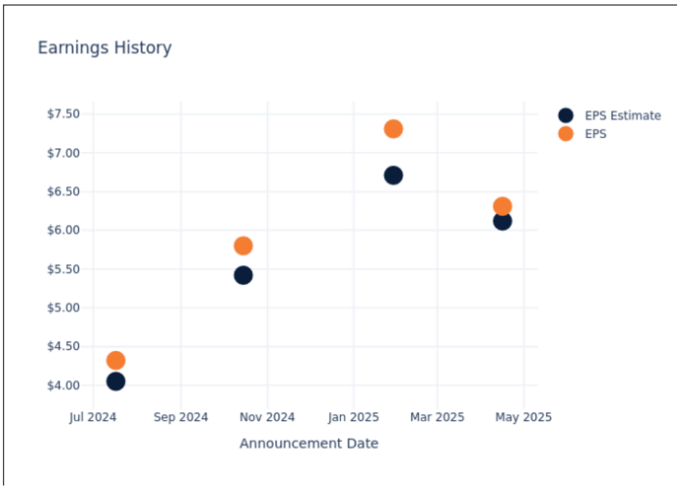
ASML released their earnings report on Wednesday, July 16th and something interesting happened. Even though the company beat earnings estimates by 12% and revenue estimates by 1% and deployed capital efficiently though share repurchases and dividend growth, the stock is still down -14% compared to July 15th. The reason for investor's lost of confidence came down to the company's announcement that it may not achieve growth in 2026, mainly due to the impact of tariffs on their business. I'm here to present another perspective and reaffirm my belief in the company.

In Q1 2025 concerns over US & China trade tensions and the tariffs president Trump was aiming to implement led analysts to trim their EPS estimates to about €5.70. To these analysts' surprise, when ASML reported on April 16, it delivered €6.00 EPS and a 54.0 percent gross margin, above the 51–53 percent band, thus over-delivering against the market's lowered expectations even though its original targets remained intact.




After the Q1 earnings were released on April 16 and they beat expectations, the tariff fears were over, right? Wrong.

Despite the market's moody humor and ASML's overperformance in Q1, the market didn't give them a break. The stock tumbled -9% in the days following the earnings release before going up 42% in the following months.

During their earnings call, the CEO mentioned "Yes, so when it comes to revenue, we expect revenue between €7.2 and €7.7 billion for Q2…..We also expect a little bit less upgrade business in the second half in comparison to the first half. And also, as we just said, we have uncertainty when it comes to tariffs. If you take it all together, again with the caveat of the uncertainty around tariffs that we need to mention, we continue to expect the gross margin between 51% and 53 % for the whole year. "

Well, guess they were also wrong. These were the results for this quarter, despite caution by the CEO and downward pressure from markets.

| €7.7bn | 53.7% |
| --- | --- |
| Net sales | Gross margin |

Again, the Q2 earnings report comes with a warning of slow growth for 2026, which, as mentioned in the beginning, caused the stock to tumble after the results were out. The question is: should we believe in what the market feeling and management is saying or should we take into consideration that they are, once again, probably overreacting and/or sandbagging expectations?

Their backlog is still strong, sitting at a total of €33 billion of backlog and having added €5.5 billion in orders in Q2 2025 alone, showing that despite concerns about trade and tariffs the demand for production of microchips, mainly boosted by AI and the necessity for cutting processing units in data centers.

There are two ways to interpret how tariffs might not be such a big deal for ASML, one that will keep them strong in the short term and one that may make them even stronger in the long run.

In the short term, ASML is still a monopoly. They hold more than 90% of the market for DUV machines and they hold 100% of the market (yes, they're the only producer in the world) of EUV machines. The main concern with tariffs is the increase in price it causes: as duties are charged, consumers will pay a higher price for the same product, which will cause demand for those goods to decrease and cause a drop in sales for ASML. However, this is only true in a perfectly competitive market, where prices adjust based on supply and demand and the ability of other sellers to offer better prices or services.

In a world where AI demand seems to be stronger than ever and companies like TSMC are reaching eye popping $ 1 trillion in market cap with the market expecting the production of more amounts and more powerful microchips, they have to buy ASML products regardless of how much the tariff is. What other option do these companies have? Stop production? Produce less precise GPUs? With the market expecting foundry companies like TSMC to grow EPS by 20%, that is very unlikely.

In the case of ASML, given their backlog and the fact that they have more orders for machines than they could ever produce, they don't even have to decrease prices to make customers happy with the price + tariff duty. If a customer wants to pay less, ASML has a sea of $33 billion worth of other customers they can sell to. ASML has an incredible economic moat and an ability to set prices, which will probably make their customers "eat" the entire price of the tariff and not pass that cost to ASML.

The long tariff play for ASML hinges on the fact that the goal of the tariffs is to bring manufacturing, including and especially of microprocessors, into the US. This long term goal of the policy means that foundry companies, especially TSMC that operates in Taiwan, will start building factories to produce chips in the US. All of these brand new factories will need new EUV and DUV machines from ASML to operate.

TSMC committed to boost its US investments to up to $165 billion, $100 billion of which funds three new fabs, two advanced-packaging facilities and an R&D center in Arizona and Texas. Intel, which is trying to go all in in the foundry segment, secured $9 billion to build four leading-edge fabs in Arizona and Ohio plus upgrades in Oregon and New Mexico. Samsung won $6.4 billion for a new fab in Texas. Texas Instruments pledged $11 billion for a new 300 mm fab in Utah. Altogether pushing announced U.S. semiconductor manufacturing investments past $200 billion since 2022 .

These investments in new fabs in the US will cause the tariff chaos and pessimism to dissipate over time and will force foundry companies to buy hundreds of ASML machines to execute their services.

What the market sees as a cause for pessimism I see as a huge long term opportunity and as a short term misunderstanding that will have little effect on earnings. This is the power of investing in companies with great moats, powerful competitive advantages.

This estimate considers:

A “low” growth scenario, compared to their current 15% increase in revenues YoY which increases as foundries will come to the US and order more machines.

A respectable multiple to FCF which will stay in line with their historical averages and at an okay level for a growing company with such massive competitive advantage.

A FCF margin that stays relatively stable and grows in a few years as foundries increase demand (with a compressed supply) for ASML machines for their US based foundries.

They keep repurchasing stocks at a healthy pace of around 2% per year.

| | Revenue (M, USD) | Revenue Growth | FCF margin | Share count (M) | share change | | |
|---|---|---|---|---|---|---|---|
| Y0 | $37.756,00 | 9% | 31% | 393,3 | -2% | Company | ASML |
| Y1 | $41.154,04 | 9% | 32% | 385,434 | -2% | | |
| y2 | $45.680,98 | 11% | 33% | 377,72532 | -2% | | |
| y3 | $50.705,89 | 11% | 34% | 370,1708136 | -2% | | |
| y4 | $56.283,54 | 11% | 34% | 362,7673973 | -2% | | |
| y5 | $62.474,73 | 11% | 34% | 355,5120494 | -2% | Future MKT Cap | 637.242,25 |
| | | | | | | Multiple | 30 |
| Y5 FCF | $21.241,41 | | | current share pri | $705,48 | per share | 1792,463155 |
| | | | | | | return (CAGR) | 20,50% |

This is a great return for a company that has such a powerful dominance of an extremely high growth market, which is why I’m still holding the stock and buying the dip.