STMicroelectronics
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Q1 2021 Financial Results
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Good morning and thank you for joining ST for our Q1 2021 earnings conference call.

Let me begin with some opening comments, starting with Q1:

- Year-over year, net revenues grew 35.2% to $3.02 billion. All product groups contributed to this growth, on continued acceleration of demand globally. Our operating margin increased to 14.6% and our net income rose 89.6% to $364 million.
- On a sequential basis, net revenues decreased 6.8%, 270 basis points above the mid-point of our outlook. Our gross margin was 39%, 50 basis points above the mid-point of our outlook.
- Our free cash flow during the first quarter was $261 million, after net capital expenditure payments of $405 million.
- We exited the first quarter with a net cash position at $1.19 billion.

On Q2 2021:

At the mid-point of our outlook, we expect net revenues in the second quarter to be about $2.9 billion, a year-over-year increase of about 39.0%. Gross margin is expected to be about 39.5%.

For the full year 2021:

- We plan for solid revenue growth, outperforming the markets we serve.
- We will drive the Company based on a plan for full year 2021 revenues of about $12.1 billion, plus or minus $150 million, a year-over-year increase of 18.4% at the mid-point**.** This growth is expected to be driven by strong dynamics in all end markets we address and our engaged customer programs.
- We now plan to invest about $2.0 billion in CAPEX to support the strong market demand and our strategic initiatives. This level of investment is at the high end of the range we communicated in January.

Now, let's move to a detailed review of the first quarter.

Net revenues increased 35.2% year-over-year, with higher sales in all product groups except, as expected, the RF Communications sub-group. Year-over-year, sales to OEMs increased 21.4% and to Distribution rose 76.2%.

On a sequential basis, net revenues decreased 6.8%, 270 basis points better than the mid-point of our outlook. Automotive and Power Discrete products and Microcontrollers increased sequentially, partially offset by a decrease in Personal Electronics products.

Gross profit was $1.18 billion, growing 38.9% on a year-over-year basis.

The gross margin increased 110 basis points year-over-year to 39%, mainly due to lower unloading charges, manufacturing efficiencies and improved product mix, partially offset by negative currency effects, net of hedging. Our first quarter gross margin was 50 basis points above the mid-point of our guidance, mainly thanks to better product mix.

First quarter operating margin was 14.6%, a year-over-year increase of 420 basis points, with improvements in ADG and MDG and a decrease for AMS. Net operating expenses were $735 million.

Net income increased 89.6% to $364 million on a year-over-year basis and our diluted earnings per share were $0.39.

Looking at the product group year-over-year performance, all three product groups had double-digit growth:

- ADG revenues increased 38.4%, on growth in both Automotive and in Power Discrete.
- AMS revenues increased 27.1%, on higher Analog, MEMS and Imaging product sales.
- MDG revenues increased 42.2%, on growth in Microcontrollers partially offset by the expected decline in RF Communications.

By product group on a year-over-year basis:

- ADG operating margin increased to 8.2% from 3.0%;
- AMS operating margin decreased to 17.2% from 20.8%; and
- MDG operating margin increased to 19.4% from 11.5%.

Net cash from operating activities increased 70.9% to $682 million in Q1, compared to $399 million in the year-ago quarter. Free cash flow increased to $261 million compared to $113 million in the year-ago quarter with CAPEX of $405 million versus $266 million in the year-ago quarter.

During the first quarter, we paid $38 million of cash dividends to shareholders and we executed a $156 million share buy-back as part of our existing repurchase program.

Our net financial position was $1.19 billion at April 3, 2021, compared to $1.10 billion at December 31, 2020. It reflected total liquidity of $4.16 billion and total financial debt of $2.97 billion.

Let's now discuss the market and business dynamics.

During the first quarter, global demand continued to accelerate, following the already faster and stronger than expected restart of demand which began in Q3 2020.

In Automotive, the rebound from Q4 2020 was much faster than anticipated, and it has caused supply chain constraints across the entire semiconductor industry. This rebound was, and remains, broad-based, across all customers, including distribution, and geographies, and is driven by three main factors. First, the number of cars produced; second, the replenishment of inventories across the automotive supply chain; and third, semiconductor content increase related to digitalization and electrification, as well as higher content in traditional cars driven by accessories.

During Q1, automotive demand remained strong, with our bookings well above our current and planned manufacturing capacity. Booking visibility is now extending to about 18 months.

Our customer activity related to electrification and digitalization, the long-term trends driving automotive semiconductor content increase, continued to accelerate in Q1.

In car electrification, we added to our list of design wins for Silicon Carbide devices in applications such as traction inverters and on-board chargers.

We also won a number of designs with complementary technologies such as our high voltage MOSFETs for an on-board charger and an EV auxiliary power supply, VIPower products for a battery management system, and with our 32-bit automotive microcontrollers for a traction inverter and for a battery management system. We are also winning sockets in these electric vehicle designs with our legacy automotive products for domains such as body and convenience and infotainment.

In car digitalization, we are focused on technologies and solutions for driver assistance and autonomous driving, V2X communications, and embedded processing solutions supporting new domain controller or zone server car architectures.

For example, we had additional awards for our 28nm FD-SOI Phase Change Memory microcontrollers (Stellar).

We won a number of designs, in addition to what I mentioned before for electric vehicles, with our 32-bit automotive MCU embedded processing solutions. All these products are designed on our own proprietary technologies and manufactured in our internal 300mm wafer fab.

Overall in ADAS, we continue to see an acceleration trend on Level 2 and Level 2+.

To conclude this automotive overview, we also expanded our sensor business with automotive-grade motion sensors for global positioning modules and navigation units and we ramped a global shutter image sensor for a well-known EV car maker -the latest example of our diversification strategy in optical sensing solutions.

Moving now to Industrial.

During the quarter, we saw very strong demand, both in high-end and consumer industrial. Factory automation was one of the main demand drivers, but we also saw a similar trend for power tools, home appliances, motion control, and power-related applications - including renewable energy. Demand was strong both with Distribution as well as OEMs, in line with our approach to be broad in the highly fragmented industrial market.

Inventories of our products at distributors are currently lean across all product families, with high inventory turns. Point-of-sales remained strong in the first quarter across all products and geographies.

We address the industrial end market with our general purpose and secure MCUs, analog and sensors, power and energy management solutions.

Our first strategic objective in Industrial is leadership in embedded processing solutions. Preliminary rankings for 2020 indicate that ST was number one for combined General purpose and Secure MCU revenues.

To continue to lead, we are strengthening our embedded processing offer around the STM32 family in terms of wireless connectivity, security, and artificial intelligence.

During the quarter, we announced a number of products and solutions supporting this strategy. We launched a new extreme low-power STM32 series, with advanced performance and cybersecurity features. The new devices have already won designs at major Industrial OEMs and in metering applications. We also announced new STM32 Bluetooth Low Energy devices and the first STM32 Wireless Microcontroller Module. And we introduced a new Artificial Intelligence firmware and camera-module bundle to help developers building computer-vision applications.

Our second objective in industrial is expansion in power and energy management. Here we captured many wins with our power discrete products: for example, with Silicon Carbide and high voltage silicon MOSFETs, as well as IGBT in applications such as industrial power-supply, EV-chargers, battery-test systems, air-conditioners, home appliances and lighting.

Overall, our Silicon Carbide engagements increased again during the quarter -now with 68 customers, equally split between Industrial and Automotive, in 77 ongoing programs.

A third strategic objective is to accelerate our growth in analog and sensors for industrial. In the first quarter, we had many new designs with our analog products for industrial applications. We received awards in metering, motion control, factory automation and home appliances. We also continued to expand our business in sensors in industrial applications with design wins for motion sensors and time of flight solutions in applications like cleaning robots.

Moving now to the Personal Electronics market.

Today more than ever, smartphones are an essential source of social connection and streaming services for entertainment, fitness, gaming, and music. 5G adoption remains the main driver for smartphones growth moving forward. There is also strong demand, as we continued to see during Q1, for other connected devices including wearables, tablets, hearables, True Wireless Stereo headsets and game consoles.

In Personal Electronics we are progressing on our two strategic objectives. First, to lead in selected high-volume smartphone applications with differentiated products or custom solutions.

Here we continued to win sockets in flagship devices with motion sensors, multi-zone time-of-flight ranging sensors, wireless charging products, touch display controllers, and secure solutions such as embedded SIM and secure elements with Near Field Communication.

Our second objective is to leverage our broad portfolio to address high-volume applications such as True Wireless Stereo headsets, smart watches, bracelets and smart shoes. Here we had wins for standard and specialized motion and pressure sensors, analog and power products as well as for microcontrollers.

We also progressed with our solutions for Augmented Reality based on Laser Scanning. The LaSAR Alliance we announced last year is now open to accept new members. We signed an agreement with a technology specialist to jointly develop ultra-compact, low-power laser-beam scanners and we demonstrated AR glasses based on ST components at Mobile World Congress Shanghai.

In Communications Equipment and Computer Peripherals, during Q1, we saw continued adoption of 5G-related products as well as a sustained demand for PCs and especially notebooks and Chromebooks, as they continue the move from being shared household devices to individual ownership.

Our approach to this end market has three objectives. One is to address selected applications in cellular and satellite communication infrastructure. In this area we captured multiple RF-CMOS ASICs awards for telecommunication infrastructure from a new customer.

Our other objectives are to address selected high-volume applications with differentiated products or custom solutions, and to leverage our broad portfolio. Our wins here include time-of-flight and motion sensors for laptops and Chromebooks.

Now, let's move to a discussion of the second quarter 2021 outlook and some comments on the full year 2021.

The unexpected magnitude and speed of the upturn in semiconductor demand have put the whole supply chain under strain: manufacturing capacity worldwide, including at foundries, is

currently saturated and well below the global level of customer demand at least for the next six months and, most likely, for the full year 2021.

ST reacted fast, fully saturating our existing manufacturing capacity with the right product mix; and, by working to increase capacity faster and above our initial operating plan in our wafer fabs, particularly for Digital/mixed signal CMOS-based and Advanced Smart Power and Silicon Carbide technologies to serve Automotive, Power and Microcontrollers.

Our current and planned 2021 manufacturing capacity is fully loaded with the confirmed backlog. We are now planning for 2022. We are working closely with our customers and partners across all end-markets and channels to adapt to this unprecedented situation.

For the second quarter, we expect net revenues to be about $2.9 billion, increasing year-over-year by about 39% at the mid-point, with, again, growth across all product groups. On a sequential basis, this translates into a sales decrease of 3.8%, at the mid-point, due to the usual seasonality in Personal Electronics.

We expect the gross margin to be about 39.5%, representing a year-over-year increase of 450 basis points, mainly due to higher loading and improved efficiencies in our plants. Sequentially, this represents an increase of about 50 basis points at the mid-point.

For the full year:

- We will drive the company based on a plan for full year 2021 revenues of about $12.1 billion, plus or minus $150 million.
- With this plan, which translates into year-over-year growth of 18.4% at the mid-point, we expect to outperform the markets we serve.
- This growth is expected to be driven by strong dynamics in all end markets we address and our engaged customer programs.
- We now plan to invest about $2.0 billion in CAPEX to support the strong market demand and our strategic initiatives.

To conclude:

On Q1:

- ST showed its ability to adjust to the strong and sudden upswings in semiconductor demand which started in Q3 last year and accelerated in Q4 and Q1. We did that working alongside our customers and partners and pursuing our

objectives with the diversified and balanced approach across end markets that is at the heart of our strategy.

- We continued to focus on customers, adapting our investments to increase our manufacturing capacity to support the higher level of global semiconductor demand and our engaged customers programs.
- We maintained our financial strength as demonstrated by our operating profitability and cash flow generation.

For 2021:

- We will drive the Company based on a plan for FY21 revenues of $12.1 billion, plus or minus $150 million. We also plan to invest about $2.0 billion in CAPEX, not only to increase our manufacturing capacity to support the strong global market demand and engaged customers programs; for example we are adding capacity at Crolles 300, but, also, to continue to run our manufacturing strategic initiatives, such as Agrate 300, in order to enable our future growth.
- On this accelerated revenue growth path, we will continue to make ST stronger, determined to achieve our strategic objectives by leveraging our balanced markets position, our focus on high growth applications and our solid product / IP Technology portfolio.

- These are well supported by ST’s unique internal manufacturing infrastructure, with our teams executing with discipline and flexibility, now more important than ever under these market dynamics.

Thank you, and we are now ready to answer your questions.