Q4 FY 2024

98th Quarterly Results of Infineon Technologies AG

Analyst Call Intro Statement

Jochen Hanebeck (CEO), Dr. Sven Schneider (CFO)

Jochen Hanebeck:

General Introduction

Our fiscal year 2024 lies behind us, and we concluded it as predicted and fully in line with our Target Operating Model. What lies ahead is a continuation of a rolling correction - to various degrees and timing - in many of our target markets. More on this later.

We currently focus on three priorities: First, we manage the cycle by focusing on what we can control. At the same time, we drive structural margin improvements with our Step Up initiative. Furthermore, we are accelerating our innovation to customer value with breakthrough innovations like GaN300 or super thin silicon MOSFETs for AI, to lead in our undiminished structural growth areas.

Together this will ensure that Infineon comes out of this downcycle stronger.

Now, let's look back at the September quarter's results:

Group performance in Q4

As predicted, the fourth and final quarter saw the highest sales within our fiscal year 2024. Group **Revenues** were 3 billion 919 million Euros, 6 percent up from the previous quarter. All four divisions saw their revenues increase sequentially. The **Segment Result** came in a bit stronger than anticipated and amounted to 832 million Euros, corresponding to a robust **Segment Result Margin** level of 21.2 percent. Quarter-over quarter the US-Dollar weakened somewhat against the Euro, from 1.08 to 1.10, having a negative impact on revenue and earnings. For the full fiscal year 2024, we recorded revenues of 14 billion 955 million Euros, an annual decline of 8 percent. Automotive was the only one of our segments that saw its revenues rise year-over-year, albeit slightly. The full-year Segment Result Margin came in at 20.8 percent. Sven will provide more color in the financial section.

Indicative of the short-term order behavior of our customers in a downcycle, our order **backlog** has been declining further, to stand at around 19 billion Euros at the end of September.

Now let's take a closer look at our divisions.

Division-level performance in Q4

1 *Automotive*

In the final quarter of the last fiscal year, the Automotive segment achieved **revenues** of 2 billion 149 million Euros, a further uptick in comparison to the previous quarter. We saw higher volumes, in particular in xEV-related solutions and our microcontrollers.

Both the **Segment Result** of 551 million Euros and the **Segment Result Margin** of 25.6 percent showed further slight sequential increases, with positive volume effects being the key driver.

Looking at the entire fiscal year 2024, Infineon was able to grow its automotive business by 2 percent. Our clear focus on structural growth areas, our broad portfolio and leading market positions across applications and regions once again allowed us to outperform peers.

As you know, the overall sentiment in the Automotive space has recently clearly deteriorated in many regions. We see many customers actively managing inventories downwards and anticipate they will even accelerate this towards calendar year-end. The lessons learned from the last allocation period seem to be by and large forgotten.

At the same time, production numbers continue to trend incrementally down. After a sequence of downward revisions in recent months, the number of light vehicles to be produced in calendar year 2024 is now estimated at 88.5 million by S&P Global – down 2 percent versus the previous year. In addition, the share of xEV is stagnating in many regions, which is unlikely to reverse in the early course of 2025. China is the notable exception to this trend with every second car – and rising – being an electric one.

In the longer term, we see our structural growth drivers around e-mobility, including hybrids, and ADAS – or more broadly: software-defined vehicles - fully intact. The latter one covers our top-notch microcontroller franchise, sensors and smart power components for advanced power distribution enabling software-defined architectures and functionalities such as automated driving.
Among automotive semi providers, Infineon has unrivaled portfolio breadth and a worldwide geographic exposure geared towards winning areas to reap the benefits of these developments. This is underpinned by our market share gains in MCUs and our number one position in China. Our success in China is undiminished, having achieved again significant growth in our fiscal year 2024 and gaining new design-wins at an unabated momentum.
In line with this strong trajectory some of our latest design-wins: A few days ago, we announced to broaden our collaboration with Stellantis. Infineon will be the key semiconductor supplier for their next-generation platforms. This supply agreement will significantly advance Stellantis' mission to make electromobility for the volume market a reality. In addition to the well-known silicon carbide

design-win it will cover AURIX™ microcontrollers and smart power components, a testimony to our solution-oriented product-to-system approach.

On the silicon carbide side we continue our strong momentum, having achieved a significant first time SiC design win at a major American OEM through a “directed buy”. Our 750V CoolSiC™ MOSFETs will be used in the primary traction inverter for an upcoming volume platform.
In China, we are happy to announce that we are directly supplying another local key player with our state-of-the-art HybridPACK™ Drive CoolSiC™ 1200 Volt power modules for several new models, some of which are launching as early as this year.
These examples illustrate once again our global success also with silicon carbide.

2 *Green Industrial Power*

Now let’s move to Green Industrial Power, which saw **revenues** increase by 6 percent quarter-over-quarter to 503 million Euros. The main application fields contributing to this positive seasonal development were renewable energy generation and transportation. The **Segment Result** of GIP climbed to 111 million Euros in the September quarter, corresponding to a **Segment Result Margin** of 22.1 percent.

The overall business environment for industrial applications remains weak. Global manufacturing PMIs for the U.S., the EU and China are all below 50. Inventories remain elevated throughout industrial supply chains. Their digestion is progressing only slowly, such that the timing and extent of semiconductor demand improvement remains uncertain. For core industrial applications, like automation and drives, as well as for major home appliances, we continue to foresee a prolonged phase of muted development. In the area of renewables, inventory depletion may take longer than anticipated. That said, underlying structural demand remains strong, further driven up by power requirements for EV charging and AI data centers. We are preparing for the upswing in renewables by finishing the development of cutting-edge modules which are highly appreciated and anticipated also by our Chinese customers.

3 *Wide bandgap / Mastery of Si/SiC/GaN*

In the same light I would like to spend a moment on Infineon’s unique competitive setup across all relevant power technologies: silicon, silicon carbide and gallium nitride. Over the past few months, we have been very successfully pushing the boundaries in all three.

In silicon we achieved a technological milestone, becoming the first company mastering the handling and processing of ultra-thin silicon power semiconductor wafers of only 20 micrometers. By reducing wafer thickness from the industry’s standard of 40 to 60 micrometers we cut substrate resistance in half, leading to power loss reductions of more than 15 percent. This makes power

conversion more efficient, for example in AI power stages. The technology is already qualified by customers and is another proof point that major innovations are still possible in the silicon space.

In silicon carbide, we are ramping the world's most cost-competitive device fab in Malaysia, in a modular fashion in line with our customer demand. In terms of SiC substrate, our strategy of not being vertically integrated paid off fully and we can rely on a diversified and competitive external wafer supply, which is leading in terms of cost and quality also for 200 millimeter. In terms of SiC market success, we are happy to report that we achieved 650 million Euros of revenue in our fiscal year 2024, equivalent to more than 30 percent year-over-year growth, clearly outgrowing the market and therefore gaining market share. For our fiscal year 2025, we predict our silicon carbide business to grow further in a low double digit percentage range.

In gallium-nitride, we recently achieved a breakthrough innovation, developing the world's first 300 millimeter power GaN wafer technology. This groundbreaking technology will be an industry game-changer and enable us to unlock the full potential of gallium nitride, about one year after the acquisition of GaN Systems. A significant advantage of 300 millimeter GaN technology is that it can utilize to a large extent existing silicon manufacturing equipment, allowing accelerated implementation and efficient use of capital. Fully scaled 300 millimeter GaN production will contribute to GaN cost parity with silicon on RDS(on) level, which means gallium nitride performance at the cost of silicon.

As innovation leader in power systems, we are determined to defend our number one position in silicon and to shape the fast-growing wide bandgap markets. Making predictions which technology will be adopted in which application at what moment in time will not leverage the full potential; we rather team up with our customers to make the best choice in each case. Real-life examples like power supply units for AI data center racks or so-called fusion modules for EV inverters are showing that it is the combination of silicon, silicon carbide and gallium nitride products that achieves the cost-performance optimum.

4 *Power & Sensor Systems*

Now let me continue the divisional review with Power & Sensor Systems. PSS saw another quarter of positive momentum and printed **revenues** of 861 million Euros, a sequential increase of 15 percent. While all business lines contributed to this development, the ramp of our power solutions for AI servers clearly stood out, growing by almost 50 percent quarter-over-quarter. Also of note: with our industry-leading silicon microphones we could benefit from the launch of new AI-enabled smartphone platforms.

Driven by higher revenues, the **Segment Result** of PSS increased to 105 million Euros, after 70 million Euros in the previous quarter, corresponding to a **Segment Result Margin** of 12.2 percent. Underutilization charges continue to be a burden to margin expansion.

Consumer, compute and communications applications have bottomed out, but the cyclical market recovery is progressing slower than anticipated. Especially in consumer applications, inventory burn remains a headwind. In stark contrast, power solutions for AI servers are booming – and Infineon is at the forefront of this highly attractive structural growth trend. Addressing the entire power flow from grid to core, we are uniquely positioned to power artificial intelligence. The AI revolution is still in its early stages, and our business is scaling up very dynamically: we will accelerate our growth based on new sockets and achieve north of 500 million Euros of revenue in fiscal year 25, depending on GPU ramps and shares. Business with all leading AI processor makers as well as hyperscalers using their own custom xPU will drive this. Within the next two years, we will cross the one billion Euro revenue line for our powering AI solutions. Structural growth is underpinned by several drivers: the fast-growing number of new AI server installations; the rising performance and related power consumption of new processor generations; an increasing bill of material, as the industry moves from lateral to more power-dense vertical power supply; and, for Infineon, gaining market share on the back of unrivaled capabilities. What we bring to the table is sophisticated digital power control; in-house produced discrete MOSFETs with the industry's best figure-of-merit; packaging technologies like chip-embedding; a full-fledged wide bandgap offering and very substantial application know-how. Another key success factor valued by our customers is our proven highest quality track record. We look forward to enabling higher and higher compute performance with the most efficient power flow solutions in the market.

5 *Connected Secure Systems*

As the fourth in our row of segments, Connected Secure Systems recorded quarterly **revenues** of 406 million Euros, up 11 percent from the previous three-month period. The increase was driven by solutions for trusted mobile connectivity and authentication, as well as general-purpose microcontrollers. In line with higher revenue, the **Segment Result** of CSS improved to 62 million Euros, corresponding to a **Segment Result Margin** of 15.3 percent, in comparison to 11.5 percent in the previous quarter.

Demand in most IoT and security markets has bottomed out but is only showing a sluggish recovery, as continuing macro uncertainties affect consumer sentiment and corporate spending. Inventories have to come down further to enable a wider recovery.

In the meantime, we continue to develop exciting new Edge AI solutions, like our DEEPCRAFT™ Edge AI software. This new software solution includes the introduction of easily deployable off-the-shelf AI models for sound, gesture, surface and fall detection. This software is tailored to our hardware offering and will provide customers with a wide range of new Edge AI and machine learning models and solutions.

Handover to Sven Schneider

Now over to Sven, who will present our key financial figures.

Sven Schneider:

Thank you, Jochen, and good morning everyone.

Gross Profit, (adjusted) Gross Margin and OpEx, NSR

In the final quarter of our fiscal year 2024 the **adjusted Gross Margin** came in at 42.2 percent, flat compared to the previous quarter. Increasing idle charges and a slightly negative currency development compensated the impact of higher sales. Also the **reported Gross Margin** remained flat, at 40.2 percent. For the full fiscal year 2024, the adjusted Gross Margin was 42.6 percent, a resilient level for a downturn year. Yet, compared to the record year 2023, it was a noticeable decline of 470 basis points. The main headwinds were lower volumes, a negative price development and steeply rising idle costs, which ended up at around 830 million Euros, about 400 million more than in the year before. The bulk of these underutilization charges is of a cyclical nature, given the current lack of a visible market rebound.

Looking back at the September quarter again, now focusing on operational expenses: **Research and Development** went down to 477 million Euros, from 509 million in the quarter before, reflecting fluctuations in the capitalization of development expenses and the recognition of funding. **Selling, General and Administrative** expenses stayed essentially flat at 393 million Euros, compared to 390 million in the previous quarter, showing our determination and focus to efficiently manage the cycle.

The net **other operating expense** of minus 233 million Euros was at an unusually high level, as we recorded restructuring expenses of 218 million Euros for provisions for personnel-related measures under our Step Up initiative. Together with the asset impairment in the previous quarter, we have so far recorded one-time expenses for Step Up of 291 million Euros.

These charges are part of the **Non-Segment-Result,** which amounted to minus 359 million Euros for the September quarter, bringing the total for fiscal year 24 to minus 915 million Euros. Jochen will provide a further update on Step Up later on.

Financial result

The **financial result** for the September quarter was minus 26 million Euros, after minus 30 million Euros in the quarter before.

Tax

Income tax expense for the fourth quarter amounted to 64 million Euros, equivalent to an effective tax rate of 14 percent. Cash taxes for the reporting quarter were 68 million Euros, resulting in a cash tax rate of 15 percent. Going forward we continue to expect a tax rate between 20 and 25 percent.

Investments, Depreciation and Amortization

Now to our **investments** into property, plant and equipment, other intangible assets and capitalized development costs: in the September quarter, they amounted to 722 million Euros. Total investments for the entire fiscal year 2024 were 2.7 billion Euros, coming in a bit below our revised annual guidance of 2.8 billion Euros.

Depreciation and Amortization including acquisition-related Non-Segment-Result effects for the fourth fiscal quarter amounted to 473 million Euros, after 470 million Euros in the preceding quarter.

Free Cash Flow

Our reported **Free Cash Flow** from continuing operations improved substantially in the September quarter and reached 1 billion 145 million Euros. Factors driving this strong figure were, besides a better operating result, cash-ins from fundings, the scheduled receipt of customer prepayments and positive working capital effects, in particular from the reduction of inventories. Considering the acquisition of GaN Systems for around 800 million Euros and expenditures of around 900 million Euros for large frontend buildings, our **adjusted Free Cash Flow** came in at 1 billion 690 million Euros for the entire fiscal year 2024, corresponding to 11.3 percent of sales, fully in line with our Target Operating Model.
The reported Free Cash Flow amounted to 23 million Euros for the same period.

Our **inventories** have declined by over 400 million Euros quarter-over-quarter, their **reach** has come down to 153 days at the end of September, almost 30 days less compared to the end of June. Keeping stock levels under control will remain a focus area of our cycle management. However, the sluggish recovery will stand in the way of further near-term reductions.

In addition, we will continue to keep a relevant portion of inventories linked to strategic purposes, due to manufacturing footprint optimizations in conjunction with Step Up, and also as a mitigation of potential geopolitical risks.

Qimonda settlement

Before coming to our liquidity and leverage figures, let me spend a minute on the settlement we have reached in the last quarter with the insolvency administrator of Qimonda. With this mutual

agreement, we have brought the legal dispute to an end which was pending since the end of 2010. The insolvency administrator had claimed an amount of around 3.4 billion Euros plus interest. While not admitting any wrongdoing, we have decided to settle all legal disputes and claims and hence eliminate any tail risk against a payment of 753.5 million Euros, before the deduction of taxes in the magnitude of around 100 million Euros. Provisions of 221 million Euros that had been set aside for the Qimonda case have been fully utilized. As a result, earnings and cash flow from discontinued operations have been negatively impacted.

Liquidity, Leverage

Now to our liquidity and leverage, first the figures, then some remarks regarding our updated finance policy. Our **gross cash** at the end of our fiscal year 2024 stood at 2.2 billion Euros. The slight decline compared to the previous quarter's level relates to the positive free cash flow being offset by the Qimonda settlement and the complete repayment of short-term bank facilities. As a consequence of the latter, our **gross debt** amounted to 4.8 billion Euros, equivalent to a gross leverage of 1.2 times. **Net debt** amounted to 2.6 billion Euros, corresponding to a net leverage of 0.6 times.

Our financial policy has been and will continue to be driven by conservatism and a strict commitment to an investment grade rating. It is our clear aim to retain financial flexibility throughout the cycle on the basis of a strong liquidity position. Within this framework, we have reviewed our financial policy targets, considering lowered net pension and contingent liabilities over time. Going forward, our objective for gross cash will be at least 10 percent of revenues, on average throughout a year. We are thus dropping the additional cushion of 1 billion Euros, planning instead to establish committed standby credit facilities. Our gross debt target of a maximum of two times EBITDA stays in place unchanged.

RoCE

Finally, our after-tax reported **Return on Capital Employed** remains at a depressed level. For the complete fiscal year 2024, our Return on Capital Employed came in at 8.5 percent, clearly below our aspirations.

Dividend

As we closed our fiscal year 2024, we will propose to our next annual shareholders' meeting in February a dividend of 35 cents per share, unchanged versus the prior year. Keeping the dividend constant, despite a meaningful decrease in earnings, shows our strong commitment to shareholder remuneration. We are striking a fair balance between shareholder remuneration and sufficient financial flexibility for the company.

Including the stock repurchases we have conducted during the course of fiscal year 2024, this equals a return of around 90 percent of our annual Free Cash Flow adjusted for major M&A to shareholders.

Handover to Jochen Hanebeck

Now back to Jochen, who will comment on our outlook.

Jochen Hanebeck

Thank you, Sven.

Looking at our broad-based semi markets, it becomes clear that cyclical headwinds are persisting and the recovery in the majority of those markets is sluggish. Especially in automotive, customers are reducing inventory levels. Visibility beyond one, two quarters is clouded by short-term ordering and a higher-than-normal share of turns business. Predicting the exact timing and momentum of the cycle is challenging. Our current focus is on managing what we can control and ensuring Infineon is in optimal shape for a market recovery. The secular drivers underlying our structural growth beyond the current transition phase remain firmly intact.

Outlook for Q1

With this in mind, we expect **revenues** of around 3.2 billion Euros for the currently running first quarter of our fiscal year 2025, on an assumed US-Dollar-Euro exchange rate of 1.10. As already mentioned, we expect significant further inventory reduction by our customers to their year-end reporting. All in all, this will lead to a projected sequential revenue decline of around 18 percent, about three times our usual seasonality. On a year-over-year basis, this will correspond to a low-teens decline.

On a divisional level, ATV and CSS are expected to trend along the same lines as the group, PSS should see a less pronounced revenue reduction, whereas GIP should post a steeper decline.

For the **Segment Result Margin,** we expect a mid-teens percentage level for the December quarter, driven primarily by the meaningful revenue contraction.

Outlook for FY25

Now to our outlook for the full 2025 fiscal year: As already mentioned, current market visibility is very low. In such an environment, we have to formulate assumptions for key business drivers, allowing for a broad range of scenarios and acting accordingly.

As a base case, we assume our full-year **revenues** to be slightly down compared to the previous fiscal year. In other words, we expect the transition phase in the majority of our markets to drag on. As our guidance for Q1 shows, our fiscal year 2025 will be off to a slow start, mainly due to inventory corrections. We expect overall only a modest rebound to set in during the later quarters. This view is predicated on the following key assumptions: global economies will hardly accelerate compared to 2024, consumer spending on electronics will only slowly increase. Automotive production will be flat, and the value chain impacted by a prolonged wave of auto semi inventory adjustment, presumably reaching into the second or third quarter of our fiscal year. Outside China, electric vehicle penetration will increase only slowly. Within China, the car market will stay robust, with most of the growth accruing to domestic auto OEMs where we have an excellent standing. Industrial customers will continue to work down inventories and restrain capex budgets. Spending on AI datacenters will remain buoyant, driving our business.
Qualitatively speaking, the on-going inventory correction, expected price compression in the range of low to mid-single digits and a slightly adverse currency assumption will weigh on our topline, only partly offset by secular content growth and share gains.

On the basis of these presumptions, we anticipate revenues of our ATV business to decline slightly year-over-year, as continued MCU share gains and EV-related content growth, in particular in silicon carbide, will not fully compensate inventory and price reductions, especially in the first half of the year. For GIP we foresee a more pronounced decline, as the segment addresses late-cycle areas and is burdened by inventories in the renewable chain. Conversely, PSS should see moderately growing revenues on an annual basis, in particular as our broad AI-related product offering is gaining tremendous traction in the marketplace. CSS is expected to stay more or less flat.

Given the anticipated lackluster revenue development, we will put in significant efforts to support our profitability throughout a second year of cyclical correction. Our business model is resilient, but pricing, negative currency effects and consciously underutilized manufacturing capacities constitute notable margin headwinds. Looking at idle charges, we predict them to rise to close to a billion Euros for the whole of fiscal 25. To mitigate the impacts, we will relentlessly work on our productivity and exert very strict cost discipline. Reaping some early benefits from our Step Up initiative, as well as somewhat lower raw material and energy prices will help, too. In total, we expect our full year **adjusted Gross Margin** to come in at around 40 percent and our **Segment Result Margin** to land at a mid-to-high teens percent level. Cyclical idle charges burden these margins to the tune of 500 basis points, without accounting for the positive margin fall-through effect from higher revenues that we can generate from currently underutilized capacities once the market is back.

Investments are a key variable that we can control. Consequently, we are reducing them by around 10 percent compared to the previous year and expect them to amount to around 2.5 billion Euros

for fiscal year 2025, including capitalized development expenses. We focus our invest first on the construction of the fourth module in Dresden for smart power technologies for applications such as powering AI. Furthermore, we expand silicon carbide and gallium nitride capacities, ensuring leadership in wide band gap.
We have decided to postpone the further extension of our Kulim 3 fab for the time being. Based on further efficiency gains, our area efficient SiC trench technology and the faster transition to 200 millimeter for silicon carbide, we will be able to address the foreseeable market demand over the coming years and effectively scale our silicon carbide business. The potential to scale capacities by adding equipment and further cleanroom space later in line with end demand is also a proven strategy and a great optionality. It is evidence of how capex decisions can be taken in a modular fashion.

For **depreciation and amortization** we anticipate a value of around 2.0 billion Euros in fiscal 25. This includes amortization of around 400 million Euros resulting from purchase price allocations, mainly in connection with the acquisition of Cypress, which will end up in our Non-Segment Result.

Our adjusted Free Cash Flow, net of investments into major frontend buildings, is expected to come in at around 1.7 billion Euros, within the corridor of between 10 and 15 percent of sales embedded in our Target Operating Model.
For the reported **Free Cash Flow** we expect a level of around 900 million Euros for fiscal year 2025.

Step Up

Let me now come to an update on Step Up which we started at the right point in time. As a reminder, with the program we aim at structural improvements to strengthen our competitiveness. Insofar it is complementary to our near-term cycle management. We are fully on track to deliver a high triple-digit million segment result improvement. The necessary measures have been worked out and will be implemented across four main action fields: manufacturing productivity, efficiency in central and support functions, portfolio management, and tactical pricing excellence.

We expect the full impact to be effective by the first half of our fiscal year 2027. In fiscal 26 already about half of the effect should come through, while 2025 will already benefit from some first contributions.

One-time costs are close to 300 million Euros in our P&L for the concluded fiscal year 2024, and we estimate another 100 to 200 million Euros to be also charged as Non-Segment Result.

Step Up will require focus and persistence in order to achieve the ambitious targets – we have the clear buy-in of the management team to enhance Infineon’s competitiveness.

Sustainability

Our company sets ambitious targets also for non-financial metrics: as a role model in sustainability, we are very well on track towards CO2-neutrality by 2030, relating to direct and indirect energy related emissions, Scope 1 and 2. As part of our continuous efforts we have switched additional sites to renewable energy during the past fiscal year, achieving a global rate of green energy of almost 90 percent. This puts us in a very good position to achieve our stated milestone of reducing CO2 emissions by 70 percent by 2025 and 100% by 2030, compared to the base year 2019. End of fiscal 2024 the reduction amounted already to 66%. Furthermore, we are on track to set a science-based target, addressing Scope 3 emissions in close collaboration with our supply chain partners, to further support climate protection.

Closing remarks

Now, Ladies and Gentlemen, it is time to summarize:

- Most of our markets have bottomed, but show only a sluggish recovery; inventory corrections throughout the value chain are affecting our business at present
- Visibility is currently very low. In our base case, revenue development will be slightly down year-over-year
- Cycle management is key to navigate the near term, with full focus on the things we can control, especially OpEx and CapEx discipline as well as loading of fabs
- Our structural drivers remain intact. Some of them are currently subdued (renewables, IoT), while others are gaining steam (AI, software-defined vehicle)
- With technological breakthroughs we are solidifying our position as the industry's innovation leader: ultra-thin silicon wafers; leading silicon carbide offering; gallium nitride on 300 millimeters
- Combining innovation power with our Step Up program we make sure that Infineon will be in optimal shape for the future