<u>Magnachip Semiconductor</u>
<u>Prepared Remarks for Q2 2025 Investor Conference Call</u>

Steven Pelayo

Hello everyone. Thank you for joining us to discuss Magnachip's financial results for the second quarter ended June 30, 2025. 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 on Magnachip's Q2 earnings call.

We continued in Q2 to execute on our strategic pivot to become a pure-play Power semiconductor company, and we delivered solid results despite ongoing macro challenges.

For Q2 2025, consolidated revenue from continuing operations was $47.6 million, up 8.1% year-over-year and above the midpoint of our guidance range. This was our fifth consecutive quarter of year-over-year growth on an apples-to-apples basis.

Gross profit margin from continuing operations of 20.4% was within our guidance range of 19.5% to 21.5%, though down 2.1 percentage points from a year ago and down slightly from Q1 due primarily to pricing pressure in China affecting older generation products. We expect our new generation power products will be more competitive and command better pricing as we roll out these offerings over the course of the next several quarters.

As we've said before, the catalyst for achieving our financial goals is the successful rollout of our new generation products including Gen 6

SuperJunction and IGBTs, and Gen 8 medium and low voltage MOSFETs, as well as a full array of follow-on power products. We remain committed to our 3-3-3 strategy of achieving $300 million in revenue and 30% gross margin in three years, although the exact timing will depend in large part upon macro factors beyond our control. Shinyoung will provide more color in her section.

We’ve already launched 28 new-generation products in the first half of 2025 and are on track to meet our previously stated goal in 2025 for 40 new-generation Power Analog Solutions products. We will start to see initial new generation product revenue by the end of 2025 and meaningful impact in the second half of 2026. We are exploring all options to accelerate our new generation product roadmap and now targeting more than 50 new-generation products by the end of 2025. We expect these new generation Power products to drive higher revenue and, given the smaller die sizes, yield 20-30% more die per wafer in our Gumi fab. When new generation are fully ramped within a couple of years, these new products are expected to drive higher gross margins compared to the previous generations.

Breaking down the business lines:

Power Analog Solutions or PAS revenue was $42.3 million, up 7.7% year-over-year and 6% quarter-over-quarter, PAS represented nearly 90% of total revenue. **Power IC** revenue was $5.4 million, up 11.1% year-over-year and up 10.2% sequentially.

We continued to see strong design win activity in Q2, reflecting customer acceptance of our new Power products. We achieved 71 total design wins in the quarter, up 61% from the 44 design wins in Q2 of last year. 23 of the design wins, representing 32% of all wins were for new products. These new innovative product families open new high-value market opportunities for Magnachip, in automotive, industrial, and A.I. applications. We currently expect these three market opportunities to represent more than 60% of Magnachip’s future product mix in 2028, up from 51% in 2024. We already have ongoing engagements to penetrate Automotive markets which we expect to reach over 10% of our revenue by 2028, from less than 5% in 2024.

Some notable design win activity included:

- In the **Communication** segment, we had six new design wins, up from one in Q2 a year ago. We continue to win power sockets for both mainstream and flagship AI smartphone models, including multiple newly launched smartphones and also in upcoming foldable AI smarphones. We also had power design wins for tablet and smartwatch applications.
- In the **Computing** segment, we achieved 10 new design wins in Q2 compared to zero in the year ago quarter. Most of these wins are related to PC power applications using our new Super Junction Gen 6 products.
- SuperJunction Gen 6 products are also being adopted into new TV models for 2026 in the **Consumer** segment, where we had five new design wins in Q2’25, which was equal to the amount from the prior year ago quarter.
- In **Industrial**, we secured 47 additional design wins, up from 36 in Q2’24. We saw particular strength in China for LED lighting, again leveraging Super Junction Gen 6. We also expanded into 5G battery management systems with our new medium voltage Gen 8 products.
- Within **Automotive**, we had one new design win in China for a PTC heater application and have now begun mass production for other key vehicle systems such as Idle Stop Go, AC Inverters, Electric Oil

Pumps, and Car Chargers destined for vehicles in Japan, the USA, and Europe.

- In **Power IC**, we had two design wins, which is the same as the number of wins in the year ago quarter. We are targeting additional design wins for LED drivers for 2026 TV models from multiple TV makers in Korea.

Now I'll provide more details by business segment within Power Analog Solutions

- **Industrial** accounted for approximately 35% of PAS revenue, and declined 1.9% year-over-year, primarily due to continued weakness in e-bike and solar inverter sales driven by macroeconomic uncertainties and price competition in the e-mobility segment. However, we saw strong sequential and year-over-year growth in higher performance e-motor applications, LED lighting, and 5G battery management systems, supported by adoption of our new Super Junction Gen 6 and MV Gen 8 products. Despite the solid growth in e-motors, it was not enough to fully offset the softness in e-bike demand.
- **Consumer**, which represented 34% of PAS revenue, declined 0.4% year-over-year due to continued weakness in home appliances, mostly offset by year-over-year growth in TV applications. As mentioned before, we are targeting our new generation Super Junction Gen 6 products being adopted for multiple 2026 TV models.
- **Communication,** which accounted for 20% of PAS revenue, grew nearly 47% year-over-year, reflecting increased share in both flagship and mass-market smartphone models. In particular, our low voltage MOSFET revenue for smartphone BatteryFETs increased 32% year-over-year, and we currently expect to hold the majority position with

Korea's leading smartphone manufacturer in 2026, including in their flagship foldable models.

- **Computing**, which represented 8% of PAS revenue, was up 45% year-over-year driven primarily by higher PC power revenue in Taiwan and China.
- **Automotive,** which represented 2% of PAS revenue, declined 25% year-over-year, mainly due to slower demand from Korea-based EV makers and some inventory controls from customers in China.

Our **Power IC business,** which represented 11% of consolidated Q2 revenue from continuing operations, grew 11.1% year-over-year and 10.2% sequentially. The growth was driven by both TV-LED and OLED power ICs, supported by the introduction of 20 new mid-to-low-end TV models by our customers for 2025.

Finally, the shutdown of our Display business is now virtually complete. We are benefiting from end-of-life income streams and continue to explore monetization opportunities for the Display IP assets.

China is a huge market, especially for power semiconductors. We started China for China strategy in early 2024 to address the local market opportunities. However, tariff uncertainty along with competitive pricing pressure on our older generation products in China combine to create a challenging environment that will impact our near-term outlook in the second half of this year. In view of this, we are being proactive and decisive by taking structural actions internally to reduce costs and optimize operational efficiency with a goal to still get close to a quarterly Adjusted EBITDA* break-even from continuing operations by the end of this year. We are also accelerating our R&D and product pipeline to differentiate our power product portfolio to be comparable to Tier One levels to command higher prices and margins. We also are accelerating product development for power devices targeted specifically for China for a better cost structure. All of these efforts are to support our long-term financial goals to maximize shareholder value.

Now I'll turn the call over to Shinyoung to give you more details of our financial performance in the second quarter and provide Q3 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 Q2.

Total Q2 consolidated revenue from continuing operations (which includes Power Analog Solutions (PAS) and Power IC (PIC)) was $47.6 million, which was above the mid-point of our guidance range of $45 to $49 million. This was up 8.1% year-over-year, and up 6.5% sequentially on an apples-to-apples basis. This compared with equivalent revenue of $44.1 million in Q2 2024 and $44.7 million in Q1 2025.

- Revenue from Power Analog Solutions was $42.3 million. This was up 7.7% year-over-year, and up 6.0% sequentially.
- Revenue from Power IC was $5.4 million. This was up 11.1% year-over-year and up 10.2% sequentially.

In Q2, consolidated gross profit margin from continuing operations was 20.4%, within our guidance range of 19.5% - 21.5%, down from 22.5% year-over-year, and down from 20.9% 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. The sequential decline was mainly attributable to the timing of certain inventory reserve associated with a Power IC product, coupled with a higher-than-expected revenue in Q2 from pull-ins by a customer due to the uncertainty around tariffs.

The Company's Display business has been classified as discontinued operations from Q1 2025 so all the following figures reflect results from continuing operations.

- Q2 SG&A was $9.3 million, as compared to equivalent SG&A of $9.7 million in Q2 2024 and $9.7 million in Q1 2025.
- Q2 R&D was $7.0 million, as compared to equivalent R&D of $5.8 million in Q2 2024 and $5.9 million in Q1 2025. R&D in Q2 increased due to the acceleration of R&D efforts while developing a family of new generation IGBT and SuperJunction products to target more high-value opportunities.

Stock compensation charges included in operating expenses from continuing operations were $0.9 million in Q2, as compared to $1.0 million in Q2 2024 and $0.8 million in Q1 2025. These charges fluctuate every quarter depending on the timing and size of stock award grants.

Q2 operating loss was $7.4 million. This compares to an equivalent operating loss of $5.7 million in Q2 2024 and an operating loss of $6.3 million in Q1 2025.

On a non-GAAP basis, the Q2 adjusted operating loss was $5.6 million, compared to an equivalent adjusted operating loss of $4.7 million in Q2 2024 and an adjusted operating loss of $5.4 million in Q1 2025.

Income from continuing operations in Q2 was $8.5 million as compared with an equivalent loss of $2.2 million in Q2 2024 and a loss of $5.1 million in Q1 2025. In Q2, we recognized net foreign currency gain of $10.8 million, majority of which was attributable to the non-cash translation gain on certain intercompany borrowings as a result of FX volatility during this quarter. We also booked in Q2 the income tax benefit of $4.1 million, which was primarily due to the tax loss recognized in Korea in connection with the shut-down of the Display business.

Q2 Adjusted EBITDA was negative $2.1 million. This compares to an equivalent Adjusted EBITDA of negative $1.0 million in Q2 2024 and negative $2.1 million in Q1 2025.

Q2 GAAP diluted earnings per share was 23 cents, as compared with equivalent diluted loss per share of 6 cents in Q2 2024 and diluted loss per share of 14 cents in Q1 2025.

Q2 non-GAAP diluted loss per share was 8 cents. This compares with equivalent non-GAAP diluted earnings per share of 7 cents in Q2 2024 and non-GAAP diluted loss per share of 10 cents in Q1 2025. The difference between our GAAP and non-GAAP EPS in Q2 2025 was primarily due to the elimination of the non-cash foreign currency gain of $10.8 million that I explained earlier.

Our weighted average non-GAAP diluted shares outstanding for the quarter were 36.1 million shares and 38.5 million shares in Q2 2024 and 36.9 million shares in Q1 2025. As part of our stock buyback program authorized in July 2023, we repurchased in Q2 2025, approximately 0.7 million shares for an aggregate purchase price of $2.3 million, leaving about $21.2 million remaining authorization as of June 30, 2025.

Moving to the balance sheet:

We ended Q2 with cash of $113.3 million as compared to $132.7 million at the end of Q1 2025. The two main cash outflow items were:

- $11.9 million of CAPEX, which will be explained separately later, and $6.5 million one-time liquidation cost related to the discontinued Display business.
- With respect to the discontinued Display business, we've previously estimated total one-time cash cost of approximately $12 million to $15 million. Of this estimated total cash cost, in Q2, we actually paid statutory severance and other employee-related costs of $6.5 million. We originally expected to pay certain contract termination charges in full along with the statutory severance and other employee-related costs. However, we negotiated with the respective vendors that the total of $6.5 million of contract termination charges would instead be paid over the remaining existing contract terms of one and a half years from Q2 2025, and that amount was recognized as part of other charges in the discontinued operations financials in Q2 2025.

The Company has begun to provide limited support for remaining customer obligations including the sale of "end of life (EOL)" Display products, which is being conducted by Magnachip Semiconductor, Ltd., the Company's wholly owned subsidiary that operates the Power business. The sale of EOL Display products and the potential monetization of the intellectual property assets of the discontinued Display business is expected to generate cash inflow of approximately $20 million over a period of approximately 2 years from the second half of 2025. The total amount will depend upon the demand from customers and the outcome of the monetization efforts of the Display intellectual property assets. Any future revenue derived from the Display business will be accounted for separately as part of discontinued operations.

Net accounts receivable at the end of the quarter totaled $28.8 million and $28.3 million at the end of Q1 2025. Our days sales outstanding for Q2 was 47 days and compares to 47 days in Q1 2025.

Our average days in inventory for Q2 was 81 days and compares to 70 days in Q1 2025. Inventories, net at the end of the quarter totaled $37.6 million, and $32.6 million at the end of Q1 2025.

Q2 CAPEX, as noted earlier, was $11.9 million of which $9.4 million was used to upgrade the Gumi fab. For the full year 2025, we now expect our total CAPEX to be in the range of $32 – 34 million, which includes approximately $20 – 22 million CAPEX to upgrade the Gumi fab. The annual forecast for the upgrade CAPEX in 2025 increased from the previously estimated range of $14 to 15 million to $20 to 22 million, primarily due to the timing shift of certain equipment purchases.

In Q2, of the $9.4 million upgrade CAPEX, $7 million was funded by the previously announced $26.5 million equipment loan, resulting in our net cash impact from this upgrade CAPEX in Q2 be $2.4 million. For the full year 2025, we expect approximately 80 – 85% of the $20 to 22 million upgrade CAPEX to be funded by the same $26.5 million equipment loan to which an interest rate of less than 3% per annum will apply, and the remainder will be funded by the Company’s cash. The loan was part of a previously disclosed strategy for Magnachip to make a $65 –70 million investment over three years to upgrade the Gumi fab.

The depreciation cost related to the Gumi fab upgrade CAPEX won’t begin to be 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.

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.

Before we move to the guidance section, let me provide some comments regarding the actions that are being undertaken by the Company post shut-down of the Display business. As we've disclosed previously, we are prepared to execute all available cost reduction initiatives to align our spending level with a strategy to become a pure-play power company and to achieve certain financial goals.

We currently retain a cost structure which includes some shared functions that historically had supported both Display and Power businesses.

One of the initiatives being undertaken is headcount reduction, primarily through some shared functions made redundant through the closing of Display, via a voluntary resignation program that we expect to commence and complete by the end of the third quarter. Due to the voluntary nature of this program, we are unable to provide an exact amount of the related financial impact at this time. However, with the execution of this headcount reduction, we target to achieve annual OPEX savings of $2 – 3 million with the payback period of 1.5 years.

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

While actual results may vary, for Q3 2025, Magnachip currently expects:

- Consolidated revenue from continuing operations (which includes Power Analog Solutions and Power IC businesses) to be in the range of $44 to $48 million, down 3.5% sequentially and down 13.2% year-over-year at the mid-point on an equivalent basis due to pull-ins by

customers in Q2 from the second half of the year as well as competitive pricing pressure on our older generation products. This compares with equivalent revenue of $47.6 million in Q2 2025 and $53.0 million in Q3 2024.
- Consolidated gross profit margin from continuing operations to be in the range of 18.5% to 20.5%. This compares with equivalent gross profit margin of 20.4% in Q2 2025 and 22.0% in Q3 2024.

For the full-year 2025:
- Consolidated revenue from continuing operations is now expected to be flattish as compared to our previous forecast of mid-to-high single digit growth year-over-year due to a challenging environment related to tariff uncertainty and pricing pressure on older generation products in China. This compares with equivalent revenue of $185.8 million in 2024.
- Consolidated gross profit margin from continuing operations between 19% to 20%, as compared to our previous forecast of 19.5% to 21.5%. 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
In the first half of the year, we made good progress on our goal to become a pure-play Power semiconductor company. We expanded our new generation power product pipeline and focused on increasing customer adoptions across key growth markets, including Automotive, Industrial, and Communications.

In Q2, in particular, our growth was driven primarily by strong performances in our Communications and Computing businesses, with each showing revenue growth of over 40% year-over-year. We also benefited modestly by some pull-ins by customers due to the uncertainty around tariffs.

Looking to the back half of the year, we face an uncertain environment due to tariffs and pricing pressures in China. As a result, we currently anticipate a softer second half of the year relative to our prior expectations.

While headwinds are impacting our near-term outlook, we are being proactive and decisive—taking structural actions to optimize operational efficiency, while continuing to invest in R&D and CAPEX to support our long-term 3-3-3 financial strategy. As we shared today, we are accelerating the development of a full array of new generation products to drive future growth, and we expect to see initial revenue contribution by year-end, gaining momentum and having a material impact in the second half of 2026. This acceleration will allow us to roll out more feature-rich, differentiated, and higher-margin products more quickly.

We remain committed to maximizing shareholder value and prioritizing a return to profitability.

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! Before we conclude, I just want to give everyone a quick reminder on our upcoming investor conference.

On August 20th, we will present at the 6th Annual Needham Virtual Semiconductor & SemiCap 1x1 Conference.

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

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

Thank you and take care.