Q2 FY 2025

100th Quarterly Results of Infineon Technologies AG

Analyst Call Intro Statement

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

Jochen Hanebeck:

General Introduction

What a difference a quarter can make – in terms of macro and geopolitical events shaping the environment in which we operate. Looking through these external factors for a moment, the underlying business dynamics are largely unfolding for us as predicted. We are past a cycle trough, with customers and distributors in most of our target markets in the process of ending their inventory corrections. Besides normalizing inventory levels, the other key ingredient needed for a cyclical recovery is end demand picking up. And it is here where the headwinds from tariffs are expected to come in; an impact on demand over the remaining course of our running fiscal year is likely but nothing is yet visible in our orderbook.

For Infineon we therefore focus on managing what we can control, staying agile in the face of short-term market changes, and simultaneously work on innovation and structural improvements to optimally set up our company for continued future success.

Group performance in Q2

Let's now look back at our March quarter, which has been an in-line one: we recorded **revenues** of 3 billion 591 million Euros, 5 percent up compared to the previous quarter. Positive volume effects were partially offset by annual price declines, as expected. Currency played a minor role: the average actual US-Dollar/Euro exchange rate was 1.05, in comparison to 1.07 in the quarter before.

The **Segment Result** amounted to 601 million Euros. The corresponding **Segment Result Margin** of 16.7 percent is the same as in the prior quarter, which was supported by a compensation payment from a customer of a mid-double digit million amount. We were thus able to compensate for the kicking in of annual price adjustments in a fairly robust way.

Our order **backlog** at the end of March was standing at around 20 billion Euros, constant quarter-over-quarter in spite of annual price adjustments and a significantly weaker US-Dollar at the end of Q2 compared to the end of Q1.

Now to our divisional review, beginning with Automotive.

Division-level performance in Q2

1 *Automotive*

In the second quarter of the 2025 fiscal year, ATV achieved **revenues** of 1 billion 858 million Euros. This reflects healthy sequential growth of 6 percent and confirms the underlying improvement of the inventory digestion by customers throughout the quarter. Please note that all reporting figures reflect the transfer of the "Sense & Control" business line from ATV to PSS as of January 1, 2025. All comparisons provided are adjusted accordingly on a like-for-like basis.

The **Segment Result** of ATV amounted to 385 million Euros, corresponding to a **Segment Result Margin** of 20.7 percent. This represents a sequential improvement, driven by higher volumes and a favorable currency effect, which more than offset annual price adjustments and slightly increasing idle cost.

We are very pleased to share the latest study from TechInsights, which confirms once more the exceptionally strong traction of our automotive semiconductor business in the market. Based on numbers for 2024, we continue to be the number one global automotive semiconductor provider, with a market share of 13.5 percent. We have improved our regional positions further and climbed to number one in Europe and number two in the US. We also continue to hold the pole position in China as well as in Korea, and the number two spot in Japan. Our market share in automotive MCUs has risen to 32 percent, bringing us even to the global number one position across the entire MCU market for all applications.
Now to the present situation: while our recent business performance was slightly better than our initial expectations, the geopolitical environment has become significantly more volatile in recent weeks. Recently implemented US import tariffs are likely to create headwinds for global vehicle production. In response, market researcher S&P Global has recently lowered its forecast for this year to around 88 million units.

Turning now to our recent achievements, we are pleased to share several notable milestones for the ATV business: for example, we won several slots with our AURIX™ and TRAVEO™ microcontroller franchise in one of the lead platforms of a European premium OEM. The lifetime of this platform lasts well into the 2030s. More than half of all microcontroller sockets in the respective vehicles will be supplied by Infineon, resulting in an average content value of several hundred Euros per car, solely from our microcontroller solutions.
Another success includes the usage of our latest AURIX™ TC4 microcontroller as a safety companion chip for the next generation of a leading autonomous driving platform. This high-performance processing unit requires an extraordinarily capable safety host. Together, they enable high-speed ADAS calculations and central compute operations in a secure and dependable way.

Moreover, this design win also incorporates Infineon's automotive-grade OPTIREG™ PMICs, providing a complete power management solution.
Lastly, we are proud to highlight a significant milestone in battery management systems. A leading Chinese EV manufacturer has selected our new 18-channel battery management system, marking the first design win for this next-generation solution. The step-up from the previous 12-channel design enables more compact battery management systems which is especially important for the upcoming 800-Volt battery systems. This innovation sets a new industry benchmark for high-precision sensing and intelligent fast-charging capabilities.

Finally, on April 8, we announced the signing of an agreement to acquire the Automotive Ethernet business of Marvell for a purchase price of 2.5 billion US-Dollars. This strategic acquisition marks an important step in strengthening our market-leading microcontroller franchise, particularly in the context of zonal controllers laying the foundation for software-defined vehicles. Besides this, Ethernet will play a key role in other highly promising future application fields such as humanoid robots. The business to be acquired is experiencing strong growth, is highly profitable, and will thus be accretive to ATV growth and gross margin upon integration. The transaction is subject to customary regulatory approvals and we expect closing to occur within the current calendar year.

2 *Green Industrial Power*

Let's now move to Green Industrial Power: from the very low revenue level of the December quarter, GIP recorded the expected sequential growth. **Revenues** increased by 17 percent quarter-over-quarter to 397 million Euros. All application areas contributed to this growth, hinting at the anticipated gradual recovery of industrial markets setting in. That being said, the fact that GIP's revenue level is 15 percent below last year's is showing that such recovery has still a long way to go.

The **Segment Result** of GIP came in at 38 million Euros in the second quarter of our 2025 fiscal year, leaving the **Segment Result Margin** at a depressed level of 10 percent. Essentially, annual price declines offset sequential volume increases, while underutilization charges remain a burden.

From a cyclical perspective, industrial markets are at the early stage of a gradual recovery: customer inventories are trending downwards, but have not yet normalized. Orders in the value chain are picking up slowly, but have yet to translate into broader demand for power semiconductors. Rising tariffs, whether threatened or enacted, are adding a layer of uncertainty. In this environment, pricing pressures are persisting, in particular for standard power components in China. Therein silicon carbide is seeing a dynamic evolution of prices, not least driven by declining substrate prices in a more and more commoditizing market, where we benefit from our well-diversified supplier base. In addition, market participants apply forward pricing on the anticipated transition to 200 millimeters.

As a consequence, pricing pressures will dampen market expansion in the near term. Therefore, we adjust our projection and now estimate a low annual growth rate for our fiscal 2025 silicon carbide revenues on group level before any tariff impact.

Meanwhile, structural growth drivers are unabated. Globally rising power and efficiency requirements support demand for energy generation from renewables, as these are oftentimes the most economical sources. Related to this, continuous power infrastructure investments are driven for example by capacity extensions of key players in China and government initiatives in Europe.

This affects areas like transmission and distribution, energy storage systems or uninterruptible power supplies - not least to support AI datacentre buildouts – and also EV charging infrastructure. With our unrivalled offering of power solutions, we are playing a key role in these areas.

3 *Power & Sensor Systems*

Now to our Power & Sensor Systems segment. PSS recorded **revenues** of 979 million Euros in the March quarter, essentially flat compared to the previous quarter. These numbers include the mentioned automotive sensor business line transfer from ATV to PSS. While we noted continued strong growth momentum for our power solutions for AI servers, most consumer-related applications saw the expected price-downs. Revenue for smartphone components as well as for our sensor portfolio were flat quarter-over-quarter.

The **Segment Result** of PSS decreased to 138 million Euros, corresponding to a **Segment Result Margin** of 14.1 percent. Please keep in mind that the previous quarter's numbers contained a compensation payment of a mid-double digit million Euro amount received from a customer. In other words, like for like the underlying margin has slightly expanded sequentially.

Looking at PSS target markets, we see that from a cyclical perspective, consumer, computing and communications applications have left the trough behind. This is confirmed by business indicators such as rising short-term orders, backlog building, low cancellation rates and normalized channel inventories.

AI is poised to remain an engine of growth. The buildout of AI datacenters and related infrastructure is continuing at a fast clip, and we see our business scaling up dynamically along the lines we had predicted. A key factor driving Infineon's success in this market is the unrivalled breadth and depth of our product offering. Instead of just focusing on individual power conversion steps, we are closely working together with the development teams of all top customers to holistically design and optimize the entire power flow from grid to core. By bringing together the best silicon, silicon-carbide and gallium-nitride dies with leading-edge packaging technologies like chip embedding, we achieve superior power density, energy efficiency and thermal performance. As an example beyond power stages, we are now designed into the Intermediate Bus Converters, or

IBCs, of one of the platforms of a leading AI processor company. With our OptiMOS™ 6 in a 5x6 millimeter dual side cooling package we are setting a new industry benchmark, fitting optimally into the constrained space of AI servers for accelerated compute.

4 *Connected Secure Systems*

To complete the divisional review, let's take a look at Connected Secure Systems. CSS recorded quarterly **revenues** of 356 million Euros, representing a 3 percent increase compared to the December quarter. Driven by higher revenues and some structural effects, the **Segment Result** of CSS rose to 40 million Euros, corresponding to a **Segment Result Margin** of 11.2 percent.

IoT and security markets remain close to the bottom as macroeconomic uncertainties continue to weigh on consumer sentiment and corporate spending. Against this backdrop, we continue to innovate and deliver cutting-edge products that lay the foundation for future growth.

Executing on our development roadmap, we have further expanded our PSoC™ microcontroller portfolio. Following the successful launch of PSoC™ Control, we introduced the PSoC™ Multi-Sense family. This new lineup enhances Infineon's leading CAPSENSE™ capacitive sensing technology by integrating proprietary inductive sensing, as well as a non-invasive liquid sensing solution. These advancements provide developers with unparalleled flexibility to create advanced HMI and sensing applications, ranging from sleek metallic product designs with touch-on-metal buttons to waterproof touch interfaces and innovative liquid sensing technologies.

In addition, we are driving the adoption of AI-enabled applications with the PSoC™ Edge family. By integrating NVIDIA TAO models into a comprehensive development ecosystem – including tools, libraries, and documentation – we enable developers to accelerate innovation and shorten time-to-market for edge devices. This positions Infineon as a key player in the very dynamic Edge AI space.

Sustainability continues to be a core focus for Infineon, and we are proud of the strides we are making in this area. With SECORA™ Pay Green, we are leading the way in sustainable payment technologies. This solution enables the production of fully recyclable dual-interface, contactless payment card bodies that eliminate the need for an additional card antenna. Our innovation has been recognized by both customers and industry leaders, including Mastercard, which has added Infineon to its Greener Payments Partnership.

Handover to Sven Schneider

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

Sven Schneider:

Thank you, Jochen, and good morning everyone.

(Adjusted) Gross Margin and OpEx, NSR

Starting as usual with the Gross Margin: As most of you are following Infineon already for a long time, you are aware that the bulk of our contracted annual price changes is kicking in in the March quarter, typically constituting a burden. Considering this and the revenue level still impacted by inventory digestion by our customers, we are pleased to see that we could keep the **adjusted Gross Margin** above the 40 percent mark. With 40.9 percent it remained flat to the previous quarter's 41.1 percent. Several factors were at play here: volume and productivity gains contributed positively, as well as a slightly favorable currency development. On the other hand, idle costs went up to some extent quarter-over-quarter.

The **reported Gross Margin** decreased slightly quarter-over-quarter from 39.2 to 38.7 percent.

On the Opex side, **Research and Development** expenses went up slightly to 559 million Euros in the March quarter, after 544 million Euros in the December quarter. We are consistently building an innovation roadmap to nurture future opportunities for profitable growth. Prime current examples are a 12 nanometer FinFet tapeout for a future generation of our AURIX™ automotive microcontroller family, or the introduction of a trench-based superjunction concept for silicon carbide devices.

Our **Selling, General and Administrative** expenses declined sequentially from 395 to 376 million Euros, evidence of strict cost discipline, and showing the first fruits of the SG&A part of our Step Up initiative.

Net other operating expenses amounted to 138 million Euros, mainly related to impairment charges on manufacturing equipment at our 200-millimeter Austin site, which we plan to sell to the US foundry Skywater. These charges are part of the **Non-Segment-Result,** which amounted to minus 283 million Euros for the March quarter.

Financial result

The **financial result** for the second quarter of our 2025 fiscal year amounted to minus 28 million Euros, after minus 17 million Euros in the quarter before.

Tax

Income tax expense for the March quarter amounted to 63 million Euros, equivalent to an effective tax rate of 22 percent. Cash taxes for our second fiscal quarter were 80 million Euros, down from 152 million Euros in the previous quarter, which had contained payments made for prior years. Adjusting for PPA effects, the quarterly cash tax rate stood at 20 percent.

Investments, Depreciation and Amortization

Our **investments** into property, plant and equipment, other intangible assets and capitalized development costs went down noticeably, as planned and in line with our annual Capex budget, from 731 to 470 million Euros; **depreciation and amortization** expenses including acquisition-related Non-Segment-Result effects remained essentially flat with 483 million Euros.

Free Cash Flow

Our **Free Cash Flow** improved quarter-over-quarter from minus 237 to plus 174 million Euros. Main drivers for the improvement were lower investments, less paid taxes and the non-recurrence of annual bonus payouts in the December quarter. Also, changes in **inventories** contributed positively. Here our cycle management efforts are showing positive effects: in a challenging market environment characterized by customers and distributors de-stocking, our inventories went slightly down over the course of the March quarter, their **reach** declining from 190 to 177 days. Towards the end of our running fiscal year, we continue to target a reach level in line with end of last year. This implies that we will need to keep fab utilization levels at low levels, also in the light of potential tariff-related demand risks. Going forward, quarterly idle charges will therefore be higher than previously anticipated, and be a margin drag in our fiscal H2. Jochen will comment on it in the outlook section.

Liquidity, leverage, corporate finance, rating

Now to our liquidity and leverage. Our Corporate Finance team had an eventful and successful quarter. After signing a 2 billion Euro committed standby revolving credit facility, about which we reported already last time, a 750 million Euro bond was issued in February, with a 5-year tenor and a coupon below 3 percent. Also in this quarter, we repaid a 500 million Euro bond at maturity, called and redeemed a 600 million Euro hybrid bond, and paid out our annual dividend of 455 million Euros.

At the end of March our **gross cash** position equated around 1.7 billion Euros. Our **gross debt** amounted to 5.5 billion Euros. These figures contain 400 million Euros in drawn short-term credit facilities. Our gross leverage is 1.5 times, net leverage is amounting to 1.1 times.

The financing of the planned acquisition of the automotive Ethernet business from Marvell is another example of how we apply our conservative financial policy. We have put in place a committed acquisition facility from our banks, consisting of a one billion Euro and a one billion US-Dollar tranche. This facility will be drawn at closing. For the majority of the remaining related currency risk of the planned acquisition, we have concluded deal-contingent foreign currency hedges. S&P Global has confirmed that the fully debt-financed acquisition is commensurate with our investment grade rating of “BBB+ stable”.

RoCE

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

Handover to Jochen Hanebeck

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

Jochen Hanebeck

Thank you, Sven.

When looking at the cyclical dynamics in our target markets, our initial predictions are proving to be fully accurate: inventory corrections by automotive customers have largely ended, in industrial they are getting less intense. Stock levels in consumer markets have normalized. With this, the foundation for a cyclical upturn would be laid – in principle. Observing short-term customer order behavior and a high share of turns business, we had so far been cautiously optimistic, calling for a modest recovery in the second half of our 2025 fiscal year. We continue to think this is what best describes the underlying dynamics. And if there weren't any changes to tariff policies, we would essentially reiterate and confirm our guidance from last quarter, even taking a substantial negative currency effect from moving our US-Dollar/Euro exchange rate assumption from 1.05 to 1.125 into consideration.

But the world has changed, and macroeconomic and geopolitical factors are fast-moving goalposts at present. Trade conflicts have intensified, sparked by announced, enacted and partly paused tariffs and counter-tariffs. There are not yet semiconductor-specific tariffs in place. However, the in-flux situation around tariffs is impacting customer demand and likely leading to end-market weakening. After the announcement of a 90-day pause on the so-called reciprocal tariffs, there is currently no clarity around the extent of U.S. and potential retaliatory tariffs. But it seems logical that whatever the outcome, economic growth is already impacted, as uncertainty is weighing on consumer sentiment and corporate investment in the short term. Chip demand is also likely to be affected by supply-chain disruptions as OEMs assess the impact on their product demand, their manufacturing strategy and which locations they would want chips to be delivered to. Some are likely to cut inventory levels further in the light of potentially weaker demand, others might re-stock to manage geopolitical volatility. To be clear: we do not see any of these described impacts in our orderbooks yet. But we expect them to come to a certain degree in the remainder of our current fiscal year. The magnitude and duration of these indirect effects is highly difficult to predict, but being mindful of them and fully transparent to you, we decided to prudently adjust our outlook downward.

Outlook for FY25

Let me start with our outlook for the full 2025 fiscal year, which under German disclosure rules in contrast to our main international peers we have to provide: as you are aware, we had so far predicted our annual **revenues** to be flat to slightly up compared to fiscal 24, based on a US-Dollar/Euro exchange rate of 1.05. We are now changing our currency assumption to 1.125 for the remainder of this fiscal year. Even with this adverse currency effect, we would still be within the range of our former guidance, including a mid to high teens segment result margin level. However, we need to be mindful of likely tariff-related indirect demand effects. Take for example the recent announcements of several automotive OEMs who either pulled or meaningfully reduced their forecasts for 2025. Also other markets will probably be affected by tariff-related headwinds.

As said, we are not able to calculate these effects or derive any number from our order intake or a change in order behavior of our customers at this moment in time. Therefore we "guesstimate" them at a magnitude of around 10 percent of our planned Q4 revenue. Including both these factors, tariff and adverse currency impacts, we now predict our revenues for the 2025 fiscal year to be slightly down on an annual basis.

Our reduced revenue outlook consequently affects our margin assumptions for the 2025 fiscal year. We expect our full year **adjusted Gross Margin** to come in around 40 percent, whereas our **Segment Result Margin** should land at a mid-teens percent level. Idle charges in the second half of our fiscal year will be higher than previously assumed. For the full year they are expected to amount to around one billion Euros. The vast majority of them is of a cyclical nature to keep our inventories at healthy levels, constituting a margin headwind of now around 600 basis points for the 2025 fiscal year. We will continue to manage what we can control and put in significant efforts to safeguard and improve our current margin levels, benefiting from the first positive effects of our Step Up initiative. Overall, we are progressing with Step Up as planned.

In the current context, we plan to reduce our **investments**, including capitalized development expenses, to around 2.3 billion Euros, from around 2.5 before. For **depreciation and amortization** we now anticipate around 1.9 billion Euros, including around 400 million Euros resulting from purchase price allocations, which are recognized in our Non-Segment Result.

For the **reported Free Cash Flow** we continue to expect a level of around 900 million Euros. Our **adjusted Free Cash Flow**, net of investments into major frontend buildings, is now expected to come in at around 1.6 billion Euros, compared to 1.7 billion predicted before, given that some of the invest push outs affect large frontend buildings.

For the sake of abundant clarity, our forecasts do not include the automotive ethernet business of Marvell which we intend to acquire.

Outlook for Q3

For the currently running third quarter of our 2025 fiscal year, we expect **revenues** to come in at around 3.7 billion Euros, equivalent to around 3 percent sequential growth. This also assumes a US-Dollar-Euro exchange rate of 1.125, and hence the like-for-like growth at constant currencies would be around 8 percent.

On a divisional level, we expect a higher quarter-over-quarter growth rate for GIP and PSS, whereas ATV is assumed to grow below group average. For CSS we forecast revenues to be sequentially down.

For the June quarter's **Segment Result Margin** we expect a mid-teens percentage level. In comparison to the March quarter, we expect less favorable currency relations as well as an impact from annual merit increases, which became effective on 1st of April.

ESG: SBT

Before coming to the summary, I would like to update you about another milestone on our sustainability roadmap: the Science Based Targets initiative has officially approved our **Science Based Target**. This target includes scope 3 emissions covering purchased goods and services, capital goods and upstream transportation and distribution. Having a validated Science Based Target including scope 3 emissions is an important milestone for us and will further strengthen Infineon's position as a role model in sustainability. The second piece of good news is about our Smart Power Fab we are currently building in Dresden: the German government has issued the final funding approval, supporting fifth of the overall investment. Meanwhile, the construction of our new fab for analog, mixed signal and power products is proceeding as planned, the building shell almost is complete, bringing highly efficient, scalable and resilient supply for fields like renewable energies, data centers and electromobility.

Closing remarks

Before going into Q&A, ladies and gentlemen, let me summarize:

- The second quarter of our 2025 fiscal year came in fully in line with our expectations, with revenues of 3.6 billion Euros and a Segment Result Margin of 16.7 percent
- As market data is showing, Infineon has fortified and expanded its global leadership in automotive semiconductors. The planned acquisition of Marvell's automotive ethernet business will position us optimally to shape the future of software-defined vehicles and also humanoid robots

- Outside of automotive, several high-growth application areas prove our innovation strength and system competence: first and foremost, powering AI datacenters, but also energy storage systems or edge AI solutions are gaining traction
- Our markets have bottomed, and inventory levels mostly normalized. Normally the runway would be clear for the envisaged modest recovery to set in
- Alas, tariff-induced market uncertainties are constituting indirect demand headwinds. To account for those, we can only guess the potential impact at this point. Including this as well as a weaker US-Dollar, we revise our revenue guidance for fiscal 25 to slightly down
- Cycle management and focusing on the things we can control remain key to navigate the near term; beyond that, our growth potential remains highly attractive, and we are strengthening our innovation power and leverage structural improvements to optimally benefit from secular trends