Magnachip Semiconductor
Prepared Remarks for Q2 2026 Investor Conference Call

Mike Bishop

Thank you. Hello everyone. Thank you for joining us to discuss Magnachip's financial results for the second quarter, ended June 30, 2026. The second 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 Chairman; recently appointed CEO, Chae Lee, and Shinyoung Park, our Chief Financial Officer. We will discuss the company's recent operating performance and business overview, followed by a review of the financial results for the quarter and provide guidance for the third quarter of 2026. 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 second 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.

Before discussing the quarter, I'd like to take a moment to welcome Chae Lee to his first earnings call as Chief Executive Officer of Magnachip.

On behalf of our Board of Directors, I want to say how pleased we are to have Chae leading the company. The Board conducted an extensive search for our next CEO, and Chae distinguished himself through his deep experience in power semiconductors, his proven track record of building successful businesses, and his vision for where Magnachip can create value over the long term.

Over the past several months, we've taken important steps to reposition Magnachip as a pure-play power semiconductor company. We believe Chae is the right leader to build on that foundation, accelerate our product strategy, and strengthen our competitive position through differentiated solutions.

Having known Chae for nearly 3 years, and now worked closely with Chae over the past month, I have been impressed by the speed with which he has immersed himself in the business, engaged with our employees and customers, and established clear priorities for the future. The Board has great confidence in his leadership, and I look forward to continuing to work closely with him as Chairman.

With that, it is my pleasure to introduce Magnachip's Chief Executive Officer, Chae Lee.

Chae Lee:

Thank you, Camillo.

Good afternoon, everyone, and thank you for joining us today.

It is an honor to speak with you for the first time as Chief Executive Officer of Magnachip.

Although I officially joined the company just a month ago, it feels as though I've been here much longer. During that time, I've spent my days listening and learning—meeting with our engineering teams, speaking with employees across the organization, reviewing our technology roadmap, and engaging with customers.

What has impressed me the most is the quality of our people. Magnachip has talented engineers, deep process technology expertise, an efficiently managed manufacturing operation, and long-standing strategic relationships with many market-leading customers. These are important strengths that provide a solid foundation for future growth.

At the same time, I recognize that our recent financial performance has not reflected the strength of those assets. Our shareholders have been patient, and they rightly expect better execution and improved results. My focus is to deliver on those results.

One of the things that attracted me to Magnachip was the work already underway to reposition the company as a pure-play power semiconductor company. I want to thank Camillo, the Board, and the management team for the important progress they have made over the past several months. Rather than changing direction, my objective is to build on that foundation and accelerate our pace of innovation and execution.

As I think about the future of Magnachip, one idea stands above all others. Our goal is to transition from being a follower to becoming a leader. I believe we have the capability to drive innovation, launch differentiated technology, and become a stronger player in the power semiconductor industry.

That does not necessarily mean becoming the largest company in every market we serve. Rather, it means developing differentiated products that solve meaningful customer problems, creating solutions that customers actively seek out, and competing on innovation instead of price alone.

Much of today's power semiconductor market, particularly for legacy products, has become increasingly commoditized. Competing primarily on price is not a sustainable strategy, especially in today's environment.

Instead, we intend to focus our resources on products that offer greater differentiation, deliver higher customer value, and generate stronger long-term profitability.

Our marketing and engineering organizations are already moving in that direction. While I cannot discuss specific products today, we are actively developing differentiated application-specific solutions that leverage our strengths in power semiconductor technology to solve customer problems that are not adequately addressed by standard commodity products. There is a renewed sense of purpose throughout the organization, and our teams are energized by the opportunity to develop industry-leading products that create meaningful value for our customers.

Of course, this transformation will not happen overnight. But we are well on our way from being a follower to becoming a leader.

To accelerate that journey, last week, we announced a strategic partnership with Navitas Semiconductor that advances two key pillars of our growth strategy: technology expansion and strategic partnerships. Under the agreement, we will license Navitas' proven GeneSiC™ Gen 4 and Gen 5 technologies, covering 1,200-volt, 2,300-volt, 3,300-volt, and higher-voltage applications, while also gaining access to its established silicon carbide supply chain ecosystem.

This partnership provides Magnachip with a capital-efficient path to accelerate our entry into the high-voltage and ultra-high-voltage silicon carbide market. We plan to port, qualify, and ultimately manufacture these products at our fab in Korea, leveraging our manufacturing expertise to accelerate commercialization and support long-term growth.

We believe this partnership will significantly expand our addressable market and strengthen our ability to serve customers in energy and grid infrastructure, industrial electrification, automotive, renewable energy, and other high-power applications. It also positions Magnachip to participate in some of the fastest-growing and highest-value segments of the silicon carbide power semiconductor market.

Strategically, this partnership brings together Navitas' industry-proven silicon carbide technology with Magnachip's expertise in silicon IGBT and MOSFET technologies and advanced manufacturing capabilities. Together, these complementary strengths create a strong foundation for future innovation across a broad range of power semiconductor solutions, accelerate our technology roadmap, expand our market opportunities, strengthen our competitive position, and create long-term value for our shareholders.

Turning now to our quarterly results...

Our second quarter performance reflects our heavy dependence on legacy products with limited differentiation. While pricing pressure in our legacy product portfolio will continue for some time, we are also starting to see strength from our recently introduced new generation products that carry higher margins. While it is still early, we believe this is an encouraging sign that our product strategy is beginning to gain traction.

As we look ahead, our priorities are straightforward and remain aligned with the six strategic pillars Camillo described on prior calls. Our highest priority is disciplined R&D execution while continuing to develop innovative, differentiated solutions. While we still have significant work ahead, we believe these early results reinforce that we are moving in the right direction.

I am excited about the opportunities ahead. Magnachip has talented people, valuable technology, and a clear opportunity to strengthen its competitive position with differentiated products over time. While there is important work ahead, I am confident we are building the right foundation for the company's next chapter and for creating sustainable long-term value for our shareholders.

With that, I'll turn the call over to our Chief Financial Officer, Shinyoung Park, to review our financial results and provide current quarter outlook.

Shinyoung Park:

Thank you, Chae, and welcome everyone. Let me begin with our key financial results for Q2.

Total Q2 consolidated revenue from continuing operations (which includes Power Analog Solutions (PAS) and Power IC) was $44.7 million, within the guidance range of $44.5 to $48.5 million. Revenue was down 6.1% year-over-year, and down 3.3% sequentially, compared with $47.6 million in Q2 2025 and $46.2 million in Q1 2026.

The year-over-year revenue decline was primarily driven by weaker demand for our legacy products resulting from intensified pricing competition. Sequentially, revenue declined mainly due to seasonal softness in the communication segment. As we noted last quarter, Q1 revenue was stronger than typical seasonality, benefiting from a one-time sales incentive program that reduced channel inventory levels.

In Q2, consolidated gross profit margin from continuing operations improved to 19.3%, exceeding the high end of our guidance range of 17% to 19%. This compares with 20.4% in Q2 2025, and 15.6% in Q1 2026.

The year-over-year decline in gross profit margin was primarily attributable to an unfavorable product mix, driven mainly by ASP erosion, particularly in China. Sequentially, gross profit margin improved primarily due to the one-quarter lag benefit from higher fab utilization in Q1 2026.

Moving to operating expenses:

- SG&A expense was $8.7 million in Q2, compared with $9.0 million in Q2 2025 and $7.7 million in Q1 2026. Stock-based compensation included in SG&A was $0.8 million in Q2, compared with $0.8 million in Q2 2025 and $0.6 million in Q1 2026.
- R&D expense was $7.9 million in Q2, compared with $6.5 million in Q2 2025 and $6.7 million in Q1 2026. The year-over-year and sequential increase primarily reflects the timing of continued investment in our new-generation product development activities. As we mentioned on our prior earnings call, we remain on track to deliver our target of 55 new-generation products in 2026.

Before turning to our non-GAAP results, please note that our GAAP financial results are available in our Form 8-K filing with our second quarter earnings release.

Our non-GAAP results are as follows:

- Adjusted Operating Loss was $7.0 million in Q2, compared with a loss of $4.8 million in Q2 2025 and a loss of $6.5 million in Q1 2026. Adjusted EBITDA was negative $4.2 million in Q2, compared with negative $1.5 million in Q2 2025 and negative $3.6 million in Q1 2026.
- The quarter-over-quarter decline in our non-GAAP results was primarily driven by higher operating expenses, such as SG&A and R&D expenses, as discussed earlier.

Q2 non-GAAP diluted loss per share was 13 cents, compared to a loss per share of five cents in Q2 2025 and a loss per share of 11 cents in Q1 2026. Weighted average non-GAAP diluted shares outstanding for the quarter were 36.5 million, compared to 36.1 million in Q2 2025, and 36.4 million in Q1 2026.

Moving to the balance sheet:
We ended Q2 with cash of $87.9 million, compared to $94.6 million at the end of Q1. The decrease was primarily driven by operating cash outflows and $1.3 million of capital expenditures (CAPEX).

At the end of Q2, total borrowings were $41.5 million, including $15.6 million of the equipment loan.

During the quarter, we established a $50 million at-the-market offering program, which provides us with additional financial flexibility if and when we choose to utilize it in the future.

Now moving to our third quarter 2026 guidance:

While actual results may vary, for Q3 2026, we currently expect:

- Consolidated revenue from continuing operations (which includes Power Analog Solutions and Power IC businesses) to be in the range of $41.5 million to $45.5 million, a decrease of 2.7% sequentially and down 5.2% year-over-year at the mid-point. This compares with $44.7 million in Q2 2026 and $45.9 million in Q3 2025.

- Consolidated gross profit margin from continuing operations to be in the range of 17% to 19%, compared with 19.3% in Q2 2026 and 18.6% in Q3 2025. The sequential decline is primarily due to an unfavorable product mix.

I would like to provide some additional context behind our Q3 guidance. We continue to see healthy demand for our Low Voltage BatteryFET product line for mobile products. Nevertheless, we expect third-quarter revenue to decline sequentially due to three near-term factors:

- Firstly, packaging constraints in our supply chain that are limiting our ability to fully satisfy demand,
- Secondly, our customers' volumes in certain consumer applications are lower than their earlier plans, and
- Finally, an unfavorable product mix resulting from continued pricing pressure on our legacy products.

While these factors will affect our third-quarter results, we remain focused on executing our multi-year portfolio transformation and increasing the contribution from differentiated, new-generation products, which we believe will strengthen our competitive position and support improved financial performance over time. We continue to expect new-generation products to contribute at least 10% of our revenue in the fourth quarter of 2026, compared with approximately 2% for full-year 2025.

Looking ahead, the lower fab utilization in Q3 resulting from the planned electrical substation upgrade is expected to have a one-quarter lag effect on gross margin. As a result, we currently expect Q4 gross margin to decline slightly from Q3.

Thank you and I'll now turn the call over to Chae for his final remarks. Chae?

Chae Lee:

Thank you, Shinyoung.

The financial results we reported today reflect a company that is still in the early stages of our transition. While we delivered results within our guidance, there is still significant work ahead to improve our financial performance. We are not satisfied with where we are today, although I am encouraged by what I have seen during my first month at Magnachip and our recent partnership with Navitas. We have a talented team, a focused strategy, and a product roadmap that I believe can ultimately lead the industry. Our priorities are clear: execute with discipline, develop differentiated products that create greater value for our customers, and steadily improve our financial performance. We understand that ultimately we will be judged by our results, and we are committed to earning the confidence of our shareholders through consistent execution.

With that, operator, we would now be happy to take your questions.

Mike Bishop:

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