



Transcript

Video interview with ASML CFO Roger Dassen

Q3 2021 results

October 20, 2021

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Mr. Dassen, can you give us a summary of the Q3 results?

Absolutely. Sales for the quarter €5.2 billion. Included in that number €1.1 billion of Installed Base revenue. Gross margin 51.7%. Net income for the quarter €1.7 billion. Net order intake for the quarter €6.2 billion, included in there €2.9 billion for EUV. So, all in all I would say a very strong quarter. As a matter of fact, I would say a record quarter on many fronts.

Outlook Q4 2021 and full year 2021

Looking forward, what is your guidance for the fourth quarter and what does this all mean for the full year 2021?

For the fourth quarter our guidance for revenue is €4.9 to €5.2 billion with a gross margin of 51% to 52%. Included in the sales number €1.1 billion of Installed Base revenue. That number was impacted by a number of issues that we experienced. They are issues that are related to the continued growth of ASML and the fact that we are really continuing to build capacity for us. On the one hand, we did see in the supply chain that there was some materials shortage. It's not unique to ASML obviously. We read it in the newspapers in many industries every single day. But obviously particularly when we are pushing the supply chain to gear up capacity, you know this phenomenon could obviously pop up.

Second issue is the fact that we are also building capacity in Veldhoven. One important element in there is our new logistics center. We took that into commission a couple of months ago. We did have some start-up issues there. I think it is fair to say that those two issues have been largely addressed for the output for this year. But they did have the impact that some assembly of machines actually started with a few weeks' delay. So that means the starts are delayed and, of course, that the shipment is deferred a bit.

In addition to that, in the current environment where customers are really pushing for tools as quickly as they can get them, some customers really push for early shipments. We've seen that phenomenon before, you might remember that. That means that customers actually get the tool



without the tool first being tested for factory acceptance test. That means that we can only recognize the revenue upon the installation of the tool at the customer.

So those two phenomenons combined, the late starts and then the early shipments that customers asked for, meant that we're actually going to see some revenue deferred into 2022. That said, all in all, we're still looking at growth for ASML for the year approaching 35%. We're looking at a gross margin for the total year of about 52%.

Outlook 2022

There's clearly a strong demand in the market. Do you expect that to continue next year and what's your initial view for 2022?

We're not going to give quantitative guidance on 2022 yet. It's a bit too early to do that. But I think it is fair to say that many of the drivers that we've talked about in the past are very clearly still there.

So at a macro level I would say the chips shortage phenomenon is still there and of course that requires continued addition of capacity. So that's one driver. Then of course there is the secular trend of growth, which is really driven by the digital transformation. If you then peel the onion a little bit and look at the different categories, the different components, of revenue for ASML.

Starting with the Logic business. This whole notion of the digital transformation of course has a big impact on the most advanced nodes, as we've seen in the past year. We also expect that to continue in the years to come. But also this whole notion of distributed computing means that it is not just on the advanced nodes, but it is also in the mature nodes where there is an increased demand for capacity. That combination really means that on both fronts the demand both for mature and for advanced continues to be very, very strong for us.

On the Memory side, just looking at the end markets. Again very, very strong demand particularly on the smartphones and the server end markets the demand is very strong. Maybe a few question marks on PCs. But all in all, strong demand there and that translates into high bit growth. For DRAM, most of our customers seem to be looking at mid to high teens in terms of bit growth. While on NAND, typically they are looking at about 30% bit growth. So strong bit growth there driven by the dynamics in the end markets. If you look at the very, very high utilization of the litho tools, of course inevitably that means that additional capacity will have to be built. So that's Logic and Memory.



Then if we look at the Installed Base business. Of course the Installed Base business, with the increased numbers that we have in the installed base, the service business continues to grow. Particularly driven by the EUV business. We've talked about those dynamics before. So clearly a growth dynamic there on the Installed Base side as it relates to service business. I would say on the upgrade business also for next year we are offering significant upgrade packages to customers that would help them further increase the output of the installed base. Clearly they need to give us time. Some of these upgrades require some downtime of the system. That will be the determining factor for how fast the Installed Base business next year is going to grow: how much machine time do we actually get from customers to do this? But all in all, also there the dynamics are positive. So if you add it all up, we should be looking at another healthy growth year for ASML next year.

Capacity

At your Investor Day recently you talked about plans to increase your capacity. Can you give us an update on your capacity plans for next year?

First off, reminding on what did we say on capacity. That was really towards 2025. So that's the number that we gave at the Investor Day. There we said we are looking at 1.5X capacity for DUV and more than 2X for EUV. That's based on units. If you were to translate that into wafer capacity, just recognizing the fact that the tools that we are shipping in the years to come and also the tools that we are shipping in 2025 of course of higher productivity, of higher throughput, than the tools that we would ship say last year. So taking that into consideration, then for DUV we are actually looking at doubling the capacity of wafer output. And for EUV I would even say it's more than 3X that we are looking at in terms of capacity. So very strong there. If you translate that 2025 expectation to next year, I would say on EUV we've been pretty clear. On EUV we're looking at a capacity of 55 units. And again, bear in mind that's 55 units of the NXE:3600D which has a 15% higher productivity approximately in comparison to its predecessor.

On the DUV side, there is a number of elements that need to be taken into consideration when we look at 2022. On the one hand, we do get some tailwind from the phenomenon that I described earlier on when I gave the guidance for Q4. Which is that we see a few systems slipping into 2022 as a result of the late starts and the fact that customers were pushing for early shipments. So that's one dynamic. On the flip side, we have also said that in 2021 we really used all the buffers in terms of parts and materials that we had and of course they need to be replenished. So the replenishment of the buffers, of the safety stock if you like, that needs to happen in 2022. But we are very much working with the supply chain and determining what the overall growth and the



overall mix of the growth will be for next year. That combination, the combination of those three phenomenons will ultimately determine what the capacity for next year on DUV is going to be.

Capital allocation With regard to cash flow, can you give us an update on your Free Cash Flow and your capital allocation plans?

Free Cash Flow very strong once again. We've really seen a significant improvement there in comparison to say a year ago, because of all the phenomenons that we went through in the past couple of quarters. So very strong Free Cash Flow. The way we use that Free Cash Flow. First off, we use whatever we need in the business. So whatever we need to further grow the business in terms of R&D, in terms of CapEx, etcetera. That will be used. What we don't need to advance the business and to make the business grow, that will be paid back to shareholders in a combination of growing dividends and share buyback. On the dividend side, we will pay in November an interim dividend for 2021 of €1.80 per ordinary share. In terms of share buyback it's important to know that last quarter we executed share buybacks still under the old program and the new program combined for about €2.4 billion.

Long-term outlook

You just talked about your Investor Day recently held and there you talked about the scenarios for ASML for 2025 and beyond. Can you give a short summary of the key messages that you provided over there?

Important what we did in the Investor Day is to really give a holistic perspective over what we can expect from a technology perspective, from a market perspective, etcetera. It's fair to say we believe we have a very strong roadmap there. That really allows us to continue to grow. We presented a growth potential towards €24 to €30 billion by 2025. Those were the scenarios that we presented there. With a gross margin for that year somewhere between 54% and 56%. But also beyond 2025 we continue to see strong growth potential for ASML. We presented, based on external sources and some of our own analysis, we presented a CAGR both for the systems sales and for the Installed Base sales. We presented a CAGR for 2020 through 2030 period of around 11%. So on the financial side a very good growth potential for ASML.

We also talked extensively about ESG and we talked about the role that ASML can play in significantly bringing down the carbon emissions by 2030 by 15% for the entire industry. In terms of the ESG ambitions that we held out there, there is a number that we presented there. First we very much talked about what we can do to contribute and to support our customers in driving down energy consumption and waste in their manufacturing of microchips. We also talked about



our role in allowing our customers to produce microchips that every two years become three times more energy efficient. We also talked about our ambition to get to zero waste by 2030. And also by 2040, to get to net zero value chain emissions by 2040. So those are the ambitions that we have on the ESG front.

So if you look at all of that it's fair to say that we're looking at a very strong roadmap, a roadmap that allows us to grow significantly throughout this decade. And also a roadmap and a contribution that on the ESG front is really going to contribute to the goals of all of our stakeholders.