



# MagnaChip Semiconductor (MX)

## Q2 2020 Earnings Materials

July 30, 2020



# 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, business strategies, outlook and plans, future growth and revenue opportunities from new and existing products and customers, the evaluation and expectation of costs and related revenue impact and timing as a result of the power outage, 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 outbreak, 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 which can be eliminated, compliance with U.S. and international trade and export laws and regulations by us, our customers and our distributors, the risk that the pending sale of our Foundry business and the Fab 4 facility to Magnus Semiconductor, LLC or one of its wholly owned subsidiaries is not consummated according to our current expectations or at all, 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 outbreak that may result in factory closures, reduced workforces, 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-Q filed on May 11, 2020 (including that the impact of the COVID-19 pandemic may also exacerbate the 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 outbreak 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.

# Q2 2020 Highlights

- **GAAP earnings per share of \$0.34 from continuing operations**
- **Non-GAAP diluted earnings per share from continuing operations of \$0.13, up from \$0.03 in Q1 and \$0.11 in Q2 2019**
- **Revenue from continuing operations of \$118.8 million; reflecting approximately \$6 million impact from the strategic exit of non-auto LCD DDIC product line during Q2**
- **Revenue from standard products business\* of \$109.0 million, down 1.6% Q/Q, down 17.5 % Y/Y**
- **GAAP gross profit margin from continuing operations of 27.0%**
- **Non-GAAP gross profit margin from standard products business\* of 29.5%, up 3.2 pts Q/Q, up 5.5 pts Y/Y**
- **Cash of \$192.8 million highest since IPO in March 2011; net operating cash flow of \$36.0 million, which was the 5th straight quarter of positive operating cash flow**
- **Pending sale of Foundry business and Fab 4 will likely close in Q3 2020**

\* Following the consummation of the sale of the Foundry Services Group business and Fab 4, and for a period up to three years, the Company will provide transitional foundry services to the buyer ("Transitional Fab 3 Foundry Services"). From the period prior to the closing of the sale, revenue from the Transitional Fab 3 Foundry Services by the Company is recorded at cost as part of its continuing operations. Management believes that excluding the revenue of the Transitional Fab 3 Foundry Services from the continuing operations (i.e., revenue from standard products business) allows investors to better understanding.

# Q2 2020 Report by Business Line

## ➤ Display Solutions

	Q2 2020	Q1 2020	Q/Q change	Q2 2019	Y/Y change
Revenue	\$69.2 M	\$77.6 M	down 10.8%	\$84.3 M	down 17.9%

- Accelerated launch: 12 models were launched during Q2 vs 10 originally scheduled
- 8 new OLED DDIC design wins in Q2, including 5 for 28 nm drivers.
- Expanding offerings of High Frame Rate (HFR) OLED DDIC for the 5G market
- Diversify into OLED business into Automotive applications
- Recent increase in demand outstrips our supply capability in Q3 due to insufficient lead time

## ➤ Power Solutions

	Q2 2020	Q1 2020	Q/Q change	Q2 2019	Y/Y change
Revenue	\$39.8 M	\$33.1 M	up 20.0%	\$47.7 M	down 16.7%

- Pent-up demand for MV MOSFET products driven by personal mobility in China
- Expand Power IC lineup to serve notebook PC and smartphones applications
- Design activities across a wide range of applications

# Q2 2020 Key Financials

(In \$ Millions, except for days calculation)

<b>Profitability</b>	<b>Q2 2020</b>	<b>Q1 2020</b>	<b>Q2 2019</b>
<b>Adjusted Net Income</b>	\$4.8	\$1.1	\$3.8
<b>Adjusted EBITDA</b>	\$12.7	\$9.9	\$12.0
<b>Balance Sheet/Cash Flow</b>	<b>Q2 2020</b>	<b>Q1 2020</b>	<b>Q4 2019</b>
<b>Cash and cash equivalents</b>	\$192.8	\$157.3	\$151.7
<b>Days Sales Outstanding (DSO)*</b>	41 days	50 days	39 days
<b>Days in Inventory*</b>	54 days	41 days	46 days
<b>Borrowings, net</b>	\$305.9	\$305.3	\$304.7
<b>Total Stockholders' Equity (Deficit)</b>	\$6.2	(\$21.2)	(\$15.0)
<b>Net Operating Cash Flow</b>	\$36.0	\$21.1	\$20.5
<b>Free Cash Flow**</b>	\$30.5	\$17.7	\$14.2

\* 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) are used, respectively.

\*\* See Appendix for reconciliation of Free Cash Flow

# Long-term Targets and Q3 Outlook

Long-term Target	From 2020 to 2023
Revenue	Double-digit CAGR growth
Gross Profit Margin	Above 30%
Adjusted Operating Income %	Above 10%
Interest Payment	By end of Q1 2021, free of \$21 mil interest payment

Q3 2020 Guidance**	Continuing Operations
Revenue	\$118 million to \$124 million, including \$9.5 million to \$10 million of the Transitional Fab 3 Foundry Services at Cost
Gross Profit Margin	25% to 27% (27% to 29% without the estimated power outage impact)

\* On July 20, 2020, our Fab 3 facility in Gumi, South Korea experienced a temporary power outage for approximately 9 hours and 15 minutes as a result of an accident involving branches of a nearby tree falling onto cables connecting one of the electricity pylons that supplies power to the Gumi plant. We are nearly fully operational in our Fab 3 facility as of the date of this earnings report. The accident caused damage to our work-in-process wafers with an estimated total cost of up to approximately \$2.3 million. The related impact to our revenue from continuing operations is expected to be negligible. We are currently evaluating potential insurance and other claims that we may have for the above loss and damages.

# Q2 2020 Financial Highlights

In thousands of US dollars, except share data

	Q2 2020	Q1 2020	Q/Q change	Q2 2019	Y/Y change
<b>Revenues</b>					
Continuing Operations <sup>(1)</sup>	118,828	120,473	down 1.4 %	140,885	down 15.7 %
Standard Products Business <sup>(1)</sup>	108,955	110,736	down 1.6 %	132,006	down 17.5 %
Foundry Services Group	95,779	86,279	up 11.0 %	73,139	up 31.0 %
Non-GAAP Combined Total Revenues <sup>(2)</sup>	204,734	197,015	up 3.9 %	205,145	down 0.2 %
<b>Gross Profit Margin</b>					
Continuing Operations <sup>(1)</sup>	27.0%	24.2%	up 2.8 pts	22.4%	up 4.6 pts
Standard Products Business <sup>(1)</sup>	29.5%	26.3%	up 3.2 pts	24.0%	up 5.5 pts
Foundry Services Group <sup>(3)</sup>	32.3%	24.0%	up 8.3 pts	16.7%	up 15.6 pts
Non-GAAP Combined Total Gross Profit Margin <sup>(2)(3)</sup>	30.8%	25.3%	up 5.5 pts	21.4%	up 9.4 pts
<b>Net Income (Loss)</b>					
Continuing Operations	11,774	(31,078)	up 137.9 %	(8,490)	up 238.7 %
<b>Diluted Earnings (Loss) per Common Share</b>					
Continuing Operations	0.28	(0.89)	up 131.5%	(0.25)	up 212.0%

In thousands of US dollars, except share data

	Non-GAAP <sup>(2)</sup>				
	Q2 2020	Q1 2020	Q/Q change	Q2 2019	Y/Y change
<b>Continuing Operations</b>					
Adjusted Operating Income	10,125	7,281	up 39.1 %	9,423	up 7.4 %
Adjusted Net Income	4,753	1,092	up 335.3 %	3,829	up 24.1 %
Adjusted Net Income per Common Share—Diluted	0.13	0.03	up 333.3 %	0.11	up 18.2 %

(1) See the footnote on slide page #2.

(2) Management believes that non-GAAP financial measures, when viewed in conjunction with GAAP results, can assist in evaluating our core operating performance, as well as providing a meaningful comparison to previous information provided on a basis prior to the discontinued operations classification of the Foundry Services Group.

(3) In the second quarter, depreciation and amortization associated with the assets classified as held-for-sale ceased, which resulted in an increase in gross profit from discontinued operations by approximately \$2 million.

# Appendix: Consolidated Statements of Operations

(In thousands of US dollars, except share data)

	Three Months Ended			Six Months Ended	
	June 30, 2020	March 31, 2020	June 30, 2019	June 30, 2020	June 30, 2019
<b>Revenues:</b>					
Net sales – standard products business	\$ 108,955	\$ 110,736	\$ 132,006	\$ 219,691	\$ 232,270
Net sales – transitional Fab 3 foundry services	9,873	9,737	8,879	19,610	15,882
Total revenues	118,828	120,473	140,885	239,301	248,152
<b>Cost of sales:</b>					
Cost of sales – standard products business	76,817	81,606	100,384	158,423	181,625
Cost of sales – transitional Fab 3 foundry services	9,873	9,737	8,879	19,610	15,882
Total cost of sales	86,690	91,343	109,263	178,033	197,507
Gross profit	32,138	29,130	31,622	61,268	50,645
Gross profit as a percentage of standard products business net sales	29.5%	26.3%	24.0%	27.9%	21.8%
Gross profit as a percentage of total revenues	27.0%	24.2%	22.4%	25.6%	20.4%
<b>Operating expenses:</b>					
Selling, general and administrative expenses	12,408	12,102	11,095	24,510	23,131
Research and development expenses	11,108	10,509	11,772	21,617	23,816
Other charges	—	554	—	554	—
Total operating expenses	23,516	23,165	22,867	46,681	46,947
<b>Operating income:</b>					
Interest expense	(5,430)	(5,607)	(5,439)	(11,037)	(11,076)
Foreign currency gain (loss), net	8,469	(30,971)	(11,571)	(22,502)	(22,181)
Loss on early extinguishment of long-term borrowings, net	—	—	—	—	(42)
Other income, net	791	838	551	1,629	1,138
Income (loss) from continuing operations before income tax expense	12,452	(29,775)	(7,704)	(17,323)	(28,463)
Income tax expense	678	1,303	786	1,981	1,582
Income (loss) from continuing operations	11,774	(31,078)	(8,490)	(19,304)	(30,045)
Income (loss) from discontinued operations, net of tax	17,397	7,329	(1,030)	24,726	(13,600)
Net income (loss)	\$ 29,171	\$ (23,749)	\$ (9,520)	\$ 5,422	\$ (43,645)
<b>Basic earnings (loss) per common share—</b>					
Continuing operations	\$ 0.34	\$ (0.89)	\$ (0.25)	\$ (0.55)	\$ (0.88)
Discontinued operations	0.50	0.21	(0.03)	0.71	(0.40)
Total	\$ 0.84	\$ (0.68)	\$ (0.28)	\$ 0.16	\$ (1.28)
<b>Diluted earnings (loss) per common share—</b>					
Continuing operations	\$ 0.28	\$ (0.89)	\$ (0.25)	\$ (0.55)	\$ (0.88)
Discontinued operations	0.37	0.21	(0.03)	0.71	(0.40)
Total	\$ 0.65	\$ (0.68)	\$ (0.28)	\$ 0.16	\$ (1.28)
<b>Weighted average number of shares—</b>					
Basic	35,092,312	34,893,157	34,245,127	34,992,734	34,220,141
Diluted	46,474,237	34,893,157	34,245,127	34,992,734	34,220,141

# Appendix: GAAP to Non-GAAP Reconciliation

(In thousands of US dollars, except share data)

	Three Months Ended			Six Months Ended	
	June 30, 2020	March 31, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Operating income	\$ 8,622	\$ 5,965	\$ 8,755	\$ 14,587	\$ 3,698
Adjustments:					
Equity-based compensation expense	1,503	762	668	2,265	1,231
Others	—	554	—	554	585
Adjusted Operating Income	\$ 10,125	\$ 7,281	\$ 9,423	\$ 17,406	\$ 5,514

We define Adjusted Operating Income for the periods indicated as operating income adjusted to exclude (i) Equity-based compensation expense and (ii) Others. Others include non-recurring professional fees and expenses incurred in connection with certain treasury and finance initiatives for the three months ended March 31, 2020, and 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 is borne by us under a negotiated separation agreement for the three months ended March 31, 2019.

	Three Months Ended			Six Months Ended	
	June 30, 2020	March 31, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Cash flows from operating activities	\$ 35,997	\$ 21,068	\$ 28,830	\$ 57,065	\$ 17,155
Adjustment:					
Purchase of property, plant and equipment	(5,491)	(3,351)	(3,793)	(8,842)	(15,000)
Free Cash Flows	\$ 30,506	\$ 17,717	\$ 25,037	\$ 48,223	\$ 2,155

We define Free Cash Flow for the periods indicated as cash flows from operating activities minus cash outflows for the payment of property, plant and equipment.

# Appendix: GAAP to Non-GAAP Reconciliation

(In thousands of US dollars, except share data)

	Three Months Ended			Six Months Ended	
	June 30, 2020	March 31, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Income (loss) from continuing operations	\$ 11,774	\$ (31,078)	\$ (8,490)	(19,304)	(30,045)
Adjustments:					
Interest expense, net	4,736	4,930	4,852	9,666	9,911
Income tax expense	678	1,303	786	1,981	1,582
Depreciation and amortization	2,544	2,570	2,551	5,114	5,102
EBITDA	19,732	(22,275)	(301)	(2,543)	(13,450)
Equity-based compensation expense	1,503	762	668	2,265	1,231
Foreign currency loss (gain), net	(8,469)	30,971	11,571	22,502	22,181
Derivative valuation loss (gain), net	(55)	(117)	80	(172)	136
Loss on early extinguishment of long-term borrowings, net	—	—	—	—	42
Others	—	554	—	554	585
Adjusted EBITDA	12,711	9,895	12,018	22,606	10,725
Income (loss) from continuing operations	\$ 11,774	\$ (31,078)	\$ (8,490)	(19,304)	(30,045)
Adjustments:					
Equity-based compensation expense	1,503	762	668	2,265	1,231
Foreign currency loss (gain), net	(8,469)	30,971	11,571	22,502	22,181
Derivative valuation loss (gain), net	(55)	(117)	80	(172)	136
Loss on early extinguishment of long-term borrowings, net	—	—	—	—	42
Others	—	554	—	554	585
Adjusted Net Income (Loss)	\$ 4,753	\$ 1,092	\$ 3,829	5,845	(5,870)
Adjusted Net Income (Loss) per common share—					
- Basic	\$ 0.14	\$ 0.03	\$ 0.11	0.17	(0.17)
- Diluted	\$ 0.13	\$ 0.03	\$ 0.11	0.16	(0.17)
Weighted average number of shares – basic	35,092,312	34,893,157	34,245,127	34,992,734	34,220,141
Weighted average number of shares – diluted	36,330,083	35,883,200	34,965,562	36,248,039	34,220,141

We define Adjusted EBITDA 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 and (v) Others.

We define Adjusted Net Income (Loss) for the periods 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 and (v) Others.