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STMicroelectronics Q3 2021 Financial Results

October 28, 2021

Forward looking information

Some of the statements contained in this release that are not historical facts are statements of future expectations and other forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 or Section 21E of the Securities Exchange Act of 1934, each as amended) that are based on management's current views and assumptions, and are conditioned upon and also involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those anticipated by such statements, due to, among other factors:

- changes in global trade policies, including the adoption and expansion of tariffs and trade barriers, that could affect the macro-economic environment and adversely impact the demand for our products;*
- uncertain macro-economic and industry trends, which may impact end-market demand for our products;*
- customer demand that differs from projections;*
- the ability to design, manufacture and sell innovative products in a rapidly changing technological environment;*
- changes in economic, social, public health, labor, political, or infrastructure conditions in the locations where we, our customers, or our suppliers operate, including as a result of macroeconomic or regional events, military conflicts, social unrest, labor actions, or terrorist activities;*
- unanticipated events or circumstances, which may impact our ability to execute our plans and/or meet the objectives of our R&D and manufacturing programs, which benefit from public funding;*
- legal, political and economic uncertainty surrounding Brexit may be a continued source of instability in international markets and currency exchange rate volatility and may adversely affect business activity, political stability and economic conditions and while we do not have material operations in the U.K. and have not experienced any material impact from Brexit on our underlying business to date, we cannot predict its future implications;*
- financial difficulties with any of our major distributors or significant curtailment of purchases by key customers;*
- the loading, product mix, and manufacturing performance of our production facilities and/or our required volume to fulfill capacity reserved with suppliers or third party manufacturing providers;*
- availability and costs of equipment, raw materials, utilities, third-party manufacturing services and technology, or other supplies required by our operations;*
- the functionalities and performance of our IT systems, which are subject to cybersecurity threats and which support our critical operational activities including manufacturing, finance and sales, and any breaches of our IT systems or those of our customers or suppliers;*
- theft, loss, or misuse of personal data about our employees, customers, or other third parties, and breaches of global and local privacy legislation, including the EU's General Data Protection Regulation ("GDPR");*
- the impact of intellectual property ("IP") claims by our competitors or other third parties, and our ability to obtain required licenses on reasonable terms and conditions;*
- changes in our overall tax position as a result of changes in tax rules, new or revised legislation, the outcome of tax audits or changes in international tax treaties which may impact our results of operations as well as our ability to accurately estimate tax credits, benefits, deductions and provisions and to realize deferred tax assets;*
- variations in the foreign exchange markets and, more particularly, the U.S. dollar exchange rate as compared to the Euro and the other major currencies we use for our operations;*
- the outcome of ongoing litigation as well as the impact of any new litigation to which we may become a defendant;*
- product liability or warranty claims, claims based on epidemic or delivery failure, or other claims relating to our products, or recalls by our customers for products containing our parts;*
- natural events such as severe weather, earthquakes, tsunamis, volcano eruptions or other acts of nature, the effects of climate change, health risks and epidemics such as the COVID-19 in locations where we, our customers or our suppliers operate;*
- the duration and the severity of the global outbreak of COVID-19 may continue to negatively impact the global economy in a significant manner for an extended period of time, and also could materially adversely affect our business and operating results;*
- industry changes resulting from vertical and horizontal consolidation among our suppliers, competitors, and customers; and*
- the ability to successfully ramp up new programs that could be impacted by factors beyond our control, including the availability of critical third party components and performance of subcontractors in line with our expectations.*

Such forward-looking 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. Certain forward-looking statements can be identified by the use of forward looking terminology, such as "believes," "expects," "may," "are expected to," "should," "would be," "seeks" or "anticipates" or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions.

Some of these risk factors are set forth and are discussed in more detail in "Item 3. Key Information — Risk Factors" included in our Annual Report on Form 20-F for the year ended December 31, 2020, as filed with the SEC on February 24, 2021. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this release as anticipated, believed, or expected. We do not intend, and do not assume any obligation, to update any industry information or forward-looking statements set forth in this release to reflect subsequent events or circumstances.

Highlights

**Q3
2021**

- Net revenues, substantially at the mid-point our business outlook range, were \$3.20B, up 6.9% Q/Q and up 19.9% Y/Y.
- The revenue performance was driven by strong global demand and by our engaged customer programs in Personal Electronics. This was partially offset by lower than expected revenues in Automotive, caused by more severe than anticipated reduced operations at our Malaysian manufacturing facility due to the pandemic.
- Gross margin of 41.6%, came in 60 basis points higher than the mid-point.
- Operating margin was 18.9%, improving Y/Y from 12.3%. Our net income nearly doubled Y/Y to \$474M.
- Free cash flow was \$420M, after net capital expenditure payments of \$437M.

**9M
2021**

- Net revenues increased 31.8% Y/Y to \$9.20B, driven by growth in all product groups, except the RF Communications sub-group.
- Operating margin was 16.7% and net income \$1.25B.

**Q4
2021**

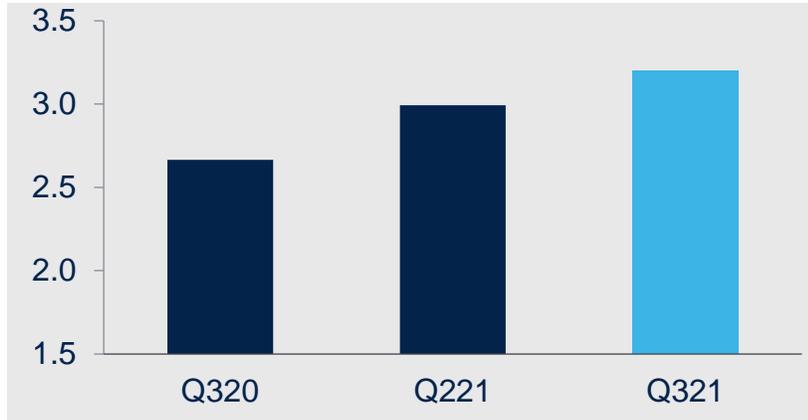
- Outlook at mid-point is for net revenues of \$3.40B, representing an increase of 5.1% Y/Y and 6.3% Q/Q.
- Gross margin expected to be about 43.0% at the mid-point.

**FY
2021**

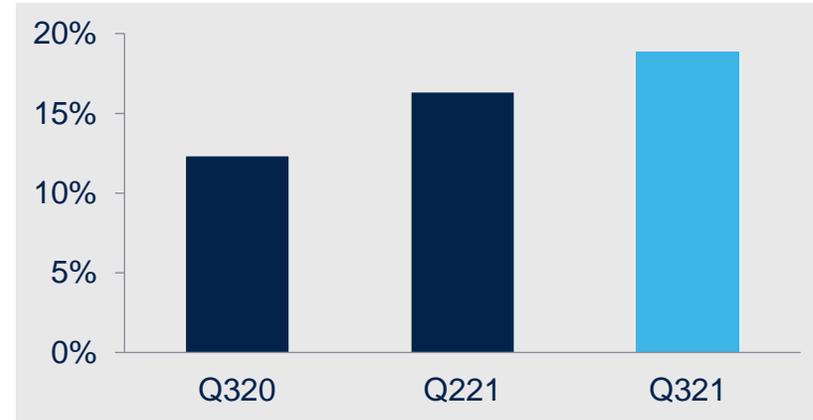
- For the FY21, we now expect net revenues at the mid-point to be about \$12.6B, translating into 23.3% Y/Y growth, at the high-end of the range we provided in July. This growth is expected to be driven by continuing strong dynamics in all the end markets we address and our engaged customer programs.
- Our FY21 CAPEX investment plan of about \$2.1B remains unchanged.

Q3 2021 Financial highlights

Revenues = \$3.20B



Operating Margin = 18.9%



Gross Margin = 41.6%

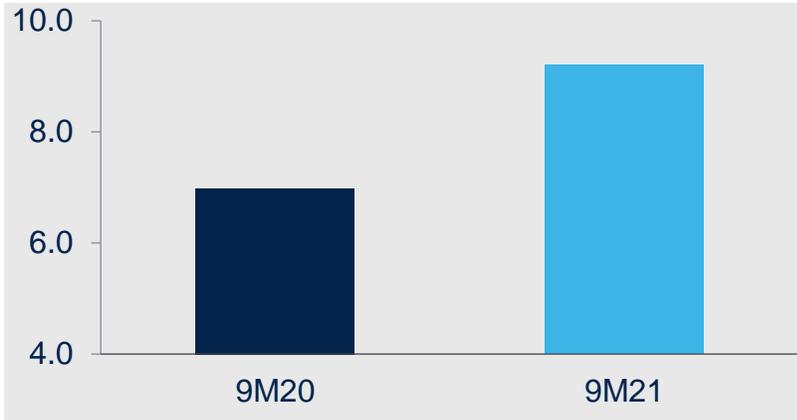


Net Income = \$474M

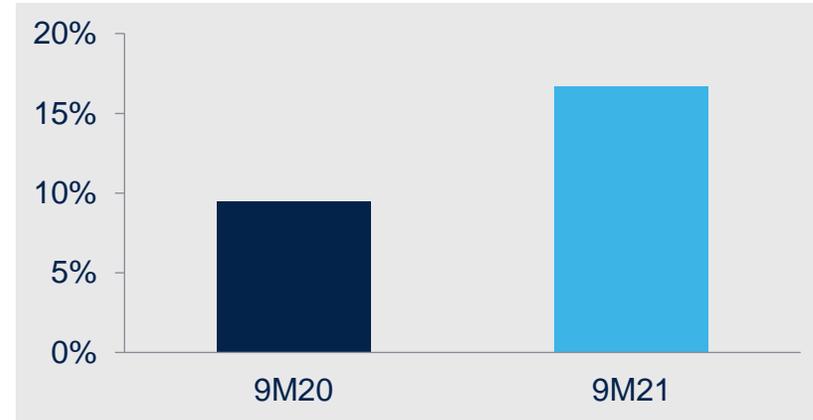


9M 2021 Financial highlights

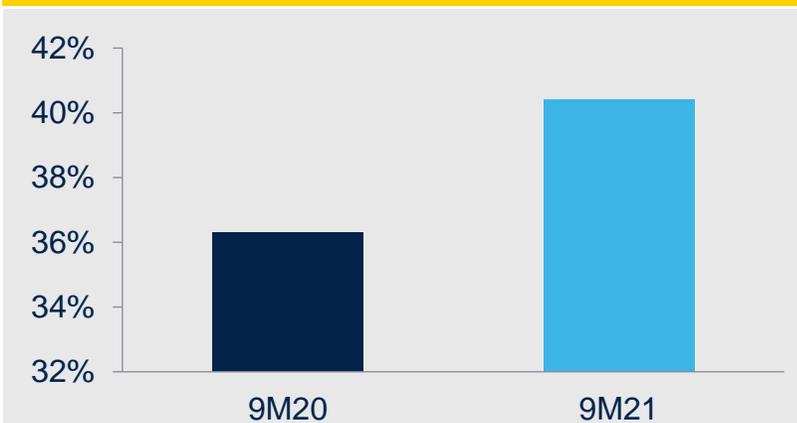
Revenues = \$9.20B



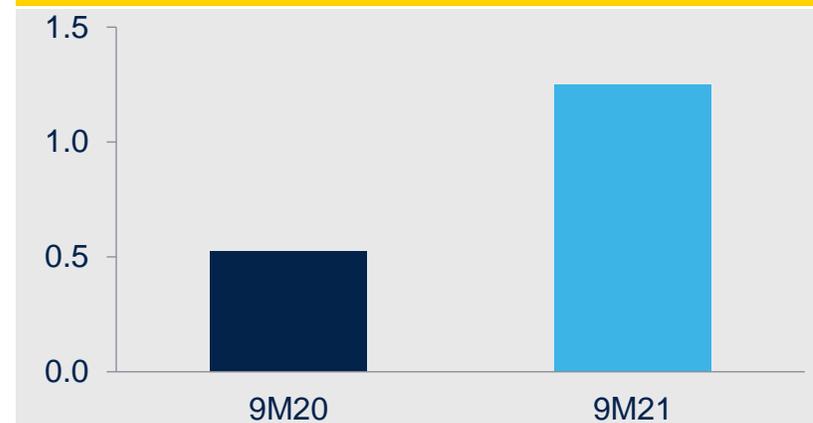
Operating Margin = 16.7%



Gross Margin = 40.4%

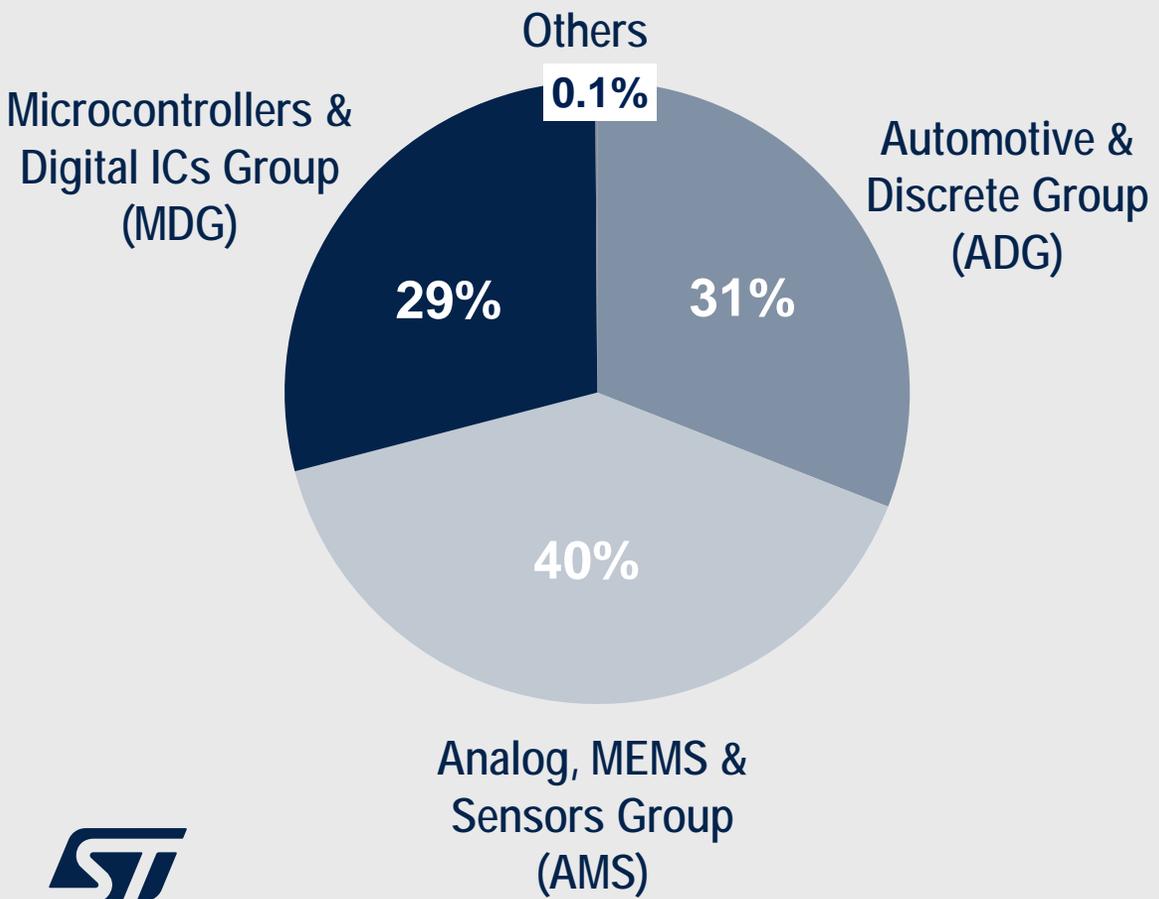


Net Income = \$1.25B

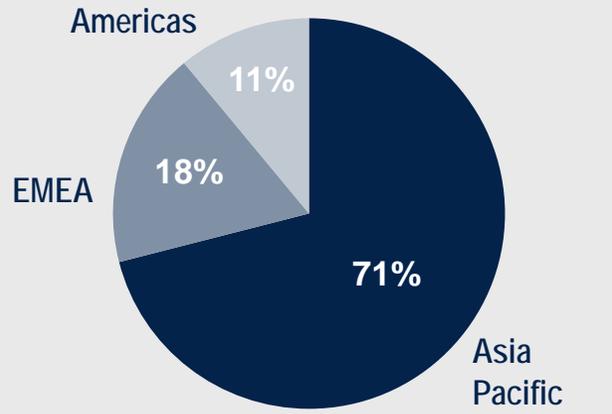


Q3 2021 Revenues

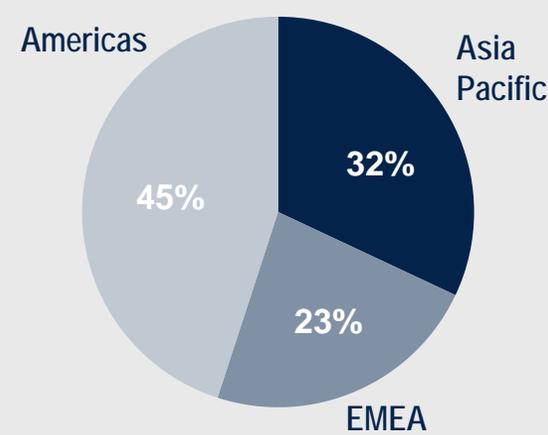
% by product group



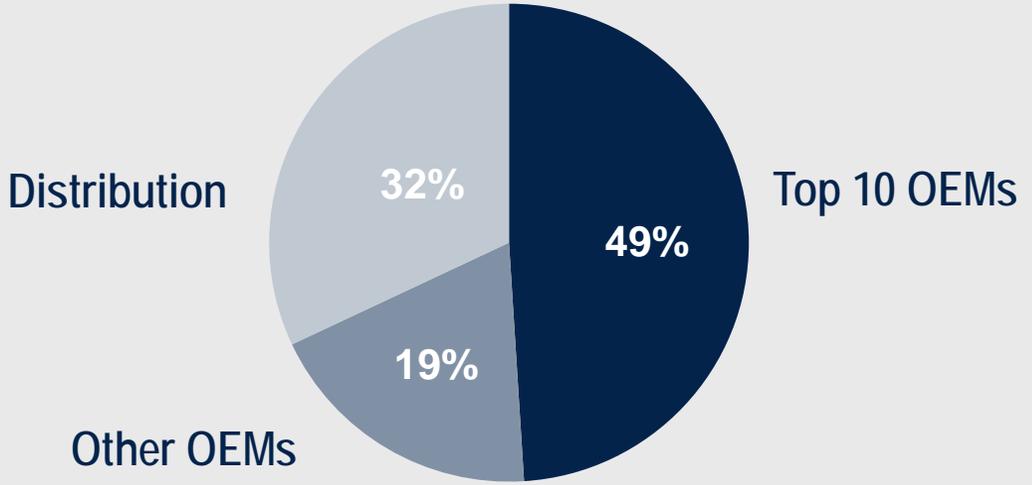
% by shipment location



% by region of origin



% by customer type



Q321 Revenues = \$3.20B



Q321 revenues up 19.9% Y/Y

- The Company recorded higher net sales in all product groups except the RF Communications sub-group;
- Revenues to OEMs and Distribution increased 9.9% and 48.6%, respectively.

Q321 revenues up 6.9% Q/Q

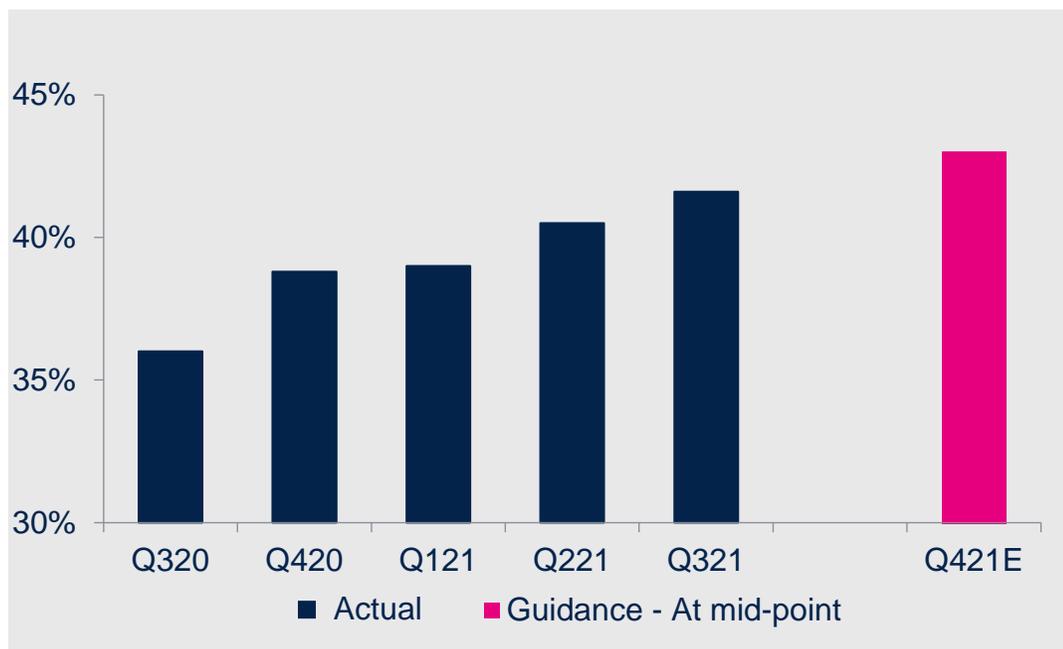
- Substantially in line with Company's guidance;
- AMS and MDG reported increases in net revenues on a sequential basis while ADG decreased, caused by more severe than anticipated reduced operations at our Malaysian manufacturing facility due to the pandemic.

Q421 Revenues Outlook

Up Q/Q by about 6.3% (+/- 350 bps)
Up Y/Y by about 5.1% at mid-point

Gross margin

Q321 Gross Margin = 41.6%



Q321 Gross Margin

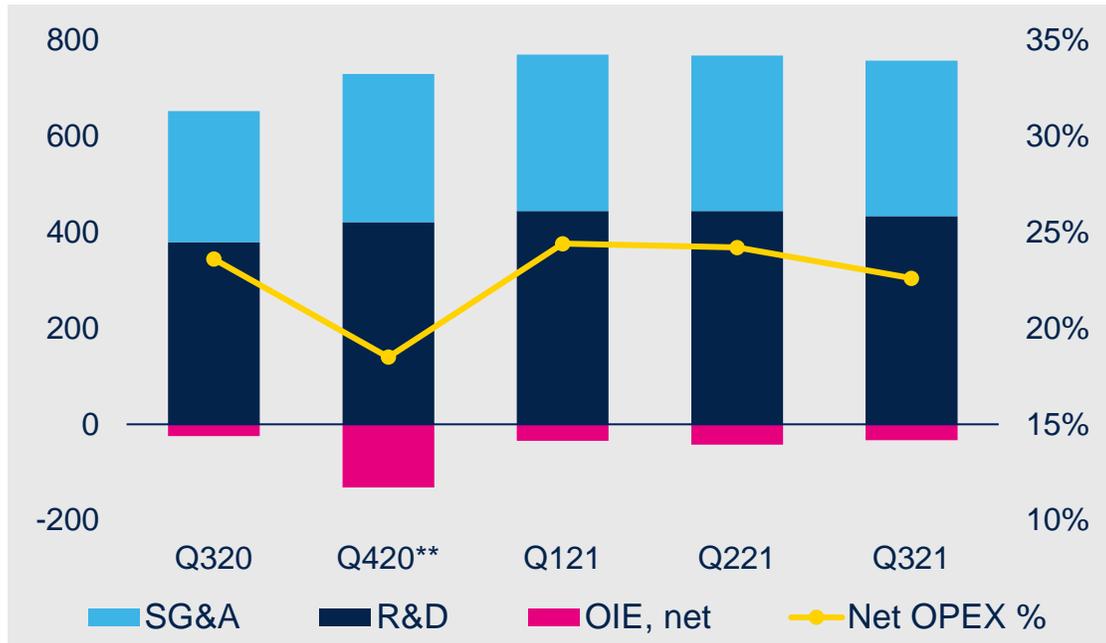
- Up 560 bps Y/Y mainly driven by improved product mix, manufacturing efficiencies, favorable pricing and lower unloading charges, partially offset by negative currency effects, net of hedging;
- Up 110 bps Q/Q;
- 60 bps above the mid-point of the Company's guidance, driven by product mix.

Q421 Gross Margin Outlook

About 43.0% (+/- 200 bps)

Net operating expenses (*)

Q321 Net Operating Expenses = \$724M



Combined SG&A and R&D at \$757M

- 23.7% of revenues.

Net Operating Expenses at \$724M

- 22.6% of revenues.

Q3 2021 Product group results

Automotive & Discrete (ADG)

Revenues = \$1,005M
Operating Margin = 10.8%



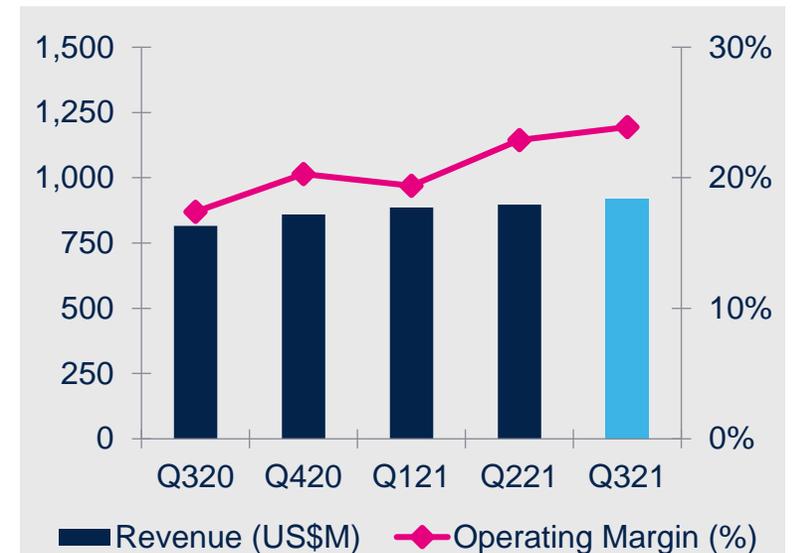
Analog, MEMS & Sensors (AMS)

Revenues = \$1,268M
Operating Margin = 24.0%



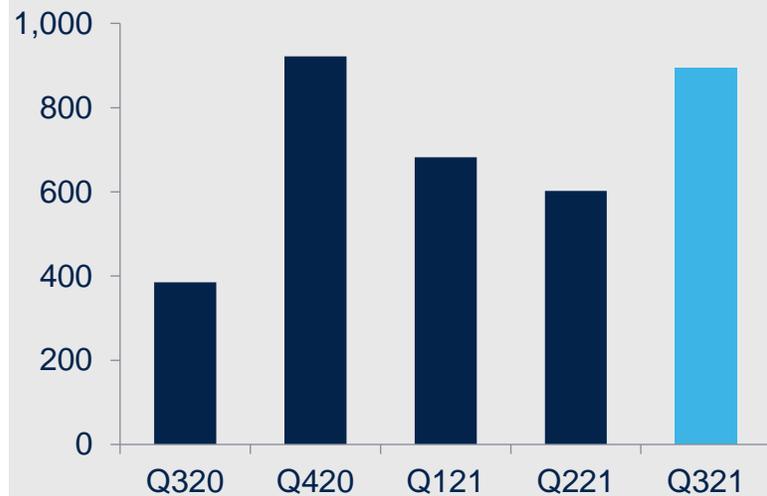
Microcontrollers & Digital ICs (MDG)

Revenues = \$920M
Operating Margin = 23.9%

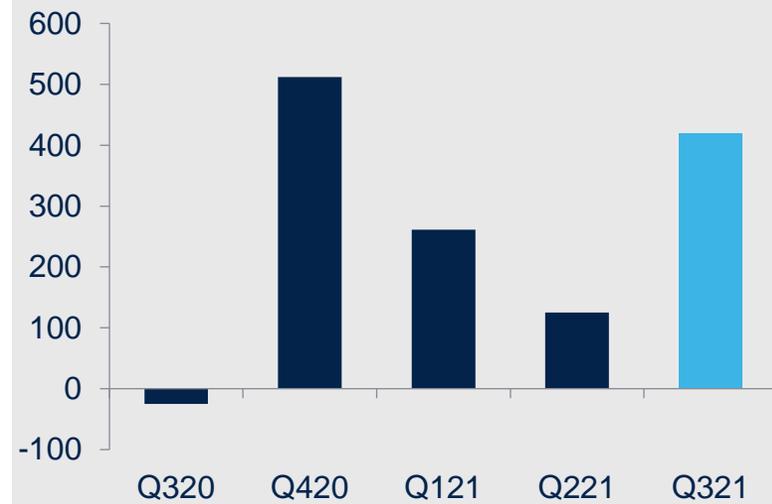


Q3 2021 Financial flexibility

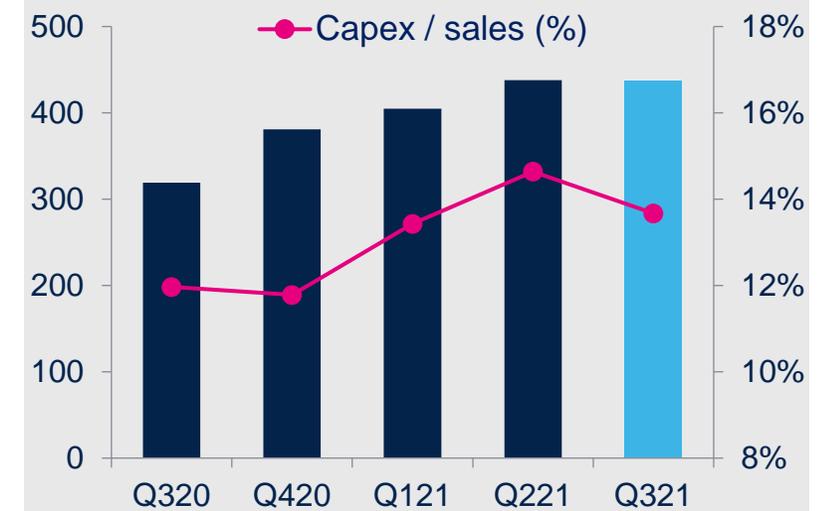
Net Cash From Operating Activities = \$895M



Free Cash Flow* = \$420M



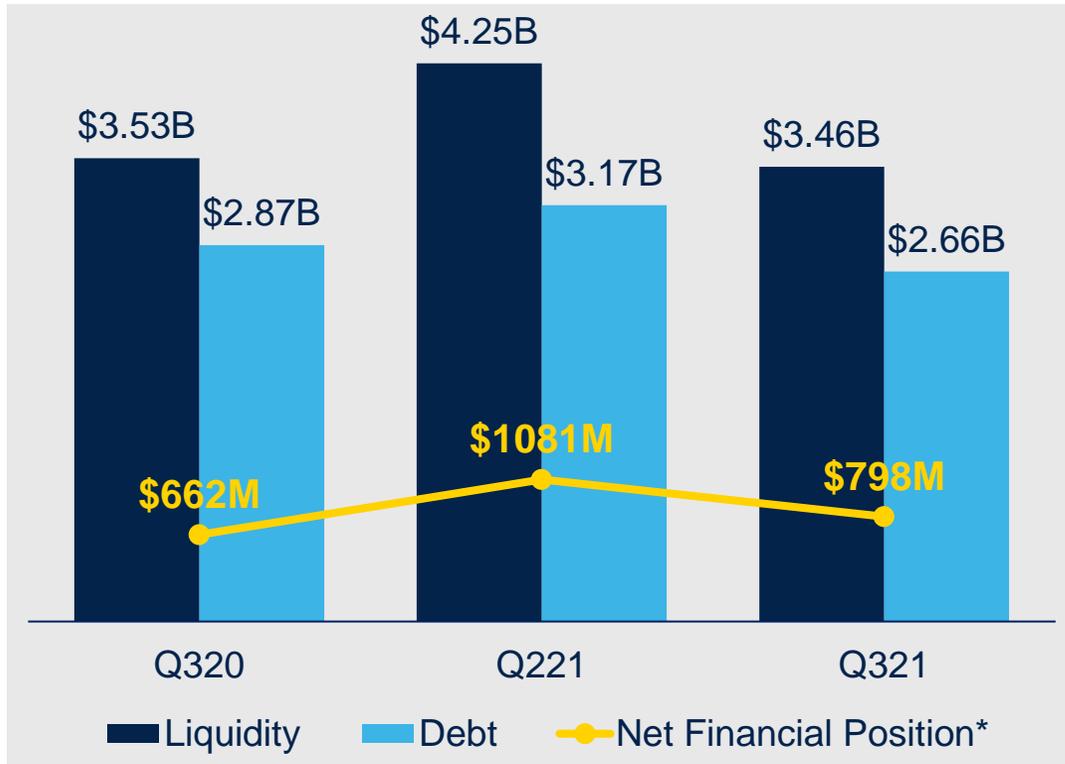
Capex = \$437M



Cash dividends paid to shareholders totaled \$55M in Q321.

Buy back of \$87M, in connection with our new share repurchase program initiated on July 1, 2021.

Solid capital structure



ST is in a solid position from a capital, liquidity and balance sheet perspective

ST's credit rating: investment grade with a Positive or Stable Outlook from Moody's, S&P and Fitch

ST exercised the call option for the early redemption of its 2024 Tranche B convertible bond issued in 2017. As a consequence, bondholders exercised their conversion rights on the total of \$750M principal amount of the bond. In Q321, we fully settled this bond, delivering about 5.8M treasury shares and paying \$1.26B in cash, which includes the \$750M principal amount.

Q3 2021 Automotive highlights

ADG

Award a design for a Gen3 Silicon Carbide MOSFET for an Electric Vehicle (EV) climate control compressor

ADG

Won EV sockets for silicon MOSFETs, microcontrollers and VIPower in Battery Management Systems, traction inverters, and EV battery packs

ADG

Received an award for a 32-bit microcontroller in a body domain smart gateway and for our Teseo GNSS chipset in a navigation system

AMS

Won sockets with automotive-grade inertial measurement units across multiple applications such as telematics, door control, and navigation



Q3 2021 Industrial highlights

MDG

Strengthened support for wireless design and Artificial intelligence with additional tools that will help STM32 developers go faster

ADG

Won designs with Silicon Carbide transistors and modules, silicon MOSFETs, IGBTs, and diodes in various industrial applications

AMS

Received awards for analog products in applications like motion control, smart grid, factory automation, and home appliances

AMS

Won designs for sensors for industrial applications such as power tools, and for our specialized devices like inclinometers



Q3 2021 Personal Electronics highlights

AMS
MDG

Achieved wins in smartphones with motion sensors, ambient light sensors, time-of-flight ranging sensors for laser autofocus, wireless charging products, touch display controllers, and secure solutions

AMS
MDG

Received awards in accessories and wearables with light, motion and environmental sensors as well as with analog, power, and microcontrollers

AMS

Progressed on engagements with several leading players for our Laser Beam Scanning solutions for Augmented Reality

Personal Electronics



Q3 2021 Communications Equipment, Computers & Peripherals Highlights

ADG

Awarded new sockets in an RF design for satellites

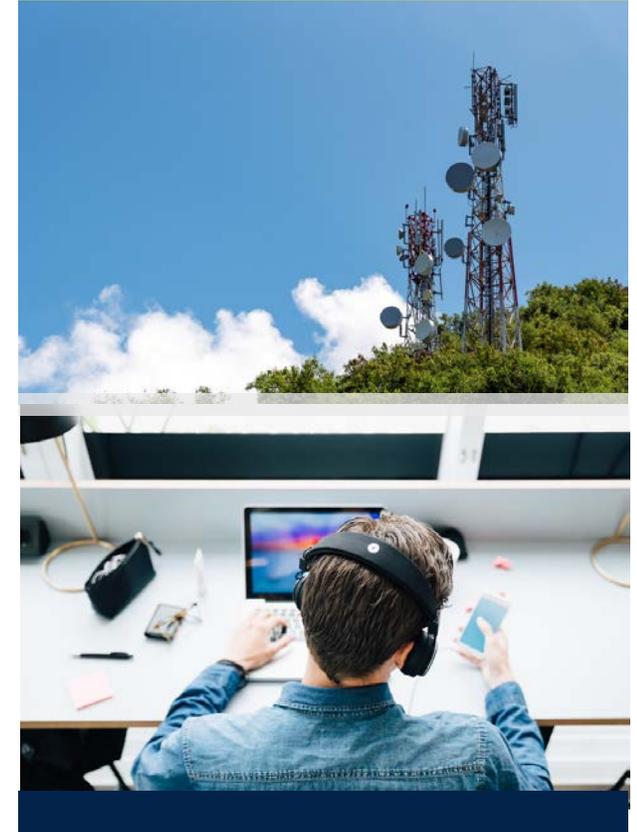
AMS
MDG

Won designs with time-of-flight sensors for laptops, as well as many general purpose MCU designs in computers and peripherals

AMS

Award a design for smart charging control in an ultra-slim power adaptor with our MasterGaN family

Communications Equipment,
Computers & Peripherals



Q4 2021 Outlook

Net Revenues

Q421 outlook, at the mid-point, is for net revenues of \$3.40B, growing 5.1% Y/Y and 6.3% Q/Q.

Gross Margin

Gross margin is expected to be about **43.0%**, plus or minus 200 bps, representing Y/Y and Q/Q increases of 420 bps and 140 bps, respectively.

This outlook is based on an assumed effective currency exchange rate of approximately \$1.18 = €1.00 for the 2021 fourth quarter and includes the impact of existing hedging contracts.

The fourth quarter will close on December 31, 2021.

FY 2021 Plan

Based upon our year-to-date results and Q4 mid-point, we now expect 2021 net revenues of about \$12.6B, at the high-end of the range we provided in July.

This plan will translate into Y/Y growth of 23.3% at the mid-point.

Drivers of this expected growth are the continuing strong dynamics in all the end markets we address and our engaged customer programs.

Takeaways

Our results in Q321 and higher sales plan for FY21 reflect strong Y/Y revenue growth, translating into higher operating profitability, net income and free cash flow.

Revenue growth stems from the expected continuation of strong dynamics in all the end markets we address and our engaged customer programs.

Our focus stays on customers. We continue to adapt our supply chain to support their strong demand. We also continue to provide leading-edge technology and product innovation to enable smarter mobility, more efficient power & energy management, the wide-scale deployment of IoT and 5G, and a more sustainable world.

Appendix

Historical financial performance

<i>In US\$M, except EPS</i>	Q120	Q220	Q320	9M20	Q420	FY20	Q121	Q221	Q321	9M21
Net Revenues	2,231	2,087	2,666	6,984	3,235	10,219	3,016	2,992	3,197	9,205
Gross Margin	37.9%	35.0%	36.0%	36.3%	38.8%	37.1%	39.0%	40.5%	41.6%	40.4%
Operating Income	231	106	329	666	657	1,323	440	489	605	1,534
Operating Margin	10.4%	5.1%	12.3%	9.5%	20.3%	12.9%	14.6%	16.3%	18.9%	16.7%
Net Income – Reported	192	90	242	525	582	1,106	364	412	474	1,251
EPS Diluted (\$/share)	0.21	0.10	0.26	0.57	0.63	1.20	0.39	0.44	0.51	1.35
Free Cash Flow*	113	28	(25)	116	512	627	261	125	420	806
Net Financial Position*	668	570	662	662	1,099	1,099	1,185	1,081	798	798
Effective Exchange Rate €/\$	1.11	1.10	1.13	1.12	1.16	1.13	1.19	1.19	1.19	1.19

Appendix

- **Net financial position (non-U.S. GAAP measure)**: represents the difference between our total liquidity and our total financial debt. Our total liquidity includes cash and cash equivalents, marketable securities, restricted cash and short-term deposits, and our total financial debt includes short-term debt and long-term debt, as represented in our Consolidated Balance Sheets. We believe our Net Financial Position provides useful information for investors and management because it gives evidence of our global position either in terms of net indebtedness or net cash by measuring our capital resources based on cash and cash equivalents, restricted cash, short-term deposits and marketable securities and the total level of our financial indebtedness. Our definition of Net Financial Position may differ from definitions used by other companies and therefore comparability may be limited.
- **Free cash flow (non-U.S. GAAP measure)**: is defined as (i) net cash from operating activities plus (ii) net cash used in investing activities, excluding payment for purchases of (and proceeds from matured) marketable securities and net investment in short-term deposits, which are considered as temporary financial investments. The result of this definition is ultimately net cash from operating activities plus payment for purchase (and proceeds from sale) of tangible, intangible and financial assets and cash paid for business acquisitions. 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 operations. Free Cash Flow does not represent total cash flow since it does not include the cash flows generated by or used in financing activities. Free Cash Flow reconciles with the total cash flow and the net cash increase (decrease) by including the payment for purchases of (and proceeds from matured) marketable securities and net investment in short-term deposits, the net cash from (used in) financing activities and the effect of changes in exchange rates. Our definition of Free Cash Flow may differ from definitions used by other companies.
- **Net revenues of Others**: includes revenues from sales assembly services and other revenues. Operating income (loss) of Others includes items such as unused capacity charges, including reduced manufacturing activity due to COVID-19, impairment, restructuring charges and other related closure costs, management reorganization costs, phase out and start-up costs of certain manufacturing facilities, 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\$M)	Q120	Q220	Q320	9M20	Q420	FY20	Q121	Q221	Q321	9M21
Unused Capacity Charges	34	64	38	136	17	153	2	-	14	16
Impairment & Restructuring Charges	5	4	2	12	(1)	11	-	(2)	1	(1)

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