanced throughput and accuracy, to meet customers' future node requirements.

We also shipped an additional two eScan1000 Multibeam systems in Q4, bringing the total number of shipments in 2020 to three. With nine beams and high-speed stage technology, these systems provide up to 600 percent higher productivity than single beam systems.

In summary, 2020 was another great year despite the challenges presented by the pandemic. For 2021, taking into account that we are coming off a higher 2020 revenue base, we still expect a year of double-digit growth. This is driven by strong demand in Logic and continued recovery in Memory with potential upside to these numbers when we can disregard any further impact of export control regulations. The build out of the digital infrastructure across multiple markets drives demand for both advanced as well as mature process nodes. This is expected to fuel demand across our entire product portfolio. Although there are of course still some near-term macro and geopolitical uncertainties, the long-term demand drivers only increase our confidence in our future growth outlook towards 2025.

With that we would be happy to take your questions.