



Dr. Sven Schneider

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Chief Financial Officer

Dr. Sven Schneider



- The spoken word prevails -

Thank you, Dr. Eder, for the motivating words at the beginning. And many thanks also to you, dear Reinhard, for your warm words. My first ten months at Infineon were very intense. I was welcomed with open arms and quickly felt as a part of the team. In fact, already by now I feel as if I have been working at Infineon for years. At this point I would like to thank the Supervisory Board, my colleagues on the Management Board and our employees for their excellent cooperation. I have taken over a well-kept organization and a highly professional finance team.

Ladies and gentlemen, good morning!

Infineon grew again in the 2019 fiscal year, albeit at a much slower pace than originally expected. However, you have to put that into perspective. Despite a challenging macroeconomic environment and against the trend of an overall shrinking semiconductor market, we were able to increase revenue - for the sixth time in a row. Compared to the previous year, it rose by 6 percent to 8 billion 29 million euros. This is the first time that Infineon has achieved revenue of more than 8 billion euros.

By contrast, the segment result declined by 34 million euros to a total of 1 billion 319 million euros. This corresponds to a Segment Result margin of 16.4 percent compared with 17.8 percent in fiscal year 2018. It was in line with the forecast adjusted in March 2019 of around 16 percent at the mid-point of the guided revenue range.

This result is remarkable, especially against the backdrop of the challenging macroeconomic environment and the shrinking semiconductor market. At the beginning of the fiscal year, we had expected a significantly higher revenue growth - 11 percent plus or minus 2 percentage points instead of the 6 percent now achieved. At that time, the market was still in a boom phase. During the fiscal year, however, demand in our end markets dropped - in some cases sharply. We had to adapt quickly to a new situation with little or no market growth. Given the temporarily lower demand, which was caused by destocking in sales channels to some extent, we were unable to fully utilize our increased manufacturing capacities, especially in the second half of the fiscal year. This cyclical effect led to higher underutilization charges, which had a negative impact of about 2 percentage points to the Segment Result margin. The fact that the margin has nevertheless remained so stable, close to our target of 17 percent on average over the cycle, speaks for the robustness of our business model. And it also speaks for the adaptability and speed of our teams. They have quickly and successfully switched from growth mode to cost control.

The favorable development of the exchange rate for the U.S. dollar also had a positive effect. The average rate for the year was 1.13 compared with 1.19 in the previous year.

So, ladies and gentlemen, as you can see: Infineon delivers profitable growth even in difficult times.

Net income for the 2019 fiscal year dropped by 19 percent to 870 million euros. This represents a decrease of 205 million euros compared to the previous year's figure of 1 billion 75 million euros, which had included the pre-tax gain of 270 million euros from the sale of the RF Power business. Our earnings per share amounted to 75 euro cents, down 21 percent compared to the previous year. Adjusted earnings per share fell from 98 to 89 euro cents.

Now to our segments:

Revenue in the Automotive and Industrial Power Control segments grew by 7 percent each, and by 5 percent in the Power Management & Multimarket segment.

The Digital Security Solutions segment posted a 3 percent decrease in revenue in a weak market environment. Nevertheless, according to the most recently available market analyses, Infineon has been able to keep its market share stable.

Segment Result margins developed as follows:

- › Automotive: Drop from 14.2 to 11.5 percent;
- › Industrial Power Control: Drop from 19.3 to 17.7 percent;
- › Digital Security Solutions: Drop from 15.8 to 12 percent.

Idle costs were the main reason for the decline in these segments. Given the temporarily lower demand from our customers, we were unable to fully utilize our increased production capacities, especially in the second half of the fiscal year.

In the Power Management & Multimarket segment, however, we were able to achieve growth in the Segment Result in excess of revenue growth. 585 million euros represent a 10 percent increase compared to the previous year. The Segment Result margin was thus a strong 23.9 percent.

Let us look at the distribution of revenue by region. In China alone, we generated 27 percent of our revenue with 2 billion 159 million euros. Germany accounted for a share of 15 percent with 1 billion 169 million euros. The USA accounts for 11 percent of revenue. Here Infineon achieved the highest percentage revenue growth of 20 percent. Also in Japan Infineon realized a remarkable revenue increase of 11 percent. Although Japan accounts only for 7 percent of group revenue, we are pleased with this growth. Japan is a particularly large and important market for automotive and industrial applications, but so far has been dominated by domestic suppliers. We see the fact that this region is gradually opening up to us as a clear sign of the competitiveness of our technologies.

Now to the operating expenses:

Our research and development expenses rose by 109 million euros to 945 million euros in the 2019 fiscal year, equivalent to 11.8 percent of revenue.

A further 125 million euros in research and development expenses had to be capitalized in the 2019 fiscal year and thus reported as investments according to the International Financial Reporting Standards, in short IFRS. If you take into account additional subsidies and grants received of 111 million euros, we invested a gross total of 1 billion 181 million euros in research and development and thus in the future of your company. This corresponds to 15 percent of revenue.

Selling, general and administrative expenses as a percentage of revenue declined slightly to 10.8 percent in the 2019 fiscal year. They were 11.2 percent in the previous year.

Free cash flow amounted to 39 million euros in the reporting year and was thus within the forecast range. The acquisition of Siltecta and payments in connection with the acquisition of Cypress had a negative impact on free cash flow. The 618 million euros from the previous year included the cash inflow of 345 million euros from the sale of RF Power business.

By far the largest share of investments in property, plant and equipment were capital expenditures at our manufacturing sites; around two-thirds of that went to frontend, meaning chip manufacturing, and the rest mainly to assembly, what we call backend.

At 156 million euros, investments in intangible assets were down on the previous year's figure of 164 million euros. The lion's share of this, at 125 million euros, was accounted for by the aforementioned capitalized development costs.

And now a look at our balance sheet:

As of 30 September 2019, total assets amounted to 13 billion 412 million euros. This is an increase of 23 percent compared to 30 September 2018.

Our debt increased only slightly - by 24 million euros. Total equity increased by 2 billion 187 million euros to 8 billion 633 million euros. This was primarily due to the capital increase carried out in June 2019 in connection with the acquisition of Cypress, which I will present to you in more detail later.

The return on capital employed, RoCE in short, was 12.2 percent in the 2019 fiscal year, compared with 20.5 percent in the previous year. The previous year's figure was positively influenced by the aforementioned sale of RF Power business.

Now to the development of the Infineon share:

Between the beginning of the past fiscal year on October 1, 2018, and the close of trading last Friday, the Infineon share price rose by 13 percent, thereby slightly outperforming the German stock index DAX. In the first months of this period, stock markets suffered from the tightening of the trade conflict between the USA and China and the deteriorating economic outlook. At the end of March, Infineon adjusted its growth targets downwards, which led to a significant decline in the share price. On June 3, 2019 Infineon announced the acquisition of Cypress. On this day the share closed 8 percent below the previous day's price.

This development reflects several factors: In a volatile market environment, we announced the largest acquisition in Infineon's history. Cypress was known outside the USA mostly only to industry insiders. The purchase price of 9 billion euros is without doubt not low. The synergy potential that justifies it will be realized to a large extent in the medium to long term through revenue synergies. And finally, we have announced a financing concept that includes around 30 percent equity for the acquisition.

The core objective we are pursuing with this financing concept is to maintain an investment grade rating for the combined company. This ensures that Infineon continues to be able to withstand unexpected periods of economic downturns even after the acquisition and to take advantage of market opportunities at any time. We want Infineon to continue to have a solid capital structure and thus have access to capital markets and financing sources at all times. The rating agency S&P Global Ratings rates Infineon's creditworthiness as "BBB" and, following the announcement of the planned acquisition of Cypress, has placed us on so-called "CreditWatch", with a negative outlook. This is common practice in such transactions and means that Infineon will remain in investment grade after the acquisition with the planned financing structure.

We took measures very swiftly to reduce the risk in refinancing of Cypress acquisition. This consistent action has contributed to the noticeable price recovery since late summer. You can see the main steps behind me: The initial financing of the entire acquisition amount was guaranteed by three banks, which was then syndicated to 20 national and international banks. In June 2019, the same month as the acquisition was announced, we raised around 1.5 billion euros through a capital increase, thus quickly reducing the refinancing risk.

Let me explain this in more detail: the Management Board was authorised in accordance with Article 4 Section 4 a) of the Articles of Association, to increase the share capital of the company with the approval of the Supervisory Board, in the period up to February 11, 2020 by up to 676 million euros by issuing new registered no-par value shares against cash or non-cash contributions.

On the basis of this Authorised Capital 2015/I, the Management Board decided on June 17, 2019 to increase the company's share capital by 225 million 547 thousand 846 euros against cash contributions and excluding the preemptive rights of shareholders, through issuance of 112 million 773 thousand 923 new registered no-par-value shares with a notional value of 2 euros per share.

The Supervisory Board approved this by resolution of the Investment, Finance and Audit Committee of the Supervisory Board on June 17, 2019.

The new shares were issued at a price of 2 euros per share, giving a total issue amount of 225 million 547 thousand 846 euros.

Due to the exclusion of shareholders' preemptive rights, the new shares could be placed with institutional investors by means of an accelerated bookbuilding process - overnight, so to speak. At a price of 13 euros 70 cents per share, the gross issue proceeds amounted to 1 billion 545 million euros before commissions and costs. The exclusion of preemptive rights thus enabled the company to raise capital quickly, taking advantage of a favorable market situation and optimizing the proceeds for the company. The placement price represented a discount of 4.6 percent compared to the previous day's closing price.

At the end of September, we took a further refinancing step and broke new ground for Infineon: By issuing a so-called hybrid bond, which, as the name implies, has both equity and bond characteristics, we raised additional capital of around 1.2 billion euros. Under IFRS, the hybrid bond is accounted fully as equity. The rating agency S&P Global Ratings counts 50 percent of our hybrid bond as equity, which helps us considerably in achieving the targeted equity ratio of the overall financing. From this perspective, the capital increase and the hybrid bond already bring us to good 2.1 billion euros of "eligible" equity in total. The steps taken give us a great flexibility with regard to the timeline and instruments for the remaining refinancing requirements. We will adapt our financing concept to the specific constellation after the acquisition has been closed, and in particular we will carefully examine whether a further step to strengthen the equity base makes sense. However, a direct placement of shares would be only one of several possible measures. The vast majority of the still open refinancing will be carried out via bonds as planned.

Since the capital increase, the Infineon share has significantly outperformed the DAX and the Philadelphia Semiconductor Index, in short SOX, which is relevant for us. We are impressed and delighted by the strong interest of investors and banks in our financing rounds. Ladies and gentlemen, this underlines the confidence in the market opportunities of your company.

In addition to financing risks, a major acquisition is also associated with currency and interest rate risks. On the one hand, we have to pay the purchase price in U.S. dollars, and on the other hand we want to take advantage of the currently very favorable interest rates from the issuer's perspective. We have ensured both by concluding appropriate hedging transactions, which will only take effect when the Cypress acquisition is closed.

And this brings me to our dividend proposal:

We continue to pursue two goals with our dividend policy: We want our shareholders to have a fair share in Infineon's economic development. And we want to pay a dividend that is at least constant even in times of stagnating or declining earnings. The net income is not the only decisive factor for us. We have not defined a fixed payout ratio.

In connection with agenda item 2, the Management Board and Supervisory Board propose a constant dividend of 27 euro cents per share on the basis of the results achieved in the past fiscal year. The number of dividend-entitled shares, and consequently the total dividend payout, increased for three reasons:

- › first, the capital increase;
- › second, performance share plan becoming due;
- › and third, exercise of stock options.

I would like to explain these to you briefly:

The more than 112 million new shares issued in June 2019 as part of the capital increase are already fully entitled to a dividend for the past fiscal year.

In addition, the tranche of our so-called Performance Share Plan, which is part of the variable compensation of the Members of the Management Board and executives and that is due in October 2019, was serviced with treasury shares previously held by the company. As long as the shares were held by the company, they were not entitled to dividends. With the transfer of the shares from the company to the members of the Management Board and executives, the dividend entitlement has been activated. In total, the volume is a relatively small 600 thousand shares. The company still holds 5 million 431 thousand 692 treasury shares, which are not entitled to dividends.

Finally, the exercise of stock options resulted in the creation of 237 thousand new shares entitled to dividends.

Taking into account the newly added dividend-entitled shares, the anticipated dividend payment for the past fiscal year will increase to 336 million euros, compared with 305 million euros in the previous year.

Coming to the outlook:

As Dr. Ploss has already mentioned, we expect revenue growth of 5 percent plus or minus 2 percentage points for the 2020 fiscal year. This guidance is based on the assumption that our business will not be significantly affected by the spread of the coronavirus. The effect of the planned Cypress acquisition is also not included in this guidance. In the middle of the guided range, the Segment Result margin should be about 16 percent. We assume an exchange rate of 1.13 of the euro to the U.S. dollar, which corresponds to the actual average exchange rate of the previous 2019 fiscal year.

Our business model is geared towards long-term, structural growth. A large portion of this comes from power semiconductors. Due to the long lead times for semiconductor manufacturing, we have to make investment decisions early. In conjunction with the current economic slowdown, it leads temporarily to a lower utilization and thereby to a negative impact on our margin. Conversely, however, it would have much more severe consequences if we were permanently limited by our production capacities. Delivery reliability is a critical success factor for Infineon. It is a major reason why our customers choose and value Infineon as a supplier.

In total, we plan to invest around 1.3 billion euros in this fiscal year, excluding Cypress. Production buildings including their infrastructure and office buildings account for around one third of this amount. We invest in order to establish the conditions to benefit from the next market upswing and fully exploit our structural growth potential. The largest single project remains the continued construction of the clean room for the new 300 millimeter fab in Villach, Austria. The timeline for the completion of the new clean room will be adjusted according to market development and we expect production to start at the end of the calendar year 2021.

I would now like to comment on some items on the agenda of today's Annual General Meeting:

Under agenda item 7, the Management Board and Supervisory Board propose that the Conditional Capital 2010/I established by the Annual General Meeting on February 11, 2010 be cancelled to the extent that it still exists and that Article 4 Section 5 of the Articles of Association be cancelled and deleted without replacement. This Conditional Capital was created at the time to issue preemptive shares under the 2010 Stock Option Plan to Members of the Management Board, executives and key employees of Infineon Technologies AG and its group companies. A total of 10 million 18 thousand 686 shares were issued from Contingent Capital 2010/I. Now it is no longer required because the 2010 stock option plan has expired in the meantime and no more options can be exercised.

Under agenda item 8, the Management Board and the Supervisory Board propose the creation of new Authorized Capital 2020/I for general purposes. It is to be available for capital increases against cash and/or non-cash contributions and is to replace Authorized Capital 2015/I, which expired on 11 February 2020. The total volume is up to 750 million euros and thus - like the previous Authorized Capital 2015/I - again corresponds to just under 30 percent of the current share capital. The shareholders have preemptive rights also with the Authorized Capital 2020/I. However, under certain conditions and with the approval of the Supervisory Board, the Management Board may exclude the preemptive right.

On agenda item 9:

The 2018 Annual General Meeting authorized the Management Board to issue bonds with warrants and/or convertible bonds with a total nominal value of up to 4 billion euros and resolved a Contingent Capital 2018 of 260 million euros (i.e. 130 million shares). The Management Board was also authorized to exclude shareholders' preemptive right on the warrants and/or convertible bonds in certain cases - in particular if the issue price of the warrants and/or convertible bonds is not significantly lower than their market value (so-called simplified exclusion of preemptive rights). This option to exclude preemptive rights is limited to 10 percent of the share capital. The capital increase from Authorized Capital carried out in June 2019 has to be counted towards this. As a result, it is now no longer possible to issue warrants and/or convertible bonds with simplified exclusion of preemptive rights. In order to continue to give the company the opportunity to issue bonds with warrants and/or convertible bonds in the future, in particular with a simplified exclusion of preemptive rights, the authorization and the Conditional Capital 2018 should be cancelled already now and replaced by a new authorization and a new Conditional Capital 2020/I. The maximum volume remains unchanged.

The written reports of the Management Board on agenda items 8 and 9 contain further detailed explanations, in particular also on the constellations in which the subscription right can be excluded. At this point, however, I would like to specifically mention that the limit of a possible exclusion of subscription rights is more restrictive than before. The authorizations to exclude subscription rights are now limited to a total of 10 percent of the share capital.

Dear shareholders, Infineon has performed well in a challenging 2019 fiscal year. After the boom in previous years, we had to adjust to a changed situation and brake hard. We reacted well and, above all, quickly. In the long term, we see continued structural growth potential in a large number of applications in which Infineon has a particularly strong presence. With the Cypress acquisition, we intend to exploit this potential even more comprehensively. We therefore adjust our targets for revenue growth, Segment Result margin and investment-to-sales ratio over the cycle.

Dr. Ploss explained the strength of the combined companies from a strategic perspective. This strategically stronger positioning is also reflected in our financial targets: Once the acquisition has been closed, we plan to grow our revenue by an average of more than 9 percent per year throughout the cycle. The Segment Result margin is expected to gradually increase to 19 percent as integration progresses. As a result of the reduced capital intensity of the combined companies, we are planning an investment-to-sales ratio of 13 percent. As usual, this figure does not include investments in frontend clean rooms with their infrastructure and certain larger office buildings. Due to the higher Segment Result margin and reduced capital intensity, we expect a gradual improvement in free cash flow ratio.

These new targets will be supported by the realization of the planned synergies: We expect cost synergies of 180 million euros per year by the 2022 fiscal year. The complementary portfolios enable additional system solution offerings that will generate long-term revenue synergies of more than 1.5 billion euros per year.

In taking investment decisions, we will continue to follow our proven strategy of fully leveraging our medium- to long-term growth potential.

We achieve this primarily by ensuring delivery reliability, a key criterion for our customers. We are convinced that, by investing through all phases of the economic cycle, we not only offer our customers the greatest added value, but also provide you, dear shareholders, with an attractive return on your investment in our share.

Ladies and gentlemen, my particular thanks go to you for your attention and for your trust in Infineon!



Infineon Technologies AG

81726 Munich
Deutschland