STMicroelectronics
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Q2 2021 Financial Results
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Good morning and thank you for joining ST for our Q2 2021 earnings conference call.

Let me begin with some opening comments, starting with Q2:

- Net revenues and gross margin came in at the high-end of our business outlook range, driven by continued strong demand globally.
- Year-over year, net revenues grew 43.4% to $2.99 billion. Our gross margin of 40.5% and operating margin of 16.3% improved from 35.0% and 5.1%, respectively. Our net income rose to $412 million.
- On a sequential basis, net revenues decreased 0.8% due to the normal seasonality in Personal Electronics.

On H1 2021:

Net revenues increased 39.1% year-over-year to $6.01 billion, driven by growth in all product groups, except the RF Communications sub-group. H1 operating margin was 15.5% and net income was $776 million.

On Q3 2021:

At the mid-point of our outlook, we expect net revenues in the third quarter to be about $3.2 billion, representing an increase of 20% year-over-year and 7.0% sequentially. Gross margin is expected to be about 41.0% at the mid-point.

For the full year 2021:

- We will now drive the Company based on a plan for full year 2021 revenues of about $12.5 billion, plus or minus $100 million: a year-over-year increase of 22.3% versus our prior plan of 18.4% growth at the mid-point**.** This growth is expected to be driven by strong dynamics in all the end markets we address and our engaged customer programs.
- We also now plan to invest about $2.1 billion in CAPEX to support the strong market demand and our strategic initiatives.

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

Net revenues increased 43.4% 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 38.4% and 53.1% to Distribution.

On a sequential basis, net revenues decreased 0.8% but were 300 basis points above the mid-point of our outlook. ADG and MDG reported increases in net revenues on a sequential basis while AMS decreased.

Gross profit was $1.21 billion, increasing 66.1% on a year-over-year basis.

The gross margin increased by 550 basis points year-over-year to 40.5%, mainly driven by the full saturation of our fabs compared with the high level of unloading charges last year, as well as manufacturing efficiencies, favorable pricing and improved product mix. These positive drivers were partially offset by negative currency effects, net of hedging. Our second quarter gross margin was 100 basis points above the mid-point of our guidance, mainly thanks to more favorable pricing and improved product mix.

Second quarter operating margin increased to 16.3%, from 5.1% in Q2 2020, with improvements in all three product groups. Net operating expenses were $725 million.

Net income increased to $412 million, from $90 million in Q2 2020, and our diluted earnings per share were $0.44.

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

- ADG revenues increased 48.2%, on growth in both Automotive and in Power Discrete.
- AMS revenues increased 62.3%, on higher Analog, MEMS and Imaging product sales.
- MDG revenues increased 22.3%, 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 9.5% from 2.3%;
- AMS operating margin increased to 18.6% from 9.0%; and
- MDG operating margin increased to 22.9% from 15.9%.

Net cash from operating activities increased to $602 million in Q2, compared to $387 million in the year-ago quarter. Free cash flow increased to $125 million compared to $28 million in the year-ago quarter, with CAPEX of $438 million versus $312 million in the year-ago quarter.

During the second quarter, we paid $52 million of cash dividends to shareholders, and we executed a $156 million share buy-back, completing our $750 million share repurchase program launched in 2018. On July 1, 2021, we announced the launch of a new share buy-back program of up to $1.04 billion to be executed within a three-year period.

Our net financial position was $1.08 billion at July 3, 2021, compared to $1.19 billion at April 3, 2021. It reflected total liquidity of $4.25 billion and total financial debt of $3.17 billion.

During Q2 we exercised the call option for the early redemption of our 2024 Tranche B convertible bond issued in 2017. The settlement of the $750 million principal amount bond is expected to be completed in Q3.

Let’s now discuss the market and business dynamics.

During the second quarter we were again operating with a backdrop of strong demand, stretching the global supply chains. We have continued to work closely with our customers across all verticals and channels to adapt to this difficult allocation situation.

At the same time, we were – and are – optimizing our investments to increase our manufacturing capacity.

COVID-19 continues to be a challenge for the world. During Q2 we saw the spread of new variants – especially in some of the countries in Asia where we operate, such as in India earlier and, more recently, in Malaysia.

Over these days, we feel particularly close to, and we strongly support, our colleagues and their families in Malaysia, seriously hit by this new wave.

Due to this situation we recently temporarily closed our assembly plant in Muar, Malaysia. Following approval from the Authorities, we resumed operations after 11 days of closure.

Moving to our business by end markets.

In Automotive, bookings remained strong in the second quarter, with demand still well above our current and planned manufacturing capacity. Bookings now cover about 18 months of demand and we are working on allocating our planned capacity for next year.

Our customer activity related to the long-term trends of electrification and digitalization continued to be strong in Q2.

In car electrification, we added to our list of design wins for Silicon Carbide devices in applications such as DC-DC converters and on-board chargers.

We announced a strategic cooperation with the Renault Group to supply advanced power semiconductors for electric and hybrid vehicles. As Renault's key innovation partner, ST will benefit from significant volumes of these power modules and wide bandgap power transistors from 2026 to 2030.

Overall, our Silicon Carbide engagements increased again during the quarter - now with 81 ongoing programs, equally split between Industrial and Automotive, with 68 customers. Our strong pipeline of design wins continues to support well our target of $1 billion of Silicon Carbide revenues by 2025.

We are progressing with our manufacturing investments in Silicon Carbide, in line with our plan to increase 10-fold the front-end capacity vs 2017 and to have 40% of our substrate needs internally sourced by 2024. We are ramping production in our Singapore

factory and, earlier this week, announced that we have manufactured in our Sweden site our first 200mm Silicon Carbide wafers – a key step in our capacity increase plan.

We are also investing in growth of our internal back-end manufacturing capacity for Silicon Carbide products with the expansion of our Bouskoura site in Morocco alongside our plant in Shenzhen, China.

We are maintaining our technology lead in Silicon Carbide, ramping in high volume our 3rd generation transistors for multiple automotive customers globally. This represents a major improvement in performance and competitiveness versus the previous generation. We are also progressing on our next generation transistor designs in line with our plan.

We are taking steps to accelerate our 300mm power strategy. We produced in Crolles our first IGBT 300mm wafer lot for engineering qualification. This technology will be transferred to Agrate R3, with production ramp as soon as the fab is ready.

Moving to other complementary technologies for Electric Vehicle designs, we had various wins at vehicle makers. These included

high and low voltage MOSFETs in electrification subsystems, VIPower products for motor control and body control modules, 32-bit microcontrollers for IGBT Inverters, and electronic fuse technology for Electric Vehicle power distribution.

In car digitalization, we are focused on technologies and solutions for driver assistance and autonomous driving, V2X communications, and embedded processing solutions supporting new car architectures.

During the quarter we announced new additions to our next-generation automotive MCU family (“Stellar”) which provides a scalable integration processing platform for advanced vehicle electronics.

Also, in our automotive sensor business, we won multiple sockets with motion sensors for GNSS modules and navigation units, telematics, infotainment systems, as well as key fobs.

Moving now to Industrial.

During Q2 demand was also very strong in high-end and consumer industrial, both at distributors and OEMs. Factory automation continued to be one of the main demand drivers, together with

power tools, home appliances, motion control, and power-related applications -including renewable energy.

Inventories of our products at distributors continue to be lean across all product families, with high inventory turns. Point-of-sales remained strong in the second quarter across all products and geographies.

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

In embedded processing we are continuing to strengthen our leadership by expanding our STM32 family, with a particular focus on wireless connectivity, security, and artificial intelligence. During the quarter, we took an important step.

We acquired Cartesiam – a company specialized in software enabling Artificial Intelligence on the edge. Adding their machine learning technology to ST's existing solutions will provide the best edge-AI solution portfolio on the market.

We had many design wins for our STM32 products during the quarter and I would like to mention just one where we designed in multiple products in a drone for home security.

Our second objective in Industrial is expansion in power & energy management. Here we captured a number of wins with our power discrete portfolio: for example, with Silicon Carbide transistors and modules, with high and low voltage silicon MOSFETs, and with IGBTs. These were in applications such as solar inverters, energy storage, charging infrastructure, industrial power-supplies, power adapters, home appliances, air conditioning and lighting.

A third objective is to accelerate our growth in analog and sensors for industrial. In the quarter, we had many new designs with our analog products with awards in applications like motion control, smart grid, factory automation, and home appliances. We also continued to win business in sensors for industrial applications. One win I would like to mention is for circuit-breaker products from a major player with a low-power, industrial-grade accelerometer.

Moving now to the Personal Electronics market.

We saw the same trends as Q1, with strong demand both for smartphones and other connected devices including wearables, tablets, hearables, True Wireless Stereo headsets and game consoles.

In Personal Electronics we continue to progress with our two strategic objectives. First, to lead in selected high-volume smartphone applications with differentiated products or custom solutions.

In Q2 we won sockets in flagship devices with motion sensors, multi-zone time-of-flight ranging sensors for laser autofocus, wireless charging products, touch display controllers, and secure solutions such as embedded SIM and secure elements with Near Field Communication.

Our second objective is to leverage our broad portfolio to address high-volume applications including wearable devices. Here we had wins with a broad range of light, motion and environmental sensors, including a new generation waterproof pressure sensor, as well as with analog and power products and microcontrollers.

We are gaining traction with our 60GHz transceiver products for very fast contactless data transfer, the ST60. Here we achieved key design wins and production launch for projects with multiple customers in different applications.

We progressed with our solutions for Augmented Reality based on Laser Scanning, and we signed a development agreement with a leading player for a Laser Driver ASIC to be used in next-gen smart glasses.

In Communications Equipment and Computer Peripherals, we continued to see the adoption of 5G-related products as well as a sustained demand, especially for notebooks and Chromebooks. We also saw Low-Earth-Orbit Satellite programs launch in a number of countries.

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 received multiple RF-SOI Front End Module awards, as well as several RF ASIC projects for telecommunications infrastructure. We also started production of a second-generation RF Front-End IC for the user-terminal of a satellite system from a leader in this area.

Our other objectives are to address selected high-volume applications with differentiated products or custom solutions, while leveraging our broad portfolio.

Our wins here include time-of-flight and motion sensors for laptops and tablets as well as many general purpose MCU design-ins. We also ramped production of our global shutter image sensor for a computer-vision application at a major OEM.

We also ramped production of the first ST-designed Piezo MEMS Printhead in a commercial inkjet printer, following a multi-year development with a leading printing company.

Now, let's move to a discussion of the third quarter outlook.

For the third quarter, at the mid-point, we expect net revenues to be about $3.2 billion, representing year-over-year and sequential growth of 20.0% and 7.0%, respectively. Gross margin is expected to be about 41.0%, representing a year-over-year and sequential increase of 500 basis points and 50 basis points, respectively.

Looking at the full year, we will now plan to drive the Company based on 2021 net revenues of $12.5 billion, plus or minus $100 million.

- This plan will translate into year-over-year growth of 22.3% at the mid-point.
- Drivers of this expected growth are the continued strong dynamics in all the end markets we address and our engaged customer programs.

Our updated 2021 CAPEX plan of about $2.1 billion will help increase our manufacturing capacity to continue to support the strong global demand of our customers. It will also support our strategic manufacturing initiatives such as our Agrate 300mm fab, where we recently announced that we are bringing Tower Semiconductor on board to accelerate the ramp-up to large volumes and scale.

To conclude:

In the second quarter, our net revenues and gross margin came in at the high-end of our business outlook range. We also maintained our financial strength as demonstrated by our operating profitability and cash flow generation.

For the full year 2021, we are driving the Company with a plan based on net revenues of $12.5 billion, plus or minus $100 million.

This growth stems from the expected continuation of strong dynamics in all the end markets we address and our engaged customer programs. We will continue to focus on our customers, adapting our supply chain to support the current strong demand and to fuel longer-term growth.

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