

ASML reports EUR 2.8 billion sales in Q3, expects EUR 3 billion sales in Q4

ASML sees further growth for 2019

VELDHOVEN, the Netherlands, October 17, 2018 - ASML Holding N.V. (ASML) today's Investor Call - 2018 third-quarter results.

Peter Wennink

Good morning / good afternoon ladies and gentlemen and thank you for joining us for our Q3 2018 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, as well as provide our view of the coming quarters. Roger will start with a review of the Q3 financial performance with some 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 highlight some of the third-quarter accomplishments and then provide our expectations for the fourth-quarter of 2018.

Q3 net sales came in at 2.78 billion Euros, which was towards the higher end of our expectation. Net system sales of 2.08 billion Euros was a bit more weighted towards Memory, at 58%, with the remaining 42% from Logic. EUV revenue of 513 million Euros was from five shipments. Installed Base Management sales for the quarter came in at 695 million Euros. Gross margin for the quarter was 48.1%, just above our expectation, reflecting the strength of our DUV and Applications business as well as progress in EUV profitability. Overall R&D and SG&A expenses basically came in as expected, with R&D expenses at 397 million Euros and SG&A expenses at 122 million Euros.

Turning to the balance sheet, € 362 million Euros worth of shares were repurchased in Q3. This leaves around 1.7 billion Euros of the 2018-2019 share buyback remaining. We ended last quarter with cash, cash equivalents and short-term investments at a level of 2.95 billion Euros.

Moving to the order book, Q3 system bookings came in at 2.20 billion Euros. Memory order in-take continued to be strong at 64% of total value. Logic made up the remaining 36% of the bookings. We took five new EUV orders in the quarter, which contained a mix of both Logic and Memory.

With that I would like to turn to our expectations for the fourth-quarter of 2018.

We expect Q4 total net sales of about € 3.0 billion Euros leading us to expect another record year with close to 11 billion Euros of revenue. Our total net sales forecast for the quarter includes around 500 million Euros of EUV system revenue from five EUV systems in the quarter. We currently expect to ship 6 systems in Q4, including one EUV system to a collaborative Research Center (imec), which will not be recorded in revenue but will be used to settle R&D services from imec.

Q4 will be our highest EUV shipment quarter to date, bringing the total to 18 systems in 2018. Due to a combination of end of year production challenges and customer readiness, we now expect a couple of the originally planned 2018 systems to ship in early 2019.

We expect the EUV order flow to continue next quarter such that we will basically have our 30 systems planned for 2019 covered by purchase orders by the end of this year.

We expect our Q4 Installed Base Management revenue to be similar to last quarter at around 700 million Euros. Gross margin for Q4 is expected to be around 48%. Taking Q4 guidance into account, gross margin for the full year would be around 47%, which is a step-up from last year's 45% gross margin. This reflects the strength of our DUV and Applications business as well as continued progress in EUV profitability. The higher R&D expenses for Q4 of about 420 million Euros are due to an acceleration of the NXE:3400 roadmap and the high NA EUV program. SG&A is expected to come in at about 135 million Euros.

We remain excited about 2018 as the customers' demand for our products continues to be strong. We look forward to delivering another record year with continued strong growth in both sales and profitability.

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

Peter Wennink

Thank you, Roger.

As Roger has highlighted, we had another good quarter and we expect the fourth quarter to be even stronger. With the current guidance, we expect that our sales for the year would be close to 11 billion euros and that our profitability would improve over last year.

We continue to see strong demand for our products in both logic and memory, as witnessed by our strong order book. Logic customers continue to ramp the 10nm node and are also starting to ramp 7nm. As customers prepare the ramp of the 7nm node, it not only drives DUV demand but also drives a significant demand increase for EUV.

In DRAM, customers are continuing with technology migrations as well as adding wafer capacity additions to meet bit demand growth, as evidenced by our strong Q3 order intake for memory. We believe that the limited number of wafer capacity additions by a limited number of customers, combined with a healthy demand for DRAM bits, should not lead to a structural overcapacity in this industry segment. In NAND, significant 2D to 3D conversions have taken place next to investments in several greenfield fabs. This is likely creating a period of some digestion, as we mentioned in prior quarters.

With regards to China, we continue to see strong demand for a broad suite of our products. The China region has delivered around 20% of our system sales this year and is on track to set another record revenue number. This is driven by both multi-national customers as well as domestic China customers. All five domestic customers that we discussed in prior quarters have at least some pilot capacity in place now and are looking to begin ramping next year. We believe this region presents a significant growth opportunity under the assumption that these ramps of the domestic customers are successful, and that the non-domestic customer will follow through with their investment plans.

On the ASML product side let me start with an update of our EUV business.

- In EUV, we continue to make good progress. We have multiple NXE:3400 systems at customer sites that are running at 125 wafers per hour or higher and are ready for high volume manufacturing. Availability is progressing in support of customers' volume ramp with a clear focus on machine consistency. The overall progress has led to the decision to accelerate our EUV roadmap and we are, as a result of this, now planning the introduction of our next generation 0.33 NA EUV system, called NXE:3400C, in the second half of 2019. This system will deliver a productivity of over 155 wafers per hour. We will talk more about the performance specifications and roadmap during our Investor Day next month. As Roger mentioned, we continue to increase our shipments per quarter and plan to ship 6 systems in Q4, bringing the total to 18 systems in 2018. As we mentioned in earlier calls, this year our production output is heavily back-end loaded which has led to some production output challenges combined with customer fab readiness logistics. We now plan to ship a couple of systems originally planned in 2018 in early 2019. Our shipment plan for 2019 remains at 30 systems as we now have an increased mix of NXE:3400C systems in the second half of 2019, which will enable a significantly higher wafer output capability than the earlier specified 125 wafers per hour. With this higher productivity we expect to be able to meet our customers' current EUV capacity plans in 2019. As Roger mentioned, we expect order flow to continue next quarter and expect to have our 2019 demand for EUV covered by orders by year end.
- In DUV, the introduction of the NXT:2000i system into the market is making significant progress and will be used in volume manufacturing for both memory and logic. We are also seeing significant demand for our dry products in support of a number of greenfield fab ramps in China and other regions.
- In our Applications business, we continue to see growth across our full portfolio of software and metrology products, notably related to the adoption of our YieldStar 375 expanding from logic and DRAM now also into 3D NAND manufacturing.

To summarize 2018, we expect the growth to continue from Q3 to Q4 and set us up for another record year in both sales and profitability.

Regarding 2019, it is a bit too early to provide detailed guidance, but I will provide some qualitative comments regarding our initial views. We continue to see strong demand for our products in both memory and logic, supported by our bookings. DUV demand continues to be healthy in memory, as discussed earlier, and we expect DUV demand in logic to further strengthen in 2019 driven by the 10 and 7 nm ramp. Furthermore, we expect continued growth of our Applications business, with expansion of both metrology as well as software products. EUV demand continues to be driven by logic but also with a clear opportunity in DRAM when we meet our availability and productivity targets. EUV revenue growth is expected from both a significant increase in unit shipments as well as a higher asp of the NXE:3400C, for which shipments are planned starting, as we said earlier, in the second half of 2019.

Our installed base will continue to grow, driving increased install base management revenue. Furthermore, we expect customers to take advantage of system performance upgrades on their installed base to maximize capital efficiency.

Our current view of the overall business next year remains positive. We expect the first half to be somewhat similar to the second half of this year, with business strengthening in the second half of 2019. Putting this all together, we expect another year with a good growth opportunity.

We are well on track to achieve our 2020 targets with significant growth potential beyond 2020. We plan to communicate the size and extent of this growth opportunity through 2025 at our Investor Day which will hold on November 8th this year.

With that we would be happy to take your questions.