Q4 & FY 2023
Earnings Results
Jean-Marc Chery, President & CEO
January 25, 2024

Good morning and thank you for joining ST for our Q4 and Full Year 2023 earnings conference call.

Let me begin with some opening comments.

Starting with Q4:

- Net revenues of $4.28 billion decreased 3.2% year-over-year and 3.4% sequentially. Gross margin was 45.5%.
- Revenues and gross margin were slightly below the mid-point of the guidance, with higher revenues in Personal Electronics offset by a softer growth rate in Automotive.
- Operating margin was 23.9% and net income was $1.08 billion.

Looking at full year 2023:

- Net revenues increased 7.2% to $17.29 billion, driven by strong demand in Automotive and, to a lesser extent, Industrial, partially offset by lower revenues in Personal Electronics.
- Gross margin was 47.9% up from 47.3% in FY22. Operating margin was 26.7% compared to 27.5% in FY22 and net income increased 6.3% to $4.21 billion.
- We invested $4.11 billion in net CAPEX while delivering free cash flow of $1.77 billion.

During Q4, our customer order bookings decreased compared to Q3. We continued to see stable end-demand in Automotive, no significant increase in Personal Electronics, and further deterioration in Industrial compared to Q3.

We have a solid backlog for the year both in Automotive and in all our engaged customer programs. In Industrial, where we are seeing strong inventory correction, we have a much lower backlog than when we entered in 2023.

On Q1 2024:

- At the mid-point, our first quarter business outlook is for net revenues of \$3.6 billion, decreasing by 15.2% year-over-year and 15.9% sequentially; gross margin is expected to be about 42.3%.

For the full year 2024:

- It will be impacted in the first half by this significant inventory correction in Industrial, with an expected significant sequential revenue growth in the second half. We expect this will be driven by a strong rebound in Industrial and in Computer Peripherals, continued growth in Automotive and in Communications Equipment, and the usual seasonality in Personal Electronics.
- In 2024, we plan to invest about \$2.5 billion in net CAPEX.
- And we will drive the Company based on a plan for FY24 revenues in the range of \$15.9 billion to \$16.9 billion. Within this plan, we expect a gross margin in the low to mid-40’s.

Now, let's move to a detailed review of the fourth quarter.

Both revenue and gross margin came slightly below the midpoint of our guidance by 40 and 50 basis points, respectively. This was mainly due to higher revenues in Personal Electronics offset by a softer growth rate in Automotive compared to expectations.

On a sequential basis, Q4 net revenues decreased 3.4%, with ADG increasing 1.7%, AMS stable and MDG decreasing by 13.3%.

On a year-over-year basis, net revenues decreased 3.2%. ADG revenues increased 21.5%. AMS revenues decreased 25.8%, 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 last January. MDG decreased 11.5% on accelerated demand deterioration in Industrial mainly impacting our general purpose MCU business.

Year-over-year, sales decreased 0.4% to OEMs and 9.2% to Distribution.

Gross profit was $1.95 billion, decreasing 7.3% on a year-over-year basis. Gross margin was 45.5%, decreasing 200 basis points year-over-year, due to higher input manufacturing costs, unused capacity charges, and negative currency effect net of hedging, partially offset by the combination of sales price and product mix.

Fourth quarter operating income decreased 20.5% to $1.02 billion. Q4 operating margin was 23.9%, down from 29.1% in the year-ago period, with ADG at 31.9%, AMS at 14.8% and MDG at 28.0%.

Q423 net income was $1.08 billion, compared to $1.25 billion in the year-ago quarter. Both Q423 and Q422 included one-time non-cash income tax benefits of $191 million and $141 million respectively. Earnings per diluted share were $1.14 compared to $1.32.

Let's now discuss our full year results, starting with the business dynamics.

In Automotive, we again saw strong demand across all geographies, driven by increasing semiconductor pervasion and structural transformation. The year was also positively impacted by inventory replenishment and a high level of capacity reservation fees.

In 2023 we continued to execute our strategy supporting **car electrification**.

With Silicon Carbide products our revenue for the year was $1.14 billion, a growth of more than 60% versus 2022.

We finished the year with around 160 awarded projects, spread over about 100 customers. This continues to give us confidence in our Silicon Carbide growth ambitions towards $2B in revenue in 2025.

Wins included important supply agreements for automotive as well as a collaboration with Airbus for aircraft electrification. We progressed as planned on our technology roadmap.

In **car digitalization**, we saw continued design win momentum with our latest generation of automotive microcontrollers across applications such as software-defined vehicle architectures and car electrification systems. In ADAS, we continued working closely with our long-time customer and partner Mobileye.

In Industrial, during 2023 demand was still strong especially in Power and Energy, Factory Automation and Robotics, and in Industrial Infrastructure. Towards the end of Q3 we saw a progressive weakening of demand, accelerating during Q4.

In **power and energy management** applications, such as EV charging stations, renewable energy systems, and factory automation we had a broad range of design wins.

We further strengthened our **embedded processing solutions leadership** with our STM32 microcontroller and microprocessor families and related ecosystem introducing many new products and tools. We were again ranked as the number 1 choice in the Aspencore survey of embedded developers.

During the year we had a strong focus on **Edge AI.** We announced and provided updates on multiple hardware products including microcontrollers, microprocessors and smart sensors.

We announced the world's first MCU Edge-AI Developer Cloud and held our first ST Edge AI Summit online with over 2,000 attendees and participation from many customers and partners. There we announced the ST Edge AI Suite, a comprehensive ecosystem for Edge AI using ST hardware, including our NanoEdge AI Studio.

We progressed with sensors **for industrial applications** introducing new MEMS and Optical sensors suitable for industrial robotics and embedded vision applications.

In Personal Electronics and Computer Peripherals, market demand remained weak in 2023, while **Communications Equipment** demand remained solid in our focus areas.

In **Personal Electronics**, we continued to be successful with our focused approach, winning sockets in flagship devices with sensors, wireless charging, touch display controllers, and secure solutions.

In **Communications Equipment** our RF communication business delivered strong results. We continued to progress well with engaged customer programs in satellite and cellular communication infrastructure including with the next generation of products for SpaceX's Starlink.

Let me now share a summary of our main 2023 manufacturing initiatives.

We continued to transform our manufacturing base to enable our future growth and drive enhanced profitability, with the expansion of our 300mm capacity and a strong focus on wide bandgap semiconductors.

In **Silicon Carbide**, we continued to ramp our front-end device production in our Catania and Singapore facilities, and we increased back-end manufacturing capacity in our sites in Morocco and China. We also started production in our new integrated silicon carbide substrate manufacturing facility in Catania as a significant step in our silicon carbide vertical integration strategy.

We also announced a Joint Venture with Sanan Optoelectronics for high-volume 200mm SiC device manufacturing in China. Production is expected to start in Q425.

These are important moves to further scale our global SiC manufacturing operations and they will be key enablers of the opportunity we see to reach above $5B Silicon Carbide yearly revenues by 2030.

We advanced also with our **300mm capacity expansion** plans.

In Agrate, Italy, our new 300mm wafer fab was qualified for production and capacity of slightly more than 1,000 wafers per week was installed as planned.

In June we announced the conclusion of the three-party agreement for a new 300mm semiconductor manufacturing facility in Crolles among the State of France, GlobalFoundries, and our company, as approved by the European Commission.

These initiatives are aligned with our **Sustainability strategy** and our sustainable manufacturing commitment in terms of energy consumption and greenhouse gas emissions, air, and water quality.

We are on track to achieve our carbon neutrality goal on scope 1 & 2 and partially scope 3, and our 100% renewable energy goal by 2027. To further these goals we announced, in November, the signature of a fifteen-year Power Purchase Agreement for renewable energy for our operations in Italy with ERG, a leading European independent energy producer. We also continued to work closely with external bodies and to maintain our strong presence in the major sustainability indices.

Looking now at our full year 2023 financial performance in greater detail:

Net revenues increased 7.2% to $17.29 billion.

On a year-over-year basis, Automotive revenues grew 33.5%, Industrial was up 11.4%, Communications Equipment and Computer Peripherals decreased 4.2% and Personal Electronics was down 25.1%.

By end-market, Automotive represented about 41% of our total 2023 revenues, Industrial about 30%, Personal Electronics about 19%, and Communications Equipment and Computer Peripherals about 10%.

By customer channel, Sales to OEMs and Distribution represented 66% and 34%, respectively, of total revenues in 2023, similar to the split in 2022.

By region of customer origin, 37% of our 2023 revenues were from the Americas, 30% from Asia Pacific, and 33% from EMEA.

Looking at the sales performance by product group:

- ADG grew 31.5%, on growth both in Automotive and in Power Discrete.

- AMS revenues decreased by 18.7%, with lower revenues in the three sub-groups.

- MDG revenues increased 3.9%; revenues grew in RF Communications and were substantially flat in the Microcontrollers sub-group.

Gross margin increased to 47.9% for 2023 compared to 47.3% for 2022, principally driven by the positive impact of the combination of product mix and pricing, partially offset by higher input manufacturing costs and unused capacity charges.

In 2023 operating margin decreased to 26.7% compared to 27.5% in 2022.

By product group:

- ADG operating margin increased to 31.8% from 24.6%;
- AMS operating margin decreased to 17.3%, from 25.2%; and
- MDG operating margin decreased to 33.8% from 35%.

Net cash from operating activities increased 15.2% in 2023, totaling $5.99 billion.

After investing $4.11 billion in net CAPEX in 2023, compared to $3.52 billion in 2022, our free cash flow increased 11.3% to $1.77 billion.

Inventory at the end of the year was $2.70 billion, compared to $2.58 billion in 2022. Days sales of inventory at year-end was 104 days compared to 114 days at the end of Q323 and 101 days at the end of the previous year.

Cash dividends paid to stockholders in 2023 totaled $223 million. In addition, during 2023, ST executed share buy-backs totaling $346 million under our current share repurchase program.

ST's net financial position of $3.16 billion at December 31, 2023, reflected total liquidity of $6.08 billion and total financial debt of $2.93 billion.

Now, let's move to our plan for the full year 2024.

On Q1 2024:

- At the mid-point, our first quarter business outlook is for net revenues of $3.6 billion, decreasing by 15.2% year-over-year and decreasing 15.9% sequentially; gross margin is expected to be about 42.3%.

For the full year 2024:

- We plan to invest about $2.5 billion in net CAPEX,
- And we will drive the Company based on a plan for FY24 revenues in the range of $15.9 billion to $16.9 billion.
- Within this plan, we expect a gross margin in the low to mid-40's.

As mentioned earlier, the first half of 2024 will be impacted by a significant inventory correction in Industrial. In the second half of the year, we expect significant sequential revenue growth driven by a strong rebound in Industrial and in Computer Peripherals, continued growth in Automotive and Communications Equipment, and the usual seasonality in Personal Electronics.

At the midpoint of our FY24 revenue indications we expect mid-single digit year-over-year growth in *Automotive*. Excluding the impact of capacity reservation fees and of a specific customer 2023 inventory replenishment effect, this would correspond to low-double digit growth. We expect *Industrial* to return to high-single digit year-over-year growth in the second half of 2024 after a significant decline in the first half. In *Personal Electronics*, we expect to grow revenues sequentially in the second half in line with usual seasonality. In *Communications Equipment and Computer Peripherals* we expect to grow revenues both sequentially and year-over-year in the second half, driven by our engaged customer programs in both the Communications and Computer markets.

To conclude:

Following several years of revenue growth and increased profitability, we see 2024 as a transition year. We are adapting our plans according to market dynamics while continuing to execute on our established strategy and operating model, continuing to strongly focus on Automotive and Industrial as a broad range supplier, and being selective in our approach in Personal Electronics and Communications Equipment and Computer Peripherals.

Finally, before answering your questions I would also like to mention that on January 10th, 2024, we announced that we are re-organizing our Product Groups. ST will be re-organized in two Product Groups split in four Reportable Segments, and the existing sales and marketing organization will be complemented by a new application marketing organization by end market implemented across all Regions.
This new organization implies a change in reporting which will apply from January 1st, 2024. We will now report revenues and operating income for the four new reportable segments.

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