Transcript
Video interview with ASML CFO Roger Dassen
Q3 2024 results

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Can you give us a summary of the third-quarter 2024?

Total net sales for the quarter came in at €7.5 billion, which is above guidance. A couple of reasons for that. First off, we had stronger DUV sales, but also the Installed Base Management business was higher than expected at €1.54 billion.

Gross margin for the quarter came in at 50.8% which is within guidance. Net income at €2.1 billion. Net bookings came in at €2.6 billion, which I think is a reflection of some of the market dynamics that we're going to talk about later on. Part of the €2.6 billion was €1.4 billion for EUV systems. I would remind everyone that we ended the quarter with a backlog of still over €36 billion.

All in all, I would say it's been a solid quarter in terms of financials. But also a quarter where there have been quite some market dynamics.

Q4 and FY 2024 outlook

What is your guidance for Q4 and the full year?

For Q4 we expect a significant step up in sales. We expect total net sales between €8.8 billion and €9.2 billion. Part of that big step up again in the Installed Base revenue. We expect that to arrive around €1.9 billion. A couple of reasons for that again. First off, we expect to meet certain very specific performance targets for EUV and that should translate into revenue directly related to that. We also have a few EUV performance upgrades or productivity upgrades that we expect to kick in Q4. So that's the reason why we're looking at an Installed Base revenue number that is quite a bit higher than what we've seen in the past couple of quarters.

Gross margin we expect to land somewhere between 49% and 50%. So what are the moving parts in that gross margin? First off, we have the Installed Base business that we just alluded to. Obviously, that is going to drive up the gross margin. But then we're also looking at the dilutive impact of recognizing two High NA systems, because that is the expectation. We have two High NA systems that we expect to recognize in revenue in Q4. We expect a dilutive impact of that revenue recognition on the gross margin for the quarter of approximately 3.5%.

If you then take that guidance and translate that into the full performance for 2024, we're looking at the midpoint at around €28 billion in revenue. The gross margin for the full year at that midpoint landing at approximately 50.6%. Which I think is in line with what we said at the beginning of the year when we said that the gross margin was going to be a little bit down from what we had in 2023.

Technology

Can you update us on the progress of your EUV technology?

I think on the technology side with EUV we're making really good progress. Both on Low NA and on High NA. If we start with Low NA (0.33), we see more and more customers shifting their demand towards the NXE:3800E which is no surprise. Because as you know the NXE:3800E shows a 37% improvement in terms of throughput over the NXE:3600D model. So we also expect for Q4 for the majority of the Low NA EUV tools to be NXE:3800E. We've demonstrated in the past quarter in our factory the full productivity for the NXE:3800E tool. So that gets you to 220 wafers per hour throughput. That's been demonstrated and we're on track to get the systems in that full specification to our customers starting early next year. So early next year we will start shipping the NXE:3800E at that full 220 wafers per hour specification.

When it comes to High NA, as I just mentioned, we were close to having the site acceptance test concluded with the customer for the two systems that we've already shipped. We expect that to conclude in this quarter and that also leads to the revenue recognition that I talked about before. We're actually in the process of shipping a third High NA tool to a second major customer. So that is very much on track.

The value proposition for High NA is pretty clear. We've demonstrated a resolution of 8nm and that actually gives you approximately 3x increase in transistor density in comparison to a Low NA system.

Very importantly, we've told you that quite a few wafers are being exposed and at this stage we've exposed, our customers have exposed, around 10,000 wafers. Multiple customers, Logic customers and Memory customers. Both in our joint ASML-imec High NA lab, but also in the field.

In September, we've presented at a lithography conference the latest data as far as that is concerned. Those latest data really show that there are significant benefits in imaging, in overlay and in contrast. That really is a clear value proposition to drive down the cost of patterning for our customers. I would say all in all, if you look at the progress made on the NXE:3800E tool and also the progress and the feedback that we're getting from customers on High NA, very much on track and very much delivering the value to our customers that we anticipated.

Market dynamics

Can you give us an update regarding changes in the market dynamics since last quarter?

There have been quite some market dynamics in the past couple of months. Very clearly, the strong performance of AI clearly continues and I think it continues to come with quite some upside. We will also see that in other market segments, it takes longer to recover. Recovery is there, but it's more gradual than what we anticipated before and it will continue in 2025. That does lead to some customer cautiousness.

If you take that element, you translate that to the different market segments, then clearly this more gradual recovery has an impact on Logic. If you combine that with very specific competitive issues in the foundry business, you do see that for some customers there is a slower ramp of new nodes and that leads to some fab pushouts and obviously also leads to a change and a delay in litho demand timing.

If you look at the Memory business, this customer cautiousness that I talked about, leads to limited capacity additions. While at the same time, we do see a lot of focus and strong demand when it comes to technology transitions and particularly as it is related to High Bandwidth Memory and to DDR5. So again, there anything related to AI is strong, but other than that there are limited capacity additions.

Also important, the China business. We do expect the China business and the percentage of the China business as part of our total business to show a more normalized percentage in our order book and also in our business.

In summary, longer-term trends are still very, very strong. Very, very positive, showing good signs of upside. But the development in the past couple of months and the customer specific circumstances that I mentioned have now led to a more gradual growth curve for our business.

2025 Outlook

How do you now view 2025 in terms of revenue?

At our Investor Day in 2022, we looked at 2025 and we provided market scenarios for 2025 between €30 billion and €40 billion. If you recognize the recent market dynamics that I just alluded to, we do see the 2025 revenue actually moving to the lower half of that range. So therefore our expectation now is that we're going to see net sales in 2025 between €30 billion and €35 billion. Primarily driven by a significant reduction in Low NA EUV tools. We expect that at the midpoint of our expectation, to be below 50 tools for 2025. Also what I just mentioned in terms of China, we do see China trending towards more historically normal percentages in our business. So we expect China to come in at around 20% of our total revenue for next year. Which would also be in line with its representation in our backlog.

What impact do you expect this to have on Gross Margin in 2025?

So again referring back to our Investor Day of 2022. There we said we're targeting a gross margin between 54% and 56%. A very important driver of that improvement of gross margin was on EUV Low NA. Remember on the one hand obviously we're going to see 2025 be dominated when it comes to the Low NA business by the NXE:3800E tool. And as we said before, and which is also actually happening, that NXE:3800E tool does come with a higher ASP and a good improvement in the gross margin. So that actually manifested itself.

Another element why we believe that the gross margin was going to be up was that we expected a significant increase in the number of EUV units for 2025. As a result of what I just described, in terms of the demand, that increase in numbers is actually not happening, right. As we said we expect less than 50 Low NA EUV tools at the midpoint of our guidance. So that has a significant impact on our gross margin expectation.

We also talked about the China business. As you know, a lot of the China business actually is on immersion. Immersion comes with a significantly higher gross margin than the corporate gross margin. So the fact that there is some pressure there also means that we're having some pressure on the gross margin.

So it's those two combined as a result of which we're now looking at a gross margin expectation for 2025 of between 51% and 53%.

If we then compare the gross margin, that expectation of 51% to 53%, to where we are today, so the gross margin for 2024, on a positive note obviously there is the improvement of the gross margin for the NXE:3800E. So per tool obviously a NXE:3800E has a better gross margin than the NXE:3600. So that is manifesting itself clearly. We see improvements in EUV service margin. So that helps. Also for High NA we see that the gross margin that we're going to recognize in 2025 will improve. We get better at producing the High NA tools. We get faster in installing them. Also in 2025, we're going to see the first high-volume EXE:5200 tools being recognized in revenue. So all that helps. But the flip side obviously is that we're going to see more High NA tools being recognized in revenue in 2025 in comparison to 2024 and that has a dilutive effect.

Operating Expenses

What type of growth should we expect in OpEx this year and next?

So OpEx in 2024, we expect to end around €5.4 billion. That's a combination of R&D and SG&A. If we look at 2025 I expect that we're going to end somewhere at the upper limit of the bandwidth that we gave at the Investor Day in 2022. So that would be approximately €6.1 billion. We are still very, very much driving a very comprehensive R&D roadmap. So we're progressing on that as planned. That means that the wage inflation obviously that we incurred after 2021, we're able to absorb that wage inflation within the bandwidth of the guidance that we've given in 2022.

Free Cashflow and Capital return to shareholders

How is this impacting Free Cash Flow and what does this mean for dividend and share buybacks?

So if we look at the free cash flow in 2024, the things that drove down the free cash flow. First off, lower order intake, because lower order intake obviously comes with less down payments. Secondly, we continue to prepare for an uptick in the business. So we've taken in quite a bit of inventory. Particularly on EUV. So this is inventory that relates to High NA but also inventory that relates to Low NA. So we're still preparing for that future ramp. That means lower down payments, higher inventory, obviously creating pressure on the free cash flow.

If the business comes back, then obviously those two dynamics should become a positive for us. Because that means that as soon as we restart orders coming back in, that will also lead to more significant down payments for us. Obviously, also it would lead to a normalization of the inventory. To the extent that the inventory that we now have is being shipped to customers. So with the normalization of the business, we would also expect a normalization in our cash conversion.

In terms of the capital allocation policy, it really hasn't changed. So you will continue to see us invest in a roadmap. You will continue to see us invest in capacity, because we firmly believe in the continued growth of the business. So you will see us do that. We continue to plan for growing dividends and also in Q3 we're looking at an interim dividend of €1.52 to be paid.

Share buybacks will happen with excess cash. To the extent that excess cash manifests itself, we will use that in buying back shares.

Beyond 2025

What does this mean for your longer-term outlook beyond 2025?

If you look at the long-term outlook, I believe the growth drivers are still very much intact. The secular growth drivers are clear and they are strong. I think if you look at AI, very, very strong, very clear and undisputed. Taking an increasing share in the business of our customers. So I think that is going very strongly. Also, if you look at energy transition, electrification, et cetera, those secular trends are very, very much intact. It expands the application space for both advanced and mature nodes.

That also means that we will continue to prepare for new fab openings that are planned by customers. And yes, there might be some delays here and there. But still, if you look at the planned fab openings in the next couple of years, it is pretty significant, and as you know, it really is across the globe.

So as I mentioned before, we continue to build capacity to respond to that significant demand increase as we expected for the remainder of this decade.

I'm very happy to see many of you at our Investor Day on November 14 in 2024. And this will be the main topic of conversation. How we see the market, how we look at 2030 and the journey towards 2030. How we look at the market, how we look at litho intensity as a key driver on the roadmaps of our customers. So I really hope to see you all there and I look forward to having a good and solid discussion there.