Magnachip

Magnachip Semiconductor (NYSE: MX)

Q3 2024 Earnings Materials

October 30, 2024

Forward-Looking Statements

Information in this presentation regarding Magnachip's forecasts, business outlook, expectations and beliefs are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. All forward-looking statements included or incorporated by reference in this presentation, including expectations about estimated historical or future operating results and financial performance, outlook and business plans, including fourth quarter and full year 2024 revenue and gross profit margin expectations, future growth and revenue opportunities from new and existing products and customers, the timing and extent of future revenue contributions by our products and businesses, and the impact of market conditions associated with inflation and higher interest rates, geopolitical conflicts between Russia-Ukraine and between Israel-Hamas, sustained military action and conflict in the Red Sea, and trade tensions between the U.S. and China on Magnachip's fourth quarter and full year 2024 and future operating results, and the timing and extent of future revenue contributions by our products and businesses, are based upon information available to Magnachip as of the date of this presentation and the accompanying press release, which may change, and we assume no obligation to update any such forward-looking statements. These statements are not guarantees of future performance and actual results could differ materially from our current expectations. Factors that could cause or contribute to such differences include, among others: the impact of changes in macroeconomic conditions, including those caused by or related to inflation, potential recessions or other deteriorations, economic instability or civil unrest; the geopolitical conflicts between Russia-Ukraine and between Israel-Hamas, sustained military action and conflict in the Red Sea, and trade tensions between the U.S. and China; manufacturing capacity constraints or supply chain disruptions that may impact our ability to deliver our products or affect the price of components, which may lead to an increase in our costs and impact demand for our products from customers who are similarly affected by such capacity constraints or disruptions; the impact of competitive products and pricing; timely acceptance of our designs by customers; timely introduction of new products and technologies; our ability to ramp new products into volume production; industry-wide shifts in supply and demand for semiconductor products; overcapacity within the industry or at Magnachip; effective and cost-efficient utilization of manufacturing capacity; financial stability in foreign markets and the impact of foreign exchange rates; unanticipated costs and expenses or the inability to identify expenses that can be eliminated; compliance with U.S. and international trade and export laws and regulations by us, our customers and our distributors; change to or ratification of local or international laws and regulations, including those related to environment, health and safety; public health issues; other business interruptions that could disrupt supply or delivery of, or demand for, Magnachip's products; and other risks detailed from time to time in Magnachip's filings with the U.S. Securities and Exchange Commission (the "SEC"), including our Form 10-K filed on March 8, 2024, and subsequent registration statements, amendments or other reports that we may file from time to time with the SEC and/or make available on our website. Magnachip assumes no obligation and does not intend to update the forward-looking statements provided, whether as a result of new information, future events or otherwise.

This presentation also includes references to certain non-GAAP financial measures. Management believes that non-GAAP financial measures, when viewed in conjunction with GAAP results, can provide a meaningful understanding of the factors and trends affecting Magnachip's business and operations and assist in evaluating our core operating performance. However, such non-GAAP financial measures may have limitations and should not be considered as a substitute for net income (loss) or as a better indicator of our operating performance than measures that are presented in accordance with GAAP. Reconciliation of GAAP results to non-GAAP results is also included in this presentation.

Q3 2024 Financial Summary

Revenue

	Q3 2024	MX Guidance Range	Q/Q Change	Y/Y Change
Consolidated	$66.5 M	$61.5 – $66.5 M	up 25.0%	up 8.5%
MSS	$16.4 M	$14.5 – $16.5 M	up 41.8%	up 54.5%
PAS	$47.6 M	$45.5 – $48.5 M	up 21.2%	up 16.1%

Gross Profit Margin

	Q3 2024	MX Guidance Range	Q/Q Change	Y/Y Change
Consolidated	23.3%	22.5 – 24.5%	up from 21.8%	down from 23.6%
MSS	38.7%	36.5 – 39.5%	up from 34.6%	up from 28.8%
PAS	19.4%	18.5 – 20.5%	down from 19.7%	down from 28.6%

EPS

	Q3 2024	Q2 2024	Q3 2023
GAAP Diluted Loss Per Share	$0.26	$0.34	$0.13
Non-GAAP Diluted Loss Per Share	$0.34	$0.21	$0.04

* MSS consists of historical Display and Power IC business, which is operated by Magnachip Mixed-Signal, Ltd., a limited liability company incorporated in Korea. PAS business is operated by Magnachip Semiconductor, Ltd., the existing limited liability company incorporated in Korea prior to the establishment of Magnachip Mixed-Signal, Ltd.

Q3 2024 Report by Business

PAS

	Q3 2024	Q2 2024	Q/Q Change	Q3 2023	Y/Y change
Revenue	$47.6 M	$39.2 M	up 21.2%	$41.0 M	up 16.1%

PAS delivered a broad-based sequential revenue growth in Q3, driven by leaner distribution channels and better-than-typical seasonality. Relative strength was more evident in:

- **Industrial:** Strong rebound in solar and growth from additional design wins in the China lighting market with 6th generation Super-Junction devices.
- **Automotive**: Continued to show strength with additional design wins and production ramps in Japan and China.
- **Communication:** Slight improvement from demand for low voltage MOSFETs in high-end foldables and AI smartphones in Korea.
- **Consumer:** Growth from TV sales driven by strong seasonal demand from Korea; steady demand for Super-Junction MOSFET and IGBT products in home appliances.
- **Computing:** Strong growth driven by seasonal demand in China for PC and laptop power adaptors.

MSS

	Q3 2024	Q2 2024	Q/Q Change	Q3 2023	Y/Y Change
Revenue	$16.4 M	$11.6 M	up 41.8%	$10.6 M	up 54.5%
Display	$11.0 M	$6.8 M	up 62.9%	$6.4 M	up 72.2%
Power IC	$5.4 M	$4.8 M	up 12.4%	$4.2 M	up 27.8%

MSS Q3 revenue was near the high-end of our guidance of $14.5 to 16.5 million. The growth was due to increased demand from OLED DDICs for China smartphone OEMs, as well as for automotive, and Power IC for OLED IT. More specifically:

- Started initial production and shipment in Q3 for a QHD+ DDIC for a premium smartphone model from a leading China OEM.
- Received a purchase order as a second source supplier from another leading China smartphone OEM and commenced shipments in October.
- Began sampling our new OLED driver in October, designed with next-generation IP and more than 20% reduction in power consumption than previous generation.
- Power IC revenue increased sequentially, driven primarily by demand for LCD TVs and OLED IT in tablets and notebooks.

Q3 2024 Key Financials

(In $ millions, except for share data and days calculation)

Non-GAAP Metrics

Non-GAAP Metrics	Q3 2024	Q2 2024	Q3 2023
Adjusted Operating Loss	-$9.0	-$11.6	-$7.1
Adjusted EBITDA	-$4.9	-$7.6	-$2.7
Adjusted Net Loss	-$12.8	-$8.1	-$1.6
Adjusted Loss per Common Share - Diluted	-$0.34	-$0.21	-$0.04

Balance Sheet

Balance Sheet	Q3 2024	Q2 2024	Q3 2023
Cash and Cash Equivalents	$121.1	$132.5	$166.6
Short-term Financial Instruments	$30.0	$30.0	-
Days Sales Outstanding (DSO)	40 days	53 days	62 days
Days in Inventory	65 days	76 days	61 days
Total Stockholders' Equity	$299.6	$305.8	$353.7

Q4 & Full-year 2024 Outlook

Beginning in Q1 of 2024, the Company began reporting under its newly organized businesses: MSS (Mixed-Signal Solutions) and PAS (Power-Analog Solutions). While actual results may vary, Magnachip currently expects the following:

	Key Metrics	Guidance
Q4 2024	Revenue	• Consolidated revenue to be in the range of $59.0 to $64.0 million, including approximately $2.0 million of Transitional Foundry Services. o 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. o 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.
	Gross Profit Margin	• Consolidated gross profit margin to be in the range of 21.5% to 23.5%. o 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. o 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.

	Key Metrics	Guidance
Full-year 2024	Revenue	• 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.
	Gross Profit Margin	• 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.

Q3 2024 Financial Highlights

In thousands of U.S. dollars, except share data

	GAAP						
	Q3 2024	Q2 2024	Q/Q change		Q3 2023	Y/Y change	
Consolidated Revenues	66,460	53,171	up	25.0%	61,245	up	8.5%
Standard Products Business	64,020	50,835	up	25.9%	51,619	up	24.0%
Mixed-Signal Solutions	16,446	11,595	up	41.8%	10,644	up	54.5%
Power Analog Solutions	47,574	39,240	up	21.2%	40,975	up	16.1%
Transitional Fab 3 foundry services(1)	2,440	2,336	up	4.5%	9,626	down	74.7%
Consolidated Gross Profit Margin	23.3%	21.8%	up	1.5%pts	23.6%	down	0.3%pts
Standard Products Business	24.4%	23.1%	up	1.3%pts	28.7%	down	4.3%pts
Mixed-Signal Solutions	38.7%	34.6%	up	4.1%pts	28.8%	up	9.9%pts
Power Analog Solutions	19.4%	19.7%	down	0.3%pts	28.6%	down	9.2%pts
Operating Loss	(11,003)	(12,824)	up	n/a	(9,235)	down	n/a
Net Loss	(9,617)	(12,997)	up	n/a	(5,165)	down	n/a
Basic Loss per Common Share	(0.26)	(0.34)	up	n/a	(0.13)	down	n/a
Diluted Loss per Common Share	(0.26)	(0.34)	up	n/a	(0.13)	down	n/a

In thousands of U.S. dollars, except share data

	Non-GAAP(2)						
	Q3 2024	Q2 2024	Q/Q change		Q3 2023	Y/Y change	
Adjusted Operating Loss	(9,026)	(11,608)	up	n/a	(7,064)	down	n/a
Adjusted EBITDA	(4,949)	(7,569)	up	n/a	(2,735)	down	n/a
Adjusted Net Loss	(12,797)	(8,134)	down	n/a	(1,591)	down	n/a
Adjusted Loss per Common Share—Diluted	(0.34)	(0.21)	down	n/a	(0.04)	down	n/a

(1) Following the consummation of the sale of the Foundry Services Group business and Fab 4 in Q3 2020, we provided transitional foundry services to the buyer for foundry products manufactured in our fabrication facility located in Gumi, Korea, known as "Fab 3" ("Transitional Fab 3 Foundry Services"). The contractual obligation to provide the Transitional Fab 3 Foundry Services ended August 31, 2023, and we are winding down these foundry services and have begun to convert portions of the idle capacity to PAS products during the second half of 2024. Because these foundry services during the wind-down period are still provided to the same buyer by us using our Fab 3 based on mutually agreed terms and conditions, we will continue to report our revenue from providing these foundry services and related cost of sales within the Transitional Fab 3 Foundry Services line in our consolidated statement of operations until such wind down is completed. Management believes that disclosing revenue of Transitional Fab 3 Foundry Services separately from the standard products business allows investors to better understand the results of our core standard products MSS and PAS businesses.

(2) Management believes that non-GAAP financial measures, when viewed in conjunction with GAAP results, can provide a meaningful understanding of the factors and trends affecting our business and operations and assist in evaluating our core operating performance. However, such non-GAAP financial measures have limitations and should not be considered as a substitute for net loss or as a better indicator of our operating performance than measures that are presented in accordance with GAAP. A reconciliation of GAAP results to non-GAAP results is included in this press release.

Appendix: GAAP to Non-GAAP Reconciliation

(In thousands of U.S. dollars)	Three Months Ended			Nine Months Ended	
	September 30, 2024	June 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Operating loss	$ (11,003)	$ (12,824)	$ (9,235)	$ (37,286)	$ (41,709)
Adjustments:					
Equity-based compensation expense	1,977	1,216	2,171	4,093	5,383
Early termination and other charges	—	—	—	—	9,251
Adjusted Operating Income Loss	$ (9,026)	$ (11,608)	$ (7,064)	$ (33,193)	$ (27,075)

We present Adjusted Operating Loss as a supplemental measure of our performance. We define Adjusted Operating Loss for the periods indicated as operating loss adjusted to exclude (i) Equity-based compensation expense and (ii) Early termination and other charges.

For the nine months ended September 30, 2023, we recorded in our consolidated statement of operations $8,449 thousand of termination related charges in connection with the voluntary resignation program that we offered to certain employees during the first quarter of 2023. During the same period, we also recorded $802 thousand of one-time employee incentives.

Appendix: GAAP to Non-GAAP Reconciliation

(In thousands of U.S. dollars, except share data)	Three Months Ended September 30, 2024	Three Months Ended June 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Net loss	$ (9,617)	$ (12,997)	$ (5,165)	$ (38,031)	$ (30,582)
Adjustments:					
Interest income	(2,051)	(2,228)	(2,382)	(6,492)	(7,916)
Interest expense	574	554	189	1,366	645
Income tax expense (benefit)	5,126	(1,602)	(4,373)	2,500	(8,577)
Depreciation and amortization	4,056	4,016	4,081	12,171	12,583
EBITDA	(1,912)	(12,257)	(7,650)	(28,486)	(33,847)
Equity-based compensation expense	1,977	1,216	2,171	4,093	5,383
Foreign currency loss (gain), net	(5,066)	3,557	2,583	3,492	4,776
Derivative valuation loss (gain), net	52	(85)	161	(58)	235
Early termination and other charges	—	—	—	—	9,251
Adjusted EBITDA	$ (4,949)	$ (7,569)	$ (2,735)	$ (20,959)	$ (14,202)
Net loss	$ (9,617)	$ (12,997)	$ (5,165)	$ (38,031)	$ (30,582)
Adjustments:					
Equity-based compensation expense	1,977	1,216	2,171	4,093	5,383
Foreign currency loss (gain), net	(5,066)	3,557	2,583	3,492	4,776
Derivative valuation loss (gain), net	52	(85)	161	(58)	235
Early termination and other charges	—	—	—	—	9,251
Income tax effect on non-GAAP adjustments	(143)	175	(1,341)	(1,311)	(3,493)
Adjusted Net Loss	$ (12,797)	$ (8,134)	$ (1,591)	$ (31,815)	$ (14,430)
Adjusted Net Loss per common share—					
- Basic	$ (0.34)	$ (0.21)	$ (0.04)	$ (0.84)	$ (0.35)
- Diluted	$ (0.34)	$ (0.21)	$ (0.04)	$ (0.84)	$ (0.35)
Weighted average number of shares – basic	37,468,849	38,174,920	40,145,290	38,060,682	41,747,255
Weighted average number of shares – diluted	37,468,849	38,174,920	40,145,290	38,060,682	41,747,255

We present Adjusted EBITDA and Adjusted Net Loss as supplemental measures of our performance. We define Adjusted EBITDA for the periods indicated as EBITDA (as defined below), adjusted to exclude (i) Equity-based compensation expense, (ii) Foreign currency loss (gain), net, (iii) Derivative valuation loss (gain), net and (iv) Early termination and other charges. EBITDA for the periods indicated is defined as net loss before interest income, interest expense, income tax expense (benefit) and depreciation and amortization.

We prepare Adjusted Net Loss by adjusting net loss to eliminate the impact of a number of non-cash expenses and other items that may be either one time or recurring that we do not consider to be indicative of our core ongoing operating performance. We believe that Adjusted Net Loss is particularly useful because it reflects the impact of our asset base and capital structure on our operating performance. We define Adjusted Net Loss for the periods as net loss, adjusted to exclude (i) Equity-based compensation expense, (ii) Foreign currency loss (gain), net, (iii) Derivative valuation loss (gain), net, (iv) Early termination and other charges and (v) Income tax effect on non-GAAP adjustments.

For the nine months ended September 30, 2023, we recorded in our consolidated statement of operations $8,449 thousand of termination related charges in connection with the voluntary resignation program that we offered to certain employees during the first quarter of 2023. During the same period, we also recorded $802 thousand of one-time employee incentives.