



**Carlo Bozotti, President and Chief Executive Officer,
STMicroelectronics
Wednesday, April 27, 2016 – Final**

Thank you for joining us this morning on our first quarter earnings' conference call.

Today's agenda includes an overview, followed by a detailed discussion of our results and product groups, an update on the market environment and our outlook for the second quarter.

So let's begin.

We have started the year by putting in place the key initiatives to improve our market presence and financial performance – and, in turn, we have delivered some initial, encouraging results.

First, we have started to execute on our strategic focus, with people, resources and investments centered in two areas: Smart Driving, enabled by digitalization and electrification of the car subsystems, and

the Internet of Things, which includes consumer devices as well as smart home, city and industry applications.

Second, the new go-to-market organization we put in place in January is now fully operational. Our product portfolio is well structured into three groups to reflect our focus and, importantly, to leverage the synergies of working together with: the Automotive and Discrete Group, (“ADG”) which includes all of our automotive ICs, both digital and analog, and our discrete products; the Microcontrollers and Digital ICs Group (“MDG”) which includes our general purpose and secure microcontrollers, our E2PROM memories and all of our digital ICs outside of automotive ICs; and the Analog and MEMS Group (“AMG”) which includes our low-power analog ICs, smart power products for industrial and power conversion and all of our MEMS activity.

Third, two major product areas accounting for about 50% of our 2015 revenues, Automotive and Microcontrollers, delivered year-over-year growth: this is an important first result towards a more broad-based revenue growth. As we move further into the year, and based on today’s visibility, we expect to see a larger proportion of our businesses driving growth.

Fourth, aligned with our sharpened focus, is the set-top box restructuring plan targeting \$170 million in savings on an annualized basis. We expect to progressively capture these savings, generating about \$145 million in 2017. The remaining savings will depend on the lifespan of the residual products. During the first quarter we recorded restructuring charges of \$26 million related to the set-top box plan, and we expect to be on track with our timing exiting the second quarter.

Now let's turn to the first quarter results.

Q1 was aligned with our guidance. Total revenue came in at \$1.613 billion, representing a sequential decrease of 3.3%. We saw better than normal seasonality, despite entering the quarter with a volatile macro-economic scenario and mixed industry dynamics.

Looking at our revenue results on a year-over-year basis, our goal to return to growth met with some promising indicators: Automotive, driven by our pervasiveness in all domains, and Microcontrollers, driven by the STM32 family, both grew above 4% excluding negative currency effects.

Our gross margin came in at 33.4% in the first quarter, better than the mid-point of our guidance of about 33%. Unused capacity charges were still meaningful, as they negatively impacted gross margin by about 60 basis points.

Operating expenses were well aligned with our plans, with combined R&D and SG&A of \$571 million, compared to \$591 million in the year-ago quarter. As we progress through 2016, our set-top box restructuring plan will further reduce our cost structure.

We had an operating loss of \$5 million before impairment and restructuring charges. On a year-over-year basis, ADG and MDG operating results improved while AMG registered lower profitability mainly due to lower revenues.

Our free cash flow was positive at \$31 million.

Also in the first quarter, ST's Supervisory Board proposed to resolve at ST's Annual General Meeting of Shareholders to be held on May 25, the distribution of a cash dividend of \$0.24 per share to be distributed in quarterly installments of \$0.06 per share in each of the second, third and fourth quarters of 2016 and first quarter of 2017.

The proposed dividend represents an attractive yield of about 4.1% on our current share price, substantially in line with the historical dividend yield for STM shares. Of course, the dividend is subject to our shareholders' approval.

Now let's go through a deeper review of our product groups' performance during the first quarter, starting with our Automotive and Discrete Group.

ADG's revenues of \$671 million were substantially flat on a year-over-year basis and, when excluding negative currency effects, were up about 1%. As I mentioned earlier, automotive grew over 4% excluding negative currency effects, partially offset by market softness in discrete.

On a sequential basis, ADG's revenues increased 5.4%, driven by strong demand, especially in Europe, in automotive products. This was partially offset by the performance of our discrete products, impacted by market conditions, as well as seasonality due to the Chinese New Year.

ADG operating income in the quarter was \$39 million, representing an operating margin of 5.7%, compared to 5.4% in the year-ago quarter.

ADG's strategic focus is mainly on Smart Driving –that, for ST, means making cars greener, safer and more connected.

A part of our offering to make cars greener is our power discrete products; they are increasingly important to enable the pervasion of car electrification and they represent an important opportunity moving forward. In this area, we achieved a significant design win, with multiple products in Silicon Carbide technology for electrical traction in fully electrified cars. Our innovative SiC MOSFETs and rectifiers provide greater power efficiency, and will significantly reduce the size of the electrification modules.

In the area of active safety we extended our series of design wins for blind-spot detection, with our 24-GHz radar offering being selected by a leading European carmaker; our 32-bit microcontrollers were selected by a leading European Tier1 to drive a 77-GHz radar system which will be used by Japanese and European premium carmakers. Continuing with safety, our automotive MCUs were selected by a major Japanese Tier1 for a braking-system platform to be used by a leading carmaker.

Other significant design wins include a major global Tier1 for an automotive gateway application, as well as the continued penetration

of American and European markets with multiple design wins for our microcontrollers with several industry-leading customers.

Moving to AMG, our Analog and MEMS Group enables a broad range of IoT applications, supplying sensors, analog and power solutions for everything from wearable devices to the smart home and factory automation. AMG is also offering products for automotive navigation and telematics.

On a year-over-year basis, AMG sales decreased 17%, due to weakness in PC peripherals and in smartphones, and to the commoditization of motion MEMS. AMG's revenues were substantially flat quarter to quarter.

AMG's operating margin was 0.5% in the 2016 first quarter compared to 8.4% in the year-ago quarter mainly due to lower revenues. Based upon visibility with customers we expect to see an improved second half of the year for AMG, both from a revenue perspective as well as operating income.

Looking at our progress with customers, in the consumer segment, our sensors were chosen by a number of smartphone and wearable OEMs.

In smartphones, we captured the optical image stabilization, the 6-axis inertial measurement unit and the pressure sensor sockets in a flagship smartphone from a top manufacturer, and we won the 6-axis motion sensor in another flagship smartphone by a top Chinese brand. In China we also had design wins for our touchscreen controller and AMOLED driver.

We expanded our presence with top wearable OEMs around the globe, winning sockets across our product portfolio in two next-generation wearables. And, finally, we confirmed the low-power high-performance accelerometer and Bluetooth Low Energy sockets in a new activity tracker from a top player.

We also won several projects in Smart Home, Smart City and Smart Industry applications. I will give three examples of key markets where we won sockets during this quarter: electricity metering, factory automation, and datacenters.

In electricity metering, we won a significant first order for a next-generation meter from a key European manufacturer. In factory automation, we delivered engineering samples for a new IO-link communication transceiver device that is designed to support the

transition of factories to Industry 4.0. And, in datacenters, we introduced a family of ICs that delivers the industry's highest power-conversion efficiency for the next-generation (48V) datacenter architecture recently presented by Google.

Turning now to MDG, our Microcontrollers and Digital Group's broad portfolio of general purpose microcontrollers, secure microcontrollers, memories and digital ASICs successfully serve all application areas within the Internet of Things.

MDG's first quarter net revenues totaled \$532 million, slightly up from \$530 million in the year-ago quarter thanks to microcontrollers, which increased over 4% when excluding negative currency effects. On a sequential basis, MDG's sales decreased 13.4% due to the anticipated lower demand of microcontrollers after a strong prior quarter and due to the phase out of certain legacy products.

At the operating income level, Microcontrollers delivered a strong operating margin. On the other hand, digital posted an operating loss primarily due to set-top-box. This led to essentially breakeven operating results for MDG. Our set-top box restructuring plan, together

with the top-line revenue growth we are expecting in digital ASICs, will help drive financial performance improvements.

In that regard, earlier I was highlighting our success in the domain of power conversion for datacenters. We also serve the cloud infrastructure with ASICs, and during the past quarter, we won a silicon photonics socket with a networking module manufacturer for 100Gbit/sec datacenter upgrades, as well as two projects in Optical Access Network applications.

In secure microcontrollers, we ramped production of an embedded SIM for the new generation of tablets and watches being designed by leading OEMs. Moreover, our NFC controller and Secure Element have been qualified to enable secure NFC transactions in the ARM mbed wearable reference design.

Finally, in the quarter we continued to expand our highly-successful general purpose microcontroller business. In our STM32 product family, we introduced one new high-end and nine new ultra-low power MCU product lines, along with their related comprehensive development ecosystems. Our high-end STM32F7 has been selected by an American

OEM for its next-generation smart watch, and our entry-level STM32F0 has been selected by a major OEM for a smart charging application.

Turning now to our second quarter guidance, let me share a few key points.

We have started to see signs of some improvement in the semiconductor market, following the market softness that held back revenue growth from the second half of 2015. More specifically, bookings are improving across our three Regions: EMEA, Americas and Asia-Pacific. This improvement was most visible in automotive and industrial. So we enter the second quarter with a higher level of optimism on the semiconductor market environment than we did three months ago.

Based upon our current visibility, this translates into a sequential revenue growth guidance of about 5.5%, plus or minus 3.5%, so somewhat better than normal seasonality. All product lines, excluding set-top box, are contributing to this sequential growth.

In terms of our gross margin, we are targeting about 34.0%, plus or minus 2.0%, reflecting unused charges negatively impacting gross margin by about 60 basis points.

Similar to the first quarter, we expect that in the second quarter the automotive and microcontroller businesses will continue to deliver year-over-year revenue growth. In Q2, we also expect year-over-year improvements in our Imaging business. Based upon our current visibility, we expect the year-over-year recovery of power discretes and AMG to start later in the year, enabling them to grow their second half of 2016 revenues versus the second half of 2015.

My colleagues and I would now be happy to take your questions.