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Q2 2024
Earnings Results
Jean-Marc Chery, President & CEO
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Good morning everyone, and thank you for joining ST for our Q2 2024 earnings conference call.

Let me begin with some opening comments.

Starting with Q2:

- Second quarter net revenues of $3.23 billion were above the midpoint of our business outlook range, driven by higher revenues in Personal Electronics, partially offset by lower-than-expected revenues in Automotive. Gross margin of 40.1% was in line with expectations.
- On a year-over-year basis Q2 net revenues decreased 25.3%, mainly driven by a decline in Industrial and, to a lesser extent, in Automotive.
- Gross margin decreased to 40.1% from 49.0%, operating margin decreased to 11.6% from 26.5% and net income decreased 64.8% to $353 million.
- On a sequential basis, net revenues decreased 6.7%.

For the first half of 2024:

- Net revenues decreased 21.9% year-over-year to $6.70 billion, mainly driven by a decrease in the Microcontrollers and Power and Discrete segments.
- We reported gross margin of 40.9%, operating margin of 13.8% and

net income of $865 million.

During the quarter, contrary to our prior expectations, customer orders for Industrial did not improve and Automotive demand declined.

For Q3 2024:

- Our third quarter business outlook is for net revenues of about $3.25 billion at the mid-point, decreasing 26.7% year-over-year and increasing 0.6% sequentially.
- Gross margin is expected to be about 38%, impacted by about 350 basis points of unused capacity charges.

For the full year 2024:

- Overall, in Q2, customer order bookings did not materialize as expected. Therefore, we now anticipate a delayed recovery in Industrial, and a lower than expected increase in Automotive revenues, in the second half of the year versus the first half.
- We will now drive the Company based on a plan for full year 2024 revenues in the range of $13.2 billion to $13.7 billion. Within this plan, we expect a gross margin of about 40%.

By segment on a year-over-year basis:

- Analog products, MEMS and Sensors was down 10% mainly due to Imaging.
- Power and Discrete products decreased 24.4%, with a decline both in Power and in Discrete products.

- Microcontrollers revenues declined 46%, mainly due to General Purpose MCU.
- And Digital ICs and RF products declined 7.6%, with a decrease in ADAS more than offsetting an increase in RF Communications.

By end market, Industrial declined by more than 50%, Automotive by about 15% and Personal Electronics by about 6%, while CECP increased by about 2%. Excluding the impact of the change in product mix in an engaged customer program, Personal Electronics was up about 14%.
Year-over-year, sales decreased 14.9% to OEMs and 43.7% to Distribution.

Overall, Q2 net revenues decreased 6.7% sequentially, with a decline of 4.3% in Analog products, MEMS and Sensors, 8.8% in Power and discrete products, 15.7% in Microcontrollers, while Digital ICs and RF Products increased 8.6%. By end market, Industrial was down about 17% sequentially, Automotive down about 8% and Personal Electronics down about 5%, while CECP was up about 15%.

Gross profit was $1.30 billion, decreasing 38.9% year-over-year.

Gross margin decreased to 40.1%, compared to 49.0% in the same quarter last year. The decrease was mainly due to the combination of product mix and sales price and higher unused capacity charges.

Operating margin was 11.6%, compared to 26.5% in the year-ago period. All Reportable Segments were down on a year-over-year basis, with the main decline in Microcontrollers and Power and Discrete.

On a year-over-year basis, Q2 net income decreased 64.8% to $353 million, compared to $1.00 billion in the year-ago quarter. Earnings per diluted share decreased 64.2% to $0.38 compared to $1.06.

Net cash from operating activities decreased $702 million in Q2, versus $1.31 billion in the year-ago quarter.

Net CAPEX in the second quarter was $528 million, compared to $1.07 billion in the year-ago quarter.

Free cash flow was $159 million compared to $209 million in the year-ago quarter.

Inventory at the end of the second quarter was $2.81 billion, compared to $3.05 billion in the year-ago quarter.

Days sales of inventory at quarter end were 130 days compared to 122 days in the previous quarter and 126 days in the year-ago quarter.

During the second quarter, ST paid $73 million of cash dividends to stockholders, and we executed an $88 million share buy-back, completing our $1.04 billion share repurchase program launched in

2021. On June 21, 2024, ST announced the launch of a new share buy-back plan totaling up to $1.1 billion to be executed within a 3-year period.

ST's net financial position of $3.20 billion as of June 29, 2024, reflected total liquidity of $6.29 billion and total financial debt of $3.09 billion.

I will now go through a short update on some of our strategic focus areas.

As mentioned, contrary to our prior expectations we saw a decline in **Automotive** demand during the quarter. This was characterized by some reductions in backlog already in Q2 and reduced forecasts from some of our customers, including adjustments related to electric vehicle production decrease, and with inventory adjustments going along the supply chain.

We continued to execute our strategy supporting **car electrification** during the quarter. We had multiple wins in power discrete with both silicon-carbide and IGBT technologies for traction inverters at leading car manufacturers. We also won business with our automotive smart power technology for power domain control in new electrical and electronic architectures.

We announced a long-term Silicon Carbide supply agreement with Geely Auto for SiC power devices in their battery EVs. We have also established a joint lab to share knowledge and explore innovative solutions related to evolving automotive architectures.

In **car digitalization**, we saw further momentum with our portfolio of

automotive microcontrollers. This included wins with our latest generation Stellar MCUs in a body domain application with a leading European car maker, as well as other MCU wins for battery management and HVAC systems.

In automotive sensors we introduced a 6-axis module that enables a cost-effective solution for functional-safety applications such as precise positioning in navigation systems, and digitally stabilizing cameras, lidars, and radars.

Our design win activity in smart mobility highlights the robustness of our technology and product portfolio, positioning ST to leverage the structural growth in this key market.

In **Industrial**, during the quarter, the anticipated stabilization of demand did not materialize as expected and customer orders did not improve, in particular for general purpose microcontrollers. We continue to see weakness in the market for short-cycle business - such as power tools, residential solar, lighting and appliances-, and more resilience in longer cycle business -such as energy storage, grid, EV charging and process automation. This has resulted, entering the second half, in a weaker backlog than expected.

In the short term we are facing a longer and more pronounced correction in industrial than what we anticipated, due to a progressive weakening of end demand, amplified by a severe inventory correction along the

Industrial market value chain.
In this environment we continue to work with customers to design-in our products of today and to invest in R&D to build the next generation of products.

A good example is what we are doing to build on our leading position in **industrial embedded processing solutions**. ST was present at the annual Embedded World show in Germany where over 5,000 people visited our booth. There we received very positive customer feedback on the new products and solutions we announced shortly before, including low cost, wireless and high-performance microcontrollers as well as new 64-bit microprocessors for industrial applications.

We also announced an innovative smart sensor with edge-AI processing for motion tracking in industrial and robotics applications.

We also introduced the first embedded SIM in the industry to meet the incoming GSMA standard for eSIM IoT deployment. This simplifies the management of large numbers of connected devices in support of the proliferation of secure cloud-connected autonomous things.

Finally, we also continued to build momentum on Edge AI enablement for our customers. In early June the *ST Edge AI Suite* came online, bringing together tools, software and knowledge to simplify and accelerate edge-AI application development. The suite supports both optimization and deployment of machine-learning algorithms, starting

from data collection to final deployment on hardware, streamlining the workflow for different types of users.

We are confident that our ongoing design-in and development efforts with customers and distributors in the industrial sector will position ST to capitalize on the next market upcycle more effectively.

In **Personal Electronics**, **Communications Equipment and Computer Peripherals**, our engaged customer programs are running as expected.

Moving now to **manufacturing**. In May we announced a **strategic update** with the construction of a new high-volume 200mm silicon carbide manufacturing facility in Catania, Italy. This facility will make power devices and modules and will include both device manufacturing and testing and packaging. In conjunction with the SiC substrate manufacturing facility being prepared on the same site, these facilities will collectively form ST's Silicon Carbide Campus. This development will fulfill our vision of a fully vertically integrated manufacturing hub for the mass production of SiC devices, all within a single location. The program is projected to be a 5 billion euros multi-year investment, including 2 billion euros support provided by the State of Italy in the framework of the EU Chips Act.

During the quarter, we also announced the expansion of the existing multi-year 150mm silicon carbide substrate wafers supply agreement with SiCrystal.

Now, let’s move to our third quarter 2024 financial outlook and our plans for the full year 2024.

For Q3, we expect net revenues of about $3.25 billion at the mid-point, representing a year-over-year decline of 26.7% and a sequential growth of 0.6%.

Q3 gross margin is expected to be about 38% at the midpoint, impacted by about 350 basis points of unused capacity charges.

For 2024:

- Entering the second half, with our current Q3 and year-end backlog, and with the ongoing market dynamics, we have further revised our plan for 2024 revenues, which we now see in the range of $13.2 billion to $13.7 billion, representing a decline of about 22% at the midpoint compared to 2023.
- Within this plan, we expect a gross margin of about 40%, impacted by about 270 basis points of unused capacity charges at the midpoint of our 2024 full year indications.

To conclude:

Following an unprecedented chips shortage situation, the current semiconductor cycle is impacted by a number of factors: the

desynchronization between the various end markets in terms of demand normalization or weakening and inventory adjustments or corrections; the available capacity, moving from tension to excess; and the non-linear acceleration of structural trends towards sustainability in areas like renewable energies, electrification, right to repair and second-hand devices.

This backdrop clearly affects the Automotive and Industrial end-markets. As we have pointed to in our strategy, both of these markets are undergoing a deep transformation also driven by a number of megatrends. This, coupled with the current cycle dynamics I have just mentioned, is bringing both opportunities and challenges in the short, medium and longer term, for ST and for our customers equally.

In the short to medium term, we are working to best adapt our operating plans to this complex situation. We have already implemented measures and are adjusting them in response to the evolving situation.

Medium to long-term, we continue to be convinced that these transformations will provide the basis for our growth ambitions.

We will be hosting a Capital Markets Day on November 20th in Paris to provide an update. It will be an in-person event, and we will also webcast it live.

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