STMICROELECTRONICS NV
Form 6-K
November 06, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 6-K
REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934
Report on Form 6-K dated November 6, 2017
Commission File Number: 1-13546

STMicroelectronics N.V.
(Name of Registrant)
WTC Schiphol Airport
Schiphol Boulevard 265
1118 BH Schiphol Airport
The Netherlands
(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:
Form 20-F Q Form 40-F £
Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):
Yes £ No Q
Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):
Yes £ No Q
Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:
Yes £ No Q
If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

Enclosure: STMicroelectronics N.V.'s Third Quarter and Nine Months ended September 30, 2017:

- Operating and Financial Review and Prospects;
- Unaudited Interim Consolidated Statements of Income, Statements of Comprehensive Income, Balance Sheets, Statements of Cash Flow, and Statements of Equity and related Notes for the three months and nine months ended September 30, 2017; and
- Certifications pursuant to Sections 302 (Exhibits 12.1 and 12.2) and 906 (Exhibit 13.1) of the Sarbanes-Oxley Act of 2002, submitted to the Commission on a voluntary basis.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

The following discussion should be read in conjunction with our Unaudited Interim Consolidated Statements of Income, Statements of Comprehensive Income, Balance Sheets, Statements of Cash Flows and Statements of Equity for the three months and nine months ended September 30, 2017 and Notes thereto included elsewhere in this Form 6-K, and our annual report on Form 20-F for the year ended December 31, 2016 as filed with the U.S. Securities and Exchange Commission (the "Commission" or the "SEC") on March 3, 2017 (the "Form 20-F"). The following discussion contains 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, particularly in the sections "Business Overview" and "Liquidity and Capital Resources—Financial Outlook: Capital Investment". Our actual results may differ significantly from those projected in the forward-looking statements. For a discussion of factors that might cause future actual results to differ materially from our recent results or those projected in the forward-looking statements in addition to the factors set forth below, see "Cautionary Note Regarding Forward-Looking Statements" and "Item 3. Key Information—Risk Factors" included in the Form 20-F. We assume no obligation to update the forward-looking statements or such risk factors.

Our Management's Discussion and Analysis of Financial Position and Results of Operations ("MD&A") is provided in addition to the accompanying unaudited interim consolidated financial statements ("Consolidated Financial Statements") and notes to assist readers in understanding our results of operations, financial condition and cash flows. Our MD&A is organized as follows:

- Critical Accounting Policies using Significant Estimates.
- Business Overview, a discussion of our business and overall analysis of financial and other relevant highlights of the three months and nine months ended September 30, 2017 designed to provide context for the other sections of the MD&A, including our expectations for selected financial items for the fourth quarter of 2017.
- Other Developments in the third quarter of 2017.
- Results of Operations, containing a year-over-year and sequential analysis of our financial results for the three months and nine months ended September 30, 2017, as well as segment information.
- Legal Proceedings.
- Discussion of the impact of changes in exchange rates, interest rates and equity prices on our activity and financial results.
- Liquidity and Capital Resources, presenting an analysis of changes in our balance sheets and cash flows, and discussing our financial condition and potential sources of liquidity.
- Impact of Recently Issued U.S. Accounting Standards.
- Backlog and Customers, discussing the level of backlog and sales to our key customers.
- Disclosure Controls and Procedures.
- Cautionary Note Regarding Forward-Looking Statements.

STMicroelectronics N.V. (“ST” or the “Company”) is a global semiconductor leader delivering intelligent and energy-efficient products and solutions that power the electronics at the heart of everyday life. ST’s products are found everywhere today, and together with our customers, we are enabling smarter driving and smarter factories, cities and homes, along with the next generation of mobile and Internet of Things devices. By getting more from technology to get more from life, ST stands for life.augmented.

Critical Accounting Policies Using Significant Estimates

There were no material changes in the first nine months of 2017 to the information provided under the heading “Critical Accounting Policies Using Significant Estimates” included in our Form 20-F.

Fiscal Year

Under Article 35 of our Articles of Association, our fiscal year extends from January 1 to December 31. The first quarter of 2017 ended on April 1, 2017, the second quarter ended on July 1, the third quarter ended on September 30 and the fourth quarter will end on December 31, 2017. Based on our fiscal calendar, the distribution of our revenues and expenses by quarter may be unbalanced due to a different number of days in the various quarters of the fiscal year and can also differ from equivalent prior years’ periods, as illustrated in the below table for the years 2016 and 2017.

	Q1	Q2	Q3	Q4
	Days			
2016	93	91	91	91
2017	91	91	91	92

Business Overview

Our results of operations for each period were as follows:

	Three Months Ended			% Variation	
	September 30, 2017	July 1, 2017	October 1, 2016	Sequential	Year-Over-Year
	(In millions, except per share amounts)				
Net revenues	$2,136	$1,923	$1,797	11.1%	18.9 %
Gross profit	845	736	643	14.7	31.4
Gross margin as percentage of net revenues	39.5 %	38.3 %	35.8 %	+120bps	+370bps
Operating income (loss)	278	178	90	-	-
Net income (loss) attributable to parent company	236	151	71	-	-
Earnings per share (Diluted)	$0.26	$0.17	$0.08	-	-

The total available market is defined as the “TAM”, while the serviceable available market, the “SAM”, is defined as the market for products sold by us (which consists of the TAM and excludes major devices such as Microprocessors (MPUs), Dynamic random-access memories (DRAMs), optoelectronics devices, Flash Memories and the Wireless Application Specific market products such as Baseband and Application Processor).

Based on the data published by World Semiconductor Trade Statistics (WSTS), semiconductor industry revenues increased in the third quarter of 2017, on a sequential basis, by approximately 10% for the TAM and 7% for the SAM, to reach approximately $108 billion and $46 billion, respectively. On a year-over-year basis, the TAM increased by approximately 22% while the SAM increased by approximately 12%.

Third quarter 2017 revenues amounted to $2,136 million, increasing sequentially by 11.1%, a better than seasonal performance and 210 basis points higher than the mid-point of our released guidance. On a sequential basis, Microcontrollers and Digital ICs Group (MDG) revenues were up 14.6%, led by general purpose microcontrollers which again posted record quarterly sales. Analog and MEMS Group (AMG) and Automotive and Discrete Group (ADG) also grew on a sequential basis, up 4.2% and 2.6%, respectively. Imaging Product Division revenues, reported in Others, registered a triple-digit sequential revenue growth reflecting the initial ramp in wireless applications of our new program, including our Time-of-Flight and new specialized imaging technologies.

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On a year-over-year basis, third quarter net revenues increased by 18.9% on double-digit growth across all product groups and strong traction with new products. Analog and MEMS Group (AMG) third quarter revenues grew 24.8% year-over-year due to a sharp recovery in Analog and strong growth in MEMS. Microcontrollers and Digital ICs Group (MDG) revenues increased 19.4% on very strong growth for general purpose microcontrollers, in part offset by lower sales of businesses undergoing phase-out. Automotive and Discrete Group (ADG) third quarter revenues increased 10.0% compared to the year-ago quarter on strong results for both Automotive and Power Discrete. Imaging Product Division third quarter revenues increased very significantly year-over-year reflecting the initial ramp in wireless applications of our new program, including our Time-of-Flight and new specialized imaging technologies.
Our revenue performance was above our served market (SAM) both on a sequential and on a year-over-year basis.
Our effective average exchange rate for the third quarter of 2017 was $1.13 for €1.00 compared to $1.09 for €1.00 in the second quarter of 2017 and $1.12 for €1.00 in the third quarter of 2016. For a more detailed discussion of our hedging arrangements and the impact of fluctuations in exchange rates, see "Impact of Changes in Exchange Rates".
Our third quarter 2017 gross profit was $845 million and gross margin was at 39.5%, 50 basis points above the mid-point of our guidance. On a sequential basis, gross margin increased 120 basis points, mainly due to improved manufacturing efficiency and better product mix, partially offset by normal price pressure and negative currency effects, net of hedging. Gross margin improved substantially on a year-over-year basis, increasing 370 basis points due to improved manufacturing efficiency and better product mix as well as improved fab loading, partially offset by normal price pressure.
Our aggregated selling, general and administrative (SG&A) and research and development (R&D) costs amounted to $558 million, decreasing compared to $567 million in the prior quarter but increasing compared to $542 million in the year-ago quarter. On a sequential basis, operating expenses were positively impacted by favorable seasonality (higher vacation days), partially offset by unfavorable currency effects, net of hedging, and annual salary dynamics. On a year-over-year basis, operating expenses increased mainly due to the salary and labor incentives, partially offset by positive impacts of the set-top box restructuring plan and lower technology R&D.
Other income and expenses, net, amounted to $5 million, decreasing from $15 million in the previous quarter and from $18 million in the year-ago quarter, mainly due to anticipated lower R&D funding and start-up cost related to the initial ramp-up of assembling and testing activities of our new program in Imaging.
Impairment, restructuring charges and other related closure costs in the third quarter of 2017 were $14 million, compared to $6 million and $29 million in the prior and year-ago quarter, respectively, and were mainly related to the set-top box restructuring plan announced in January 2016 and to the restructuring plan in our Back-End manufacturing plant in Bouskoura, Morocco. We continued to make progress on our restructuring of the set-top box business. Exiting the third quarter of 2017, the restructuring plan had achieved a run-rate of about $138 million of the total $170 million of targeted annualized savings expected upon completion.
In the third quarter of 2017, our operating income was $278 million, improving from an income of $178 million in the second quarter of 2017 and from an income of $90 million in the year-ago quarter. Excluding restructuring and impairment charges, the third quarter of 2017 operating income was $292 million, equivalent to 13.7% of net revenues, compared to $184 million, equivalent to 9.6% of net revenues in the prior quarter and to $119 million, equivalent to 6.6% of net revenues in the year-ago period. Sequentially, the improvement of our operating result before impairment and restructuring charges was mainly driven by a higher level of revenues and improved gross margin. On a year-over-year basis, operating income before impairment and restructuring charges improved by $173 million reflecting higher revenues, manufacturing efficiencies, improved product mix, and better fab loading resulting in about $10 million reduction of the unloading charges.
Our net cash from operating activities was $463 million and net cash used in investing activities, excluding the payment for purchase of marketable securities of $99 million, was $383 million, allowing us to generate a positive free cash flow (non U.S GAAP measure) of $80 million for the third quarter of 2017.

In the period, our net cash variation was positive $534 million, including the payment for purchase of marketable securities of $99 million and the net cash from financial activities, mainly composed of the $1.5 billion net proceeds from the issuance of senior unsecured convertible bonds, the early repayment of issued debt (Tranche A due 2019) for $600 million, the repurchase of 18.6 million of shares of ST common stock for $297 million and the $59 million of cash dividends paid to stockholders.

We see clear opportunities in front of us to continue to drive revenue growth, margin expansion and shareholder value and we are determined to capture this additional potential. Our targeted efforts in technology and products, focusing on high-growth markets, are enabling all of our product groups to strengthen their competitive position with major accounts as well as with the distribution channel. Looking at the fourth quarter, we continue to see solid demand across product groups and geographies. Based upon strong booking activity and the expected acceleration of growth of our new program serving wireless applications, we anticipate fourth quarter revenues to increase sequentially by about 10.0%, plus or minus 3.5 percentage points and the gross margin to improve to about 39.9%, plus or minus 2.0 percentage points. Looking at the year in total, based upon our nine months results and fourth quarter mid-point revenue guidance, we now expect that 2017 net revenues should grow year-over-year by about 18.0% accompanied by a substantial improvement in operating profitability and net income.

This outlook is based on an assumed effective currency exchange rate of approximately $1.15 = €1.00 for the 2017 fourth quarter and includes the impact of existing hedging contracts. The fourth quarter will close on December 31, 2017.

These are forward-looking statements that are subject to known and unknown risks and uncertainties that could cause actual results to differ materially; in particular, refer to those known risks and uncertainties described in “Cautionary Note Regarding Forward-Looking Statements” and Item 3. “Key Information — Risk Factors” in our Form 20-F as may be updated from time to time in our SEC filings.

Other Developments in the Third Quarter of 2017

On August 7, we announced the completion of the repurchase of 18.6 million shares of our common stock for a total of $297 million under the share buy-back program announced on June 22, 2017. The repurchased shares will be held as treasury shares and used to meet our obligations arising from debt financial instruments that are exchangeable into equity instruments and to meet our obligations arising from share award programs.

On August 23, we published our IFRS 2017 Semi Annual Accounts for the six-month period ended July 1, 2017 on our website and filed them with the AFM (Autoriteit Financiële Markten), the Netherlands Authority for the Financial Markets.

On September 7, the Euronext Scientific Board on Indices announced its decision to include STMicroelectronics in the CAC 40 index, the primary index of the Paris stock exchange, where the Company is listed. This decision took effect after the closing of the Paris Stock Exchange on September 15, 2017.

On October 11, we announced that, in accordance with the terms and conditions (the “Conditions”) of our $400 million 1.00 per cent convertible bonds due 2021 (ISIN: XS1083957024, the “Bonds”), we have exercised our option under Condition 7(b) of the Bonds to redeem all outstanding Bonds on November 10, 2017 (the Optional Redemption Date referred to in the Conditions) at their principal amount, together with accrued but unpaid interest up to, but excluding, that date.

Results of Operations

Segment Information

We operate in two business areas: Semiconductors and Subsystems.

In the Semiconductors business area, we design, develop, manufacture and market a broad range of products, including discrete and standard commodity components, application-specific integrated circuits, full-custom devices and semi-custom devices and application-specific standard products for analog, digital and mixed-signal applications. In addition, we further participate in the manufacturing value chain of Smartcard products, which include the production and sale of both silicon chips and Smartcards.

Our reportable segments are as follows:

- Automotive and Discrete Group (ADG), comprised of all dedicated automotive ICs (both digital and analog), and discrete and power transistor products.

- Analog and MEMS Group (AMG), comprised of low-power high-end analog ICs (both custom and general purpose) for all markets, smart power products for Industrial, Computer and Consumer markets, Touch Screen Controllers, Low Power Connectivity solutions (both wireline and wireless) for IoT, power conversion products, metering solutions for Smart Grid and all MEMS products, either sensors or actuators.

- Microcontrollers and Digital ICs Group (MDG), comprised of general purpose and secure microcontrollers, EEPROM memories, and digital ASICs as well as restructured businesses such as set-top box ICs or former ST-Ericsson products.

"Others" includes all the financial values related to the Imaging Product Division (including the sensors and modules from our Time-of-Flight technology), Subsystems and other products, as well as items not allocated to the segments such as impairment, restructuring charges and other related closure costs, unused capacity charges, strategic or special research and development programs and other minor unallocated expenses such as: certain corporate-level operating expenses, patent claims and litigations, and other costs that are not allocated to the segments.

In the Subsystems business area, we design, develop, manufacture and market subsystems and modules for the telecommunications, automotive and industrial markets including mobile phone accessories, battery chargers, ISDN power supplies and in-vehicle equipment for electronic toll payment. Based on its immateriality to our business as a whole, the Subsystems business area does not meet the requirements for a reportable segment as defined in the U.S. GAAP guidance.

For the computation of the segments' internal financial measurements, we use certain internal rules of allocation for the costs not directly chargeable to the segments, including cost of sales, selling, general and administrative expenses and a part of research and development expenses. In compliance with our internal policies, certain costs are not allocated to the segments, including impairment, restructuring charges and other related closure costs, unused capacity charges, phase-out and start-up costs of certain manufacturing facilities, certain one-time corporate items, strategic and special research and development programs or other corporate-sponsored initiatives, including certain corporate-level operating expenses and certain other miscellaneous charges. In addition, depreciation and amortization expense is part of the manufacturing costs allocated to the segments and is neither identified as part of the inventory variation nor as part of the unused capacity charges; therefore, it cannot be isolated in the costs of goods sold. Finally, R&D grants are allocated to our segments proportionally to the incurred R&D expenses on the sponsored projects. Wafer costs are allocated to the segments based on actual cost. From time to time, with respect to specific technologies, wafer costs are allocated to segments based on market price.

Third Quarter 2017 vs. Second Quarter 2017 and Third Quarter 2016

The following table sets forth certain financial data from our Unaudited Interim Consolidated Statements of Income:

	Three Months Ended September 30, 2017		July 1, 2017		October 1, 2016	
	$ million	% of net revenues	$ million	% of net revenues	$ million	% of net revenues
Net sales	$2,123	99.4 %	$1,911	99.4 %	$1,794	99.8 %
Other revenues	13	0.6	12	0.6	3	0.2
Net revenues	2,136	100.0	1,923	100.0	1,797	100.0
Cost of sales	(1,291)	(60.5)	(1,187)	(61.7)	(1,154)	(64.2)
Gross profit	845	39.5	736	38.3	643	35.8
Selling, general and administrative	(244)	(11.4)	(240)	(12.5)	(224)	(12.5)
Research and development	(314)	(14.7)	(327)	(17.0)	(318)	(17.7)
Other income and expenses, net	5	0.2	15	0.8	18	1.0
Impairment, restructuring charges and other related closure costs	(14)	(0.6)	(6)	(0.3)	(29)	(1.6)
Operating income (loss)	278	13.0	178	9.3	90	5.0
Interest expense, net	(7)	(0.4)	(4)	(0.3)	(5)	(0.3)
Income (loss) on equity-method investments	-	-	(2)	(0.1)	(1)	(0.0)
Loss on financial instruments, net	(5)	(0.2)	-	-	-	-
Income (loss) before income taxes and noncontrolling interest	266	12.4	172	8.9	84	4.7
Income tax benefit (expense) &#1						