



Transcript

Video interview with ASML CEO Peter Wennink

Q4 FY 2022 results

January 25, 2023

Q4 2022 & FY results 2022

Mr. Wennink, can you give us a summary of the fourth quarter and full year results 2022?

Yes, let's start with the fourth quarter. Let's start with net sales. Net sales came in at about € 6.4 billion which is about the mid-range of our guidance. However, we were able to accelerate what we call fast shipments on DUV, also in Q4. Which actually was quite a significant number because if you would add the fast shipments to the €6.4 billion then the normalized sales for Q4 would have been €7.4 billion.

For the total year, €21.2 billion in sales of which about €3.1 billion of fast shipments went into 2023. So the net effect of the fast shipments plus the revenue of €21.2 billion would give you a normalized revenue, if you would have booked the fast shipments as revenue, of €24 billion. Which is quite a significant increase as compared to last year. So that's on the total sales.

On Installed Base, about €1.7 billion of Installed Base sales which is higher than our guidance. That has to do with the fact that we had a pull-in of what we call field upgrades. Field upgrades from Q1 into Q4 which gave us an extra boost in sales in Installed Base.

On the gross margin. A good gross margin number 51.5% in Q4. That is also the result of the pull-in of these field upgrades because they are high margin. And we had a one-off. We got an insurance settlement on the Berlin fire which happened last year. So that was a one-off. So for the total year: 50.5% gross margin. Pretty good.

Net income, because that's a result of the gross margin and all the cost, €1.8 billion in Q4 and €5.6 billion for the year. On bookings. Bookings were good in Q4. We booked over €6 billion in terms of booking leading to a record backlog by the end of 2022 of over €40 billion. Never seen that before. So a record backlog.

So if you peel it off and you look at the year and you look at the quarter, then actually it was quite a good year, good performance under some challenging circumstances.



Full Year and Q1 2023 outlook

Can you provide your initial outlook for this year 2023?

Like I said some challenging circumstances that we are currently facing. Clearly there is a fear of recession as driven by high inflation, high interest rates, geopolitical confrontations, discussions about export controls. On top of that we see a weaker demand for consumer related products such as smart phones and PCs. We see some lower growth rates in the data center domain. But strong demand and still in the industrial space, for instance automotive.

So all in all, if you look at the situation today it's not a surprise that our customers are currently seeing inventories rise. Because we see a lower demand in some of these areas. So inventory for chips is going up. And what is then the natural reaction what customers are doing to actually swiftly turn that, is to reduce the utilization of the machines in the installed base. This is what we are seeing. We are seeing that the utilization rates of our tools is going down. Our customers are swiftly adapting their output to reduce inventory. By doing that they hope and they expect that the industry will then recover in the second half of the year.

That's potentially being helped also by the recovery of the Chinese economy coming out of the Covid crisis. There is expectation that the industrial activity and thereby semiconductors will actually go up again in the second half of the year. So all in all, customers are expecting a better second half of 2023.

What does that mean to us? Basically the situation for us is that the demand that we are currently seeing because of this is still much higher than what we can make. So why are we not affected then? Well, it's a very simple conclusion that the expectation of the duration of a potential recession in the minds of our customers is much shorter than the average lead time of our machines. Because they want to prepare – because of the strategic nature of our machines – for an upturn in the second half of the year and 2024. That means that the demand is still higher than what we can make. That means that our plan is still to produce 60 EUV systems this year and 375 DUV systems. Around 25% immersion of that 375. Which actually means that we will see a significant step-up in the 2023 sales numbers.

If you split it out over the different business sectors, then you'll see that EUV business will probably grow about 40%, the non-EUV business about 30%, Installed Base business we will see some lower growth rates. That is logical. The utilization rates in the factory in the first time of this year will be down, so not a lot of field upgrades, it's about 5%. Now if we add it all up we think that 2023 could give us an increase in sales of more than 25% over 2022. Which is a significant step-up from where we are today. Which is under the circumstances a pretty good foresight.



What is your guidance for this quarter Q1?

Basically Q1 is also a reflection of a very strong Q4. What I mean with this, is that we expect sales between €6.1 billion and €6.5 billion, about €1.5 billion of Installed Base sales. But like I said earlier, there has been – you could say – an acceleration of DUV shipments in Q4 that come from Q1. The same is true for field upgrades. So from Q1 2023 into Q4. So that is why we see this sales number not significantly higher than the fourth quarter.

However, because we do see more than 25% increase for the total year, you could expect a growing quarterly sales number throughout this year. From a margin point of view in Q1, between 49% to 50%. That's basically the reflection of lower Installed Base business basically because of the upgrades which is high margin business.

What are your expectations for your gross margin for the full year 2023?

We saw 50.5% for the total year 2022. Now there is a couple of building blocks for the gross margin in 2023. The first one is the volume. The higher volume. We have higher volume from 2023 as compared to 2022. Which means that in EUV and in DUV we'll have a positive impact on the gross margin because of higher volume.

On Installed Base, we see lower growth rates as we explained and we see then a lower level of field upgrades which is high margin business. So that could have as slightly negative effect on the gross margin for this year. Inflation, that's on people's mind. We do believe this year there will be a kind of a net zero effect because yes, we have higher inflation cost. But also we have inflation compensation from customers.

Then the last point. We will see higher cost levels. That has to do with the buildout of the capacity that we need. Not only for 2023 but for 2024 and 2025. That is the capacity buildout in EUV, in DUV and in High-NA. That will lead to higher cost levels.

So the year will start Q1 with gross margin between 49% and 50% but that will gradually increase throughout the year. I would like to add to that that is in fact on the trajectory towards our gross margin that we gave as a guidance for 2025 at our Capital Markets Day. Which we believe by that time, 2025 will be between 54% and 56% and between 56% and 60% by 2030. So we're well on track.

Export controls

You just touched on it. The discussion around export controls and the geopolitical situation between China and the US. Can you give us an update?

You said it: 'geopolitical'. We're businesspeople. We're not politicians. I think there were some good comments made by our Dutch prime minister last week when he visited Washington and spoke to the US



president. Actually the summary of his comments were, this is a multinational question that needs to be answered. It's an issue between several countries. Not only the Dutch and the Americans, but several countries. And also multiple companies are involved with a complex supply chain. Upstream and downstream. It's a complex industry. In fact what he said: 'it's a complex issue, it's a sensitive issue. There's a lot at stake, there are high economic stakes. So we have to find a balanced solution'. And that's where the politicians are.

I think it's a fair reflection of where we are and I think there were some good comments made. Of course there have been media articles coming out that are basically speculating on what the potential outcome could be, but we just have to look at the facts. The facts are that nothing really changed since the October regulations that came out of the United States. Which actually means that we will not ship EUV to China for instance. But we can still ship DUV and metrology and inspection tools.

Any further speculation on what the outcome might be doesn't help. We just have to wait for the governments and the politicians to keep talking and come to a reasonable solution. That's where we are today.

Dividend and share buyback

Can you update us on your capital allocation plans?

Our capital allocation plans are actually quite consistent. We will generate a lot of cash because the company will grow quite substantially. Of course we will first use our cash to build the business.

When we have done that, we'll use the cash to pay a growing dividend. Any other cash left we will buy back shares. On the dividend, we'll propose to the general meeting of shareholders a closing dividend of €1.69 which will bring the 2022 dividend to €5.80. For Q1 we're going to pay an interim dividend of €1.37. Now that's for the dividend.

On share buybacks we have announced on the Capital Markets Day our €12 billion program for the next three years. And like I said, any excess cash when used for our business and paid the dividend, we'll use for the share buybacks.

Longer term outlook

What are your expectations regarding demand and your business beyond 2023?

I think the medium to longer term future of the company is very bright. It is driven by the fact that semiconductor applications are growing at a significantly accelerated speed. Think about the big societal problems whether it's electrification, the digital revolution, it's the energy transition, everything you touch is semiconductors.



It's clear also the way we look at the world but also what analyst firms have looked into that this industry of our customers, the semiconductor industry, will grow to a trillion or trillion plus dollars by 2030. It actually means that we need to be able to provide our customers with systems and with services that will help them to make that output.

That's also why as we said at the Capital Markets Day we will, and we are continuously investing with our supply chain for a capacity of 90 EUV systems and 600 DUV systems by the 2025-2026 time frame and 20 High-NA systems, next generation EUV, by 2027-2028. So if you take it all together and – depending on whether we are in a high market or low market by 2025 – by 2025 we could be anywhere between €30 billion and €40 billion in sales. And also depending on whether we will be in a lower or higher market by 2030. We think we will be between €44 billion and €60 billion in sales by that time.

So no matter how you look at it, semiconductors are positioned extremely well. When it comes to growth and helping some of the large and big solutions for the big problems that we all face. I think we are looking forward to a very bright future. And perhaps, yes of course it will be short term issues that we have to deal with. But mid- to long term a very bright future and very strong growth.