



Transcript

Video interview with ASML CEO Peter Wennink

Q1 2021 results

April 21, 2021

Mr Wennink, can you give us a summary of the first quarter results?

The Q1 result was very good. We had sales of about €4.4 billion which was above what we guided. Gross margin also above what we guided close to 54%. Very good. I think the main reason why it was above guidance is basically because of the market situation. Customers are short of wafers out. You just read the papers, chip shortages everywhere. So the most effective and efficient way to increase wafers is to upgrade your machines with higher productivity. It is what we call a productivity enhancement package - which is software. That can be installed pretty quick. So customers pulled everything that they had in plan for productivity improvements into Q1. So our Installed Base business which ended up at €1.2 billion was also way above guidance and of course that's software, that's good margin. So it's really the upgrade business to get more wafers out which had the benefit to us that it was a very good margin product. On top of that, good order intake: €4.7 billion. About 50% EUV. So it was a very good quarter.

Regarding your EUV business, with recent customer announcements around EUV plans for both Logic and Memory, how is demand versus supply shaping up?

What you see is that EUV has definitely reached HVM – high-volume manufacturing. That's driven by the fact that customers see the benefits. So in Logic they will apply more layers to EUV than we anticipated. Also EUV is now accepted in Memory. All major Memory, especially DRAM makers, have now announced the introduction of EUV. Now this year, we said it also last quarter, we are limited because we didn't plan for more systems than we ship this year. Probably our EUV business will grow about 30%, which is the same as what we said last quarter. But we have to look forward and look to next year. I think next year the demand curve that we're currently seeing is continuing sharply because of high demand. So we are currently planning together with our supply chain, which is probably the most important, for 55 systems next year. The systems next year will be NXE:3600D's, which is basically the successor of the NXE:3400, the C version. The D version will be introduced in the second half of this year. So next year, 55 systems will all be NXE:3600D. Those are very important systems for our customers because they have 15 to 20% higher productivity wafers per day capability than the current machine.



You just talked about chip shortages around the world, impacting industries worldwide.

What is your view for 2021 and has that changed since the beginning of the year?

It has definitely changed since the beginning of the year. We have seen a significant spurt in terms of customer demand. I think it's driven by the things that we all know. It's the digital transition, it's the digital transformation, evidenced by the roll out of 5G across the globe, in Asia, the US and to a lesser extent in Europe, which actually drives artificial intelligence, High Performance Computing. All these developments and services and products that are driving the need for our systems. That's been a big change as compared to three months ago.

Let's take Logic. When you look at Logic three months ago we thought Logic would grow with 10% this year. Now we think it grows with 30% this year.

In Memory, three months ago we said Memory will probably grow about 20% as compared to 2020. It's not 20%, it's 50%.

On Installed Base, it's a little bit different, I think it is still around 10%. It has to do with the fact that what I said earlier, the easy upgrades, the software upgrades, all being pulled in. So we saw a big step-up in Q1. What's installed you don't need to install the rest of the year. And the other installations are hardware. Hardware has a big advantage because it can provide you with a lot of productivity. But one downside: you have to put the tool down. And in a time where you can't make enough wafers you don't want to put the tool down. So this is why the planned upgrades are the planned upgrades and we don't see a lot of opportunity above the 10% that we guided before.

How does all this translate into your financial results for the next quarter and also for the full year?

If you look at the forecast now for 2021 and you remember what I just said about Logic 30%, Memory 50% up, 10% up for Installed Base. Then it is not a surprise that our total sales this year will come very close to 30% up. Now because there is a lead time and we need to ramp up, there is probably more focus towards the second half of the year but it looks very healthy. Close to 30% growth and also it has a good impact on gross margin because it's not EUV. Like I said EUV a quarter ago will be around 30% also today for this year. But it means that DUV will grow. That's higher corporate gross margins and that also means that it will have an effect on the gross margin of the company. This year I think we'll end up for the total year between 51% and 52%. Being in a situation where we have a good top line, a good profitability and the demand of our customers - not only for this year but also the years to come - is going up in terms of output. We also see a lot of opportunity to pull some of our R&D efforts in and actually create new services and new products that will help our customers to deal with that situation. So also R&D will grow, but not to the extent of the top line, but it will still end up anywhere between 14% and 15% of sales. SG&A around 4%.

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That gives you the picture for this year. Now on the quarter. We guided the quarter €4.0 to 4.1 billion in sales and 49% margin. That seems a bit light when you just listened to 30% growth for the total year and 51% to 52% gross margin. There are two reasons.

Basically the first reason is the top line. As I said before, customers want their wafers out sooner not later and one way to do that is to skip the factory acceptance test here in the Netherlands. Basically, ship the system without testing which saves you a couple of weeks of cycle time and ship it directly to the customer and do the acceptance test at the customer. It means that the tools that are shipped at the end of the quarter will be revenue recognized only at acceptance in Q3. So that's a couple of hundred million euros that we're missing. Missing, well actually book them in Q3. That of course is DUV. That's high margin. On top of that I told you before some of the software upgrades for higher productivity were pulled into Q1. You won't have them in Q2. So Q2 instead of €1.2 billion of Installed Base sales it probably is more like €0.9. Which is high margin. That has a temporary impact on the margin in Q2. So you know Q2 a bit light, but the total year looks very strong and the second half also.

A very good 2021. What's your view for the longer term for ASML?

I think it's very healthy. I would like to separate the growth profile into three trends. One trend is more a cyclical trend. 2020 - the COVID year- was really a year where also customers were cautious. Looking back, too cautious. So that underspend you could call is now translating into demand for 2021. Of course that will take some time before we have our output done. So second half will be indeed higher and that trend you could argue should go away or should taper off in 2022. There is a second trend. That's a secular trend, the underlying trend. I think it is the continuous innovation and the drive for innovation driven by the rollout of 5G, it's artificial intelligence, it's High Performance Computing. That underlying trend which is the digital transformation. We see it everywhere. Leading to distributed computing. That will be there for years to come. That trend will also lead to higher demand for semiconductors and for our equipment. Which is one of the reasons why we're stepping up our capacity. We're stepping up capacity, I said 55 EUV systems but also in DUV. We are looking at increasing our build capacity. Not only with us, but also in the supply chain. And there is the third trend. The third trend is driven by the geopolitical situation which actually leads to major regions looking for technological sovereignty. Basically being able to be self-sufficient when it comes to electronics and semiconductors. We've seen announcements, governments, but also companies, focusing on expanding capacity. In the US, there are significant talks in Europe, in Asia. Well, that will lead to higher capital intensity because it's decoupling as a worldwide eco-system. But it also leads to some capital inefficiency. Well there is a beneficiary of that capital inefficiency and that's us.



So those three trends paint a very, very positive future for this company and I am looking forward to share our positive views and the scenarios that are underlying those views during our Capital Markets Day in September this year. Which we all hope will be live and in person and I'm looking forward to that event. It's going to be exciting.