INTERVIEW WITH THE CFO

Paul Verhagen took over as ASMI's new Chief Financial Officer in June 2021. In the following interview Paul comments on the company's positioning and opportunities. He also reviews ASMI's financial performance in 2021 and discusses the capital allocation policy and investment priorities.

PAUL, YOU JOINED ASMI AS CFO IN JUNE LAST YEAR. WHAT IS YOUR VIEW ON THE COMPANY'S POSITIONING AND PROSPECTS?

Since joining ASMI, I have been particularly impressed by our company's innovative strengths, and the strong growth opportunities ahead of us. In 2021, the semiconductor market increased 24% to more than US$500 billion, and is expected to grow to US$1 trillion by 2030. To enable new end-market applications in, for instance, artificial intelligence and 5G smartphones, our customers are investing in next-generation semiconductor technologies. ASMI is well placed to benefit from these trends. We are the leader in ALD, and have a growing position in Epi, which are critical technologies for our customers to transition to the next nodes.

"I HAVE BEEN IMPRESSED BY ASMI'S INNOVATIVE STRENGTH AND STRONG GROWTH OPPORTUNITIES."

It is important that we prepare our company for the next growth phase. We are expanding capacity, both for manufacturing and for our R&D lab facilities. We continue to increase our investments in R&D, for product innovation, and new applications. To support this, we need to step up our efforts in hiring new talent, and retaining our people by investing in their development.

HOW DIFFICULT IS IT TO FIND THE RIGHT PEOPLE, TAKING THE GROWTH OF THE INDUSTRY INTO ACCOUNT?

It's not easy, and we have stepped up investments in our People teams to support our recruitment needs. To give an example of the strong growth we've been experiencing: at year-end 2021, around a third of our employees had been at ASMI for less than a year. The war for talent in our industry is reaching new heights, particularly for engineers. All technology companies are fishing in the same pond. We have to make sure we stay competitive. As one of the effects of this, we expect to see some above-average wage inflation in the next year.

Paul Verhagen
Chief Financial Officer

WHAT WAS THE IMPACT OF COVID-19 ON ASMI'S BUSINESS IN 2021?

Our priority is always the health and safety of our people. In 2021, and as we entered 2022, we continue to take measures to minimize risk for our employees, customers and suppliers, and for the communities where we operate.

From a demand perspective, the pandemic continued to fuel work-from-home-related computing demands, and helped speed up digitalization trends in our economies and society. This, in turn, drove strong growth in our industry. COVID-19 continued to create challenges in our operations, particularly in our supply chain. The industry-wide spike in demand, and the impact from lockdowns and constraints, led to shortages and delays.

Supply conditions tightened further in the summer of 2021, due to COVID-related lockdown measures in Southeast Asia, where many suppliers in our industry are located. Thanks to close and proactive cooperation with our suppliers and customers, and our actions to maintain higher inventories and to qualify new suppliers, we were still able to deliver on our customer requirements, achieving record-high shipments and sales.

HOW WOULD YOU DESCRIBE ASMI'S FINANCIAL PERFORMANCE IN 2021?

ASMI delivered very strong results. Our revenue increased by 34% at constant currencies to €1.7 billion, the fifth consecutive year of double-digit growth. Demand for wafer-fab equipment increased strongly and across the board. Our growth was also supported by share of wallet gains in the advanced logic/foundry nodes, our inroads in memory, and solid expansion in the analog/power wafer markets. At constant currencies, equipment sales increased by 38% year-on-year, driven by strong growth in our ALD and Epi product lines. Our spares & service sales were 18% higher (at constant currencies) in 2021, with an increased contribution from our new outcome-based services.

The gross margin increased from 47.0% in 2020 to 47.9% in 2021. Within the year, the gross margin moderated from 48.8% in the first half, which was supported by a relatively strong application mix, to 47.1% in the second half.

Gross R&D, excluding capitalization and amortization of development expenses, and impairments, increased by 20% in 2021. Net R&D increased by 9%, as capitalization increased and impairments decreased compared to 2020. As a percentage of revenue, net R&D expenses amounted to 8.7% in 2021, down from 10.5% in the previous year. The increase in R&D spending was somewhat below our target in the first half. In the course of 2021, we took steps to grow R&D at a faster rate, resulting in a higher increase in the second half. We aim for a further acceleration in R&D spending in 2022. Our mid-term target is high single to low double-digit investments in net R&D as a percentage of sales.

Selling, general, and administrative (SG&A) expenses increased by 20% in absolute terms, and decreased as a percentage of revenue from 11.9% in 2020 to 11.0% in 2021. The increase in SG&A last year was in part due to the higher activity level, as well as increased investments in, for example, IT, and the strengthening of the Sales and Quality organization. We expect to increase these investments in 2022. Taking a mid-term view, we forecast the SG&A expenses as a percentage of sales to decline to high single-digit, as we benefit from operating leverage.

> **"OPERATING RESULT INCREASED BY 50% TO A NEW RECORD LEVEL."**

The operating result increased by about 50% to a new record level of €491 million, with the operating margin up from 24.6% in 2020 to 28.4%.

Income from ASMPT increased to €87 million from €45 million in 2020. This result excludes the amortization of intangible assets related to ASMPT.

In line with our earlier indications, the effective tax rate increased further to 17.2% in 2021, up from 14.6% in 2020. The increase in the tax rate is related to earlier exhaustion of net operating losses (NOLs).

Total net earnings increased by 73% to €495 million compared to last year.

DID YOU EXPERIENCE ANY UNFAVORABLE IMPACT OF THE RECENT HIKE IN INFLATION, AND INCREASE IN ENERGY AND COMMODITY PRICES?

I am pleased to say that we were able to offset the impact from increased energy and commodity prices by other savings in our cost of goods through commercial negotiations, value engineering, and increased efficiencies. It is too early to tell what the impact will be in 2022. But we stay focused on opportunities to offset further inflationary pressures, and remain committed to deliver healthy gross margins.

ANY OTHER HIGHLIGHTS IN 2021?

We made strong progress in several important areas. But if I have to choose two highlights, they'd be our increased sustainability focus and Investor Day. In 2021, we launched our new sustainability priorities 2021-2025: Innovation, People, Planet, Responsible Supply Chain, and Governance. In September, as a first significant step, we announced our ambition for net zero emissions by 2035. As part of this, we aim to achieve 100% renewable energy by 2024. We are currently preparing several new actions and targets in our other sustainability focus areas, and will report on our progress in upcoming periods.

Apart from our moral duty to do business in a responsible way and make a positive impact, I'm also convinced that companies that perform better in terms of sustainability are more likely to deliver stronger long-term financial results.

Also in September, we held our first Investor Day. An important goal of this event was to explain in more detail the technology inflections in our key markets. Also, how we expect to capture these market opportunities on the back of our Growth through Innovation strategy. We also presented 2025 financial targets. We expect our revenue to grow to €2.8-3.4 billion by 2025, an average annual growth of 16% to 21% compared to 2020. For 2021-2025, we target the gross margin to be in a range of 46%-50%, and the operating margin in a range of 26%-31%. Driven by strong revenue and solid profitability, we expect to generate a healthy free cash flow in 2021-2025.

"BETTER PERFORMANCE IN SUSTAINABILITY IS MORE LIKELY TO DELIVER STRONGER LONG-TERM FINANCIAL RESULTS."

WHAT DO YOU THINK OF THE CASH FLOW IN 2021?

Free cash flow more than doubled from €120 million in 2020 to €266 million in 2021. A key driver was the improvement in profitability. The cash outflow for working capital amounted to €68 million, and was mainly driven by the strongly increased activity level. The underlying quality remained healthy. In relative terms, working capital dropped to 58 days, down from 63 days the previous year. On a structural basis, we target days of working capital to be in a range of 55-75 days.

CapEx additions amounted to €79 million in 2021, with a significant part spent on expanding and upgrading our R&D lab facilities. These investments will continue in 2022. CapEx ended up lower than planned for. This was due to some carry-over from 2021 into 2022 as a result of COVID-19-related delays. CapEx dropped compared to €95 million in 2020, which included the completion of our new and significantly expanded Singapore manufacturing facility that year. As part of our 2021-2025 financial targets, we expect CapEx to be in a range of €60-100 million.

Cash spent on taxes increased substantially to €152 million in 2021. This is explained by the fact that we paid cash taxes in the Netherlands in 2021 with respect to the three years 2019, 2020 and the estimated preliminary tax for 2021.

We used €237 million in cash for shareholder remuneration, up from €165 million in 2020, and consisting of €97 million for dividend and €140 million spent on share buybacks.

Our financial position remained strong. We ended 2021 with a cash position of €492 million, compared to €435 million the previous year.

DID YOU MAKE CHANGES TO ASMI'S CAPITAL ALLOCATION STRATEGY?

No, the fundamentals of our capital allocation policy remain unchanged. The key priority for ASMI is to invest in the growth of our business. That means spending on CapEx and R&D, and also scanning the market for potential M&A opportunities. Next to that, it remains key for us to maintain a strong balance sheet. We intend to gradually increase towards a cash target of €600 million. This is up from a cash target of €300 million in earlier years, as we also communicated last September, and reflects the increased size of our company.

We remain committed to pay a sustainable dividend. With the publication of our Q4 2021 results on February 22, 2022, we announced a proposed dividend of €2.50 per share to be paid over 2021. This is a 25% increase, compared to the regular dividend of €2.00 paid over 2020.

Our policy regarding excess cash is also unchanged. We plan to return excess cash to our shareholders. Last December, we completed the €100 million share buyback program that started in July 2021. With the publication of our Q4 2021 results we announced a new €100 million buyback program, to be executed in the 2022-2023 timeframe.