Transcript
Investor Call ASML CEO Peter Wennink & CFO Roger Dassen
Q3 2023 results
October 18, 2023

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Welcome everyone, thank you for joining us for our third-quarter 2023 results conference call.

Before we begin the Q & A session Roger and I would like to provide an overview and some commentary on the third-quarter 2023 as well as provide our view of the coming quarters.

Roger will start with a review of our third-quarter 2023 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 2023.

Let me start with our third-quarter accomplishments. Net sales came in at 6.7 billion euros, which is around the midpoint of our guidance.

We shipped 10 EUV systems and recognized 1.9 billion euros revenue from 11 systems this quarter.

Net system sales of 5.3 billion euros which was mainly driven by Logic at 76 percent, with the remaining 24 percent coming from Memory.

Installed Base Management sales for the quarter came in at 1.4 billion euros, as guided.

Gross margin for the quarter came in at 51.9 percent, which is above our guidance, primarily driven by DUV product mix as well as some one-off cost effects.

On operating expenses, R&D expenses came in at 992 million euros and SG&A expenses came in at 288 million euros, both basically as guided.

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Net income in Q3 was 1.9 billion euros, representing 28.4 percent of net sales and resulting in an EPS of 4.81 euros.

Turning to the balance sheet. We ended the third quarter with cash, cash equivalents and short-term investments at a level of 5.0 billion euros.

Moving to the order book, Q3 net system bookings came in at 2.6 billion euros, which is made up of 0.5 billion euros for EUV bookings and 2.1 billion euros for non-EUV bookings, these values also include inflation corrections. Net system bookings in the quarter were driven by Logic with 80 percent of the bookings while Memory accounted for the remaining 20 percent.
As expected, we did see some moderation in orders this quarter. As the industry is working through a cycle, customers remain cautious in the current environment, managing cash flows and delaying purchase orders. In addition, there were no High-NA orders this quarter. While our bookings were lower than in previous quarters, our backlog at the end of Q3 remains strong at over 35 billion euros.

With that I would like to turn to our expectations for the fourth quarter of 2023.

We expect Q4 net sales to be between 6.7 billion euros and 7.1 billion euros.

We expect our Q4 Installed Base Management sales to be around 1.4 billion euros.

Gross margin for Q4 is expected to be between 50 and 51 percent, the positive impact of higher sales volume is more than offset by the dilutive impact from a change in DUV mix and one-off effects relative to last quarter.

The expected R&D expenses for Q4 are around 1.03 billion euros and SG&A is expected to be around 285 million euros.

Our estimated 2023 annualized effective tax rate is expected to be between 15 percent and 16 percent.

An interim dividend of 1.45 euros per ordinary share will be made payable on November 10, 2023.

In Q3 2023 we purchased shares for a total amount of around 100 million euros.

As mentioned in previous quarters, in the current environment we expect to see ongoing pressure on our free cash flow. As a result, we will be prudent in managing our cashflows and maintain relatively higher levels of cash.

With that I would like to turn the call back over to Peter.

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Peter Wennink
Thank you Roger.

As Roger has highlighted, another good quarter, especially considering the current market environment.

Uncertainty remains in the market driven by global macro concerns around inflation, rising interest rates, lower GDP growth in certain economies and the geopolitical environment, including export controls. The industry seems to be passing through the cycle trough. There has been some improvement in end market inventory levels downstream, although inventory levels upstream remain elevated. As a result, customers continue to moderate wafer output by running at lower utilization levels. While overall lithography tool utilization is still running at levels lower than normal, relative to last quarter, tool utilization in Logic continues to show signs of improvement while Memory has yet to turn. We concur with our customers that still expect to see an inflection point indicating the start of a recovery by the end of the year, although the shape and slope of the recovery remains uncertain. Looking further ahead to 2025 we expect a significant growth year since more than 50 percent of our EUV and DUV shipments will go to new fab projects. On top of this, we expect existing fabs will be adding capacity driven by a continued recovery cycle.

Turning to our business, we now expect DUV revenue to grow towards 55 percent, year over year, an increase from around 50 percent communicated last quarter, primarily driven by an increase in immersion revenue. China demand for DUV systems continues to be strong, a trend we talked about in previous quarters. For systems shipping this year to Chinese customers, the majority of the orders were booked in 2022. The demand fill rate for our Chinese customers over the last two years was significantly less than 50 percent. So the Chinese customers were in fact receiving a much lower number of systems than they ordered. This was due to the fact that demand for our systems worldwide significantly exceeded supply.

With current shifts in demand timing from other customers, we now have the opportunity to fulfill these orders to our Chinese customers. So supply is in fact catching up to demand and we are shipping lithography systems for mature and mid-critical nodes to China, while of course complying with export regulations. If you combine this with the fact that other customers are delaying their demand, this means indeed a higher sales percentage from China than we saw in previous years.

In EUV for 2023, we continue to expect year over year revenue growth of around 25 percent, as communicated last quarter.

For the Installed Base business in 2023, with the current utilization rates and market uncertainty, particularly as it relates to the timing of recovery, customers continue to wait to perform productivity and performance upgrades on their litho systems. Therefore, we now expect our Installed Base business this year to be down around 5 percent from last year versus the flat growth previously communicated.

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In summary, based on our full year, with higher DUV revenue, offset some by lowered expectations on our Installed Base business relative to last quarter, we still expect net sales for the year to grow towards 30 percent with a slight improvement in gross margin compared to 2022. Overall, a very strong growth year especially considering the industry being in a down-cycle.

On the geopolitical front, as it relates to export control, the US government yesterday published updated export control regulations. Part of the regulations is an update from last year's October communication and part is the implementation of the US regulations on the trilateral agreement between the Dutch, Japanese and US governments. Given the length and complexity of the document, we need to review the final regulations thoroughly and make a detailed analysis, which will take some time. Based on our preliminary assessment, we do not expect these measures to have a material effect on our financial outlook for 2023. The export control measures could have an impact on the regional split of our shipments in the medium to long term but we do not expect an impact on the global demand scenarios as communicated during our Investor Day in November last year since the long-term growth perspectives for our industry remains clearly unchanged.

Looking towards next year, the semiconductor industry is currently working through the bottom of the cycle and our customers expect the inflection to be visible by the end of this year, as I mentioned before. Although there is an opportunity for some demand to be pulled into the back half of 2024, we currently prefer to take a more conservative view for the full year 2024 especially considering the inherent nature of the macro-economic uncertainties. Therefore, based on our current view we expect revenue next year to be similar to 2023. As such, we view 2024 as a transition year but also an important year to prepare for the significant growth that we expect in 2025.

Based on discussions with our customers, we currently expect 2025 to be a strong year driven by a number of factors. First, the secular growth drivers in semiconductor end markets which we have previously discussed, such as energy transition, electrification and AI. The expanding application space, along with increasing lithography on future technology nodes, drives demand for both advanced and mature nodes. Secondly, the industry expects to be in the middle of a cyclical upturn in 2025, starting in 2024. Lastly, as mentioned earlier, we need to prepare for the significant number of new fabs that are being built across the globe. These fabs are spread geographically, are strategic for our customers and are scheduled to take our tools. It is essential that we keep our focus on the future and build capacity to be ready for this ramp.

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In summary, despite going through an industry down cycle, we still expect very strong growth in our business this year. While there are still significant uncertainties, primarily driven by the macro environment, it appears we are passing through the bottom of this specific cycle and the shape of the recovery will ultimately determine the demand curve beyond 2023. In the near term, it is understandable that customers remain cautious as they moderate wafer output to help lower inventory levels in the supply chain and look to build confidence around the timing and slope of the recovery next year. In summary, we clearly view 2024 as a transition year as we prepare for future growth and the expected strong year in 2025 and beyond. We remain confident that we are well-positioned for further long-term growth as we discussed in the market scenarios for 2025 and 2030 during our Investor Day in November 2022.

With that we would be happy to take your questions.

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