Q3 2023
Earnings Results
Jean-Marc Chery, President & CEO
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Good morning everyone and thank you for joining ST for our Q3 2023 earnings conference call.

Let me begin with some opening comments.

Starting with Q3:

- Third quarter net revenues of $4.43 billion came in above the mid-point of our business outlook range, and Q3 gross margin of 47.6% was 10 basis points above guidance.
- Q3 net revenues increased 2.5% year-over-year. As expected, the revenue performance was driven mainly by continued growth in Automotive, partially offset by lower revenues in Personal Electronics. Looking at our year-over-year performance, gross margin remained stable at 47.6%, while, as expected, operating margin decreased to 28.0% from 29.4% and net income was stable at $1.09 billion.

For the nine-month period:

- Net revenues increased 11.1% year-over-year to $13 billion, driven by growth in the ADG and MDG Product Groups, and partially offset by a decline of the AMS Product Group.
- We reported gross margin of 48.7%, operating margin of 27.6% and net income of $3.14 billion.

On Q4 2023:

- Our fourth quarter business outlook is for net revenues of about $4.3 billion at the mid-point, declining year-over-year and sequentially by about 3%.
- Gross margin is expected to be about 46%.

For the full year 2023:

- The mid-point of our Q4 guidance translates into revenue growth of about 7.3% to $17.3 billion, with a gross margin of 48.1%.

Now, I will move to a detailed review of the third quarter.

Net revenues increased 2.5% year-over-year. This performance was driven mainly by ADG, on continued strength in Automotive, and to a lesser extent by MDG. As expected, AMS revenues decreased mainly reflecting lower revenues in Personal Electronics. This includes the impact of the change in product mix in an engaged customer program in Personal Electronics that I first mentioned in January.

Year-over-year, sales increased 2.1% to OEMs and 3.4% to Distribution.

On a sequential basis, net revenues increased 2.4%, with ADG up 3.6%, AMS up 5.3%, and MDG down 1.0%. Net revenues came in 130 basis points above the mid-point of our outlook mainly reflecting higher sales than expected in personal electronics.

Gross profit was $2.11 billion, increasing 2.4% year-over-year.

Gross margin of 47.6% was stable year-over-year, as improved product mix was offset by higher manufacturing costs and unused capacity charges.

Year-over-year, third quarter operating income decreased 2.4% to $1.24 billion. Operating margin was 28.0%, decreasing by 140 basis points versus 29.4% in the year-ago quarter. This was due to a higher Opex to sales ratio, as we continue to invest in innovation and in the digital transformation of the company.

On a year-over-year basis, both net income and Earnings per diluted share in the quarter were stable at $1.09 billion, and $1.16 respectively.

Looking at the year-over-year sales performance by Product Group:

- ADG revenues increased 29.6%, on double-digit growth in both the Automotive and Power Discrete sub-groups;
- AMS revenues decreased 28.3%, with lower revenues in the three sub-groups;
- MDG revenues increased 2.8%; revenues grew in RF Communications and were substantially flat in the Microcontrollers sub-group.

In terms of operating margin by product group on a year-over-year basis:

- ADG operating margin increased to 31.5% from 25.9%;
- AMS operating margin decreased to 18.8% from 27.2%; while
- MDG operating margin decreased to 35.1% from 36.7%.

Net cash from operating activities increased to $1.88 billion in Q3, versus $1.65 billion in the year-ago quarter.

Net CAPEX in the third quarter was $1.15 billion, compared to $955 million in the year-ago quarter.

Inventory at the end of the third quarter was $2.87 billion, compared to $2.38 billion in the year-ago quarter. Days sales of inventory at quarter-end was 114 days compared to 126 days in the previous quarter and 96 days in the year-ago quarter.

Free cash flow was $707 million compared to $676 million in the year-ago quarter.

During the third quarter, ST paid $58 million of cash dividends to stockholders, and we executed an $87 million share buy-back under our current share repurchase program.

ST's net financial position of $2.46 billion as of September 30, 2023, reflected total liquidity of $5.05 billion and total financial debt of $2.59 billion.

I will now go through a short update on some of our strategic focus areas in Q3.

First **wide bandgap semiconductors**.

We began volume production of **gallium nitride** transistors which simplify the design of high-efficiency power-conversion systems.

We support the development of safe and reliable wide bandgap-based power systems for high-power applications with industry-leading galvanically isolated drivers. In the quarter we introduced new STGAP products specifically designed for power GaN transistors, based on ST's unique IP and advanced BCD technology.

In **silicon carbide**, we continued to increase the number of engagements: we are now working with 94 customers and 150 projects (up from 90 customers and 140 last quarter). Wins here ranged from EV applications such as on-board chargers to power modules in solar power systems. We confirm our revenues for silicon carbide products will reach about $1.2 billion this year.

In car **digitalization**, we saw continued design win momentum with our latest generation of automotive microcontrollers -called Stellar- across key applications. These include design-wins in zonal modules for software-defined vehicle architectures and in next generation battery management systems, in partnership with major car makers.

In ADAS, the EyeQ6 project with Mobileye is progressing to plan with early volume ramp up this year. We have also seen strong market interest in ST's high precision GNSS solution, “TESEO V”, adapted for

ADAS systems.

At the end of September, we held our annual **Industrial Summit** event in China. It drew over 1,300 customers in person and over 50,000 participating online. The theme of this year's event was "Powering Your Sustainable Innovation" and was focused on helping customers address climate-related challenges. We showcased 150 demos in three market segments: Automation, Power & Energy, and Motor Control where ST has created dedicated Competence Centers located close to customers. The registration of new designs in distribution we are receiving for our flagship STM32 family is increasing year-over-year on all our products, including mature ones. This is a positive indication of the market structural appetite for our product.

Moreover, we released the first ST cellular Narrow-Band IoT ultra compact and low power modules, combining cellular IoT connectivity and geolocation capabilities for wide-ranging IoT, smart metering and industrial applications.

We further enlarged the reach of applications and use cases for Industrial customers by introducing new products such as Time-of-Flight and Thermal MOS infrared sensors, as well as the third generation of inertial sensors.

To support our strategic focus areas in **embedded processing** we announced new ecosystem tools for our STM32 family. We also continued to expand our engagements with customers to deploy edge AI for a growing range of use cases. This is based both on our extensive toolset allowing porting of AI algorithms to our existing MCU portfolio, as well as the alpha customer engagements for our latest neural processor-enabled MCU.

To conclude this review, in our RF communications business we are continuously expanding our strategic collaboration on SpaceX's Starlink, which provides high-speed internet connectivity to a growing customer base in more than 60 countries around the world. They are ramping up their next generation products, which leverage our BiCMOS9 processes as well as innovative and highly differentiated packaging technology.

Now, let's move to our fourth quarter 2023 financial outlook and our plans for the full year 2023.

For the fourth quarter, we expect net revenues at the mid-point to be about $4.3 billion, representing a year-over-year and sequential decline of about 3%.

Q4 gross margin is expected to be about 46% at the mid-point, including about 130 basis points of unused capacity charges.

For 2023:

Our Q4 guidance at the mid-point translates into 2023 net revenues of about $17.3 billion. This represents growth of about 7.3% year-over-year, with a gross margin of about 48.1%.

The $17.3 billion is consistent with the indicated range we provided late July. The $100 million difference at the mid-point relates mainly to the industrial end market in Asia where the level of orders materializing towards the end of Q3 to load our Q4 backlog has been below our expectations.

We confirm our 2023 net capex plan of about $4 billion.

To conclude, in September, the Supervisory Board asked me to be available for a reappointment as the sole member of the Managing Board and President and CEO. I was honored and pleased to accept the proposal. This will be proposed for shareholder approval at ST's 2024 Annual General Meeting of Shareholders.

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