Q1 2023
Earnings Results
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Good morning and thank you for joining ST for our Q1 2023 earnings conference call.

Let me begin with some opening comments.

Starting with Q1:

- First quarter net revenues of $4.25 billion came in better than expected in Automotive and Industrial partially offset by lower revenues in Personal Electronics.
- Gross margin of 49.7% came in 170 basis points above the mid-point of our guidance, mainly due to product mix in a price environment that remained favorable.
- Looking at our year-over-year performance, net revenues increased 19.8%. Gross margin at 49.7% was up from 46.7%. Operating margin increased to 28.3%, from 24.7%; and net income grew 39.8% to $1.04 billion.
- On a sequential basis, net revenues decreased 4.0%.

On Q2 2023:

- At the mid-point, our second quarter business outlook is for net revenues of about $4.28 billion, representing a year-over-year increase of 11.5% and a sequential increase of 0.8%; gross margin is expected to be about 49.0%.

For the full year 2023:

- We will now drive ST based on a plan for FY23 net revenues in the range of $17.0 billion to $17.8 billion, representing a year-over-year growth range of about 5% to 10%.

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

Net revenues increased 19.8% year-over-year, driven mainly by ADG and MDG, while AMS revenues decreased slightly. Year-over-year, sales increased 17.5% to OEMs and 24.0% to Distribution.

On a sequential basis, Q1 net revenues came in 110 basis points above the mid-point of our outlook. This performance was driven by better-than-expected results in ADG on continued strength in Automotive, and in MDG with General Purpose Microcontrollers remaining strong in Q1. Overall, Q1 net revenues decreased 4.0% on a sequential basis, with ADG up 6.5%; MDG lower by 1.1%; and AMS decreasing 20.3%, reflecting lower than expected revenue in Personal Electronics on top of seasonality.

Gross profit was $2.11 billion, increasing 27.5% year-over-year.

Gross margin increased to 49.7%, compared to 46.7% in the same quarter last year. The 300-basis point expansion was driven by improved product mix, favorable pricing, and positive currency effects, net of hedging, partially offset by higher manufacturing costs.

Q1 operating margin was 28.3%, up from 24.7% in the year-ago period, with ADG and MDG contributing to the 360 basis points growth in operating margin.

On a year-over-year basis, net income increased 39.8% to $1.04 billion from $747 million and diluted earnings per share increased 39.2% to $1.10 from $0.79.

Looking at our year-over-year sales performance by Product Group:

- ADG revenues increased 43.9%, on double-digit growth in both Automotive and Power Discrete.
- AMS revenues decreased 0.9%, with lower revenues in Analog and MEMS offsetting an increase in Imaging.
- MDG revenues increased 13.2%, with growth in both Microcontrollers and RF Communications.

In terms of operating margin, two of three product groups delivered year-on-year expansion:

- ADG operating margin increased to 32.0% from 18.7%;
- MDG operating margin increased to 36.2% from 33.7%; and
- AMS operating margin decreased to 20.4% from 22.9%.

Net cash from operating activities increased 39.7% to $1.32 billion in

Q1, compared to $945 million in the year-ago quarter.

First quarter CAPEX was $1.09 billion, versus $840 million in Q122.

Thanks to the strong growth in net cash from operating activities, free cash flow grew to $206 million in Q123, versus $82 million in Q122.

Cash dividends paid to stockholders in Q123 totaled $54 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 $1.86 billion as of April 1, 2023, reflected total liquidity of $4.52 billion and total financial debt of $2.66 billion.

Let's now discuss the business dynamics.

During the first quarter, demand in the Automotive market and in the Power and Energy portion of the Industrial market remained strong, driven by continued semiconductor pervasion and the ongoing structural transformation. Factory automation, robotics, and building control grew revenues in line with our strong backlog while new orders normalized. Demand in consumer industrial, communications infrastructure and networking -including data centers and servers- softened; and demand for Personal Electronics and Computer Peripherals further weakened.

Our backlog is now about 6 quarters, at the mid-point of our FY23 indication, still above a normal situation but with different coverage consistent with the various end-market dynamics.

In Automotive and Industrial we are still well above the capacity we can serve on some technologies and packages. In the other end markets we serve, we are back to a more normal level of coverage.

Moving now to a Q1 review by end market.

In Automotive, demand in the first quarter remained strong. Against this backdrop, we continued to execute our strategy for car electrification, in particular in silicon carbide.

The number of ongoing silicon carbide programs increased again during Q1. Between the automotive and the industrial markets, we now have 130 projects, spread over 85 customers. About 60% of these projects are for automotive customers.

We now expect to generate about $1.2 billion of silicon carbide revenues in 2023 broadly spread among many different customers.

We had design wins in Q1 with both silicon and silicon carbide power discretes in automotive applications. This included an ACEPACK power module and silicon carbide MOSFETs for traction inverters as well as projects with silicon MOSFETs in battery management systems.

In mid-April we announced that we signed a multi-year supply agreement with ZF for silicon carbide devices. Under this agreement we will supply a volume of double-digit millions of devices that will be integrated in ZF's new modular inverter architecture going into production in 2025.

Speaking more broadly about our automotive portfolio serving car electrification, we won designs from multiple Electric Vehicle makers including our Stellar automotive MCU for an on-board charging application.

In car digitalization we had a number of design wins in key areas. In next generation car architectures, our e-fuse products for a zonal controller solution gained traction. In driver monitoring systems, we were successful with our global shutter automotive image sensor.

Legacy automotive remains dynamic and silicon pervasion continues to increase. Here, we had several wins for our SPC5 microcontrollers for vehicle body control, as well as our latest product for a secure door zone platform. In our automotive sensor business, we won several new designs for vehicle dynamics, airbag and anti-theft applications.

Moving now to Industrial.

Across the Industrial market we see two main trends driving a structural transformation in the market and accelerating the increase in semiconductor content: digitalization of devices and systems and Energy Management and Power efficiency improvements.

During the quarter demand remained strong overall in both OEMs and Distribution, with different dynamics across the areas we serve. In B2B industrial we continued to see strong demand in Power and Energy. Factory automation, robotics, and building control grew revenues in line with our strong backlog while new orders normalized. Consumer Industrial -such as battery-operated tools and home appliances-softened.

During Q1, we continued to see an expansion of design wins across the three areas of the Industrial market we focus on: B2B, Consumer and Specialized. Our broad offering enables us to support our customers with full solutions combining power, analog, sensors, and embedded processing products leveraging ST’s unique position. Wins included system solutions comprised of power discrete, power management, and STM32 MCUs in renewable energy applications, and multi-product solutions for smart meters and smart grid applications. We also won sockets with intelligent power switches, motor drivers, industrial sensors and secure solutions in applications such as industrial automation, asset tracking, and server power supplies.

In the quarter we made a number of announcements related to our STM32 product portfolio and ecosystem. These included a new highly affordable MCU series to replace 8-bit MCUs, a new high performance

MCU series with enhanced security features, a new wireless MCU and new MPU products. We also continued to build the best developer ecosystem with two industry firsts:

- We introduced a certified MCU security platform that combines hardware and software to simplify development of secure embedded applications; and
- We launched the world's first MCU Edge-AI Developer Cloud that includes an online benchmarking service for edge-AI models on STM32 boards.

Moving now to Personal Electronics.

During the quarter our products were selected for flagship smartphones, watches and other wearable devices. These included NFC controllers and secure element solutions, wireless charging products, MEMS sensors, and time-of-flight ranging sensors.

In Communications Equipment and Computer Peripherals we saw new wins here included products for LEO satellites, a number of products for computer peripherals including secure solutions, time-of-flight sensors and MCUs, and ASICs for communications infrastructure based on our proprietary technologies.

Now, I would like to mention that we issued our annual sustainability report last week. A couple of key points:

- We are on track with our program to be carbon neutral by 2027 and we further increased our global sourcing of electricity from renewable energy growing to 62% in 2022, from 51% in 2021.

- We were recognized by environmental non-profit CDP -Carbon Disclosure Project- as a global leader in corporate transparency and performance on water security, being one of the few companies to secure a place on its annual ‘A List’.

Now, let’s move to our second quarter 2023 financial outlook and our plans for the full year 2023.

For Q2, we expect net revenues to be about $4.28 billion at the mid-point, representing a year-over-year growth of about 11.5% and a sequential increase of about 0.8%, both driven by solid growth in Automotive and Industrial partially offset by a decline in Personal Electronics. Gross margin is expected to be about 49.0% at the mid-point.

For 2023:

We confirm our plan to invest about $4.0 billion in CAPEX, with about 80% of this amount mainly related to the increase of our 300mm wafer and silicon carbide manufacturing capacity including, for silicon carbide, our substrate initiative. The remaining 20% is for R&D, laboratories, manufacturing maintenance and efficiency and our corporate sustainability initiatives.

Based on our visibility, we will now drive the Company based on a plan for FY23 revenues in the range of about $17.0 billion to $17.8 billion, representing a growth over 2022 of about 5% to 10%.

Automotive and Industrial will be the key growth drivers of our revenues in 2023.

To conclude:

As we have discussed, we are operating in an environment with significantly different dynamics depending on the end markets we serve. Based on our leadership position, strategic approach and current visibility, we anticipate in 2023 another year of revenue growth and profitability improvement toward our $20 billion + ambition and related financial model.

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