

# STMicroelectronics 1Q 2014 Financial Results

April 28, 2014



# Forward Looking Statements

*Some of the statements contained in this release that are not historical facts are statements of future expectations and other forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 or Section 21E of the Securities Exchange Act of 1934, each as amended) that are based on management's current views and assumptions, and are conditioned upon and also involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those anticipated by such statements, due to, among other factors:*

- Uncertain macro-economic and industry trends;*
- Customer demand and acceptance for the products which we design, manufacture and sell;*
- Unanticipated events or circumstances, which may either impact our ability to execute the planned reductions in our net operating expenses and / or meet the objectives of our R&D Programs, which benefit from public funding;*
- The loading and the manufacturing performance of our production facilities;*
- The functionalities and performance of our IT systems, which support our critical operational activities including manufacturing, finance and sales;*
- Variations in the foreign exchange markets and, more particularly, the U.S. dollar exchange rate as compared to the Euro and the other major currencies we use for our operations;*
- The impact of intellectual property ("IP") claims by our competitors or other third parties, and our ability to obtain required licenses on reasonable terms and conditions;*
- Restructuring charges and associated cost savings that differ in amount or timing from our estimates;*
- Changes in our overall tax position as a result of changes in tax laws, the outcome of tax audits or changes in international tax treaties which may impact our results of operations as well as our ability to accurately estimate tax credits, benefits, deductions and provisions and to realize deferred tax assets;*
- The outcome of ongoing litigation as well as the impact of any new litigation to which we may become a defendant;*
- Natural events such as severe weather, earthquakes, tsunamis, volcano eruptions or other acts of nature, health risks and epidemics in locations where we, our customers or our suppliers operate;*
- Changes in economic, social, political, or infrastructure conditions in the locations where we, our customers, or our suppliers operate, including as a result of macro-economic or regional events, military conflict, social unrest, or terrorist activities;*
- Availability and costs of raw materials, utilities, third-party manufacturing services, or other supplies required by our operations.*

*Such forward-looking statements are subject to various risks and uncertainties, which may cause actual results and performance of our business to differ materially and adversely from the forward-looking statements. Certain forward-looking statements can be identified by the use of forward looking terminology, such as "believes," "expects," "may," "are expected to," "should," "would be," "seeks" or "anticipates" or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions.*

*Some of these risk factors are set forth and are discussed in more detail in "Item 3. Key Information — Risk Factors" included in our Annual Report on Form 20-F for the year ended December 31, 2013, as filed with the SEC on March 5, 2014. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this release as anticipated, believed, or expected. We do not intend, and do not assume any obligation, to update any industry information or forward-looking statements set forth in this release to reflect subsequent events or circumstances*



- A global semiconductor leader
- The largest European semiconductor company
- 2013 revenues of **\$8.08B**
- Approximately **45,000** employees worldwide
- Approximately **9,000** people working in R&D
- **12** manufacturing sites
- Listed on New York Stock Exchange, Euronext Paris and Borsa Italiana, Milano



# 1Q14 Highlights

4

- Net revenues of \$1.83 billion
  - Up 0.7% year-on-year, excluding legacy ST-Ericsson products
  - Growth driven by Microcontrollers, Automotive, Industrial and Power groups as well as Distribution channel
- \$188 million year-over-year operating income improvement (before impairment and restructuring)
  - \$8 million operating profit in 1Q14 (before impairment and restructuring charges)
  - Driven by the exit of ST-Ericsson and operating expenses well in line with our financial model
- Strategic agreement for 28nm FD-SOI technology signed with a top-tier foundry
  - The agreement expands the ecosystem and assures the industry of high-volume production of ST's FD-SOI based IC solutions
  - Strengthens business and financial prospects of the EPS Segment
- Stable cash dividend of \$0.10 per share for each of the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2014
  - To be proposed to the 2014 Annual General Meeting of Shareholders

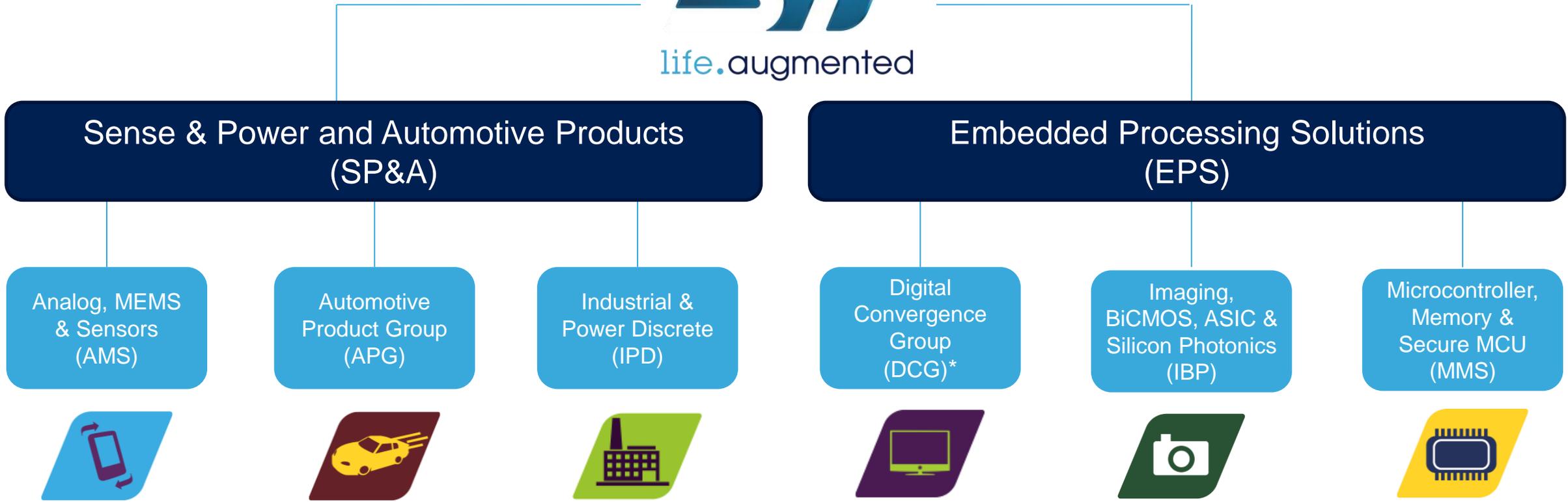
Macro-economic environment and business dynamics in the quarter evolved as expected



# 2014 Product Segments



life.augmented

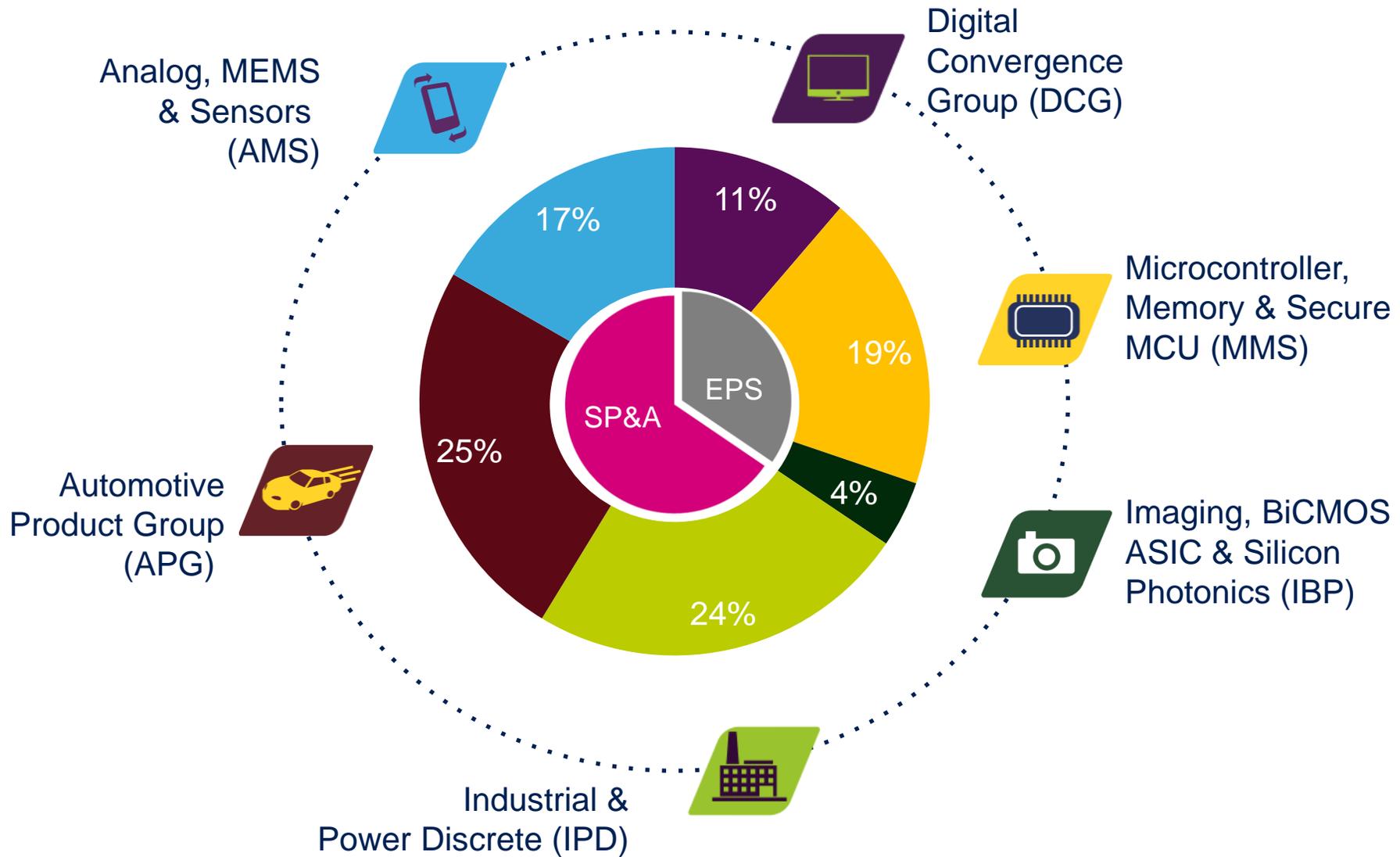


\* Includes legacy ST-Ericsson products

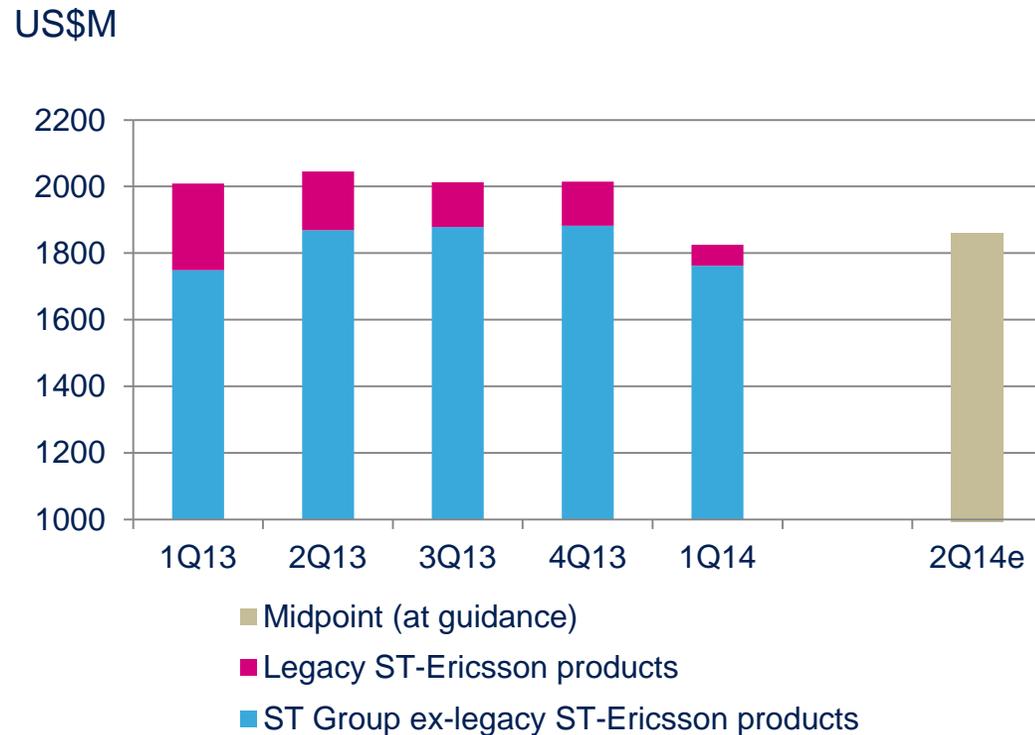
# 1Q14 Revenues by Product Groups

Sense & Power and Automotive Products (SP&A)

Embedded Processing Solutions (EPS)



**1Q14 Revenues = \$1.83B**



### 1Q14, excluding legacy ST-Ericsson products:

- Up 0.7% y-o-y
- \$15M one-time license payment
- Y-o-y growth led by MMS and APG, up 15.6% and 15.5%, respectively

### 1Q14, as reported

- Down 9.2% y-o-y
- \$63M revenue from legacy ST-Ericsson products

### 2Q14 revenue outlook

- Expected to be up 2% sequentially (+/- 3.5 percentage points)
- Midpoint of guidance equates +5% sequentially excluding legacy ST-Ericsson products and one-time licensing revenue

# Financial Performance

<i>In US\$M, except EPS</i>	1Q13	4Q13	1Q14
<b>Net Revenues</b>	2,009	2,015	1,825
<b>Gross Margin</b>	31.3%	32.9%	32.8%
<b>Operating Income (Loss) before impairment, restructuring*</b> Operating Margin before impairment, restructuring*	(180) (8.9%)	18 0.9%	8 0.4%
<b>Net Income – Reported</b>	(171)	(36)	(24)
<b>EPS Diluted</b>	(0.19)	(0.04)	(0.03)
<b>Adjusted EPS Diluted*</b>	(0.13)	(0.01)	(0.01)
<b>Free Cash Flow*</b>	(65)	91	(51)
<b>Net Financial Position</b>	1,013	741	612
<b>Effective Exchange Rate €/€</b>	1.31	1.34	1.35

## 1Q14 Gross Margin : 32.8%

### Up 150 basis points y-o-y

- Benefiting from one-time licensing payment, manufacturing efficiencies, lower unsaturation charges
- Usual price pressure and negative currency effect

### 2Q14 outlook

- About 33.6% +/- 2.0 percentage points

### Focus on progressive improvement in gross margin

- Optimize fab loading and manufacturing efficiency
- Structural changes to our manufacturing footprint ongoing: Singapore (AMKJ9) and China (Longgang);
- Product mix: phase-out of former ST-Ericsson products, pruning low margin products, accelerate innovation

## 1Q14 Operating Expenses

### Further progress meeting our target range

1Q14 combined SG&A and R&D at \$606M

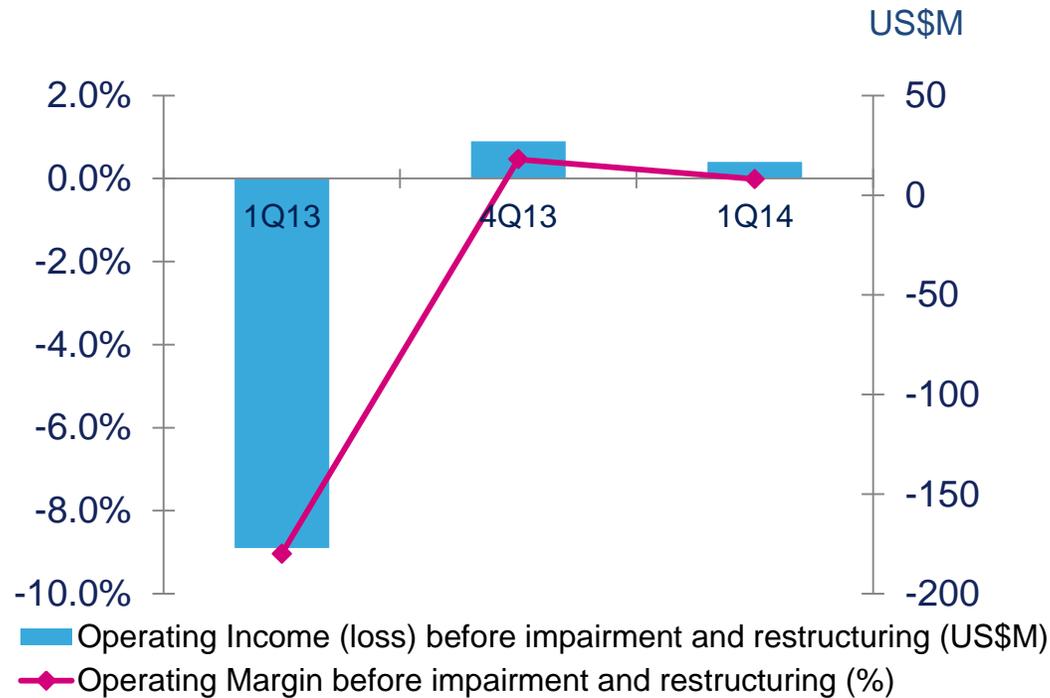
- Down 7.8% sequentially, benefitting from cost reduction initiatives and less days in the quarter
- Down 25.4% y-o-y, mainly due to the exit of ST-Ericsson and cost reduction initiatives
- \$584M net of \$21M R&D grants

R&D grants do not include Nano2017 grants, pending European Union approval now expected in 2Q14

### Net operating expenses target range

- Net operating expenses target in the range of \$600M to \$650M average per quarter
- Includes SG&A and R&D expenses net of R&D grants
- Targeting the lower end of the range

# ST Operating Results



## 1Q14 Operating Results

### Significant y-o-y improvement

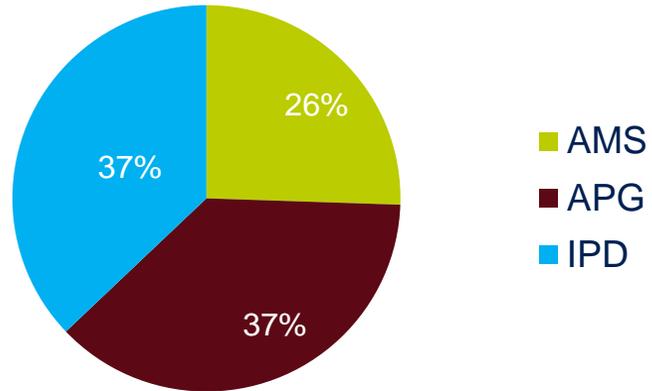
- 1Q14 Operating Income at \$8M before impairment and restructuring charges
- Up \$188M y-o-y

### Operating Margin Improvement Drivers in 2014

- Leverage on quarter-over-quarter revenue growth for the remainder of 2014
- Ramp of new world class products
- Distribution and mass market initiatives
- Manufacturing performance and optimization
- “Nano 2017” R&D grants program

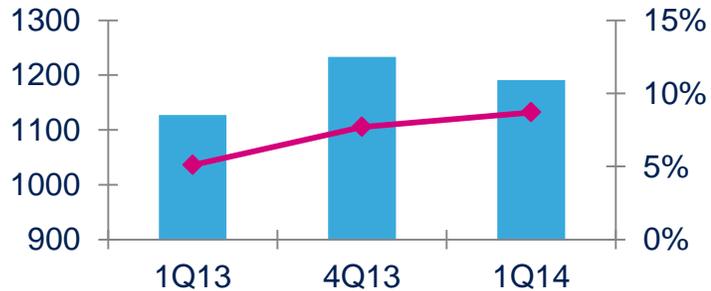
# Sense, Power and Automotive

## 1Q14 Revenues



### 1Q14 Revenues = \$1,191M

- Up 5.7% y-o-y driven by growth in Automotive and Industrial & Power groups
- Down 3.5% q-o-q



### 1Q14 Operating Margin = 8.7%

- Up from 5.1% recorded in 1Q13, reflecting leverage on revenue growth, product innovation and manufacturing performance
- Up from 7.7% recorded in 4Q13 on lower sales

Revenue



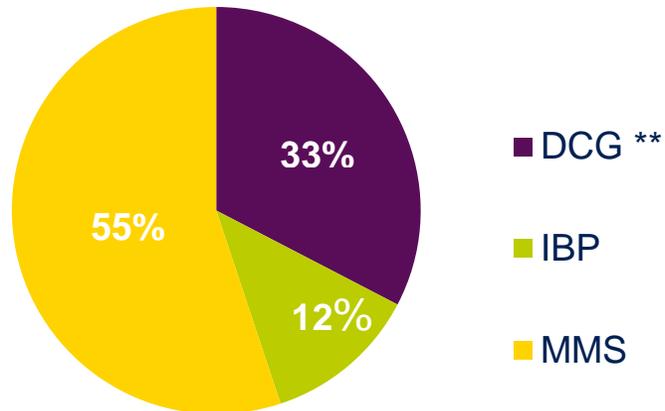
Operating Margin \*



\* Operating Income before impairment, restructuring charges. Unused capacity charges are reported in the Group "Others"

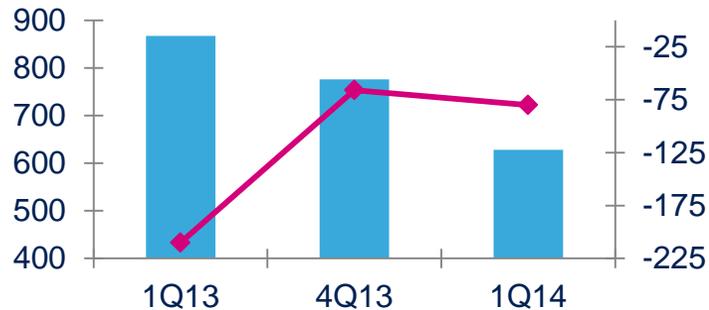
# Embedded Processing Solutions

## 1Q14 Revenues



### 1Q14 Revenues = \$628M

- Down 27.6% y-o-y
- Mainly due to the phasing out of legacy ST-Ericsson products and lower sales of set-top-box products despite strong growth in microcontrollers



### 1Q14 Operating Losses = \$80M

- Improved by \$130M y-o-y on exit from ST-Ericsson
- Solid profitability in MCUs
- Turnaround of DCG/IBP: initiatives on track – time still required

Revenue Operating Margin \*

- Operating Income before impairment, restructuring charges. Unused capacity charges are reported in the Group “Others”
- Reflecting the transfer of Wireless (legacy ST-Ericsson products) and the Image Signal Processor business unit from IBP to DCG as of January 1, 2014

# FD-SOI: Efficiency at all levels

### CPU, GPU and logic

FBB dynamic modulation for best total power  
Best dynamic power/leakage tradeoff



### Memories

Memory bit cells in FD-SOI have much lower leakage compared to Bulk



### Analog & High-speed

FD-SOI analog performance far exceeds Bulk  
Better figures of merit than FinFET for high-speed IPs

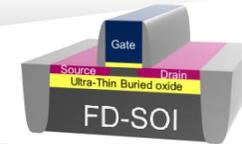


Infrastructure Networking  
Consumer

Internet of Things

POWER EFFICIENCY & PERFORMANCE

DESIGN & PRODUCTION



### Simplicity & cost

Lower cost vs Bulk HPM & FinFET  
Lower development cost vs. FinFET



### Reliability and yield

Memory: 50x better immunity to Neutron SER vs alternatives  
True process compensation through body bias



### Flexibility of usage

Single implementation from very low power to high performance  
Ultra low voltage / sub threshold



## Strategic agreement for 28nm FD-SOI signed with a top-tier foundry

- Expands the ecosystem
- Assures the industry of high-volume production of ST's FD-SOI based IC solutions
- Strengthens business and financial prospects of the EPS segment

# Sense, Power and Automotive 1Q14 Product Highlights

15

## AUTOMOTIVE



- Captured the win for the **EyeQ4** next-generation **ADAS vision processor** from **Mobileye**, the top supplier of such systems
- Exclusive agreement to supply **audio amplifiers** to a market-leading manufacturer of **audio sound systems**
- Earned breakthrough for **car audio processor** with a win with a major manufacturer in the **Japanese market**

## POWER AND SMARTPOWER



- Earned first win from a large Chinese manufacturer for **high-voltage IGBT** for a telecom application
- Launched a complete, configurable **plug-and-play street-lighting solution**
- Secured wins in **smartphones and GPS** applications for **tunable integrated RF capacitors** with leading manufacturers

## MEMS AND SENSORS



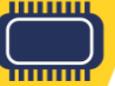
- Maintained momentum in **motion MEMS** with **multiple 6-axis wins** at leading manufacturers in **Greater China** and launch of a **new 9-axis** movement and position sensor
- Step forward in **environmental sensors** with **100% share** in all pressure sensors with a **leading consumer brand in Asia** and the launch of a **new pressure sensor** optimized for **wearable** applications
- **Touch-screen controllers** ramped production for a new **Samsung** smartphone. Additional big wins in tablets in Asia

# Embedded Processing Solutions

## 1Q14 Product Highlights

16

### MICROCONTROLLERS



- Ramped production of the **STM32** general purpose microcontrollers for three new **Samsung smartwatches** unveiled at MWC2014
- Wins for **lower-end ARM® Cortex®-M STM32F0** in several sensors, lighting applications, and gaming accessories
- **Flash-based Secure MCU** win for a major smartcard **health program** in Europe
- Announced **new platforms** (STM32 Nucleo) **and software** (STM32Cube) to enhance the **development ecosystem** and make STM32s even easier to design with

### IMAGING, BI-CMOS ASIC AND SILICON PHOTONICS



- Major socket for **time-of-flight photonic sensor** for an innovative camera system by a leading smart-phone manufacturer
- Won new **silicon-photonics** project and transceiver chipset for FibreChannel high-speed data-storage applications with a key customer

### DIGITAL CONVERGENCE



- Continued building global momentum in **set-top boxes**, collecting several design wins including **HEVC HD, HEVC UHD, and DOCSIS 3.0** sockets across Cannes, Alicante, Liege, and all product families
- Continued to see strong momentum for **28nm FD-SOI**, collecting two additional design wins

# Net Financial Position\*

End of period (US\$M)	March 29, 2014	Dec. 31, 2013	March 30, 2013
Available Cash and Marketable Securities	1,745	1,894	1,906
Non-Current Restricted Cash	-	-	4
<b>Total Liquidity</b>	<b>1,745</b>	<b>1,894</b>	<b>1,910</b>
Short term debt	(225)	(225)	(250)
Long-term debt	(908)	(928)	(647)
<b>Total Financial Debt</b>	<b>(1,133)</b>	<b>(1,153)</b>	<b>(897)</b>
<b>Net Financial Position</b>	<b>612</b>	<b>741</b>	<b>1,013</b>

## Maintaining a Strong Capital Structure

- \$612M Net Cash Balance
- \$610M Available Credit Facilities Undrawn

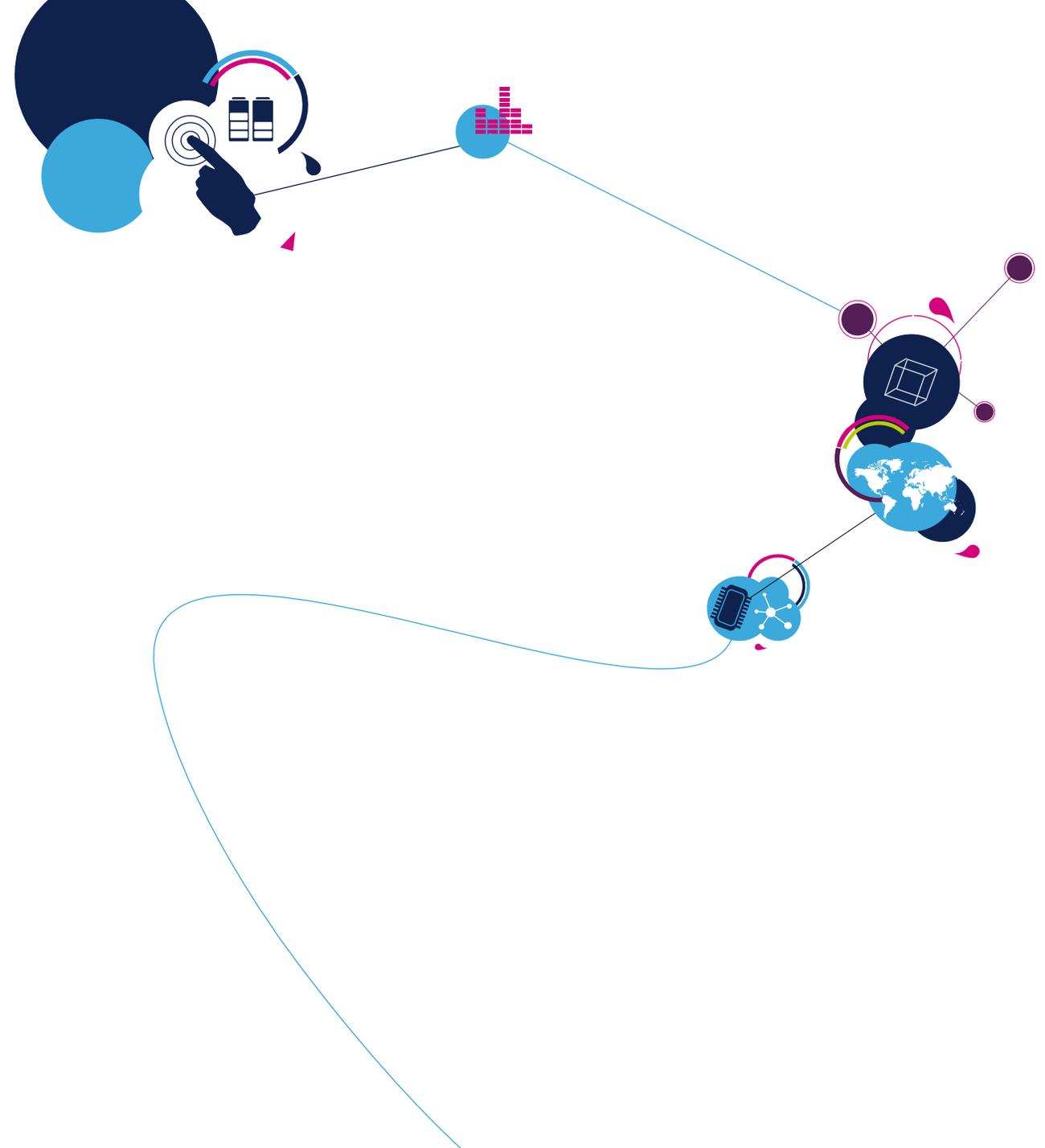
## Continuing to Reward Shareholders

- Stable cash dividend of \$0.10 per share for each of the 2nd and 3rd quarter of 2014 to be proposed to the 2014 AGM
- Dividend yield about 4.3%

- 2Q14 revenues expected to increase sequentially by about 2% at the midpoint, plus or minus 3.5 percentage points
  - As anticipated, ST-Ericsson's legacy product revenues are expected to be less than half of the \$63 million recorded in 1Q14.
- 2Q14 gross margin expected to be about 33.6%, plus or minus 2.0 percentage points.
- We are encouraged by the signs of improvement in the macro-economic environment generally and by specific product dynamics expected in the next several quarters.
- Opportunities in 2Q14
  - Continue to expand our customer base thanks to strength in microcontrollers, automotive and industrial and power applications.
  - Initial recovery of the Embedded Processing Solutions segment.
  - Further advance ST's leadership in key embedded processing solutions and technologies with the approval of the Nano2017 R&D program, now expected in 2Q14.

Outlook based on an assumed effective currency exchange rate of approximately \$1.36= €1.00 for 2Q14 and includes the impact of existing hedging contracts. 2Q14 will close on June 28, 2014

# Appendix



# Pre-Tax Items to Adjusted Earnings\*

OPERATING RESULT	<i>In US\$M</i>	1Q13	4Q13	1Q14
	NET EARNINGS	<b>U.S. GAAP Net Earnings</b>	(171)	(36)
Impairment & Restructuring Charges (attributable to Parent Company's shareholders)**		58	29	12
Estimated Income Tax effect of Adjustment		(3)	(6)	(1)
<b>Adjusted Net Earnings*</b>		(116)	(13)	(13)

\* See appendix

\*\* Total Impairment & Restructuring Charges were \$101M in 1Q13, \$29M in 4Q13 and \$12M in 1Q14.

- **Free cash flow** is defined as net cash from operating activities minus net cash from (used in) investing activities, excluding proceeds from the sale of marketable securities. We believe free cash flow provides useful information for investors and management because it measures our capacity to generate cash from our operating and investing activities to sustain our operating activities. Free cash flow is not a U.S. GAAP measure and does not represent total cash flow since it does not include the cash flows generated by or used in financing activities. In addition, our definition of free cash flow may differ from definitions used by other companies.
- **Net financial position:** resources (debt), represents the balance between our total financial resources and our total financial debt. Our total financial resources include cash and cash equivalents, marketable securities, short-term deposits and restricted cash, and our total financial debt includes short term borrowings, current portion of long-term debt and long-term debt, all as reported in our consolidated balance sheet. We believe our net financial position provides useful information for investors because it gives evidence of our global position either in terms of net indebtedness or net cash position by measuring our capital resources based on cash, cash equivalents and marketable securities and the total level of our financial indebtedness. Net financial position is not a U.S. GAAP measure.
- **Operating income before impairment and restructuring** excludes impairment, restructuring charges and other related closure costs..
- **Adjusted net earnings and earnings per share (EPS)** are used by our management to help enhance an understanding of ongoing operations and to communicate the impact of the excluded items like impairment, restructuring charges and other related closure costs attributable to ST, net of the relevant tax impact.