Q1 2024
Earnings Results
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Good morning everyone and thank you for joining ST for our Q1 2024 earnings conference call.

**Let me begin with some opening comments.**

Starting with Q1:

- First quarter net revenues of $3.47 billion and gross margin of 41.7% both came in below the midpoint of our business outlook range, driven by lower revenues in Automotive and Industrial, partially offset by higher revenues in Personal Electronics.
- Looking at our year-over-year performance, Q1 net revenues decreased 18.4%. Gross margin at 41.7% was down from 49.7%. Operating margin decreased to 15.9% from 28.3%, and net income decreased 50.9% to $513 million.
- On a sequential basis, net revenues decreased 19.1%.

During the first quarter, our customer order bookings remained weak in Industrial across all geographies and much lower than expected. This indicates that the Industrial inventory correction will be stronger and last longer than anticipated in January.
Additionally, towards the end of the quarter we started to see some reduction in our Automotive backlog.

On Q2 2024:

- Our second quarter business outlook is for net revenues of about $3.2 billion at the mid-point, declining year-over-year by 26% and sequentially by 7.6%.
- Gross margin is expected to be about 40%.

For the full year 2024:

- Compared with our January expectations, the market environment has further deteriorated, with an even stronger inventory correction in Industrial, slowing the expected growth in the second half of the year compared to our previous expectations. Automotive has entered a deceleration phase, with demand slowing down compared to our January expectations.
- We will now drive the Company based on a revised plan for FY24 revenues in the range of $14 billion to $15 billion. Within this plan, we expect a gross margin in the low 40's.
- We plan to maintain our Net Capex plan for FY24 at about $2.5 billion focusing on our strategic manufacturing initiatives.

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

Before commenting Q1 results, let me remind you that starting in 2024, ST is organized in two Product Groups split in four Reportable Segments. Therefore, from Q124, we report revenues and operating income according to those four new Reportable Segments.

In Q1, net revenues decreased about 18.4% year-over-year.

- Analog products, MEMS and Sensors was down 13.1% mainly due to MEMS and Imaging.
- Power and Discrete products decreased 9.8% mainly due to Discrete.
- Microcontrollers revenues declined 34.4%, mainly due to General Purpose MCU.
- Digital ICs and RF products declined 2.1% due to a decrease in ADAS more than offsetting an increase in RF Communications.

By end market, Industrial declined more than 40%, Personal Electronics about 13%, CECP about 10% and Automotive about 2%.
Year-over-year, sales decreased 11.5% to OEMs and 30.8% to Distribution.

On a sequential basis, Q1 net revenues came in 320 basis points below the mid-point of our outlook, mainly reflecting lower revenues in Automotive and Industrial, partially offset by higher revenues in Personal Electronics.
Overall, Q1 net revenues decreased 19.1% sequentially, with a decline of 14.2% in Analog products, MEMS and Sensors (AM&S), 15.1% in Power and discrete products (P&D), 25.3% in Microcontrollers (MCU) and 23.8% in Digital ICs and RF Products (D&RF).
Looking by end market, Industrial was down 28% sequentially,
Personal Electronics 21%, CECP 15% and Automotive 14%.

Excluding the impact of capacity reservation fees and of a specific customer 2023 inventory replenishment effect, Automotive was down 8%.

Gross profit was $1.44 billion, decreasing 31.6% year-over-year.

Gross margin of 41.7%, 60 basis points below the mid-point of ST's guidance, decreased 800 basis points year-over-year, mainly due to the combination of sales price and product mix, unused capacity charges and reduced manufacturing efficiencies.

Operating margin was 15.9%, compared to 28.3% in the year-ago period. All Reportable Segments were down on a year-over-year basis, with the main decline in MCU and Power and Discrete.

On a year-over-year basis, net income decreased 50.9% to $513 million from $1,04 billion and diluted earnings per share decreased 50.9% to $0.54 from $1.10.

Net cash from operating activities decreased to $859 million in Q1, compared to $1.32 billion in the year-ago quarter.

First quarter Net CAPEX was $967 million, compared to $1.09 billion in the year-ago quarter.

Free cash flow was negative at $134 million compared to positive $206 million in the year-ago quarter.

Inventory at the end of the first quarter was $2.69 billion, compared to $2.87 billion in the year-ago quarter. Days sales of inventory at quarter-end was 122 days compared to 104 days in the previous quarter and 122 days in the year-ago quarter.

Cash dividends paid to stockholders in Q124 totaled $48 million. In addition, ST executed share buy-backs of $87 million as part of our current share repurchase program.

ST's net financial position of $3.13 billion as of March 30, 2024, reflected total liquidity of $6.24 billion and total financial debt of $3.11 billion.

I will now go through a short update on some of our strategic focus areas in Q1.

In **Automotive**, we saw a slowdown in semiconductor demand compared to our January expectations. This was characterized by some reductions in backlog and reduced forecasts from some of our customers, including adjustments related to electric vehicle production decrease.

We continued to execute our strategy supporting **car electrification** during the quarter. We had wins with our third-generation silicon-carbide MOSFET technology for traction inverter at a top manufacturer of electric vehicles as well as with a maker of e-compressor controllers that

extend EV driving range, increasing our current design-win pipeline.
We also won sockets with our smart fuses in new automotive architecture designs with multiple customers.

In **car digitalization**, we saw further momentum with our portfolio of automotive microcontrollers. This included wins with our latest generation Stellar MCUs in zonal control, drive train and chassis solutions for a major truck maker.
In ADAS, our partner Mobileye has delivered first production-candidate hardware and software of the EyeQ6 Lite to customers. The EyeQ6 Lite is already set to be installed in 46 million vehicles over the next few years.
Our pipeline of design wins in smart mobility, confirms the strength of our technology and product portfolio to successfully take advantage of the continued structural growth of this key market for ST.

In **Industrial**, during the quarter the ongoing correction accelerated; it is impacting all the main sub-segments, both in Consumer and in B2B Industrial, and is spread globally.
In Industrial embedded processing solutions, in March we held our flagship STM32 Summit event, which attracted an audience of over 5000 developers around the world. Around this event we announced new low cost, wireless and high-performance microcontrollers as well as new devices in our 64-bit microprocessor family.
We also announced an advanced process based on 18nm Fully Depleted Silicon On Insulator technology with embedded phase change

memory to support next-generation embedded processing devices.
For developers using sensors for industrial applications, we introduced a new all-in-one tool for MEMS sensor evaluation and development, connected closely with the STM32 microcontroller ecosystem. It supports our wide portfolio of MEMS sensors and includes tools for embedding edge AI in inertial modules.
We continued to develop momentum on Edge AI with increasing usage of our tools and solutions by customers. For example we announced recently a sensorless tire pressure monitoring system for an e-bike based on edge AI algorithms running on an STM32 microcontroller.

We also announced a collaboration on a reference design for high-performance telecom and AI server power supply with Compuware, who supplies high-efficiency power solutions for High-Performance Computing, AI, deep learning, cloud and other advanced applications. It uses ST silicon carbide, galvanic isolation, and microcontroller technologies.
This is an important collaboration since it brings, on top of our focus on Edge AI, another opportunity around AI for ST: the new power architecture for AI servers.
In power and energy management applications we had a broad range of design wins, including in data centers, renewable energy systems, white goods, and factory automation.

Overall, we believe that the sustained design-in and development activity with our customers and distributors in Industrial will enable ST to

take advantage of the next market upcycle in an even stronger position.

In **Personal Electronics** and **Computer Peripherals**, during Q1 all our engaged customer programs were running as expected, in a market context of stabilization driven by AI.

In **Communications Equipment**, we received awards for RF front-end and modem solutions from a new player in the LEO satellite market.

Finally, I would like to mention that we have recently published our 27th annual **sustainability report** highlighting our longstanding commitment in this area. We continued to make substantial progress towards our ambitious targets for carbon neutrality. In 2023 our scope 1 and 2 greenhouse gas emissions were down 45% in absolute terms compared to 2018 and we source now 71% renewable energy - on track to reach our target of 100% by 2027. Long-term power purchasing agreements are a key part of our strategy and we signed another significant agreement in Italy earlier this month.

Now, let’s move to our second quarter 2024 financial outlook and our plans for the full year 2024.

For Q2, we now expect net revenues to be about $3.2 billion at the midpoint, representing a year-over-year decrease of about 26% and a sequential decrease of about 7.6%.

For 2024:

- We revised down our plan for FY24 revenues to be in the range of $14 billion to $15 billion, representing a decline over 2023 of about 19% to 13%.

- This takes into consideration the accelerated inventory correction in Industrial as well as a deceleration phase starting in Automotive.

- We plan to maintain our plan to invest about $2.5 billion in Net Capex, focusing on our strategic manufacturing initiatives.

To conclude:

We continue to adapt our plans according to these asynchronous market dynamics -with a downcycle in Industrial, a deceleration in Automotive and a stabilization in Personal Electronics and Computer Peripherals. In parallel, we will continue to execute our strategic initiatives consistently with our established strategy and operating model.

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