

# STMicroelectronics 2Q 2014 Financial Results

July 23, 2014



# Forward Looking Statements

*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:*

- *Uncertain macro-economic and industry trends;*
- *Customer demand and acceptance for the products which we design, manufacture and sell;*
- *Unanticipated events or circumstances, which may either impact our ability to execute the planned reductions in our net operating expenses and / or meet the objectives of our R&D Programs, which benefit from public funding;*
- *The loading and the manufacturing performance of our production facilities;*
- *The functionalities and performance of our IT systems, which support our critical operational activities including manufacturing, finance and sales;*
- *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 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;*
- *Restructuring charges and associated cost savings that differ in amount or timing from our estimates;*
- *Changes in our overall tax position as a result of changes in tax laws, 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;*
- *The outcome of ongoing litigation as well as the impact of any new litigation to which we may become a defendant;*
- *Natural events such as severe weather, earthquakes, tsunamis, volcano eruptions or other acts of nature, health risks and epidemics in locations where we, our customers or our suppliers operate;*
- *Changes in economic, social, political, or infrastructure conditions in the locations where we, our customers, or our suppliers operate, including as a result of macro-economic or regional events, military conflict, social unrest, or terrorist activities;*
- *Availability and costs of raw materials, utilities, third-party manufacturing services, or other supplies required by our operations.*

*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, 2013, as filed with the SEC on March 5, 2014. 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.*

# Who We Are

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- A global semiconductor leader
- The largest European semiconductor company
- 2013 revenues of **\$8.08B**
- Approximately **45,000** employees worldwide
- Approximately **9,000** people working in R&D
- **12** manufacturing sites
- Listed on New York Stock Exchange, Euronext Paris and Borsa Italiana, Milano



As of December 31, 2013

# 2Q14 Highlights

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- Sequential improvement in both revenues and gross margin
  - Revenue: \$1.86 billion, up 2.1% , up 4.7% excluding legacy ST-Ericsson products and one-time licensing
  - Gross margin: 34%, up 120 basis points, mostly reflecting manufacturing efficiencies and product mix
- Net result returned to profit
  - \$38M net income, including the catch-up of Nano2017 grants for prior periods
- Capital structure strengthened with \$1Bn convertible bond offering
  - Significantly enhance our financial flexibility
  - Proceeds will be used for general corporate purposes to boost growth
- Stable cash dividend of \$0.10 per share for each of the 2nd and 3rd quarter of 2014 approved at the 2014 AGM

Positive business and financial progress in key areas

# 2014 Product Segments



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## Sense & Power and Automotive Products (SP&A)

## Embedded Processing Solutions (EPS)

Analog, MEMS & Sensors (AMS)

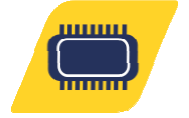
Automotive Product Group (APG)

Industrial & Power Discrete (IPD)

Digital Convergence Group (DCG)\*

Imaging, BiCMOS, ASIC & Silicon Photonics (IBP)

Microcontroller, Memory & Secure MCU (MMS)

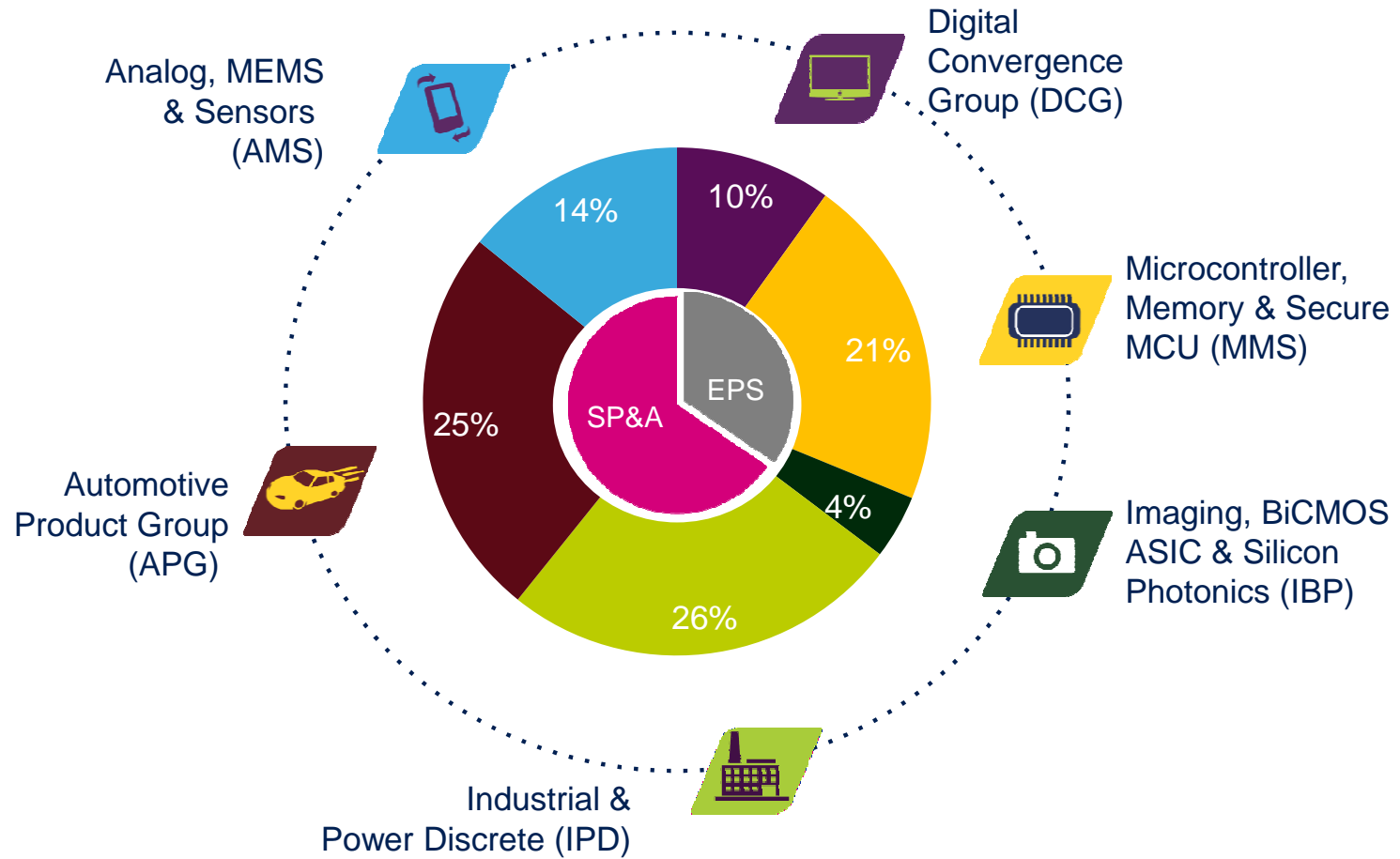


\* Includes legacy ST-Ericsson products

# 2Q14 Revenues by Product Groups

Sense & Power and Automotive Products (SP&A)

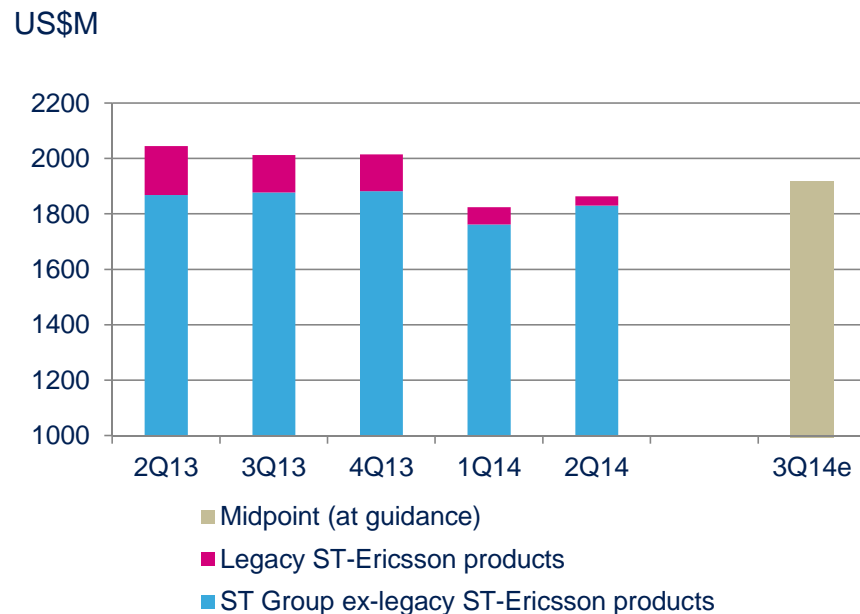
Embedded Processing Solutions (EPS)



# ST Revenues

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2Q14 Revenues = \$1.86B



## 2Q14, excluding legacy ST-Ericsson products and one-time licensing in prior quarter:

- Up 4.7% sequentially
- Sequential growth led by MMS and IPD, up 14.5% and 7.4%, respectively
- DCG – inflection point in 1Q14

## 2Q14, as reported

- Up 2.1% sequentially

## 3Q14 revenue outlook

- Expected to be up about 3% sequentially (+/- 3.5 percentage points)
- Sequential growth expected in all areas of our product portfolio

# Financial Performance

<i>In US\$M, except EPS</i>	2Q13	1Q14	2Q14	H113	H114
<b>Net Revenues</b>	2,045	1,825	1,864	4055	3,689
<b>Gross Margin</b>	32.8%	32.8%	34%	32.1%	33.4%
<b>Operating Income (Loss) before impairment, restructuring*</b> Operating Margin before impairment, restructuring*	(64) (3.1%)	8 0.4%	118 6.3%	(244) (6.0%)	125 3.4%
<b>Net Income – Reported</b>	(152)	(24)	38	(322)	14
<b>EPS Diluted</b>	(0.17)	(0.03)	0.04	(0.36)	0.02
<b>Adjusted EPS Diluted*</b>	(0.06)	(0.01)	0.11	(0.19)	0.10
<b>Free Cash Flow*</b>	(134)	(51)	(99)	(199)	(151)
<b>Net Financial Position</b>	809	612	423	809	423
<b>Effective Exchange Rate €/€</b>	1.30	1.35	1.36	1.30	1.36



# ST Gross Margin

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**2Q14 Gross Margin : 34%**

## **Up 120 basis points sequentially**

- Mostly reflecting manufacturing efficiencies and favorable product mix

## **3Q14 outlook**

- About 34.4% +/- 2.0 percentage points
- Manufacturing capacity in digital technology not yet fully utilized

## **Focus on progressive improvement in gross margin**

- Optimize fab loading and manufacturing efficiency
- Structural changes to our manufacturing footprint ongoing
  - Front End in Singapore (AMKJ9) and Assembly in China (Longgang)
- Product mix: pruning low margin products, accelerate innovation

# ST Operating Expenses

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## 2Q14 Operating Expenses

### Opex kept at the lower end of our target range

2Q14 combined SG&A and R&D at \$626M

- Up \$20M sequentially, as anticipated mainly due to a longer calendar
- Down \$112M y-o-y, mainly due to the ST-Ericsson wind-down and cost reduction initiatives
- \$596M net of estimated recurring quarterly R&D grants (about \$30M per quarter)

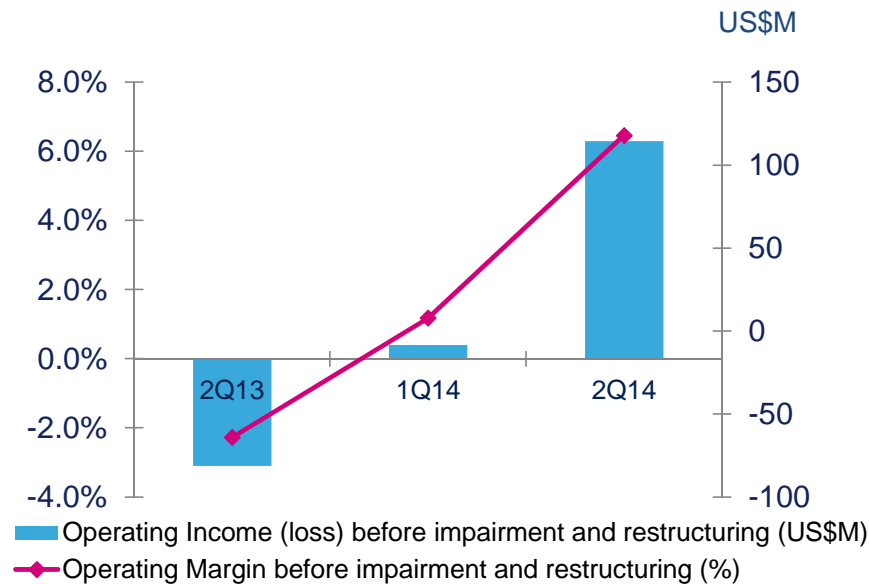
R&D grants this quarter included a \$100M catch up of funding of the Nano2017 R&D program following European Union approval in 2Q14\*

### Our net operating expenses target range

- Net operating expenses target in the range of \$600M to \$650M average per quarter
- Includes SG&A and R&D expenses net of R&D grants

# ST Operating Results

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## 2Q14 Operating Results

### Further improvement

- 2Q14 Operating Income at \$118M before impairment and restructuring charges
- \$52M improvement y-o-y on a comparable basis (excluding the impact of the Nano2017 grants catch-up in 2Q14 and the Ericsson portion of ST-Ericsson's results during 2Q13)

### Operating Margin Improvement Drivers in 2H14

- Leverage on quarter-over-quarter revenue growth for the remainder of 2014
- Ramp of new world class products
- Distribution and mass market initiatives
- Manufacturing performance and optimization

# Financial Progress

## EBITDA



■ EBITDA (US\$M)  
◆ EBITDA (% of revenues)

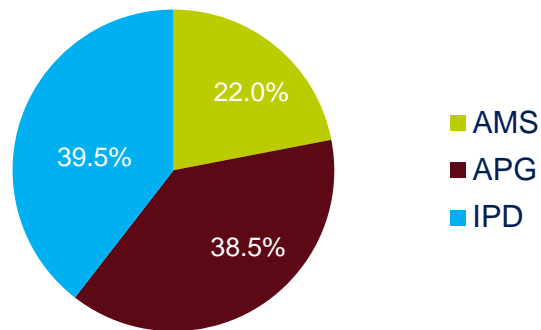
## Operating Income



■ Operating Income (loss) before impairment & restructuring (US\$M)  
◆ Operating Margin before impairment & restructuring (%)

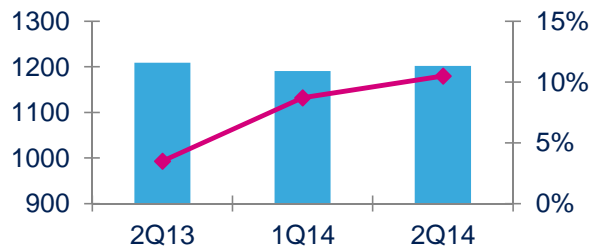
# Sense & Power and Automotive

## 2Q14 Revenues



## 2Q14 Revenues = \$1,202M

- Up 0.9% sequentially driven by growth in Industrial & Power Discrete and Automotive groups
- Flat y-o-y with growth in Automotive and Industrial & Power Discrete groups offset by Analog and MEMS, specifically prior generation motion MEMS and product portfolio pruning



## 2Q14 Operating Margin = 10.5%

- Up from 3.5% in 2Q13 and 8.7% in 1Q14
- Increases compared to both periods mainly driven by manufacturing efficiencies and product mix
- 8.9% excluding Nano2017 catch-up

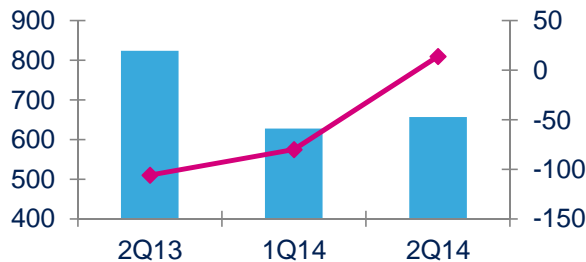
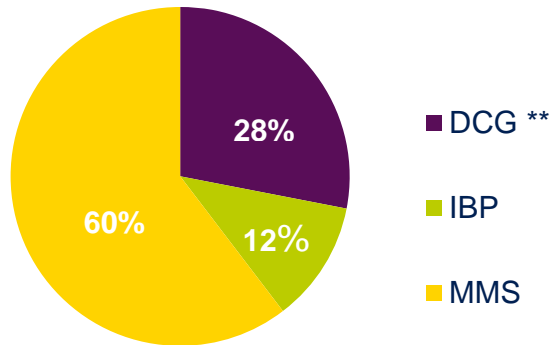
Revenue Operating Margin \*



\* Operating Income before impairment and restructuring charges. Unused capacity charges are reported in the Group "Others"

# Embedded Processing Solutions

## 2Q14 Revenues



Revenue █ Operating Margin \* —◆—

### 2Q14 Revenues = \$657M

- Up 4.6% sequentially, driven by Microcontrollers, Memory and Secure MCU
- Digital consumer and ASICs business started to grow sequentially after reaching an inflection point in 1Q14
- Y-o-y decline mainly due to the phasing out of legacy ST-Ericsson products (revenues of \$34M, \$63M and \$176M respectively in 2Q14, 1Q14 and 2Q13)

### 2Q14 Operating Profit = \$14M

- 2.1% operating margin from negative 12.7% in 1Q14 and negative 12.8% in 2Q13
- Improvement mainly driven by the catch up of Nano2017 program
- Solid profitability in MCUs
- Turnaround of DCG/IBP: initiatives on track – time still required
- -\$83M excluding Nano2017 catch-up



- Operating Income before impairment and restructuring charges. Unused capacity charges are reported in the Group “Others”
- Reflecting the transfer of Wireless (legacy ST-Ericsson products) and the Image Signal Processor business unit from IBP to DCG as of January 1, 2014

# Sense & Power and Automotive 2Q14 Product Highlights

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## AUTOMOTIVE



- Design wins for the latest-generation **car-radio processor** platform in Europe, Japan and China at the market leaders
- Won the socket for **TESEO II plus dead reckoning** with a leading Korean manufacturer
- Continued growth in **automotive microcontrollers** with wins for parking application with a European manufacturer and for transmission applications with an American manufacturer

## POWER AND SMARTPOWER



- Design win with **IGBTs** for an air-conditioner application with a leading manufacturer in Asia
- Qualified **high-voltage MOSFETs** for power supplies and LED lighting applications with numerous top-tier vendors around the world
- Captured key **filters and protection-device** sockets for a broad range of portable applications with a leading global brand

## MEMS AND SENSORS



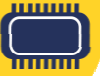
- Ramped production, as sole supplier, of **MEMS microphones** for multiple high-end mobile-phone models at ASUS
- Expanded the analog portfolio for **wearables** with the introduction of a new family of zero-drift op amps
- Won the socket for a **3-axis gyroscope** from a global leader and ramped production of **9-axis combos** for important leading brands for **next-generation tablets**.
- Awarded the **gyroscope and accelerometer** sockets from a leading brand for **car navigation applications**.
- Earned a design win for a **MEMS compass** for smartphones from a top-tier global brand.

# Embedded Processing Solutions

## 2Q14 Product Highlights

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### MICROCONTROLLERS



- Ramped production of **STM32** microcontrollers for a **new Samsung smartphone** launched in the second quarter of 2014
- Landed the slot for the **STM32L1** in a new platform for a power meter at a **major actor in the metering industry**
- Earned selection of “**Dynamic NFC Tag**” memories by Airoha Technology for its latest Bluetooth audio-module reference design
- Sampled **latest ST31G Secure** MCUs to ID and Banking customers and revealed latest **STPay** product line (dual interface) for US EMV banking-card migration.

### IMAGING, BI-CMOS ASIC AND SILICON PHOTONICS



- Started volume shipments of the ‘**time-of-flight proximity sensor**’ for the widely acclaimed **LG G3 smartphone** that began its global rollout from the second quarter of 2014.

### DIGITAL CONVERGENCE



- Demonstrated **Cannes Ultra** in an Ultra-High Definition IP STB from one of the world’s largest manufacturers of digital set-top boxes at NCTA Cable Show.
- Secured wins for **cable chipsets** in new-generation HD zappers from several multi-system operators.
- Continued to democratize UHD in the ecosystem with the introduction of a complete 4K Satellite reference design in collaboration with MaxLinear.



# \$1Bn Convertible Bond Offering in July 2014

## To strengthen capital structure and enhance flexibility

- Taking advantage of very favorable terms
- Proceeds will be used for general corporate purposes to boost growth

## Two tranches of bonds

### One of \$600M with a maturity of 5 years

- Zero coupon / Zero yield
- Initial conversion price at \$11.9791, representing a 30% premium

### One of \$400M with a maturity of 7 years

- 1% coupon (paid semi-annually in arrear)
- Initial conversion price at \$12.0712 representing a 31% premium

- Provisions which allow the Company to satisfy conversion rights on the Bonds with a combination of cash, new shares and treasury shares, or cash or shares only.
- Bonds admitted to trading on the Open Market (*Freiverkehr*) of the Frankfurt Stock Exchange

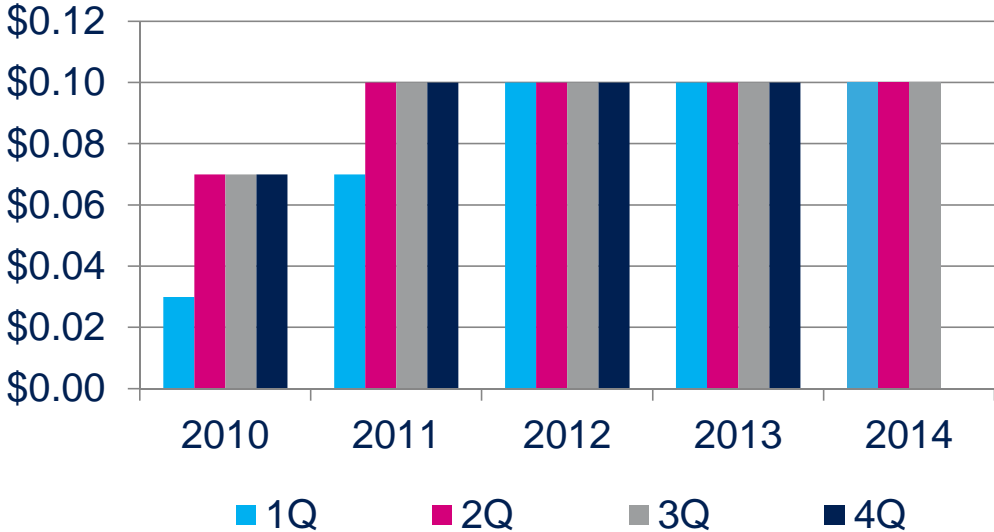
## Simultaneous launch of a share buy-back program

- For the repurchase of up to 20M ordinary shares
- Currently intended to meet the Company's obligations in relation to its employee stock award plans

# Dividend Evolution

Yield (%) *	Semiconductor Companies
4.38	<b>STMicroelectronics</b>
3.99	US peer 1
3.22	US peer 2
3.18	US peer 3
2.90	US peer 4
2.46	ASIA peer 1
2.41	US peer 5
2.23	US peer 6
1.34	US peer 7
1.30	EU peer 1
1.18	US peer 8
0.89	EU peer 2
0.00	US peer 9
0.00	US peer 10
0.00	US peer 11
0.00	US peer 12
0.00	US peer 13

\*Source: Bloomberg as of July 21, 2014



## Continuing to Reward Shareholders

Stable cash dividend of \$0.10 per share for each of the 2nd and 3rd quarter of 2014 approved at the 2014 AGM



# Net Financial Position\*

End of period (US\$M)	June 28, 2014	March 29, 2014	June 29, 2013
Available Cash and Marketable Securities	1,502	1,744	1,772
Short term deposits	51	1	1
<b>Total Liquidity</b>	<b>1,553</b>	<b>1,745</b>	<b>1,773</b>
Short term debt	(225)	(225)	(313)
Long-term debt	(905)	(908)	(651)
<b>Total Financial Debt</b>	<b>(1,130)</b>	<b>(1,133)</b>	<b>(964)</b>
<b>Net Financial Position</b>	<b>423</b>	<b>612</b>	<b>809</b>

## Maintaining a Strong Capital Structure

- \$423M Net Cash Balance
- \$609M Available Credit Facilities Undrawn

## \$1Bn senior unsecured convertible bond financing in July 2014

- Balance sheet impact effective 3Q14

\*See appendix

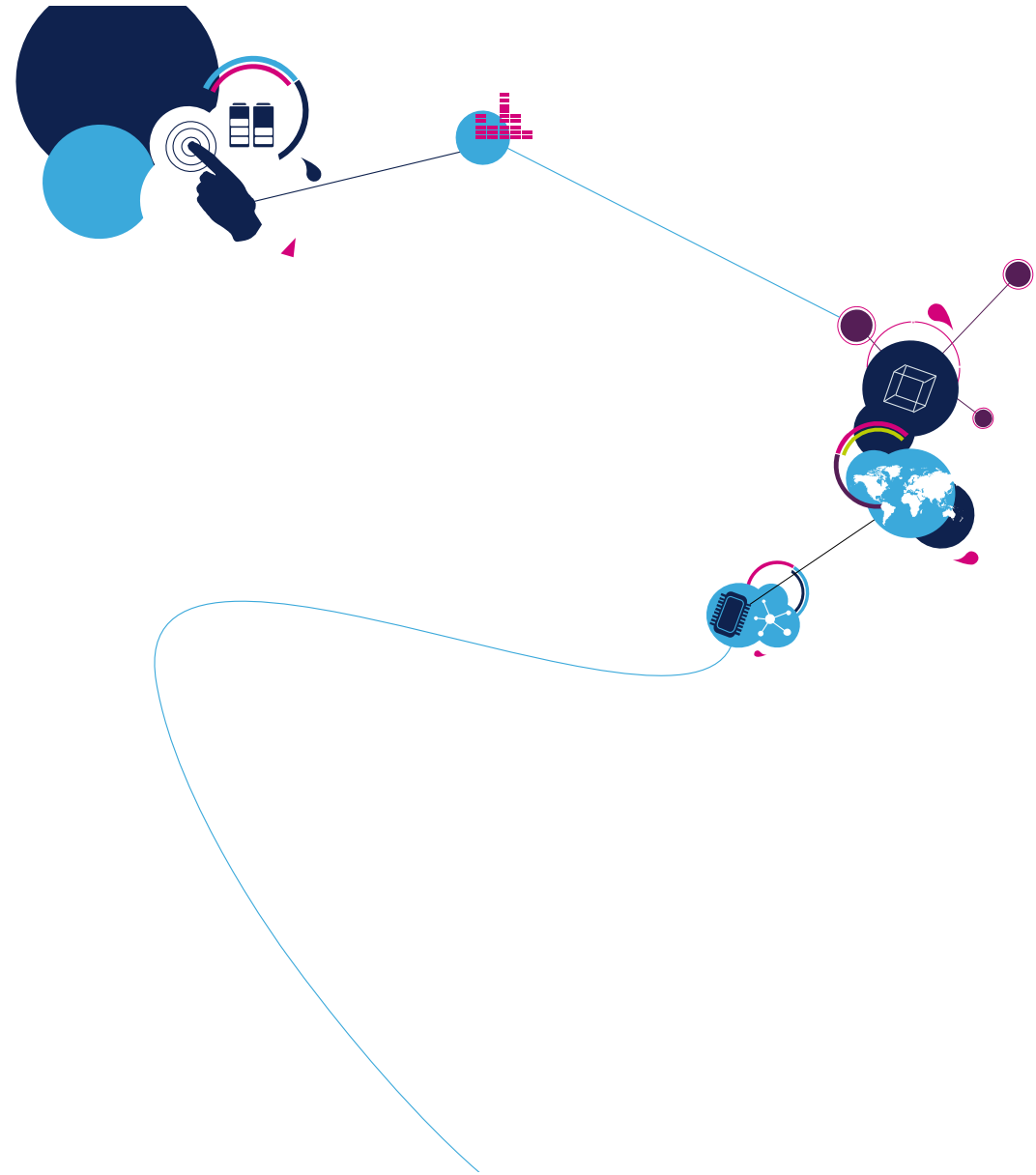
# 3Q14 Outlook

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- 3Q14 revenues expected to increase about 3% on a sequential basis (plus or minus 3.5 percentage points)
  - Sequential revenue growth expected in all areas of our product portfolio
  - In SP&A, IPD and APG are expected to perform better than seasonal benefiting from both the favorable macro-environment as well as from our market position, and we also expect to see growth in AMS
  - In EPS, MMS is expected to moderately grow in the third quarter, after posting a record second quarter; our activities in Digital, including DCG and IBP, are also expected to grow
- 3Q14 gross margin expected to be about 34.4% (plus or minus 2.0 percentage)
  - Based upon our revenue growth outlook as well as product mix between analog and digital
  - 80 basis points impact due to unused capacity charges as our manufacturing capacity in digital technology is not yet fully utilized
- Excluding the second quarter one-time effect related to Nano2017, we anticipate further improvement in our operating margin in the third quarter
  - We continue to progress step-by-step towards reaching our target financial model

Outlook based on an assumed effective currency exchange rate of approximately \$1.355= €1.00 for 3Q14 and includes the impact of existing hedging contracts. 3Q14 will close on September 27, 2014

# Appendix



# Pre-Tax Items to Adjusted Earnings\*

OPERATING RESULT  NET EARNINGS	<i>In US\$M</i>	2Q13	1Q14	2Q14
	<b>U.S. GAAP Net Earnings</b>	(152)	(24)	38
	Impairment & Restructuring Charges (attributable to Parent Company's shareholders)**	41	12	20
	Loss on equity-method investments (3Sun)	69	0	44
	Estimated Income Tax effect of Adjustment	(11)	(1)	-
<b>Adjusted Net Earnings*</b>		(53)	(13)	102



\* See appendix

\*\* Total Impairment & Restructuring Charges were \$43M in 2Q13, \$12M in 1Q14 and \$20M in 2Q14.

- **Free cash flow** is defined as net cash from operating activities minus net cash from (used in) investing activities, excluding proceeds from the sale of marketable securities and net cash variation for joint ventures 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.
- **Operating income before impairment and restructuring** excludes impairment, restructuring charges and other related closure costs..
- **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 attributable to ST and other one-time items net of the relevant tax impact.