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Applied Corporate Finance
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Case Study Questions
Infineon Technologies: Time to Cash in Your Chips

In late 2011, Infineon's leadership was reviewing the company's financial policy. The semiconductor firm had just completed a most remarkable turnaround and, with record revenue and sale of its wireless chip unit, was now sitting on net cash of €2.4bn, some 40% of its €5.9bn assets. While returning cash to shareholders seemed reasonable, the flexibility afforded by Infineon's cash reserves was critical given the sector's cyclical and capital-intensive nature, the uncertain level of investment needed and the need to be on the lookout for acquisition opportunities. Therefore the review was bound to be a balancing exercise, and management had started receiving unsolicited conflicting advice as to whether Infineon should disburse cash, how much, and how.

1. Describe Infineon's financial policy and its capital structure in recent years. What have been Infineon's main sources and uses of funds? If you can, estimate Infineon's sustainable growth rate and explain its level. What explains Infineon's current capital structure?

2. Discuss the pros and cons of holding substantial cash reserves in general and whether these apply to Infineon specifically. Propose an appropriate capital structure for Infineon.

Now consider Infineon's payout policy.

3. First, focus on more standard payout methods.

   a. In general, why might a company choose to payout cash to shareholders? In your view, what is Infineon's primary objective in paying out cash?

   b. Given Infineon's primary objective, what are the pros and cons of these payout methods: i) Regular cash dividends, ii) Onetime special dividend, iii) Open market repurchases, iv) Fixed price self-tender offer, and v) Dutch auction self-tender offer?

4. Now consider Infineon's two less standard payout methods.

   a. Convertible bond repurchase: How does this method work? Under what conditions might this be an appealing strategy? Could or should this method be scaled up?

   b. Put warrant issues: How does this method work? Under what conditions might this be an appealing strategy? Could or should this method be scaled up?