Magnachip Semiconductor
Prepared Remarks for Q3 2023 Investor Conference Call
November 2, 2023

Yujia Zhai

Hello everyone. Thank you for joining us to discuss Magnachip's financial results for the third quarter ended September 30, 2023. 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 of 2023. 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.

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 to illustrate an alternative measure of Magnachip's operating performance that may be useful. 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, thank you for joining us today and welcome to Magnachip's Q3 earnings call.

Starting with our financials. Our Q3 results were in-line with our expectations. Q3 revenue was $61.2 million, down 14% year-over-year and up slightly sequentially. Gross margin was 23.6%, down 60 basis points year-over-year primarily due to unfavorable product mix and higher fab costs, but recovered 140 basis points sequentially on higher fab utilization.

Overall market conditions were challenging but we remained focused on driving towards smartphone design-wins in our Display business and launching competitive products in our Power business.

Let me now provide updates to each of our business segments:

Beginning with our Display business. Q3 revenue was in-line with our expectation at $6.4 million, up slightly year-over-year and down 33.7% sequentially. Our OLED revenue remained muted due largely to slower than planned design-wins in China from our large Korean panel customer. During the quarter we worked to expand our footprint with new Global panel makers and smartphone OEMs. We are disappointed that our OLED ramp has lagged our original expectations, but our confidence in the longer-term Display business remains intact. We are now engaged in projects that span the entire smartphone market spectrum, from mass-tier to premium tier segments. Our goal, as always, is to deliver differentiated and competitive products to drive long-term growth as an industry leader in display.

- **At our new global Tier 1 panel customer**, our third OLED DDIC chip successfully passed qualification at the end of the quarter and is now in the design-in stage with a leading Chinese smartphone OEM for its flagship model that is scheduled to be launched at the end of the year. As previously announced in the second quarter, we successfully qualified a second chip with our global Tier 1 panel customer, and entered into the design-in stage with a global smartphone maker for a smartphone expected to launch in mid-2024. We now have two design-ins at leading smartphone OEMs outside of Korea and we are optimistic that they will lead to design-wins and production shipments that will contribute to revenue in 2024.

- In the second quarter, we also announced that we began developing a 4^{th} OLED DDIC project with our global Tier 1 panel maker. This next-gen DDIC provides enhanced features and specs geared towards the growing foldable smartphone market. This quarter, we saw increased interest for this chip by multiple smartphone OEMs and we expect to provide IC samples to our panel maker by early next year.

- Additionally, our 1^{st} OLED DDIC chip is now in the final stage of qualification with after market OEMs in Asia.

- Finally, during the quarter, we started a new development on our mass-market OLED DDIC chip with another Asian panel maker. This 5^{th} product is aimed at expanding market share into the low-to-mid-range OLED smartphone display market. We currently expect this OLED device to drive revenue growth in the second half of 2024 and beyond.

- **With regards to our OLED automotive business:** We began production shipments to our large Korean panel maker for three different car models from two top-tier European car manufacturers between May and July. Revenue from those devices started beginning in May, and we currently expect those devices will continue to contribute to revenue for the remainder of the year.

Moving on to our Power business: Q3 revenue was $45.2 million, down 19.9% year-over-year and up 8.4% sequentially. Sequentially, our Power business benefited from a higher mix of premium tier products and strong demand in Consumer, Computing, and Communication markets, such as TVs, notebooks, and smartphones. However, industrial markets, which had been an area of strength for us over the past several quarters, slowed by double-digit percentages in Q3 as our customers reduced orders to better manage their inventories.

- Operationally, we continued our strong momentum of design activities, particularly in Automotive Power products. In Q3, we secured two new design-wins and 3 design-ins with two of the top 5 automakers in the world and we expect revenue contribution over the coming quarters.

- We also continue to innovate. In September, we announced two new IGBTs for the EV market that provide best-in-class efficiency and heat dissipation featuring advanced field stop technology. In October, we unveiled our 8^{th} generation 150V Medium Voltage MOSFETs.

- Finally, Power products ASPs continued to remain stable, increasing 11.3% YoY but down slightly by 5% sequentially.

In summary, in our Power business, our product portfolio is getting stronger as we continue to focus on rolling out next-generation power products to maintain our momentum of design-ins and wins. Looking ahead, amid heightened global geopolitical and macroeconomic uncertainty, we expect demand to remain weak driven by normal Q4 seasonality and inventory correction in industrial end markets.

In our Display business, we're very optimistic about the long-term growth of our OLED business. We continue to collaborate closely with our new global panel customer and we are excited about the new products and new Asia-based panel customer partnerships. These new products offer compelling competitive advantages and are strategically aimed at tapping into the rapidly expanding OLED market in the Asia region.

Finally, a few comments on our previously announced plan to separate our Display and Power businesses into separate legal entities. As we announced previously, our internal separation of the Display and Power businesses will be effectuated by establishing a separate operating company under Magnachip Semiconductor, Ltd. ("MSK"), the Company's primary operating subsidiary.

In September, we established a limited liability company registered in South Korea, named Magnachip Mixed-Signal, Ltd. ("MMS"). The separation will include the contribution of assets and liabilities of the display business and the power IC business to MMS, transfer of directly associated resources such as sales, marketing and R&D, as well as allocation of shared expenses of certain corporate functions including HR, Finance, Legal and IT. This internal separation is expected to be completed and go effect on January 1st, 2024.

Thank you to our shareholders for your patience, and we appreciate your support as we work towards our goals. I will now turn the call over to Shinyoung to review the financials in detail.

Shinyoung Park:

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

Total revenue in Q3 was $61.2 million, up 0.4% sequentially and down 14% year-over-year. Revenue from the standard products business was $51.6 million and revenue from Transitional Foundry Services was $9.6 million. Within standard products, Display business revenue was $6.4 million and Power business revenue was $45.2 million.

Gross margin in Q3 was 23.6%, up from 22.2% in Q2 mainly driven by higher fab utilization. Compared to the same period last year, gross margin decreased 60 basis points from 24.2% primarily as a result of unfavorable product mix and higher fab costs.

As a reminder, our Transitional Foundry Services contract with Key Foundry expired at the end of August and we are planning to wind down these foundry services over the next several quarters. Transitional Foundry Services accounts for approximately 30% of our Gumi capacity. We anticipate to begin the process of converting portions of the idle capacity to Power Standard products around the middle of 2024. Until such wind down is completed, we will continue to provide these foundry services to Key Foundry based on mutually agreed pricing terms.

Turning now to Operating Expenses. Q3 combined R&D and SG&A was $23.7 million. This compares to R&D and SG&A of $23.4 million in Q2 2023 and $24.7 million in Q3 last year. Stock compensation charges included in operating expenses were $2.1 million in Q3 compared to $2.0 million in Q2 and $0.8 million in Q3 last year.

Q3 operating loss was $9.2 million. This compares to an operating loss of $10.7 million in Q2 and operating loss of $10 million in Q3 2022. On a non-

GAAP basis, Q3 adjusted operating loss was $7.1 million, compared to adjusted operating loss of $7.8 million in Q2 and $6.6 million in Q3 last year.

Q3 adjusted EBITDA was negative $2.7 million. This compares to a negative $3.6 million in Q2 and negative $3 million in Q3 last year.

Net loss in Q3 was $5.2 million as compared with a net loss of $3.9 million in Q2 and a net loss of $17.2 million in Q3 last year.

Our GAAP diluted loss per share in Q3 was 13 cents, as compared with diluted loss per share of 9 cents in Q2 and 38 cents in Q3 last year.

Our non-GAAP diluted loss per share in Q3 was 4 cents. This compares with diluted loss per share of 6 cents in Q2 and an earnings per share of 2 cents in Q3 last year.

Our weighted average diluted shares outstanding for the quarter were 40.1 million shares. In Q3, under our new stock buyback program of $50 million, we repurchased approximately 0.7 million shares or $5.4 million.

Moving to the balance sheet:

We ended the quarter with no debt and cash of $166.6 million, down from $173.0 million at the end of Q2 2023. The primary cash outflows during the quarter were approximately $5.4 million of stock buybacks and $0.8 million in capital expenditures.

Net accounts receivable at the end of the quarter totaled $41.1 million, which represents an increase of 17.5% from Q2 2023. Our days sales outstanding for Q3 was 62 days and compares to 52 days in Q2. The increase in accounts receivable and days sales outstanding was attributable to the timing of payments from certain customers as the quarter end fell on a holiday in Korea, and the vast majority of related payments were collected in early October.

Inventories, net at the end of the quarter totaled $30.8 million. This compares to $32.3 million in Q2 2023. Our average days in inventory for Q3 was 61 days and compares to 62 days in Q2.

Lastly, Q3 CAPEX was $0.8 million. We continue to expect our CAPEX in 2023 to be approximately $7 million as we previously forecast on our Q2 earnings call. This is nearly 70% lower from the 2022 level.

Now moving to our fourth quarter guidance:
Amid heightened global geopolitical and macroeconomic uncertainty, we expect Power demand to soften in Q4 driven by normal weaker Q4 seasonality and inventory correction in industrial end markets.

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

- Revenue to be in the range of $50 million to $55 million, including approximately $8 million of Transitional Fab 3 Foundry Services.

- Gross profit margin to be in the range of 22.5% to 24.5%.

Thank you and now I will turn the call back over to Yujia

Yujia Zhai
Thank you. That concludes the prepared remarks section of our call today, operator you may now open up the call for questions.

Yujia Zhai – 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.