Magnachip Semiconductor
Prepared Remarks for Q3 2024 Investor Conference Call
October 30, 2024

Steven Pelayo

Hello everyone. Thank you for joining us to discuss Magnachip's financial results for the third quarter ended September 30, 2024. The third 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 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 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 third 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 Q3 earnings call.

Q3 revenue was $66.5 million, up 8.5% year-over-year, and up 25% sequentially. Revenue was at the high-end of our guidance range of $61.5 to $66.5 million.

Consolidated Q3 gross profit margin of 23.3% was down 0.3 percentage points year-over-year, but up 1.5 percentage points sequentially. The overall gross margin result was in-line with the mid-point of our guidance range of 22.5% to 24.5%. Shinyoung will provide more details in her section.

As we wind down and exit the Transitional Foundry Services business, Magnachip will be a pure-play standard products company based on industry leading mixed-signal expertise. Our standard products are comprised of our offerings in the MSS and PAS businesses, which include Power ICs, advanced OLED DDICs and discrete power products for industrial, automotive, consumer, communications, and computing applications.

Revenue in Q3 for our Standard Product business was $64.0 million, up 24.0% year-over-year and up 25.9% sequentially. Standard Product business gross margin was 24.4%, up 1.3 percentage points sequentially.

We are on track with our guidance given at the beginning of the year for double-digit growth in MSS and PAS for 2024. We will provide 2025 guidance on our Q4 and year-end call, as we've done in the past.

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

In terms of revenue contribution, PAS represented 74.3% of Standard Product revenue in Q3. Reported PAS revenue was $47.6 million, up 16.1% year-over-year and 21.2% quarter-over-quarter. The sequential increase was broad-based, so I'll share some details by application.

- **The Industrial segment** continued to see a strong rebound in solar. The issue of excess distributor and customer inventory in China now is behind us in this business segment. In addition to solar inverters, demand for solar pumps are expanding the range of applications we address. The Industrial segment also saw growth from additional design wins in the China lighting market with our 6th generation Super-Junction devices. Finally, the shift to high-speed e-motors for scooters and motorcycles is leading to an increase in Bill-of-Material (BOM) content and carries the potential for stronger growth.

- While a relatively smaller contributor to PAS, **the Automotive segment** continues to show strength. We are building upon our past success in Korea with additional design wins and production ramps for automotive customers in Japan and China. The end applications continue to vary widely across many subsystems in a vehicle. More recently, we obtained design wins for additional applications such as power outlets and idle/stop/go functionality.

- **The Communication segment** showed slight sequential improvement driven by continued demand for low voltage MOSFETS for high-end foldables and leading-edge AI smartphones in Korea. We also are seeing incremental design opportunities for tablets, wearables, and China smartphones.

- **In Consumer**, we saw growth from TVs driven by strong seasonal demand from Korea. Further, we continue to see steady demand for our Super Junction MOSFET and IGBT products in home appliances such as refrigerators and induction cooktops. Additionally, we expect a recent design-in for air purifiers to transition into a design-win in Q4.

- While a relatively smaller contributor, **the Computing segment** saw strong growth driven by seasonal demand from China for PC and laptop power adaptors.

In Q3, we hired a Chief Technology Officer and Assistant General Manager in PAS. He is a proven expert in the field of power semiconductors with more than 20 years of experience. Prior to joining Magnachip, he worked at Hyundai Mobis where he led the development of IGBT and SiC products for automotive applications. Prior to Hyundai Mobis, he made significant contributions to the company by entering the Planar MOSFET market for the first time and achieving the largest market share of Super Junction MOSFETs in Korea. His rich experience and knowledge of power semiconductors, his insight into automotive markets, and his ability to develop power semiconductor products will greatly contribute to our company's technology and product roadmaps and overall competitiveness.

In summary, the strong sequential growth in Q3 for PAS was ahead of typical seasonal patterns and was driven by leaner distribution channels and design wins for existing and new products. 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 performance to Tier 1 suppliers, which will give us an opportunity to penetrate new markets and help fill idle Gumi fab capacity in 2025 created by the phase-out of the Transitional Foundry Services business.

Turning to MSS. Q3 revenue was $16.4 million, up 54.5% year-over-year and up 41.8% sequentially. The result represented 25.7% of Standard Product revenue and was near the high-end of our guidance range of $14.5 to 16.5 million. The quarter-over-quarter revenue growth was due to increased demand from OLED DDICs for China smartphone OEMs, as well as for automotive, and Power IC for OLED IT.

During Q3 we continued to make inroads with OLED panel manufacturers and smartphone OEMs focusing on the China market. At a high level, we have several DDICs at different stages of development, customer evaluation and in production. These designs cover the broad smartphone market spectrum, from mass-market to premium segments, and extend to other display markets like automotive and wearable tech, including smartwatches. In line with our original expectations, we have now moved into production on two smartphone models. More specifically:

- Following the purchase order received in Q2, we started initial production and shipment in Q3 for a QHD+ DDIC for a premium smartphone model from a leading China OEM. We are the primary DDIC supplier for this model and we expect increased shipment growth to this customer throughout Q4.

- During Q3, we also received a purchase order as a second source supplier from another leading China smartphone OEM and commenced shipments in October. We believe this initial win gives us an opportunity to deepen our relationship and positions us well for future smartphone models.

As mentioned in our Q2 call, we began sampling our next-generation DDIC in October. This OLED driver is targeted for mid-to-high-end smartphone models in China and incorporates advanced IP, including sub-pixel rendering (SPR), refined color enhancement, and brightness uniformity control. Notably, this chip reduces power consumption by more than 20% compared to the previous generation. We expect a China panel maker to begin evaluation in Q4 and move into production in 2025. We plan to introduce this chip to multiple China OLED panel makers to further diversify our customer base next year.

Evaluations are underway for a new DDIC targeted at the smartwatch market. We look forward to leveraging this relationship with a China module maker to expand into new, high-growth adjacent markets.

With regard to our automotive DDIC business, revenue increased for the third quarter in a row. The business was driven primarily by increased demand from a panel maker that supplies to multiple automakers in Europe. We also saw DDIC growth for automotive LCD.

Our Power IC business, which is included in MSS, saw sequential and year-over-year growth, driven primarily by increased demand for OLED IT, tablets and notebooks. We continue to develop new Power IC products for both LCD TV and OLED IT applications for potential new customers.

In summary, within MSS, we are executing our strategy and making inroads with top-tier panel makers and major smartphone OEMs. Our decision to act locally was the right strategy for our OLED business in China. At the same time, we are also working to drive revenue from adjacent markets in wearables, automotive, TV and IT. For Q4, we currently see flattish revenue sequentially, which is better than typical seasonality in this market.

In conclusion, we believe that with the growing trend of AI-enabled smartphones and PCs, power consumption is on the rise. It is crucial to reduce the overall power usage of these systems. The display is a major power consumer, and one of the few areas where power can be significantly reduced by switching from LCD to OLED panels. As smartphones incorporate high-performance AI capabilities and adopt larger, foldable, and flexible displays, the need for power-efficient OLED DDICs has become increasingly important. Our newest and most advanced OLED DDIC offers a power reduction of over 20% compared to the previous generation using the same process technology. Additionally, smartphone OEMs are looking to offset the rising power demands of AI features by utilizing advanced battery FET technologies, like those in our PAS segment, alongside the growing use of OLED screens.

I'll now turn the call over to Shinyoung to give you more details of our financial performance in the third quarter and provide Q4 guidance. Shinyoung?

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

Total revenue in Q3 was $66.5 million, which came in at the high-end of our guidance range of $61.5 to $66.5 million. This was up 8.5% year-over-year, and up 25% sequentially.

- Revenue from MSS business was $16.4 million, near the high-end of our guidance range of $14.5 to $16.5 million. This was up 54.5% year-over-year, and up 41.8% sequentially.
- PAS business revenue was $47.6 million, above the mid-point of our guidance range of $45.5 to $48.5 million. This was up 16.1% year-over-year and up 21.2% sequentially.
- Revenue from Transitional Foundry Services was flattish sequentially at $2.4 million and down from $9.6 million in Q3 2023 as we continue to wind down this service as we've explained previously.

Consolidated gross profit margin in Q3 was 23.3%, slightly below the mid-point of our guidance range of 22.5% – 24.5%, down from 23.6% year-over-year, but up from 21.8% sequentially.

- MSS gross profit margin in Q3 was 38.7%, above the mid-point of the guidance range of 36.5% - 39.5%, up from 28.8% in Q3'23, and up from 34.6% in Q2'24. The year-over-year and sequential improvement was primarily attributable to a favorable product mix.
- PAS gross profit margin in Q3 was 19.4%, slightly below the mid-point of the guidance range of 18.5% – 20.5%, down from 28.6% in Q3'23, and slightly lower than the 19.7% in Q2'24. 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.

- Q3 SG&A was $12.1 million, as compared to $11.7 million in Q2 2024 and $12.1 million in Q3 2023 primarily driven by the increase in stock compensation charges that coincide with the timing of stock grant.

- Q3 R&D was $14.4 million, as compared to $12.7 million in Q2 2024 and $11.6 million in Q3 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 $1.8 million in Q3 compared to $1.1 million in Q2 and $2.1 million in Q3 last year. These charges fluctuate every quarter depending on the timing and size of stock grant.

Q3 operating loss was $11 million. This compares to an operating loss of $12.8 million in Q2 and operating loss of $9.2 million in Q3 2023. On a non-GAAP basis, Q3 adjusted operating loss was $9 million, compared to adjusted operating loss of $11.6 million in Q2 and adjusted operating loss of $7.1 million in Q3 last year.

Net loss in Q3 was $9.6 million as compared with a net loss of $13.0 million in Q2 and a net loss of $5.2 million in Q3 last year.

Q3 adjusted EBITDA was negative $4.9 million. This compares to a negative $7.6 million in Q2 and negative $2.7 million in Q3 last year.

Our GAAP diluted loss per share in Q3 was 26 cents, as compared with diluted loss per share of 34 cents in Q2 and diluted loss per share of 13 cents in Q3 last year.

Our non-GAAP diluted loss per share in Q3 was 34 cents. This compares with diluted loss per share of 21 cents in Q2 and diluted loss per share of 4 cents in Q3 last year.

Our weighted average diluted shares outstanding for the quarter were 37.5 million shares. Under our $50 million stock buyback program authorized in July 2023, we repurchased, in Q3 2024, approximately 0.5 million shares for aggregate purchase price of $2.5 million, leaving about $27.5 million remaining authorization as of September 30, 2024.

Moving to the balance sheet:

We ended Q3 with cash of $121.1 million; and same as last quarter-end, we had an additional non-redeemable short-term financial investment of $30 million, which will mature on November 5, 2024. This amount is classified on our balance sheet as short-term financial instruments but will transition back to cash upon maturity.

Net accounts receivable at the end of the quarter totaled $28.7 million, which represents a decrease of 8.0% from Q2 2024. Our days sales outstanding for Q3 was 40 days and compares to 53 days in Q2.

Our average days in inventory for Q3 was 65 days and compares to 76 days in Q2. Inventories, net at the end of the quarter totaled $36.1 million, and $34.8 million in Q2 2024.

Lastly, Q3 CAPEX was $2.6 million. Our prior CAPEX forecast for the full year 2024 was to spend $10 – 12 million, primarily for our PAS business and Gumi fab, and we now expect the amount to be closer to the high-end of the range. This expectation includes approximately $3.5 million of one-time CAPEX for our newly established operating entity in China.

Now moving to our fourth quarter and full-year 2024 guidance:
While actual results may vary, for Q4 2024, Magnachip currently expects:

- Consolidated revenue to be in the range of $59.0 to $64.0 million, including approximately $2.0 million of Transitional Foundry Services.
    - MSS revenue to be in the range of $15 to $17 million, down 2.7% sequentially but up 87% year-over-year at the mid-point. This compares with MSS revenue of $16.4 million in Q3 2024 and MSS equivalent revenue of $8.6 million in Q4 2023.
    - PAS revenue to be in the range of $42 to $45 million, down 8.6% sequentially but up 33.3% year-over-year at the mid-point. This compares with PAS revenue of $47.6 million in Q3 2024 and PAS equivalent revenue of $32.6 million in Q4 2023.
- Consolidated gross profit margin to be in the range of 21.5% to 23.5%.
    - MSS gross profit margin to be in the range of 37.5% to 40.5%. This compares with MSS gross profit margin of 38.7% in Q3 2024 and MSS equivalent gross profit margin of 41.3% in Q4 2023.
    - PAS gross profit margin to be in the range of 17% to 19%. This compares with PAS gross profit margin of 19.4% in Q3 2024 and PAS equivalent gross profit margin of 18.1% in Q4 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 throughout 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 throughout the year.
- Transitional Foundry Services will be wound down by the end of 2024, as expected. We expect any remaining amounts to be immaterial beyond Q4 2024.

- Consolidated revenue flattish, as compared to our prior expectation of flattish-to-slightly down.
- Consolidated gross profit margin between 21% to 22%, as compared to our prior expectation of 19% to 22%. 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

In conclusion, Magnachip's strategic focus on its core Standard Products business drove a better-than-seasonal Q3 and outlook for Q4. We are on track with our expectations set at the beginning of the year for double-digit growth in both MSS and PAS.

As we continue transitioning into a pure-play standard products company, we are focused on leveraging our industry-leading mixed-signal expertise applied to Power ICs, advanced OLED DDICs, and power discretes. These ongoing efforts position us well for the future.

We will provide our outlook for 2025 on the next call, but I am confident that our business strategies are leading us in the right direction. We remain dedicated to enhancing shareholder value in every way possible.

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 Q3 earnings conference call. Please look for details of our future events on Magnachip's Investor Relations website.

Thank you and take care.