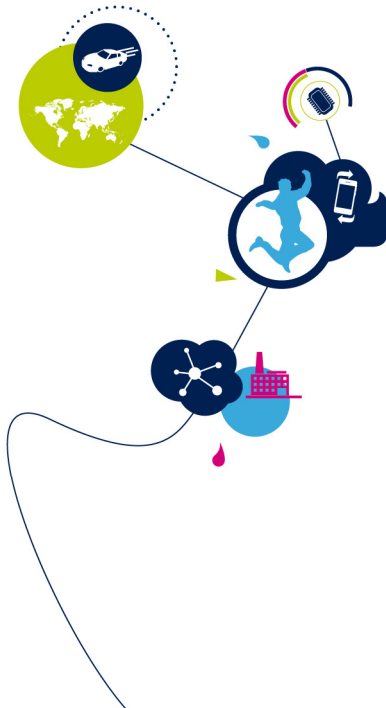


# 2018 Business Priorities

**Lorenzo Grandi**

Designated President, Finance, Infrastructure and Services and Chief Financial Officer



## ST Revenues

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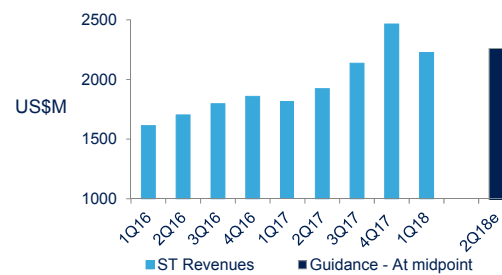
**1Q18 Revenues = \$2.23B**

**1Q18 revenues up 22.2% year-over-year**

- Double-digit growth
  - MDG up 26.6%
  - AMS up 26.5%
  - ADG up 15.4%

**1Q18 revenues down 9.8% sequentially**

- Better than seasonal performance in Automotive and Industrial, unfavorable seasonal dynamics for Smartphone applications
- 20 bps above midpoint of the guidance



**Revenue Outlook at midpoint of guidance**

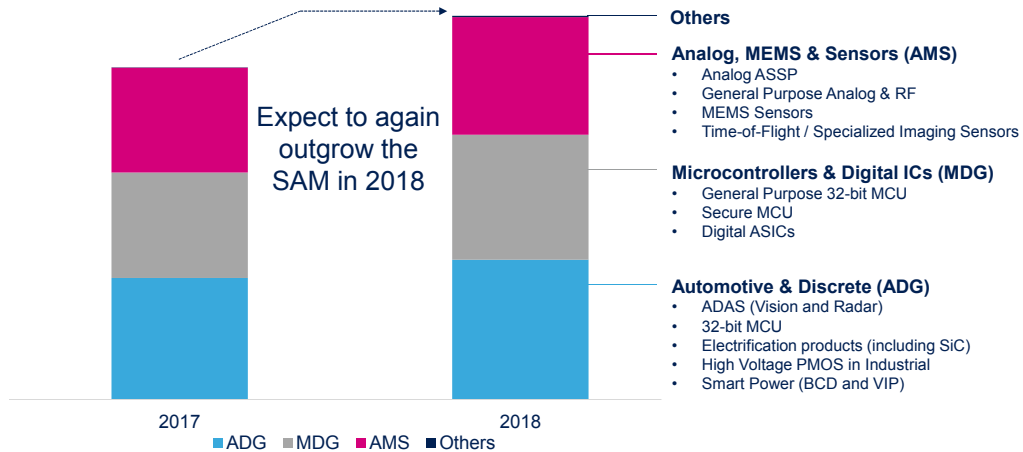
2Q18 up sequentially by about 1.5% (+/- 3.5% points)  
 2Q18 up year-over-year by about 17.5%  
 1H18 vs 1H17 up by about 19.8%



# Profitable Growth in 2018

## Growth Drivers

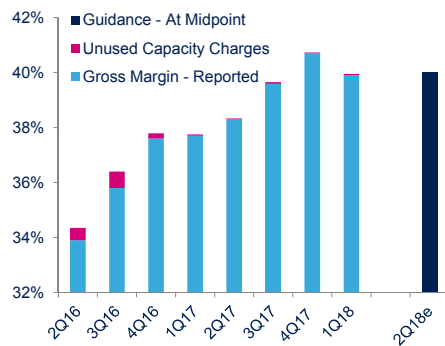
YoY revenue growth expected between about 14% and 17%\*



\* See Forward Looking Statement for full disclosure. Such statements are subject to various risks and uncertainties, which may cause actual results and performance of our business to differ materially and adversely from the forward-looking statements.

# Gross Margin

1Q18 Gross Margin = 39.9%



### 1Q18 Gross Margin

- 40 bps above the midpoint of the guidance
- Up 220 bps year-over-year on improved manufacturing efficiency and better product mix, partially offset mainly by normal price pressure and negative currency effect, net of hedging
- Down 80 bps sequentially including specific one time negative impact

### 2H18 Gross Margin Drivers

- ↑ Revenue Growth
- ↑ New Products
- ↑ Manufacturing Efficiency (excluding material price)
- ↓ Material Price
- ↓ € / \$ Rate
- ↓ Product Group Mix

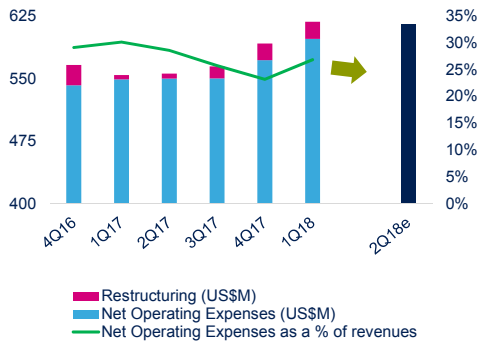
2Q18 Gross Margin Outlook  
About 40.0% (+/-2.0%)



# Operating Expenses

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## 1Q18 Net Operating Expenses : \$598M



### 1Q18 Combined SG&A and R&D at \$614M

- Down 350 basis points to 27.6% of revenues y-o-y
- Up \$48M or 8.4% y-o-y
- \$598M net of Other Income & Expense

### 2H18 Operating Expense Drivers

- ↓ Negligible restructuring costs
- Discipline in General & Administrative expenses
- Intensified R&D and S&M efforts in selected areas
- ↗ Inflation
- ↗ € / \$ Rate

### Discipline on OPEX Driving Leverage

\* Net Operating Expenses: R&D + SG&A – Other Income & Expense

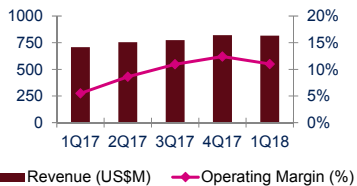


# Product Group Results

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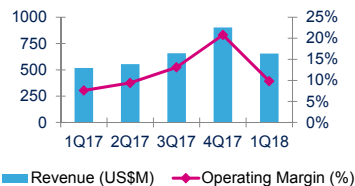
## Automotive & Discrete

Last Twelve Months  
Revenues = \$3,168M  
Operating Margin = 10.8%



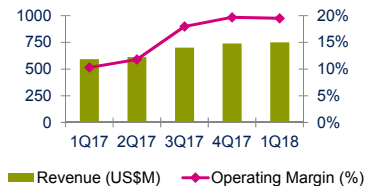
## Analog, MEMS & Sensors

Last Twelve Months  
Revenues = \$2,768M  
Operating Margin = 14.1%



## Microcontrollers & Digital ICs

Last Twelve Months  
Revenues = \$2,803M  
Operating Margin = 17.5%



## ADG Contribution

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### Leverage technology leadership

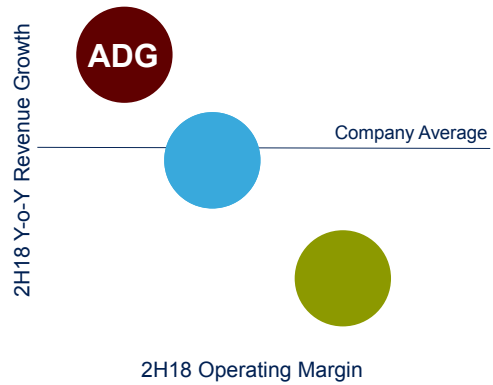
- BCD9 (110nm), BCD10 (90nm), eNVM, RF, FD-SOI, SiC & GaN

### Revenue drivers

- ADAS (Vision & Radar)
- Automotive-grade 32-bit MCU
- Infotainment & Connectivity (Radio, Satellite, Terrestrial)
- Smart Power (Braking, Chassis, Powertrain)
- Power MOS & Silicon Carbide for Automotive & Industrial
- IPAD (Integrated Passive & Active Devices)
- Distribution

### Margin expansion drivers

- Leverage revenue growth
- Improved mix in ADAS, Infotainment, Power Modules & growth in distribution
- Manufacturing: 150mm to 200mm conversion, expansion in Singapore 200mm for Power and Smart Power, wafer cost in Crolles 300mm, yield and productivity in testing



**Operating Margin Target in 2H18 :**  
**Low Teens**

## AMS Contribution

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### Leverage technology leadership

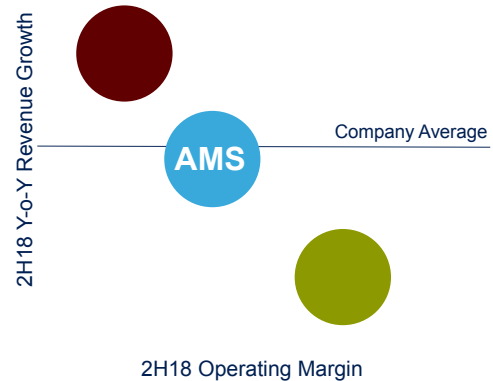
- Smart Power, Mixed Signal Analog, MEMS, Imaging Sensors

### Revenue drivers

- Analog & MEMS for industrial & automotive
- Power management combo for hard disk drives
- Analog ASSP & motion MEMS for Personal Electronics
- General purpose analog & motion control ICs through Distribution
- Time-of-Flight / Specialized Imaging Sensors

### Margin expansion drivers

- Leverage on revenue growth
- Better Analog and MEMS mix: both new product & extended applications
- Manufacturing: efficiency in 200mm mixed signal, full loading across all facilities, successful ramp up of new products



**Operating Margin Target in 2H18 :**  
**Mid Teens**

## MDG Contribution

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### Leverage technology leadership

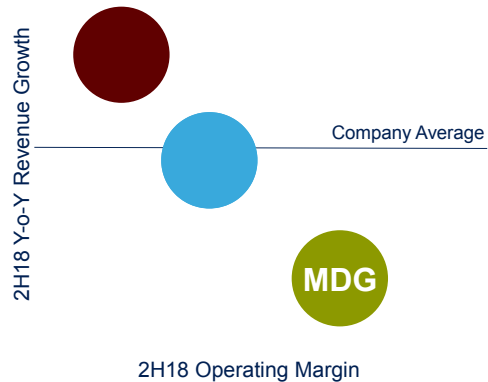
- eNVM and differentiated digital processes (FD-SOI, BiCMOS...)

### Revenue drivers

- General Purpose STM32 MCU
- Secure Microcontrollers for smartphones
- NFC portfolio
- RF EEPROM
- Mixed Process / Digital ASICs
- Mass market expansion

### Margin expansion drivers

- Leverage on revenue growth
- Wafer cost in Crolles 300mm and 200mm; Assembly cost
- Improved product mix in Digital ICs
- Progressive wind-down of Set-Top Box Business



**Operating Margin Target in 2H18 :  
About 20%**

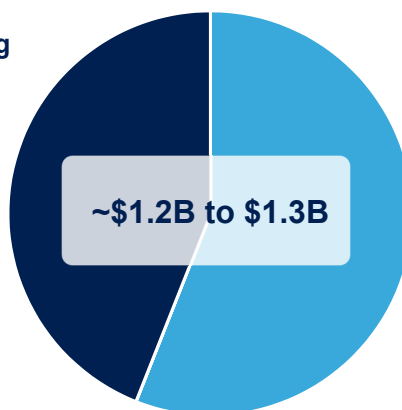


## FY18 Capital Spending

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### Probing, Assembly & Testing

- Assembly and Test capacity expansion to support revenue growth and new products particularly for Automotive MCU and advanced BCD
- Investment in Assembly and Test for Silicon Carbide
- Increasing the pace of equipment modernization



### Front-End Manufacturing/R&D

- Increased flexibility and new technologies in Crolles 300mm within the current footprint
- Continued mix evolution to advanced BCD and preparing for 300mm pilot line in Agrate
- 200mm advanced BCD capacity growth and 150mm SiC capacity expansion in Catania
- Continued 200mm capacity expansion in Singapore for Power Discrete and BCD, widening technology capability

**2018 Capex investment plan increased to support higher demand  
in 2H18 and beyond**

**Capex/Sales ratio model:  $\leq 10\%$  through a cycle**



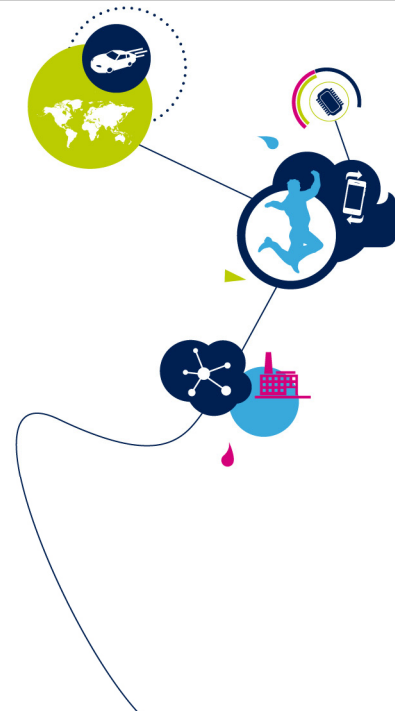
## Takeaways

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- Innovative and broad product portfolio, healthy demand and strong backlog for the second half of 2018 boosting growth across all our product groups, end markets - including smartphones, and regions. Revenue growth for FY18 now expected between about 14% to 17%.
- Strategic focus on industry megatrends and new programs enabling growth faster than our Served Available Market (SAM)
- Operating margin expansion driven by expenses operating leverage despite Product Group revenues mix evolution that will substantially maintain our gross margin at current levels
- FY18 capex spending now expected between about \$1.2 to \$1.3 billion
- Solid Capital Structure and Operating Cash Flow generation allowing investment to support growth, to reward shareholders and maintain flexibility
- Shareholder Value creation



## Appendix



- **Free cash flow** is defined as net cash from operating activities minus net cash from (used in) investing activities, excluding payment for purchases (proceeds from the sale of) marketable securities and net cash variation for joint venture deconsolidation. We believe free cash flow provides useful information for investors and management because it measures our capacity to generate cash from our operating and investing activities to sustain our operating activities. Free cash flow is not a U.S. GAAP measure and does not represent total cash flow since it does not include the cash flows generated by or used in financing activities. In addition, our definition of free cash flow may differ from definitions used by other companies.
- **Net financial position** resources (debt) represents the balance between our total financial resources and our total financial debt. Our total financial resources include cash and cash equivalents, marketable securities, short-term deposits and restricted cash, and our total financial debt includes short term borrowings, current portion of long-term debt and long-term debt, all as reported in our consolidated balance sheet. We believe our net financial position provides useful information for investors because it gives evidence of our global position either in terms of net indebtedness or net cash position by measuring our capital resources based on cash, cash equivalents and marketable securities and the total level of our financial indebtedness. Net financial position is not a U.S. GAAP measure.
- **Adjusted net earnings and earnings per share (EPS)** are used by our management to help enhance an understanding of ongoing operations and to communicate the impact of the excluded items like impairment, restructuring charges and other related closure costs, net of the relevant tax impact.
- **Net revenues of "Others"** includes revenues from sales of assembly services and other revenue. **Operating income (loss) of Others** includes items such as unused capacity charges, impairment, restructuring charges and other related closure costs, phase out and start-up costs, and other unallocated expenses such as: strategic or special research and development programs, certain corporate-level operating expenses, patent claims and litigations, and other costs that are not allocated to product groups, as well as operating earnings of other products. Others includes:

(US\$ Million)	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Unused Capacity Charges	1	1	1	1	1
Impairment & Restructuring Charges	21	20	14	6	5