Magnachip Semiconductor
Prepared Remarks for Q2 2024 Investor Conference Call
July 31, 2024

Steven Pelayo

Hello everyone. Thank you for joining us to discuss Magnachip's financial results for the second quarter ended June 30, 2024. The second quarter earnings release that was issued today after the market close can be found on the Company's investor relations website. The webcast replay of today's call will be archived on our website shortly afterwards.

Joining me today are YJ Kim, Magnachip's Chief Executive Officer and Shinyoung Park, our Chief Financial Officer. YJ will discuss the Company's recent operating performance and business overview, and Shinyoung will review financial results for the quarter and provide guidance for the third quarter. There will be a Q&A session following the prepared remarks.

During the course of this conference call, we may make forward-looking statements about Magnachip's business outlook and expectations. Our forward-looking statements, and all other statements that are not historical facts, reflect our beliefs and predictions as of today and therefore are subject to risks and uncertainties as described in the Safe Harbor statement found in our SEC filings. Such statements are based upon information available to the Company as of the date hereof and are subject to change for future developments. Except as required by law, the Company does not undertake any obligation to update these statements.

During the call we also will discuss non-GAAP financial measures. The non-GAAP measures are not prepared in accordance with generally accepted accounting principles but are intended as supplemental measures of Magnachip's operating performance that may be useful to investors. A reconciliation of the non-GAAP financial measures to the most directly comparable GAAP measures can be found in our second quarter earnings release in the investor relations section of our website. With that, I now will turn the call over to YJ Kim. YJ?

YJ Kim

Hello everyone and thank you for joining us today and welcome to Magnachip's Q2 earnings call.

Q2 revenue was $53.2 million, down 12.8% year-over-year, but up 8.4% sequentially. This was above the mid-point of our previous guidance range of $49-54 million.

Consolidated Q2 gross profit margin of 21.8% was down 0.4 percentage points year-over-year, but up 3.5 percentage points sequentially. The overall gross margin result was above our previous guidance range of 17-19%. Both MSS and PAS gross margins were higher than our previous guidance. Shinyoung will provide more details in her section.

Revenue in our Standard Product business, which is comprised of MSS and PAS businesses, was $50.8 million, down 1.1% year-over-year, but up 11.6% sequentially. Standard Product business gross margin was 23.1%, up nearly two percentage points sequentially.

Now, let me provide more detailed comments for each of our Standard Products business lines:

Beginning with MSS. Q2 revenue was slightly above the high-end of our guidance at $11.6 million, down 6.2% year-over-year, but up 28.7% sequentially. The quarter-over-quarter revenue growth was due to increased demand from OLED DDICs for China smartphone OEMs, as well as automotive, and Power IC for LCD TV and OLED IT panels.

We continue to collaborate with several OLED panel makers and smartphone OEMs targeting the China market. As a reminder, we have multiple DDICs in various stages of development and customer evaluation. These designs span the entire smartphone market spectrum from the mass market-tier to the premium-tier segments, as well as other display markets such as automotive and wearables like smartwatches.

During Q2, we held a formal Opening Ceremony to mark the launch of our new operations in China under our wholly-owned subsidiary Magnachip Technology Company, Ltd. or MTC. The goal of MTC is to expand the Company's display driver IC and power IC businesses in China. The event attracted a broad audience, including representatives from existing and prospective customers, strategic investment portfolio managers, various members of the supply chain and government officials.

We recently hired Mr. Bing Lu as the new Co-President of MTC. With over 25 years in the semiconductor industry, he brings a wealth of experience in scaling China businesses. Mr. Lu has a diverse background spanning Mobile Phones, Automotive, Home Appliance, IoT, PC, Enterprises, and Industrial sectors. He has held key business management roles at Synaptics, Invensense/TDK, Texas Instruments, and NXP Semiconductor. We look forward to leveraging Mr. Lu's expertise to drive sales and marketing growth in China.

Today, we also announced WM Lee, our General Manager of Mixed-Signal Solutions, has decided to retire after more than a decade with the company. We are deeply grateful for WM's years of exceptional service and wish him the very best.

In Q2, we secured a purchase commitment from the smartphone design-in that we referenced in our Q1 earnings call. The commitment is for a premium OLED smartphone targeted at a leading Chinese smartphone manufacturer. Our plan is to initiate mass production of the chip with potential revenue contributions currently expected to begin by the end of the year. This design win is built on 28nm technology and incorporates advanced 8 transistor LTPO panel features.

In addition, we continue to make progress with another leading Chinese smartphone OEM and are currently in the final design validation phase. As previously mentioned, we also have been selected to collaborate on this smartphone maker's upcoming winter 2024 model featuring our next-generation chip. In Q2, we provided samples of this chip, which incorporates improved brightness control and lower power consumption, to the panel supplier and, upon completion, we will proceed with design validation at the smartphone OEM.

In June, we taped out a next-generation OLED driver designed with key enhanced IP including sub-pixel rendering (SPR), refined color enhancement, color filter, brightness uniformity control and more than 20% reduction in power consumption than previous generation. We believe more power efficient DDICs will be increasingly important as the smartphones integrate high performance A.I. functionality, as well as adopt larger foldable and flexible screens. This chip, which is targeted for feature-rich smartphones in China, is expected to be sampled to a broad array of OLED panel makers in Q4.

Finally, after taping out in Q1, we sampled in Q2 our first OLED smartwatch DDIC. This opportunity showcases our strategy to expand into new, high-growth adjacent markets.

With regard to our automotive DDIC business, revenue increased for the second quarter in a row. The strongest activity is coming from European end customers.

Our Power IC business, which is included in MSS, saw strong sequential growth from LCD TVs and monitors during Q2. Further, due to earlier design wins with a major Korean customer, we saw a notable sequential increase for OLED IT panels as global notebooks makers continue to launch new models with OLED displays. We continue to collaborate with this customer for upcoming models, and we are developing products for both LCD TV and OLED IT panels for potential new customers.

In summary, within MSS, we are executing our strategy and making steady inroads with top tier panel makers and major smartphone OEMs, while also working to drive revenue from adjacent markets in wearables, automotive, TV and IT panels. For Q3, we forecast sequential revenue growth in MSS driven by previously announced OLED smartphone design wins as well as growth from automotive and the refurbished smartphone display markets.

Moving on to PAS: Q2 revenue was $39.2 million, up slightly by 0.6% year-over-year, and up 7.4% quarter-over-quarter. As I said before, the sequential increase was broad based, so I'll share some details by application.

- **<u>The Industrial segment</u>** saw a strong rebound in solar as issues with excess distributor and customer inventory in China now appear largely resolved. Our new 75A/1200V IGBT has a design opportunity in solar applications and should begin mass production in the second half of the year. E-bikes also grew in Q2 and we are well positioned to benefit from the high-speed e-motor market for scooters and motorcycles where we see an approximate doubling of the bill of materials content compared to a traditional e-bike. Lastly, lighting and other markets such as power tools saw sequential growth.

- While a relatively smaller contributor to PAS, **the Automotive segment** rebounded sequentially as we build on our past success in Korea and now see additional design wins and mass production ramps targeted for automotive customers in Japan and China. The end applications vary widely and include IGBTs for automotive heaters and powertrains, as well as MV MOSFETs for various automotive functions related to steering, water pumps, compressors, cooling fans, seats, windows, and battery management systems.

- **The Communication segment** increased sequentially driven by continued demand for LV MOSFETS for high-end foldables and leading-edge AI smartphones in Korea. We also are seeing incremental design win opportunities for tablets, wearables, and China smartphones. As we mentioned on our last earnings call, the PAS design pipeline for LV MOSFETs positions the company well for the next generation of smartphones coming in late 2024 and into 2025. We believe our latest smartphone LV products are well positioned to benefit from industry trends towards foldable screens, increasing A.I. on-chip integration, which requires much lower power consumption than before. Our latest LV power devices consume 20% less than previous generation.

- **In Consumer**, we saw growth from TV as China brands gear up to increase market share. Further, our Super Junction MOSFET and IGBT products are seeing increased demand in home appliances such as refrigerators and induction cooktops.

In summary, the overall Q2 PAS results were in line with our earlier expectation for a gradual recovery in our Power business during the first half of 2024 driven in part by inventory reductions in the channel. We believe the breadth of demand will continue in Q3 driven by leaner distribution channels, and design wins for existing and new products, as well as seasonality. We are continuing to execute in delivering a strong new product pipeline for power in 2024. We believe many of these new products will have similar to Tier 1 class performance and will allow us to penetrate new markets in computing and premium OLED TVs. Additionally, the new products will begin to help fill idle Gumi fab capacity in 2025 created by the phase-out of the Transitional Foundry Services business.

I'll come back to wrap up the call after Shinyoung gives you more details of our financial performance in the second quarter and provides Q3 guidance. Shinyoung?

Shinyoung Park:
Thank you YJ, and welcome everyone on the call. Let's start with key financial metrics for Q2.

Total revenue in Q2 was $53.2 million, which came above the mid-point of our guidance range of $49 – 54 million. This was down 12.8% year-over-year, but up 8.4% sequentially.

- Revenue from MSS business was $11.6 million, slightly above the high-end of our guidance range of $9.5 – 11.5 million. This was down 6.2% year-over-year, but up 28.7% sequentially.

- PAS business revenue was $39.2 million, slightly below the mid-point of our guidance range of $38 – 41 million. This was up 0.6% year-over-year and up 7.4% sequentially.
- Revenue from Transitional Foundry Services declined to $2.3 million as we continue to wind down this service as we've explained previously.

Consolidated gross profit margin in Q2 was 21.8%, above the high-end of our guidance range of 17% - 19%, down from 22.2% year-over-year, but up from 18.3% sequentially.

- MSS gross profit margin in Q2 was 34.6%, above the upper end of the guidance range of 30% - 33%, down from 36.4% in Q2'23, and down from 44.6% in Q1'24. As a reminder, we recognized non-recurring engineering revenue in Q1'24. The year-over-year decline was mostly due to unfavorable product mix.
- PAS gross profit margin in Q2 was 19.7%, above the upper end of the guidance range of 15% – 17%, down from 23.1% in Q2'23, but up from 15.4% in Q1'24. The upside versus guidance was mostly due to stronger-than-expected US dollar against Korean Won and the sale of reserved inventories primarily for solar applications. The year-over-year decline was mainly due to a lower Gumi fab utilization rate from the wind-down of Transitional Foundry Services.

Turning now to Operating Expenses.

- Q2 SG&A was $11.7 million, as compared to $11.3 million in Q1 2024 and $12.1 million in Q2 2023.
- Q2 R&D was $12.7 million, as compared to $11.2 million in Q1 2024 and $11.3 million in Q2 last year. As a reminder, R&D expense fluctuates quarter over quarter due to the timing of product

development and Q2 this year had higher mask set costs, which was in line with our expectation.

Stock compensation charges included in operating expenses were $1.1 million in Q2 compared to $0.9 million in Q1 and $2.0 million in Q2 last year.

Q2 operating loss was $12.8 million. This compares to an operating loss of $13.5 million in Q1 and operating loss of $10.7 million in Q2 2023. On a non-GAAP basis, Q2 adjusted operating loss was $11.6 million, compared to adjusted operating loss of $12.6 million in Q1 and adjusted operating loss of $7.8 million in Q2 last year.

Net loss in Q2 was $13.0 million as compared with a net loss of $15.4 million in Q1 and a net loss of $3.9 million in Q2 last year.

Q2 adjusted EBITDA was negative $7.6 million. This compares to a negative $8.4 million in Q1 and negative $3.6 million in Q2 last year.

Our GAAP diluted loss per share in Q2 was 34 cents, as compared with diluted loss per share of 40 cents in Q1 and diluted loss per share of 9 cents in Q2 last year.

Our non-GAAP diluted loss per share in Q2 was 21 cents. This compares with diluted loss per share of 28 cents in Q1 and diluted loss per share of 6 cents in Q2 last year.

Our weighted average diluted shares outstanding for the quarter were 38.2 million shares. Under our $50 million stock buyback program authorized in July 2023, we repurchased, in Q2 2024, approximately 0.5 million shares for aggregate purchase price of $2.3 million, leaving about $30 million remaining authorization as of June 30, 2024.

<u>**Moving to the balance sheet:**</u>

We ended Q2 with cash of $132.5 million; and we also have an additional non-redeemable short-term financial investment of $30 million which has a maturity date in November 2024. This amount is classified on our balance sheet as short-term financial instruments.

Net accounts receivable at the end of the quarter totaled $31.2 million, which represents an increase of 2.9% from Q1 2024. Our days sales outstanding for Q2 was 53 days and compares to 56 days in Q1.

Our average days in inventory for Q2 was 76 days and compares to 71 days in Q1. Inventories, net at the end of the quarter totaled $34.8 million, and $31.5 million in Q1 2024.

Lastly, Q2 CAPEX was $0.9 million. For the full year 2024, we reiterate our prior CAPEX to spend $10 – 12 million, primarily for our PAS business and Gumi fab. This includes approx. $3 – 4 million of one-time CAPEX for our newly established operating entity in China.

Now moving to our third quarter and full-year 2024 guidance:
While actual results may vary, for Q3 2024, Magnachip currently expects:

- Consolidated revenue to be in the range of $61.5 to $66.5 million, including approximately $1.5 million of Transitional Foundry Services.
    - MSS revenue to be in the range of $14.5 to $16.5 million, up 33.7% sequentially and 46.2% year-over-year at the mid-point. This compares with MSS equivalent revenue of $11.6 million in Q2 2024 and $10.6 million in Q3 2023.

    - PAS revenue to be in the range of $45.5 to $48.5 million, up 19.8% sequentially and 14.6% year-over-year at the mid-point. This compares with PAS equivalent revenue of $39.2 million in Q2 2024 and $41.0 million in Q3 2023.

- Consolidated gross profit margin to be in the range of 22.5% to 24.5%.
    - MSS gross profit margin to be in the range of 36.5% to 39.5%. This compares with MSS equivalent gross profit margin of 34.6% in Q2 2024 and 28.8% in Q3 2023.
    - PAS gross profit margin to be in the range of 18.5% to 20.5%. This compares with PAS equivalent gross profit margin of 19.7% in Q2 2024 and 28.6% in Q3 2023.

For the full-year 2024, we currently expect:

- MSS revenue to grow double digits year-over-year as compared with MSS equivalent revenue of $44.4 million in 2023, consistent with what we communicated at the beginning of the year.
- PAS revenue to grow double digits year-over-year as compared with PAS equivalent revenue of $151.3 million in 2023, consistent with what we communicated at the beginning of the year.
- Transitional Foundry Services revenue will decline in 2024, as expected. We expect this revenue to phase out by the end of the year.
- Consolidated revenue flattish-to-slightly down, compared to prior expectation of flat-to-up-slightly year-over-year.
- Consolidated gross profit margin between 19% to 22%, above our prior expectation of 17% to 20%. This compares with the consolidated gross profit margin of 22.4% in 2023.

Thank you and now I will turn the call back over to YJ for his final remarks. YJ?

YJ Kim

As you know, we are undergoing a transformation of our business that will unfold over the course of two years. The first major transition involves the shift in our priorities to be laser-focused primarily on China expansion for our OLED display business. The second major transition involves filling idle capacity in our Gumi fab as a result of the previously disclosed wind-down of the Transitional Foundry Services business.

We've already taken initial steps to realize our objectives by streamlining the structure of the company by creating separate MSS and PAS businesses to better align our product strategies. More recently, we formed a wholly-owned MTC subsidiary in China with the goal of accelerating our business there. We currently are pursuing multiple new OLED design opportunities with panel makers and smartphone OEMs in China.

As we've said previously, filling idle capacity in Gumi with Power products is a high priority because of the impact on margins. A positive sign is that our Power business is expected to show sequential growth again in Q3 as a result of new design wins and leaner channel inventories. Longer term, we have a pipeline of new Power products that we expect to begin to contribute to wafer starts in Gumi over the course of 2025 and beyond. Our Power business in 2024 is currently forecast to grow by double digits over 2023.

We have much work ahead to achieve our objectives, but I'm encouraged that our business strategies are pointing us in the right direction, and I'm committed to taking **any** steps necessary to drive shareholder value.

Now I will turn the call back to Steven. Steven?

Steven Pelayo

Thank you. That concludes the prepared remarks section of our call today, operator you may now open up the call for questions.

Steven Pelayo – Closing Remarks

Thank you! This concludes our Q2 earnings conference call. Please look for details of our future events on Magnachip's Investor Relations website.

Thank you and take care.