STMicroelectronics
Jean-Marc Chery – President & CEO
Q3 2021 Financial Results
October 28, 2021 – Final

Good morning and thank you for joining ST for our Q3 2021 earnings conference call.

Let me begin with some opening comments, starting with Q3:

- Net revenues increased 6.9% on a sequential basis to $3.20 billion, substantially in line with the mid-point of our business outlook range. The revenue performance was driven by strong global demand and by our engaged customer programs in Personal Electronics. This was partially offset by lower-than-expected revenues in Automotive, caused by more severe than anticipated reduced operations at our Malaysian manufacturing facility due to the pandemic. Our gross margin at 41.6% came in 60 basis points above the mid-point of our range.
- Looking at our year-over-year performance, net revenues increased 19.9%. Our gross margin of 41.6% and operating margin of 18.9% improved from 36.0% and 12.3%, respectively. Our net income nearly doubled to $474 million.

On a year-to-date basis:

Net revenues increased 31.8% to $9.20 billion, driven by growth in all product groups, except the RF Communications sub-group. For the nine-month period, we reported a gross margin of 40.4%, operating margin of 16.7% and net income of $1.25 billion.

On Q4 2021:

At the mid-point of our outlook, we expect net revenues in the fourth quarter to be about $3.40 billion, representing an increase of 6.3% sequentially. Gross margin is expected to be about 43.0% at the mid-point, representing a sequential increase of 140 basis points.

For the full year 2021:

- Based on the mid-point of our Q421 guidance, we now expect full year revenues of about $12.6 billion, representing a year-over-year increase of 23.3%, at the high-end of the range we provided in July. This growth is expected to be driven by continuing strong dynamics in all the end markets we address and our engaged customer programs.
- Our 2021 CAPEX investment plan of about $2.1 billion remains unchanged.

Now, let’s move to a detailed review of the third quarter.

The revenue performance was driven by strong global demand and by our engaged customer programs in Personal Electronics, partially offset by the impact of the pandemic in Malaysia.

Net revenues increased 19.9% year-over-year, with higher sales in our three product groups and all sub-groups except, as expected, the RF Communications sub-group. Year-over-year, sales to OEMs increased 9.9% and 48.6% to Distribution.

On a sequential basis, net revenues increased 6.9%, substantially in line with the mid-point of our outlook. This growth was mainly driven by AMS, up 25.2% and, to a lesser extent MDG, up 2.6%, while ADG decreased by 6.7%, caused by more severe than anticipated reduced operations at our Malaysian manufacturing facility due to the pandemic. Specifically, the incremental revenue impact in Q3 related to Muar is about $100 million above our initial assessment, mainly for the Automotive sub-group.

Gross profit was $1.33 billion, increasing 38.7% on a year-over-year basis.

Gross margin increased year-over-year to 41.6% from 36.0%, mainly driven by manufacturing -both efficiencies and better loading-, as well as product mix and more favorable pricing. These positive drivers were partially offset by negative currency effects, net of hedging. Our third quarter gross margin was 60 basis points above the mid-point of our guidance, driven by product mix.

Third quarter operating margin was 18.9%, from 12.3% in Q320, with improvements in all three product groups.

Both net income and diluted earnings per share nearly doubled year-over-year, respectively reaching $474 million and $0.51, from $242 million and $0.26 per share in Q320.

Looking at the year-over-year performance, all product groups recorded double-digit growth:

- ADG revenues increased 18.1%, on growth in Automotive and in Power Discrete.
- AMS revenues increased 27.1%, on higher Analog, MEMS and Imaging product sales.
- MDG revenues increased 12.9%, on growth in Microcontrollers partially offset by the expected decline in RF Communications.

By product group on a year-over-year basis, all product groups showed improvement in operating margin:

- ADG operating margin increased to 10.8% from 5.8%;
- AMS operating margin increased to 24.0% from 17.5%; and
- MDG operating margin increased to 23.9% from 17.4%.

Net cash from operating activities more than doubled to $895 million in Q3, versus $385 million in the year-ago quarter.

CAPEX in the third quarter was $437 million compared to $319 million in the year-ago quarter.

Free cash flow improved to $420 million compared to a negative $25 million in Q320.

We exercised the call option for the early redemption of our 2024 Tranche B convertible bond issued in 2017. As a consequence, bondholders exercised their conversion rights on the total of $750 million principal amount of the bond. In the third quarter, we fully settled this bond, delivering about 5.8 million treasury shares and paying $1.26 billion in cash, which includes the $750 million principal amount.

During the third quarter, we paid $55 million of cash dividends to shareholders, and we executed a $87 million share buy-back, in connection with our new share repurchase program initiated on July 1st of this year.

Our net financial position was $798 million at October 2, 2021, reflecting total liquidity of $3.46 billion and total financial debt of $2.66 billion.

Let’s now discuss the market and business dynamics.

Similar to the second quarter, the backdrop of strong global demand continued, with supply chains remaining stretched.

In Automotive, bookings remained strong in Q3, and the backlog still covers about 18 months of demand. Demand continues to be well above our current and planned manufacturing capacity.

One of the biggest challenges in the quarter for the whole automotive industry has been the pandemic situation in Malaysia, a country accounting for 13% of the worldwide chip assembly testing production.

This had an impact also on us.

First of all, to our deepest regret, it impacted our employees and their families at our site in Muar.

Then, there was the operational impact.

With the worsening of the situation in July and August, the impact of reduced operations in our facilities in Muar became more severe than anticipated when providing our Q321 business outlook. Our site went through a period of partial or complete closures, with a progressive return to 100% production capacity during Q3.

Moving now to car electrification and digitalization.
In car electrification, we added to our list of projects for Silicon Carbide devices. Overall, our engagements increased again during the quarter - now with 85 ongoing programs and 70 customers, equally split between Industrial and Automotive.

I am pleased to announce that, based on our strong pipeline of design wins and market dynamics, we now anticipate to reach our target of $1 billion of Silicon Carbide revenues in 2024, one year earlier than planned.

New design wins in Q3 included a Gen3 SiC MOSFET for an EV climate control compressor. There were also a number of other EV applications where we had success with complementary technologies. These included sockets for high and low voltage silicon MOSFETs and microcontrollers in Battery Management Systems and traction inverters, MOSFETs in inverters, onboard chargers and DC/DC converters, and VIPower in EV battery packs.

In car digitalization, during the quarter we had a number of design wins with our 32-bit automotive microcontroller family in applications like body domain smart gateways, as well as a win for our Teseo GNSS chipset in an Audio Video navigation system.

Also, in our automotive sensor business, we won sockets with automotive-grade inertial measurement units across multiple applications such as telematics, door control, and navigation.

Moving now to Industrial.
We continued to see very strong demand, both in high-end and consumer industrial, and with Distribution as well as OEMs, in line with our broad approach in the highly fragmented industrial market. Inventories of our products at distributors continue to be lean across all product families, with high inventory turns.

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

In embedded processing we are continuing to strengthen our leadership through the STM32 family offering and ecosystem. As I have mentioned before, we have a particular focus on wireless connectivity, security, and artificial intelligence.

We are seeing increasing success with our STM32 wireless product line achieving design wins across a broad customer base. We strengthened support for wireless design with additional software tools as well as new modules that will help developers go faster.

In Artificial Intelligence, we released tools that add new AI methods to our STM32Cube.AI.

In Power & Energy management, we achieved a number of wins with our power discrete portfolio: for example, with Silicon Carbide transistors and modules, with high and low voltage silicon MOSFETs, with IGBTs, and with diodes. Applications included solar inverters, energy storage systems, power adapters, home appliances, air conditioning and lighting, welding and industrial power supplies. We also won a 1200V SiC-based power module for an EV charging station.

In the quarter, we also had many new designs with our Industrial analog products with awards in applications like motion control, smart grid, factory automation, and home appliances.

We continued to win business in sensors for industrial applications such as power tools and with our specialized devices like inclinometers.

Moving now to the Personal Electronics market.
In Q3 we continued to see strong demand for smartphones and for other connected devices including wearables, tablets, hearables, True Wireless Stereo headsets and game consoles.

Our first strategic objective in Personal Electronics is to lead in selected high-volume smartphone applications with differentiated products or custom solutions.

During the quarter we won sockets in a number of devices with motion sensors, ambient light sensors, time-of-flight ranging sensors for laser autofocus, wireless charging products, touch display controllers, and secure solutions.

Our second objective is to leverage our broad portfolio to address high-volume applications. Here we had wins with a broad range of light, motion and environmental sensors as well as with analog, power, and microcontrollers in applications such as smart watches, True Wireless Stereo headsets and smart shoes.

We also progressed on engagements with several leading players for our Laser Beam Scanning solutions for Augmented Reality.

In Communications Equipment and Computer Peripherals, we continued to see adoption of 5G-related products as well as a sustained demand for PCs, mainly for enterprise notebooks. Moreover, following the recent LEO satellite launches, I can confirm that our programs and ramp-up are on schedule.

We have three strategic objectives in our approach to this end market. One is to address selected applications in cellular and satellite communication infrastructure. In this area we were awarded new sockets in an RF design for satellites.

We also target selected high-volume applications with differentiated products or custom solutions, while leveraging our broad portfolio.

Our wins here include time-of-flight sensors for laptops, many general purpose MCU design-ins, as well as a win with our MasterGaN family for smart charging control in an ultra-slim power adaptor.

Now, let's discuss the fourth quarter outlook.

For the fourth quarter, we expect net revenues to be about $3.40 billion at the mid-point, representing growth of 5.1% year-over-year and 6.3% sequentially. Gross margin is expected to be about 43.0% at the mid-point, representing year-over-year and sequential increases of 420 basis points and 140 basis points, respectively.

Based upon our year-to-date results and Q4 mid-point, we now expect 2021 net revenues of about $12.6 billion, at the high-end of the range we provided in July.

- This plan will translate into year-over-year growth of 23.3% at the mid-point.

- Drivers of this expected growth are the continuing strong dynamics in all the end markets we address and our engaged customer programs.

To conclude:

Our results in the third quarter and higher sales plan for the full year reflect strong year-over-year revenue growth, translating into higher operating profitability, net income and free cash flow.

Revenue growth stems from the expected continuation of strong dynamics in all the end markets we address and our engaged customer programs.

Our focus stays on customers. We continue to adapt our supply chain to support their strong demand. We also continue to provide leading-edge technology and product innovation to enable smarter mobility, more efficient power & energy management, the wide-scale deployment of IoT and 5G, and a more sustainable world.

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