Transcript
Investor Call ASML CEO Peter Wennink & CFO Roger Dassen
Q2 2023 results
July 19, 2023

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Peter Wennink
Welcome everyone, thank you for joining us for our second-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 second-quarter 2023, as well as provide our view of the coming quarters.

Roger will start with a review of our second-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 second-quarter financial accomplishments and then provide guidance on the third quarter of 2023.

Let me start with our second quarter accomplishments.

Net sales came in at 6.9 billion euros, which is at the high end of our guidance.

We shipped 13 EUV systems and recognized 2.0 billion euros revenue from 12 systems this quarter.

Net system sales of 5.6 billion euros which was mainly driven by Logic at 84 percent, with the remaining 16 percent coming from Memory.
The net sales value of our fast shipments not yet recognized in revenue in the first half of 2023 amounts to 1.4 billion euros.

Installed Base Management sales for the quarter came in at 1.3 billion euros, as guided.

Gross margin for the quarter came in at 51.3 percent, which is above our guidance, primarily driven by additional DUV immersion revenue in the quarter, partly related to starting revenue recognition upon shipment for immersion systems that are fast shipped.

On operating expenses, R&D expenses came in at 1.0 billion euros and SG&A expenses came in at 281 million euros, both basically as guided.

Net income in Q2 was 1.9 billion euros, representing 28.1 percent of net sales and resulting in an EPS of 4.93 euros.

Turning to the balance sheet. We ended the second quarter with cash, cash equivalents and short-term investments at a level of 6.3 billion euros.

Moving to the order book, Q2 net system bookings came in at 4.5 billion euros, which is made up of 1.6 billion euros for EUV bookings and 2.9 billion euros for non-EUV bookings, these values also include inflation corrections. Net system bookings in the quarter were driven by Logic with 69 percent of the bookings while Memory accounted for the remaining 31 percent.
At the end of Q2 we have around 38 billion euros in our backlog.

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

We expect Q3 net sales to be between 6.5 billion euros and 7.0 billion euros.

We expect our Q3 Installed Base Management sales to be around 1.4 billion euros.

Gross margin for Q3 is expected to be around 50 percent, a little below last quarter due to DUV mix.

The expected R&D expenses for Q3 are around 1.0 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 August 10, 2023.

In Q2 2023 we purchased around 0.8 million shares for a total amount of around 500 million euros.

As mentioned last quarter, 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 maintaining relatively higher levels of cash.

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

Peter Wennink
Thank you Roger.

As Roger has highlighted, another solid quarter, in a dynamic environment.

Significant uncertainty remains in the market due to a number of global macro concerns around inflation, rising interest rates, recession and the geopolitical environment, including export controls. Although certain end markets seem to be reaching the bottom of the cycle, the semiconductor industry is running at very high inventory levels, leading customers to moderate wafer output as the supply chain works to reduce and rebalance inventory levels. In order to limit wafer output, customers continue to run at lower litho tool utilization levels. Customers remain cautious due to the uncertainty around the timing, the shape and the slope of the recovery.

We had an increase in bookings this quarter, resulting in a backlog of around 38 billion euros exiting the second quarter. In our EUV business, we have seen some shifts in demand timing. The majority of the shifts are due to fab readiness, with some element of uncertainty around recovery. DUV demand still exceeds supply. While we have seen delays in DUV demand from some customers, it has been compensated by strong demand for tools at mature and mid-critical nodes, particularly in China. The demand fill-rate for our Chinese customers over the last two years was significantly less than 50 percent, so they now take the opportunity to receive and install systems in their fabs as the supply of tools becomes available.

Turning to our business, starting with DUV, we are now planning to ship more than 375 DUV systems, with a mix of over 25 percent immersion. For immersion systems using the fast shipment process, we have come to an agreement with customers on a reduced acceptance test procedure that allows revenue recognition on shipment. As a result, we now expect additional revenue of around 700 million euros in 2023. This in turn reduces the amount of delayed revenue out of the year and we now expect around 2.3 billion euros of delayed revenue from 2023 into 2024 versus around 3.0 billion euros of delayed revenue as previously communicated.

This incremental DUV revenue increases the expected year over year growth of our non-EUV business from around 30 percent as communicated last quarter to around 50 percent.

In EUV, due primarily to customer adjustments in demand timing related to delays in fab readiness as well as some remaining supply chain issues, we now expect to ship around 52 systems this year, translating to a year over year revenue growth for EUV of around 25 percent versus a previously communicated expectation of around 40 percent.

For the Installed Base business, with the current utilization rates, market uncertainty, as well as timing of recovery, customers are delaying productivity and performance upgrades on their litho systems. Therefore, we now expect our Installed Base business this year to be similar to last year versus a growth of around 5 percent as previously communicated.

In summary, based on our view today, with higher DUV revenue, offset some by lowered expectations on our EUV and Installed Base business relative to last quarter, we now expect net sales growth for the year to move towards 30 percent versus a previously articulated expectation of over 25 percent. We still expect a slight improvement in gross margin compared to 2022. No change relative to what we said last quarter as the positive margin impact from increased DUV immersion revenue is expected to be offset by the dilutive impact of lower upgrade revenue in 2023.

On the geopolitical front, as it relates to export control, the final Dutch regulations that were published at the end of last month are basically aligned to our expectations communicated last quarter and published on our website. Due to these export control regulations, ASML will need to apply for export licenses with the Dutch government for all shipments of its most advanced immersion DUV lithography systems, which means the TWINSCAN NXT:2000i and subsequent immersion systems. As a reminder, sales of ASML's EUV tools have already been restricted and the business in China is predominately focused on mature or mid-critical nodes. The new Dutch export control regulations will come into effect on September 1, 2023. There were also some reports in the media recently about additional US export controls. Of course we will and cannot respond to speculation. However, based on our current understanding, we do not expect to change our previously communicated view. Therefore, based on everything we have been made aware of as of today, we do not expect the Dutch and potential additional US measures to have a material impact on our financial outlook for 2023 nor on our longer-term scenarios as communicated during our Investor Day in November last year.

Looking towards next year, our customers across different market segments are currently more cautious due to the continued macro-economic uncertainties. Based on our view last quarter, customers were expecting a recovery in the second half of this year, but it now seems this is moving more towards 2024. Also, the shape and slope of the recovery remains unclear. However, based on a combination of the current firm demand and a strong backlog of around 38 billion euros, there are clearly still opportunities for growth in 2024. Given the mentioned uncertainties, it is too early to be specific about the forecast for next year. We will continue to follow the market developments and update you on our view of next year in the coming quarters.

Despite the near-term uncertainty, the longer-term megatrends we talked about at Investor Day are broadening the application space and fueling demand for advanced and mature nodes. Secular growth drivers in semiconductor end markets such as electrification and AI, along with increasing lithography intensity on future technology nodes, are driving demand for our products and services.

In summary, while the current macro environment continues to create significant uncertainty, we are working through a strong backlog and expect growth this year towards 30 percent. In the near to medium term, 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. ASML and its supply chain partners are still actively adding and improving capacity to meet future customer demand as we remain confident in our long-term growth opportunity.

With that we would be happy to take your questions.