STMicroelectronics
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Q4 & FY 2020 Financial Results
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Good morning and thank you for joining ST for our Q4 and full year 2020 earnings conference call.

Let me begin with some opening comments.

Starting with Q4:

- As announced on January 8, net revenues, at $3.24 billion, were up 21.3% sequentially, significantly above the high end of our guidance. Our engaged customer programs in Personal Electronics, as well as continuous acceleration in demand especially of Automotive products and Microcontrollers, were the main factors that contributed to this result.
- Q420 gross margin was 38.8%, 30 basis points above the mid-point of our guidance.
- Our operating margin was 20.3% and our net income was $582 million.

Moving to the full year 2020:

- Net revenues increased 6.9% to $10.2 billion for 2020, progressively strengthening versus the expectations we provided during the year. This was due to the stronger, and faster than expected, restart of demand during the second half.
- FY20 gross margin was 37.1%. Operating margin was 12.9% and net income $1.1 billion.
- Free cash flow for the year was $627 million, and CAPEX was $1.28 billion. Our net financial position increased to $1.1 billion at December 31, 2020, from $672 million one year earlier.

On Q1 2021:

- At the mid-point, our first quarter business outlook is for net revenues of $2.93 billion, representing a year-over-year increase of about 31.2%; the gross margin is expected to be about 38.5%.

For the full year 2021:

- We plan for solid revenue growth, outperforming the markets we serve.
- Smart mobility, power and energy management, the IoT and 5G are driving demand for semiconductor content and these trends have accelerated during 2020. ST's strategy stems from these

long-term enablers and we are very well positioned to support our customers across them.

- We plan to invest about $1.8 billion to $2.0 billion in CAPEX, in order to support the strong market demand as well as our strategic initiatives.

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

During Q4, market demand accelerated sharply versus expectations. As we pre-announced on January 8th, net revenues came in 580 basis points above the high end of our outlook range.

On a sequential basis, net revenues increased 21.3%, with all three product groups performing above expectations: AMS was up 42.4%, ADG up 12.1% and MDG up 5.3%.

On a year-over-year basis, Q4 net revenues increased 17.5%, driven by all product sub-groups, with only RF Communications decreasing, as expected, affected by the US-China trade war. AMS grew 30.8%, MDG grew 15.7% and ADG saw a return to year-over-year growth, increasing 3.2%.

Our gross profit was $1.25 billion, an increase of 16.0% year-over-year.

Gross margin was 38.8%, 30 basis points above the mid-point of our guidance. In comparison to the year-ago quarter, the gross margin decrease of 50 basis points was mainly due to usual price pressure and negative currency effects, net of hedging, partially offset by improved mix and lower unloading charges.

Net operating expenses were $598 million. Included in this amount, Other Income and Expenses improved to a net income of $131 million, compared to a net income of $54 million in the year-ago quarter, mainly due to a non-recurrent favorable impact of some R&D grants catch-up.

Q4 operating margin was 20.3%, up 800 basis points sequentially.

On a year-over-year basis, Q4 operating margin was up 360 basis points, with an improvement in AMS and MDG partially offset by a decline in ADG.

Net income was $582 million and diluted earnings per share were 63 cents.

Let's look now in more detail at our full year results, starting with a recap of the market and business trends we saw during 2020 – which was clearly an unprecedented year with material swings.

During the first half of the year, our business continuity plans enabled us to support our customers and to continue to execute our R&D programs, while maintaining the most stringent health and safety measures.

Then, from Q3, we saw a much faster and stronger than expected restart of demand for our products, which further accelerated in Q4.

In Automotive, the negative impact on demand was particularly strong in Q2, especially for legacy automotive in Europe and in the US, with many carmakers and Tier 1's shutting down for a period. Importantly, even at that time we did not see any substantial slowdown of customer activity on long-term, strategic smart mobility projects. After the summer, global demand started to pick up sequentially, much faster and stronger than the industry had anticipated. We then saw a further acceleration during Q4, driven by car production volumes, replenishment of inventories across the Automotive supply chain and, more broadly, semiconductor content increase related to electrification and digitalization.

In Industrial, during the first half we saw a demand slowdown in some applications (appliances, lighting) while others, such as healthcare, remained positive. From the end of Q2, we started to see improved dynamics in key application areas for ST, such as power-related applications, renewable energy, motion control and factory automation. This continued in Q3 and, during Q4, the situation improved strongly across all geographies.

Distribution is a key element of our go-to-market strategy in Industrial. Here we saw different regional dynamics: China was hit first by the pandemic effect in Q1 but started to recover as soon as Q2, while the slowdown in Europe and in the US came a bit later in Q1 but continued during Q2. From Q3 we saw improvements in Asia overall, with healthy levels of inventory in our distribution channel across all product families, and recovery in the Americas and Europe. In Q4, this positive trend accelerated. Inventories of our products at distributors are currently very lean across all product families and geographies, with very high inventory turns.

In Personal Electronics, during the first half consumer demand for devices like smartphones was clearly impacted by retail lockdowns, but demand for our key products remained strong, thanks to our engaged customer programs. From Q3 there was a strong restart of consumer demand for smartphones, driven by the introduction of 5G devices. This trend accelerated in Q4.

Demand related to accessories was strong throughout the year, with healthy dynamics related to wearables, tablets, hearables, True Wireless Stereo headsets and game consoles.

In Communications Equipment and Computer Peripherals we saw solid demand throughout the year for products related to homeworking and enterprise servers, while the overall market for hard-disk drives was softer. This was also valid in Q4. The 5G equipment roll-out went through a significant slowdown in China during Q4.

Looking now at our full year financial results.

Net revenues were $10.2 billion for 2020, increasing 6.9% year-over-year, progressively strengthening compared to the full year expectations shared in April and the regular updates we gave during the year.

Sales to OEMs represented 73% of total revenues, while Distribution represented 27%.

By region of origin, 42% of our 2020 revenues were from the Americas, 34% from Asia Pacific, and 24% from EMEA.

In terms of revenues by Product Group, two groups grew while one declined.

ADG revenues decreased 8.9%.

- Revenues from our Automotive Product sub-group decreased, mainly due to a decline in legacy automotive, partially offset by growth in ADAS.
- Revenues for the Power Discrete sub-group saw a lower decrease, with soft market conditions for Industrial in Europe and the Americas partially offset by growth in car electrification.

AMS revenues increased 18.0%, mainly driven by Imaging and Analog products for Personal Electronics.

MDG revenues increased 14.9%, driven by strong growth in microcontrollers at both OEMs and Distribution and partially offset by the strong decline in RF communications products in Q4.

Gross margin was 37.1%, 160 basis points lower than 2019, principally reflecting higher unsaturation charges of about 150 basis points compared to about 70 basis points in FY2019.

Our operating margin for 2020 was 12.9%, in line with the double-digit target we had shared.

AMS posted an operating margin of 20.8%, MDG was 16.6% and ADG was 5.5%.

Net income increased 7.2% to $1.1 billion, translating into diluted earnings per share of $1.20.

Moving now to other financial indicators:

Net cash from operating activities increased 12% to $2.09 billion. CAPEX was $1.28 billion, substantially in line with the updated investment plan we announced last April, and further refined in Q2, from the initial expectation of $1.5 billion.

Free cash flow in Q4 was $512 million, bringing the full year free cash flow to $627 million, up 26%.

Cash dividends paid to stockholders totaled $168 million. As part of our existing share buyback program, we repurchased shares totaling $125 million during the year.

During Q3, ST exercised the call option for the early redemption of its $750 million 2022 Tranche A of the convertible bond issued in 2017. Simultaneously with the exercise of the call option, ST issued a new $1.5 billion dual-tranche senior unsecured convertible bond due 2025 and 2027.

Our net financial position exiting the year was $1.1 billion, up from $672 million at the end of 2019.

Now, let's move to our first quarter 2021 outlook and our perspective on the full year 2021.

For Q1 we expect, at the midpoint, net revenues of $2.93 billion increasing year-over-year by about 31.2% and decreasing sequentially by about 9.5%.

On a year-over-year basis, all product groups will contribute to the growth.

On a sequential basis, the decline will be lower than the usual seasonality. We expect a decline in AMS due to seasonality in personal electronics, stable revenues in MDG and a mid-single digit increase in ADG, driven by strong demand in Automotive.

Our gross margin at the mid-point is expected to be about 38.5%, representing a sequential decrease of about 30 basis points. Year-over-year, the increase of about 60 basis points is mainly due to much lower unloading charges.

For the full year:
We plan for solid revenue growth, outperforming the markets we serve.

The broad, long-term trends in electronic systems that we are focused on, have accelerated during 2020 and are driving demand for our products. These trends are Smart Mobility, Power & Energy applications, and IoT & 5G.

We are also facing an unprecedented market situation. Semiconductor demand is increasing across the entire industry, driven by car production volumes and replenishment of inventories across the Automotive supply chain, very lean inventory levels at distributors, and Stay-at-Home effects boosting demand of Personal Electronics and Communications products.

In terms of CAPEX, we plan to invest about $1.8 billion to $2 billion in 2021, in order to meet the strong market demand and also to advance our strategic initiatives.

This amount includes mainly the addition of capacity for our existing Crolles 300mm fab, mix evolution for our most advanced 200mm fabs and Silicon Carbide strong capacity expansion.

It also includes about $400 million of investments for strategic initiatives, as well as the support of R&D activities and the maintenance required by our manufacturing operations.

These strategic initiatives are:

- Continued investment in our new Agrate 300mm fab
- R&D for Gallium Nitride power technologies; and
- Fabrication of Silicon Carbide substrates.

To conclude.
On 2020:

- We returned to solid revenue growth, outperforming the markets we serve.
- We maintained our profitability with an operating margin at 12.9% and net income at $1.1 billion.
- We strengthened our net financial position, with strong growth in operating and free cash flow.
- ST demonstrated both resilience during the first half of this unprecedented year, and the ability to support the strong and sudden upswing in demand during the second half: working alongside our customers and partners during all the different phases we had to go through, together, in 2020.

For 2021:

- We are determined to continue to make ST stronger. We are convinced that we have the right strategy and resources to do this - our balanced markets position, our focus on high growth applications, and our solid product / IP Technology portfolio.
- These are supported by our operating discipline and agility, now more important than ever in such a dynamic market, and by the improvement programs and transformation programs we are engaged in.
- This will translate into solid revenue growth and improved financial performance.

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