Magnachip Semiconductor
Prepared Remarks for Q1 2024 Investor Conference Call
May 2, 2024

Steven Pelayo

Hello everyone. Thank you for joining us to discuss Magnachip's financial results for the first quarter ended March 31, 2024. The first 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 second 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 first 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 Q1 earnings call.

Our overall Q1 results were in-line with our guidance. Q1 revenue was $49.1 million, down 13.9% year-over-year and down 3.5% sequentially. Consolidated gross profit margin was 18.3%, down 2.9 percentage points year-over-year and 4.4 percentage points sequentially, mostly due to the wind-down of the Transitional Foundry Services.

Excluding Transitional Foundry Services, revenue in our Standard Product business, which is comprised of MSS and PAS businesses, was up 10.6% sequentially, while gross margin was 21.2%, down 1.7 percentage points sequentially. The decline in gross margin was mostly due to lower Gumi fab utilization driven by the wind-down of Transitional Foundry Services, which also impacts PAS margins because they share the fab.

Despite typical Chinese New Year seasonality, the solid sequential revenue growth of our Standard Products business in Q1 suggests overall market conditions are improving with the inventory correction possibly nearing an end for some verticals. In particular, we saw improvement in the inventory channel for our PAS business. We also saw better-than-expected demand from our design for the after-service OLED display market, and we benefited from increased demand in our automotive display business. The PAS business strength was primarily from smartphones, e-motors, consumer appliances and server power applications.

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

Beginning with MSS. Q1 revenue was in-line with our guidance at $9.0 million, down 29.7% year-over-year, and up 5.2% sequentially. As mentioned before, the quarter-over-quarter revenue growth was due to increased demand from automotive LCD and OLED products.

Overall, we continue to collaborate with several OLED panel makers and smartphone OEMs targeting the China market. While third party market researcher Omdia predicts only slight growth in the global smartphone market in 2024, the top five China brands are forecasted to enjoy more than 18% growth in OLED smartphone shipments. As a reminder, we have DDIC designs and customer engagements underway that 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. We had an additional two new OLED designs this quarter that we will discuss in more detail later.

More specifically,

- During the quarter, our Display IC business had a new design-in of a high-end OLED smartphone for a top tier Chinese smartphone vendor. This design-in is based on our QHD+ OLED DDIC that we sampled in Q1 2024. This chip provides the latest 8 Transistor LTPO panel feature support and is produced in 28nm. We expect this design to go into production by the end of the year.

- We also started the initial ramp in Q1 for our first-generation OLED DDIC chip for China that we taped out in 2022 for the after-service market. We are now working to expand this segment with other China panel makers.

- As mentioned previously, we received a pilot production PO as a second source supplier from a leading Chinese smartphone OEM. We expect revenue to begin in the second half of the year. Moreover, we also have been chosen to work with them on their fall 2024 model with our new next-generation chip, that we taped-out and expect to sample in Q2.

- Finally, we taped-out in Q1 and expect to sample in Q2 our first smartwatch OLED DDIC. We are excited about this partnership with a smartwatch solution provider in China as it showcases our strategy to expand into new, high-growth adjacent markets.

- **With regard to our automotive DDIC business,** we saw strength in the first quarter that will likely continue in Q2. Notably, we had a new OLED design win in EV that has commenced production in Q2 targeted for a leading European automaker.

- **Our Power IC business is now included in MSS.** We saw sequential strength from LED TVs during Q1 and expect business to broaden to include multiple notebooks and tablet models in Q2. We continue to secure new design wins with a major Korea customer.

Moving on to PAS: Q1 revenue was $36.5 million, down 5.6% year-over-year, and up 12% quarter-over-quarter. The sequential increase was due primarily to increased demand for medium voltage MOSFET for industrial e-motor markets in China, consumer appliances, and server power. The results are in line with our earlier expectation for a gradual recovery in our Power business during the first half of 2024, and are further supported by initial signs of inventory reductions in the distribution channel for our PAS products.

More specifically,

- We saw strength in the high-speed e-motor market for scooters and motorcycles where we benefit from an approximate doubling of the bill of materials content compared to a traditional e-bike. We believe our power solutions for e-motors are now outperforming our competition.

- We are seeing steady demand in low voltage MOSFETS due to contribution from new high-end smartphone models as well as increased demand in mid-range smartphones. Further, the PAS design pipeline looks solid for the next generation of smartphones coming in late 2024 and into 2025.

- We saw a sequential uptick in demand for our SuperJunction MOSFETs and obtained a 600V design win in the PC Power and power supply market. We also had an IGBT design win at 650V from a major Korean appliance company.

- Lastly, within automotive power, we had our first medium voltage MOSFET design win for an electric cooling fan with a China-based SUV supplier, as well as an additional power steering related win in Korea.

- We have a strong product pipeline for power in 2024 and they are on track, these products expect to contribute revenue by end of the year. The new 650V IGBT finished the qualification and expect to begin commercial sample this month. 6th Gen IGBT and SJ MOSFET samples will begin in Q2, 8th generation LV MOSFET sample is ready and 8th generation MV MOSFET samples are ready in Q2/24.

In summary, PAS saw strong sequential growth in Q1. With the addition of new products and streamlined channel inventory, we are optimistic for the growth trajectory in 2024. In MSS, we are executing our China focused strategy and making steady inroads with top tier panel makers and major smartphone OEMs.

I'll come back to wrap up the call after Shinyoung gives you more details of our financial performance in the first quarter and provide Q2 guidance. Shinyoung?

Shinyoung Park:
Thank you YJ, and welcome everyone on the call. Let's start with key financial metrics for Q1.

Total revenue in Q1 was $49.1 million, which came slightly above the mid-point of our guidance range of $46 – 51 million. This was down 13.9% year-over-year and down 3.5% sequentially.

- Revenue from MSS business was $9 million, at the mid-point of our guidance range of $8 – 10 million. This was down 29.7% year-over-year, but up 5.2% sequentially.
- PAS business revenue was $36.5 million, and at the mid-point of our guidance range of $35 – 38 million. This was down 5.6% year-over-year, but up 12% sequentially.

- Revenue from Transitional Foundry Services declined to $3.5 million as we continue to wind down this service over the next couple of quarters as we've explained previously.

Consolidated gross profit margin in Q1 was 18.3%, within our guidance range of 17 - 20%, but down from 21.2% year-over-year and down from 22.7% sequentially.

- MSS gross profit margin in Q1 was 44.6%, above the upper end of the guidance range of 40 - 43%, up from 30.2% in Q1'23, and up from 41.3% in Q4'23. The margin expansion was primarily due to non-recurring engineering revenue and higher-than-expected revenue from our first generation DDIC, for the after-service market. The volatility of MSS gross profit margin is also due to the smaller relative size of its revenue.
- PAS gross profit margin in Q1 was 15.4%, below the mid-point of the guidance range of 15 – 18%, down from 26.7% in Q1'23 and down from 18.1% in Q4'23. This year-over-year and sequential decline was mainly due to a lower Gumi fab utilization rate from the wind-down of Transitional Foundry Services and unfavorable product mix.

Turning now to Operating Expenses.

- Q1 SG&A was $11.3 million, as compared to $12.1 million in Q4 2023 and $12.2 million in Q1 last year. The sequential and year-over-year decline in SG&A was primarily attributable to our cost reduction efforts with respect to certain one-time employee-related benefits.
- Q1 R&D was $11.2 million, as compared to $15.4 million in Q4 2023 and $13.3 million in Q1 last year. As a reminder, R&D expense in Q4 last year included higher mask set costs due to the timing of product development.

Stock compensation charges included in operating expenses were $0.9 million in Q1 compared to $1.7 million in Q4 and $1.1 million in Q1 last year.

Q1 operating loss was $13.5 million. This compares to an operating loss of $15.9 million in Q4 and operating loss of $21.8 million in Q1 2023. On a non-GAAP basis, Q1 adjusted operating loss was $12.6 million, compared to adjusted operating loss of $14.1 million in Q4 and $12.2 million in Q1 last year.

Net loss in Q1 was $15.4 million as compared with a net loss of $6.0 million in Q4 and a net loss of $21.5 million in Q1 last year.

Q1 adjusted EBITDA was negative $8.4 million. This compares to a negative $10 million in Q4 and negative $7.9 million in Q1 last year.

Our GAAP diluted loss per share in Q1 was 40 cents, as compared with diluted loss per share of 16 cents in Q4 and diluted loss per share of 49 cents in Q1 last year.

Our non-GAAP diluted loss per share in Q1 was 28 cents. This compares with diluted loss per share of 21 cents in Q4 and 24 cents in Q1 last year.

Our weighted average diluted shares outstanding for the quarter were 38.5 million shares. Under our $50 million stock buyback program authorized in July 2023, we repurchased, in Q1 2024, approximately 0.6 million shares or $4.1 million, leaving about $32.3 million remaining authorization at the end of March 31, 2024.

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

We ended Q1 with cash of $171.6 million, which includes approximately $29.7 million in long-term borrowing, up from $158.1 million at the end of Q4 2023. We added the long-term borrowing in March this year in order to opportunistically take advantage of favorable financing terms while exploring strategic options, including share buy backs and strategic investments, to enhance shareholder value. This loan bears a variable interest rate and the initial interest rate was 4.86% per annum, and matures on March 26, 2027. We pledged our Gumi properties as collateral. Please refer to the Form 8-K filed on March 29, 2024 for further details.

Net accounts receivable at the end of the quarter totaled $30.3 million, which represents a decrease of 7.2% from Q4 2023. Our days sales outstanding for Q1 was 56 days and compares to 59 days in Q4.

Our average days in inventory for Q1 was 71 days and compares to 77 days in Q4. Inventories, net at the end of the quarter totaled $31.5 million, and $32.7 million in Q4 2023.

Lastly, Q1 CAPEX was $0.7 million. For the full year 2024, we anticipate 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 second quarter and full-year 2024 guidance:
While actual results may vary, for Q2 2024, Magnachip currently expects:

- Consolidated revenue to be in the range of $49 to $54 million, including approximately $1.5 million of Transitional Foundry Services.
    - MSS revenue to be in the range of $9.5 to $11.5 million. This compares with MSS equivalent revenue of $9.0 million in Q1 2024 and $12.4 million in Q2 2023.

- PAS revenue to be in the range of $38 to $41 million. This compares with PAS equivalent revenue of $36.5 million in Q1 2024 and $39 million in Q2 2023.

- Consolidated gross profit margin to be in the range of 17% to 19%.
  - MSS gross profit margin to be in the range of 30% to 33%. This compares with MSS equivalent gross profit margin of 44.6% in Q1 2024, which included non-recurring engineering revenue, and 36.4% in Q2 2023.
  - PAS gross profit margin to be in the range of 15% to 17%, primarily as a result of the impact of idle capacity from the expected decline in Transitional Foundry Services revenue. This compares with PAS equivalent gross profit margin of 15.4% in Q1 2024 and 23.1% in Q2 2023.

For the full-year 2024, we reiterate our prior guidance:

- MSS revenue to grow double digits year-over-year as compared with MSS equivalent revenue of $44.4 million in 2023.
- PAS revenue to grow double digits year-over-year as compared with PAS equivalent revenue of $151.3 million in 2023.
- Consolidated revenue flat-to-up-slightly year-over-year as recovery in MSS and PAS is offset by the phase-out of Transitional Foundry Services.
- Consolidated gross profit margin between 17% to 20%, primarily as a result of the impact of idle capacity expected from the phase-out of Transitional Foundry Services. 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 we noted in our previous earnings call, we are undergoing a substantial transformation in our business over the next couple of years.

1. We have shifted the priorities in our Display IC business to be laser-focused primarily on China business expansion. We have now begun operations at our new Chinese entity Magnachip Technology Company (MTC) with our China headquarters now up and running, and we expect to significant expand our China operations in 2024. We are strengthening strategic relationships with panel customers, OEMs and suppliers. I am encouraged with the progress thus far.

2. Q1 is the first period in which our financial results reflect the operating performance under the new MSS and PAS structure. The separation of those businesses streamlines our go-to-market strategy, strengthens the potential for increased shareholder value via strategic investments, and also improves transparency for investors.

3. We are working very hard to fill idle fab capacity in our Gumi fab caused by the winding down of Transitional Foundry Services. Our current Power products are experiencing an increase in demand, and we are launching a new slate of higher-margin products throughout the year.

I look forward to sharing updates on our progress on future earnings calls.

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 Q1 earnings conference call. Please look for details of our future events on Magnachip's Investor Relations website.

Thank you and take care.