

ASML Holdings N.V.

Equity Rating**BUY** ★★★★★**Price**

\$795.95 (June 27, 2025)

24-Mo. Target Price

\$1,009.78

Classification

Large-Cap

Investment Summary

ASML is the global leader in semiconductor manufacturing equipment, with its exclusive EUV (extreme ultraviolet) technology enabling the production of complex, high-quality chips that no other company can match. This gives ASML a monopoly in the market, as its competitors, like Canon and Nikon, have failed to replicate or surpass EUV's performance. The company benefits from recurring service and maintenance revenues through its Installed Base Management segment, while also achieving impressive margins and sustained profitability. Despite recent stock dips due to concerns over China exposure, slow recovery in some markets, and high inventory levels, these are short-term issues that don't impact ASML's long-term growth. The company's strong position in the booming semiconductor industry, especially with increasing demand from AI, makes its current valuation of around \$795 an attractive opportunity with significant upside potential.

Business Overview

ASML is a Dutch Company that creates the machines for semiconductor companies to create chips. They use specialized technology called EUV (extreme ultraviolet). This technology cost billions in R&D and required large semiconductor companies to invest into ASML at the latter part of development to complete a finalized working product, with Intel, Samsung, and TSMC all investing heavily into the company.

The reason this technology is so useful is the ability that these machines have to create more complex and intricate chips than existing technologies efficiently and reliably.

Monopoly

ASML is the only company in the world that knows how to create these EUV machines as they are very complex and require decades of R&D with billions of dollars on top of that. During development of the first EUV, ASML had 2 main competitors: Nikon and Canon. These companies made significant developments in developing EUV, but they had to abandon their efforts due to the large cost and technical challenges. ASML on the other hand saw through the product and are now the only company in the world that knows how to create EUV machines.

Because the chips that are able to be made with EUV result in higher quality chips, the cutting edge of the industry relies on ASML machines to create chips of this quality and can't settle for another product. Canon has attempted to compete with ASML using a different type of technology called NIL (Nanoimprint Lithography) that boasts similar capabilities as EUV for a fraction of the cost. However, NIL has concerns about minimizing defects from dust during production and are incompatible with existing manufacturing flows (that are streamlined for DUV (older worse version of EUV) and EUV). This means that a chipmaker would have to design their entire production tech around NIL which would be risky since there are questions on quality. Another issue is the throughput NIL machines produce. NIL can only produce a fraction of the chips that EUV can produce in an hour which would mean production lines would take more time to produce a similar amount of product that EUV could do.

Key Financials

Revenue by Segment

- **Installed Base Management:** Service and maintenance revenue. Pseudo-subscription model because as ASML ships more tools, the installed base grows, driving recurring maintenance revenue.
- **Logic:** Revenue from logic chip manufacturing equipment.
- **Memory:** Revenue from memory chip manufacturing equipment.

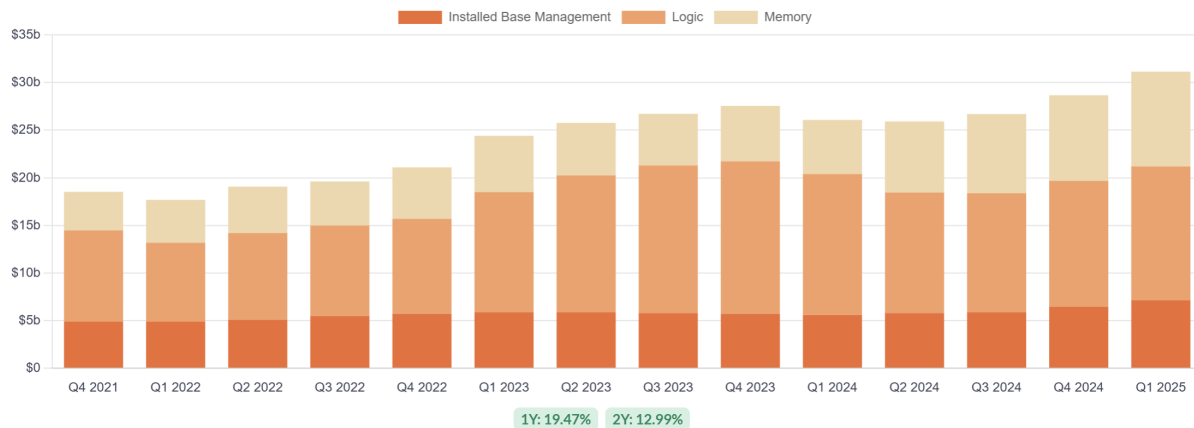


Figure 1: Revenue by Segment, 2021–2024.

Margins

- **Gross Margin:** Improved from 45% in 2015 to 50% in recent years.
- **Operating Margin:** Rose from 22% in 2015 to 30–33% currently.
- **Net Profit Margin:** Increased from low-20% in 2015 to 27–29% today.

Free Cash Flow

Free Cash Flow (TTM) - ASML

Traditional Free Cash Flow

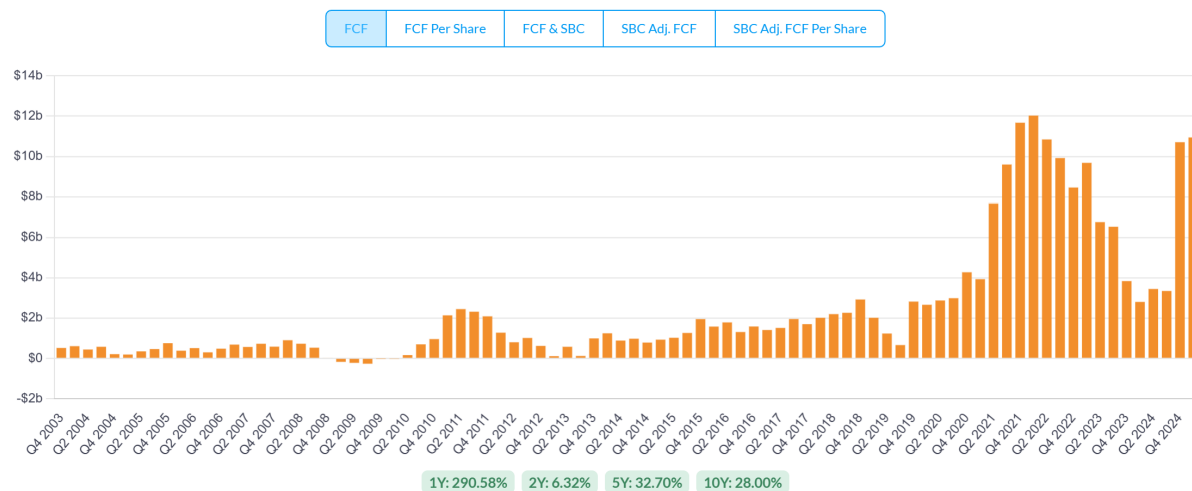


Figure 2: Free Cash Flow, 2015–2024.

Positive, sustained free cash flow is evident, with volatility driven by capex and R&D investments necessary to maintain ASML's technological leadership. Low stock-based compensation expense further enhances cash generation.

Dislocation Reasoning

- **Exposure to China:** China's business normalization and speculation about export controls pose additional risks. ASML has adopted a more cautious stance regarding sales expectations in this critical market.
- **Slower recovery in traditional end markets:** The recovery in mobile and PC sectors has been slower than expected, causing customer cautiousness and delayed investment plans, which could impact ASML's growth trajectory in the near term.

- **High inventory levels:** ASML is facing pressure on free cash flow due to higher inventory levels, particularly for EUV systems. This situation could tie up financial resources and reduce operational flexibility.

While these are largely short-term headwinds that don't undermine ASML's long-term fundamentals, the massive tailwind from Microsoft's \$80 billion AI investment underscores the continued importance of ASML's technology for the future.

Valuation

General Information

Ticker	Share Price	Current Dividend
ASML	\$795.95	\$6.57

Key Assumptions

Revenue Growth	OCF Margins	Capital Efficiency	% of Share Buyback	Dividend Growth %
13.00%	37.00%	8.00%	-0.75%	0.00%

Financial Projections

Fiscal Year (ends Dec 31)	Forecast					
	2025	2026	2027	2028	2029	2030
Revenue (\$ billions)	\$30.71	\$34.70	\$39.21	\$44.31	\$50.07	\$56.58
Operating Cash Flow (\$ billions)	\$11.36	\$12.84	\$14.51	\$16.39	\$18.53	\$20.94
Capital Expenditures (\$ billions)	\$2.43	\$2.75	\$3.12	\$3.53	\$4.00	\$4.53
Free Cash Flow (\$ billions)	\$8.93	\$10.08	\$11.39	\$12.86	\$14.53	\$16.41
Weighted Average Shares Outstanding (billions)	0.3936	0.3906	0.3877	0.3848	0.3819	0.3791
Share Price (Target FCF Yield)	\$795.95	\$896.51	\$1,009.78	\$1,137.36	\$1,281.06	\$1,442.92
Additional Shares w/ Dividend Reinvestment	1.0000	1.0083	1.0156	1.0223	1.0282	1.0334

Key Metrics & Margins

Metric	Forecast					
	2025	2026	2027	2028	2029	2030
Revenue Growth %	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
Operating Cash Flow Margin %	36.99%	36.99%	36.99%	37.00%	37.00%	37.00%
Capital Expenditures % of Revenue	7.91%	7.93%	7.95%	7.97%	7.98%	8.00%

Investment Returns Summary

Return Metrics	Value
Target CAGR (excluding dividends)	12.63%
Target CAGR (including dividends)	13.38%
Price Target (2027)	\$1,009.78

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