Infineon Technologies AG, Q1 2022 Earnings Call, Feb 03, 2022 (EditedCopy)

TEXT version of Transcript

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Presentation

Operator [1]

Good morning, everyone. Welcome to the conference call for analysts and investors for Infineon's 2022 Fiscal First Quarter Results. Today's call will be hosted by Alexander Foltin, Executive Vice President, Finance, Treasury and Investor Relations of Infineon Technologies.

As a reminder, today's call is being recorded. This conference call contains forward-looking statements and/or assessments about the business, financial condition, performance and strategy of the Infineon Group. These statements under assessments are based on assumptions and management's expectations resting upon currently available information and present estimates.

They are subject to a multitude of uncertainties and risks many of which are partially or entirely beyond Infineon's control. Infineon's actual business development, financial condition, performance and strategy may therefore differ materially from what is discussed in this conference call. Beyond disclosure, requirements stipulated by law, Infineon does not undertake any obligation to update forward-looking statements.

At this time, I'd like to turn the call over to Infineon. Please go ahead.

Alexander Foltin, Infineon Technologies AG - Head of Investor Relations [2]

Yes. Thank you, operator, and good morning, and welcome, ladies and gentlemen, to our first quarterly earnings call in 2022. As usual, we have the entire management board on this call, Reinhard Ploss, CEO; Helmut Gassel, CMO; Jochen Hanebeck, COO; Constanze Hufenbecher, CDTO; and Sven Schneider, CFO.

Today's call is a special one. As we announced 2.5 months ago, Reinhard will retire and pass the baton on to Jochen by 1st of April after leading Infineon as CEO for nearly 10 years. So it's the last earnings call hosted by Reinhard today.

But for now, back to business. You are familiar with our usual procedure. Reinhard summary will again come after the Q&A, so please stay tuned until the end of the call. The illustrating slide show, which is synchronized with a telephone audio signal is available at infineon.com/slides.

After the introduction, we will, as always, be happy to take your questions. However, today, we will be strict on the 1 question per caller rule in order to let as many participants as possible have their say. A recording of this conference call, including the aforementioned slides and a copy of our earnings press release, as well as our investor presentation are also available on our website at infineon.com.

And now for one last time, Reinhard, over to you.

Reinhard Ploss, Infineon Technologies AG - Chairman of Management Board, CEO, Head of Research & Development and Labor Director [3]

Yes. Thank you, Alexander, and good morning, everyone. The new year has started and for us, it feels very similar to how the old year ended. With the business situation looking very positive. Our December quarter topped the record revenue and segment result levels of the previous quarter. Semiconductors continue to be the gating items in many verticals as demand is outstripping supply by far.

Manufacturing capacities are being added, but ongoing cyclical and underlying structural needs are still exceeding them. Inventory reaches in some areas are going slightly up, but stay considerably below long-term averages. Of course, dynamics are different in the various submarkets.

In some, a supply-demand equilibrium will be reached sooner than in others. For our target applications, automotive, industrial, data center and IoT as well as other areas, we do not see this happening in the near future. Supply limitations, especially from foundries, will persist well into 2022. In such an environment, specific supply disruptions in individual fabs are being felt twice as severely. The December quarter was the first one in a while where we did not experience such disruptions and the numbers are clearly showing it.

We started our 2022 fiscal year with revenues of EUR 3.159 billion, 5% up compared to the previous quarter and a 20% increase year-over-year. A stronger U.S. dollar supported these growth rates. Assuming a constant U.S. dollar-euro exchange rate, sequential growth would have been 3% and the yearly one, 17%. On higher revenue, our margin expanded considerably, with a segment result of EUR 717 million. The segment result margin came to 22.7%, an increase of a bit over 2 percentage points compared to the quarter before.

All of our 4 segments were able to grow their profitability. Several factors drove this development. We saw a good product mix in an overall favorable pricing environment. In addition, and as already mentioned, the absence of major supply disruptions allowed us to achieve a very good operational performance. Our fabs are basically running at full levels. We take maximum COVID precaution measures, but of course, risks cannot be completely excluded. Near-term indicators tell us that the positive momentum in our key markets is intact. The order backdrop remains very supportive.

New incoming orders continue to outweigh cancellation by quite a margin. Thus far, we have provided book-to-bill figures as a proxy to assess the business situation. In the last quarters, we reported like-for-like numbers. We will cease to do so from now on. The ratio has lost much of its masoning given that orders are being confirmed more flexible in times of allocation.

Besides, Infineon has lately been the only company regularly publishing book-to-bill figures. Many of you have used them to reverse calculate our backlog. For the sake of transparency, we will provide you this figure directly going forward at company level. The combined total of confirmed and unconfirmed orders stood at around EUR 31 billion at the end of December, a further increase of about EUR 2 billion quarter-over-quarter.

In other words, our nominal stable of orders correspondence to more than 2 years of revenue. It is fair to assume that some of it reflects cyclical shortages, and the number might go well down in coming quarters as supply gradually improves and some double orders are being cleaned off. Having said this, we view underlying structural demand is very healthy and are fully booked for 2022.

Now to our divisions and their performance in the December quarter, beginning as usual with Automotive. The segment recorded revenues of EUR 1.390 billion. The 10% increase over the previous quarter was helped by a favorable currency development and the absence of specific supply disruptions. The higher volumes also led an improved profitability level. The segment result came in at EUR 261 million, resulting in a segment result margin of 18.8% compared to 16.7% in the quarter before.

In general terms, the supply-demand mismatch burden in the automotive industry remains quite wide. Global car production in 2022 was only slightly up compared to 2020 with 76.4 million units. Researches from IHS Markit estimate that around 10 million cars were not built due to semiconductor and other component shortages as well as various supply chain issues.

For 2022, the gradual easing of the worst constraints is expected, but the recovery of worldwide auto production remain susceptible to external shocks like the spread of the Omicron virus variant. The 82.9 million vehicles currently predicted by IHS for this year will still be considerably below the 2018 and 2019 numbers.

Hence, supply limitations are far from over and will persist well into 2022. Inventories are likely to remain tight, albeit gradually improve with some replenishment moving into 2023. Within an overall constrained car market, electromobility is remaining on a strong trajectory. In fact, the current phase might once be seen as pivotal for EV adoption. In 2021, around 6.7 million battery electric and plug-in hybrid vehicles were sold, basically doubling within a year's time frame. About half of these cars have inverters equipped with Infineon chips or modules.

With an industry-leading portfolio of silicon and silicon carbide solutions, we are central to EV growth. Anecdotally, December was the first month ever in which more battery electric vehicles than diesel cars were sold in Europe. The car of the future will not only be carbon neutral, but also autonomous, fully connected and cyber secured. This is opening up attractive semiconductor content growth opportunities for which we are in the pole position. Our AURIX microcontroller family has become the first choice automotive architecture for high growth and safety critical application, such as assisted and autonomous driving, powertrain, safety, as well as domain or zone control.

At the CES, a couple of weeks ago, we launched a new AURIX generation, focusing on addressing growing vehicle complexity, the enablement of AI implementations and advanced connectivity. With its scalable family concept, AURIX is a key ingredient for dependable electronics and software-based applications. We expect AURIX related revenues to grow strongly over the coming years.

Now to Industrial Power Control. Following a very strong second half of our 2021 fiscal year, revenues in the December quarter moderated to EUR 382 million, a sequential decline of 6%, reflecting typical seasonal patterns in most application areas. A positive exception was power infrastructure, which, among others, comprises energy storage as well as EV charging stations. The segment result of IPC came in at EUR 73 million, corresponding to a segment result margin of 19.1% after 17.7% in the prior quarter.

The impact of lower revenue was more than offset by positive mix effects and the fallaway of costs related to supply disruptions. The current business perspective is positive. Order intake is strong and many of our product areas continue to be on allocation and channel inventories have downticked again. The market outlook remains constructive across the majority of end application. After a strong surge in sales to serve pent-up demand, mature markets like home applications or industrial drives a reversion to average long-term growth rates.

Manufacturing PMIs are staying in expansion territory. Structural drivers in areas like solar power remain fully intact. However, some supply chain imbalances are limiting near-term growth. Our advanced power solution based on silicon as well as silicon carbide enable the energy transition necessary in order to meet CO2 reduction targets. Governments and enterprises alike now need to turn net 0 commitments into specific course of action.

Now over to Power & Sensor Systems, which continues its very strong performance seen in the previous quarter. Revenues came in at EUR 955 million, a bit up sequentially. Whereas components for smartphones witnessed a seasonal decline. All power-related product areas saw strong demand from cordless power tools to server power stages. The strengthening U.S. dollar provided an additional tailwind. Like revenue, also the segment result of PSS edged up slightly for the December quarter from EUR 276 million to EUR 285 million corresponding to a segment result margin of 29.8%.

Demand remains very robust across a large majority of applications. Customer orders exceed our supply abilities by quite a margin. Around half of our products remain on allocation and channel inventories are very lean. This overall healthy picture should last well into this year, driven by several trends. For data center, we see continued demand from cloud operators and hyperscalers but also rising enterprise spending motivated by return to office momentum and platform refreshers from processor vendors. The ongoing 5G cycle will continue to support smartphone upgrades and drive spending on telecom infrastructure equipment.

The desire to make human machine interaction more intuitive is calling for advanced sensor solution. One of them is capacitive inductive touch, for which we recently launched a new generation of our CAPSENSE technology. It enables advanced solutions like proximity sensing, gas detection and directivity along with whoever direction for demanding user interfaces in home alliances, industrial, consumer and IoT products.

Closing the divisional revenue by Connected Secure Systems. The segment strongly increased its revenue by 11% quarter-over-quarter to EUR 427 million. Main drivers were a favorable product and customer mix, strengthening of the U.S. dollar and some supply improvements for microcontrollers and WiFi products. These factors also led to a significant profitability increase. The segment result margin of CSS amounted to EUR 100 million, equivalent to a segment result margin of 23.4% after 15.5% for the quarter before.

Going forward, we will continue to invest in R&D resources to further strengthen our product road map. Demand continues to be very robust across practically all application areas, far outstripping available supply, especially from foundries. Therefore, revenue potential is kept by cars available capacities. Meanwhile, we see ongoing momentum in design in activity, especially for connectivity offerings.

Our WiFi chipsets have been selected for a next-generation automotive infotainment system and by a leading smart home thermostat OEM. Generally speaking, connectivity is one of the key ingredients of our digitalization, and we continue to strengthen our position in this field with our AIROC product family.

A few recent examples: with our cloud connectivity manager solution developers can easily and securely connect IoT devices to Amazon Web Services. We launched a multi-protocol solution, including Bluetooth low energy for small home applications supporting the meta standard as well as low-power WiFi chipsets enables precise location solution for the Israel location-as-a-service company Deeyook. All-in-all, our innovation pipeline around the IoT is well filled.

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

Sven Schneider, Infineon Technologies AG - CFO & Member of Management Board [4]

Thank you, Reinhard, and good morning, everyone. It's always reassuring to report on positive numbers at the beginning of the new year. Let's take a closer look at our margin development. Gross profit in the first quarter of our fiscal '22 came in at EUR 1.312 billion, resulting in a gross margin of 41.5%, slightly up compared to the previous quarter. Excluding nonsegment result effects, the adjusted gross margin was stable at 43.9%. This high level reflects the good traction we are seeing in the market for our high-value system solutions and an overall supportive environment in which we are able to pass on higher input costs related to foundry and subcon supply based materials and energy.

Furthermore, utilization rates at our manufacturing sites are high. Before coming to operational expenses, let me spend a word on currency development. As you are well aware, Infineon benefits from a strengthening U.S. dollar as around 2/3 of our group sales after the Cypress acquisition are in this currency.

And looking at very recent headlines this morning, I think I just want to stress that again, in your calculations, please factor in 2/3 of the revenues are in dollars, not 100%. So therefore, according to our well-known rule of thumb for sensitivity for each cent movement in the U.S. dollar-euro exchange rate, we see a quarterly impact of around EUR 15 million in revenue and around EUR 5 million in segment results. To illustrate that, assuming the U.S. dollar stays at $1.15 throughout the entire fiscal year, this would lead to a positive revenue impact of around EUR 300 million compared to our initial planning rate of EUR 120 million. Reinhard will build on this in the outlook section later on.

Now back to our OpEx numbers, which at the end of September, had seen a true-up of variable compensation for our successful 2021 fiscal year. And the currently running 2022 fiscal year, we accrue for bonus payments at a lower rate, reflecting internally raised targets. Despite this, research and development expenses remained flat quarter-over-quarter at EUR 399 million, showing our consistent efforts to fund an ambitious technology and product road map.

Selling, general and administrative expenses, however, decreased to EUR 330 million from EUR 373 million in the quarter before. The net other operating income was EUR 34 million. The nonsegment result for the quarter amounted to minus EUR 100 million. Of this amount, EUR 76 million corresponded to cost of goods sold, EUR 6 million to R&D expenses and EUR 47 million to SG&A expenses. As a partial offset, the net other operating income contained EUR 29 million of nonsegment result income. The financial result for the September quarter was minus EUR 45 million after minus EUR 37 million in the previous quarter.

Income tax expense amounted to EUR 117 million for the first quarter of the current fiscal year, equivalent to an effective tax rate of 20%. A quarter-over-quarter comparison is not meaningful as fiscal year-end quarter in September was influenced by adjustments to deferred tax assets and liabilities.

Cash taxes in the December quarter were EUR 51 million, resulting in a cash tax rate adjusted for PPA effects of 7%. This is somewhat lower than our expectation for the entire fiscal year '22 of around 15%. As in many years, the cash tax rate for the first quarter is influenced by a time lag with respect to the assessment of prepayments.

Let's now look at our investments into property, plant and equipment, other intangible assets and capitalized development costs. These totaled EUR 408 million in the December quarter down from EUR 596 million in the quarter before. We expect this amount to go up again in the coming quarters as we are consistently investing to reap opportunities for profitable growth. Depreciation and amortization, including acquisition-related nonsegment result effects were EUR 393 million in Q1 after EUR 397 million in the preceding quarter.

The free cash flow from continuing operations was EUR 378 million, identical to the level achieved in the September quarter as higher operating income and lower investments were offset by incentive payouts that took place in December. The strong free cash flow contributed to a further improvement of our liquidity and leverage figures.

Our gross cash at the end of December was close to EUR 4.3 billion. Our gross debt amounted to just under EUR 6.7 billion, leading to a further reduced net debt figure of EUR 2.4 billion. We are pleased to report already today to you that gross leverage is now closing in on our target level of below 2 with sequentially rising EBITDA. The net leverage at the end of December quarter came to a level of 0.7x underlining once again the strong business performance over the last quarters and the success of the faster-than-anticipated Cypress refinancing. And we are not standing still on our deleveraging path.

In mid-January, we fully repaid back a former Cypress convertible bond for a conversion amount of USD 387 million, bringing our gross leverage down further. We are proud that these efforts and our firm commitment to investment grade are being recognized also by our rating agency. As you might have seen the day before yesterday, S&P Global increased our rating by 1 notch to BBB flat. Continuing -- sorry, counting from the closing of the EUR 9 billion Cypress transaction, it took us less than 2 years to get back to our starting rating level.

I will finalize my part with reporting on our after-tax return on capital employed. The ROCE for the first quarter of our '22 fiscal year came in at 12.5%. This number is underestimating the margin by which we exceed our cost of capital as it is burdened by bookings related to the acquisition of Cypress and International Rectifier, in particular, goodwill, fair value step-ups and amortization as well as deferred tax effects. However, to simplify our reporting, we will not anymore illustrate these effects by providing an adjusted ROCE figure going forward.

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

Reinhard Ploss, Infineon Technologies AG - Chairman of Management Board, CEO, Head of Research & Development and Labor Director [5]

Thank you, Sven. The market environment continues to be characterized by tight supply and strong demand due to cyclical tailwinds and structural factors. Over time, capacities will gradually be added, allowing from some restocking from very low levels, but no full replenishment in the foreseeable future. Rather, across a large majority of product categories and end markets, everything that we ship gets assembled into final products and sold. As a consequence, our outlook is still predominantly determined from the supply side that is by the extent by which we can expand capacities, both in-house as well as from external manufacturing partners.

Regarding currency, we adjust our outlook to an assumed U.S. dollar-euro exchange rate of $1.15 from $1.20 before. This is a major driver for raising our projections as you can conclude from the sensitivities, Sven mentioned earlier. First, to the running second quarter of our 2022 fiscal year. We anticipate revenues to increase modestly to around EUR 3.2 billion. By division, we expect IPC to grow sequentially by a high, ATV by a low single-digit percentage. CSS should be flat and PSS seasonally decline by a low single-digit percentage.

In terms of profitability, typically, the March quarter marks a low point within our fiscal year, driven by effects from inventory revaluation and price declines. As stated in the last analyst call already, we do not expect such a dip in the current environment. Hence, the segment result margin should come in again at a level of around 22%, beating our usual seasonality.

For the full 2022 fiscal year, we raised our anticipated revenue figure from EUR 12.7 billion to EUR 13 billion, plus or minus EUR 500 million taking into account the stronger U.S. dollar. At the midpoint, this would constitute an annual growth rate of 17.5% higher than market predictions. We expect to benefit from structural growth opportunities and the expansion of our in-house manufacturing capacities.

From a divisional perspective, we continue to expect ATV and CSS to exceed the group average growth rate. PSS should grow in line with group average. For IPC, we increased our projected growth slightly to a high single-digit percentage range. Specifically talking about silicon carbide. We confirm our goal to roughly double our business again and achieve close to EUR 300 million of revenue in our 2022 fiscal year. Also in this area, the demand lies clearly above available capacities.

On a cautionary note, our outlook is predicated on the absence of larger supply chain disruption or other new bottlenecks. Whereas, our current visibility is fairly good, the resurgence of COVID-19 cases and the rapid spread of the Omicron virus variant create uncertainties. Bearing this in mind, we are confident about our margin trajectory. Therefore, we are firming up our guidance for the segment result margin, which goes from 21% to a level of 22%, assuming the expected revenue comes in.

As already mentioned, cost and price increases do not necessarily occur synchronized points in time. Our projection for investing property, plant and equipment, other intangible assets and capitalized development cost remains unchanged at around EUR 2.4 billion. Key projects, the expansion of 300-millimeter silicon capacities at the Dresden and Villach sites and expanding our wide band gap manufacturing in Villach and also Kulim, Malaysia.

For depreciation and amortization, we expect a value between EUR 1.6 billion and EUR 1.7 billion, including amortization of around EUR 400 million resulting from the purchase price allocation for Cypress and to a lesser extent, still related to International Rectifier. For free cash flow, we expect a level of around EUR 1 billion. Overall, we are well set to continue our successful journey into in 2022.

Before coming to your question, please allow for a short personal note. Today's analyst call will be the last one for me as Infineon CEO. The first one was 10 years ago. I have enjoyed the rigor of this quarterly exercise, same as I have enjoyed the dialogue with you.

As sell-side analysts, you are the key link between our company and our owners as well as general capital markets. Many thanks for all your support, reports and recommendations and particularly those with buy and strong buy. Many thanks for all your investigative questions. I hope I could answer most of them throughout the years, but I'm sure you have a couple more. Let's bring them on.

Some of them, I might pass on to Jochen, who will chair this call from next quarter onwards.

Question And Answer

Operator [1]

[Operator Instructions] And we'll take our first question then from Alex Duval from Goldman Sachs.

Alexander Duval, Goldman Sachs Group, Inc., Research Division - Equity Analyst [2]

Especially to Reinhard as well for all the dialogue and help over the years. So 1 question was just on what you said about your business and tightness not being resolved in the near term. It sounded like you said you think tightness is going to persist for all of auto, industrial and data center. So could you just clarify is that correct? And can you give a bit more color on what near term means? To what extent do you see areas of the business that are likely to come more into balance this year? And could you help us think about the phasing as we look through the year?

Reinhard Ploss, Infineon Technologies AG - Chairman of Management Board, CEO, Head of Research & Development and Labor Director [3]

Thank you, Alex. First, in general, yes, our outlook is definitely affected by the tightness of supply mainly from foundries. And Helmut will go into details for the automotive market. We also can briefly touch on other verticals. But I think the major one is the automotive, not to forget also our CSS segment.

Helmut Gassel, Infineon Technologies AG - Chief Marketing Officer & Member of Management Board [4]

Yes, happy to add some color. At first, yes, the current demand situation is by far exceeding capability supply. That is in particular true for automotive. Figures have been reported by analysts that about 10 million cars would have been built more in last year than actually was possible through the shortage of semiconductors and other materials.

And certainly, there is a need to catch up with that figure throughout the year. So for the entire year '22, we do see that demand in automotive will continue to exceed, gradually improving over the year, yet there's definitely no doubt that demand will be more than sufficient to fill the books of ours. There is other verticals that are also very strong or remain to be very strong. Let's say, the server market in the compute area, definitely, we see to hold on very strongly. On the renewable side, in particular, solar is going to be driving double-digit growth. So many other things besides automotive continue to drive our demand up.

Reinhard Ploss, Infineon Technologies AG - Chairman of Management Board, CEO, Head of Research & Development and Labor Director [5]

Yes. Then the situation, I will hand over to Jochen, but we expect that the foundry supply will improve in second half year. You see it only partially in our numbers. One addition to the automotive segment what we also see that the current model is not any more fitting 100% as the feature level in cars has increased significantly and the automakers are moving to higher-end cars, but also in the midsize, much more is added, especially in the electric. But capacity and supply, Jochen, can you comment, please?

Jochen Hanebeck, Infineon Technologies AG - COO & Member of Management Board [6]

Yes. Thank you, Reinhard. So let's start with the tightest area, which is still from the foundries. Here, we secured more wafers in '22 than in '21, but mainly back-loaded, meaning supply improves for the second calendar year, which is then, of course, only reflected partially second half of the calendar year, okay, which is, of course, only reflected then partially in our forecast for our fiscal year.

We see the tightest supply area still in the, let's say, mature nodes from 130 down to 4028. On the power side, our outsourcing share is not very significant. There, we see some additional supply in the market. But on the power side, we, of course, benefit mainly from our continuous ramp in our own factories. And here, the CapEx spend in 2019, '20, '21, of course, give us the momentum reflected lately by the opening of our new 300-millimeter factory in Villach.

Operator [7]

Our next question now comes from Sandeep Deshpande from JPMorgan.

Sandeep Sudhir Deshpande, JPMorgan Chase & Co, Research Division - Research Analyst [8]

Since you left off Reinhard talking about your factory in Villach. Has the ramp-up plans of the factory in Villach changed at all? How quickly will it ramp up? And is the CapEx that you have outplayed for this year, EUR 2.4 billion, enough to ramp it up? Or is there a potential that you may raise the CapEx again through the year?

Reinhard Ploss, Infineon Technologies AG - Chairman of Management Board, CEO, Head of Research & Development and Labor Director [9]

Sandeep, thank you for the question. Right away to Jochen.

Jochen Hanebeck, Infineon Technologies AG - COO & Member of Management Board [10]

Yes. So the current environment is determined by, let's say, lead times of equipment. In general, I feel very comfortable with the page we showed at the CMD where we showed 2 facilities ramped up over time. Of course, we would take any advantage of equipment becoming earlier available to boost this ramp, but this is difficult in the current market environment. So that is more determining everything than the, let's say, CapEx budget number.

Reinhard Ploss, Infineon Technologies AG - Chairman of Management Board, CEO, Head of Research & Development and Labor Director [11]

But 1 addition, Sandeep, we are in a very good position that we also can now ramp in 2 300-millimeter factories, which we reported before.

Operator [12]

We will now go to our next question from Didier Scemama from Bank of America.

Didier Scemama, BofA Securities, Research Division - Director in EMEA Equity Research & Head of European IT Hardware [13]

Yes. Maybe first a word to Reinhard, and thank you for your leadership over the last decade and turning Infineon to what it is today. We'll miss you. My question is this. So you've given us your backlog of EUR 31 billion at the end of December. I just wanted to understand how you reconcile that backlog with your revenue guide for fiscal year '22? How much of that is noncancelable orders and also the benefit of pricing in your fiscal year '22 revenue guide?

Reinhard Ploss, Infineon Technologies AG - Chairman of Management Board, CEO, Head of Research & Development and Labor Director [14]

Didier, thank you, and Helmut will take it. But in general, we have various patterns in our order concept and Helmut will go into detail.

Helmut Gassel, Infineon Technologies AG - Chief Marketing Officer & Member of Management Board [15]

Yes, Didier, welcome. The backlog we reported obviously is exceeding by more than 2 of our revenue forecast that we have for the year. So clearly, the backlog, I'd say, has a maturity where 80% -- around 80% of that is targeted for the next 12 months. And obviously, that doesn't fit to our revenue forecast, so that we will not be able to fulfill all of this.

So I think at this time, noncancelable orders are really a term that is not necessary given the fact that you have that maturity and absolute number. You also had -- I'd say, the additional aspect of pricing. I think we see out of the revenue growth for the year that we have planned more than 50% of that is actually coming from volume. But we do have a triple-digit effect in terms of pricing as well as from the U.S. dollar in the current forecast included.

Reinhard Ploss, Infineon Technologies AG - Chairman of Management Board, CEO, Head of Research & Development and Labor Director [16]

One addition to that, noncancelable orders are double-sided sword. You for sure, will get the revenue for the time being. But we experienced this in former times where we had such contracts. And after the periods where the noncancelable orders are, I would say, finished from the contract, we saw significantly dip in revenue. We very much prefer to be close to the market and follow our customers along these lines. And I ask them to participate in the risks of idle cost.

Operator [17]

And now go to our next question from Andrew Gardiner from Citi.

Andrew Michael Gardiner, Citigroup Inc., Research Division - Research Analyst [18]

First of all, I echo sentiments of my peers, best wishes, Reinhard. I had a question for you on the margin front. With the results you just reported for December and then the outlook you've given us for the March quarter, you're looking at margins in the low- to mid-22% range for the first half of the fiscal year, which then begs the question with continued revenue growth in the back half, full utilization, the supply-demand imbalance you talked about, why would margins decline in the second half of this fiscal year to drive only 22% operating margins for the year?

Reinhard Ploss, Infineon Technologies AG - Chairman of Management Board, CEO, Head of Research & Development and Labor Director [19]

Yes. So thank you, Andrew. And Sven already hinted slightly in his presentation, but I think it makes sense to go more into detail.

Sven Schneider, Infineon Technologies AG - CFO & Member of Management Board [20]

Yes. Thank you, Andrew, for the question. As we said, the margin perspective and trajectory is, of course, the sum of many different parts. There are some pluses and there are some minuses as always. And I think the most important thing to note is as we have said last time and this time in Reinhard's part as well, this typical seasonality is no longer fully in sync, talking about cost increases and price pass-through. So therefore, we also need to be here a bit mindful of how we interpret quarters.

But looking at how we come to the 22% for the full year. I mean, as you say, we have now 22-something in the books. We are guiding for 22%. The first half of the year would then be a little bit less than 50% of the revenue guidance for the full year. And taking all the positives like pricing environment, the revenue fall through on the gross margin, lower idle cost, the currency contribution on the positive side and further cost pressure from foundries, from commodity prices and all that into equation and also having a, I would call it, a balanced approach between risks and opportunities, we just talked about opportunities, if foundry supply would be a bit higher in second half, there could be also a risk that an Omicron impact could hit our supply side.

If that would not materialize, there would be some kind of upside. That's also the reason why in the revenue guidance we have given you EUR 13 billion plus EUR 500 million. So taking all that together, we think it's a balanced approach of coming with 22%, taking all these factors into consideration.

And last element, as also explained, I think, well at the Capital Markets Day, please also always factor in, especially for CSS, but also for the group that we are heavily investing, we are prefunding P2S revenue synergies. We are investing into wide band gap and that also has an impact on the margin side going forward.

Operator [21]

We'll go to our next question now from Aleksander Peterc from Societe Generale.

Aleksander Peterc, Societe Generale Cross Asset Research - Equity Analyst [22]

Congratulations to Reinhard for taking Infineon to where it is today. Great job done there. I'd like to come back a little bit on the CapEx situation, given the very, very strong demand patterns and the inability of the industry to supply outstanding demand, would there be any upsides to your CapEx budget for the year? And what would you ideally like to spend this year, if you had no constraints on the side of equipment suppliers?

Reinhard Ploss, Infineon Technologies AG - Chairman of Management Board, CEO, Head of Research & Development and Labor Director [23]

Okay. That's an interesting question. We never ask ourselves, not joking. I think, yes, of course, and Jochen can go into details.

Jochen Hanebeck, Infineon Technologies AG - COO & Member of Management Board [24]

Yes. We always invest in a meaningful manner. And let's face it, we have now February, you know our fiscal year ends in September, difference to our competition. So EUR 2.4 billion is a good number. Again, if there are opportunities, we would take them, but the market is currently limited by equipment, and it doesn't make sense to take equipment on the books, which is not in the critical path to more revenue.

But again, we are planning here along our structural growth drivers and plans, and that is over multiyears and of course, we'll expand our capacity in order to take advantage of the coming growth in all our target markets.

Reinhard Ploss, Infineon Technologies AG - Chairman of Management Board, CEO, Head of Research & Development and Labor Director [25]

Yes. Maybe 1 add-on here. I think especially in the silicon carbide area, where we would be happy if we could accelerate the capacity ramp-up. But here, as Jochen said, the supply is limited from the equipment side.

Operator [26]

Our next question now comes from Adithya Metuku from Crédit Suisse.

Adithya Satyanarayana Metuku, Crédit Suisse AG, Research Division - Research Analyst [27]

Yes. And again, firstly, to Reinhard, it's been great following the company over the last decade and seeing the way you build up Infineon. So obviously, the very best in your future endeavors. So just I had 2 questions.

Firstly, your peers have recently been talking about capturing more of the value added by semis, talking about how pricing dynamics in the industry are changing to what they've been over the last 20 years. And I just wonder, when you gave your margin target, you gave it when you bought Cypress and pricing dynamics in the industry were very different, 19% through-the-cycle margin target and you're already at 22% segment result margin and you're talking about some potential upside depending on how the year goes.

So I just wonder how should we think about any upside potential to be a through-the-cycle margin target of 19% as these pricing dynamics change? Any color you can provide around that, that would be helpful?

And then just on the free cash flow question for Sven. There's no -- you obviously updated guidance, you're keeping your CapEx flat. So are there any material parts we should be aware of when modeling free cash flow remaining at above EUR 1 billion? Any color around that would be helpful.

Reinhard Ploss, Infineon Technologies AG - Chairman of Management Board, CEO, Head of Research & Development and Labor Director [28]

Yes. Thank you. I will hand it over. But through the acquisition, I want to make a brief remark. At the time, we had maybe a different pricing situation but also a different supply situation. Considering these heads and tailwinds, we believe that we are very successful in getting the value and the acquisition, especially taking into account that we are still in a hardly to no-touch scenario of the integration process. Therefore, I believe it is a very balanced number, but Sven please elaborate on that more.

Sven Schneider, Infineon Technologies AG - CFO & Member of Management Board [29]

Yes. Thank you, Adi, for the question. And let me maybe start with the obvious, as we said in the past. This 19% profitability level is a through-the-cycle number. And through-the-cycle to us means that in boom years, in good years, you need to be significantly above the number. As in bad years, a COVID year, for example, which was not as bad at Infineon as for others, but still below the margin target you saw it to the downside. So having now a 3 percentage points up compared to the '19 is, from my perspective, just the confirmation that through-the-cycle logic works.

The other thing I just want to repeat, if you recall our Capital Markets Day at the -- in the Q&A session, I said that once markets have normalized and once all these supply-demand imbalances are fading out, we will upgrade our target operating model. So I can confirm that -- but I think at that moment in time, there is nothing to add from that perspective.

And to your free cash flow question, why have we not changed the EUR 1 billion, given that we have now EUR 300 million more of revenues? I mean mathematically, there would be a small additional component. I agree. But it's an around number. And also please factor in that in order to secure supply for this -- for the years to come, we are also entertaining discussions with our suppliers on some prepayments, which have also an impact on the free cash flow. All that is factored in into the guidance.

Operator [30]

Our next question now comes from Stephane Houri from ODDO.

Stephane Houri, ODDO BHF Corporate & Markets, Research Division - Research Analyst [31]

I have a question on the automotive margin actually because it's pretty high at the moment at the -- in the past, you were saying that there was a significant difference between electromobility and kind of more classic automotive business. Can you update us on this? And what do you see going forward for this?

Reinhard Ploss, Infineon Technologies AG - Chairman of Management Board, CEO, Head of Research & Development and Labor Director [32]

Yes. Thank you, Stephane. Helmut will touch on that. But first of all, I want to remind you that for a very long time, we communicated that we have to improve the margin in the EV business, means, the IGBT and silicon carbide and other products going in there. And there, we have been very successful as volume was up. And I would say, we manage it well as predicted. But there are other factors in the portfolio structure, I hand over to Helmut.

Helmut Gassel, Infineon Technologies AG - Chief Marketing Officer & Member of Management Board [33]

Yes. Thank you, Stephane, for the question. First of all, EV dynamics is continuing to be super strong, doubling the volume of plug-in and battery driven vehicles and in particular battery electric vehicles are super strong. China, again, leading the growth with more than doubling as compared to the previous year, again, which, by the way, a side note, not to your question, but in general, interesting is also driving charging infrastructure, which is another important growth driver for Infineon, bracket closed.

So as to the margin, as Reinhard said, we have been working on improving our cost position on 1 side. Other thing is we are very strong in modules as well as in the chip business that we provide to this market. And there is a margin difference between the 2.

In fact, as there is less material that we have to purchase on the chip side, the margin is generally higher. So that's a structural effect that certainly helps us. Automotive then, in general, is also trending towards higher-end vehicles. This path continues as well, which is driving components with a higher value again. And so that is all contributing to a margin improvement in automotive.

Operator [34]

We have a question now from Sébastien Sztabowicz from Kepler.

Sébastien Sztabowicz, Kepler Cheuvreux, Research Division - Head of Tech - Equipment Research [35]

Could you just provide some indication on the size of your backlog today on the silicon carbide? And also, have you seen any change in the competitive landscape for silicon carbide? Because it seems that some Chinese companies are investing increasingly in power semis, generally speaking, but also in silicon carbide, like semico and other?

Reinhard Ploss, Infineon Technologies AG - Chairman of Management Board, CEO, Head of Research & Development and Labor Director [36]

Yes. Thank you for your question, Sébastien. First of all, we want to say that we still see -- or we are very proud of that. We are very advanced in the technology progress and are leading the industry on the trench-based silicon carbide MOSFET. We are pretty much in line with our goal to EUR 1 billion in the mid 20s and the order backlog here is, I would say, developing quite positively. As we are a very, I would say, reliable partner we do not offer to our customers, especially in automotive industry, more capacity than we foresee in the near future.

So I would say the outlook is more supply constrained. And here, we would expect that in all verticals, we could do more. That is charging stations, it is renewable power supplies for photovoltaic and the drivetrain. And I think here, -- there, we cannot give you a precise number, and we see Infineon becoming a leader in this market as we go forward. But the investment plans we talked about, especially moving to Kulim will be a substantial part of it, and there are more to come in the next quarters.

Operator [37]

Jerome Ramel from BNP Paribas has our next question.

Jerome Ramel, BNP Paribas Exane, Research Division - Analyst of IT hardware and Semiconductor [38]

Yes. Thank you, Reinhard, for this year and best of luck for the future. My question is concerning the full year revenue's guidance. When we look at the guidance in particularly the 1 half of this year, it's just 4% above the first half, so just like to understand the dynamics there because on 1 hand, you say you're going to have a little bit more capacity coming online, also coming from the foundries. And the seasonality of demand will be a bit stronger. So I'm just a little bit surprised that we don't see more upside in the second half versus the first half.

Reinhard Ploss, Infineon Technologies AG - Chairman of Management Board, CEO, Head of Research & Development and Labor Director [39]

Yes. Thank you, Jerome. I think we touched it a little bit already. Jochen said something, and we will share that question. But as we move forward, we see that capacities coming on in house as we are investing and the foundry is still pretty constrained affecting ATV, CSS and also PSS. Please don't forget that in many areas, we have kind of a bundle solution that we could deliver more power, but are constrained in other areas.

Jochen, can you please go into detail?

Jochen Hanebeck, Infineon Technologies AG - COO & Member of Management Board [40]

Yes. First of all, I would like to reiterate that the additional foundry waivers, we are getting are rather good for revenue in the second half of the calendar year '22. And I would also like to point that we bake in some risk into the forecast nothing like, as Reinhard said in his intro, nothing like a Texas winter storm, but I do -- I am concerned about Omicron spreading, for example, in China, zero-COVID strategy there. So let's see if we come into the next quarter. But for right now, we see it as a balanced forecast and some risks baked in, which of course, we do not know yet exactly where they are going to be.

Reinhard Ploss, Infineon Technologies AG - Chairman of Management Board, CEO, Head of Research & Development and Labor Director [41]

Yes. But again, what we said in the intro, we do not see market risk. We see the balance for cars, which we are giving is a supply-based forecast where we have figured in risks and opportunity. You know Infineon how we act. And therefore, I believe the good message is the market would support more.

Operator [42]

We have a question now from Johannes Schaller from Deutsche Bank.

Johannes Schaller, Deutsche Bank AG, Research Division - Research Analyst [43]

And also, Mr. Ploss from my side, a big thank you for making Infineon on what it is today and a great communication with us, analysts. So all the best for your future. And again, Mr. Hanebeck, congratulations on taking over. I wanted to dig a little bit deeper on the 5G gallium nitride on silicon business you talked about on the last call.

I mean doing a bit of digging on that, it feels like your customer and design pipeline is probably quite broad. And the financial opportunity maybe there is even bigger than the LDB -- sorry, the LDMOS business that you sold to MOSFET. Can you talk a little bit just about the breadth of that opportunity and maybe also how we should be thinking about the size of that over the next year?

Reinhard Ploss, Infineon Technologies AG - Chairman of Management Board, CEO, Head of Research & Development and Labor Director [44]

Yes. Thank you, Johannes. Well, the situation with the gallium nitride on silicon for RF application is a complex one. The opportunity there lies in the application and introduction of the high-complexity MIMO architectures moving away from, I would say, the kind of, let's call it, single-antenna concept.

And here, you see 2 things to happen. And we see these on good track. First of all, the gallium nitride technology has to develop and there are quite substantial challenges in the behavior of gallium nitride RF components where we believe we have solved this better than the competitors, make it more easy for our customer to design it in.

On the other side, we also see that the adoption of new architectures has to go on. And of course, we see in this a very wide interest, but also some challenges due to the geopolitical constraints, which does not enable us to move everywhere fully freely.

And here, we have a very great technical cooperation, but see a great opportunity to go beyond. You will see this gradually growing, but we should not overestimate the consequence on the business as it will remain a smaller absolute number of revenue, but we believe that we will be able to enter this, especially when we think about moving to higher frequencies. But you see there are a number of steps to be taken, and we believe that we are very well positioned.

Operator [45]

We have a follow-up question now from Didier Scemama from Bank of America.

Didier Scemama, BofA Securities, Research Division - Director in EMEA Equity Research & Head of European IT Hardware [46]

I just wanted to just come back to the point earlier on the backlog. So you're saying 80% of your EUR 31 billion backlog is for fiscal year '22 deliveries. So clearly, you won't deliver on that given your capacity limitations. How much of it do you think will spill into '23 at this stage? Or let's put it differently, is 20% of your EUR 31 billion already for '23 deliveries? Can you just comment on this, that would be great?

Reinhard Ploss, Infineon Technologies AG - Chairman of Management Board, CEO, Head of Research & Development and Labor Director [47]

So yes, I think Helmut can put more light on it.

Helmut Gassel, Infineon Technologies AG - Chief Marketing Officer & Member of Management Board [48]

Yes. That's a billion dollar question, I would say. If I would know, I'd be happy how much of that is going to be in '23. But definitely, yes, to the second part of your question. 80% for 12 months means 20% beyond 12 months. And so the -- as you know, our fiscal year ends in September. So there's, what is it, 8 months, I think, we're probably having of that 12 months of the 80%. So 8 of 12 times 80% is what we have in this fiscal year, and the rest goes already into the next fiscal year, which is substantial for -- substantial portion of it. How that is going to develop will, as usual, depend on many things. One of it how is the market going to hold? Is there going to be an increase in supply? So -- but to predict the figure for that for 2023 is not possible now.

Reinhard Ploss, Infineon Technologies AG - Chairman of Management Board, CEO, Head of Research & Development and Labor Director [49]

Yes. Didier, 1 addition in this backlog, we have confirmed and unconfirmed orders. We very much believe that quite a portion of those, which we cannot serve we will shift forward to '23. And therefore, I think this is not so simple to try to have a precise calculation on it.

Operator [50]

We have a follow-up question now from Jerome Ramel from BNP Paribas.

Jerome Ramel, BNP Paribas Exane, Research Division - Analyst of IT hardware and Semiconductor [51]

Yes. Last question on silicon carbide on the target of $1 billion revenue in 2025. How much is the mix between modules, MOSFET and diode?

Reinhard Ploss, Infineon Technologies AG - Chairman of Management Board, CEO, Head of Research & Development and Labor Director [52]

Jerome, this is a challenging question. We believe that the industrial business is, to a large extent, module-based as we have a lot of customer and the renewables, which prefer to use modules. We see also some trends to discrete packages, which we can solve quite well. You know that the challenge with silicon carbide is that out of the same package size, you have 4x the current results for many of our competitors, it's difficult to support that technology. In the automotive segment, we see quite some demand on silicon carbide chips. And there it is -- we cannot clearly say as business develops and therefore, I think Helmut, any addition to that?

Helmut Gassel, Infineon Technologies AG - Chief Marketing Officer & Member of Management Board [53]

Yes. What I can say is, obviously, the diodes are substantially lower in value than the MOSFETs. So we have higher volume in diodes but higher value in MOSFETs, if you want to take that split between MOSFETs and diodes. And it all depends on -- yes, right now, we are much stronger in industrial, and we do see a stronger growth in industrial, too, than we do have in automotive currently. And there we have a higher portion of discretes as well. But overall, modules are more than discretes.

Reinhard Ploss, Infineon Technologies AG - Chairman of Management Board, CEO, Head of Research & Development and Labor Director [54]

Yes. And then to add here, for PSS for high-end server supplies for larger power server supplies, silicon carbide in the PFC stage is a very valuable solution parallel to gallium nitride. Nevertheless, don't forget CoolMOS and I think here, we really have a strong foothold because we can offer the full range, especially also high-power packaging. So let's wait and see how it develops. And of course, you can guess Infineon optimize for profit. And therefore, this may change over time as we take business on -- and -- but I think we can go next time more in detail on that. So back to...

Yes, I think here, we come to the end. And now ladies and gentlemen, it's time to summarize. Infineon was off to a strong start into the 2022 fiscal year, with more than EUR 3.1 billion of revenue, a 22.7% segment result margin and close to EUR 400 million of free cash flow. In our target application areas, the near-term dynamic remains favorable. Supply is seeing some improvement, but keeps being insufficient to meet demand. Many products are in allocation and inventories remain low.

Against this backdrop, we continue to expect a strong 2022 fiscal year to reflect the stronger U.S. dollar. We've raised our guidance to revenue of around EUR 13 billion, a segment result margin around 22% and around EUR 1 billion of fee cash flow. The supply-demand imbalance will stretch well into 2022, but hardly last forever. There will be restocking in phases of slower momentum. But more importantly, our structural growth drivers are fully intact. Semiconductors are becoming ever more strategic and product defining.

Infineon is ideally positioned to shape and benefit from the 2 secular themes of our time, electrification and in digitalization. With both near and long-term prospects bright and full trust in the execution capability of this team here under Jochen's leadership, it is a great time for me to say goodbye.

Alexander Foltin, Infineon Technologies AG - Head of Investor Relations [55]

Ladies and gentlemen, thank you very much for dialing in. This concludes our today's call. Thank you for all your questions. And in particular, for being so disciplined with the one question per caller rule. If you do have further questions, please do not hesitate to reach out to us in the IR team here in Munich. Other than that, stay safe and healthy, and have a good day.

Operator [56]

Thank you. That concludes today's conference call. Thank you everyone for joining us. You may now disconnect.