Q2 2022
Earnings Results
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Good morning and thank you for joining ST for our Q2 2022 earnings conference call.

Let me begin with some opening comments.

Starting with Q2:

- Q2 net revenues of $3.84 billion and gross margin of 47.4% came in above the mid-point of our business outlook range, driven by continued strong demand for our product portfolio.
- Year-over year, net revenues grew 28.3%. This revenue growth was accompanied by improved profitability: gross margin at 47.4%, up from 40.5%; operating margin at 26.2%, up from 16.3%; and net income more than doubled to $867 million.
- On a sequential basis, net revenues increased 8.2%.

On the first half of 2022:

- Net revenues increased 22.9% year-over-year to $7.38 billion, driven by growth in all product groups and sub-groups.
- H1 operating margin was 25.5% and net income was $1.61 billion.

On Q3 2022:

- Our third quarter business outlook at the mid-point, is for net revenues of $4.24 billion, increasing by 32.6% year-over-year and by 10.5% sequentially, with a gross margin of about 47.0%.

For the full year 2022:

- We will now drive the Company based on a plan for full year 2022 revenues in the range of $15.9 billion to $16.2 billion, above the high-end of our previous expectation. We now anticipate gross margin to be about 47.0% for the full year.

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

Net revenues increased 28.3% year-over-year, with higher sales in our three product groups and all sub-groups. Year-over-year, sales to OEMs increased 31.7% and 22.2% to Distribution.

On a sequential basis, net revenues increased 8.2% and were 240 basis points above the mid-point of our outlook.

Gross profit was $1.82 billion, increasing 50.2% on a year-over-year basis.

Gross margin increased by 690 basis points year-over-year to 47.4%, mainly driven by favorable pricing and improved product mix partially offset by inflation of manufacturing input costs. Our second quarter gross margin was 140 basis points above the mid-point of our guidance, driven by similar pricing and product mix factors.

Second quarter operating income doubled to $1 billion. Operating margin was 26.2%, increasing from 16.3% in Q221, with improvements in all three product groups.

Both net income and diluted earnings per share more than doubled year-over-year, with net income reaching $867 million from $412 million, and diluted earnings per share increasing to $0.92 up from $0.44.

Looking at the year-over-year sales performance by product groups:

- ADG revenues increased 35.1%, on growth in both Automotive and in Power Discrete.
- AMS revenues grew 11.3%, on higher Analog, MEMS and Imaging product sales.
- MDG revenues increased 39.5% on growth in both Microcontrollers and in RF Communications.

In terms of operating margin, all product groups demonstrated year-over-year expansion with:

- ADG operating margin of 24.7%, up from 9.5%;
- AMS operating margin of 23.8%, up from 18.6%; and
- MDG operating margin increasing to 34.0% from 22.9%.

Net cash from operating activities increased to $1.06 billion in Q2, versus $602 million in the year-ago quarter. On a trailing-twelve months basis, net cash from operating activities totaled $3.78 billion, increasing 45.8% from $2.59 billion.

CAPEX in the second quarter was $809 million compared to $438 million in the year-ago quarter. After the strong investment in CAPEX, free cash flow was $230 million compared to $125 million in the year-ago quarter.

During the second quarter, ST paid $54 million of cash dividends to stockholders, and we executed an $87 million share buy-back under our current share repurchase program.

Our net financial position was $924 million at July 2, 2022, compared to $840 million at April 2, 2022. It reflected total liquidity of $3.44 billion and total financial debt of $2.52 billion.

Let’s now discuss the market and business dynamics of the quarter.

Overall, demand for ST products continued to be strong. Let me share with you a few data points.

Our backlog exiting Q2 covered 6 to 8 quarters of planned capacity, depending on the product type. Book-to-bill is well above parity. Our manufacturing capacity is fully saturated.

From an end-market standpoint, demand both in Automotive and in what we call the B2B part of the industrial market - Factory automation, Robotics and Industrial Infrastructure - remains strong, driven by semiconductor pervasion and structural transformation. In the consumer electronics and PC markets there are some broad signs of softening, but demand for ST products remains strong in the selected areas we target in these markets.

Going now into more detail on the Automotive market, we continued to see strong demand in Q2, still reflecting the combined effect of replenishment of inventories across the automotive supply chain and the ongoing electrification and digitalization transformation of the industry.

Bookings remained strong across all customers and geographies. Backlog visibility is now above 18 months and well above our current and planned manufacturing capacity through 2023.

The accelerated transformation of the automotive industry with electrification and digitalization, and semiconductor pervasion, continued to drive wins for ST during Q2.

For car electrification we again increased the number of ongoing silicon carbide programs. Between the automotive and the industrial markets we now have 102 projects, spread over 77 customers. These projects are roughly equally split between the two end markets, and we are in line with our revenue target of $1 billion silicon carbide revenues in 2023.

We had a number of new design wins in Q2 with a range of silicon and silicon carbide power discretes. This included Gen3 SiC MOSFET dice with a module maker, rectifiers, ultrafast and silicon carbide diodes and our ACEPACK power module for traction inverter, on-board charger and other EV related applications. We also won sockets for power-management ICs in on-board chargers, DC-DC conversion, and electronic parking brake applications at multiple Tier1s and car makers.

In car digitalization, we announced last week a new cooperation model with the Volkswagen group for our next generation digital automotive solutions, the Stellar microcontroller family. This will include the direct usage of our high-performance Stellar microcontroller family and the joint development with VW-Cariad for a System-on-Chip Stellar microprocessor. Both the microcontroller and the SoC microprocessor will address multiple applications within the new zonal architecture platform of the VW Group, which is called the VW Trinity project.

In our automotive sensor business, we had multiple wins for devices in our 6-axis Automotive sensor family, including our embedded Machine Learning Core sensors. We continued to gain traction for our automotive global shutter product family with major OEM-program design-wins.

Moving now to Industrial.

Here we saw strong demand throughout the quarter in B2B industrial from both Distribution and OEMs, with distribution inventories of our products remaining lean across all product families, and high inventory turns.

Across the Industrial market we see two main trends accelerating the increase in semiconductor content: digitalization of devices and systems and Energy Management and Power efficiency improvements. These trends are driving a structural transformation in this market.

We address the industrial end market focusing on three areas.

The B2B industrial segment - the largest part - which includes automation, robotics, power and energy, and transportation. Consumer industrial, which includes home appliances, smart buildings, and power tools. And a more specialized part addressing, for example, healthcare.

Across these three areas we had important wins with our broad portfolio: In B2B industrial, we had multiple design wins for products such as intelligent power switches, industrial sensors, high and low voltage MOSFETs, wireless charging solutions, and our STM32 embedded processing solutions. Applications included programmable logic controllers, robotics, energy storage and wind turbines.

In consumer industrial we had design wins in applications such as major home appliances, power tools, cleaning robots, consumer power supplies, point of sales terminals, and building air conditioning systems.

And in the specialized part, I would like to highlight just one innovative example in healthcare, where we announced the incorporation of an NFC tag into a connected syringe by NP Plastibell.

Before closing on Industrial, a few words on embedded processing where we continue to build on our number 1 position in 32-bit MCUs and where we announced enhancements to our security offer with Amazon Web Services, extensions of our support for Microsoft Azure RTOS across the product range, and additions to our NanoEdge AI Studio.

Moving now to Personal Electronics. Demand for our products, in the selected areas we target in the smartphone market, was above expectations.

In this market we focus on selected high-volume smartphone applications addressing them with differentiated or custom products while leveraging our broad portfolio to address other high-volume applications. During the quarter we won sockets in these devices with motion and environmental sensors, time-of-flight ranging sensors, touch display controllers, and secure solutions. We also made progress with our wireless charging solutions with wins in flagship smartphones and smart watches.

In Communications Equipment and Computer Peripherals we continued to see deployment of both 5G infrastructure products and of Low-Earth-Orbit Satellite programs and services around the globe.

Here we target selected high-volume applications – again with differentiated products or custom solutions while leveraging our broad portfolio.

New wins here included pressure sensors for hard disks, time-of-flight sensors for laptops, and our MasterGaN family for high-power-density charging adaptors.

I would also like to confirm our continued progress with key customer engagements in addressing selected applications in cellular and satellite communication infrastructure.

Now, let’s move to our 2022 third quarter outlook and plans for the full year 2022.

For the third quarter, at the mid-point, we expect net revenues to be about $4.24 billion, representing year-over-year and sequential growth of 32.6% and 10.5%, respectively. Gross margin is expected to be about 47.0% at the mid-point.

Looking at the full year, we will now plan to drive the Company based on 2022 net revenues in the range of $15.9 billion to $16.2 billion, representing growth of about 25% to 27%. This plan includes a gross margin of about 47.0%.

We confirm our 2022 capex investment range of $3.4 billion to $3.6 billion.

Before concluding, I want to highlight the recent announcement we made together with GlobalFoundries. We signed an MoU to create a new 300mm semiconductor manufacturing facility adjacent to ST's existing 300mm facility in Crolles, France. This is a projected multi-billion-euro collaborative investment that will include significant financial support from the State of France. The project is subject to the execution of definitive agreements and various regulatory approvals, including from the European Commission's DG Competition.

As you know, we are transforming our manufacturing base with a significant expansion of our 300mm capacity, a major enabler supporting ST's $20 billion+ revenue ambition.

We already have a unique position in our 300mm wafer fab in Crolles which will be further strengthened by this important initiative.

We continue to invest into our new 300mm wafer fab in Agrate (near Milan, Italy), ramping up in H1 2023 with an expected full saturation by the end of 2025, as well as in our vertically integrated silicon carbide and gallium nitride manufacturing.

This new facility will enable us to support even more our European and global customers across all end-markets and to advance our leadership objectives in Automotive and Industrial as well as our focused activities in Communications Infrastructure.

Importantly, we are targeting to make this new fab a leader in sustainable semiconductor manufacturing. For example, it is designed to be 10 to 20 times less emissive in terms of greenhouse gases than similar projects in Europe and in the rest of the world.

And, of course, working with GF will allow us to go faster, lower the risk thresholds and, ultimately, reinforce the European FD-SOI ecosystem.

To conclude:

Our Q2 financial results, and plan for the full year 2022, are aligned with ST’s strategic focus on core business and targeted high-growth areas.

We continue to leverage our early investments in Smart Mobility, Power and Energy Management, and IoT & Connectivity. We are building on the unique strengths of our Integrated Device Manufacturer model complemented by partnerships with foundries and suppliers, customer relationships and our established end-market and application strategy. These initiatives will support the $20B+ revenue ambition we outlined at our Capital Markets Day.

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