Q2 FY 2024

96th Quarterly Results of Infineon Technologies AG

Analyst Call Intro Statement

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

Jochen Hanebeck:

General Introduction

The first half of our 2024 fiscal year is now behind us. It still very much looks like a transition year. Transition refers to a cyclical downswing, in between the multi-year upturn following Covid and afterwards a return to structural growth. Cycles are typical of our industry, but each one has different characteristics. In the current one, demand and inventory dynamics are taking much longer to play out than in the past. Furthermore, in some application areas the downturn is much softer than in others. The prime example is automotive, where secular content growth is continuing. Overall, the picture remains mixed, and Infineon is of course not immune to market forces. It turns out the cut we made to our guidance at the beginning of the year was not deep enough. Therefore, we lower expectations for the remaining two quarters of our 2024 fiscal year, de-risking our guidance. I will comment more on this revision in my outlook section towards the end of the call. Broadly speaking, the so-called 3C markets, standing for consumer, computing, communication, and IoT are bottoming, but not yet recovering. AI is the notable stand-out in computing. Industrial is showing typical late-cycle behavior, with inventory digestion grinding on. Automotive is remaining the bright spot in relative terms, given secular trends and, in the case of Infineon, share gains, in particular in microcontrollers. That being said, slowing EV growth in Western markets and OEMs and Tier-1s re-assessing inventory levels have become more pronounced temporary headwinds, which we are recognizing for this fiscal year.

We are managing the cycle in a robust way, as can be seen from our performance in the March quarter:

Group performance in Q2

Group **Revenues** amounted to 3 billion 632 million Euros, in line with our expectations. The **Segment Result** came in slightly better than anticipated: 707 million Euros corresponded to a **Segment Result Margin** of 19.5 percent. The decrease compared to the previous quarter reflects the fall-through from lower revenues, pricing adjustments typically occurring at the beginning of a new calendar year, as well as lower government funding receipts. Currency effects played only a

minor role, as this quarter's US-Dollar/Euro exchange rate of 1.09 came very close to the prior quarter's rate of 1.08.

On a positive note, our order **backlog** has been stabilizing over the past couple of months. With around 24 billion Euros, it stands at the same level as at the end of December. We view the backlog trending sideways as a clear indicator for troughing demand levels in our target markets.

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

Division-level performance in Q2

1 *Automotive*

In the second quarter of the 2024 fiscal year, Automotive achieved **revenues** of 2 billion 78 million Euros, stable compared to the quarter before. Overall, small volume gains compensated annual price resets, and structural drivers offset the on-going modest inventory correction affecting parts for classical applications.

The **Segment Result** came in at 512 million Euros, yielding a **Segment Result Margin** of 24.6 percent, compared to 27.1 percent in the previous quarter. This is mirroring well-expected low single-digit pricing adjustments as well as some mix effects.

Infineon has a unique position in the global automotive semiconductor market. Latest research data for 2023 by TechInsights is confirming this: while the market grew by 16.5 percent, we were able to grow by 26.2 percent. All regions contributed to this impressive outgrowth, enabling us to expand our global leadership. We are number one in Korea and in China, number two in Europe and in Japan, and number three in North America. In automotive power, we retained the clear number one spot. In automotive microcontrollers, we achieved the pole position for the first time, gaining almost 5 percentage points of market share. Now a short spotlight on China: last year the market there grew by 15.4 percent. Infineon achieved growth of 25 percent. Our business success is built on a very broad portfolio of over 300 automotive product families. In the last two years, the pace with which we are winning new designs in China has been clearly exceeding the market growth rate. With several billion Euros in the bag we are very confident to keep growing our China auto business in the coming years. The Xiaomi design win is a case in point, I will comment more on it in a minute.

From an extremely strong base we will be able to grow our automotive business also in the adverse conditions of 2024 – however, at a noticeably slower pace than anticipated so far, namely at a low-to-mid single digit as opposed to a double-digit growth rate. What factors are at play here? The estimates for global car production are being nudged up, to around 90-plus million units – stable in comparison to 2023. Inventories of automotive semiconductors are currently being adjusted downwards, reflecting a debate between OEMs and Tier-1s as to who should bear the burden of

safety stocks. Pricing, as mentioned, is resilient, with low to very low year-over-year declines. In terms of secular content drivers, the xEV adoption is currently slowing in key Western markets and negative headlines are dominating the narrative. Western OEMs are pushing out their electrification timelines, and we have seen several of our customers reacting to this near-term demand pattern, pushing their orders out of this fiscal year. In China, in contrast, the proliferation of so-called new energy vehicles is continuing. In March, NEV sales penetration was 39 percent, compared to 32 percent one year earlier. And the figure is rising further, as numbers from early April are showing. A major highlight of the quarter was the recent launch of the Xiaomi SU7 family, where we will be providing our HybridPACK™ Drive CoolSiC™ modules for usage in models with an 800 Volt drivetrain. This marks another significant design win for our technologically leading silicon carbide franchise. In addition, we are providing systems solutions with over 60 different components to Xiaomi, including more than a dozen MCUs from our AURIX™, TRAVEO™ and PSoC™ families. Overall, we are addressing more than ten applications in the SU7.

In total, global EV growth will slow down this year. We do, however, remain confident on the midterm outlook for vehicle electrification: 2025 EU emission targets, re-accelerating momentum for plug-in hybrids and launches of new, more affordable models are likely to drive xEV momentum into 2025 and beyond.

Our microcontrollers are directly addressing the decade-plus trends of ADAS and software-defined vehicles. Here we continue to see healthy design-wins, especially for the upcoming third-generation AURIX™, in the quarter under report at leading German OEMs and Tier-1s, supporting our global Nr. 1 position in Automotive microcontrollers. Key criteria for the wins are the functionally safe hardware concept certified up to the standard of ASIL D in conjunction with outstanding performance and quality. Together with the complete software stacks of our customers along the value chain this represents a strong competitive moat.

2 *Green Industrial Power*

Moving to Green Industrial Power, which saw a further sequential **revenue** decline in the March quarter: sales went down by 4 percent to 469 million Euros, primarily driven by renewable energy generation.

The continued revenue slowdown is leaving its mark on the segment's profitability: With a **Segment Result** of 89 million Euros, the **Segment Result Margin** declined to 19.0 percent, after 26.7 percent in the quarter before. The main drivers of this margin deterioration are lower volumes, adverse mix effects, increasing idle costs and unfavourable price changes.

The business environment for our industrial activities remains challenging. The markets for drives and home appliances continue to be affected by weak corporate investing and low consumer spending confidence. In addition, excess inventories are persisting. Expectations for a gradual recovery are moving to late in the 2024 calendar year, if not beyond. For renewable energy generation, high channel and customer inventories are temporarily dampening the semiconductor demand. The underlying growth drivers remain strong: Market researchers predict growing annual installation levels of around 500 Gigawatts for photovoltaic, and of just over 100 Gigawatts for wind power in 2024. This would constitute annual growth rates of 24 percent and 18 percent, respectively.

Let's take a look at our silicon-carbide trajectory: We are very proud to report on the recent introduction of the second generation of our trench-based silicon-carbide MOSFETs. Our Gen2 650 Volt and 1.2 Kilovolt components improve key performance figures such as switching losses by up to 20 percent compared to the previous generation. Customer interest is very strong.

With highest levels of energy efficiency, our silicon-carbide based solutions remain a key enabler of decarbonization in automotive and industrial applications. Preparations for ramping silicon-carbide capacities at our Kulim site are progressing as planned including the expected 200 millimeter transition. This will put us in a great position for mid and long-term profitable growth, as the space constraint related to our Austrian fab does no longer exist.

That being said, the demand environment is currently more cautious, making our ramp curve less steep in the near term. For this fiscal year 2024 we are adjusting our expectation for silicon-carbide revenue growth to about 20 percent. A cross-reference to significantly changing market growth rates we find premature at this point; however, we are confident to clearly defend our market share – if not more.

3 *Power & Sensor Systems*

Now over to the Power & Sensor Systems segment, which saw **revenues** coming down sequentially by 7 percent to 713 million Euros. Similar to the previous quarter, components - MOSFETs and ICs - for consumer-facing applications were under pressure, whereas products for smartphones and servers saw an uptick.

As a result of the revenue decline, the **Segment Result** decreased to 64 million Euros, equivalent to a **Segment Result Margin** of 9.0 percent, after 12.9 percent in the December quarter.

PSS continues to be severely affected by the protracted downswing in consumer, computing and communications. The segment has now seen six consecutive quarters of a downward trend in revenues, and is almost 40 percent down from the peak achieved in the September quarter of 2022. This is the trough, the business is picking up in the currently running quarter. However, against a

persistently weak macro backdrop and a prolonged inventory digestion period, the near-term recovery is likely going to be less steep than we had expected previously. From a mid-term perspective, growth dynamics remain favorable, underpinned by structural trends. In particular, the rapid proliferation of artificial intelligence is an extremely attractive opportunity for us. The power requirements of AI processors are orders of magnitude above those of classical enterprise CPUs. As a consequence, power systems with best-in-class energy efficiency bring tangible benefits, in terms of cost-of-ownership, motherboard space and CO2 footprint. At the same time, there is a notable uplift in the power semi content per server rack. Infineon offers industry-leading solutions for the entire power flow, from AC-DC grid power supply via DC-DC conversion all the way to the final power stage supplying the processor. Capabilities like digital power control, chip-embedding, mastery of silicon, silicon-carbide and gallium-nitride power technologies and, in particular, the novel vertical power supply architecture give us a clear differentiation from others in the market. This has already translated into design wins across AI processor makers, notably with the three most important ones, as well as hyperscale datacenter players. With mid-double digit growth rates, we expect this business to reach a billion Euros over the next couple of years driven in particular by the transition to vertical backside-mounted power supply with an inherently much higher BoM for us.

4 *Connected Secure Systems*

Lastly a look at Connected Secure Systems, where a bottoming is visible: after a steep decline in the previous quarters, **revenues** in the March quarter increased slightly to 371 million Euros. Demand for consumer IoT and smart card products appears to stabilize at low levels. The pace of channel inventory correction is slowing down. In the area of Wi-Fi, we see some small restocking by distributors.

The **Segment Result** of CSS came in at 42 million Euros, corresponding to a **Segment Result Margin** of 11.3 percent.

In the near term, the inventory digestion in IoT and security markets will progress. Looking at improving order entry, we expect a moderate demand recovery in the second half of this calendar year.

In the meantime, we are getting positioned for the immense structural growth opportunity of edge AI. Our next-generation PSoC™ Edge family of microcontrollers is optimized for machine learning applications. They are all supported with comprehensive system design tools and software. Additionally, we are leveraging two of Infineon's core competencies, power management and embedded security. IoT edge devices require low-power capabilities without compromising performance. Security is a vital aspect in IoT deployment, and our PSoC™ Edge family has been

designed to meet the highest certification level provided by the PSA Certified program, a framework for embedded security.

Handover to Sven Schneider

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

Sven Schneider:

Thank you, Jochen, and good morning everyone.

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

In the second quarter of our 2024 fiscal year we saw the expected impact of the on-going market downswing as well as yearly price changes on our profitability. The **adjusted Gross Margin**, which excludes Non-Segment-Result effects, came in at 41.1 percent in the March quarter, after 44.9 percent one quarter earlier. Our reported **Gross Margin** declined to 38.6 percent, from 43.2 percent in the quarter before. Pricing overall is fairly resilient compared to previous downturns, in line with our previous indication of low to mid-single digit percent year-over-year declines. Underutilization charges amounted to roughly the same level as in the quarter before.

Our OpEx development is well under control: **Research and Development expenses** declined to 487 million Euros, from 512 million Euros in the prior quarter before. Also, quarterly **Selling, General and Administrative expenses** went down, from 395 to 375 million Euros.

We recorded a net **other operating loss** of 45 million Euros, containing write-offs related to the announced sale of our two backend sites in Korea and the Philippines, which occurred in line with the optimization of our manufacturing footprint. These losses are also part of the **Non-Segment-Result,** which overall amounted to minus 211 million Euros for the quarter.

Financial result

The **financial result** for the March quarter was minus 12 million Euros, after plus 25 million Euros in the quarter before, which had benefited from the interest element of a release of a tax risk provision in connection with Cypress.

Tax

Income tax expense amounted to 93 million Euros for the second quarter of the current fiscal year, equivalent to an effective tax rate of 19 percent. Cash taxes for the quarter were 134 million Euros, resulting in a cash tax rate of 28 percent. We continue to expect both tax rates to be between 20 and 25 percent going forward, outside of any future tax law changes.

Investments, Depreciation and Amortization

Our **investments** into property, plant and equipment, other intangible assets and capitalized development costs reached 643 million Euros in the March quarter, basically flat compared to the quarter before.

Depreciation and Amortization including acquisition-related Non-Segment-Result effects stood at 467 million Euros in the second fiscal quarter, after 456 million Euros in the preceding quarter.

Free Cash Flow

Our quarterly reported **Free Cash Flow** from continuing operations showed a small positive amount of 82 million Euros. The previous quarter's amount of minus 1.6 billion Euros had contained the acquisition of GaN Systems as well as annual success bonus payouts.

Our **inventory reach** has started to go down. After several consecutive quarters of increases the DIO went from 185 to 178 days in the March quarter. Overall, we see our inventories plateauing currently, and expect noticeable reductions, both in relative as well as absolute terms, towards the end of our fiscal year. Keep in mind that a relevant part of our inventories relates to strategic purposes, such as the optimization of our manufacturing footprint or the mitigation of potential geopolitical risks.

Gross Cash, Net Cash

In terms of corporate finance activities, it was a rather busy quarter, with a corresponding impact on our liquidity and leverage figures. For our annual dividend we paid out 456 million Euros. Furthermore, we bought back 7 million shares for 233 million Euros. These shares are to be allocated to equity-related compensation for this and the next year. Contrary to these outflows, we had very successfully placed a 500 million Eurobond in February, on the back of our rating upgrade to BBB+.

Gross cash stood at 2.6 billion Euros at the end of March, commensurate with our liquidity target, and including the continued usage of short-term loan facilities. Our **gross debt** increased to 5.9 billion Euros, with a gross leverage of 1.2 times. **Net debt** amounted to 3.3 billion Euros, equivalent to a net leverage of 0.7 times.

RoCE

Finally, our after-tax reported **Return on Capital Employed** declined to 7.5 percent in the March quarter, again reflecting the unfavorable business environment.

Handover to Jochen Hanebeck

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

Jochen Hanebeck

Thank you, Sven.

Indeed, the business environment remains unfavorable, with macroeconomic and geopolitical headwinds lingering. The cyclical correction is continuing, affecting also automotive and industrial applications. The consumer-related parts of our business are bottoming, but the near-term recovery looks still shallow. With short lead times, the visibility into the timing and magnitude of a rebound is limited. On the flipside, green shoots do appear and structural drivers stay in place or are getting stronger , such as powering AI servers.

Outlook for FY24

Considering these factors and after scrutinizing all available indicators for the next two quarters, we are de-risking our projections for the 2024 fiscal year.

We lower our **revenue** expectation down to 15.1 billion Euros, plus or minus 400 million Euros, from hitherto 16.0 billion at the mid-point. The reduced and derisked guidance implies that we expect only a very modest seasonality in the second half of our fiscal year. Compared to the previous forecast, we are taking out 900 million Euros; around half of that relates to lower growth in automotive, the other half to lackluster industrial markets and to a more tempered recovery in consumer, computing and communications. On an annual basis, this still means that development patterns will differ significantly amongst the segments: compared to the previous fiscal year, we now expect ATV to grow by a low-to-mid single digit percentage, driven by unabated MCU strength, growth of xEV focused on China, but also a longer inventory digestion. In contrast to ATV, we expect meaningful annual declines for the other segments: low teens for GIP, high teens for PSS, and low twenties for CSS.

Against this background we are taking further action to cut utilization rates and under-ship end demand, in order to lower inventory levels. This will lead to expected annual idle costs of more than 800 million Euros, up from the previously assumed around 700 million Euros. These charges will burden our margin development especially in the second half of our current fiscal year. Nevertheless, for the whole of the 2024 fiscal year we expect a resilient **adjusted Gross Margin** in the low forties, after low-to-mid forties before.

For the **Segment Result Margin** we anticipate around 20 percent for our 2024 fiscal year, robust given the magnitude of revenue decline becoming apparent only throughout the year. Assuming a structural level of idle costs of around 150 million Euros annually, the cyclical part is now

equivalent to more than 430 basis points of margin, confirming an underlying value in line with our through-the-cycle target of around 25 percent. For ATV we had previously indicated a corridor of between 25 and 28 percent; despite the lowered revenue expectation, we are confident to keep the lower end of that corridor. The profitability of GIP should come in around Group level, whereas the segment result margins for PSS and CSS will be noticeably weaker.

As part of our cycle management, we are adjusting **investments** once again slightly and now expect a level of around 2.8 billion Euros, after 2.9 billion before. For **depreciation and amortization** an unchanged value of around 1.9 billion Euros is anticipated. 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 the GaN Systems acquisition as well as of investments into major frontend buildings in Dresden and Kulim, is now expected to come in at around 1.6 billion Euros, down from 1.8 billion before. This would represent around 11 percent of sales.
For the reported **Free Cash Flow** we now expect a level of zero, compared to 200 million Euros before.

Outlook for Q3

For the currently running third quarter of our fiscal year we expect **revenues** to grow sequentially by about 5 percent quarter-over-quarter to around 3.8 billion Euros. By division, we expect the sequential growth rate of ATV and CSS to be in line with the one of the Group, GIP to grow at a lower and PSS at a higher rate. From a year-over-year perspective, our fiscal third quarter will still be down, but less so than the previous quarter, indicating that the trough is behind us. For clarity's sake, all projections are based on an assumed US-Dollar/Euro exchange rate of 1.10.

For the **Segment Result Margin** we expect a high-teens level for the June quarter, reflecting headwinds from higher idle costs. Without the cyclical part in them, the trough would be behind us also in terms of profitability.

Step Up

Before coming to the summary and to Q&A, let me provide a view on Infineon's mid-term trajectory of profitable growth: looking beyond the current cyclical downturn and transition phase, we see unabated structural growth opportunities for our company. These continue to be centered around our five broad key applications: electro-mobility, ADAS, renewables, AI/datacenter and IoT. In addition, we see potential to sustainably strengthen our competitiveness, that's why we launch an internal program called Step Up. In contrast to short-term oriented cycle management, it will be about structural improvements to strengthen our Target Operating Model. With Step Up we target high triple-digit million Euro annual impact on our underlying Segment Result against the 2023

fiscal year as the basis. We expect the financial benefits to start kicking in over the course of our 2025 fiscal year, with the full effect becoming visible in the first half of our 2027 fiscal year. Step Up will combine various measures, including the pulling of the levers communicated in November 2022, at the introduction of our current Target Operating Model: manufacturing productivity, portfolio management, pricing quality and opex scaling, but not compromising our innovation power.
We plan to update you on the progress of Step Up, as we are further defining and implementing the program. We are convinced it will significantly enhance Infineon's competitiveness and value creation.

Closing remarks

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

- We have concluded a robust first half of our 2024 fiscal year. The March quarter contributed with revenues as guided and a slightly better-than-expected margin.
- The market environment generally remains weak. The cycle is bottoming in consumer, computing, communication. Things will improve from here, but a quick material snapback is not in sight. Weaker dynamics affect industrial and auto, the latter driven by slower EV adoption outside China and inventory digestion.
- We de-risk our outlook for the remaining fiscal year, as Infineon is not immune to market forces. However, even under adverse conditions, we will be able to grow our automotive business in 2024 and show resilient profitability levels fully in line with our Target Operating Model.
- We continue to manage the cycle, adjusting loading levels further down to reduce inventory levels while being prepared to capture market shares in an upswing.
- Our structural growth drivers are intact, our key applications provide ample opportunities. To enhance our competitiveness and value creation, we are launching Step Up. The program is about structural improvements that will strengthen our profitability.