

# Letter to shareholders

Neubiberg, November 2020



**Dr. Reinhard Ploss**  
Chief Executive Officer

*Dear shareholders and business partners,  
dear Infineon colleagues,*

2020 will go down in history as the year of the coronavirus. The pandemic has unleashed an unprecedented crisis. Our company has successfully weathered the storm with the combined forces of all our employees – and so I would like to take the opportunity right here, in the name of the entire Management Board, to express a huge THANK YOU to our team, who have done a great job. Despite considerable hurdles, we have stood together to keep Infineon on track! The year of the coronavirus has been a milestone for us in many ways. Not only did we cope well in operational terms with the downturn, achieving a respectable result in an extremely challenging environment due to our solid starting position. We were also able, with the completion of the acquisition of Cypress and its largely completed refinancing, to set our course for the future; a future, which the coronavirus pandemic has caused to move significantly closer to the present in terms of digitalization. We believe we are well-equipped to shape this future, not only for Infineon, but also for society at large. We want to contribute to a future which has humans and their environment at its heart.

The pandemic struck the semiconductor industry at a time when we were beginning to see signs of improvement in the economic situation after a difficult 2019. There were no pre-formulated action plans to deal with the global threat of the novel SARS-CoV-2 virus. Also at Infineon, we had no such plans, nor do we need them, as everyone in the company has shouldered the responsibility of doing the right thing, taking rapid and independent action, and that is just how we are organizing ourselves, so that the key issues can be managed centrally. The top priority was and is protecting the health of our employees and business partners. We have succeeded in keeping the infection rate in our global workforce very low through numerous health and safety measures, continuous information and communication, an almost complete cessation of business travel since March, and extensive hygiene plans. For office workers, the transition to working from home happened virtually overnight. Our IT specialists managed to set up the necessary infrastructure in a few days.

For weeks, we had up to 23,000 colleagues worldwide working from home, with up to 60,000 telephone and video conferences and up to 36,000 accesses to the network daily. We quickly had to learn new ways of working together. It soon became clear that many things functioned at least as efficiently online and digitally as they did in physical meetings, although some did not. Based on this experience, we are currently devising a new way of working, but we are aware that we still have much to learn. The situation is of course different for our factory workers. We are proud that we have been able to keep operations going at all our major manufacturing sites almost without interruption. Even in countries hit particularly hard by the pandemic, such as China, Malaysia, Mexico and the Philippines, we have been able to comply with the strict official regulations, which were necessary for us to maintain operations. Interdisciplinary optimization and flexibility were the key success factors in keeping tabs on idle costs and achieving our potential revenue: constant reassessment of demand scenarios, adjustments to the manufacturing program across segments and sites, new routes along the logistics chains. Customer satisfaction is crucial for us even in this difficult phase and we are pleased with the feedback we have received that customers value our prudent and proactive actions. In addition to protecting the health of our employees and continuing our business operations, it is important for Infineon to contribute to the society and so to be part of it. We have supported or launched more than 20 projects to alleviate the impact of the pandemic, donating several hundred thousand euros. Supplying power electronics for ventilators is one of the ways in which we have been able to provide support through our products.

Of course, our business is not immune to a profound crisis of historic dimensions. Yet the efforts described above have resulted in us being able to limit the decline in revenue and profit seen in some of our core areas. In the previous fiscal year, we generated revenue of almost €8.6 billion. This includes around €850 million from the consolidation of Cypress from mid-April. If we look at our former Infineon business, we generated a bit above €300 million less revenue than in the 2019 fiscal year. The automotive industry in particular has been hit hard by the impact of the coronavirus pandemic. In the spring, the number of vehicles produced in all regions plummeted,

the result of a simultaneous shock to supply and demand. Although there were noticeable signs of recovery only a few months later and in some countries such as China even a V-shaped recovery to levels above pre-crisis became apparent, market researchers are nevertheless predicting that 2020 will see a reduction in global vehicle production of around 20 percent. However, even in the crisis, it is true that the semiconductor content per vehicle is continuing to rise, which implies that the reduction in the number of vehicles produced had less impact on semiconductor manufacturers. This will help the future development of our business, even in case of a weak evolution of the automotive production. Our industrial business proved quite stable. Here, we were able to offset declining demand for industrial drives and traction with our unique product expertise in emerging application areas, such as the generation of renewable energy from solar and wind power. Our products for data centers and communication networks, in turn, even benefitted from some of the effects of the pandemic or, to put it another way, they became part of the arsenal used to combat the crisis. Work, education, entertainment and shopping all moved into the virtual world, stimulating growth. Certain security-related applications, such as contactless payment, also saw an increase in demand.

All in all, we were quite successful at defying the very severe economic downturn, which has led in many countries to the worst recession in post-war history. Infineon's business is very robust thanks to our consistent focus on the structural growth drivers in the areas of energy efficiency, mobility, security, and IoT & big data. This is also clear if we look at our earnings situation. With a Segment Result Margin of 13.7 percent, we were able to safeguard our profitability despite the particular challenges of 2020. In every single quarter, we were able to generate a positive Segment Result. This is also due to the numerous measures we implemented immediately. Of crucial importance was rigorous production management in order to optimize delivery to customers and inventory levels while minimizing underutilization charges. The measures introduced included short-time work, postponing salary increases or suspending them in the case of the Management Board and top management, and adjusting our levels of investment. We were therefore also able to generate a strong cash inflow from our business.

Without taking into account the effects of the acquisition of Cypress, our free cash flow was in excess of €900 million. In addition to concentrating on the here and now, our clear objective was to implement our forward-looking projects successfully despite our comprehensive hiring freeze, which we have managed to do because of the focus and outstanding commitment of our teams.

In the second half of the fiscal year, the former Cypress businesses were already making significant contributions to revenue development, safeguarding profitability and generating cash flow. However, Cypress is more than the expected short-term financial success. Rather, Cypress is an important step in our strategic “Product to System” approach (P2S). As a result, we can offer our customers complete solutions. With our leading products, comprehensive portfolio and application expertise, now enhanced significantly by software, we enable our customers to develop successful products in a short period of time.

At the beginning of June 2019, we signed the purchase agreement for Cypress. On 16 April 2020, just under a year later, we were able to close the transaction, having obtained all the regulatory approvals. It is now up to us to make the biggest acquisition in our company’s history a success. There is enormous potential in the merging of the portfolios and skills of the Cypress and Infineon teams. From the combination of microcontrollers, sensors, connectivity components, power semiconductors, memories for specific applications, and security solutions together with software and the appropriate development environment for all programmable components emerges an extensive joint portfolio for the IoT and for automated driving, and also to develop products that consume less energy. We are seeing many “things” becoming ever smarter and more connected, while completely new applications with considerable additional benefits are emerging. What we are seeing today is just the beginning.

Enthusiasm for creating something that solves problems and makes life better, connecting the real world and the digital world, is a key factor in the successful integration of the two companies “at a distance”. It is impressive to see how, within just a few weeks, roadmaps have been agreed in video conferences and the first synergy projects have been launched.

Our success also comes from good preparation undertaken in the period between signing and closing of the transaction and from our experience in the past with the integration of International Rectifier. The individual steps have been meticulously planned. At the beginning, we slowed down things a little, as business continuity and our customers remain the priority. Nevertheless, Cypress’ production sites were included from Day 1 in Infineon’s manufacturing cluster, and the other parts of the organization followed or are now following gradually. Certainly, the coronavirus pandemic is not making things any easier, but, in a year’s time, it will no longer be possible to identify whose roots are where. In contrast, the full integration of the IT systems will take some time, as is normal and to be expected.

Despite the challenging constraints, we are on track with the targets we set ourselves in relation to the Cypress acquisition. On the cost side, we want to achieve annual cost synergies of €180 million within three years of the business combination. A number of specific potential cost savings have been identified and some have already been implemented. However, the real financial attractiveness of the combination will come from revenue synergies, which we estimate will be more than €1.5 billion per year in the long-term. In the short-term, we are counting on broader customer access and on cross-selling, and we are already seeing the first encouraging results:

- › One of Infineon’s longstanding automotive customers is now using NOR Flash memory ICs from Cypress for their electronic steering systems.
- › A customer opted for a system solution for a new generation of home appliances comprising a microcontroller from the PSoC™ family of Cypress and an intelligent power semiconductor module from Infineon.
- › In an IoT wireless charging device for cell phones, tablets or laptops, which already contains MOSFETs, drivers and security ICs from Infineon, Bluetooth and USB components from Cypress are now also being used.

The opportunities are great, but so are the challenges. Today, Infineon’s segments are organized by market. Even before the acquisition of Cypress, the boundaries between the segments were beginning to dissolve. With this major step towards systems orientation, we will need to come to grips with a complex world in the future.

In addition to product and market orientation, we will be working together across segments on applications. We are convinced that we will master this and that it will turn into a success factor for us, just as our corporate culture already is today.

The organizational integration of Cypress is taking place based on the market and product focus of the segments: Automotive has expanded to include microcontrollers for automotive applications and memories for specific applications; USB components have been included in the renamed Power & Sensor Systems segment; Wi-Fi and Bluetooth products for wireless communication and microcontrollers for general applications have been combined with our security solutions in the greatly expanded Connected Secure Systems segment, also renamed. As is already the case today, the application areas will be managed across segments.

As the integration progresses and as we generate synergies, we want to reach the target set out in our updated target operating model, which is to achieve average revenue growth over the cycle of more than 9 percent per year with a Segment Result Margin of 19 percent. Capital intensity will decrease as a result of the high share of contract manufacturing at Cypress. Our target for the invest-to-sales ratio is 13 percent.

Infineon is not only able to carry out a long-term strategy successfully, but also to complete projects in task force mode. Our finance team has demonstrated this, executing two major transactions in quick succession in a capital markets environment strongly impacted by pandemic uncertainty, and thereby swiftly implementing the previously announced refinancing plan for the acquisition of Cypress. At the end of May 2020, we generated proceeds of just over €1.0 billion from an increase in share capital, which taken together with the two equity measures carried out in the 2019 calendar year, a first increase in share capital and the issue of a hybrid bond, form the basis for our investment grade rating. In June 2020, we repaid in full the bridge loan used to finance the acquisition by issuing €2.9 billion of bonds with maturities of up to twelve years. Infineon now has a balanced maturity profile for its financial debt until 2032, with low financing costs. While maintaining our strategic liquidity target, we are determined to reduce our debt over the next few years. In September 2020, we therefore repaid US\$555 million of the long-term bank loans from the acquisition

financing early and in October 2020 we repaid the remaining amount of our Campeon financing of €171 million. We also want to continue our dividend payments. At the same time, we want to take a prudent approach, considering the serious economic impact and ongoing risks of the coronavirus pandemic and maintaining appropriate financial headroom. In addition, the number of shares entitled to receive a dividend has increased by around 4 percent as a result of the capital increase mentioned. Therefore, we will propose to the Annual General Meeting the payment of a dividend of 22 cents per share for the coronavirus year 2020, a reduction of 5 cents. The percentage decline of the total dividend amount, which would go to €286 million after €336 million for the previous year, would therefore be lower than the percentage reduction of the dividend per share.

Let us now venture a glimpse into the future. The virus has made us aware of the vulnerability of the globally networked world, but also of the opportunities of digital technologies. Currently we are at a stage where we have all been deeply affected by the pandemic. It has resulted in sudden and profound upheavals, human tragedies and economic disruptions, but the call for reconstruction, for making a new start, is loud. Linking that new start with greater sustainability makes sense. We must look to the future in the way we invest. Sustainability has long been a guiding principle at Infineon. Our goal is to use our technologies to help make more with less and to shape a more resource-efficient and livable future. We do not know what the future will look like, but some things are clear. The shift towards electric vehicles is accelerating; the proportion of renewables in the energy mix will continue to increase, partly because during the crisis many people have come to appreciate the value of better air quality; digitalization has been given a tremendous boost in all areas of life, because much of what we started in a hurry has proved to be unexpectedly good. Working from home, for example, has triggered one of the biggest changes to the world of work since industrialization. The basis for digital transformation is an accelerated expansion of communications infrastructure and data center capacity, thus enabling, in turn, a far wider range of useful new applications in the Internet of Things. However, demand for the protection of application-critical and personal data is also increasing as a result.

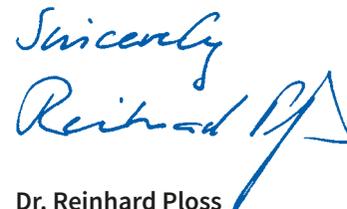
The acquisition of Cypress will greatly strengthen us on our road to success. We are also working hard on continuing to develop our core competence, power semiconductors. This is one of the main pillars of our economic success and likely to remain so for a long time to come. Compound semiconductors made from SiC and GaN are an important topic for the future. In the previous fiscal year, we expanded our range of MOSFETs based on SiC to include additional voltage classes and launched the new types of the 650 volt and 1,700 volt CoolSiC™ MOSFET family. We expect to take a major step forward with this technology when we introduce Siltecta splitting technology into volume production. We are making good progress on this front. Our revenue from SiC products has risen rapidly over the past few years to over €80 million and we are expecting this strong momentum to continue. In addition to our technology, we differentiate ourselves from the competition through our manufacturing technology. A significant milestone here is our second 300-millimeter factory for power semiconductors in Villach (Austria). Despite the unfavorable constraints, we have made good progress with construction and are planning to start production at the end of the 2021 calendar year, depending on market developments. In conjunction with our Dresden (Germany) factory and based on our “One Virtual Fab” concept, we will create a unit, which can offer greater flexibility and better economies of scale. A win-win situation for us and for our customers.

In front of us is an exciting “Year 1” following our acquisition of Cypress. We can see recovery trends in some of our target markets, but no broadly-based upturn yet. The market environment remains challenging and associated with great macroeconomic uncertainty. Even if we have found ways to live with the pandemic, there may still be negative repercussions, as exemplified by the recent weeks in Europe. In any case, the essential thing will be to recognize and adapt to very fast-moving market developments. Currently, we expect to generate annual revenue in the 2021 fiscal year of €10.5 billion, plus or minus 5 percent. At that level of revenue, we expect to achieve a Segment Result Margin of around 16.5 percent; a higher utilization of our manufacturing capacities and progress with the integration of various functional areas will help us increase our profitability. We plan to make investments of between €1.4 billion and €1.5 billion and we assume that momentum will continue to be positive in the following year, as our growth drivers are intact. In the long-term, we see risks in an intensification of international trade conflicts, especially the technology dispute between the USA and China, which are already having a negative impact today.

They have the potential to change the competitive landscape significantly. As a company with global operations, we are greatly concerned about the tilt towards isolationism, unilateral protectionism and unilaterally strengthening domestic industries. In light of this, Europe must find an independent way to shape the digital transformation in accordance with its democratic values. To do so, it needs to have the courage to forge ahead, try things out and learn. Our team show us every day that innovation is possible in Europe and in Germany, just as they show us that innovation is of benefit to us and to society.

Our business activity is based on long-term benefit and evolutionary development. This also applies to the sustainability of our own value creation. Our products already make a significant contribution to CO<sub>2</sub> efficiency. Now we have also set ourselves the goal of becoming carbon-neutral by 2030. Our primary aim is to avoid emissions from our manufacturing operations and our energy supply. By 2025, we already want to have implemented 70 percent of the steps required. The targets relate to our own footprint and include not only all direct emissions, but also indirect emissions from electricity and heat. Regarding direct emissions, we will achieve the greatest own savings from PFC exhaust air abatement in our factories, for indirect emissions the biggest reduction will come from purchasing green electricity. To a lesser extent, we will offset emissions by purchasing certificates, which support development projects with an environmental and social benefit. Taking this action is in line with our corporate principles, but its importance will be underlined through the redesigned remuneration system for the Management Board devised by the Supervisory Board, which will be presented at the forthcoming Annual General Meeting. If we want to achieve sustainable success, we must actively shape change in every dimension.

Stay healthy and look to the future with confidence,



**Dr. Reinhard Ploss**  
Chief Executive Officer