STMicroelectronics
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Q318 Financial Results
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Good morning, and thank you for joining ST on our earnings call today. Let me begin with some high level comments.

- ST is on track to deliver a year of strong growth in revenues, operating profitability and earnings per share. We are focused on driving sustainable profitable growth and our third quarter is another step forward in our progress.

- Importantly, revenue growth and operating leverage are translating into expansion of profitability.

Based upon our results and outlook, we anticipate net revenues in 2018 to grow about 16% at the mid-point. This means we are outpacing the 2018 growth of the markets we serve, in line with our expectations that we shared with you at our Capital Markets Day back in May.

Now, let's move to our financial highlights. We had a very good third quarter. Our results were very much as expected and we see a solid fourth quarter ahead of us.

- Third quarter net revenues increased 18% year-over-year, on strong growth for Imaging, Power Discrete and Automotive products. On a sequential basis, ST's revenues increased 11.2%, 120 basis points above the midpoint of our guidance, on higher than expected sales of Imaging products.
- Our gross profit increased by about 19% year-over-year to over $1 billion. On a sequential basis, gross profit increased by about 10%.
- Gross margin was 39.8%, 20 basis points above the year-ago period.
- Net operating expenses came in at $605 million.
- Operating Income, Operating Margin and Net Income all grew substantially both year-over-year and sequentially.

The increase in profitability translated into strong growth in our net cash from operating activities, which was up over 18% on a trailing twelve months basis to almost $1.8 billion.

Our free cash flow in the quarter was $114 million, back to a positive level compared to the second quarter, as we had expected. For the first nine months, free cash flow was $170 million, comparing favorably with our cash dividends year-to-date of $162 million. I confirm that we will have a positive free cash flow for the fourth quarter much higher than our dividend and that we will exit 2018 with a higher net cash position compared to 2017.

Now, let's look at our results by product group, beginning with our Analog, MEMS and Sensors group. During Q3, AMS revenues reached $899 million, an increase year-over-year of 36.7% on triple-digit growth in Imaging, and growth in Analog and MEMS. AMS operating profit grew about 82% to $157 million and its operating margin expanded over 400 basis points to 17.5%. For AMS, we had anticipated second half 2018 operating margins to move into the mid-teens, as we benefit from revenue leverage, specifically from smartphone applications. In Q3 we exceeded that operating margin target.

Moving to our Automotive and Discrete Group, ADG's revenue increased 16.3% to just above $900 million, on growth in both Automotive and Power Discrete. ADG's operating profit increased 36.2% to $116 million. Its operating margin increased year-over-year to 12.8%, from 10.9%. For ADG, we had anticipated second half 2018 operating margins to move into the low-teens. Indeed, we made good progress in Q3.

As you know, other ST organizations also serve the automotive market. Overall demand for our automotive products continues to be strong, and we confirm that we expect ST's automotive business to grow above the company average for 2018, at about 17% year-over-year.

Finishing our product group discussion with the Microcontrollers and Digital ICs group, MDG revenues increased 2.5% year-over-year. On a sequential basis, revenues decreased 8.1%. As we had anticipated early in September, we have seen a softening of the mass market in China. This, coupled with shorter lead times in microcontrollers, translated into some inventory correction.

MDG's operating income was $119 million in the third quarter, representing an operating margin of 16.6%, compared to 18.0% in the year-ago period. This was principally due to less favorable mix between Microcontrollers and other products.

On a year-to-date basis, all product groups are well balanced and posted double-digit revenue growth. Operating margin for all the product groups improved on a first nine months basis compared to the year-ago period.

This brings me to our performance in the four end markets we serve. A common theme across these markets is our capability to introduce and ramp innovative products, often based on ST proprietary technologies and often first to market. Our ability to have the right products, available in high volumes, translates into long-lasting customer relationships –and ultimately translates into long-lasting growing revenues. Recent examples include our success in Imaging and in Silicon Carbide.

Our coverage in **Automotive** is very broad: we have an offer for most of the car electronic applications, where the silicon content continues to grow much faster than car units. We have two areas of particular focus. The first is car electrification. Here we continued to win designs with our Silicon Carbide products for on-board chargers as well as charging station applications.

As you know, Silicon Carbide is a strategic priority for ST and our aim is to be the leader here. We are well positioned: together with industry leaders along the supply chain, we bring radical innovation to the automotive market. As a consequence, we are now working on more than 30 SiC projects across the world with carmakers and tier1 suppliers. We are ready to capture an important part of this market, which is estimated to be about $3 Billion in 2025.

The second area is autonomous driving, where we won a power management slot for a 77 GHz radar system. Our business in automotive sensors, a key component of autonomous cars, also continued its positive momentum this quarter with a number of new wins.

Another strategic area for us: **Industrial**, with tens of thousands of customers and hundreds of applications where we offer leading-edge products. Complemented by our system solution approach, we sell products from all our portfolio, such as power and analog, microcontrollers, sensors and connectivity. Some examples of applications behind the design wins this quarter include logistics tracking, industrial lighting, washing machines, medical power supplies, factory automation, predictive maintenance, metering and solar panels.

In **Personal Electronics** our main focus is on smartphones, where we push to increase content per device. During the quarter we had a number of design wins with our time-of-flight sensors, motion sensors, power management ICs and low voltage motor drivers. We also began ramping production of 2 new products: in secure MCUs with a new embedded SIM program at a top smartphone manufacturer, and in Imaging with a new generation of ambient light sensor for a major player.

We also had success in smartwatches with sensors and our ultra-low power microcontrollers.

In Communications Equipment, Computers & Peripherals we leverage our in-house processes on very specific application areas. During the quarter we won a design with our BiCMOS technology for an RF chip for cellular base station infrastructure, as well as a socket inside a power subsystem for 5G networking equipment with our BCD technology. We also won multiple sockets for computer power management using a combination of our BCD and VIPower technologies.

Now, let's move to our Q4 outlook.

In the fourth quarter, we expect net revenues to increase about 5.7% sequentially, translating into year-over-year growth of about 8% at the midpoint. The key drivers of our sales growth sequentially will continue to come from Imaging, Automotive and Power Discrete, while Microcontrollers will still face soft market conditions in China and some inventory correction.

We anticipate a gross margin of about 39.8% at the midpoint.

In terms of operating margin, we are overall on track with our second half 2018 target, just with slight differences in terms of Product Group dynamics:

- For ADG- we confirm the low-teens operating margin target.
- For MDG- the product group is performing below expectations, due to the less favorable mix between Microcontrollers and other products. Therefore, we expect

an operating margin in the second half similar to the result in Q3.

- For AMS- the product group is performing above expectations, moving towards the high-teens.

So, we see sequential improvement for our gross profit, operating income and margin, and for net income.

Based on this outlook, we expect our full-year 2018 revenues to grow about 16% over last year. Importantly, this revenue growth will come with substantial improvements in our profitability at the operating and bottom line.

We are now available to answer your questions.