

# IFX Day 2011

Campeon – 07 June 2011



Dominik Asam  
Member of the Management Board  
Chief Financial Officer



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### ■ Explaining the Target Operating Model

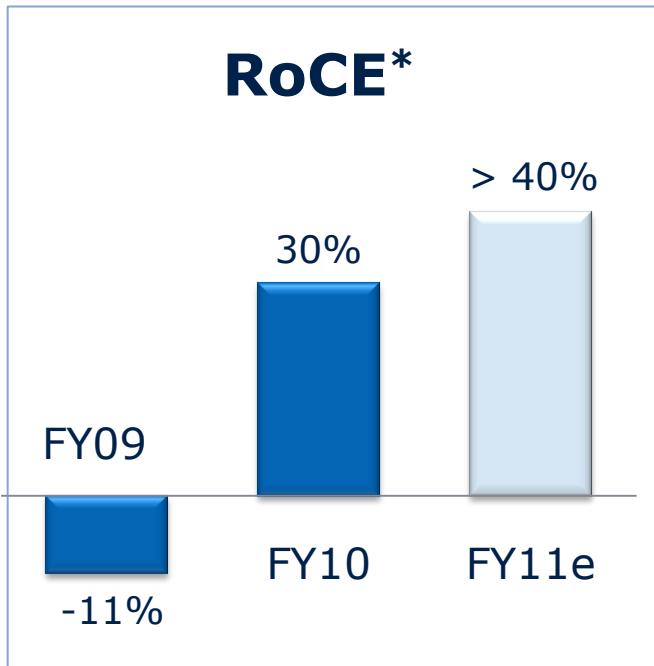
### ■ FX, Interest, Tax and Working Capital

### ■ Investments and D&A

### ■ Capital Structure and Use of Cash

### ■ Summary

# Financial Achievements: Strong Improvements on All Counts



| [EUR m]     | FY 2009 | FY 2010 | FY 2011e       |
|-------------|---------|---------|----------------|
| Revenue     | 2,184   | 3,295   | 20% growth yoy |
| SR Margin   | -6%     | 14%     | ~20%           |
| Net Income  | -674    | 660     | > 1,000        |
| Investments | 115     | 325     | ~850           |

\* For definition please see slide 24 in appendix.

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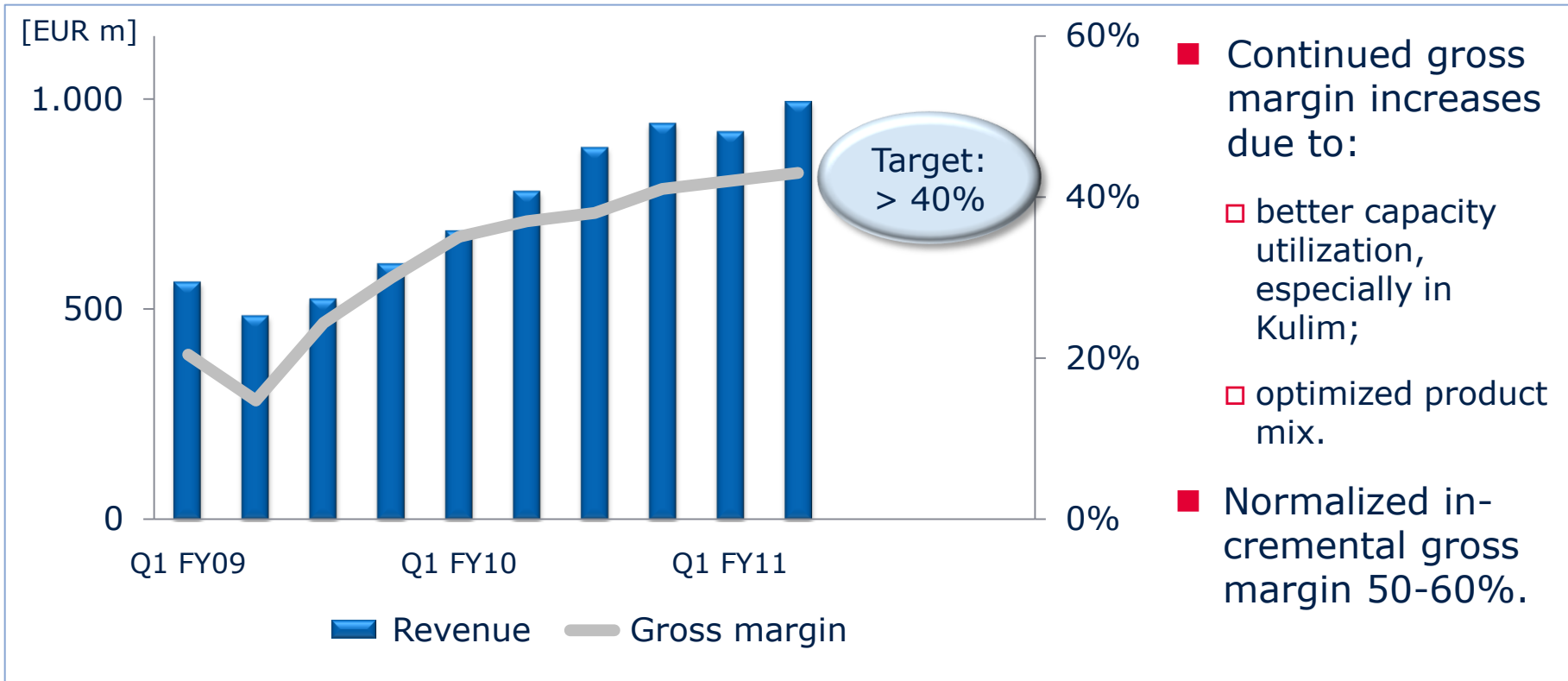
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# Target Operating Model

|                                    | <b>FY 2010</b> | <b>FY 2011e</b>   | <b>Longer term</b>    |
|------------------------------------|----------------|-------------------|-----------------------|
| <b>Revenue</b>                     | EUR 3.295bn    | 20%<br>growth yoy | ≥ 10%<br>growth p.a.  |
| <b>Gross margin</b>                | 37.5%          | Low 40ies %       | Low 40ies %           |
| <b>R&amp;D-to-sales</b>            | 12.1%          | ~12%              | Low-to-mid<br>teens % |
| <b>SG&amp;A-to-sales</b>           | 11.7%          | ~12%              | Low-teens %           |
| <b>Total Segment Result margin</b> | 14.4%          | ~20%              | ~20%                  |

# Continued Improvement in Gross Margins to Low-40ies Level

## Revenue and gross margins

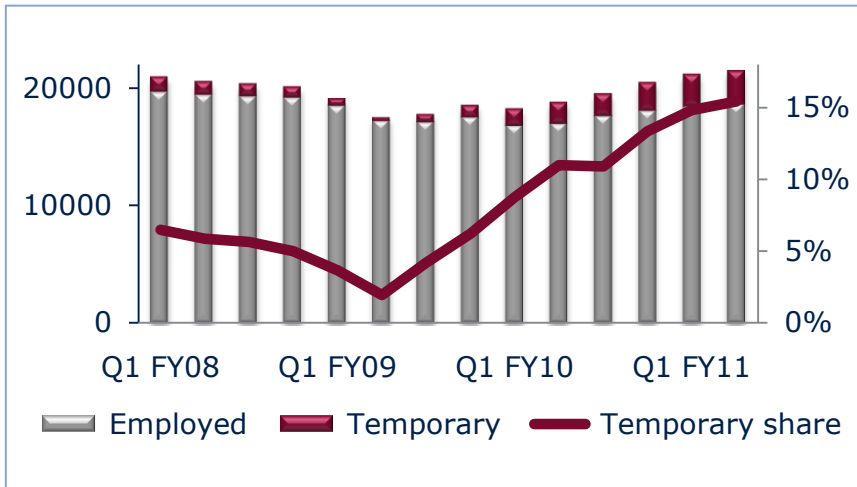


- Growth enables gross margin expectation > 40% despite headwinds:
  - D&A increase;
  - normalization of utilization rate.

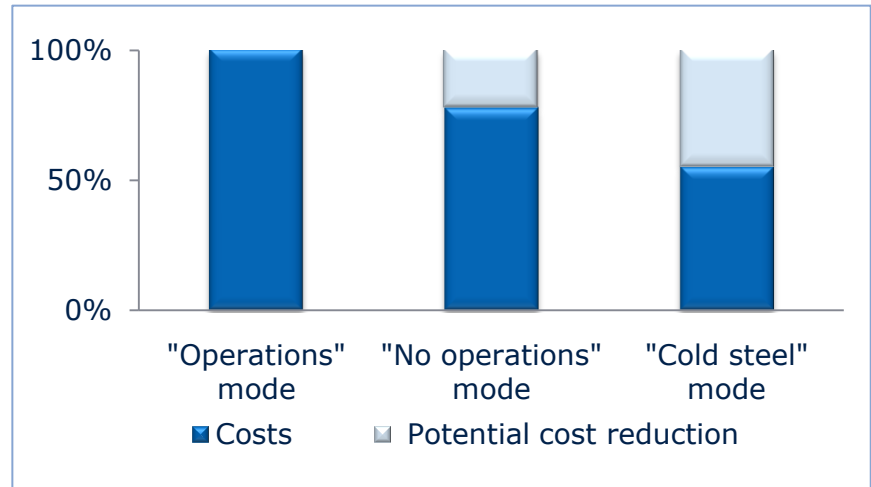
# Cost Variabilization Measures: Infineon Has Made Progress



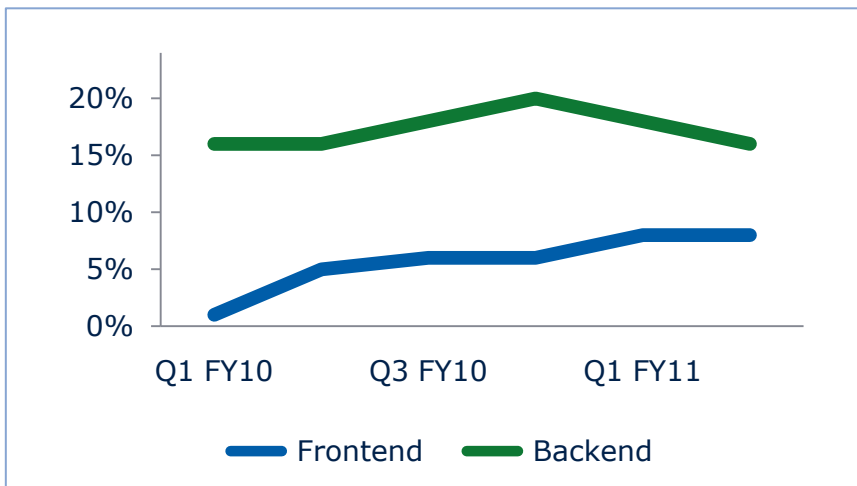
## Flexibility in workforce



## Variability in production costs



## Outsourcing share



## New bonus system

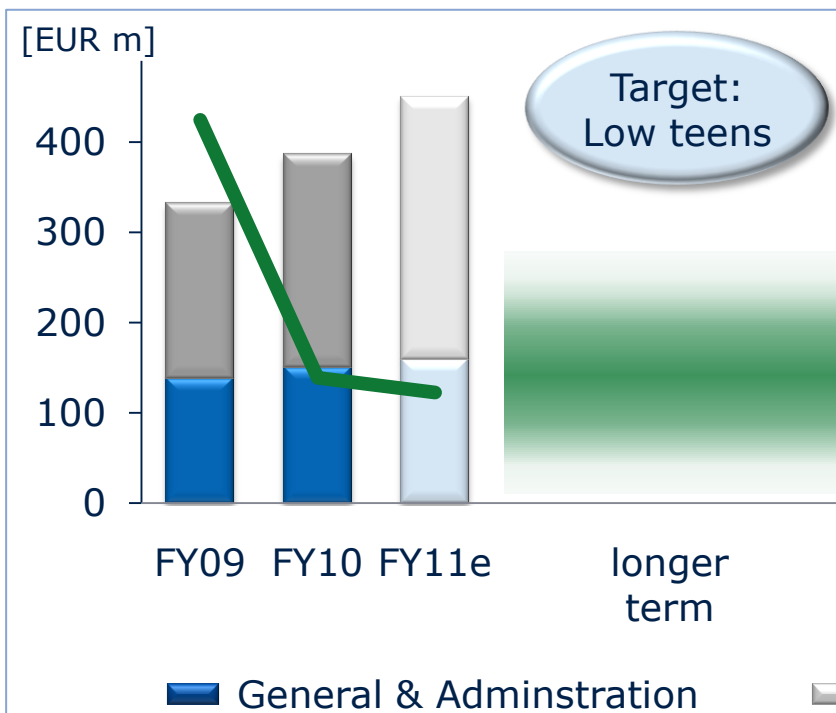
Bonus is only determined by Segment Result, RoCE and Free Cash-Flow without any minimum bonus.



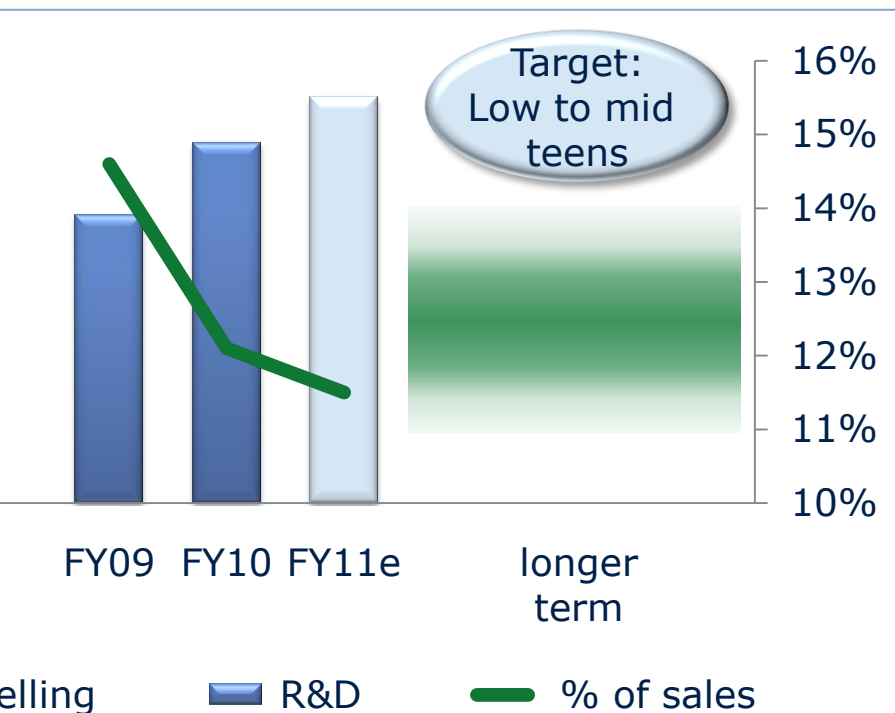
**Missing target by 50% would lead to bonus reduction that would save ~1.5%-points of margin.**

# OpEx In-line With Target Operating Model

## S and G&A



## R&D



- Maintaining OpEx in target corridor despite headwinds from dis-synergies of WLS divest:
  - dis-synergies from WLS disposal about 1% - 2% of revenue;
  - full impact from FY12 onwards;
  - project started to mitigate the impact.



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# Foreign Exchange Rate and Cash Flow Hedging at Infineon

## Impact on Segment Result before hedging

 +1 Cent EUR/USD

 -1 Cent EUR/USD

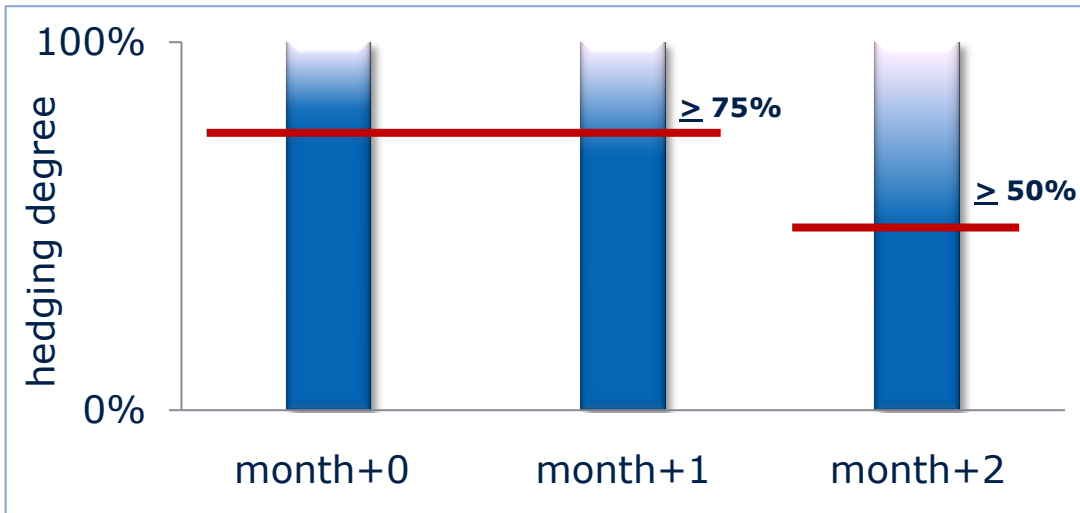


 ~ -EUR 1m / quarter

 ~ +EUR 1m / quarter

Infineon has a degree of natural hedging from its balance of Non-Euro revenues and expenses. Each U.S. Dollar cent difference in the EUR/USD FX rate has an impact of about EUR 1 million\* on Segment Result per quarter.

## Infineon's hedging activities



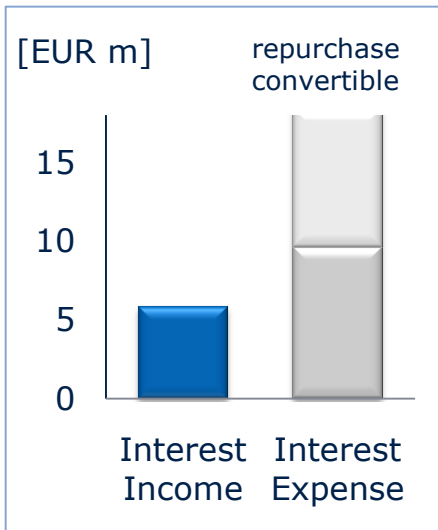
## Hedging policy

- FX risks to cash flows hedged by at least 60% for next three months.

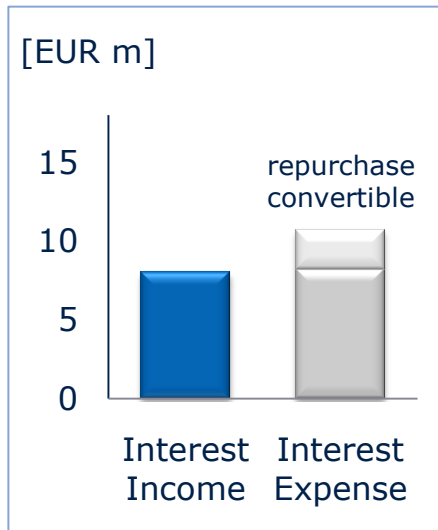
\* All non-USD currencies assumed to replicate exactly the change against the EUR that USD took.

# Decreasing Net Interest Expenses

## Q1 FY 2011



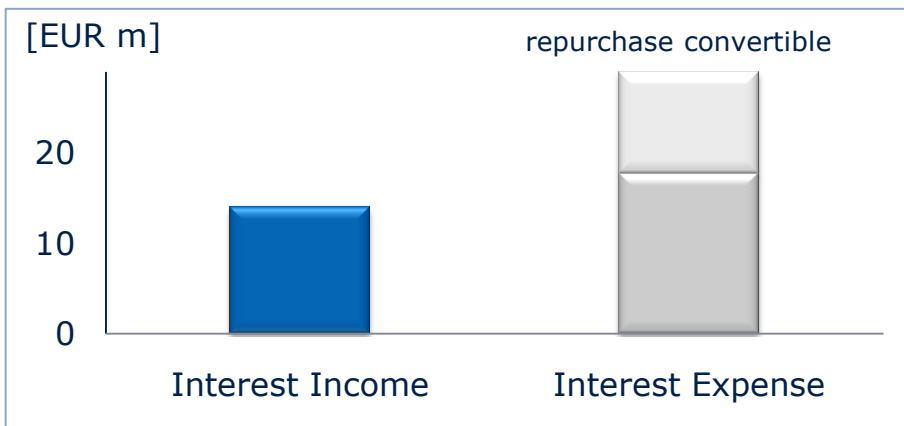
## Q2 FY 2011



## Coming quarters

- Interest expense in 1H FY 2011 contained charges of Euro 11.3m related to convertible bond repurchases.
- Interest income and expense is expected to be about the same in the current and in coming quarters (excluding effects of potential further bond repurchases).

## H1 FY 2011



# Tax Rate: Sustained Low Tax Rate Given High NOLs\*



## Abroad



■ Foreign tax rate: 10%-15%



## Germany



■ Domestic tax rate: ~12% (after usage of NOLs\*)

■ NOLs\* as of 31 March 2011:  
Corporation tax: ~EUR 2.8bn  
Trade tax: ~EUR 3.9bn



## IFX Group



■ Group tax rate: 10%-15%

\* Net Operating Losses Carried Forward (NOLs) excluding changes in valuation allowances and special effects.

# Working Capital

## Inventory days (DOI)\*

Target:  
70-80 days

## Days sales outstanding (DSO)\*

Target:  
~45 days

## Days payables outstanding (DPO)\*

Target:  
~60 days

- Due to the sale of WLS and WLC, current assets and current liabilities contain various items relating to Lantiq and Intel Mobile Communications.
- Therefore, calculation of DOI, DSO and DPO is distorted in the current and coming quarters until these effects are negligible.

\* For definition please see slide 24 in appendix.

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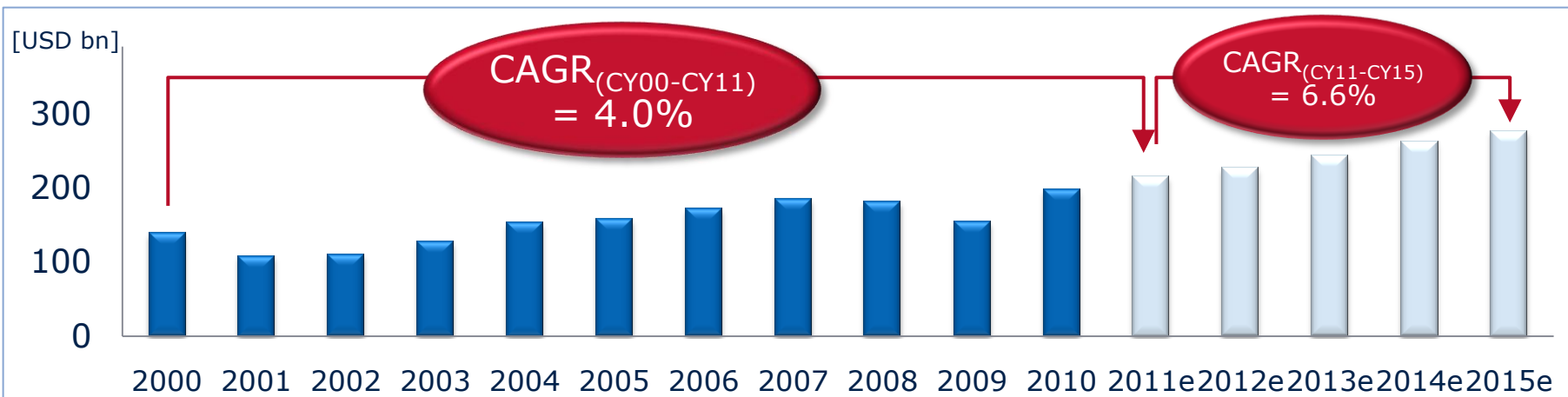
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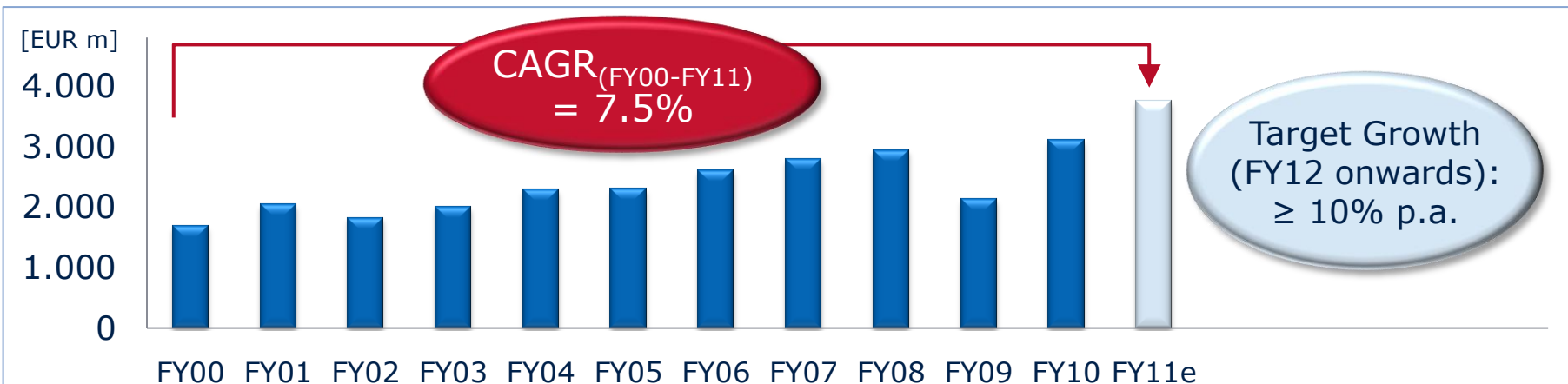
# Sustaining Track Record Since IPO: Out-growing the Market



## iSuppli's 2011 semi market outlook for ToMM\*



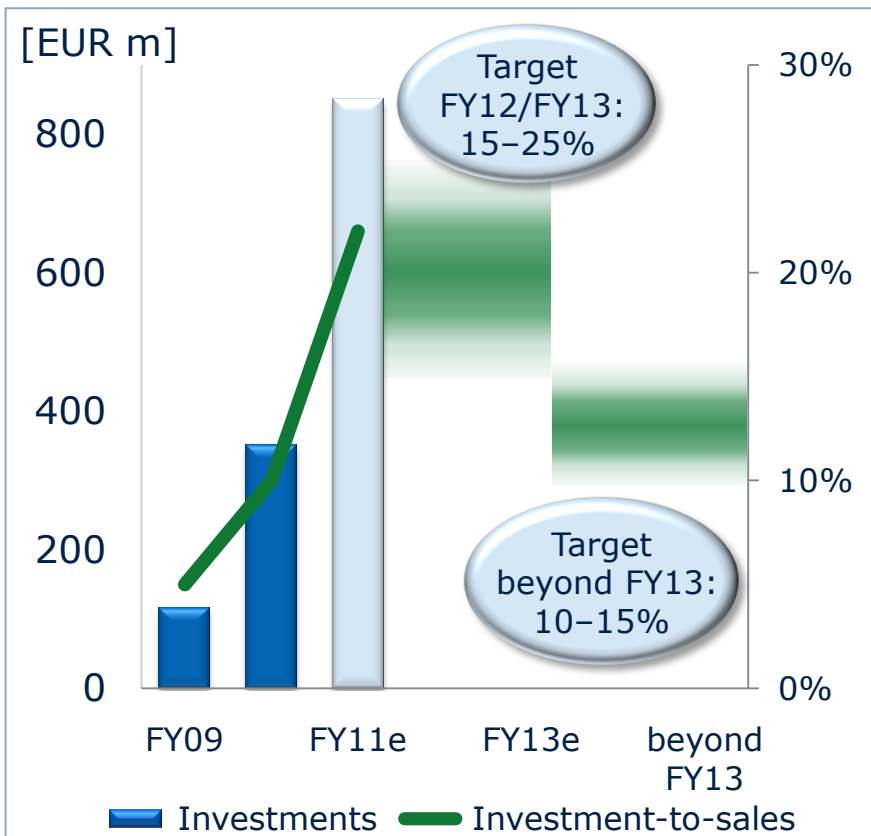
## Infineon ATV, IMM and CCS revenues



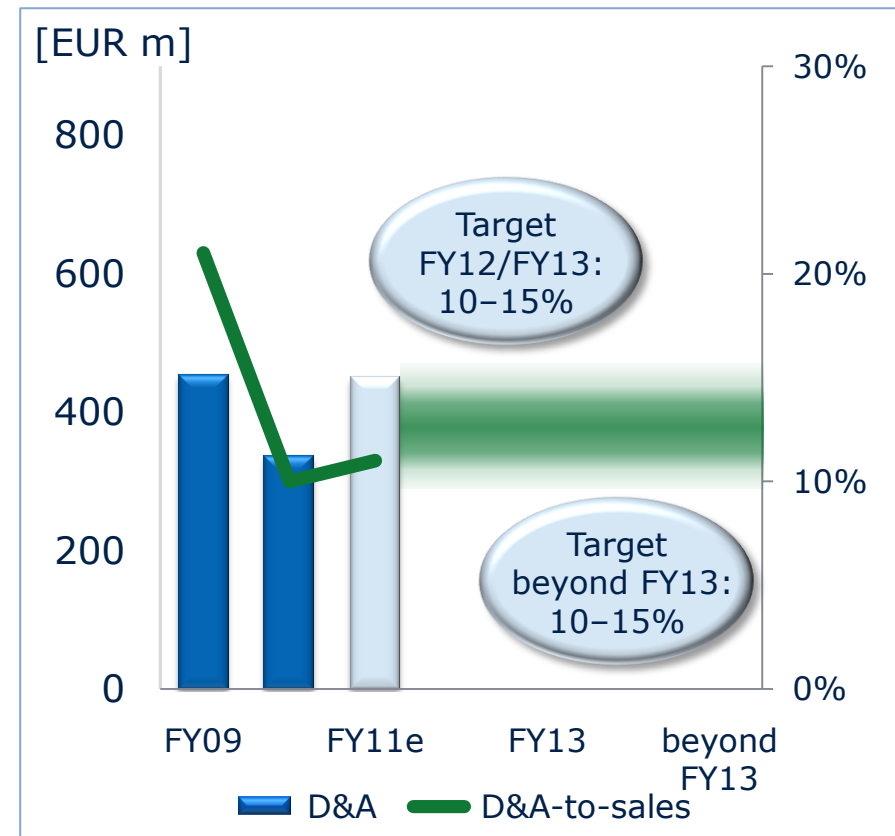
\* Source: iSuppli, March 2011. ToMM = Total Semiconductor Market – MPU – Memory ICs.

# High CapEx Expected for FY12 and FY13 as We Capitalize on Growth Opportunities

## Investments\*



## D&A



- Investments expected to remain high in FY12 and FY13.
- D&A to follow with a time lag.

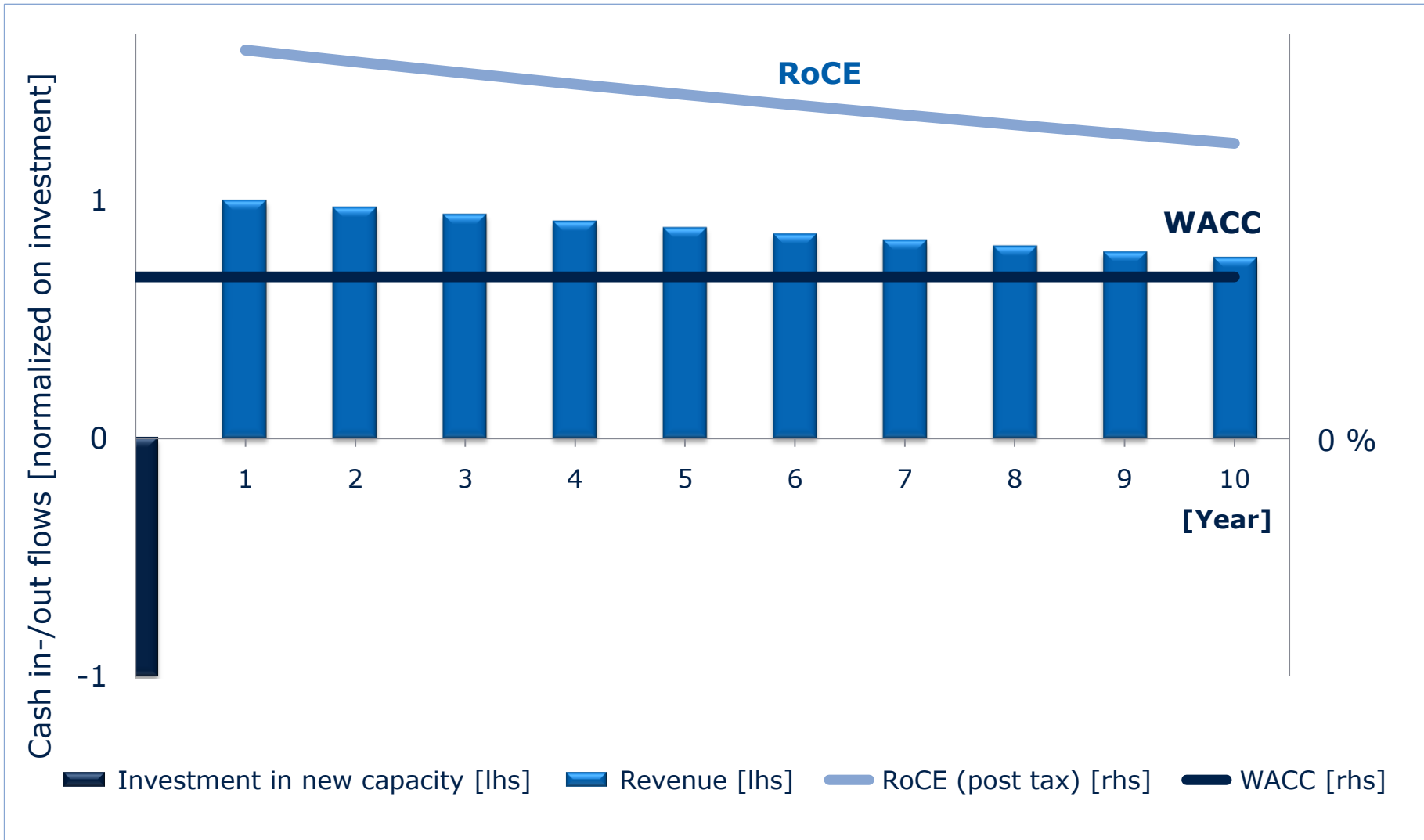
\* For definition please see slide 24 in appendix.



# New Capacity Invest: Returning $\sim 2x$ WACC in "No Downturn" Scenario



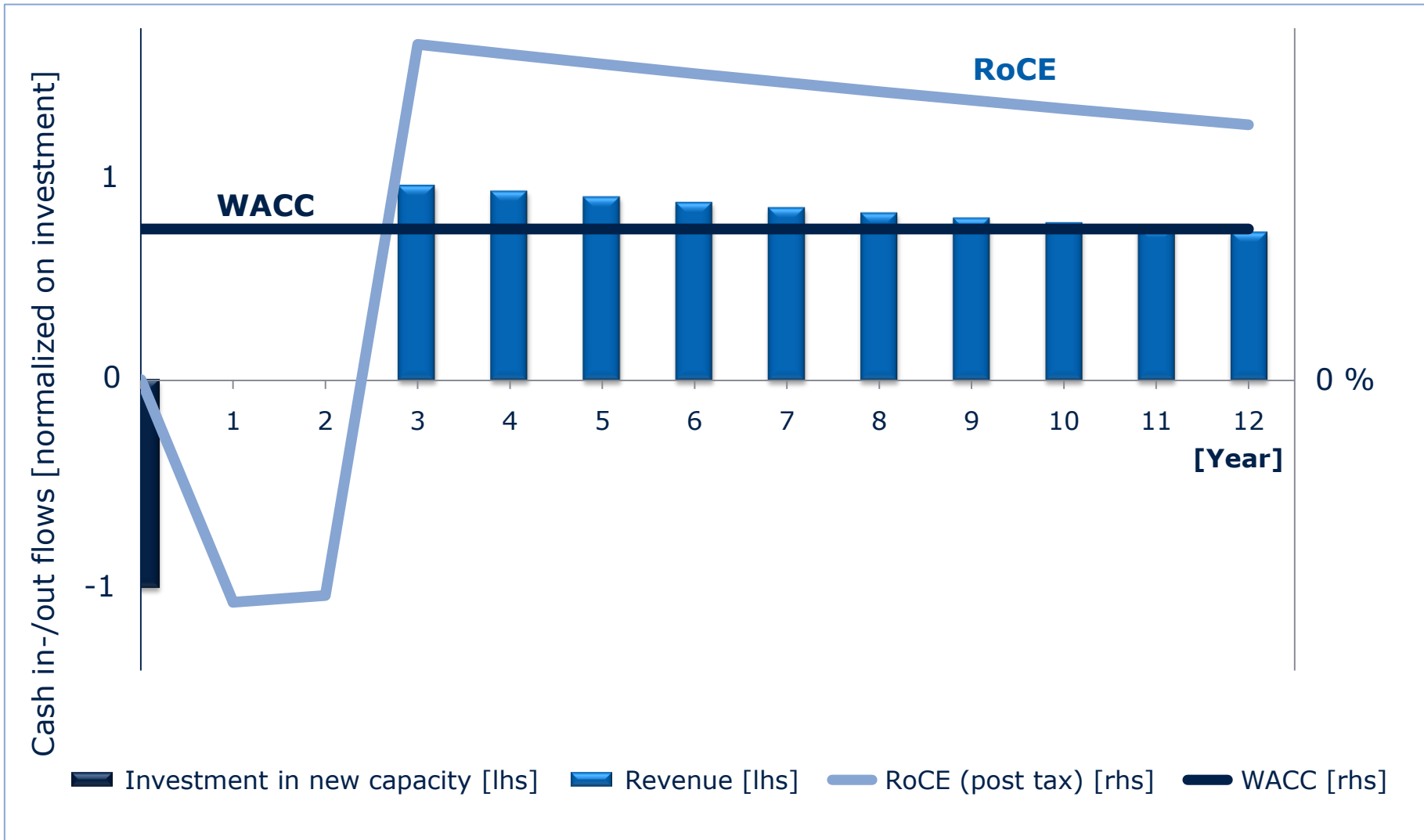
## Scenario #1: no downturn



# New Capacity Invest: Premium to WACC Even in "2-Year Downturn" Scenario



## Scenario #2: two years of downturn



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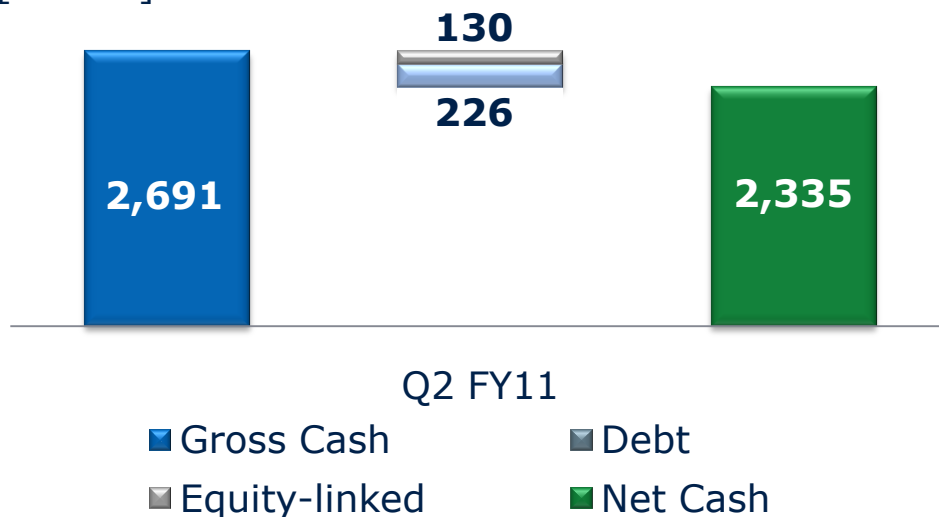
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# Use of Cash: Wide Range of Opportunities

## Capital structure

[EUR m]



## H1 FY11

- Repurchase of nominal EUR 36m of convertible bond for EUR 107m of cash in H1 FY11.
- Pay out of dividend of EUR 109m in Q2 FY11.
- Grand total of EUR 216m of cash returns so far.

## Going forward

- Strong organic growth and sustained dividend payments.
- M&A as an option.
- Further capital returns through repurchases of 2014 convertible bond, writing put options and outright repurchases of shares.
- Planned return of up to EUR 300m until March 2013; up to EUR 500m including dividends; grand total to come to up to EUR 700m until March 2013.

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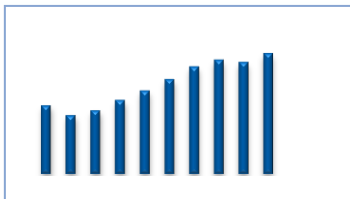
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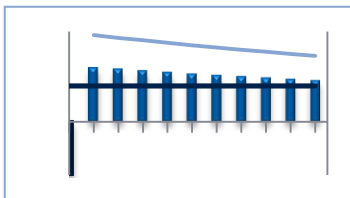
# Summary



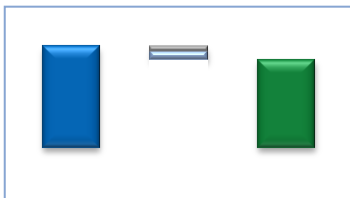
- Business is performing in line with target operating model; margins are sustainable absent a downturn.



- Tax rate to remain in 10-15% range for a decade or longer given existing NOLs.



- Strong operating cash-flows used to finance dynamic organic growth with RoCE clearly exceeding WACC.



- Strong balance sheet provides robustness in any industry environment and allows us to seize upon any attractive opportunity.



- Capital returns of up to EUR 700m between October 2010 and March 2013.



# ENERGY EFFICIENCY MOBILITY SECURITY

Innovative semiconductor solutions for energy efficiency, mobility and security.



# Notes

- **Investments** =  
'Purchase of property, plant and equipment'  
+ 'Purchase of intangible assets and other assets' *incl. capitalization of R&D expenses.*
- **RoCE** =  
NOPAT / Capital Employed =  
( 'Income from continuing operations'  
– 'financial income'  
– 'financial expense')  
/ ( 'Total assets'  
– 'Cash and cash equivalents'  
– 'Financial investments'  
– 'Assets classified as held for sale'  
– [ 'Total Current liabilities'  
– 'Short-term debt and current maturities of long-term debt'  
– 'Liabilities classified as held for sale' ] )
- **Working Capital** =  
( 'Total current assets'  
– 'Cash and cash equivalents'  
– 'Available-for-sale financial assets'  
– 'Assets classified as held for sale')  
– ( 'Total current liabilities'  
– 'Short term debt and current maturities of long-term debt'  
– 'Liabilities classified as held for sale' ).
- **DOI** (inventory days; quarter-to-date) =  
( 'Net Inventories' / 'Cost of goods sold' ) \* 90.
- **DSO** (days sales outstanding; quarter-to-date) =  
( 'Trade accounts receivables (net)' / 'revenue' ) \* 90.
- **DPO** (days payables outstanding; quarter-to-date) =  
( 'Trade payables' / [ 'Cost of goods sold' + 'Purchase of property, plant and equipment' ] ) \* 90.



# Disclaimer

This presentation was prepared as of June 7, 2011 and is current only as of that date.

This presentation includes forward-looking statements and assumptions about the future of Infineon's business and the industry in which we operate. These include statements and assumptions relating to general economic conditions, future developments in the world semiconductor market, our ability to manage our costs and to achieve our growth targets, the resolution of Qimonda's insolvency proceedings and the liabilities we may face as a result of Qimonda's insolvency the benefits of research and development alliances and activities, our planned levels of future investment, the introduction of new technology at our facilities, our continuing ability to offer commercially viable products, and our expected or projected future results.

These forward-looking statements are subject to a number of uncertainties, such as broader economic developments, including the sustainability of recent improvements in the market environment; trends in demand and prices for semiconductors generally and for our products in particular, as well as for the end-products, such as automobiles and consumer electronics, that incorporate our products; the success of our development efforts, both alone and with partners; the success of our efforts to introduce new production processes at our facilities; the actions of competitors; the continued availability of adequate funds; any mergers, acquisitions or dispositions we may undertake; the outcome of antitrust investigations and litigation matters; and the resolution of Qimonda's insolvency proceedings; as well as the other factors mentioned in this presentation and those disclosed at other occasions.

As a result, Infineon's actual results could differ materially from those contained in or suggested by these forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements. Infineon does not undertake any obligation to publicly update or revise any forward-looking statements in light of developments which differ from those anticipated.