Infineon Technologies AG
Intro Statement for Analyst Call

Reinhard Ploss:

Thank you, Alexander, and good afternoon everyone. Here with me present are my colleagues Dominik Asam, Jochen Hanebeck and Helmut Gassel. We want to provide clarity and transparency to the extent possible, so we are happy to take your questions after some brief introductory remarks.

Pre-announcement and macro

As you have seen from our announcement, continued sluggishness in endmarkets led us to re-assess our business outlook for the 2019 fiscal year and to cut our guidance for revenue growth and earnings.

We continuously monitor internal indicators like order entry, backlog, cancellations or inventory reach as well as external datapoints to assess demand trends. A multitude of these indicators is showing a more protracted period of deceleration than we had previously anticipated.

Macroeconomic uncertainties are stretching out; unresolved trade tensions negatively impact economic growth, particularly in China. Inventories throughout supply chains are at comparatively high levels, limiting visibility and indicating that it will take more time for an acceleration to take effect on suppliers.

Division-level discussion

These factors are especially affecting our segments Automotive and Power Management & Multimarket. Demand in a number of their target markets remains subdued.

Within ATV this applies to classic automotive applications, like engine management or body and safety functions. China, previously the engine for car unit growth, saw an accelerated year-on-year decline of the number of cars sold in February. The so-called SAAR has now gone down for the seventh month in a row. From the peak rates in April 2018 to February 2019, car units sold in China have declined by 24 percent. Most other regions are seeing flat to slightly negative tendencies, only Europe seems to at last recover somewhat from its WLTP-related dip.

Given high dealer inventories, most major market analysts now predict globally produced car units to decline in calendar year 2019. We have therefore now embedded a low to mid-single-digit car unit decline in our forecast.

For PMM we continue to see a soft market and only a muted seasonal recovery. Contrary to our prior expectations, distributors are showing slightly increasing inventories, especially for low-voltage and medium-voltage MOSFETs. Furthermore, components for smartphones are negatively affected by the continuing sluggishness in handset volumes.

Having said this, we do continue to see strong momentum in several of our core business areas. For differentiated high-power components for electric drivetrain and a number of industrial applications, we remain in allocation. An important part of applications in our IPC division like renewables or traction is seeing growth slightly above trendline. Also, the growth momentum for our radar products and AURIX™ microcontrollers remains remarkably resilient.

DSS is experiencing the anticipated revenue decline.

Overall, the demand situation is still divergent, with some areas estimated to show no or low growth over the near term, and others remaining in allocation based on strong structural demand.

Outlook for FY19

As a consequence of this divergence, we had to revise our **outlook**:

For the full 2019 fiscal year we take down our growth guidance. We now expect total revenue to come in at 8.0 billion Euros, plus or minus 2 percent, up from 7.6 billion Euros in the prior fiscal year. Breaking it down by divisions, ATV growth will exceed group average. This is due to unabated momentum in EV and ADAS and the continued ramp of our AURIX™ automotive microcontroller.

For IPC we are seeing growth a bit above the group's average rate, whereas PMM should come in slightly below. For DSS we project revenues to decline by a mid-single digit percentage. For the sake of completeness, the assumed US-Dollar exchange rate going forward stays at 1.15.

How will this picture evolve over the quarters? For the currently running March quarter we had predicted a sequentially flat revenue development, with our usual corridor of plus or minus two percentage points, and that is what we currently see. With this, our second fiscal quarter should mark the trough, with the June and September quarter both up slightly sequentially, albeit at lower rates than usual seasonality.

This projected development is to a large degree underpinned by areas where we are currently still supply-constrained. These include electro-mobility, radar, AURIX™, renewables and traction where we have a kind of "self-help growth" through capacity expansion.

The slower revenue dynamic will leave its mark on our profitability. Therefore, we estimate a **Segment Result Margin** of 16 percent of sales for the full fiscal year at the midpoint of the revised revenue range.

We as management will act consistently to offset to the extent possible the negative effects from lost margins, an adverse product mix shift and underutilized capacities. Measures will entail consequent cost management, including a temporary headcount freeze, which will be fully in effect by the end of the June quarter.

Finally to our planned **investments,** which we had previously adjusted down to a level of around 1.5 billion Euros. We currently do not plan further reductions, as we will invest in certain in-house capacities to capture the above-mentioned growth opportunities available to us. Should the current slowdown stretch into the next fiscal year, this would obviously leave us opportunities to reduce capex in the coming fiscal years in order to bring our capex-to-sales-ratio back in line with our through-cycle investment-to-sales-target.

Closing remarks

Ladies and Gentlemen, let me summarize: The current business environment is quite challenging, weak fundamentals and cautious sentiment weigh negatively across application areas. Our core power business remains resilient, but several endmarkets experience a stronger slowdown than we previously thought. As a result, we are taking our guidance down. We now anticipate slightly above 5 percent annual revenue growth, in all likelihood we will substantially outgrow the market again. Infineon is not immune against macro forces, but we remain confident with regard to the mid and long-term perspectives of our business.

Opening of Q&A

Ladies and gentlemen, this concludes my introductory remarks and we are happy to take your questions.