Magnachip Semiconductor
Prepared Remarks for Q3 2025 Investor Conference Call

Mike Bishop

Thank you. Hello, everyone. Thank you for joining us to discuss Magnachip's financial results for the third quarter ending September 30, 2025. The third quarter earnings release that was issued today after the market closed 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 Camillo Martino, Magnachip's Chief Executive Officer; and Shinyoung Park, our Chief Financial Officer. Camillo 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 fourth 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 filing. 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'll also 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 third quarter earnings release in the investor relations section of our website.

With that, I'll now turn the call over to Camillo Martino. Camillo?

Camillo Martino:
Thank you, Mike, and good afternoon, everyone.

It has been approximately two and half months since I was appointed interim CEO. Magnachip is a company with a rich history of innovation, a reputation for high reliability and quality, and strong customer relationships. That said, for the past couple of years, we have failed to execute on our promises. I know our shareholders are frustrated and upset. We are moving quickly to improve financial fundamentals and deliver long term shareholder value.

There are five very critical objectives for our CFO, Shinyoung Park and myself…

1. Reposition our product portfolio to be significantly more competitive
2. Right-size our OPEX structure for a pure play power business
3. Conserve cash
4. Increase our transparency with shareholders
5. Explore strategic alternatives

Consistent with our communications back in August, our Board continues to review all strategic alternatives.

At the same time, I see tremendous potential here, especially with a lineup of a new generation products either recently launched or to be launched soon, and a strong product roadmap. I believe we can execute our product strategy to deliver on that potential.

After joining the management team, we undertook a complete bottoms-up analysis of the company to highlight ways to correct course and put us on a path to recovery. We identified some significant challenges in the near term and medium term that will require precise product planning and execution.

I would like to present on this call our findings so far, and outline the initial steps in our plan to address our issues and also our opportunities for the short term. My goal today and going forward is to be transparent about where we stand, and where we are headed, the challenges we will likely face along the way, and our plans to address them.

Let me first share our high-level results of Q3.

Q3 revenue came in at $45.9 million, at about the midpoint of our guidance range, and gross profit margin was 18.6 percent, which was at the low end of the guidance range.

These results reflect three realities:

1. The pricing pressure on our legacy products is especially intense in China – some business we had to walk away from.
2. Lower fab utilization as a result of this pricing pressure, and also due to the higher level of months of inventory at the end of Q3, especially in China.
3. On the positive side, we saw significant strength in the communication segment, with revenue increasing 34% sequentially quarter-on-quarter and 95% year-over-year.

Regarding fab utilization, while we anticipate fab utilization rates will decline again in Q4, we believe the Q4 fab utilization rate is likely to hit the low point of mid-50%s to manage higher levels of inventory in the channel and we expect to execute an incentive program to address it. In the meantime, we cannot afford idle capacity, and so we are pursuing every opportunity to aggressively load the fab with existing products to sustain operating leverage and stabilize and then improve gross profit margin until our new-generation products contribute meaningfully. After Q4, we expect utilization to begin to recover, and we believe new-generation products will improve this metric.

These financial and operating results, and the results of our analysis led us to create the five objectives I stated earlier, and I would like to elaborate on each of these.

Our First Objective is to…

Reposition our product portfolio to be significantly more competitive

Magnachip's results clearly show the headwinds we are facing. Our competitive position in China's industrial markets and the global consumer TV sector has significantly worsened over the past year. Intense price competition coupled with an aging product portfolio have taken their toll.

Despite that, the engineering foundation here at Magnachip is solid and we are taking decisive actions to stabilize our competitive position that we can then build upon…

Namely, we are fast-tracking new generation product development to improve competitiveness and achieve revenue growth, margin expansion and a return to improved rates of fab utilization. Areas of focus for these new generation products are our low and medium voltage MXT MOSFET products, our Super-junction MOSFETs products and our IGBT products.

We are well underway with this initiative. During the first 9 months of 2025 we have released 30 new generation products, compared with only 2 in the same time period of 2024. In Q4 2025, we currently expect to launch at least another 20 new generation products, for a total of at least 50 in 2025, as compared to only four in all of 2024.

Generally speaking, we consider a new generation product is one in which we achieve a greater than 30% improvement in performance per unit area.

The challenge is the revenue ramp time for these new generation products to impact our financial results. New generation products will take multiple quarters or more to meaningfully contribute to the income statement, depending on the market segment. However, we are already seeing the initial results in Q3, as 2% of total revenue came from new generation products. We expect that number to be approximately 10% in Q4 2026.

We are excited about our IGBT announcement today. We have signed a strategic licensing agreement with Hyundai Mobis regarding the use of high-performance Insulated Gate Bipolar Transistor (IGBT) technology that we co-developed for many years. We believe this agreement will enable us to expand our IGBT footprint beyond automotive markets into industrial, AI and renewable markets. Industry analysts forecast the IGBT market will reach nearly $17 billion by 2029, up from around $11 billion in 2024. Hyundai Mobis is a global auto parts provider focused on delivering differentiated mobility solutions that combine software and hardware.… and it is also associated with Hyundai Motor company, the world's 3rd largest automotive manufacturing company. This partnership is still in its early stages, but we expect to see initial qualification results in 2026 and currently expect initial revenue to start in 2027.

Moving to the second objective, to…

Right-size our OPEX structure for a pure play power business

We have initiated multiple OPEX cost-reduction programs, including workforce streamlining that will generate approx. $2.5 million of annualized OPEX savings. We will see the early impact of these actions in Q4, 2025. With the shut-down of the Display business and the execution of this workforce reduction program, our overall headcount is expected to be reduced by more than 20% when comparing end of 2025 versus end of 2024. For non-factory employees, we expect the headcount reduction to be nearly 40% when comparing at the end of 2025 versus at end of 2024.

These initiatives are foundational to our third objective…

Conserving Cash

We have reduced our CAPEX investments to both conserve cash and lay the groundwork for our recovery.

As we have already announced, among the first actions being taken in our plan is cutting capital expenditures for our Gumi fab upgrade by more than 50% over the next two years as we prioritize capital allocation. Our deliberate investment in CAPEX for our Gumi fab was made to support the growth of our new generation power products that are critical to our financial recovery.

I can say now that with the actions we have implemented, I believe we are moving in the right direction.

Now let me comment on our fourth and fifth objectives involving being transparent and exploring strategic options.

Let me assure you that I am personally committed to being transparent with investors.

Finally, the Board and management team are fully aligned as we explore all strategic options available to us.

Moving to my final thoughts,

During my years in the semiconductor industry, I have held executive roles in several chip companies, including as CEO of a publicly held company. I have also lived and worked in Asia for many years as a senior executive for a global chip company so I am very familiar with what it takes to compete here.

That said, I will be blunt: turning Magnachip around will take time and require an all-hands on deck approach with intense focus from our management team.

The next few quarters will remain challenging as our legacy products decline and our new generation products begin to ramp.

But we also have several reasons for optimism:

- a strong engineering team,
- a growing customer base
- and, a clear product roadmap that targets higher-margin power segments.

We are planning to have more definitive details on our go-forward operating strategy on our Q4 call.

With that, I will hand the call over to Shinyoung for more detail on the financial results and guidance, and come back for final remarks. Shinyoung?

Shinyoung Park:

Thank you Camillo, and welcome everyone on the call. Let's start with key financial metrics for Q3.

Total Q3 consolidated revenue from continuing operations (which includes Power Analog Solutions (PAS) and Power IC) was $45.9 million, which was about the mid-point of our guidance range of $44 to $48 million. This was down 13.3% year-over-year, and down 3.5% sequentially on an apples-to-apples basis. This compared with equivalent revenue of $53.0 million in Q3 2024 and $47.6 million in Q2 2025.

- Revenue from Power Analog Solutions was $41.5 million. This was down 12.7% year-over-year, and down 1.7% sequentially, primarily due to the competitive pricing pressure on our older generation products, which was especially intense in China.
- Revenue from Power IC was $4.4 million. This was down 18.9% year-over-year and down 18% sequentially. The sequential decline was due mainly to pull-ins by customers in Q2 from the second half of the year.

In Q3, consolidated gross profit margin from continuing operations was 18.6%, which was at the low end of the guidance range of 18.5% - 20.5%, down from 22.0% year-over-year, and down from 20.4% sequentially on an apples-to-apples basis. The year-over-year decline was primarily attributable to an unfavorable product mix, driven mainly by ASP erosion, particularly in China, and filling our fab with lower margin products, and a lower utilization rate. The sequential decline was mainly attributable to a lower utilization rate.

The Company's Display business has been classified as discontinued operations from Q1 2025 and from Q3 2025, we've additionally classified certain expenses incurred outside of Korea as discontinued operations. Thus, **all of the following figures reflect results from continuing operations** and the prior periods were recast to be on an apples-to-apples basis.

- Q3 SG&A was $8.3 million, as compared to equivalent SG&A of $9.5 million in Q3 2024 and $9.0 million in Q2 2025. Stock compensation charges included in SG&A were negative $28 thousand in Q3, as compared to $1.4 million in Q3 2024 and $0.8 million in Q2 2025. In Q3, $0.7 million was reversed as a result of the prior CEO's separation and the related stock forfeiture.
- Q3 R&D was $7.8 million, as compared to equivalent R&D of $6.5 million in Q3 2024 and $6.5 million in Q2 2025. R&D in Q3 increased due to the acceleration of new product development. We expect at least 20 new generation product introductions in Q4.
- In Q3, we recorded one-time charges of $4.0 million, of which $2.6 million represented the package cost for the employees we let go under the voluntary resignation program that we completed at the end of Q3, and the remainder primarily related to the separation payment and certain cash benefits disclosed in the prior CEO's separation agreement.

Before I go into the details of our non-GAAP results, please note that our GAAP financial results are available in our Form 8-K filing with our third quarter earnings release.

Our non-GAAP results are as follows: Q3 Adjusted Operating Loss was $7.4 million, compared to an equivalent Adjusted Operating Loss of $2.9 million in Q3 2024 and an Adjusted Operating Loss of $4.8 million in Q2 2025. Q3 Adjusted EBITDA was negative $4.0 million. This compares to an equivalent Adjusted EBITDA of $0.8 million in Q3 2024 and negative $1.5 million in Q2 2025. Adjusted Operating Loss and Adjusted EBITDA deteriorated year-over-year and sequentially mostly due to the lower gross profit amount and higher R&D expense as explained above.

Q3 non-GAAP diluted loss per share was one cent. This compares with equivalent non-GAAP diluted loss per share of 20 cents in Q3 2024 and non-GAAP diluted loss per share of five cents in Q2 2025. This is due in part to the recognition of income tax benefit of $4.2 million in Q3 and $4.1 million in Q2 2025, whereas the recognition of the income tax expense of $6.1 million in Q3 last year. Our weighted average non-GAAP diluted shares outstanding for the quarter were 35.9 million shares and 37.5 million shares in Q3 2024 and 36.1 million shares in Q2 2025.

Before we talk about some balance sheet items, let me provide some comments regarding the Company's discontinued Display business. The sale of end of life Display products resulted in cash inflow of a little over $3 million in Q3 and we booked the one-time charges of $5.2 million due mainly to certain additional expenses incurred outside of Korea, of which about 40% was a non-cash item and we are in the process of reviewing and negotiating the remainder to reduce the cash outlay.

Moving to the balance sheet:

We ended Q3 with cash of $108.0 million as compared to $113.3 million at the end of Q2 2025. The main cash outflow in Q3 was $4.0 million of **net** cash CAPEX after subtracting $3.6 million, which was the Q3 funded portion by the previously announced equipment loan.

At the end of Q3, our long-term borrowings amounted to $38.9 million, which included the $10.4 million of the equipment loan.

As noted in August when Camillo joined the management team, to conserve cash, we've reduced the upgrade CAPEX for our Gumi fab to be in the range of $30 – 35 million by over 50% from the previously forecast range of $65 – 70 million through 2027. Of the $30 – 35 million range, we invested approx. $14 million in the first three quarters of 2025 and expect to spend approx. $6 million in Q4 2025. We view this investment as a requirement to support the development of the new generation of power products. For the full year 2025, we expect approx. 85 – 90% of the $20 million upgrade CAPEX to be funded by the equipment loan to which an interest rate of less than 3% per annum will apply. Because the available amount of equipment loan ties to the total CAPEX amount, which we reduced it by over 50%, the previously disclosed $26.5 million is now expected to be around $20 million.

Including the maintenance CAPEX, for the full year 2025, we expect the **total** CAPEX to be in the range of $29 – 30 million and the related net cash impact to be in the range of $11.5 – $12.5 million, which netted the funded portion by the equipment loan.

Additionally, in connection with the voluntary resignation program that we completed by the end of Q3, we paid in October the one-time package cost of $2.5 million that I mentioned earlier and $1.5 million of statutory severance, which was net of the deposits that made outside of the Company's accounts per the Korean labor law. With the execution of this headcount reduction, we reduced an additional 5% of our total headcount, after the shutdown of the display business. With this additional 5% reduction, we target to achieve annual OPEX savings of approximately $2.5 million beginning in Q4 2025 with the payback period of about 1.5 years.

With the cash outflows in Q4 mainly from CAPEX and the payment timing of voluntary resignation program related amounts as described above, we currently expect our cash balance at the end of 2025 to be in the level of mid-90 million dollars.

Now moving to our fourth quarter and full-year 2025 guidance:

While actual results may vary, for Q4 2025, Magnachip currently expects:

- Consolidated revenue from continuing operations (which includes Power Analog Solutions and Power IC businesses) to be in the range of $38.5 to $42.5 million, down 11.9% sequentially and down 17.1% year-over-year at the mid-point on an equivalent basis due in part to a one-time $2.5 million incentive program we expect to execute in Q4 to reduce higher levels of inventory in the channel.
  This compares with equivalent revenue of $45.9 million in Q3 2025 and $48.9 million in Q4 2024.
- Consolidated gross profit margin from continuing operations to be in the range of 8% to 10% due to the above-described one-time incentive as well as a lower fab utilization rate. We expect this incentive program to be a 600 basis point negative impact. This compares with equivalent gross profit margin of 18.6% in Q3 2025 and 23.2% in Q4 2024.

For the full-year 2025:

- Consolidated revenue from continuing operations is expected to be down by 3.8% year-over-year at the mid-point of Q4 revenue guidance on an equivalent basis. The equivalent revenue in 2024 was $185.8 million.
- Consolidated gross profit margin from continuing operations is expected to be between 17% to 18% and the above-described one-time incentive program in Q4 is expected to have an about 100 basis point negative impact in the full-year consolidated gross profit margin. The equivalent gross profit margin was 21.5% in 2024.

As I approach my fourth year as CFO, I must acknowledge this year's financial results have been disappointing. As Camillo noted earlier, we must regain investors' confidence, and therefore my focus as CFO will continue to be on heightened financial discipline and cash preservation.

While there's clearly more work to do, I feel good about a number of actions we and the board recently executed, which are expected to result in a reduction of annual OPEX by about 35% year-over-year, and a reduction in headcount by more than 20% when comparing end of 2025 versus end of 2024. With these actions, we will be better positioned to enter 2026.

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

Camillo Martino:

Thank you, Shinyoung.

This quarter reflects the realities of our transition into a pure play power products company. Our Q4 guidance is much lower than we would have liked to see because of the one-time incentive program. However, we expect Q1 2026 top line to sequentially grow by double digits.

We acknowledge our failure to deliver on our prior promises and we certainly share the disappointment and frustration of our shareholders.

Our priorities are clear, including to explore strategic alternatives.

The actions we have taken to reduce CAPEX and OPEX, and to revitalize our power product portfolio, are repositioning Magnachip for long-term recovery and success.

I want to thank our employees for their continued hard work and dedication, and our investors and partners for their patience and support as we move through this important phase.

I will turn the call to the operator to open the call for questions?

Operator?

Mike Bishop:

Thank you everyone for participating on our call today. We appreciate your support of Magnachip. Operator?