MOODY'S
RATINGS

Rating Action: Moody's Ratings changes ASML's outlook to positive; affirms A2 ratings

23 Apr 2024

Frankfurt am Main, April 23, 2024 -- Moody's Ratings (Moody's) changed the outlook of ASML Holding N.V. ("ASML") to positive from stable. At the same time, Moody's affirmed ASML's A2 senior unsecured ratings.

RATINGS RATIONALE

Moody's changed ASML's outlook to positive from stable to reflect its strong operating performance and Moody's expectation that ASML will maintain its strong market position and benefit from structural growth drivers, including robust spending on generative Artificial Intelligence (AI) infrastructure. Consequently, Moody's has increased confidence that ASML can maintain a highly liquid and conservative balance and strong financial performance through semiconductor industry cycles, which would support a higher rating. These include EBITDA margins (Moody's adjusted) of around 37% in 2023, average annual Free Cash Flow (Moody's adjusted, after dividends) of €5.0 billion in the period 2021-2023 and Moody's adjusted Debt / EBITDA below 1.0x in 2023.

ASML's unique position in the semiconductor equipment industry, including its monopoly in extreme ultraviolet (EUV) lithography, a critical technology used for manufacturing complex chips used in various applications, including data centers, mobile devices, autonomous driving, and others; its strong track record of innovation, in close collaboration with customers and suppliers; the underlying growth fundamentals propelled by secular trends, leading to sustained high investment spending from semiconductor manufacturers; the growing number of installed systems that will drive growth in recurring installed base management revenues; its flexible cost structure, and a track record of prudent financial policies, all support its A2 rating. ASML's public commitment to maintaining adequate liquidity to ensure continued business growth and to provide buffer for cash flow volatility illustrates its conservative financial policy, which Moody's expects will continue to support the company's strong credit metrics.

ASML's credit challenges include demand volatility, potential trade restrictions, technological risks, and operational, customer and product concentration risks. Global trade tensions, which increasingly focus on technology supply chains, pose a risk to ASML's ability to serve customers worldwide. However, given strong global demand, ASML has opportunity to ship equipment to customers in regions that are unaffected by trade restrictions.

Technological risks exist with commercial adoption of its new generation tools, high numerical aperture (NA) EUV lithography, and there is a risk of potential competitors in the lithography market, though the barriers to entry are very high. ASML's high customer and supplier concentration, as well as concentration of production present additional risks. Despite these, ASML's financial flexibility with €5.4 billion of cash and liquid investments and low financial leverage (0.5x total debt to EBITDA, Moody's adjusted) as of March 2024 provides a buffer to mitigate these risks.

POSITIVE OUTLOOK

The rating is strongly positioned in the A2 rating category. The positive outlook reflects Moody's expectation that strong underlying fundamental drivers, including robust spending on generative Artificial Intelligence (AI) infrastructure, will benefit ASML's earnings in the next 18 to 24 months. It also reflects Moody's expectation that the company will maintain its strong market position, consistent product road map execution (including high NA) and financial discipline through industry cycles.

LIQUIDITY

ASML 's liquidity is strong and is supported by the cash and liquid investments of €5.4 billion as of March end-2024, the €700 committed credit facility due 2026, with no financial covenants, and no near-term debt maturities. The high cash balance and Moody's projection of annual funds from operations around €8 billion in 2024 and around €11 billion in 2025 are more than sufficient to accommodate its working capital, capital spending needs (around €1.7 billion), and dividends (around €2.5 billion).

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's could upgrade ASML's ratings if the company continues to demonstrate strong business execution with progress on its product roadmap, including its high NA EUV lithography. In addition, a higher rating would require further strengthening of company's financial profile, including improvement in its Moody's adjusted EBITDA margins and FCF growth, as well as continued commitment to its conservative financial policy including maintenance of a strong cash position and low debt levels.

Ratings could be downgraded if ASML were to experience a sustained erosion of market share, which would indicate the loss of technological leadership and execution. Also, a departure from conservative fiscal practices, a materially weaker liquidity profile, or gross adjusted debt to EBITDA sustained above 2.25x could cause ratings pressure.

The principal methodology used in these ratings was Semiconductors published in October 2023 and available at https://ratings.moodys.com/rmc-documents/410350 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

COMPANY PROFILE

ASML Holding N.V. (ASML) is the world's leading provider of lithography systems used in the semiconductor industry in terms of revenue. The company manufactures complex machines that are not only critical to the leading-edge production of integrated circuits but also used for the production of the more matured notes. Headquartered in Veldhoven, the Netherlands, ASML generated revenue of €26.1 billion in the 12 months that ended March 2024.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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