Q3 FY 2024

97th Quarterly Results of Infineon Technologies AG

Analyst Call Intro Statement

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

Jochen Hanebeck:

General Introduction

We have labelled 2024 a transition year, and it is turning out to be just that. A cyclical bottoming process is indeed playing out. The rolling correction is continuing across many of our target markets. Some of them have entered a phase of gradual recovery. This, in conjunction with our structural growth drivers, is allowing us to see slight sequential improvements in revenue and segment result in the running second half of our fiscal year.

For the full 2024 fiscal year, we confirm our outlook to be well in the previously guided range.

As in every downcycle, it is key to focus on the structural elements. Regarding these, I will comment on three important topics and milestones:

First, we see significant traction for our industry leading AI power franchise, where we are gaining sustained strong interest from virtually all relevant customers, many of them opting for our vertical power solutions. The encouraging momentum is in line with our expectation that this business will double next year and cross the 1 billion Euro revenue mark within two to three years.

Second, to serve the growing demand for wide bandgap semiconductors we will officially open our Kulim 3 facility for silicon carbide power devices later this week. Ramping Kulim 3 will create the industry's leading fab in terms of cost competitiveness and put us in an ideal position to shape this market.

Third, our Step Up program, with which we are structurally improving our profitability, is very well on track to deliver a high triple-digit million Euro margin improvement with the full effect becoming visible in the first half of our 2027 fiscal year.

Before getting into these aspects, let's have a look at the June quarter's results:

Group performance in Q3

Group **Revenues** came in at 3 billion 702 million Euros. The sequential uptick was a bit less pronounced as some shipments corresponding to a mid-double-digit million Euro amount just missed the quarterly cutoff, and will therefore materialize in the current quarter. The **Segment**

Result was slightly better than anticipated: 734 million Euros, corresponding to a **Segment Result Margin** of 19.8 percent, a resilient level for a bottoming cycle and fully in line with our target operating model. The slight quarter-over-quarter improvement is the result of higher revenue as well as better cost-performance, dampened by increasing idle charges as expected. Currency effects once again were virtually negligible as the quarter's US-Dollar/Euro exchange rate of 1.08 was very close to the prior quarter's rate of 1.09.

Our order **backlog** at the end of June reached a value of around 22 billion Euros. In times of widely available inventories throughout most supply chains, customers are ordering inside lead-times; in particular long-dated orders have thus been declining, and we are seeing more turns business.

Now let's take a closer look at our divisions.

Division-level performance in Q3

1 *Automotive*

In the third quarter of the 2024 fiscal year, Automotive achieved **revenues** of 2 billion 112 million Euros, a slight increase in comparison to the previous quarter. Volume gains in microcontrollers were slightly outpacing the still on-going inventory digestion in classical applications.

Also, the **Segment Result** of 537 million Euros and the **Segment Result Margin** of 25.4 percent pose slight sequential increases – in-line with the improved volumes.

Broadly speaking, auto semis demand is at the cross-section of on-going inventory rebalancing and secular content growth. These forces are pulling in opposite directions. In this environment, and also charged by our continued market share gains, we keep seeing growth of around 3 percent for our automotive division in fiscal 2024.

With unrivalled portfolio breadth and system competence we address key growth trends like e-mobility, be it full battery or the resurgent hybrid electric vehicles, as well as software-defined car architectures with advanced power distribution.

Looking at the global adoption of electric vehicles, regional divergence remains pronounced: China sees healthy consumer demand, which helps us particularly, given our number one automotive market position there. Meanwhile, demand in Western markets is tepid. We expect some positive impulse from tighter EU emission targets in 2025, as well as new and more affordable model launches in the coming years. In the interim, plug-in hybrid cars are staging a comeback, benefitting our leading IGBT franchise. With a well-filled pipeline of upcoming IGBT generations, we will further push major cost-performance improvements in this field. At the same time, we continue to see good traction in our automotive silicon carbide business, with new design-wins from an American EV company and a German Tier-1. Together, these design-wins cover a volume of more than one billion Euros. Significant parts of them were re-awarded to Infineon from other players in the industry due to superior technical properties and supply resilience.

Our unrivalled mastery of all relevant power semiconductor technologies – silicon, silicon carbide and gallium nitride – allows us also to come up with novel concepts like our Fusion HybridPACK™ Drive modules, combining silicon and silicon carbide, for an optimal cost-performance ratio.

We are constantly expanding our e-mobility offering, which goes far beyond switches in power systems: Together with the leading automotive system partner Swoboda, we have developed a high-performance current sensor. In fully encapsulated modules and designed for seamless integration into our leading HybridPACK™ Drive G2, the sensor enables customers to build the most compact traction inverters in the market. Furthermore, within our next-generation AURIX™ microcontroller family we are bringing Edge AI to the battery. With a parallel processing unit, or PPU, it will be able to run complex battery diagnostic algorithms for accurate useful life predictions.

Recently, we saw a nice confirmation of our leading e-mobility position: Jaguar Land Rover bestowed a Supplier Excellence Award on Infineon, representing our alignment on core values including teamwork, welcoming challenges together and empowering each other to deliver technical and commercial excellence for next generation electric architectures.

2 *Green Industrial Power*

Moving to Green Industrial Power, which – compared to the last quarter – saw virtually stable **revenues** at 475 million Euros, reflecting the late cycle nature of the business.

Also, the **Segment Result** in the June quarter stayed essentially constant with 88 million Euros, and a corresponding **Segment Result Margin** of 18.5 percent.

Inventories remain elevated throughout industrial supply chains. Underlying demand, however, shows very different patterns, which is why we expect the recovery to be bifurcated from here: Specifically for renewables, structural growth remains strong, with photovoltaic installations growing by 24% in 2024 according to S&P. The same holds true for wind power, with an expected high-teens percent growth rate in 2024. Once inventories have normalized, order momentum in these application fields will return. Power requirements from EV charging and AI datacentres will further drive demand across the energy value chain.
On the contrary, for core industrial applications, like automation and drives, underlying demand remains lacklustre at this point in time. Therefore, a prolonged phase of muted development is likely.

A few days ago, we announced a design win for a key building block of the sustainable energy transition: grid storage systems. The Japanese Daihen Corporation will employ our CoolSiC™

MOSFET 2 Kilovolt module. It enables high voltage, superior thermal dissipation and high power density. Infineon has been pioneering the industry with the introduction of the 2 Kilovolt class for a silicon carbide module.

We remain firmly convinced of the highly attractive growth potential of silicon carbide. For the near term, we can fully confirm our revenue growth target for the fiscal year 2024 of about 20 percent, to a level of around 600 million Euros for the company. For the mid and long-term, the ramp-up of our Kulim site combined with the expected 200-millimeter transition come into focus. Both have been progressing very well. Indeed, in just a few days from today, on August 8th, we will be opening the new Kulim 3 module, complementing our long-term wide band gap competence center in Villach, Austria. As a large-scale greenfield fab with highly competitive labor costs and unmatched economies of scale, Kulim 3 will significantly strengthen our competitive position in silicon carbide. Our silicon carbide strategy ticks off all key success factors: a globally diversified wafer and boule sourcing network; best-in-class trench devices; the most comprehensive packaging and module offering; superior system understanding, generated from working with the broadest portfolio of automotive, industrial and renewable energy customers; and going forward, a best-cost and highly resilient manufacturing footprint which can be scaled as a function of actual market demand. It is the unique combination of these factors which sets up the Infineon power business, and in particular silicon carbide, for accelerating success in the coming years.

3 *Power & Sensor Systems*

Now over to Power & Sensor Systems, which saw revenues increase sequentially by 5 percent to 749 million Euros. As anticipated, the June quarter saw the inflection after a string of six consecutive downward quarters. The Segment Result of PSS increased to 70 million Euros, after 64 million Euros in the previous quarter, in each case corresponding to the same Segment Result Margin of 9.3 percent. Rising underutilization charges have capped margin expansion.

In the majority of consumer, compute, communications markets, the trough is behind us. Recovery will be somewhat protracted, as inventories still have to be worked through. In this context, Infineon will benefit from unique drivers: first and foremost, our AI power business is scaling up. We have multiple ramps for lateral and vertical power delivery solutions going on. At the same time, we have a comprehensive roadmap to further increase power density and efficiency with our state-of-the-art modules, leading to several exciting launches at upcoming customer platforms. Our modules are key to increase rack density and therefore facilitate higher compute performance. This allows for even more efficient systems on data center level. We are on track to doubling our revenue in AI power in the next fiscal year, earlier than originally anticipated. Crossing the one billion Euro revenue line for AI power will occur in the next 2 to 3 years.

Furthermore, we see very strong traction with our new sealed dual membrane XENSIV™ microphones. In addition to an industry-leading signal-to-noise-ratio, which is especially beneficial in an AI context, they come with an environmental barrier, enabling water-resistant use. This value proposition, confirmed by customer wins at well-known manufacturers, together with the smartphone recovery will fuel growth going forward. Moreover, we are beginning to ramp into substantial volume with our own package, further expanding our bill-of-material.

Meanwhile, we continue to shape the gallium nitride market, landing an important design-win for high-voltage GaN power switches for power supply at a British high-end home appliance company. We were selected due to our leadership in GaN technology in combination with our solution-oriented technical competence. This is just one example for GaN-related design-wins we are currently accumulating.

4 *Connected Secure Systems*

Lastly a look at Connected Secure Systems, which is showing basically stable quarterly **revenues** of 366 million Euros. The **Segment Result** of CSS came in at 42 million Euros, corresponding to a **Segment Result Margin** of 11.5 percent, essentially flat in comparison to the previous quarter.

Demand in the IoT and security markets has found a bottom. Inventories at distributors have come down over the course of the June quarter, paving the way for a slight <u>cyclical</u> recovery.

As a huge driver for <u>structural</u> growth over the coming years, we continue to develop exciting new Edge AI solutions. Artificial intelligence is moving to the edge, motivated by advantages in terms of latency, power consumption and data protection. This will drive new industrial and consumer use cases. To position ourselves for these, we have released the PSoC™ 6 AI evaluation kit for embedded, Edge AI and machine learning system designs. The new kit provides all the tools required to build intelligent consumer, smart home and IoT applications. This unique solution executes inferencing next to the sensor data source, providing enhanced real-time performance and power efficiency compared to cloud-centric solution architectures.

Handover to Sven Schneider

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

Sven Schneider:

Thank you, Jochen, and good morning everyone.

Gross Profit, (adjusted) Gross Margin and OpEx, NSR

In the third quarter of our 2024 fiscal year, we saw a small recovery in revenue, with a corresponding margin fall-through. Additionally, mix and cost performance developed favorably. Thus, the **adjusted Gross Margin**, which excludes Non-Segment-Result effects, came in at 42.2 percent, a noticeable improvement in comparison to the previous quarter's 41.1 percent. Our reported **Gross Margin** rebounded to 40.2 percent, from 38.6 percent in the quarter before. These figures continue to be burdened by notable underutilization charges, which currently amount to north of 200 million Euros on a quarterly basis.

Our OpEx went slightly up, reflecting among other factors salary increases that became effective in the third quarter: **Research and Development expenses** increased to 509 million Euros from 487 million Euros in the quarter before. **Selling, General and Administrative expenses** saw a sequential uptick to 390 million Euros from 375 million Euros.

The net **other operating expense** was minus 72 million Euros, mostly due to an asset impairment in conjunction with Step Up of plant and machinery at our Regensburg site, which now have only limited or no further use – representing a first one-time expense related to the program.
These charges are also part of the **Non-Segment-Result,** which amounted to minus 215 million Euros for the quarter.

Financial result

The **financial result** for the March quarter was minus 30 million Euros, after a negative 12 million Euros in the quarter before.

Tax

Income tax expense for the third quarter amounted to 88 million Euros, equivalent to an effective tax rate of 18 percent. Cash taxes for the reporting quarter were 117 million Euros, resulting in a cash tax rate of 24 percent.

Investments, Depreciation and Amortization

Our **investments** into property, plant and equipment, other intangible assets and capitalized development costs reached 700 million Euros in the June quarter, well in line with our revised annual guidance of 2.8 billion Euros.

Depreciation and Amortization including acquisition-related Non-Segment-Result effects stood at 470 million Euros in the third fiscal quarter, after 467 million Euros in the preceding quarter.

Free Cash Flow

Our quarterly reported **Free Cash Flow** from continuing operations improved to 393 million Euros.

Our **inventories** are plateauing, their **reach** has been trending sideways at a level of 180 days at the end of June. We continue to expect some inventory reductions towards the end of our current fiscal year, in absolute and relative terms. We keep a relevant portion of inventories linked to strategic purposes, due to footprint optimizations in conjunction with Step Up, and also as a mitigation of potential geopolitical risks.

Gross Cash, Net Cash

Gross cash stood at 2.3 billion Euros at the end of the third fiscal quarter, including the scheduled repayment of a due US PP tranche of 350 million US-Dollars within the quarter. Our **gross debt** consequently decreased to 5.4 billion Euros, with a gross leverage of 1.2 times. **Net debt** amounted to 3.1 billion Euros, equivalent to a net leverage of 0.7 times.

RoCE

Finally, our after-tax reported **Return on Capital Employed** remains at a depressed level, seeing a slight sequential improvement to 7.8 percent in comparison to 7.5 percent in the March quarter.

Handover to Jochen Hanebeck

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

Jochen Hanebeck

Thank you, Sven.

As stated in the beginning, we are in a bottoming phase of the cycle. Market conditions are slowly improving, but a full-scale recovery is not yet in sight.

Understandably, market participants are debating whether such recovery will be L-, V-, U- or bathtub-shaped. Such generalizations are difficult to make. Rather, due to the uneven nature of the downturn, where some markets entered an inventory correction much earlier than others, recovery trajectories will significantly differ. Some markets see a cyclical uptick, like smartphones, some see shifting consumer preferences, like from battery electric to hybrid vehicles, some are lacking end demand, like parts for established industrial and automotive applications, and then there are established and newly emerging structural growth vectors, like renewable energies, AI power or Edge AI. In such an environment, a well-diversified business portfolio is paramount.

What is common is that inventory levels are generally still elevated, with some disparities across product categories, customers and distributors. That said, the worst of the inventory correction in the value chain is behind us. To enable further depletion, we continue undershipping demand in most areas, to help reduce stock levels throughout the value chain.

In addition, short lead-times induce more short-term ordering by customers, which, together with turns business, is creating additional non-linearity in sales outcome. Visibility over and beyond around a quarter is thus limited.

Looking beyond the current transition phase, we see unabated structural growth opportunities for Infineon, mainly coming from our five broad key applications: electromobility, ADAS, renewables, AI/datacenter and IoT.

Outlook for Q4

Talking about it, for the currently running fourth and final quarter of our 2024 fiscal year we expect **revenues** of around 4 billion Euros. Considering the mentioned mid-double-digit million Euro amount that missed the quarterly cutoff in the June quarter, effective quarter-over-quarter growth will be around 5 percent. This broadly corresponds to our typical seasonality.

All four divisions should contribute with sequentially rising revenues. We expect the growth rate of PSS and CSS to exceed the one of the Group, whereas ATV and GIP should grow at a slower pace. As before, all projections are based on an assumed US-Dollar/Euro exchange rate of 1.10.

For the **Segment Result Margin,** we expect a level of around 20 percent for the fourth quarter.

Outlook for FY24

For the full 2024 fiscal year, we confirm our outlook to be in the previously guided range. Reflecting the latest market conditions, we expect our **revenue** to come in at around 15 billion Euros, well in line with the 15.1 billion Euros, plus or minus 400 million Euros, indicated the quarter before. On a segment level, we expect ATV to grow year-over-year by about 3 percent, and all other divisions to decline: low teens for GIP, high teens for PSS, and mid-twenties for CSS.

Underscoring the resilience of our business model, the outlook for the full year **adjusted Gross Margin** and our **Segment Result Margin** remain unchanged in the low forties and at around 20 percent, respectively, carrying the burden of around 450 basis points of cyclical idle cost.

As before, our **investments** for the 2024 fiscal year are expected to be around 2.8 billion Euros, thereof around 900 million Euros for major front end buildings. For **depreciation and amortization** an unchanged value of around 1.9 billion Euros is anticipated. This includes amortization of around 400 million Euros resulting from purchase price allocations, mainly in connection with the acquisition of Cypress, which will end up in our Non-Segment Result.

Our adjusted Free Cash Flow, net of the GaN Systems acquisition as well as of investments into major frontend buildings in Dresden and Kulim, is expected to come in at around 1.5 billion Euros. This would represent around 10 percent of sales.
For the reported **Free Cash Flow** we now expect a level of minus 200 million Euros for this fiscal year, equivalent to around plus 600 million Euros taking into account the GaN Systems purchase.

Step Up

I promised an update on the Step Up program, with which we aim at structural improvements. I am happy to see a great internal buy-in from the management team – aligned with our SPIRIT cultural change initiative – to strengthen our competitiveness. We are very satisfied with the measures our teams have identified and worked out. They underpin the stated target of a high triple digit million Euro margin improvement, to be fully effective by the first half of our 2027 fiscal year. As a reminder, the levers for improvement are manufacturing productivity, portfolio management, pricing quality and opex scaling, without compromising our innovation power.
We are currently in the final stages of the preparation phase, including discussions with workers' representatives in co-determined jurisdictions. One milestone already achieved is the sale of two of our small backend manufacturing sites in Asia, which has closed just a few days ago. We will provide you all relevant information on Step Up in our next earnings update in November.

Closing remarks

Now, Ladies and Gentlemen, it is time to summarize:

- In the third quarter of our 2024 fiscal year, we saw a sequential uptick in sales as well as earnings; in the fourth quarter, further improvements are anticipated, on the back of gradual recovery, seasonality and some structural growth
- Our markets are bottoming; recovery has started at a modest pace and is progressing unevenly, as some markets entered the downcycle earlier than others; the common denominators are still high inventory levels and short-term ordering by customers. Structural drivers remain intact.
- The start of silicon carbide device production in our new Kulim 3 facility will allow us to shape this market in the future
- We are accelerating our AI power business with significant ramp ups for several customers, some of which already deploy our innovative vertical power delivery solutions
- Step Up, the biggest set of self-help measures we have launched in over a decade, is progressing very well and will strengthen our profitability in the coming years