Q1 FY 2025

99th Quarterly Results of Infineon Technologies AG

Analyst Call Intro Statement

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

Jochen Hanebeck:

General Introduction

2025 marks the 25th anniversary of Infineon as an independent, stock-listed company. During a quarter of a century, we have transformed our business towards the most attractive strategic opportunities. It has always been key to distinguish near-term, often cyclical market behavior from long-term, structural patterns. The same applies today: at the beginning of the year, the cycle trough is dragging on. The rolling correction in many of our target markets, such as automotive and industrial, is continuing. A modest recovery is in the cards for the second half of our fiscal year, as predicted in November. Near-term cyclical headwinds aside, secular trends provide us with undiminished growth opportunities. A case in point is the continuing and immense momentum we are seeing for our solutions for powering AI servers. Like in the past quarter of a century, while we manage the here-and-now, we simultaneously focus on innovation and structural improvements to successfully shape the future.

Group performance in Q1

Now let's take a closer look at the start of our 2025 fiscal year, where our revenue and margin numbers came in slightly ahead of expectations: in the December quarter, group **Revenues** amounted to 3 billion 424 million Euros. While corresponding to a steep quarterly decline of 13 percent, revenues came in about 200 million Euros ahead of our prediction. About half of this was currency-related, as the actual US-Dollar/Euro exchange rate for the quarter was 1.07 compared to the assumed guidance rate of 1.10. We also noted a slightly better volume development than originally anticipated. The **Segment Result** came in at 573 million Euros, equivalent to a **Segment Result Margin** of 16.7 percent, reflecting the meaningful revenue contraction compared to the previous quarter and correspondingly high underutilization charges. Included in the margin is a one-time compensation payment from a customer of a mid-double digit million amount.

Our order **backlog** at the end of December was standing at around 20 billion Euros, practically unchanged quarter-over-quarter, considering the stronger US-Dollar.

Now let's take a closer look at our divisions, beginning with Automotive.

Division-level performance in Q1

1 *Automotive*

In the first quarter of the 2025 fiscal year, the segment achieved **revenues** of 1 billion 919 million Euros. As expected, customers brought down their inventories significantly, compounding normal seasonal effects. Yet, the quarter-over-quarter decline of 11 percent was a little lower than initially anticipated, even accounting for the stronger US-Dollar. In particular our sales volumes in China increased by 10 percent quarter-over-quarter, stronger than forecast. The **Segment Result** of ATV came in at 363 million Euros, with a corresponding **Segment Result Margin** of 18.9 percent, reflecting mainly the decline in sales, underloading charges and some adverse mix effects.
In the near term, inventory de-stocking across the automotive supply chain will remain the major drag on revenue development. Vehicle production numbers are forecast to stay flat in 2025, amid lingering tariff and trade uncertainties. Yet, structural content growth is set to continue: assisted and semi-autonomous driving features should keep proliferating at a healthy pace. The adoption of electric vehicles will continue to differ by region. In China, by far the world's largest and by now also the most innovative global xEV market, the extension of scrappage and trade-in policy schemes is expected to support strong genuine customer demand. Conversely, the new U.S. administration will likely curb EV growth. Overall, we anticipate electric vehicles to grow globally at a mid-teens percentage rate, somewhat more cautious than market analysts like Standard and Poor’s.

With our unrivaled portfolio breadth and worldwide customer reach, we will continue to lead the global automotive semiconductor market from the pole position and nurture our structural growth drivers around e-mobility and software-defined vehicles. This is well received by our customers. For example, a key Chinese OEM recently increased its silicon carbide module orders significantly. Furthermore, we are happy to announce another major silicon carbide design-win at (German Tier-1) ZF, using our latest 1200 Volt CoolSiC™ IDPAK discrete devices with four dies per package. This unique product in an established form factor dedicated to high-current, high-power applications allows the scalable integration into the next generation of traction inverters. We will be supplying ZF with a mid-triple digit million Euro volume, serving two premium OEMs.

Looking at the silicon carbide market in general, Infineon was the fastest growing major company in 2024, according to third party market research, with revenues growing more than twice as fast as the market, leading to a market share of around 20 percent. The current market dynamics let us conclude that we will likely outgrow the other established silicon carbide players over the coming years.

A key highlight for the quarter is the continuation of our excellent collaboration with leading Chinese EV manufacturer BYD. We are proud to report new design-wins ranging from zonal control

units to steering applications. The design-wins extend over multiple years and cover a wide range of Infineon products, including cutting edge OptiMOS 7, power management ICs, TMR-based sensors as well as microcontrollers – comprising both the AURIX™ and TRAVEO™ family.

Looking at other regions, we achieved new design-wins for zonal control for a Japanese and for a French OEM, for a total volume north of 300 million Euros.

2 *Green Industrial Power*

Now moving to Green Industrial Power: coming from a **revenue** level of 500 million Euros in the preceding quarter, GIP witnessed the anticipated steep decline in the December quarter. 340 million Euros correspond to a sequential contraction by 32 percent. The persistently weak market momentum and the reduction of elevated supply chain inventories aggravated the usual seasonality, impacting all application areas. As a consequence of significantly lower volumes and unfavorable price changes, the **Segment Result** of GIP deteriorated to 34 million Euros, reducing the **Segment Result Margin** to 10 percent.

The cyclical market weakness affecting industrial applications is continuing into 2025. Global PMI readings remain soft, macro datapoints have yet to show signs of consistent improvement. The inventory depletion is progressing, its pace being a function of end demand. Such end demand differs by application: for core industrial, like factory automation, as well as for major home appliances, it still needs to show a clear reversal. In renewables underlying structural demand remains intact, due to globally rising power and efficiency requirements. Solar and wind are the most economical ways of energy generation in many regions. On the energy infrastructure side, demand for items like transmission, energy storage systems or uninterruptible power supplies is robust, driven among others by AI datacentre buildouts. Also rail transportation is seeing continuous investment in infrastructure and electrification. Overall, we are expecting a gradual recovery to set in in the second half of 2025. With a cutting-edge offering of power solutions, we will fully benefit from an upswing.

3 *Power & Sensor Systems*

Now to Power & Sensor Systems. PSS recorded **revenues** of 820 million Euros, a comparatively mild sequential decline of 5 percent. While consumer and smartphone-related businesses saw a typical negative seasonality, our power solutions for AI servers are on an unabated strong trajectory.

The **Segment Result** of PSS increased to 149 million Euros, corresponding to a **Segment Result Margin** of 18.2 percent. The aforementioned compensation payment we received from a customer is included here, recorded as other operating income.

Now to an organizational change: effective 1st of January 2025, we have transferred our automotive sensor business line - covering radar, magnetics, MEMS and others - from ATV to PSS. Within PSS, it will be combined with the existing sensor and radio frequency, or RF, businesses. By combining our sensor and RF expertise into a dedicated unit, we are strengthening our focus on these promising product families, while increasing competitiveness by leveraging R&D synergies to ultimately accelerate innovation-to-customer value. Our overall segment and reporting structure will not change. The annual revenue of the automotive sensor business line in fiscal year 24 was around 700 million Euros, its Segment Result Margin roughly in line with the ATV average. For modeling purposes, you find the quarterly revenue numbers in our press release.

Looking at PSS target markets, we see that consumer, computing and communications applications, which entered the long correction first, have now bottomed out and some, like consumer electronics and battery-powered tools, are beginning to show first positive signals. For this quarter, inventory de-stocking will still be a headwind. The picture looks brighter for our industry-leading silicon microphones going into smartphones and accessories. In PCs, we expect traction from a refresh cycle kicking in this year.

The by-far strongest dynamic is in the area of power solutions for AI servers, a highly attractive structural growth trend. Addressing the entire power flow from grid to core with our unique product offering, we see our business scaling up very dynamically and are happy to **firm up** our near-term target once again: we will achieve around 600 million Euros of AI-related revenue in this fiscal year, and – as said before - we will cross the one billion Euro revenue line within the next two years.

4 *Connected Secure Systems*

To complete the divisional review, let's take a look at Connected Secure Systems. The segment recorded quarterly **revenues** of 344 million Euros, down 15 percent from the September quarter. Most application areas saw sequential declines, reflecting the ongoing weakness in consumer and IoT markets. Driven by the lower revenue, the **Segment Result** of CSS went down to 30 million Euros, corresponding to a **Segment Result Margin** of 8.7 percent.

IoT and security markets are currently trending around the bottom, as macro uncertainties continue to affect consumer sentiment and corporate spending. That said, inventories are normalizing and booking patterns show initial positive signals, albeit on a still-low level. This supports our view of a modest recovery in the second half of 2025. We are preparing for future growth with continuous innovation: With PSoC™ Control we have launched a new family of industrial microcontrollers, enabling highly efficient and secured motor control and power conversion systems. Such systems are found in a diverse range of applications, like home appliances, industrial drives, robots, light electric vehicles, or solar appliances. As more and more

wide bandgap power components are adopted in these applications, faster control loops are required to improve performance and system efficiency. Furthermore, security is becoming increasingly important as a key enabler. Infineon has achieved a milestone on the way to a quantum-resilient world in collaboration with the German Federal Office for Information Security. We are the first company ever to receive the Common Criteria EAL6, an industry-leading certification level, for the implementation of a post-quantum cryptography algorithm in a security controller. Such cryptography enhances security for eSIM, 5G SIM and smart card applications, including personal IDs, payment cards and eHealth cards.

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

The **adjusted Gross Margin** in the December quarter came in at 41.1 percent, compared to a slightly restated level of 43.3 percent for the previous quarter. In line with market practice, from the beginning of our 2025 fiscal year, we changed a cost allocation method and re-grouped certain expenses from cost of goods into research and development. Prior periods have been adjusted, such that a like-for-like comparison is possible. The decline of around 200 basis points quarter-over-quarter is essentially related to the noticeably lower sales volume. Besides this, slightly unfavorable mix and price effects were offset by positive currency impacts. Idle charges continue to burden our margins, as fab utilization levels remain subdued as part of our cycle management. Also the **reported Gross Margin** decreased quarter-over-quarter, from restated 41.4 to 39.2 percent.

On the Opex side, **Research and Development** expenses increased slightly from 522 million Euros in the September quarter to 544 million Euros in the December quarter. **Selling, General and Administrative** expenses were 395 million Euros, tightly managed to stay flat, compared not only to the preceding quarter, but also to one year ago.

The **net other operating expense** amounted to 86 million Euros. Therein we recorded impairment charges and provisions totaling 113 million Euros related to manufacturing equipment becoming obsolete in connection with the restructuring of production processes and the optimization of the fab footprint under our Step Up initiative. These charges are part of the **Non-Segment-Result,** which amounted to minus 255 million Euros for the December quarter.

Financial result

The **financial result** for the first quarter of our 2025 fiscal year was minus 17 million Euros, after minus 26 million Euros in the quarter before.

Tax

Income tax expense for the first fiscal quarter amounted to 60 million Euros, equivalent to an effective tax rate of 20 percent. Cash taxes for Q1 were 152 million Euros, containing payments made for prior years. Adjusting for these and for PPA effects, the cash tax rate would be 23 percent, a typical level given that tax loss-carryforwards have been fully utilized.

Investments, Depreciation and Amortization

Our Q1 **investments** into property, plant and equipment, other intangible assets and capitalized development costs increased slightly to 731 million Euros; also, **depreciation and amortization** including acquisition-related Non-Segment-Result effects went slightly up to 487 million Euros.

Free Cash Flow

Our reported **Free Cash Flow** showed the usual seasonal pattern and came in at minus 237 million Euros. In the quarter before it had reached 1 billion 145 million Euros, driven, among others, by cash-ins from fundings, the scheduled receipt of customer prepayments and positive working capital effects. As expected, these factors fell away or reversed in the December quarter. In addition, the operating result went down sequentially, and as usual in this quarter a large part of annual variable income payments was made.

As we had flagged in our last earnings call, short-term market conditions make **inventory** management quite challenging in the near term. As planned, our **inventories** have gone up over the course of the December quarter, their **reach** increased also on the back of the lower revenue to 190 days. Towards the end of our running fiscal year, we target to be at a reach level similar to the one at the end of our last fiscal year. Channel inventories at distributors have meanwhile normalized or are about to do so for of many our product categories.

Liquidity, leverage

Now to our liquidity and leverage. Our **gross cash** at the end of December stood at a bit above 1.9 billion Euros, in line with our recently updated finance policy of having gross liquidity of at least 10 percent of revenues, on average throughout a year. Our **gross debt** amounted to 4.9 billion Euros, equivalent to a gross leverage of 1.4 times. **Net debt** consequently amounted to 3 billion Euros, corresponding to a net leverage of 0.8 times.

I am pleased to report that our investment grade rating of “BBB+ stable” has been confirmed by S&P Global a few weeks ago. Among other things, the rating agency honored our conservative financial policy and the clear commitment to keeping a strong liquidity position. To further strengthen the latter, we have just signed a 2 billion Euro committed standby revolving credit facility for a 5-year tenor with a group of international banks. This highlights the strong trust which we are enjoying from our financial partners and provides us with additional financial flexibility.

RoCE

Finally, our after-tax reported **Return on Capital Employed** for the first fiscal quarter of 2025 came in around 5 percent, remaining at an unsatisfactory level.

AGM

Before handing back to Jochen, let me quickly remind you of our annual shareholders’ meeting on the 20th of February. Exploiting the benefits of the online format, I hope to virtually meet many of our shareholders there.

Handover to Jochen Hanebeck

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

Jochen Hanebeck

Thank you, Sven.

With more than three months into our 2025 fiscal year, our markets are developing along the lines of the playbook we had envisaged for our guidance in November. Inventory corrections are continuing, especially in automotive and industrial, slowly getting less intense. Stock levels in many consumer markets have normalized, but a higher-than-normal share of turns business is still limiting visibility. AI-related investments and xEV in China remain the bright spots. Predicting the exact timing and momentum of the cycle is challenging. There are some signs of demand returning, but until they are getting stronger it is prudent to assume a modest recovery in line with our guidance, rather than a sharp rebound. External factors like geopolitical tensions or regulatory changes affecting tariffs and trade can have significant influence. Our focus remains on managing what we can control and ensuring Infineon is in optimal shape for the market recovery. In the meantime, our secular content drivers will continue to support our growth momentum.

Outlook for Q2

For the currently running second quarter of our 2025 fiscal year, we expect **revenues** of around 3.6 billion Euros. This is based on an assumed US-Dollar-Euro exchange rate of 1.05. As we had already mentioned in our earnings call back in November, we expect the inventory reduction by our automotive and industrial customers to continue throughout this quarter, before abating sometime in spring. Hence, we calculate that our March quarter is burdened by about 200 million Euros of inventory correction.

On a divisional level, ATV is expected to trend along the same lines as the group, whereas GIP should see a stronger sequential increase, albeit from a very low base. Revenue levels in PSS and CSS are expected to remain roughly constant. These predictions assume that the aforementioned transfer of the automotive sensor business line from ATV to PSS had already happened, so it is a like-for-like comparison.

For the March quarter's **Segment Result Margin** we expect a mid-teens percentage level. Positive fall-through effects from volume gains will be offset by the well-known price adjustments for 2025 kicking-in and the fall-away of the one-timer recorded in Q1. Customer negotiations vindicated our initial assumption about annual price declines.

Outlook for FY25

Coming to our outlook for the full 2025 fiscal year: we now assume **revenues** to come in flat to slightly up compared to the prior fiscal year. This revision from our previous forecast of slightly downward trending revenues is essentially due to a changed currency assumption. We are now assuming a US-Dollar/Euro exchange rate of 1.05 for the remainder of the fiscal year, instead of 1.10 before. This change, together with the slightly better actual US-Dollar exchange rate in Q1, adds approximately 450 million Euros to our topline. We stick to our prediction of a modest recovery setting in during the second half of our fiscal year. Rising incoming orders confirm our reading, but it is too early to call for a sharp rebound. We need to keep monitoring business indicators closely, to allow for a range of scenarios, prepare and act accordingly. A prime example for such a scenario would be an escalating trade conflict, sparked by tariffs and counter-tariffs, like the ones announced by the U.S. over the weekend on Mexico, Canada and China. While direct impacts on us might be limited, given our geographically diversified supply chain, our base case does not include potentially significant indirect impacts arising from trade wars on customer demand.

By division, we expect the year-over-year revenue development of both ATV and CSS to be broadly in line with the Group's. For GIP we continue to foresee a pronounced annual decline, whereas PSS's revenue should significantly grow, in particular on the back of our AI-related product offering's success in the marketplace.

Our margin assumptions for the 2025 fiscal year stay in place for now. We continue to expect our full year **adjusted Gross Margin** to come in at around 40 percent and our **Segment Result Margin** to end at a mid-to-high teens percent level. The stronger US-Dollar makes it more likely to land at the better end of this range. Cyclical idle charges of around a billion Euros for this fiscal year continue to be a margin headwind of around 500 basis points. These charges, plus the revenues and margin potential from currently underutilized capacities show our underlying profitability once the market is back. In addition, we are putting in significant efforts to improve our structural profitability through our Step Up initiative. We are very pleased with how the measures identified under Step Up are progressing and confirm what we said before: we are going to reap first benefits in the current fiscal year, expect further meaningful impacts coming in in the 2026 fiscal year, and then the full high-triple digit million effect from 2027 onwards.

Our guidance for investments, depreciation and free cash flow for fiscal 25 stays unchanged: **Investments** are predicted to amount to around 2.5 billion Euros, including capitalized development expenses. For **depreciation and amortization** we continue to anticipate a value of around 2.0 billion Euros, including around 400 million Euros resulting from purchase price allocations, which will hit 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. For the **reported Free Cash Flow** we expect a level of around 900 million Euros.

Closing remarks

Ladies and Gentlemen, let me summarize before we go into Q&A:

- Our markets have bottomed. Inventory corrections, in particular by automotive and industrial customers, are progressing in the near term. Powering AI datacenters and China xEV are notable exceptions
- The start into our 2025 fiscal year was slightly better than predicted, with revenues of 3.4 billion Euros and a Segment Result Margin of 16.7 percent
- Our key assumptions for how our business will unfold are proving to be correct, including the perspective for a modest recovery in the second half of our 2025 fiscal year. Mainly on the back of the stronger dollar, we are raising our revenue guidance for fiscal 25 to “flat to slightly up”
- The growth outlook beyond a cyclical recovery looks highly attractive, based on how well Infineon is indexed to secular trends
- Cycle management and focusing on the things we can control remain key to navigate the near term; at the same time, we are strengthening our innovation power and leverage

structural improvements from the Step Up program to make sure our company is in optimal shape for the next years to come