Good morning and thank you for joining ST on our second quarter 2020 earnings conference call. I trust that you, your families and your colleagues are staying safe and healthy.

Now to ST’s results and plans for the rest of the year, let me begin with some opening comments.

Starting with Q2:

- During the quarter, we returned to normal operations, supporting our customers’ demand and continuing to ensure the health and safety of our employees.
- Net revenues were $2.09 billion, down 6.5% on a sequential basis. As expected, this was due to a decline in Automotive, Analog and Imaging products, partially offset by growth in Microcontrollers, Digital and Power Discrete.
- Gross margin, at 35.0%, included 310 basis points of unsaturation charges.
- Our operating margin was 5.1% and our net income was $90 million.
For the first half of 2020:
Net revenues grew 1.6% year-over-year to $4.32 billion, driven by higher sales in Analog, Imaging and Microcontrollers, partially offset by lower sales in Automotive and Power Discrete. Our operating margin was 7.8% for H1 2020 and our net income was $282 million.

Looking at Q3 2020:
At the mid-point of our guidance, we expect net revenues in the third quarter to be about $2.45 billion, representing sequential growth of about 17.4%. Gross margin is expected to be about 36.0% at the mid-point and includes about 200 basis points of unsaturation charges.

For the full year 2020:
• We will drive the Company based on an updated plan for FY20 net revenues in the range of about $9.25 billion to $9.65 billion, with growth in the second half over the first half to be in the range of $610 million to $1.01 billion. We expect this growth to be driven by engaged customer programs, new products and improved market conditions.
• Our CAPEX plan for 2020 is now $1.2 billion. For H1 2020 we invested $578 million.
Now, let’s move to a detailed financial review of the second quarter.

The quarter was impacted by the weak demand environment, especially in Automotive, as well as the operational and logistics challenges due to governmental regulations related to the COVID-19 outbreak that started in Q120.

Net revenues decreased 4.0% year-over-year, with lower sales in Imaging, Automotive, and MEMS, partially offset by higher sales in Microcontrollers, Digital, Analog and Power Discrete. Year-over-year sales to Distribution increased 9.7% and sales to OEMs decreased 9.7%.

On a sequential basis, net revenues decreased 6.5%, 380 basis points better than the mid-point of the guidance we gave at the end of April. By product group, revenues increased sequentially for MDG, while ADG and AMS decreased.

Our gross profit was $730 million, decreasing 12.2% year-over-year.

Gross margin was 35.0%, decreasing 320 basis points year-over-year, mainly due to unsaturation charges -including the impact of
COVID-19 workforce related restrictions- and price pressure. More specifically, unsaturation charges were 310 basis points. Our second quarter gross margin was 40 basis points higher than the mid-point of our guidance, as unsaturation charges were better than expected.

Moving on to net operating expenses. As we outlined last quarter, we are maintaining strict discipline on expense control while protecting our R&D, sales & marketing programs and transformation initiatives. Net operating expenses, at $620 million, were below what we anticipated when entering the quarter.

Our second quarter operating margin was 5.1%, decreasing by 390 basis points on a year-over-year basis. Both ADG and AMS operating margins decreased, while MDG’s operating margin improved.

Our net income decreased to $90 million and EPS to $0.10, compared to $160 million and $0.18 respectively a year ago.

Turning now to the revenue performance of the product groups on a year-over-year basis:
• ADG revenues decreased 17.8% on weaker demand in legacy Automotive, while Power Discrete grew.
• AMS revenues decreased 10.1%, with MEMS and Imaging lower, while Analog sales were higher.
• MDG revenues increased 24.1%, reflecting strong growth in Microcontrollers.

In terms of operating margin by product group on a year-over-year basis:
• MDG operating margin increased to 15.9% from 7.6%.
While,
• ADG operating margin decreased to 2.3% from 8.2%.
• and AMS operating margin decreased to 9.0% from 10.7%.

Net cash from operating activities increased 19.4% to $387 million in Q2, compared to $324 million in the year-ago period. Free cash flow was positive $28 million, including CAPEX of $312 million, compared to negative $67 million in the year-ago quarter.

During Q2 we paid cash dividends totaling $37 million and executed a $63 million share buy-back as part of the Company’s previously announced share repurchase program.
Moving now to our business and end market review, let me start with a comment.

During the second quarter, we returned to normal operations, supporting our customers’ demand and continuing to ensure the health and safety of our employees. These have been our priorities since the start of the pandemic.

In preparation for the return of all our employees to our sites worldwide, we put in place very strict safety protocols. Today, we are back to full operation of our manufacturing activities worldwide. Our non-manufacturing employees, located in areas still under specific restrictions, are progressively returning to our offices in line with local regulations.

Our “back to site” plan, coupled with the engagement of our employees, enabled us to keep all our committed programs on track and to maintain a high level of customer interaction.

So let’s now discuss the market and business dynamics.
The automotive market was hit by closures at carmakers and Tier1s, at different times across the globe: first China in Q1, followed later by Europe and the U.S.

Q2 is confirmed to be the bottom and the market was worse than expected, with lockdowns extended in some regions. China confirmed a recovery, partially compensating for the worse situation in Europe and in the U.S.

We have started to see benefits from automotive incentives (in France from June and South Korea for the full year) supporting the anticipated recovery in Q3 and Q4.

The legacy automotive market is clearly suffering, amplified by the pandemic situation.

We did not see -and do not see- any substantial slowdown of customer activity as far as the long-term megatrends and ST strategic growth drivers in smart mobility are concerned: electrification and digitalization.

In car electrification, we had again a number of new design wins for Silicon Carbide MOSFETs - in a traction inverter and in an on-
board charger and DC/DC converter for electric vehicles. We are also seeing opportunities for Silicon Carbide in electric vehicles beyond these areas. An example is climate compressors, where the characteristics of Silicon Carbide allow it to address the efficiency and size challenges in this specific application.

Beyond cars, we also had an important design win for a battery management system for e-bikes, a growing area.

Overall, our Silicon Carbide engagement with customers has increased during the quarter. There was no slowdown in already awarded projects and, as of today, we are engaged with 58 customers in 64 ongoing programs. These programs are split around 50/50 between automotive customers and industrial customers.

Moving to car digitalization, where we are focused on technologies and solutions for driver assistance and autonomous driving, V2X communications, and embedded processing solutions supporting new car architectures.
During Q2 we saw a continuous flow of awards for our 28nm Phase Change Memory microcontrollers (Stellar) driven by the evolution of car architectures.

On ADAS we saw a strong level 2 and level 3 adoption in mid and entry-level cars. We expect that during 2021 one third of cars produced will have a vision-based system using ST technology. We are also growing our share in automotive microcontrollers, including those for 77GHz radar applications.

During the quarter, we also won sockets for our Global Shutter Automotive imaging solution for driver monitoring systems from two major OEMs. This is an important step in our diversification strategy related to optical sensing solutions.

Moving now to Industrial.

The dynamics of the industrial market remain mixed. Some applications like home appliances and lighting are still weak, but during the quarter we started to see some positive signs in key application areas for ST, such as renewable energy and factory automation.
Distribution is an important element of our go-to-market strategy in Industrial. Here, the overall situation in the channel has improved. In Asia, and mainly in China, Point-of-Sales (POS) trends were strong sequentially and now also up year-over-year, with a healthy level of inventory in our distribution channel (especially for MCUs and MEMS). From April, we also started to see positive signs for Analog and Power and Discrete.

America and Europe are still weak. POS on a year-over-year basis is not improving and inventory levels are still somewhat high in general purpose analog and industrial power conversion.

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

One of our strategic objectives in Industrial is leadership in embedded processing solutions.

We recently made two acquisitions to further strengthen the wireless connectivity capabilities of our STM32 microcontrollers. These acquisitions cover Narrow Band Cellular and Ultra-wide band wireless technology from Riot Micro and BeSpoon. These
technologies are key wireless connectivity solutions that will enable a new wave of IoT connected objects and innovative applications, especially in Industrial. They complement our existing wireless connectivity offering.

We have now shipped over six billion parts from our STM32 family. In parallel, we are continuously strengthening our offer in terms of hardware, software and ecosystem. Some examples from the quarter include the launch of the STM32 Digital Power Ecosystem for power supply control, tools from partners that complement our Artificial Intelligence capabilities, and software packages that simplify development of safety-critical products.

Another strategic objective is to accelerate our growth in analog and sensors for industrial.

In Q2, we won several new designs with our analog products for industrial applications. For example, we received awards for motor drivers and smart power products from industrial equipment, lighting, and home appliance makers as well as metering customers. And in industrial sensors, our new industrial grade inclinometer was adopted by multiple large customers.
We are targeting expansion in industrial power and energy management. And, with our power discrete products for industrial applications, we landed design wins for High Voltage MOSFETs in power supplies, solar, lighting, adapters and home appliances. We also captured several awards with Silicon Carbide, IGBT and Intelligent Power Modules for motor control, charging stations and renewable energy.

We also had design wins with our power management IC combined with an STM32 standard microprocessor.

Moving now to the Personal Electronics market, despite the slowdown in consumer demand for smartphones during the quarter, we saw increasing demand for anything related to accessories, wearables, gaming, and continued innovation-driven semiconductor demand for smartphones.

We serve this market with our sensors, secure solutions, power management, analog and Front-End Modules. We lead in a number of very specific high-volume smartphone applications as well as in wearables such as smart watches, True Wireless Stereo hearables, and gaming devices. We also aim at capturing opportunities in 5G with RF mixed signal.
During the quarter, we won numerous new designs and ramped production of our products in flagship devices including an increasing number of 5G models. Some examples of our products include: motion sensors, time-of-flight ranging sensors, secure solutions such as eSIM and secure elements with NFC, touch display, and wireless charging products.

We ramped production of our new multi-pixel / direct time-of-flight sensor for world-facing camera applications in a new flagship device for a global smartphone leader.

In Communications Equipment and Computer Peripherals, during Q2, we saw solid market demand for hard-disk drives for servers, as well as continued demand for 5G-related products. Our strategic approach to this end market is focused on cellular and satellite communication.

We were awarded a design based on ST proprietary technologies for a processor for a satellite application, as well as several RF projects for telecommunications infrastructure.

Now, let’s move to a discussion of the third quarter and brief comments on the full year 2020.
For the third quarter, we expect net revenues to be about $2.45 billion. This sequential growth of about 17.4% will be driven by engaged customer programs, new products and improved market conditions. Gross margin is expected to be about 36.0% at the midpoint and includes unsaturation charges of about 200 basis points fully related to demand.

For the full year: I outlined earlier our sales and operating plan to drive ST to 2020 net revenues now in the range of about $9.25 billion to $9.65 billion and for growth in H2 over H1 between $610 million and $1.01 billion. This plan reflects an improvement compared to the previous range of $8.8 billion to $9.5 billion we expected entering Q2. Our CAPEX plan for 2020 is now about $1.2 billion.

Before concluding, I would like to share with you our updated plans and timeline for our Capital Markets Day.

Due to the ongoing pandemic, we will be conducting a Virtual Capital Markets Day, as it is not prudent to host a physical event and we are aware that some of you are not yet in a condition to travel.
With this decision, we decided to break the event into four separate modules: three of them covering ST’s product group strategy and roadmap, the fourth one focused on the overall company strategy, including our financial model.

The preliminary schedule is as follows:

- MDG – September 15th
- ADG – November 6th
- AMS – November 20th
- And overall Strategic Update – December 9th

To conclude, I would like to reinforce two key points:

First, while we continue to ensure the ongoing health and safety of all our employees in response to the global pandemic, during last quarter we have returned to normal operations. Our Q2 results along with our Q3 guidance are a clear reflection of that.

Second, ST fundamentals are solid. The strategic decisions which we made years ago have enabled us to successfully serve secular, growing market trends addressing key societal needs.
We work alongside our customers both for the short and the long term. We are determined to continue to make ST stronger, by consistently executing our strategy, quarter after quarter, with a clear sales and operating plan.

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