Transcript
Video interview with ASML CEO Peter Wennink
Q2 2023 results

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Mr. Wennink, can you give us a summary of the second-quarter results 2023?

Yes, the second quarter was a solid quarter. Sales came in at €6.9 billion, which is at the high end of our guidance range. Installed Base business €1.3 billion. We had good gross margin, 51.3%. That is the result of the fact that we sold more immersion systems than we anticipated. And on top of that we started to revenue recognize the immersion fast shipments in Q2, which actually gave us some extra sales. Which gave us some extra margin. So that was the reason for a good gross margin number in Q2. Net income €1.9 billion, €4.5 billion on order intake. A solid quarter.

Q3 2023 outlook

What is your guidance for the third quarter?

Third quarter we expect sales to come in anywhere between €6.5 and €7 billion, about €1.4 billion of Installed Base business, 50% gross margin. Actually, our guidance for Q3 is pretty similar as the guidance we gave three months ago for Q2.

Market and export controls

Let's have a look at the market. Have there been any recent changes in market dynamics?

Yes, I think you can say so. I think it's all driven by macroeconomics. You know, macroeconomics, we still see relatively high inflation rates, high interest rates, some fear of recession in Europe, in the US. The geopolitical environment is also difficult from time to time. The macroeconomic situation has not improved.

On the end markets we see some first reports coming in that some end markets seem to be bottoming out. Which is good. But it means that our customers are still dealing with relatively high inventories. High levels and how do you deal with that? Basically by reducing the wafer output. And wafer output means that of course the utilization of our tools is also less. What does that mean? I mean, on our EUV business we see some shift in demand timing. That is largely driven, I would say predominantly driven, by fab readiness. The fabs are not ready and why is that? There are skills issues. We've said that before and whether it is in Taiwan or in the US, there are skills issues. People who actually have the capability to build these very advanced fabs.

There is also some element in there of course of the macroeconomic situation, where people have some concerns about the duration of this downcycle. That's what we are seeing for EUV.

On DUV, the demand is still higher than what we can make. Now of course, DUV also has been impacted by what I said on EUV. Because we've seen some push-outs in terms of the demand across different segments in the industry. However, we also need to realize that our Chinese customers had over the last two years a so-called demand fill-rate, so how much of your demand can we ship, of significantly less than 50%. So, our

Chinese customers say: We are happy to take the machines that others don't want. Because their fabs are ready. They can take the tools. So, when they become available, they will take the tools.

So, all in all, our DUV business still looks pretty strong. And that has to do with the fact that what I just said. That there is significant demand which is still higher than what we can make.

With the recent communication from the Dutch government on export controls, can you provide an update on the expected impact to your DUV business?

It's specifically on DUV. A few weeks ago the Dutch government came out with the final ruling.
Which was more or less in line with what we communicated about a quarter ago. And I think that in itself was not a major surprise. It will become effective per September 1 and it deals with what we call advanced DUV immersion systems. Which is our tool type NXT:2000i and subsequent numbers. So NXT:2050i, NXT:2100i and up. That's what it's all about. It's not about EUV. Because EUV is already under export control.

So, we just have to wait. To really get a final answer on your question, we also need to understand what the American government has done. The Japanese government has come out with their ruling end of May. The Dutch government a few weeks ago. So, we're waiting for the American rules to come out. There have been some media reports that the Americans are contemplating some additional measures. Of course that is speculative. We don't know what it is. But what we understand, it will not have a major impact on what we said before.

So, all in all, when you look at the export control measures in total, we don't expect a significant impact on our 2023 year. But also not on the longer-term outlook that we gave during the Capital Markets Day last year.

Fast shipments

With regard to fast shipments, have you made any progress with your customers on revenue recognition when it comes to fast shipments?

Yes we did. As a matter of fact, particularly on DUV immersion. As you know, we fast ship DUV immersion and EUV. But on DUV immersion we came to an agreement with customers, where we basically have a reduced test protocol. Which they now accept as good enough to basically recognize revenue when we ship the machine out of our factory in the Netherlands. Instead of taking revenue when we do the installation at the customer site.

Having said that, what does it mean? It means we're going to recognize more revenue in 2023. We expect that about €700 million worth of revenue now being booked in 2023 which we originally said was going to be pushed to 2024. So, our revenue that we now defer out of 2023 into 2024 is not the €3 billion that we said last quarter, but it's €3 billion less €700 million is €2.3 billion. And that is only EUV. So, it actually means that deferred revenue, because of fast shipments, now only applies to EUV. Of course there we will book revenue when we get the final sign-off at the customer site for EUV systems.

Outlook 2023

What does all this mean for your business outlook for this year?

This year business outlook, like we said earlier, there is an impact on the macroeconomic situation. But if you then break that down into DUV, EUV and Installed Base, they all have a bit of a different character. On DUV, we expect to ship a bit more systems than the 375 units that we mentioned before. Which is good. But on top of that, we also have the revenue recognition at shipment instead of at installation at the customer site for DUV immersion systems. Which all in all, gives us a higher sales number for DUV immersion this year. Where we originally anticipated that DUV would grow with 30%, but now it will grow with 50%. So the DUV business is a lot more healthier than we actually said before.

On EUV, we see some, like we said before, some shifts in demand in terms of timing. Largely driven by fab readiness. Fabs are not ready yet, so we will ship the tools later. That means that the original quoted growth number of 40% for EUV revenue this year will go down to about 25%.

On Installed Base, there is a reflection of the macroeconomic situation and the cautiousness or the conservative way that customers look at doing upgrades. You don't need to do an upgrade when you're reducing the utilization of your installed base. So, we now expect instead of a 5% growth on Installed Base that to stay flat for this year.

But if you take it all together, higher DUV, lower EUV, flat Installed Base, then the total sales of the company is now expected to grow towards 30% instead of the earlier 25% that we said last quarter.

What does this all mean for your gross margin in 2023?

If you take everything together, you take higher DUV sales, lower EUV, but Installed Base being flat, we have a positive impact on gross margin because of higher DUV immersion sales. But lower Installed Base sales with good margin. So, it all in all washes out a bit and that means that, as we said before, our gross margin this year will slightly increase.

Longer-term outlook

Let's have a look at the longer-term outlook. What are your expectations for 2024?

If you look at 2024, it will be driven by the macroeconomic development. We said it before, Macroeconomics show higher interest rates, higher inflation numbers, some fear of recession here and there. And that actually means that what we all thought that we would see this year, it would be a recovery in the second half of 2023, I think that's going to be later. That's now the general view that that is going to be later.

Having said that, ASML has a very solid and strong and healthy backlog of about €38 billion. On top of that, when we look at the firm demand that our customers put on us, together with the good backlog for next year, I think we see a very clear opportunity for growth in 2024. However, given all the increased uncertainties, I think it is too early to give you a prediction of any forecast for 2024. It's like normal when we are in these downcycles. We have to take it quarter by quarter. We will look at it quarter by quarter. We'll just keep our eyes out on the inflection points for recovery.

And how about your outlook beyond 2024?

Beyond 2024, it's really the solid believe we have in the megatrends that are not going to go away. You can even argue that some of these megatrends, when you think about AI, are even more important than we thought, let's say at the end of last year. But it's not only AI, it's also the energy transition, it's the electrification of mobility, it's industrial Internet Of Things. It's everything that's driven by sensors and actuators.

So, effectively, we see very strong growth across the entire semiconductor space. Whether it's mature or whether it's advanced. Because of these megatrends we have still a very strong confidence in what we said at the end of last year, that by 2025 – depending on what market scenario you are choosing, higher or lower – we will have between €30 billion and €40 billion of sales and gross margin by that 2025 timeframe between 54% and 56%. And if you extend that then to 2030, we are still very confident that by that time, also dependent on a lower or higher market scenario, sales will be anywhere between €44 billion and €60 billion with gross margin between 56% and 60%. So, we have short-term cycles. This is what the industry is all about. But we have very strong confidence, even stronger confidence, in what the longer-term future is going to bring for this company.