



# Magnachip Semiconductor (NYSE: MX)

## MX 3.0: Accelerating Profitable Growth

January 2021



# Forward-Looking Statement

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, business strategies, outlook and plans, including fourth quarter 2020 revenue and gross profit margin expectations, future growth and revenue opportunities from new and existing products and customers, the impact of the COVID-19 pandemic and escalated trade tensions on Magnachip's fourth quarter 2020 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 uncertainties related to market conditions or macroeconomic and/or general economic conditions, such as those caused by or related to the COVID-19 pandemic, recessions, economic instability or civil unrest, the impact of competitive products and pricing, timely design acceptance by our customers, timely introduction of new products and technologies, ability to ramp new products into volume production, industry-wide shifts in supply and demand for semiconductor products, industry and/or company overcapacity, 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, public health issues, including the COVID-19 pandemic, and other business interruptions that could disrupt supply or delivery of, or demand for, Magnachip's products, including uncertainties regarding the impacts of the COVID-19 pandemic that may result in factory closures, reduced workforces and scarcity of raw materials and goods produced in infected areas, as well as reduced consumer and business spending affecting demand for Magnachip's products due to government and private sector mandatory business closures, travel restrictions or the like to prevent the spread of disease and other risks detailed from time to time in Magnachip's filings with the SEC, including our Form 10-K filed on February 21, 2020 and our Form 10-Qs filed on May 11, 2020 and August 7, 2020 (including the possibility that the COVID-19 pandemic may exacerbate the various risks discussed therein), 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.

Information in this presentation does not take into effect the potential impact of the COVID-19 pandemic on Magnachip's business operations, financial condition, plans, opportunities, expectations and future results due to the uncertainty regarding the magnitude, duration and global reach of the situation. 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 have limitations and should not be considered as a substitute for net income 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 presentation.

# Recent Highlights



## Magnachip Launches New Brand Identity

- Underscores a fresh start as a pure-play standard products
- Symbolizes our profound commitment to technology advancement and customer support



## Continued Strength in Demand in 2H'20

- Our Q4 revenue guidance range was based on allocation from foundry partners for OLED as well as internal Fab 3 ramp-up.
- We were able to secure greater supply than we originally expected.
- We will provide detailed financial results in the Q4 earnings call in February.

# MX 3.0: Accelerating Profitable Growth

**Structural transformation enabling healthy earnings and FCF generation**

**Attractive market trends propelling revenue expansion opportunity**

**Differentiated technologies fueling key growth drivers**

**Superior execution**



# Transformation Has Begun

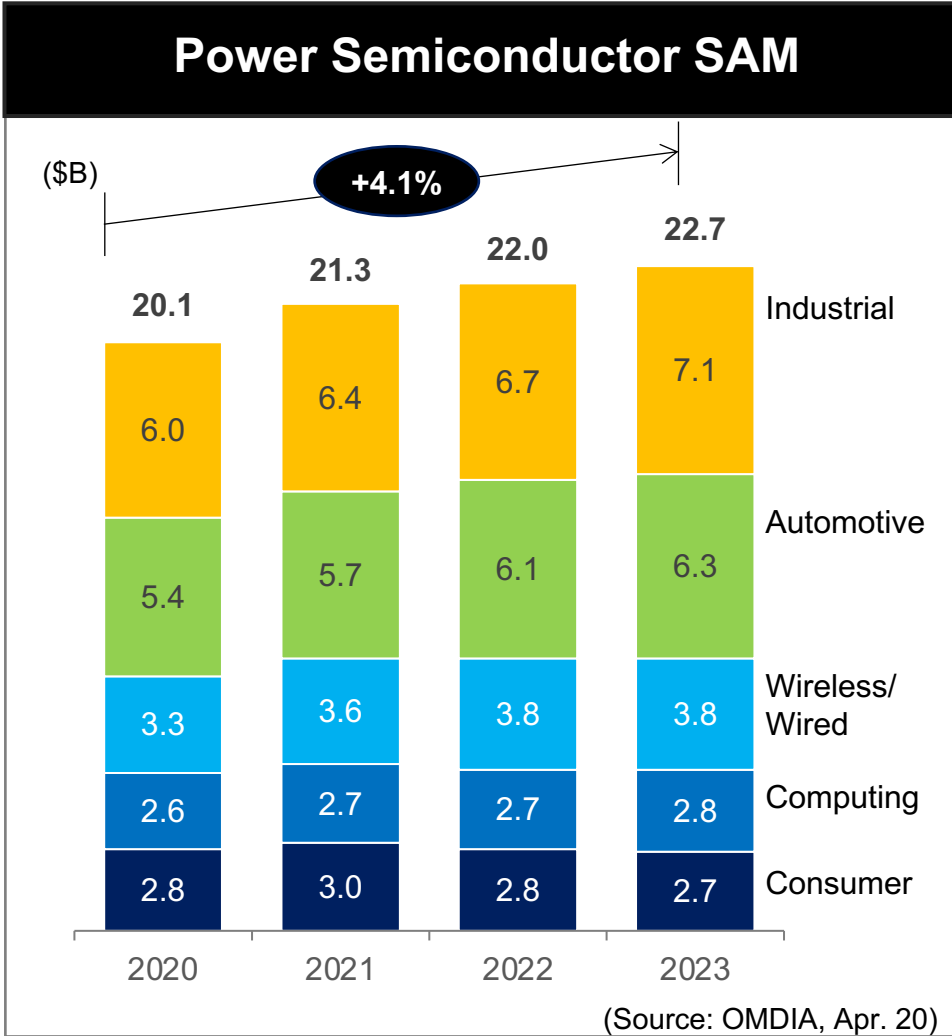
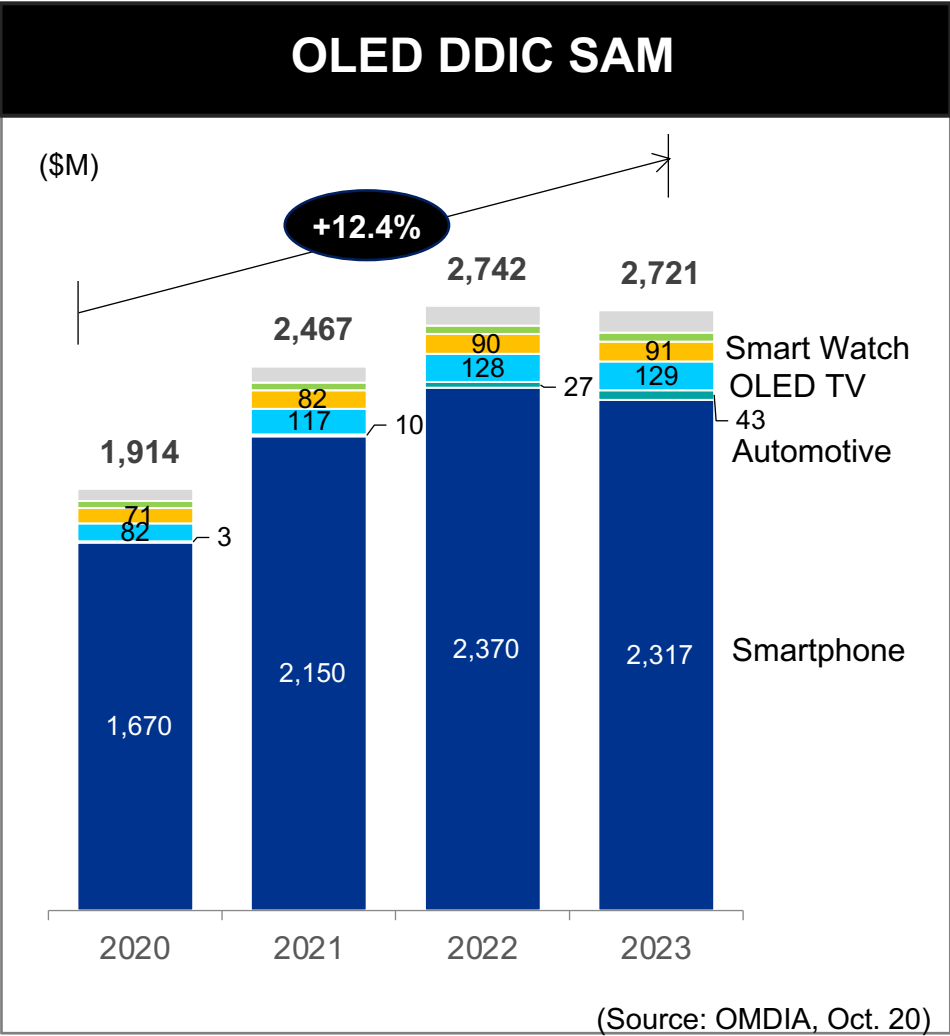
- Successful divestiture of non-core business for cash proceeds of >\$350M in Q3'20
- Reduced ~\$224M debt and ~\$16M of future interest expense
- Repositioning company for sustainable and profitable growth

2020-2023 Plan*			
Revenue	Gross Profit Margin	Operating Expense**	Free Cash Flow
Double-digit CAGR	Above 30% in 2023	Below 18%	Above 8% by 2023

\* The metrics based on the Standard Products Business revenue excluding the transitional Fab 3 foundry service as such service is expected to cease after a certain period of time.

\*\* Operating expenses minus equity-based compensation expense.

# Attractive Market Trends



# MX OLED Core Competencies

- Largest independent supplier of OLED display drivers
- Pioneer in 28nm OLED drivers with best power consumption and size in industry
- Favorable market trends: 5G, OLED TV, OLED automotive & emerging new technologies
- Strategic exit of non-auto LCD DDIC product line during Q2 2020

## Technology Leadership

World 1<sup>st</sup> FHD+ HFR\* OLED DDIC

World 1<sup>st</sup> product on 28 nm process as independent DDIC maker

#1 market share in non-captive OLED smartphone DDIC on a unit basis\*\*

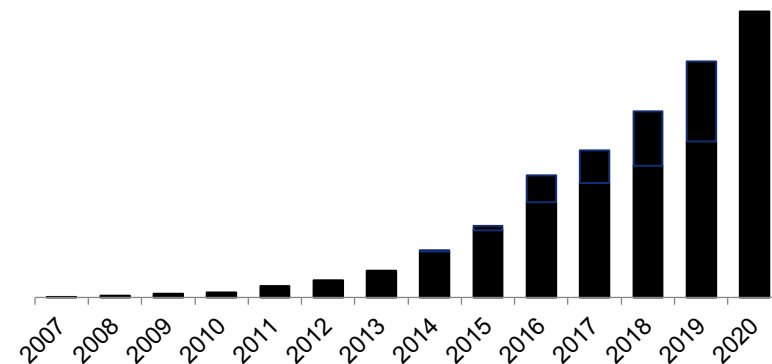
\* HFR: High Frame Rate.

\*\* OMDIA, Oct 2020

## Mass Production Capability

(Cumulative, as of Q4'20)

Over  
681Mpcs

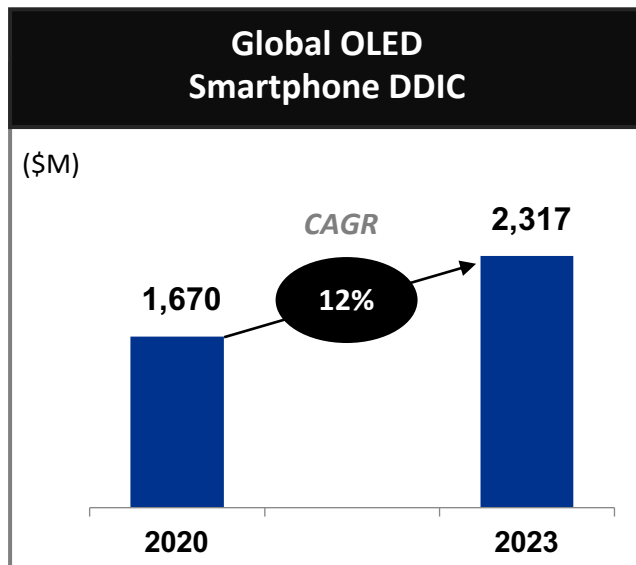


# OLED Market Opportunity

## New Growth Divers to Expand Revenue and Margin

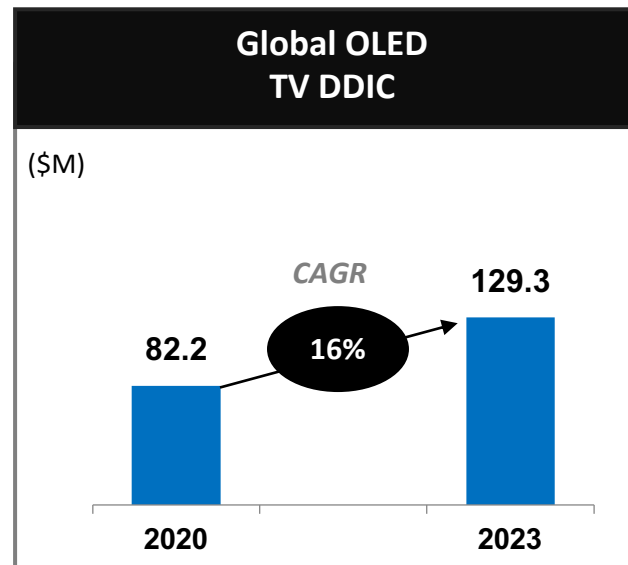
### OLED Smartphone

- Booming 5G market
  - 5G smartphone penetration to continue
  - New Opportunities in emerging Solutions



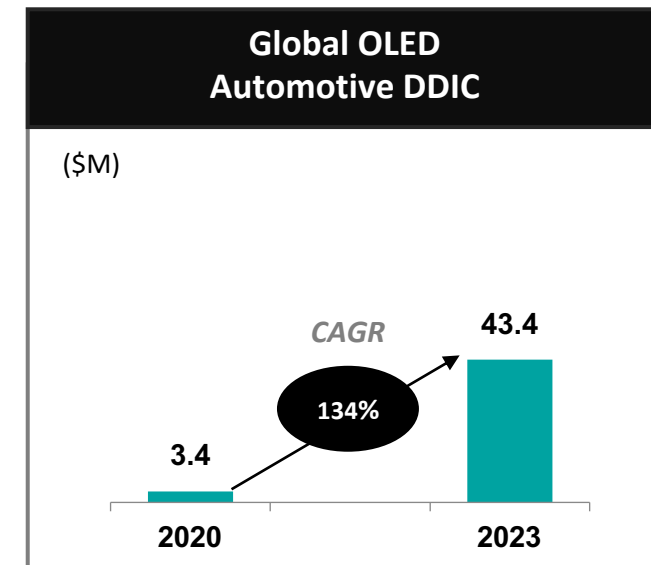
### OLED TV

- Growing premium high-end TV
  - New models with various technologies
  - Higher ASP and margin



### OLED Automotive

- Rising adoption
  - Image quality and design flexibility
  - Higher ASP and margin

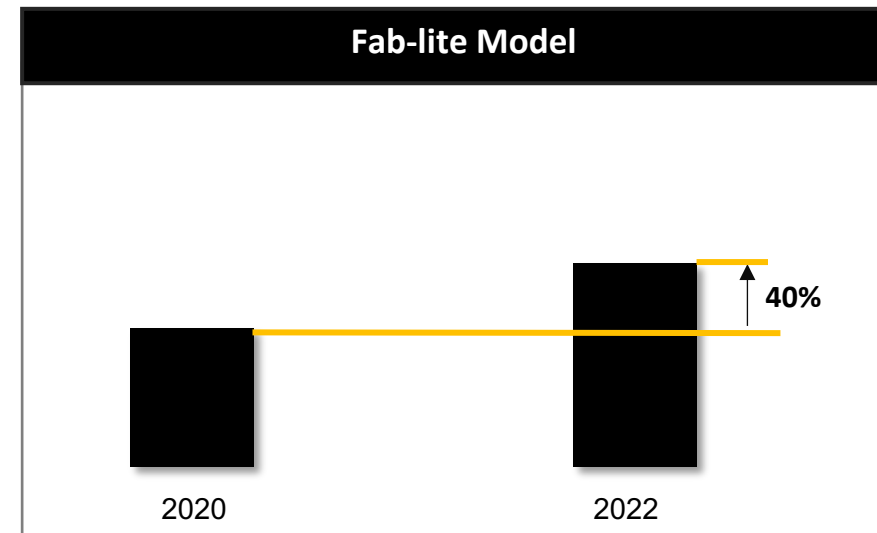
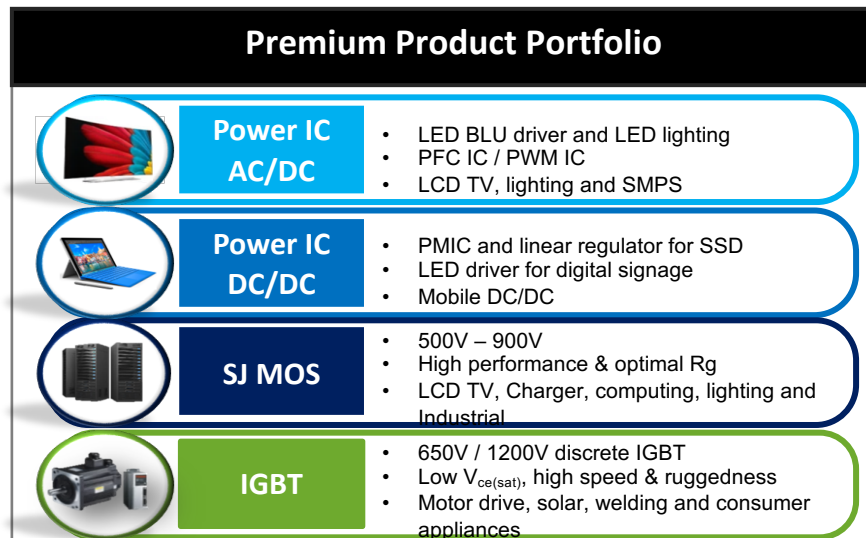


Source: OMDIA Oct.'20



# MX Power Core Competencies

- Targeting automotive: Qualification process well on track
- Mix improvement towards premium products: Super-Junction, IGBT and Power IC
- Go-to-market strategy for China market generating great momentum
- Introduction of a complete set of next generation power discrete product portfolios by 2022
- Additional 40% Power capacity expansion in Fab 3 by 2022

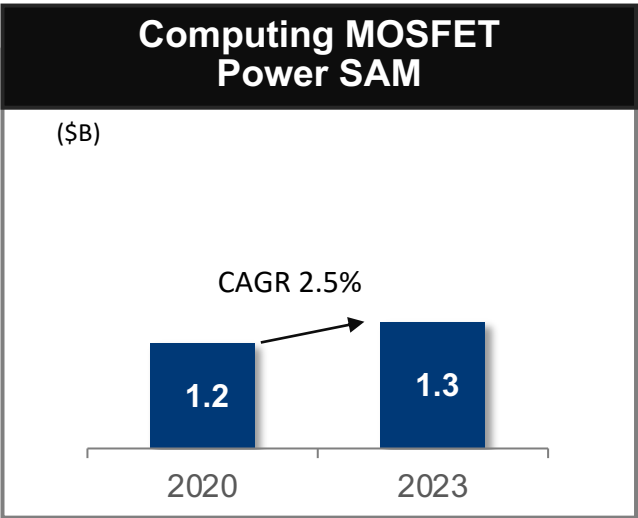


# Power Semi Market Opportunity

## Focused and Upgraded Solutions to Outpace Market Growth

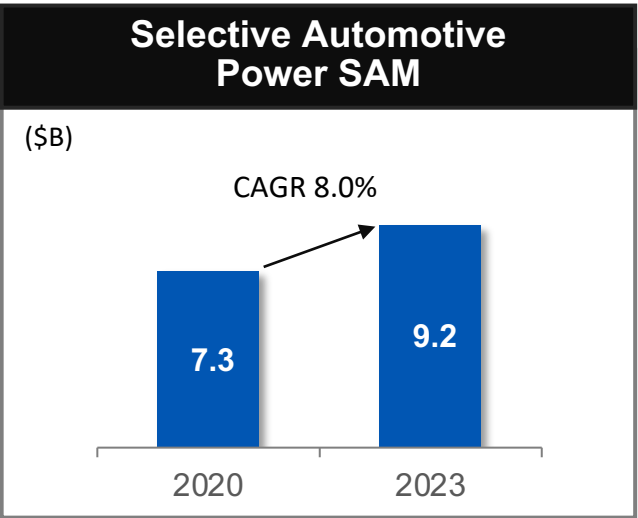
### Computing

- High bandwidth and fast communication
- High performance, low power consumption



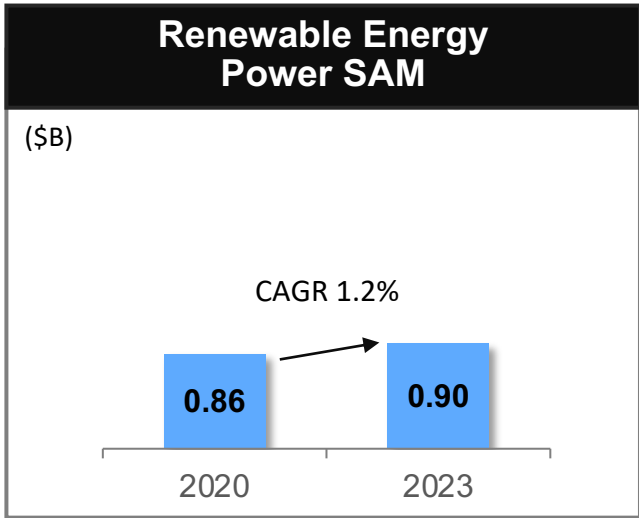
### Automotive

- Power inverters/converters  
chargers & auxiliary system



### Industrial

- Solar inverter
- Wind power
- High performance and high efficiency



Source: OMDIA April 20

# Financials



# Q3 2020 Highlights



**Completed sale of the Foundry Services Group business and Fab 4 on September 1, 2020**



**Cash balance as of September 30, 2020 was \$542.1 million, including approximately \$350.6 million of cash proceeds from aforementioned sale**

- Paid \$227.4 million to fully redeem 6.625% 2021 Senior Notes on October 2, 2020, lowering future interest expense by approximately \$16 million annually



**Revenue of \$124.8 million, a 5% increase sequentially, exceeding high-end of the guidance range**



**Gross profit margin of 22.9%, reflecting approximately 300 bps negative impact from one-time items**



**Non-GAAP diluted EPS from continuing operations of 14 cents**

# Q3 2020 Report by Business Line

## Display Solutions

- Customer decision not to supply Huawei resulted in an unusual excess inventory charge
- Strong demand continued: Q4 is expected to be strong, bucking the seasonal trend
- Solid 5G momentum, especially with High Frame Rate (HFR) OLED DDIC

	Q3 2020	Q2 2020	Q/Q change	Q3 2019	Q3 2019 w/o non-Auto LCD biz	Y/Y change w/o non- Auto LCD biz
Revenue	\$69.6 M	\$69.2 M	Up 0.6%	\$90.6 M	\$80.2 M	down ~14%
OLED	\$67.6 M	\$67.0 M	Up 0.9%	\$78.3 M	\$78.3 M	down ~14%

## Power Solutions

- Power outage recovery took longer than anticipated, causing lower utilization
- Strong demand from China and Korea: TV and e-bike applications
- Go-to-market strategy in China is generating great momentum

	Q3 2020	Q2 2020	Q/Q change	Q3 2019	Y/Y change
Revenue	\$46.7 M	\$39.8 M	up 17.3%	\$48.7 M	down 4.2%

# Q3 2020 Key Financials

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

<b>Profitability</b>	<b>Q3 2020</b>	<b>Q2 2020</b>	<b>Q3 2019</b>
<b>Adjusted Operating Income</b>	<b>\$8.8</b>	<b>\$10.1</b>	<b>\$14.8</b>
<b>Adjusted EBITDA</b>	<b>\$11.7</b>	<b>\$12.7</b>	<b>\$17.4</b>
<b>Adjusted Net Income</b>	<b>\$5.1</b>	<b>\$4.8</b>	<b>\$8.2</b>
<b>Adjusted Earnings per Common Share - Diluted</b>	<b>\$0.14</b>	<b>\$0.13</b>	<b>\$0.21</b>
<b>Balance Sheet</b>	<b>Q3 2020</b>	<b>Q2 2020</b>	<b>Q4 2019</b>
<b>Cash and cash equivalents</b>	<b>\$542.1</b>	<b>\$192.8</b>	<b>\$151.7</b>
<b>Days Sales Outstanding (DSO)*</b>	<b>43 days</b>	<b>41 days</b>	<b>39 days</b>
<b>Days in Inventory*</b>	<b>32 days</b>	<b>54 days</b>	<b>46 days</b>
<b>Borrowings, net</b>	<b>\$306.6</b>	<b>\$305.9</b>	<b>\$304.7</b>
<b>Total Stockholders' Equity (Deficit)</b>	<b>\$278.3</b>	<b>\$6.2</b>	<b>(\$15.0)</b>

\* Prior to the closing of the sale of the Foundry Services Group business and Fab 4, for the calculation of DSO and Days in Inventory, revenue and cost of sales from standard products business (formerly referred to as Standard Products Group prior to the signing of the Business Transfer Agreement for the sale of the Foundry Services Group business and Fab 4) were used, respectively.



# Continuous Execution towards Plan

- Well planned moves to realign resources, sharpen R&D focus and improve operational efficiency
- Voluntary Early Resignation Program commenced in Q3 2020
- Special investment in Fab 3 with target completion in 2021

2020-2023 Plan*			
Revenue	Gross Profit Margin	Operating Expense**	Free Cash Flow
Double-digit CAGR	Above 30% in 2023	Below 18%	Above 8% by 2023

\* The metrics based on the Standard Products Business revenue excluding the transitional Fab 3 foundry service as such service is expected to cease after a certain period of time.

\*\* Operating expenses minus equity-based compensation expense.

# Appendix: Q3 Financial Highlights

(In thousands of US dollars, except share data)	Three Months Ended			Nine Months Ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
<b>Revenues:</b>					
Net sales – standard products business	\$ 116,262	\$ 108,955	\$ 139,273	\$ 335,953	\$ 371,543
Net sales – transitional Fab 3 foundry services	8,551	9,873	9,894	28,161	25,776
Total revenues	124,813	118,828	149,167	364,114	397,319
<b>Cost of sales:</b>					
Cost of sales – standard products business	87,494	76,817	104,018	245,917	285,643
Cost of sales – transitional Fab 3 foundry services	8,731	9,873	9,894	28,341	25,776
Total cost of sales	96,225	86,690	113,912	274,258	311,419
Gross profit	28,588	32,138	35,255	89,856	85,900
Gross profit as a percentage of standard products business net sales	24.7%	29.5%	25.3%	26.8%	23.1%
Gross profit as a percentage of total revenues	22.9%	27.0%	23.6%	24.7%	21.6%
<b>Operating expenses:</b>					
Selling, general and administrative expenses	12,888	12,408	10,686	37,398	33,817
Research and development expenses	12,477	11,108	10,233	34,094	34,049
Other charges	—	—	—	554	—
Total operating expenses	25,365	23,516	20,919	72,046	67,866
Operating income:	3,223	8,622	14,336	17,810	18,034
Interest expense	(5,485)	(5,430)	(5,539)	(16,522)	(16,615)
Foreign currency gain (loss), net	8,864	8,469	(21,985)	(13,638)	(44,166)
Loss on early extinguishment of long-term borrowings, net	—	—	—	—	(42)
Other income, net	714	791	678	2,343	1,816
Income (loss) from continuing operations before income tax expense	7,316	12,452	(12,510)	(10,007)	(40,973)
Income tax expense (benefit)	(1,145)	678	1,734	836	3,316
Income (loss) from continuing operations	8,461	11,774	(14,244)	(10,843)	(44,289)
Income (loss) from discontinued operations, net of tax	264,501	17,397	12,637	289,227	(963)
Net income (loss)	\$ 272,962	\$ 29,171	\$ (1,607)	\$ 278,384	\$ (45,252)
<b>Basic earnings (loss) per common share—</b>					
Continuing operations	\$ 0.24	\$ 0.34	\$ (0.41)	\$ (0.31)	\$ (1.29)
Discontinued operations	7.50	0.50	0.36	8.24	(0.03)
Total	\$ 7.74	\$ 0.84	\$ (0.05)	\$ 7.93	\$ (1.32)
<b>Diluted earnings (loss) per common share—</b>					
Continuing operations	\$ 0.21	\$ 0.28	\$ (0.41)	\$ (0.31)	\$ (1.29)
Discontinued operations	5.68	0.37	0.36	8.24	(0.03)
Total	\$ 5.89	\$ 0.65	\$ (0.05)	\$ 7.93	\$ (1.32)
<b>Weighted average number of shares—</b>					
Basic	35,280,864	35,092,312	34,357,745	35,089,479	34,266,513
Diluted	46,581,788	46,474,237	34,357,745	35,089,479	34,266,513

(1) The Company will provide transitional foundry services for up to three years (“Transitional Fab 3 Foundry Services”).

(2) Net income of \$273.0 million, including income from discontinued operations reflecting the \$287.1 million gain on sale of the Foundry Services Group business and Fab 4.

(3) Please refer to the forward-looking statement on slide 1 for the detailed information about Non-GAAP financial measures.

# Appendix: GAAP to Non-GAAP Reconciliation

	Three Months Ended			Nine Months Ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Operating income	\$ 3,223	\$ 8,622	\$ 14,336	\$ 17,810	\$ 18,034
Adjustments:					
Equity-based compensation expense	2,101	1,503	430	4,366	1,661
Inventory reserve related to Huawei	2,331	—	—	2,331	—
Expenses related to Fab 3 power outage	1,168	—	—	1,168	—
Others	—	—	—	554	585
Adjusted operating income	\$ 8,823	\$ 10,125	\$ 14,766	\$ 26,229	\$ 20,280

Adjusted Operating Income is presented as a supplemental measure of the Company's performance. Adjusted Operating Income is defined for the periods indicated as operating income adjusted to exclude (i) Equity-based compensation expense, (ii) Inventory reserve related to Huawei, (iii) Expenses related to Fab 3 power outage and (iv) Others. For the three and nine months ended September 30, 2020, inventory reserve related to Huawei eliminates a \$2,331 thousand excess and obsolete inventory charge that we recorded in relation to the US Government's export restrictions on Huawei. During the same periods, expenses related to Fab 3 power outage eliminate \$1,168 thousand related to the write-off of the damaged work in process wafers and charges for facility recovery. For the nine months ended September 30, 2020, others primarily eliminates non-recurring professional fees and expenses incurred in connection with certain treasury and finance initiatives incurred during the three months ended March 31, 2020. For the nine months ended September 30, 2019, others eliminates a \$0.6 million legal settlement charge related to dispute with a prior customer and a legal expense related to the indemnification of a former employee, which was borne by the Company under a negotiated separation agreement during the three months ended March 31, 2019.

# Appendix: GAAP to Non-GAAP Reconciliation

(In thousands of US dollars, except share data)

	Three Months Ended			Nine Months Ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Income (loss) from continuing operations	\$ 8,461	\$ 11,774	\$ (14,244)	\$ (10,843)	\$ (44,289)
Adjustments:					
Interest expense, net	4,875	4,736	4,865	14,541	14,776
Income tax expense (benefit)	(1,145)	678	1,734	836	3,316
Depreciation and amortization	2,854	2,544	2,601	7,968	7,703
EBITDA	15,045	19,732	(5,044)	12,502	(18,494)
Equity-based compensation expense	2,101	1,503	430	4,366	1,661
Foreign currency loss (gain), net	(8,864)	(8,469)	21,985	13,638	44,166
Derivative valuation loss (gain), net	(50)	(55)	33	(222)	169
Loss on early extinguishment of long-term borrowings, net	—	—	—	—	42
Inventory reserve related to Huawei	2,331	—	—	2,331	—
Expenses related to Fab 3 power outage	1,168	—	—	1,168	—
Others	—	—	—	554	585
Adjusted EBITDA	11,731	12,711	17,404	34,337	28,129
Income (loss) from continuing operations	\$ 8,461	\$ 11,774	\$ (14,244)	\$ (10,843)	\$ (44,289)
Adjustments:					
Equity-based compensation expense	2,101	1,503	430	4,366	1,661
Foreign currency loss (gain), net	(8,864)	(8,469)	21,985	13,638	44,166
Derivative valuation loss (gain), net	(50)	(55)	33	(222)	169
Loss on early extinguishment of long-term borrowings, net	—	—	—	—	42
Inventory reserve related to Huawei	2,331	—	—	2,331	—
Expenses related to Fab 3 power outage	1,168	—	—	1,168	—
Others	—	—	—	554	585
Adjusted Net Income	\$ 5,147	\$ 4,753	\$ 8,204	\$ 10,992	\$ 2,334
Adjusted Net Income per common share—					
- Basic	\$ 0.15	\$ 0.14	\$ 0.24	\$ 0.31	\$ 0.07
- Diluted	\$ 0.14	\$ 0.13	\$ 0.21	\$ 0.30	\$ 0.07
Weighted average number of shares – basic	35,280,864	35,092,312	34,357,745	35,089,479	34,266,513
Weighted average number of shares – diluted	46,581,788	36,330,083	45,516,245	36,151,622	34,955,722

Adjusted EBITDA is defined for the periods indicated as EBITDA adjusted to exclude (i) Equity-based compensation expense, (ii) Foreign currency loss (gain), net, (iii) Derivative valuation loss (gain), net, (iv) Loss on early extinguishment of long-term borrowings, net, (v) Inventory reserve related to Huawei, (vi) Expenses related to Fab 3 power outage and (vii) Others.

Adjusted Net Income is defined for the periods indicated as income (loss) from continuing operations, adjusted to exclude (i) Equity-based compensation expense, (ii) Foreign currency loss (gain), net, (iii) Derivative valuation loss (gain), net, (iv) Loss on early extinguishment of long-term borrowings, net, (v) Inventory reserve related to Huawei, (vi) Expenses related to Fab 3 power outage and (vii) Others.

Thank you!