

# Baader Investment Conference

Munich, 23 September 2014

Holger Schmidt  
Manager Investor Relations



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## ■ Infineon at a Glance

### ■ Growth Drivers

### ■ Results and Outlook

### ■ Infineon to Acquire International Rectifier

#### **Disclaimer:**

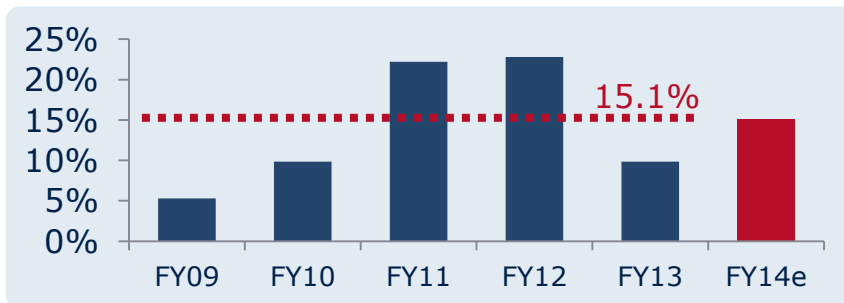
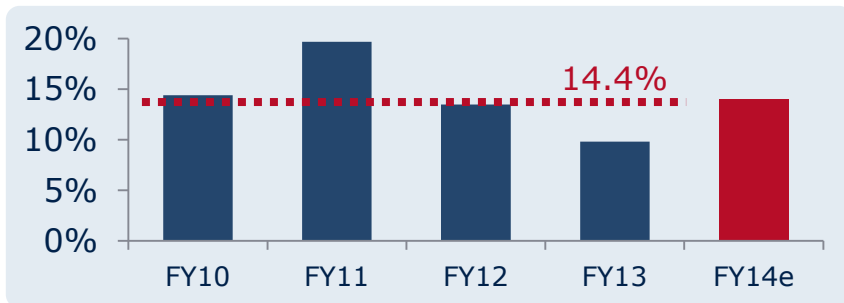
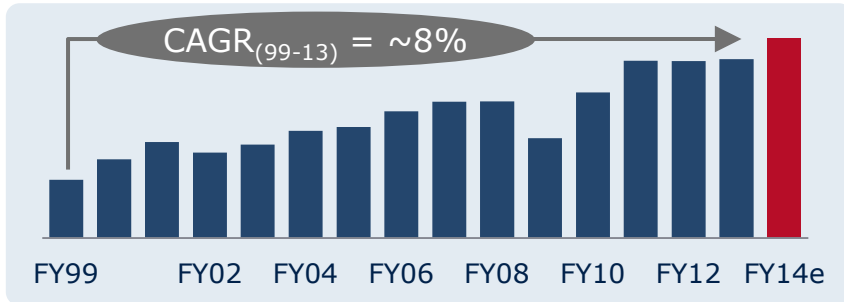
This presentation contains forward-looking statements about the business, financial condition and earnings performance of the Infineon Group.

These statements are based on assumptions and projections resting upon currently available information and present estimates. They are subject to a multitude of uncertainties and risks. Actual business development may therefore differ materially from what has been expected.

Beyond disclosure requirements stipulated by law, Infineon does not undertake any obligation to update forward-looking statements.

# Average Cycle Financial Targets

## Historical



## Going forward

Revenue Growth:  
**~8%**

Segment Result Margin:  
**~15%**

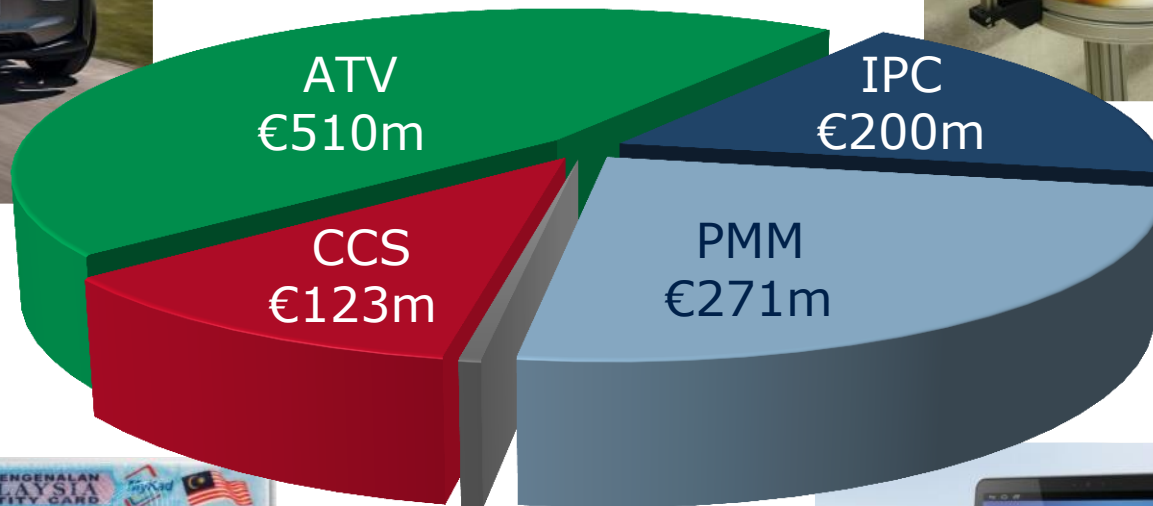
Investment-to-Sales:  
**~13%**

# Revenue Split by Division

**Q3 FY 2014 revenue: EUR 1,110m**



Courtesy: BMW



OOS+C&E\*  
€6m

\*Other Operating Segments;  
Corporate and Eliminations.



# Tight Customer Relationships are Based on System Know-how and App Understanding



## ATV



## IPC



## PMM



## CCS



## EMS partners



## Distribution partners

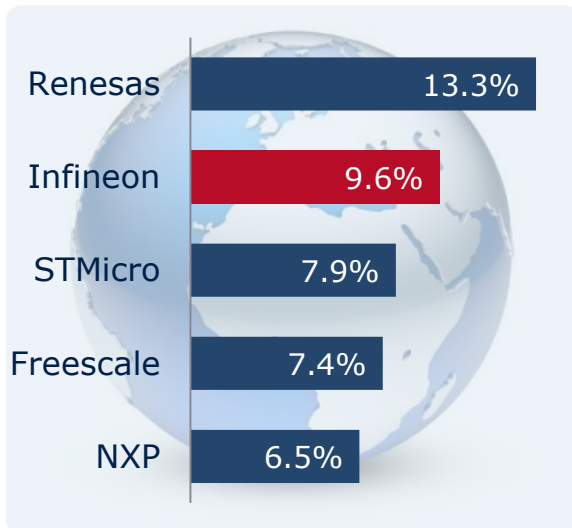


# Infineon Holds Top Positions in All Major Product Categories



## Automotive semiconductors

total market in 2013:  
\$25.1bn

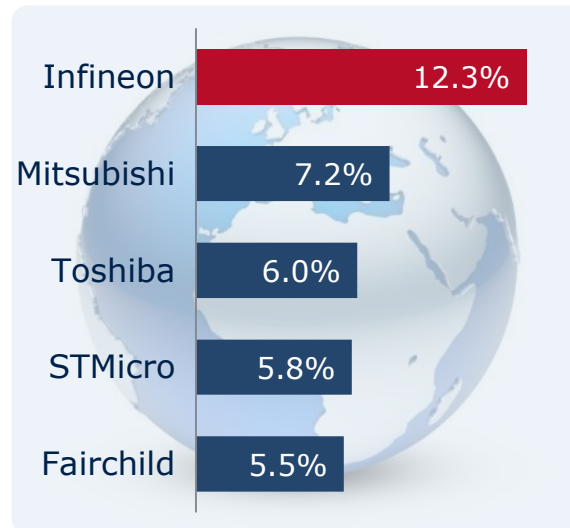


Automotive semiconductors incl. semiconductor sensors.

Source: Strategy Analytics, April 2014.

## Power semiconductors

total market in 2013:  
\$15.4bn

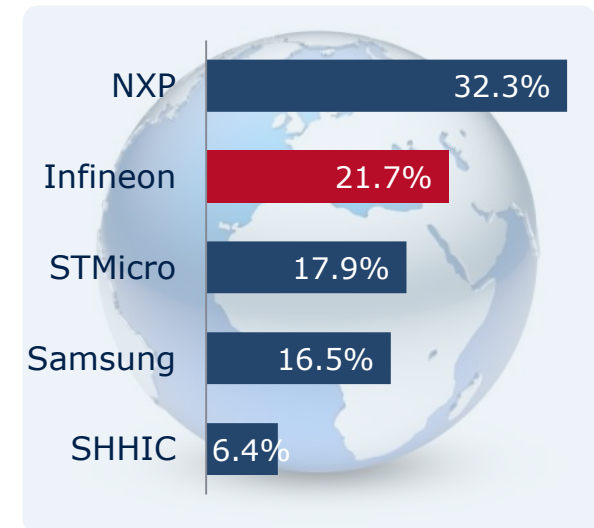


Discrete power semiconductors and power modules.

Source: IHS Inc., September 2014.

## Smart card ICs

total market in 2013:  
\$2.48bn



Microcontroller-based smart card ICs.

Source: IHS Inc., July 2014.

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■ Infineon at a Glance

■ **Growth Drivers**

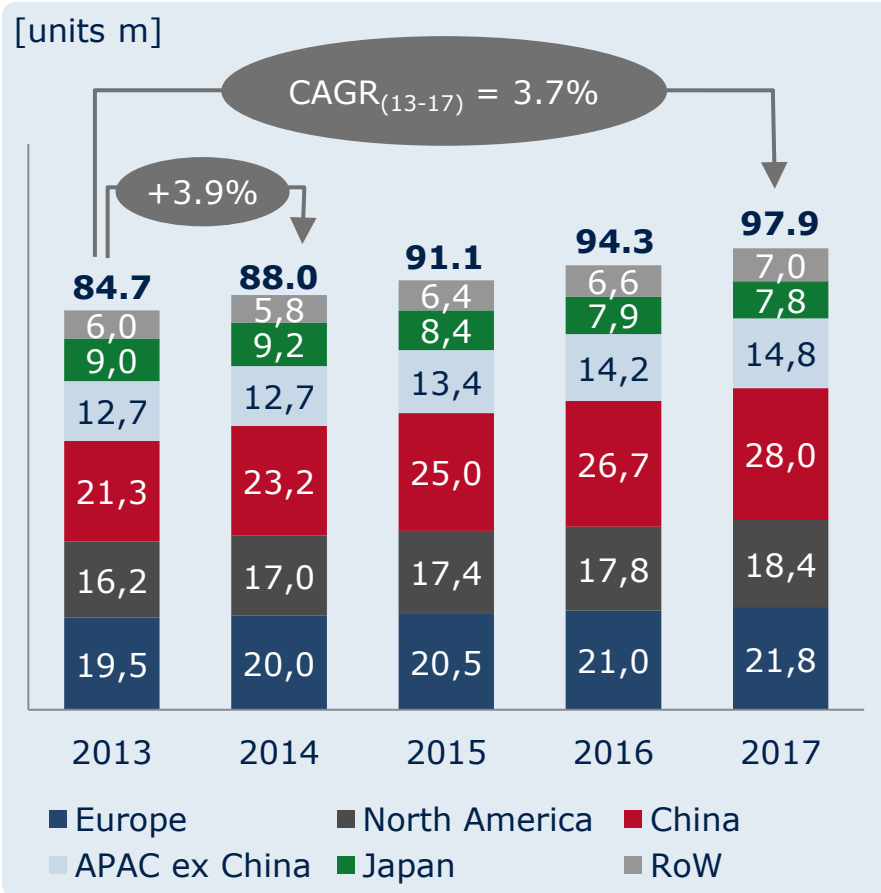
■ Results and Outlook

■ Infineon to Acquire International Rectifier

# Growth in Car Production and Content-per-Car Continues Unabated

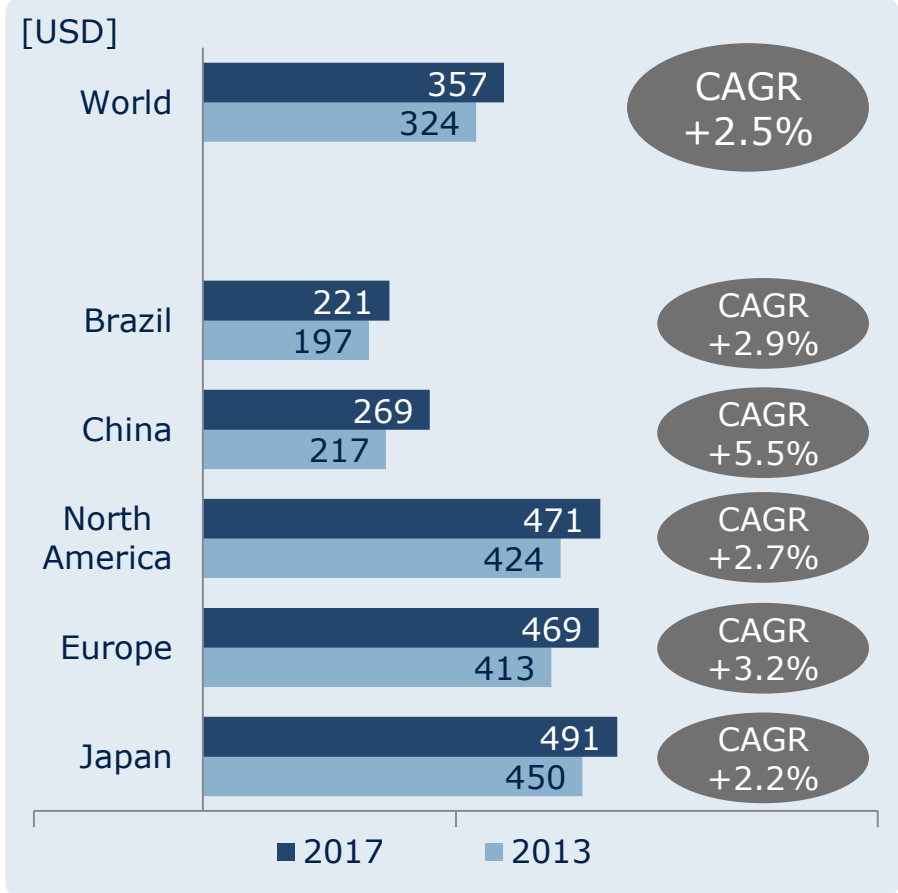


## Global car production (cars ≤ 6t)



Source: IHS Inc., "Annual Light Vehicle Production and Sales 2007 - 2019", August 2014 update.

## Semiconductor value per car



Source: Strategy Analytics, "Automotive Semiconductor Demand Forecast 2012 - 2021", incl. semiconductor sensors, update July 2014.



# Infinon's Basic LED Driver Family Powers Rear LED Lighting of Audi S1



- Rear lighting solution developed as part of our long-running partnership with Audi.
- Infineon's Basic LED drivers already shipping in volume and are expected to ramp in the coming quarters as OEMs increasingly use LEDs for exterior lighting.



## Advantages of Infineon's Basic LED driver

- Reduces component count and system complexity.
- Enables advanced diagnostic functionality.
- Reduces power consumption and thus CO<sub>2</sub>.

# Wide Adoption of CO<sub>2</sub> Reduction, ADAS and Premium Features Drive ATV's Growth



## Vehicle production



~4% p.a.

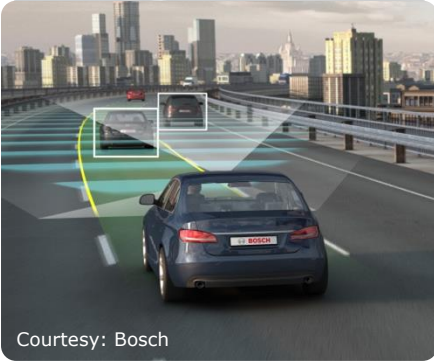
## Semiconductor content per car

### CO<sub>2</sub> reduction



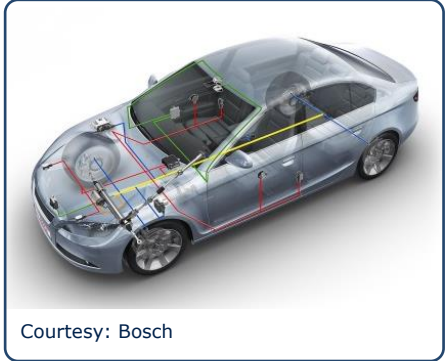
Courtesy: BMW

### ADAS



Courtesy: Bosch

### Comfort, Premium



Courtesy: Bosch

2 – 4% p.a.

**ATV: ~8%\* p.a.**

\* Targeted growth rate of ~8% reflects ATV's expectation that its strong competitive positioning will lead to market share gains.

Sources: IHS Inc., Strategy Analytics, Infineon.  
 ADAS: Advanced Driver Assistance Systems.

# Drives, Home Appliances and Others Show Strongest Growth Rates

**Drives**

**Renewables**

**Traction**

**Home Appliances**

**Others**



**~10% p.a.**

**> 5% p.a.**

**~5% p.a.**

**> 10% p.a.**

**> 10% p.a.**

**IPC:**

**~10% p.a.**

# Infineon is Samsung's Partner of Choice for RF Components in its Flagship Smartphone



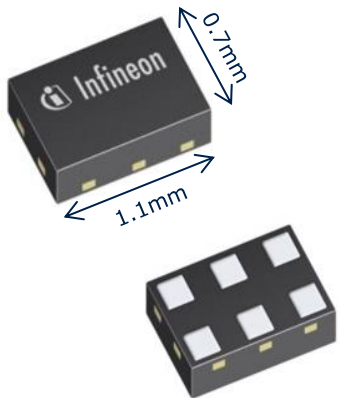
## Infineon's RF components in Samsung Galaxy S5



Courtesy: Samsung

- Infineon supports Samsung's flagship smartphone model Galaxy S5 with up to eight RF components:
  - Multiple SiGe low-noise amplifiers (LNAs) for boosting LTE data rates.
  - SiGe LNA for Global Navigation Satellite Systems, e.g. GPS.
  - Multiple RF CMOS switches.

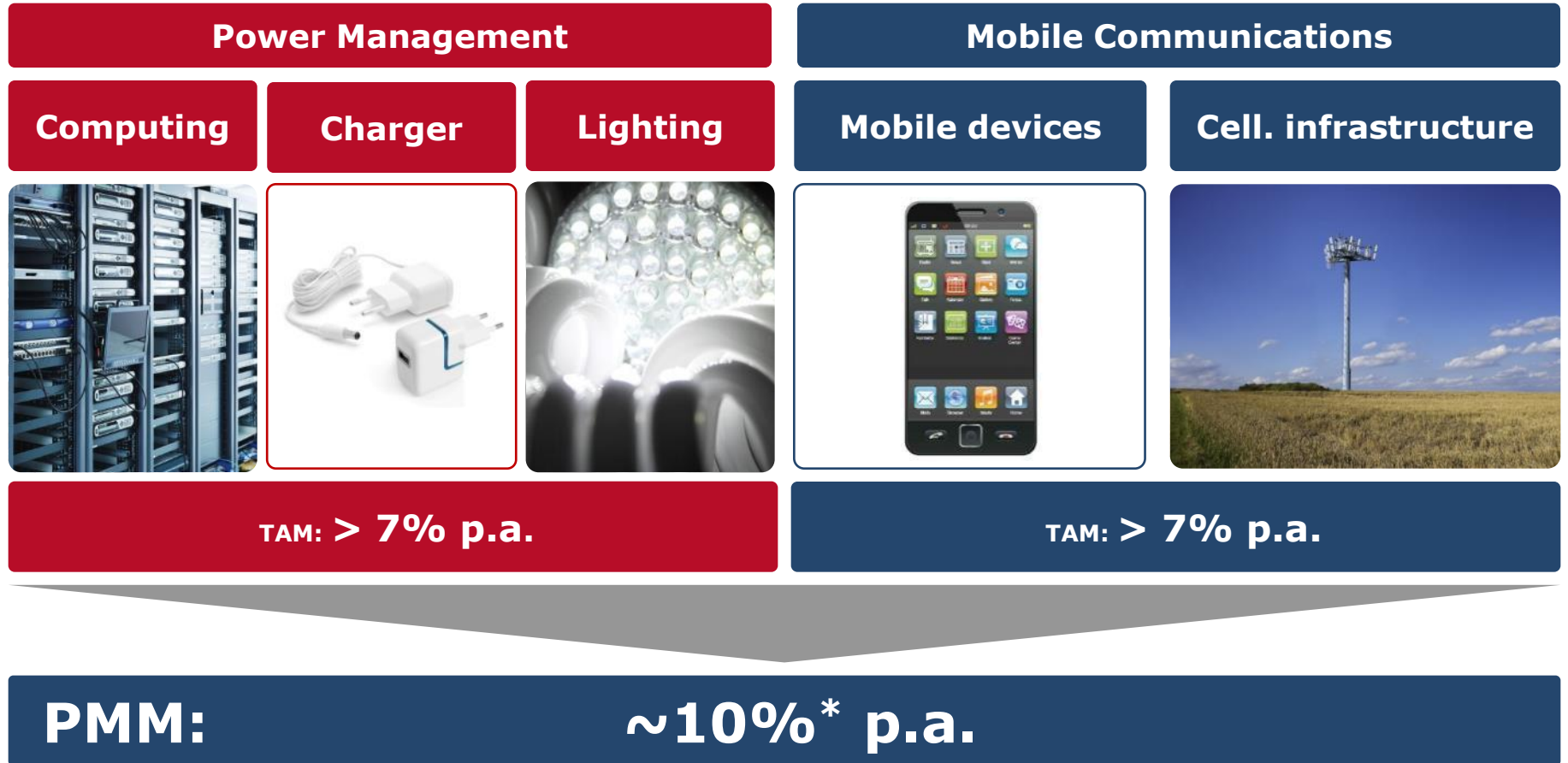
## Key advantages of Infineon's RF components



- High-density chip design integrates both low-noise amplifiers and associated discretes.
- LTE LNAs are specially designed to fully exploit the speed of the LTE communication standard.
- New product generations with higher integration and smaller footprint are introduced in next to no time.



# PMM Aims to Outgrow Its Core Markets



\* Targeted growth rate of ~10% reflects PMM's expectation that its strong competitive positioning will lead to market share gains.

Sources: IHS Inc., ABI Research, Infineon.

# Strong Growth in Payment Business and also in Multiple Implementations of NFC

## Strong momentum for Infineon's payment business

- Successful introduction and ramp of SLE 77-based products in 90nm technology.
- Payment business grew by ~40% year-on-year in Q3 FY14.
- Payment business remains well positioned for further growth driven by
  - ongoing and accelerated roll out of China UnionPay chip cards, mainly dual-interface cards;
  - conversion of US magnetic stripe-based cards to EMV\* cards, underway in H2 2014/early 2015;
  - general trend towards dual-interface cards (e.g. "girogo" in Germany).

\* EMV = Europay MasterCard Visa, a global standard for interoperability of chip-based cards and chip card capable point-of-sale terminals and ATMs.

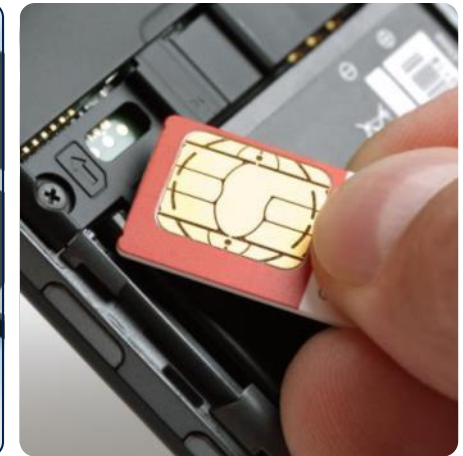
## Infineon's main NFC offerings on the rise

### embedded SE



- Design wins at various smartphone manufacturers for embedded Secure Element using 32-bit security controller.

### in SIM card



- Strong presence in NFC SIM cards, especially in planned China's LTE rollout combined with mobile payment/transport.

# Growth in CCS Driven by All Application Segments



**High-end Mobile Communication**

**Payment**

**Government Identification**

**Embedded Security**



**Expected growth [pieces]**

**~30%**

**~15%**

**~15%**

**~20%**

**CCS: 6-9% p.a.**

Sources: IHS Inc., ABI Research, Infineon.

# Expected Growth Broadly In Line With Historical Averages



**ATV**



Courtesy: BMW

**IPC**



Courtesy: Bosch Rexroth

**PMM**



**CCS**



**~8% p.a.**

**~10% p.a.**

**~10% p.a.**

**6-9% p.a.**

**Infineon: ~8% p.a.**

Sources: IHS Inc., Strategy Analytics, ABI Research, Infineon.



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■ Growth Drivers

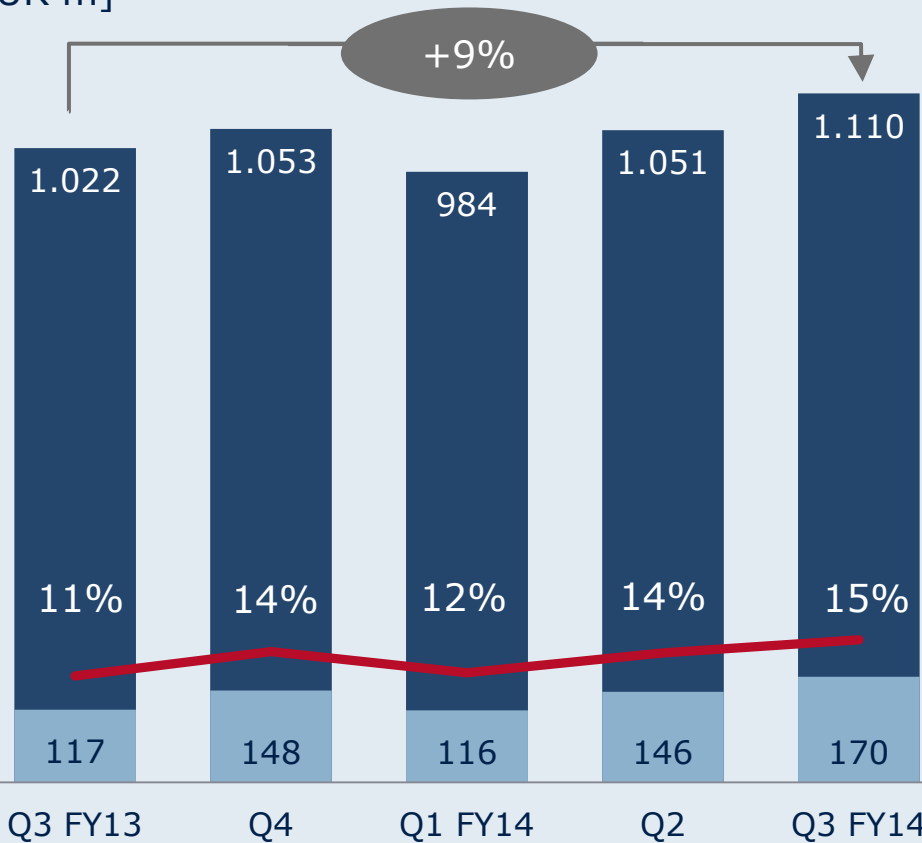
■ **Results and Outlook**

■ Infineon to Acquire International Rectifier

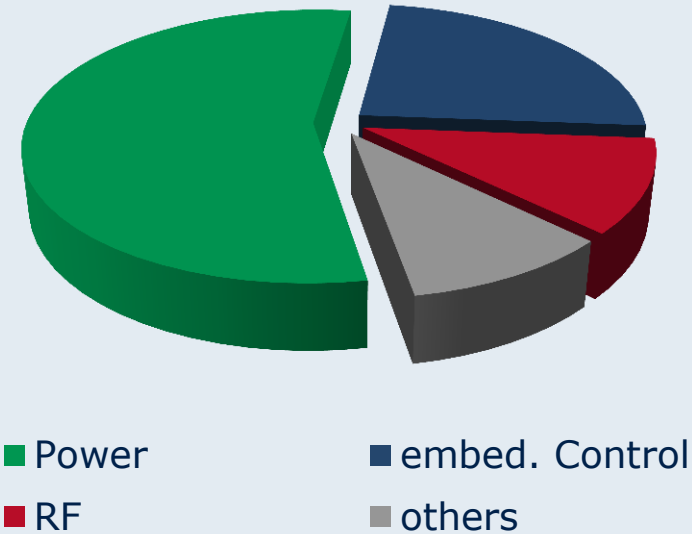
# Q3 FY14 Is Fifth Consecutive Quarter of Year-On-Year Growth

## Revenue and Segment Result

[EUR m]



FY 2013 revenue split by product category



■ Revenue    ■ Segment Result    — Segment Result Margin

# Guidance for Q4 FY14 and FY 2014

**Outlook Q4 FY14**  
(compared to Q3 FY14)



**Outlook FY 2014**  
(compared to FY 2013)



**Revenue**

Increase between  
3% and 7%.

**Slightly above 11%.**  
(previously: "at least at  
high end of 7-11% range")

**Segment  
Result  
Margin**

Between  
15% and 17%.

**Slightly above 14%.**  
(previously: "at least at  
high end of 11-14% range")

**Investments in FY 2014**

About €650m.

**D&A in FY 2014**

€500m or slightly above.

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■ Infineon at a Glance

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# Infineon to Acquire International Rectifier

## Key facts of the deal

- |  |                            |
|--|----------------------------|
| ■ Purchase price:  | \$40 per IRF share in cash |
| ■ Fully diluted equity consideration:                            | ~\$3.0bn (€2.3bn)          |
| net cash as per 30 June 2014:                                    | ~\$0.6bn (€0.45bn)         |
| ■ Fully diluted enterprise value:                                | ~\$2.4bn (€1.8bn)          |
| ■ Signing date:  | 20 August 2014             |
| ■ Expecting closing date:  | late CY 2014/early CY 2015 |
| ■ Premium over closing share price as per 19 August 2014:        | 50.6% (over \$26.57)       |
| ■ Premium over average closing share price of last three months: | 47.7% (over \$27.07)       |

# Strategic Motivation: Perfect Skill Match

Topic	Infineon Technologies Strength	International Rectifier Strength
IGBT modules	high-power	low-power (IPM, $\mu$ IPM™)
IGBTs	high-voltage IGBTs	low-voltage IGBTs, drivers, control ICs
MOSFETs	high-voltage	low-voltage
digital power management	server	datacom
wide-bandgap materials	SiC	GaN
home region	EU	US
channel	key accounts	distribution

# Infineon + International Rectifier: Multiple Strategic Benefits



## ① Adding to scope

- Rounding-out the product portfolio.
- Increasing breadth and depth of application understanding.

## ② Adding to scale

- Broader market access.
- Selling breadth.
- Operations synergies.
- Exploiting overhead synergies.
- Capability to drive R&D.

## ③ Adding technology

- GaN product and IP portfolio.
- Multi-chip packages and IPMs/ $\mu$ IPM<sup>TM</sup>s.
- HiRel capability.

## ④ Adding market presence

- Improved regional footprint in particular the US and APAC.
- Increased presence in distribution channel.

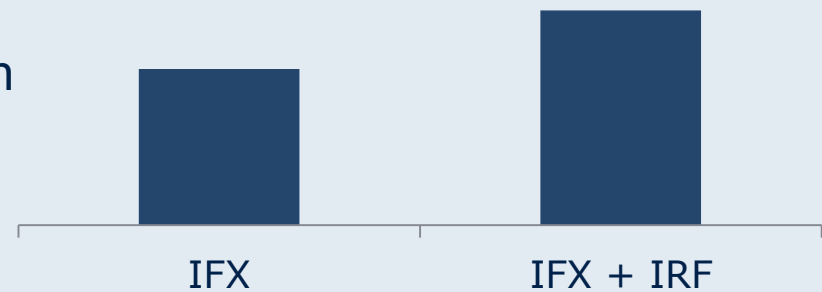
# Transaction Beneficial Already to 2015 Financials



**Pro-forma EPS accretive in year 1; dividend €0.16 – €0.18**

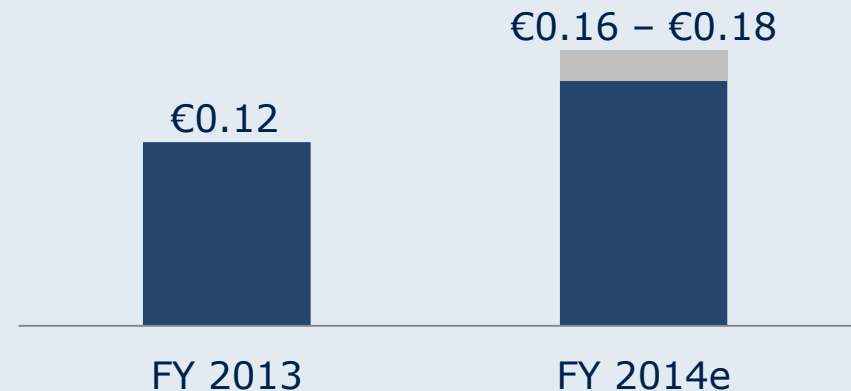
- Transaction would be accretive to pro-forma adjusted EPS\* already in first year post closing (FY 2015).

**Pro-forma EPS for FY 2015**



- All cash outlays for restructuring and investments fully covered by pro-forma free cash flow.

- No change to dividend (€0.16 – €0.18 per share for FY 2014).



\* Excluding restructuring expenses, transaction fees, amortization of acquired intangibles and any other incidental expenses associated with the transaction.

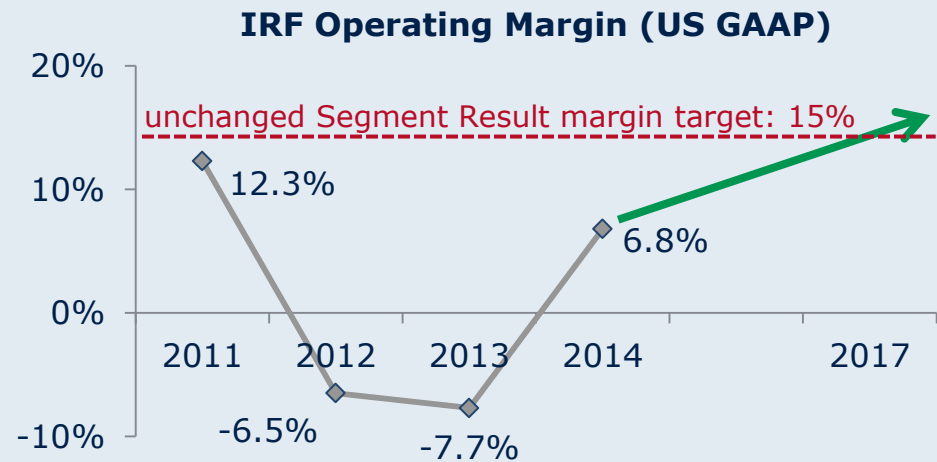


# Transaction Complies with Infineon's Strategy of Sustainable Profitable Growth



## Accretive to 15% Segment Result target margin at the latest in FY17

- Margin expansion at International Rectifier ongoing.



- Realize significant synergies from higher purchasing volumes, optimized manufacturing footprint and OpEx functions.
- Intern. Rectifier margin contribution to be at least in line with Infineon 15% Segment Result margin target at the latest in 2<sup>nd</sup> full year post closing (FY17).

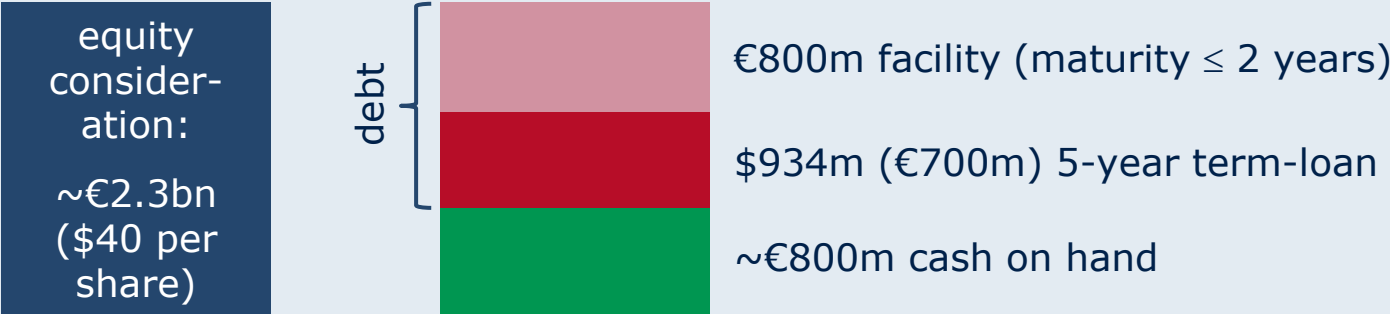
⇒ **Average-cycle 15% Segment Result margin target maintained.**

# Solid Balance Sheet Even After Cash-/Debt-Financed Transaction



## Financing and pro-forma capital structure

- Financed with €1.5bn of new debt, ~€800m cash on hand



- Solid balance sheet pro-forma for transaction



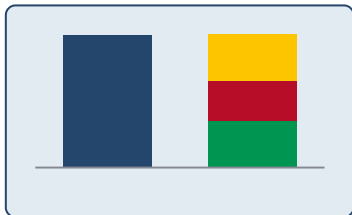
# Summary



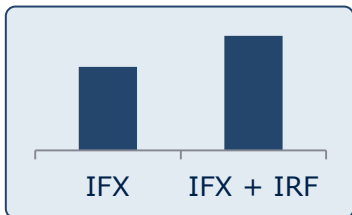
- Infineon to acquire International Rectifier for \$40 per share.
- Fully diluted equity consideration ~\$3.0bn; enterprise value ~\$2.4bn.



- IRF reinforces IFX's strategy and complements IFX's strengths.
- Complementary product portfolio and regional footprint, SiC and GaN for wide-bandgap leadership, scale economies particularly in 300mm.

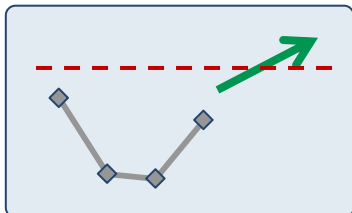


- Financed with €1.5bn of new debt and €800m of cash on hand.
- Solid pro-forma balance sheet maintained: 1.4x gross debt/EBITDA, 38% gross cash/sales, €0.3bn of net cash.



- Transaction accretive to adjusted\* pro-forma EPS already in FY 2015.
- FY 2014 dividend maintained at €0.16 – €0.18, payable in 2015.

\* For definition please see page 24.



- Strong synergies: International Rectifier to deliver margins at least in line with Infineon target at the latest in second year post closing.
- Infineon Segment Result margin target maintained at 15%.

# ENERGY EFFICIENCY MOBILITY SECURITY

Innovative semiconductor solutions for energy efficiency, mobility and security.



# Opex-to-Sales-Ratio Well Within Target Range



## S, G&A<sup>1)</sup>

## R&D<sup>2)</sup>

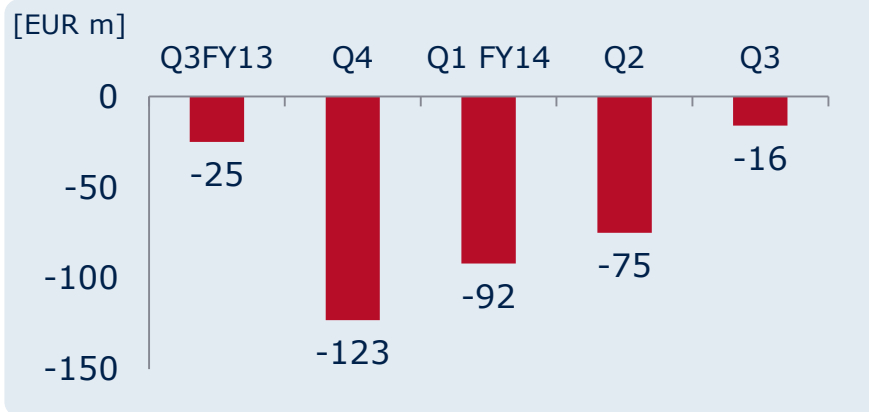


1) Target range for SG&A: „Low teens percentage of sales“.

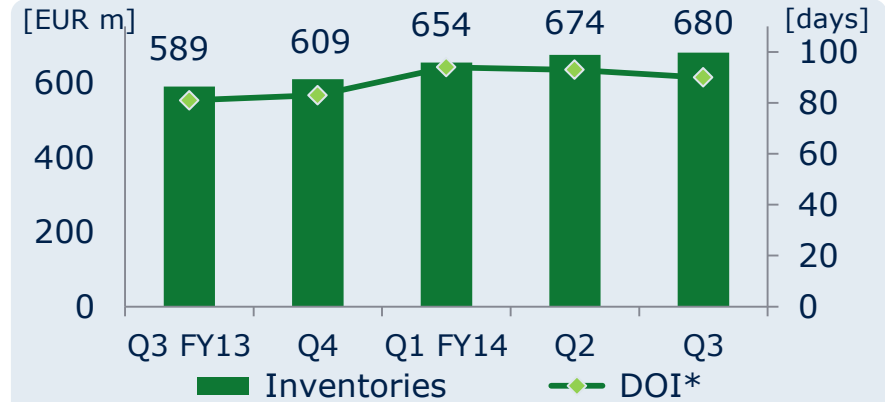
2) Target range for R&D: „Low to mid teens percentage of sales“.

# DOI, DSO and DPO in Line With Our Targets

## Working capital\*



## Inventories



## Trade receivables



## Trade payables



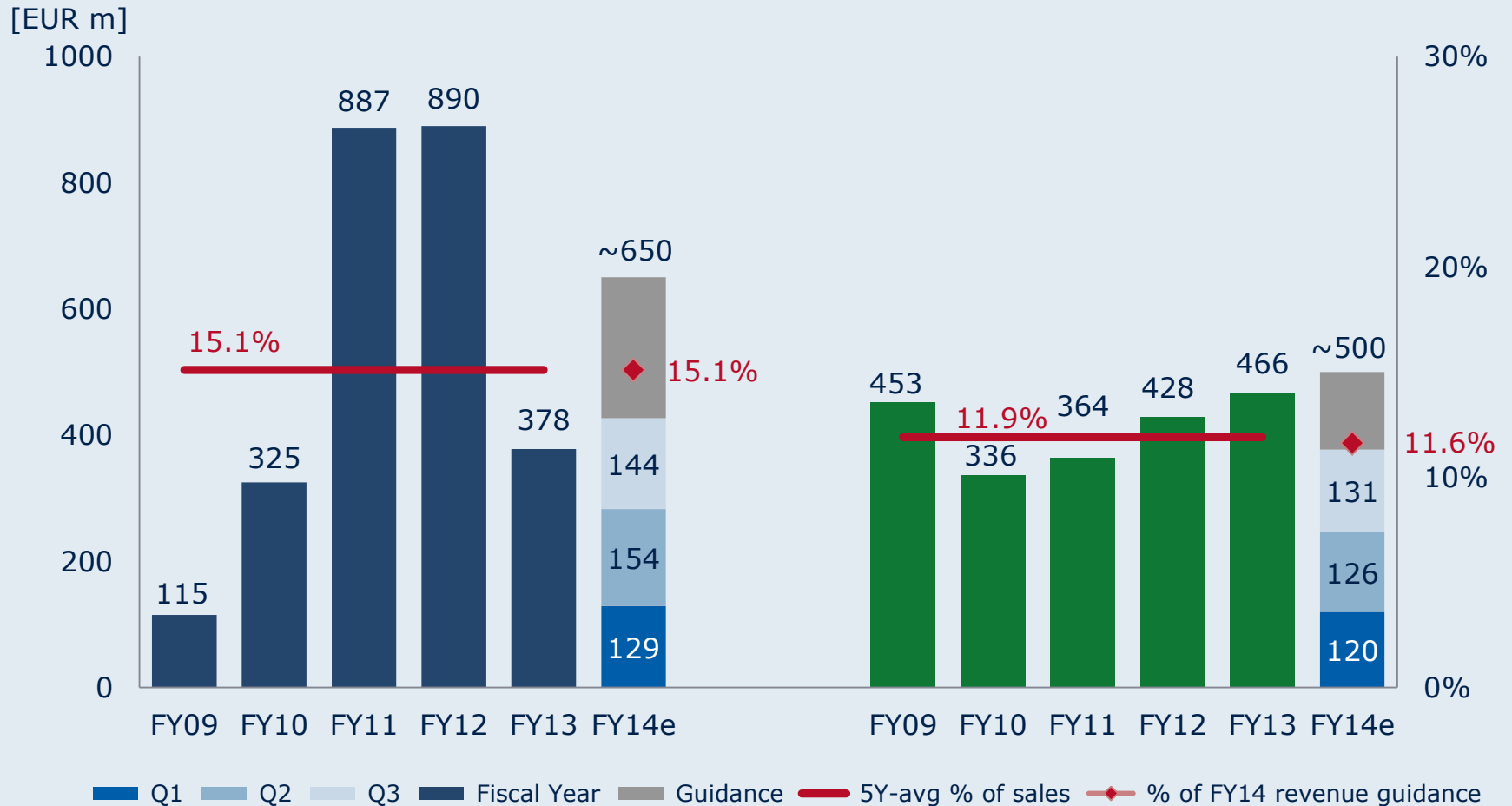
\* For definition please see page 39.

# Investments Peaked in FY12, D&A Still Increasing



## Investments\*

## D&A



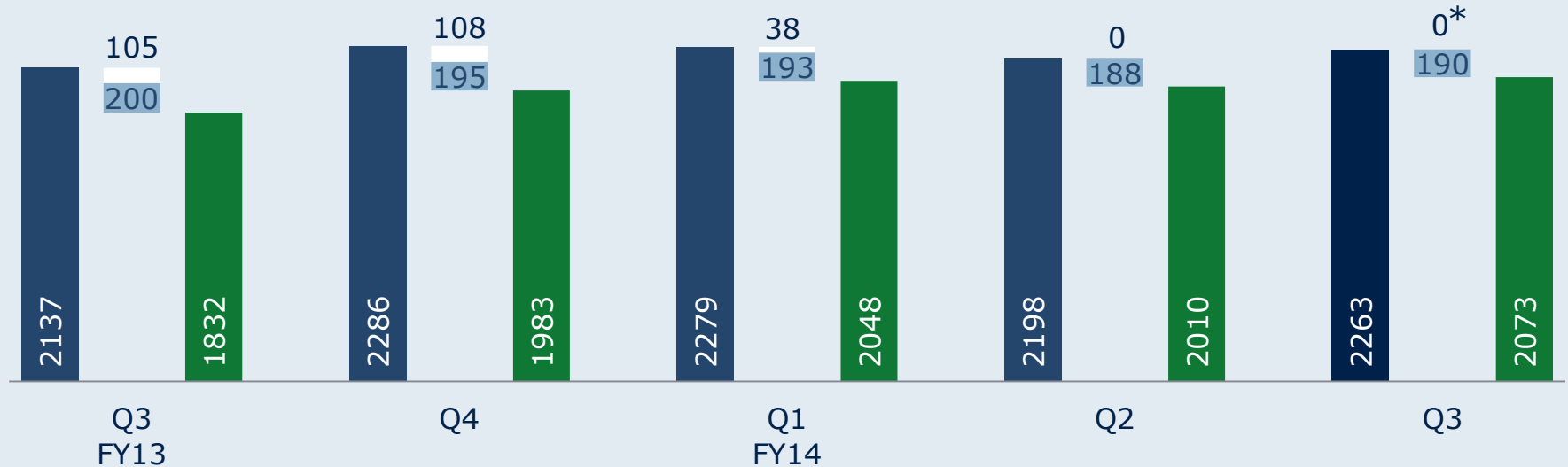
\* For definition please see page 39.

# Gross Cash and Net Cash Have Increased

## Liquidity Development

[EUR m]

■ Gross Cash   ■ Debt   ■ Equity-linked   ■ Net Cash



\* The remaining outstanding convertible bonds were converted by the end of January 2014.

- Increase in Gross Cash and Net Cash due to higher cash from operating activities while investments were slightly lower.

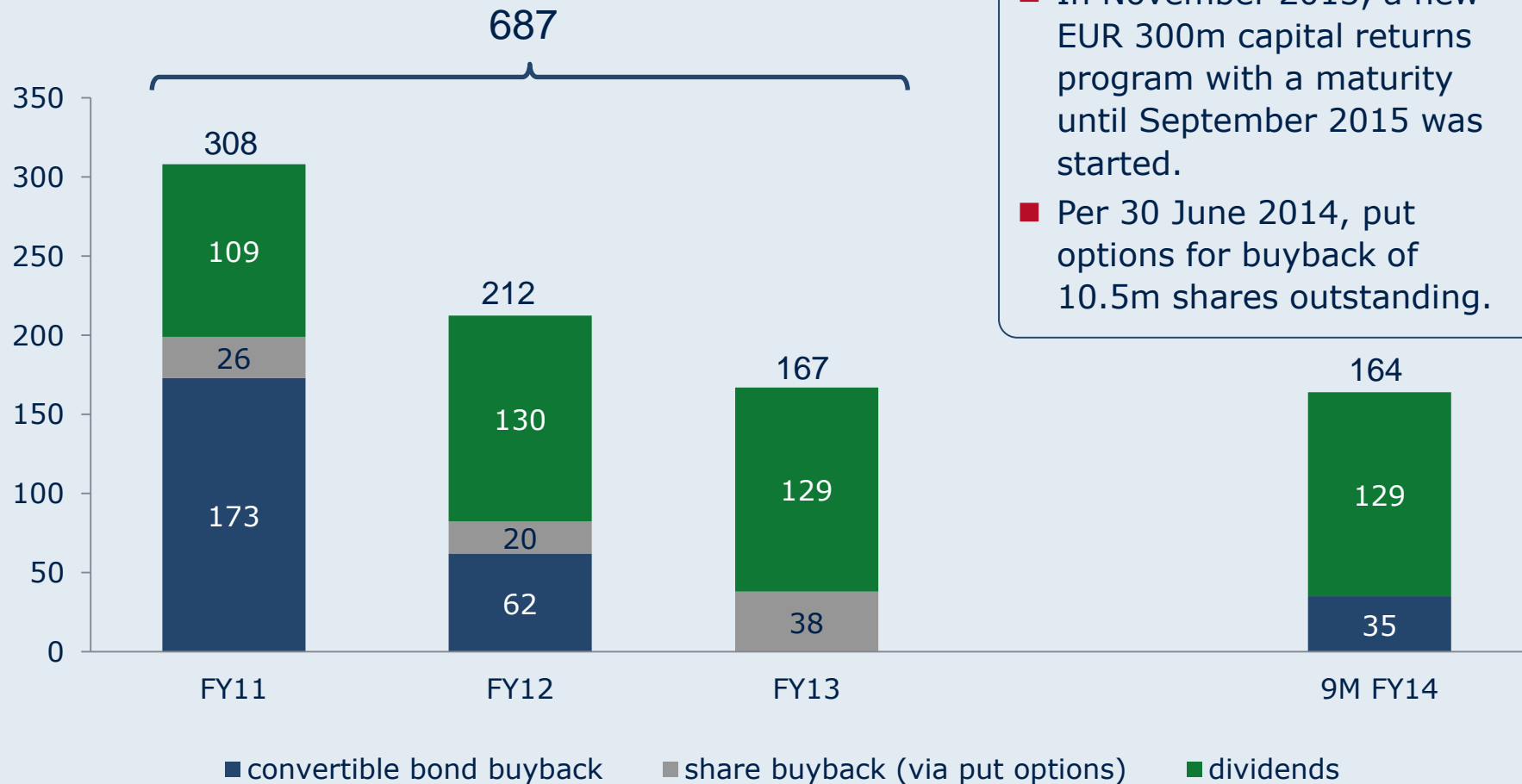


# Total Gross Capital Returns of EUR 851m Between FY 2011 and FY 2014



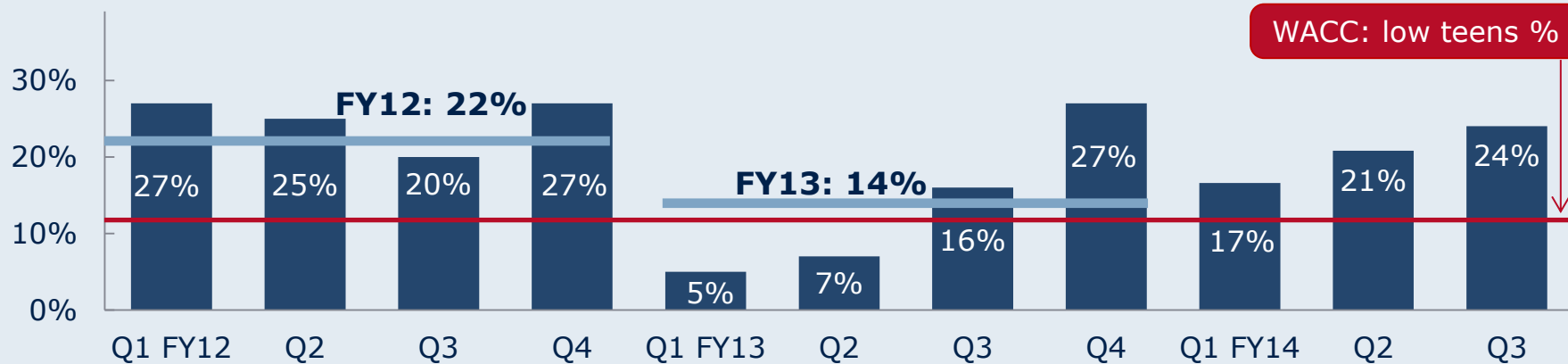
## Total gross capital returns history

[EUR m]



# Target: 'RoCE Above WACC' Over the Cycle

## RoCE\* history



## Capital Employed\* history

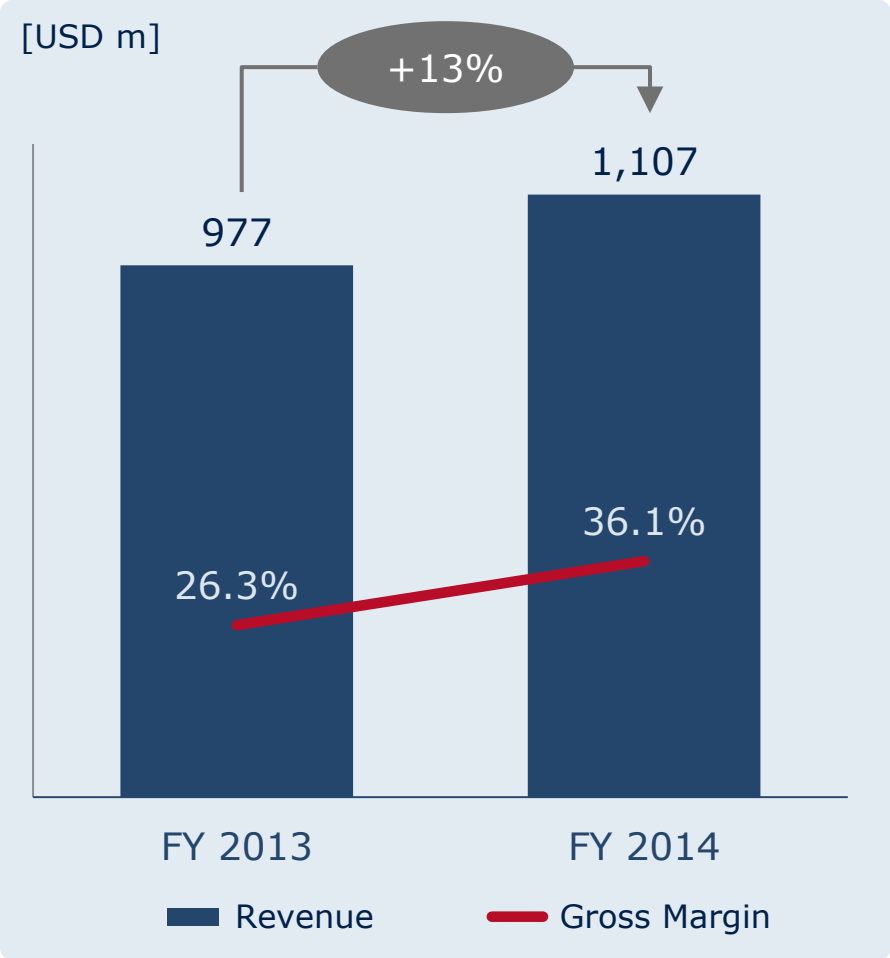


\* For definition please see page 39.

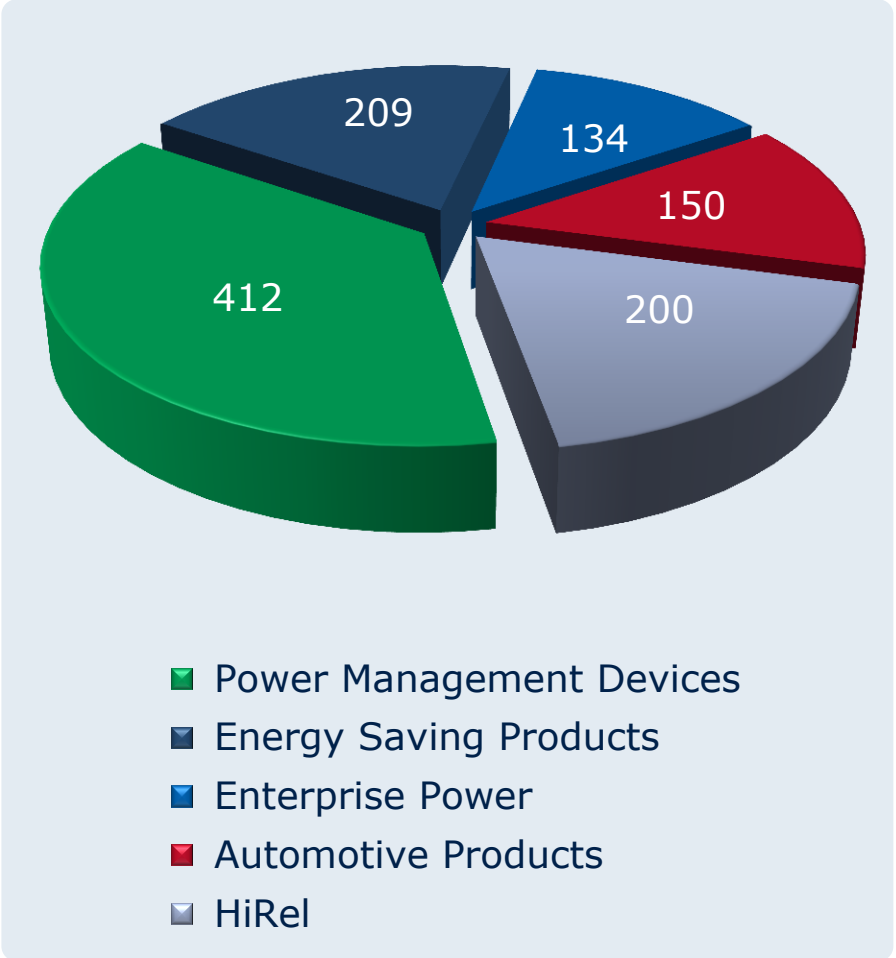
# International Rectifier: 13% Growth in FY 2014 with Strong Margin Expansion



## IRF revenue and gross margin








## IRF FY 2014 revenue split by business units (\$1,107m)



# Well Diversified Addressed Markets Integrate Well With Infineon



## International Rectifier business units

Power Management Devices (PMD)	Energy Saving Products (ESP)	Enterprise Power (EP)	Automotive Products (AP)	High-Reliability (HiRel)
<ul style="list-style-type: none"> <li>■ Power supply</li> <li>■ Data processing</li> <li>■ Telecoms</li> <li>■ Industrial and commercial battery-powered systems</li> </ul> 	<ul style="list-style-type: none"> <li>■ Motor control appliances</li> <li>■ Industrial automation</li> <li>■ Lighting and display</li> <li>■ Audio and video</li> </ul> 	<ul style="list-style-type: none"> <li>■ Servers</li> <li>■ Storage</li> <li>■ Routers</li> <li>■ Switches</li> <li>■ Infrastructure equipment</li> <li>■ Notebooks</li> <li>■ Graphic cards</li> <li>■ Gaming consoles</li> </ul> 	<ul style="list-style-type: none"> <li>■ Automobiles</li> <li>■ Trucks &amp; Buses</li> <li>■ Hybrids</li> <li>■ Electric vehicles</li> </ul> 	<ul style="list-style-type: none"> <li>■ Satellites</li> <li>■ Space exploration vehicles</li> <li>■ Commercial aircraft</li> <li>■ High reliability devices in heavy industry and biomedical</li> <li>■ Defense systems</li> </ul> 

## Related Infineon Divisions

PMM	PMM & IPC	PMM	ATV	PMM
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# International Rectifier: Global Presence, Blue Chip Customer Base



## Global footprint



International Rectifier has presence in 20 countries with:

- 8 manufacturing sites.
- 11 design centers.
- 19 sales offices.

## Key facts

- Founded in 1947.
- Rev. of \$1,107m in FY14.
- Approx. 4,160 employees.

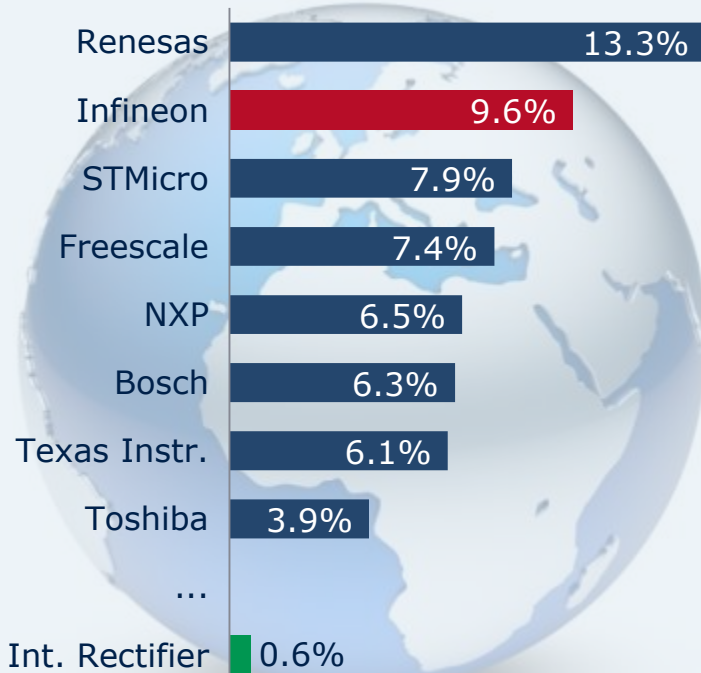
## Exemplary customers



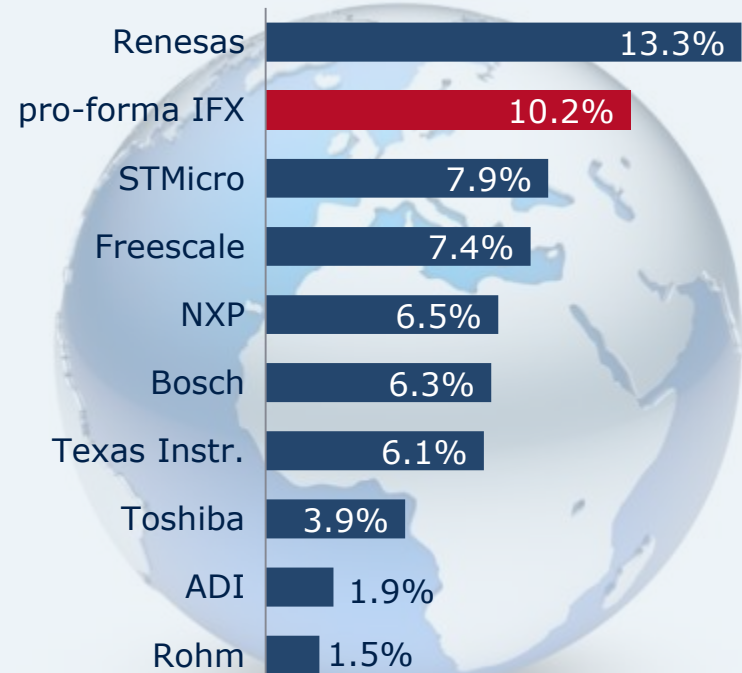
# No Significant Market Share Gain in the Automotive Semiconductor Market

## 2013 Total automotive semiconductor market total market size: \$25.1bn

### Prior to the deal



### Pro-forma post deal



Source: Strategy Analytics, "Automotive Semiconductor Vendor Market Shares", April 2014.

# Notes

## Investments =

- 'Purchase of property, plant and equipment'
- + 'Purchase of intangible assets and other assets' *incl. capitalization of R&D expenses*

## Capital Employed =

- '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')

### Please note:

All positions in ' ' refer to the respective accounting position and therefore should be applied with the positive or negative sign used in the relevant accounting table.

## RoCE =

$$\frac{\text{NOPAT} / \text{Capital Employed} = \text{'Income from continuing operations' - 'financial income' - 'financial expense'}}{\text{Capital Employed}}$$

## Working Capital =

$$\text{'Total current assets' - 'Cash and cash equivalents' - 'Financial investment' - 'Assets classified as held for sale' - ('Total current liabilities' - 'Short term debt and current maturities of long-term debt' - 'Liabilities classified as held for sale')}$$

$$\text{DOI (days of inventory; quarter-to-date) = ('Net Inventories' / 'Cost of goods sold') * 90}$$

$$\text{DSO (days sales outstanding; quarter-to-date) = ('Trade receivables' / 'revenue') * 90}$$

$$\text{DPO (days payables outstanding; quarter-to-date) = ('Trade payables' / ['Cost of goods sold' + 'Purchase of property, plant and equipment']) * 90}$$

# Financial Calendar

Date	Location	Event
24 Sep 2014	Munich	Berenberg Bank and Goldman Sachs German Corporate Conference
19 – 20 Nov 2014	Barcelona	Morgan Stanley TMT Conference
27 Nov 2014*		Q4 FY14 and FY 2014 Results
02 – 03 Dec 2014	Scottsdale, AZ	Credit Suisse TMT Conference
29 Jan 2015*		Q1 FY15 Results
12 Feb 2015	Munich	Annual General Meeting

\* preliminary