



**Transcript**

**Investor Call ASML CEO Peter Wennink & CFO Roger Dassen**

**Q3 2021 results**

**October 20, 2021**

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**Peter Wennink**

Welcome everyone, thank you for joining us for our Q3 2021 results conference call. I 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 third quarter as well as provide our view of the coming quarters.

Roger will start with a review of our Q3 2021 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 review the third-quarter financial accomplishments and then provide guidance on the fourth quarter of 2021.

We had a record quarter on a number of fronts, including total revenue, EUV system revenue and net income.

Net sales came in within guidance at 5.2 billion euros.

We shipped 13 EUV systems and recognized 2.2 billion euros revenue from 15 systems this quarter.

Net system sales of 4.1 billion euros was again more weighted towards Logic at 61 percent, with the remaining 39 percent from Memory. The continued strength in Logic drives both DUV and EUV revenue. The Memory business is mainly driven by DRAM.



Installed Base Management sales for the quarter came in at 1.1 billion euros, above guidance, due to increased upgrade and service business.

Gross margin for the quarter was 51.7 percent and was within guidance.

On operating expenses, R&D expenses came in at 609 million euros, which was below our guidance due to several one-off effects in the quarter. SG&A expenses at 183 million euros, which was basically at guidance.

Net income in Q3 was 1.7 billion euros, representing 33.2 percent of net sales and resulting in an EPS of 4.27 euros.

Turning to the balance sheet.

We ended the third quarter with cash, cash equivalents and short-term investments at a level of 4.5 billion euros.

Moving to the order book, Q3 net system bookings came in at 6.2 billion euros, including 2.9 billion euros for EUV systems. Order intake was largely driven by Logic with 84 percent of the bookings, both from DUV and EUV, with Memory accounting for the remaining 16 percent.

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

We expect Q4 total net sales to be between 4.9 billion euros and 5.2 billion euros.

There are some items to note that are expected to delay revenue from Q4 2021 into Q1 2022.

In the process of increasing capacity, we experienced some issues regarding materials shortage in our supply chain. In addition, we experienced issues in the start-up of our new logistics center. These two issues have largely been addressed for this year's output but resulted in a late start on the assembly of a number of systems. In this high demand environment, our customers are requesting fast shipments, or no factory acceptance test, in order to bring systems into production as quickly as possible.

While the impact on the third quarter was relatively small, the late starts combined with the fast shipments are expected to have an impact on the revenue to be recognized in the fourth quarter, which is included in our guidance. We are still on track to achieve revenue growth approaching 35 percent for the full year.



We expect our Q4 Installed Base Management sales to be around €1.1 billion euros.

Gross margin for Q4 is expected to be between 51 percent and 52 percent, with an expected gross margin of around 52 percent for the full year.

The expected R&D expenses for Q4 are around 670 million euros and SG&A is expected to come in at around 195 million euros.

Our estimated 2021 annualized effective tax rate is expected to be around 15 percent.

The interim dividend for 2021 will be 1.80 euros per ordinary share. The ex-dividend date as well as the fixing date for the EUR/USD conversion will be November 2, 2021, and the record date will be November 3, 2021. The dividend will be made payable on November 12, 2021.

In Q3 2021, ASML purchased 3.6 million shares for a total amount of around 2.4 billion euros under the current and previous program.

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 record quarter on both sales and profitability. We are seeing continued strong demand from our customers across all market segments, from both advanced and mature nodes, driving demand across our entire product portfolio.

We have a total backlog of 19.6 billion euros, including EUV of 11.6 billion euros, which is a reflection of the very healthy market environment we are in today and fully covers the planned EUV output for 2022 and the beginning of 2023.

While it's a bit too early to provide specific guidance for 2022, we expect the end market trends we have highlighted throughout 2021 to continue into next year.



These end market trends are driving strong demand across all market segments and across our entire technology portfolio. Therefore, we continue to increase our capacity for all of our products to meet customer capacity and technology requirements.

In Logic, strong end market demand continues as part of the ongoing digital transformation. The broadening application space, with distributed computing across the IOT landscape, not only drives the demand for leading edge nodes but also creates significant demand for mature nodes, as an integral part of the growing digital infrastructure. We expect continued growth in our Logic business as customer demand remains strong for both advanced and mature nodes.

In Memory, we also expect to see continued growth of our business next year. Strong end-market demand for servers and smartphones is the primary driver for Memory demand next year, with some uncertainty on the demand picture for PCs. Litho tool utilization levels remain very high and customers see demand bit growth in 2022 in the mid to high teens percentage for DRAM and around 30 percent for NAND. To meet demand for this expected bit growth, customers will need to add capacity as well as continue to make node migrations. As customers migrate to more advanced nodes we also expect to see an increase in EUV demand for Memory.

For our Installed Base business, we see an opportunity for service growth next year as we continue to expand the installed base of our entire product portfolio as well as the increased contribution of EUV service as this technology ramps in volume production. Driven by the expected continued shortage of semiconductor components, we also see an opportunity to grow our upgrade revenue further. This will depend however on our customers' willingness to take systems down to perform these upgrades amidst a strong demand cycle.

To meet the strong demand across our entire product portfolio, we first of all are driving down our manufacturing cycle times and working with our supply chain to increase our output capability for EUV as well as DUV. As communicated during Investor Day, we expect to increase unit output for DUV by approximately 1.5 times and EUV over 2 times by 2025, primarily through manufacturing capacity additions in our supply chain. At the same time, we are shipping higher-productivity machines, which when taken into account with our higher unit output capacity plan, we expect an increase in effective wafer capacity for DUV of approximately 2X and for EUV over 3X by 2025. The actions in our supply chain to increase output have different time horizons to materialize but we expect to see an impact of these actions starting this year and extending into next year.



For EUV, we are still planning for a capacity of around 55 systems next year. These will all be 3600D systems, which deliver a 15 to 20 percent higher productivity over the 3400C systems.

For DUV, as mentioned last quarter, we are utilizing our safety stock this year to significantly increase DUV output so we will not have this buffer inventory going into next year and will therefore need to rely on building additional capacity as just mentioned. We are actively working with our supply chain partners to increase our capacity next year. The final output and mix will depend on our supply chain progress although we currently believe we should be able to reach our 2021 shipment output.

In summary, chip demand is very strong and we are working to maximize output to meet customer demand. The secular growth trends, as part of the digital transformation to a more connected world, are fueling future demand across all market segments at both the advanced and mature nodes, and we expect another year of healthy growth in 2022.

Looking beyond next year, I would like to provide a quick summary of our Investor Day that we held last month where we provided a longer term view of our business and growth opportunities. The global megatrends in the electronics industry, supported by a highly profitable and innovative ecosystem, are expected to continue to fuel growth across the semiconductor market. Growth in semiconductor end markets and increasing lithography intensity are driving demand for our products and services. ASML's comprehensive product portfolio is aligned to our customers' roadmaps, delivering cost effective solutions in support of all applications from leading edge to mature nodes.

Based on different market scenarios, we have an opportunity to reach annual revenue in 2025 between approximately 24 billion euros in a low market scenario and 30 billion euros in a high market scenario, with a gross margin in 2025 between approximately 54 percent and 56 percent. We see significant growth opportunities beyond 2025. Using third party research and applying our own market and customer intelligence, we expect our systems and Installed Base business to provide a comfortable annual revenue growth rate of around 11 percent for the period 2020-2030.

We are continuously improving our performance on our ESG Sustainability KPIs and are upgrading our ESG Sustainability strategy to accelerate progress. Our industry can contribute significantly to cut global emissions by 15 percent in 2030. Our ESG Sustainability strategy is focused on developing lithography technology to continue to produce microchips that are three times more energy-efficient every two years, helping our customers and suppliers to minimize materials and energy required to produce advanced microchips and driving a roadmap towards zero waste by 2030 and net zero value chain emissions by 2040.



Our continued investments in technology leadership have created significant shareholder value. As outlined in our capital allocation strategy, we therefore expect to continue to return significant amounts of cash to our shareholders through a combination of growing dividends and share buybacks.

In summary, we have increased and strong confidence in our long-term growth opportunities, while we deliver significant value to all our stakeholders.

With that we would be happy to take your questions.