Transcript
Video interview with ASML CFO Roger Dassen
Q1 2024 results

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Mr. Dassen, can you give us a summary of the first quarter?

Net sales for the quarter came in at €5.3 billion, included in there €1.3 billion for Installed Base business. That €5.3 billion was smack in the middle of the guidance that we provided last quarter. As to gross margin, that came in at 51%. Better than what we guided. A couple of reasons. First there were some mixed effects. There was a bit more immersion and EUV in there in comparison to the dry business. There were also some one-off effects in there that drove up the gross margin to 51%. Net income for the quarter at €1.2 billion. In terms of order intake, the order intake came in at €3.6 billion, included in there €656 million for EUV.

There has been quite some speculation around the order intake for ASML. So it's maybe good to make a few comments on the order intake and also how people might want to look at that on a go-forward basis. First off, I think it's important to recognize that the order intake over the past six months, so if you take the Q4 and the Q1 order intake together, you're looking at nearly €13 billion, which is a pretty significant number.

I think people have recognized by now that the order intake process is typically quite lumpy.
But I think it's good to also look a little bit at what do we need in order to get to the different scenarios that have been articulated for 2025. So maybe bring back to people's mind. In the Investor Day for 2022, we were looking at different scenarios for revenue for 2025. There was a bandwidth between €30 and €40 billion for the 2025 net sales.

If you try to look at it from that vantage point. If you try to look at the backlog that we have today. The question then is if you want to get, let's say, to the midpoint of that bandwidth that we provided, so the €35 billion, what do you still need? If you look at what's in the backlog today for 2024, for 2025, beyond 2025, then in the next three quarters we would need a little bit over €4 billion for each of the three quarters to come in order to, at the beginning of 2025, be fully booked for that midpoint.

Q2 and Full Year 2024 outlook

And what's your guidance for the second quarter?

For the second quarter, we guide a net sales level of €5.7 billion to €6.2 billion. Included in there would be €1.4 billion of Installed Base business. We're looking at a gross margin of between 50 and 51 percent.

Have there been any changes to your outlook for the full year 2024?

Essentially the way we look at 2024 has not changed. As we said last time, we look at 2024 very much as a transition year. In terms of revenue that means that we would be looking at a revenue for 2024 which is similar to the revenue that we had for 2023. But we're really looking at that as a transition year in which the momentum is building up during the year. So that means a stronger second half than the first half. And also really gearing up towards what we think is going to be a strong year of 2025. That is really backed up by some of the industry trends as we see them today. So we do see the utilization of our tools, both for Memory customers and for Logic customers, further improving.

We do see that the inventory, particularly downstream inventory, is being navigated quite nicely and is being driven down to what we would see as normal levels. So all of that is very much in sync with our expectation that we will see recovery for the industry in 2024 and that we are building up for a stronger year in 2025. That means for us building a capacity and preparing for that ramp.

And are there any changes to your view on margins for the year?

For 2024 I would say the margin we set a little bit lower than the gross margin that we had in 2023. I would still look at that similarly. We gave the different puts and takes to the gross margin for this year on the last quarter. I would still look at that in a similar vein.

Important to recognize still that the gross margin for 2025, which would mean a pretty significant step up from the gross margin this year, that we still think about that the way we've mentioned that during the Capital Markets day in 2022. Which is somewhere between 54 and 56 percent. So a big step up. Why is that? Just reiterating the key points there. First off, the lion's share of our EUV tools, low NA EUV tools by 2025 will be NXE:3800s. That will come with a better ASP and also a better gross margin. Also on the Installed Base business, we believe 2025 is going to be a stronger year. First off, because we continue to improve the gross margin that we have on service for EUV. But also because we believe that with the recovery in the market as we see it, we believe that the upgrade business in 2025 will be better than what we've seen so far. High NA, we'll be looking at higher volumes for High NA. So that will give us better fixed cost coverage for High NA. We also look at the introduction in terms of revenue for the EXE:5200. Which also will come with a better gross margin profile. Very importantly, we're very much investing this year in the ramp for the second half. But definitely also for the ramp in 2025. That means that we're already hiring people. Training people in the factory, in the field. The revenue of that and the benefit of that we will yield particularly in 2025. So in 2025 we will really utilize the higher capacity that we've been building over the past couple of quarters. All of those factors combined will lead to this step up in gross margin to the 54% to 56% that we've been indicating in 2022.

EUV update

Let's have a look at EUV. Can you update us on the progress you make with your EUV technology?

So I would say pretty exciting both for low NA and for High NA. If we look at low NA first off. In Q1 we shipped the first NXE:3800 low NA machine to a customer for qualification purposes. As we mentioned before, it's a tool that comes with significant improvements in its specifications. Most notably I would say on the throughput side, that we will see an increase in throughput from 160 wafers per hour to 220 wafers per hour in final configuration. So that's a 37.5% increase in productivity. So that's a big deal. It also comes with better overlay. It comes with better imaging. So all in all, clearly a tool that will drive value for the customer in a big way. It will drive down the cost of ownership for the customers. That also means that there is quite some customer interest in the tool. So you will also gradually see there that the second half of this year, but also in next year, that the NXE:3800 will become a more and more significant part of the EUV sales. With the value that obviously this tool is driving for the customer, also comes a better ASP for us and also a better gross margin for us. So that's the story I would say on low NA.

On High NA, big moment obviously that we could report in Q4. That's when we started shipping the first modules of the High NA tool to its initial customer. So that system we're now in the process of installing. We actually just very recently also started shipping the second High NA tool to a customer. I think really good progress on that front. At the SPIE conference in February we could actually report first light. Which was a big moment for everyone engaged that we were able to report that. We now also see the first images coming from the High NA tool. So all in all very much on track and good progress.

The industry is really excited around High NA and for very good reasons. Because if you look at the specifications of the High NA tool, it will provide a transistor density that actually is 3x of the transistor density that you will have with a low NA tool. So it's a really big step up. If you combine that as we do with similar productivity on the High NA tool as you have it for low NA tool, it's very clear the value that it brings to customers. So for customers there's a lot of interest in High NA. As you probably know, we have this joint ASML-imec High NA lab here in Veldhoven. Where customers are working with the tool. Next couple of weeks we hope to really see the first wafers being exposed with that tool. That's again a big moment for us because that means that our customers can really experience the tool. Can understand how they are going to insert that tool into their roadmaps. So big interest from customers in working with this tool in the lab. Obviously something that is further going to drive up the adoption of High NA in the production roadmap for our customers.

Dividend and share buyback

Then your capital allocation plans, can you update us on that chapter?

So policy hasn't changed and I start sounding like a broken record here. We first use the cash that is generated to support the business and then whatever is left will be distributed back to shareholders. When you talk about what is needed in the business. In the current circumstances that we're looking at for customers, you really see customers working their way back to profitability. Work their way back to higher cash levels. In that circumstance, we still support customers just as we did last year. So that is still going on and on the other hand, as I mentioned we're looking at momentum really being increased over the quarters to come. Leading up to what we think is going to be a very strong 2025.

That momentum being built up obviously also means that we're currently taking in quite a bit of inventory, quite a bit of material in order to be able to accommodate that ramp going forward. So that obviously puts pressure on the free cash flow. It has clearly put pressure on the free cash flow in the first quarter. Pretty sure that that will yield and that that investment will yield in the period to come. On the dividend side we paid €1.45 per share in interim dividend in the last quarter. We have proposed a final dividend of €1.75 to the AGM. If you add it all up, so three times €1.45 plus the €1.75 final, means a total dividend for 2023 of €6.10 per ordinary share. Finally in terms of share buyback. We've executed share buybacks in the past quarter of around €400 million.

Longer-term outlook

To close off, what are your expectations on demand and your business beyond 2024?

There are still some uncertainties. I would say primarily macro uncertainties. That's still clearly there. As I mentioned before, if you look at the trends in the industry, if you look at, and I'm talking about the cyclicality trends in the industry, so like the utilization going up, inventory downstream being managed to more normal levels. I think it's pretty clear that the industry is in its upturn and therefore we do believe that by 2024 we're going to see a recovery. Clearly a recovery of the industry. So then fast forward to 2025. Then what do we find ourselves in? First off, I think we will find ourselves in 2025 in the midst of the upturn. So that's a positive. Second – and we've talked about that many times – the secular trends are really strong. If you look at AI, if you look at electrification, if you look at the energy transition.

It's all very strong, very positive momentum behind it. So the secular trends are very, very strong. That is also something that I think will yield in 2025.

Finally, if you just look at all the fab openings that have been indicated by our customers. The recent news on positive outcomes of CHIPS Act money allocation. All of that is very strong, very supportive for new fab openings across the globe.

I think by 2025 you will see all three of those coming together. New fab openings, strong secular trends and the industry in the midst of its upturn. So that's why we're doing what we're doing. Which is really preparing for that ramp, for that momentum that we see being built up.

That's also the reason why also not just for 2025, but also beyond that, we are having all these building plans. We are expanding our capacity to the 90 EUV tools of low NA, to the 600 DUV tools and – midterm – to the 20 High NA tools. So we're building that capacity. Because we believe it's needed. We believe it's needed for what we think is going to be a very bright future for this industry altogether. For ASML in particular.

Just comparing notes on that is something that I very much look forward to that. As you know we have a Capital Markets day planned by November of 2024, the 14th of November. So we look forward to sharing our view on how the market is going to develop there. Really look forward to seeing all of you there.