

Magnachip Semiconductor
Prepared Remarks for Q4 2024 Investor Conference Call

Steven Pelayo

Hello everyone. Thank you for joining us to discuss Magnachip's financial results for the fourth quarter and full year ended December 31, 2024. The fourth quarter earnings release that was issued today before the market open 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 first quarter and full year of 2025. 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 fourth 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 Q4 earnings call.

In addition to sharing Q4 earnings results, Magnachip management and the Board of Directors today announced a new strategy to become a pure-play Power company, focusing its investments on the Power Discrete and Power IC businesses to drive profitability and maximize shareholder value. We will host a separate sell-side analyst briefing later this morning to provide additional color on our strategy.

As part of that strategy, we also announced today that Magnachip is exploring all possible strategic options for the Display business.

This was an extremely difficult decision for me, the management team and the Board of Directors when considering both our valued customers and employees. While we have a rich and competitive portfolio of OLED display technology, after a careful review of our business outlook we've determined that the greatest potential for profitable growth lies with our Power solutions business, including Power discrete and Power IC. Achieving profitability is

our highest priority and in the best interests of our shareholders and other stakeholders. As a sign of my own personal commitment to the long-term success of Magnachip's new strategy, I am voluntarily cutting my current base salary by 20%, and Shinyoung Park, our CFO, has also agreed to a 10% voluntary decrease of her current base salary, until such time as Magnachip achieves positive GAAP operating income for two consecutive quarters.

Unlike the Display business, which primarily is served by a few panel makers, Magnachip's Power business caters to a broad array of industries and customers that we believe have more stable, long-term growth prospects. We therefore have launched a strategic process for the Display business. While our goal is to complete this process by the end of Q2 2025, the Display business will be classified as discontinued operations beginning with our Q1 2025 financials. Shinyoung will explain this in greater detail later in the call.

As mentioned previously, our utmost short-term goal is a return to profitability. By focusing on the Power business, our goal is that Magnachip's business from continuing operations will achieve:

1. Quarterly adjusted EBITDA breakeven by the end of Q4 2025, followed by;
2. Positive adjusted operating income in 2026, and;
3. Positive adjusted free cash flow in 2027.

Each of these targets will act as milestones towards achieving a goal in three years to reach a \$300 million annual revenue run-rate with a 30% gross profit margin target. We are calling this 3-year objective our 3-3-3 Strategy.

Magnachip's Power business is now entering a new phase that we call Phase 3.

- Phase 1 was our initial market entry and foundation period between 2007 and 2012 and primarily focused on mobile phones.
- Phase 2 was our market expansion into consumer home appliances, computing, smartphones, e-bikes, solar and lighting. Most of these efforts were aimed at a smaller portion of the performance segments serving up to 10KW. Many of our greatest successes were in sub 1KW applications such as TV, smartphones and e-bike.
- For Phase 3, we are expanding our addressable markets into larger and higher performance markets. These include additional industrial segments such as energy storage, automation and robotics as well as automotive and A.I. data center opportunities up to 100KW and above.

Our Phase 3 strategy is underway now with today's launch of a series of next-generation power products, including:

- Gen 5 and Gen 6 IGBT;
- Gen 6 SuperJunction MOSFETs, and
- Gen 8 medium- and low-voltage MOSFETs.

We expect to release over 40 new generation Phase 3 power products in 2025, with 27 new generation products launching in Q1 2025, with fully qualified commercial samples available. And with our current product pipeline, we expect to increase the number of Phase 3 new generation Power products to approximately 55 that we expect to introduce in 2026 versus 2025.

We expect new generation Power products to drive higher revenue per wafer at our Gumi fab. For example, our Gen 6 SuperJunction power devices not only deliver superior performance compared to the previous generation, but will also offer 30% more die per wafer. Therefore, these new products when fully ramped will drive meaningfully higher gross margins compared to the previous generation.

These innovative product families will open new high-value market opportunities for Magnachip, such as automotive, industrial, and A.I. applications. We are targeting Automotive, Industrial and A.I. to represent more than 60% of Magnachip's future product mix, up from 37% in 2024. Notably, we already have ongoing engagements to penetrate Automotive markets which we expect to reach over 10% of our revenue by 2027, from less than 5% of our revenue in 2024.

To support this transition to higher performance new generation products, we will invest \$65-70 million over the next three years to upgrade production equipment at our manufacturing facility in Gumi. When these new Power products enter production, we anticipate top-line growth and meaningful bottom-line improvement. By the end of 2026, we expect almost half of our manufacturing capacity in the Gumi fab will come from these new generation of products.

We will discuss all of this in greater detail at today's analyst briefing. Now let's step back and review Q4 and 2024 results.

Q4 revenue was \$63 million, up 24% year-over-year, and down 5.1% sequentially. Consolidated Q4 revenue was above the mid-point of our guidance range of \$59.0 to \$64.0 million.

Consolidated Q4 gross profit margin of 25.2% was up 2.5 percentage points year-over-year and up 1.9 percentage points sequentially. The overall gross margin result exceeded our guidance range of 21.5% to 23.5%. Shinyoung will provide more details in her section.

Revenue in Q4 for our Standard Products business was \$60.7 million, up 47.5% year-over-year, and down 5.1% sequentially. Standard Products business gross margin was 26.6%, up 2.2 percentage points sequentially.

On a full year basis, consolidated revenue increased 0.7% in calendar 2024 versus 2023. Excluding Transitional Foundry Services, our Standard Products business increased 13% year-over-year, with MSS up 22.5% and PAS up 10.2%. Both of these business line growth rates were in line with our guidance for double-digit growth provided at the beginning of 2024.

Now I'll provide more details by business line:

Reported PAS revenue was \$43.5 million, up 33.2% year-over-year, and down 8.7% quarter-over-quarter. The year-over-year increase was primarily driven by the expansion of high-end e-mobility and battery management systems in China, deeper penetration within Korea smartphone, as well as increased market share. The sequential decline was mostly due to seasonality in each of our major segments, except in Communications where we enjoyed meaningful quarter on quarter growth. Within Standard Products, PAS represented 71.5% of revenue in Q4.

- The **Industrial** market remained stable to slightly down in 2024 and represented 39% percent of PAS revenue. A shift toward high-speed e-motors and battery management systems with higher BOM content offset declines in e-bike demand. Similarly, growth in solar pumps offset weaker solar inverter sales. LED lighting remained steady,

while power tools, including welders, experienced strong growth. From a product perspective, we benefited from design wins for our Gen5 and Gen6 IGBT and SuperJunction products in solar and motor drive applications. Despite modest year-over-year growth, our revenue in the industrial market outperformed competitors, driven by our diversified end-market strategy.

- In **Consumer**, we achieved high-single digit growth driven by strength in home appliances for a broadening array of products including refrigerators, cooktops and a new design win in Q4 for air purifiers. TVs were relatively flat year-on-year with notable strength in Korea offset by declines elsewhere. Overall, the Consumer market accounted for 35% of PAS revenue in 2024.
- The **Communication** market represented 15% of PAS revenue in 2024 and increased more than 50% year-over-year fueled by design wins for BatteryFET in mainstream and flagship foldable and A.I.-enabled smartphones in Korea, along with expanding adoption in wearables, tablets, and AR glasses. Additionally, we gained traction with multiple brands in China and Japan, further strengthening our presence in the smartphone, tablet, and wearable markets.
- While a relatively smaller contributor at 8% of PAS revenue, **the Computing** market saw more than 25% growth in calendar 2024 driven by demand from China for PC and laptop power adapters.
- Finally, the **Automotive** market was less than 5% of PAS revenue in 2024 and outperformed the broader automotive market last year, declining less than 5%. We strengthened our position in Korea with new design wins, driving greater market penetration, while ramping up production for multiple automotive customers in Japan and China.

Our applications span a wide range of vehicle subsystems, with a recent design win for a heater application with a China OEM. This adds to previous wins in power outlets and idle/stop/go functionality announced last quarter.

In summary, the sequential decline in Q4 for PAS was mostly in line with typical seasonal patterns, while the sequential strength in Communications was driven by preparations for new product launches. For 2024, the double-digit growth was fairly broad-based driven by Communications, Consumer and Computing markets, while very slight declines in Industrial and Automotive relatively outperformed their respective markets.

As we have mentioned before, we continue to execute on delivering a strong new product pipeline for Power. We believe many of these new products will have similar performance to Tier 1 suppliers, which will give us an opportunity to penetrate new markets and help fill idle Gumi fab capacity created by the phase-out of the Transitional Foundry Services business. We will share more details on our Power business in the analyst briefing later this morning.

Turning to MSS. Q4 revenue was \$17.3 million, up 102% year-over-year and up 5.1% sequentially. Including Power IC, MSS represented 28.5% of Standard Products revenue and slightly exceeded the high-end of our guidance range of \$15.0 to 17.0 million. Power IC revenue was relatively flat sequentially at \$5.4 million and increased 62.4% year-over-year. On a full year basis, total MSS revenue increased 22.5% year-over-year.

Now I'll turn the call over to Shinyoung to give you more details of our financial performance in the fourth quarter and provide Q1 and full-year 2025 guidance. Shinyoung?

Shinyoung Park:

Thank you YJ, and welcome everyone on the call. Let's start with key financial metrics for Q4.

Total revenue in Q4 was \$63 million, which came above the mid-point of our guidance range of \$59.0 to \$64.0 million. This was up 24.0% year-over-year, and down 5.1% sequentially.

- Revenue from MSS business was \$17.3 million, slightly exceeding the high-end of our guidance range of \$15.0 to \$17.0 million. This was up 102% year-over-year, and up 5.1% sequentially, primarily due to relative strength in Automotive.
- PAS business revenue was \$43.5 million, and was in line with the mid-point of our guidance range of \$42.0 to \$45.0 million. This was up 33.2% year-over-year and down 8.7% sequentially, primarily reflecting seasonality.
- Revenue from Transitional Foundry Services was down 5.9% sequentially at \$2.3 million and down from \$9.6 million in Q4 2023 as this business has been wound-down as we've explained previously.

Consolidated gross profit margin in Q4 was 25.2%, exceeding the high-end of our guidance range of 21.5% – 23.5%, up from 22.7% year-over-year, and up from 23.3% sequentially.

- MSS gross profit margin in Q4 was 41.8%, above the high-end of the guidance range of 37.5% - 40.5%, up from 41.3% in Q4'23, and up from 38.7% in Q3'24. The year-over-year improvement was primarily attributable to higher Automotive and Power IC revenue, and despite lower-than-expected mobile display revenue.
- PAS gross profit margin in Q4 was 20.5%, above the guidance range of 17.0% – 19.0%, up from 18.1% in Q4'23, and up from 19.4% in Q3'24. The upside versus guidance, year-over-year and sequential

improvement was mostly due to stronger-than-expected US dollar against the Korean Won.

Turning now to Operating Expenses.

- Q4 SG&A was \$12.0 million, as compared to \$12.1 million in Q3 2024 and \$12.1 million in Q4 2023.
- Q4 R&D was \$13.0 million, as compared to \$14.4 million in Q3 2024 and \$15.4 million in Q4 last year. As a reminder, R&D expense fluctuates quarter over quarter due to the timing and number of products in development.

Stock compensation charges included in operating expenses were \$2.0 million in Q4 compared to \$1.8 million in Q3 and \$1.7 million in Q4 last year. These charges fluctuate every quarter depending on the timing and size of stock award grants.

Q4 operating loss was \$15.7 million. This compares to an operating loss of \$11.0 million in Q3 and an operating loss of \$15.9 million in Q4 2023. In Q4 2024, \$4.6 million loss was recorded as a one-time non-cash impairment charge associated with the Display business in accordance with US GAAP. In the same period, \$2.0 million was also recognized as other charges, which represents a one-time cumulative financial impact in connection with certain Korea-mandated employee benefits.

On a non-GAAP basis, the Q4 adjusted operating loss was \$7.0 million, compared to an adjusted operating loss of \$9.0 million in Q3 and an adjusted operating loss of \$14.1 million in Q4 last year.

Net loss in Q4 was \$16.3 million as compared with a net loss of \$9.6 million in Q3 and a net loss of \$6.0 million in Q4 last year. A substantial portion of our net foreign currency gain or loss is associated with the intercompany

long-term loans, which are denominated in U.S. dollars and affected by changes in the exchange rate between the Korean won and the U.S. dollar. Therefore, the net loss in Q4 2024 on a GAAP basis had deepened compared with a year ago or a quarter ago as the Korean won depreciated relative to U.S. dollar in Q4 2024, whereas the Korean won appreciated during Q3 2024 and Q4 2023. However, this financial yardstick is not necessarily a relevant measure of our operating performance as we cannot control the size of the effects, and the aforementioned net foreign currency gain or loss is a non-cash item.

Q4 adjusted EBITDA was negative \$2.6 million. This compares to a negative \$4.9 million in Q3 and negative \$10 million in Q4 last year.

Our GAAP diluted loss per share in Q4 was 44 cents, as compared with diluted loss per share of 26 cents in Q3 and diluted loss per share of 16 cents in Q4 last year.

Our non-GAAP diluted earnings per share in Q4 was 7 cents. This compares with non-GAAP diluted loss per share of 34 cents in Q3 and non-GAAP diluted loss per share of 21 cents in Q4 last year.

Our weighted average non-GAAP diluted shares outstanding for the quarter were 37.7 million shares and 37.5 million shares in Q3 and 38.8 million shares in Q4 2023. Under our \$50 million stock buyback program authorized in July 2023, we repurchased, in Q4 2024, approximately 0.7 million shares for an aggregate purchase price of \$2.9 million, leaving about \$24.6 million remaining authorization as of December 31, 2024.

Moving to the balance sheet:

We ended Q4 with cash of \$138.6 million. At the end of Q3, we had cash of \$121.1 million and \$30 million of non-redeemable short-term financial investment, which was transitioned back to cash on November 5, 2024. The primary cash outflow during the quarter was approximately \$7.4 million of CAPEX and \$2.9 million of stock buybacks.

Net accounts receivable at the end of the quarter totaled \$28.4 million and \$28.7 million at the end of Q3 2024. Our days sales outstanding for Q4 was 41 days and compares to 40 days in Q3.

Our average days in inventory for Q4 was 60 days and compares to 65 days in Q3. Inventories, net at the end of the quarter totaled \$30.5 million, and \$36.1 million at the end of Q3 2024.

Lastly, Q4 CAPEX was \$7.4 million. As noted previously, our CAPEX forecast for the full year 2024 was to spend at the higher end of \$10 – 12 million range, and we spent \$11.6 million, primarily for our PAS business and Gumi fab.

Now let me provide finance-related comments regarding our strategy to become a pure-play power company.

1. Effective January 1, 2025, we transferred the Power IC portion of MSS to Magnachip Semiconductor, Ltd., our existing Korean operating company, where the PAS business line already resides. Together, PAS, which is our Power discrete business, and Power IC comprise our Power solutions business line, which represents Magnachip's going-forward continuing operations.
2. With our strategy to become a pure-play Power company, we expect the Display business to be classified as discontinued operations

beginning in our Q1 2025 financials, and reported separately from our continuing operations that will comprise PAS and Power IC business lines. As a reminder, we had wound down Transitional Foundry Services by the end of 2024 and do not expect to report such revenue separately beginning with Q1 2025 financial results.

3. YJ mentioned earlier that we expect over time to achieve higher revenue per wafer and improved product mix at our Gumi fab. To achieve those goals, we currently expect to invest approximately \$65-70 million over three years to upgrade the Gumi fab. In 2025, we expect total CAPEX including maintenance to be in the range of \$26-28 million, which includes approximately \$14-15 million to upgrade the Gumi fab. Total CAPEX in 2024 was \$11.6 million. The depreciation cost from the new investments in the Gumi facility won't begin to be fully reflected in our financial statements until 2027. At that time, we anticipate that a more robust portfolio of new generation power products will at least partially offset the impact.

It is important to note that from a cash management standpoint, the CAPEX investment in Gumi will be partially funded through a previously announced \$26.5 million Equipment Financial Credit Agreement. This is tied specifically to equipment purchases or upgrades in our Gumi fab. This new investment in Gumi is expected to drive development of the new generation power product portfolio and upgrade new tools to optimize product mix, and improve gross profit margin.

4. As a result of the strategy changes we are making, we are now targeting quarterly Adjusted EBITDA from continuing operations to be break-even by the end of Q4 2025. To achieve this, we will explore and execute all available cost reduction initiatives to align our

spending level with a strategy to become a pure-play power company while enabling us to continue to make progress towards our 3-3-3 Strategy.

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

While actual results may vary, for Q1 2025, Magnachip currently expects:

- Consolidated revenue from continuing operations (which includes Power discrete and Power IC and excludes our former Display business) to be in the range of \$42 to \$47 million, down 8.9% sequentially due primarily to seasonality, but up 11.5% year-over-year at the mid-point. This compares with equivalent revenue of \$48.9 million in Q4 2024 and \$39.9 million in Q1 2024.
- Consolidated gross profit margin from continuing operations to be in the range of 18.5% to 20.5%, due to the seasonal sequential decline in revenue and the wind down of Transitional Foundry Services impacting fab utilization. This compares with equivalent gross profit margin of 23.2% in Q4 2024 and 17.6% in Q1 2024.

For the full-year 2025, which will set the stage to become a pure-play Power company, we currently expect:

- Consolidated revenue from continuing operations to grow mid-to-high single digit year-over-year as compared with equivalent revenue of \$185.8 million in 2024.
- Consolidated gross profit margin from continuing operations between 19.5% to 21.5%, reflecting the fact that we have completed the wind down of Transitional Foundry services and new generation power products will just begin production in the second half 2025. The equivalent gross profit margin was 21.5% in 2024.

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

YJ Kim

The pure-play Power strategy we announced today focuses on shareholder value and prioritizes a return to profitability, supported by clearly articulated and transparent short-and-medium term financial targets.

We see a great market opportunity in Power semiconductors, which is greater than 10 times larger than the OLED DDIC market. We have a proven track record in Power with design, manufacturing and shipping more than 23 billion units during the past 18 years.

The primary goals of our 3-3-3 Strategy are to reach a \$300M annual revenue run-rate with 30% gross margin in the next 3 years. We are excited about the large roll-out of our new generation products happening now through 2026. These products address higher valued markets with better performance and lower costs. We're upgrading our Gumi Fab to manufacture more of these new generation products. Our plan is to convert the fab to serve 70% of the capacity with new products. These will help optimize our Gumi fab for better profitability.

As I've said in the past, we are focused on maximizing shareholder value and we believe prioritizing a return to profitability by focusing on the Power business offers our shareholders the greatest potential. In addition to our "medium term" or three-year goals, we have set very specific short-term milestones after the Display business has been discontinued. These milestones include achieving from continuing operations:

1. Quarterly Adjusted EBITDA breakeven by the end of Q4 2025, followed by;
2. Positive adjusted operating income in 2026, and;
3. Positive adjusted free cash flow in 2027.

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

Steven Pelayo:

That concludes our prepared remarks. Now let's open the call for any questions that you may have. Operator, please go ahead.

Steven Pelayo – Final Reminders

Thank you! This concludes our Q4 earnings conference call.

Following today's earnings call, we are hosting an analyst briefing where YJ, Shinyoung and other members of management will share more details on today's announcement.

On March 17 - 18, we will be attending the 37th Annual ROTH Conference in Dana Point, California for investor 1:1 meetings.

Attendance at the conference is by invitation-only. For interested investors, please contact your respective sales representative to register and schedule one-on-one meetings with the management team.

That concludes the prepared remarks section of our call today.

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

Thank you and take care.