Magnachip Semiconductor (NYSE: MX)

Q4 2022 Earnings Materials

February 16, 2023

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, including first quarter 2023 revenue and gross profit margin expectations, future growth and revenue opportunities from new and existing products and customers, the impact of market condition associated with inflation and rising interest rates, the COVID-19 pandemic or the emergence of various variants of the virus, geopolitical conflicts between Russia and Ukraine, and escalated trade tensions and supply constraints on Magnachip's first quarter 2023 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 and/or general economic conditions, including those caused by or related to inflation, potential recessions or other deteriorations, economic instability or civil unrest, the COVID-19 pandemic or the emergence of various variants of the virus, other outbreaks of disease, and governmental lock-downs or other measures implemented in response thereto, and the Russia-Ukraine conflict; 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, as well as impacting demand for our products from customers who are similarly affected by such capacity constraints or disruptions; 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, including those related to the Russia-Ukraine conflict; change or ratification of local or international laws and regulations, including those related to environment, health and safety; public health issues, including the COVID-19 pandemic or the emergence of various variants of the virus; 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 or the emergence of various variants of the virus 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 U.S. Securities and Exchange Commission (the "SEC"), including our Form 10-K filed on February 23, 2022 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.

Q4 and Year 2022 Highlights

Revenue	Fourth quarter revenue of $61.0 million was near the high-end of our guidance range. YoY, our revenue decreased 44.7% primarily due to severe wafer shortages in our Display business.
	Full-year revenue of $337.7 million decreased 28.8% YoY due to significantly lower Display revenue as a result of severe 28nm 12-inch OLED wafer shortages that impacted 2nd half design-in projects from our large panel customers in Korea and weak demand for Android smartphones that led to an inventory correction by smartphone OEMs.
Gross Profit Margin	Fourth quarter gross profit margin was 26.4%, within our guidance range.
	Full-year gross profit margin of 30.0% decreased 240 bps YoY due mainly to certain inventory reserves and scrap cost related to 12-inch OLED products as a result of lower demand for China smartphones.
EPS	GAAP diluted earnings per share for the fourth quarter was $0.07; Full-year GAAP diluted loss per share was $0.18.
	Non-GAAP diluted loss per share for the fourth quarter was $0.36; Full-year non-GAAP diluted earnings per share was $0.19.

Q4 and 2022 Report by Business Line

Display Solutions

	Q4 2022	Q3 2022	Q/Q Change	Q4 2021	Y/Y Change	2022	2021	Y/Y change
Revenue	$7.6 M	$6.4 M	up 18.9%	$41.3 M	down 81.7%	$71.4 M	$205.3 M	down 65.2%
OLED	$5.5 M	$3.1 M	up 81.5%	$37.7 M	down 85.3%	$59.3 M	$192.8 M	down 69.2%

- Display revenue in Q4 was impacted by supply shortages of 28nm 12-inch OLED wafers, which impacted design-in projects from our large panel customer in Korea, which are typically awarded in advance based on future wafer supply allocation. Display revenue was also impacted by weak consumer demand in China and globally, which led to an inventory correction by Android smartphone OEMs.
- Achieved key milestones in 2022 that sets foundation for strong recovery in 2023:
  - Won a new Tier 1 panel customer outside of Korea and successfully qualified the 1st OLED chip and will begin shipping towards the end of Q1'23.
  - Taped out 2nd OLED DDIC project in November and remain on track to deliver the first sample in Q1 2023 and production expected in 2H'23.
  - Taped out a new high-end smartphone DDIC project (Korean Customer) during Q4 and is expected to begin production in 2H'23.
  - Strengthened our global 28 nm 12-inch wafer supply chain. Expect 2-4x higher OLED wafer capacity over next few years vs. 2022.
  - Completed qualification for first OLED chip for an Automotive Center Display for a leading European luxury auto manufacturer and will ship in Q1'23.

Power Solutions

	Q4 2022	Q3 2022	Q/Q Change	Q4 2021	Y/Y change	2022	2021	Y/Y change
Revenue	$46.3 M	$56.4 M	down 18.0%	$58.2 M	down 20.5%	$230.5 M	$227.8 M	up 1.2%

- Power Solutions Q4'22 results were impacted by deteriorating macro conditions and weak consumer demand that led elevated channel inventories.
- 2022 was a record year for Power Solutions:
  - Record 209 design-In/wins across our entire Power Solutions product portfolio, more than double the designs awarded in 2021 and 2020.
  - Premium Tier products had a record year and grew 10% YoY and represented a record 55.9% of Power Solution's revenue, up from 51.5% in 2021.
  - SJ MOSFETs and IGBT products also set record highs in 2022. IGBT strength was most notable, with revenue growing 52% year-over-year thanks to extremely strong demand from solar inverter manufacturers.
  - Remained focused on R&D and introduced many innovative performance power products across a wide range of applications from smartphones, automotive, solar, consumer products and industrial.

Q4 and 2022 Key Financials

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

Profitability	Profitability	Q4 2022	Q3 2022	Q4 2021(*)	2022	2021(*)
	Adjusted Operating Income (Loss)	**-$8.6**	**-$6.6**	**$14.4**	**$4.1**	**$56.1**
	Adjusted EBITDA	**-$4.8**	**-$3.0**	**$18.1**	**$19.5**	**$70.7**
	Adjusted Net Income (Loss)	**-$15.8**	**$1.1**	**$13.7**	**$8.8**	**$50.2**
	Adjusted Earnings (Loss) per Common Share - Diluted	**-$0.36**	**$0.02**	**$0.29**	**$0.19**	**$1.07**

Balance Sheets	Balance Sheets	Q4 2022	Q3 2022	Q4 2021
	Cash and cash equivalents	**$225.5**	**$250.8**	**$279.5**
	Days Sales Outstanding (DSO)	**53 days**	**47 days**	**42 days**
	Days in Inventory	**82 days**	**64 days**	**50 days**
	Total Stockholders' Equity	**$428.2**	**$413.2**	**$452.8**

(*) For the quarter and year ended December 31, 2021, the adjustment for GAAP and cash tax expense difference in connection with the release of valuation allowances will no longer be an adjustment included in the Company's non-GAAP financial measure. As such, Adjusted Net Income and Adjusted Earnings per Common Share – Diluted for Q4 2021 and for the full year 2021 presented here have been recast to reflect the removal of this adjustment in accordance with Securities and Exchange Commission guidance.

Q1 2023 Outlook

Q1 2023 Guidance

- The Company's near-term outlook is being challenged by previous OLED wafer allocation constraints that impacted 2nd half 2022 design-in projects and ongoing inventory correction in smartphones and other consumer end markets driven by weakening consumer demand. Q1 is also typically the Company's seasonally slowest quarter following holiday shipments and is impacted by slower activity around the Chinese New Year.
- In response to the industry-wide slowdown and inventory correction, the Company has reduced production at its Fab 3. As a result, the Company expects Q1'23 gross profit margin will be further impacted by lower utilization as well as higher manufacturing input costs such as electricity and wages. The Company currently expects gross profit margin to recover as volume and utilization improves in the 2nd half of 2023.
- While actual results may vary, Magnachip currently expects the following for Q1'23:

Key Metrics	Guidance
Revenue	To be in the range of $55 million to $59 million, including about $5 million of Transitional Fab 3 Foundry Services
Gross Profit Margin	To be in the range of 21% to 23%

Q4 2022 Financial Highlights

Q4 and 2022 Financial Highlights

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

	GAAP							
	Q4 2022	Q3 2022	Q/Q change		Q4 2021	Y/Y change	
Revenues							
Standard Products Business							
Display Solutions	7,556	6,355	up	18.9%	41,298	down	81.7%
Power Solutions	46,271	56,416	down	18.0%	58,212	down	20.5%
Transitional Fab 3 foundry services[1]	7,163	8,428	down	15.0%	10,825	down	33.8%
Gross Profit Margin	26.4%	24.2%	up	2.2% pts	35.0%	down	8.6%pts
Operating Income (Loss)	(10,117)	(10,008)	down	n/a	63,870	down	n/a
Net Income (Loss)	2,971	(17,195)	up	n/a	53,611	down	94.5%
Basic Earnings (Loss) per Common Share	0.07	(0.38)	up	n/a	1.16	down	94.0%
Diluted Earnings (Loss) per Common Share	0.07	(0.38)	up	n/a	1.12	down	93.8%

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

	Non-GAAP[3]						
	Q4 2022	Q3 2022	Q/Q change		Q4 2021	Y/Y change	
Adjusted Operating Income (Loss)	(8,567)	(6,646)	down	n/a	14,421	down	n/a
Adjusted EBITDA	(4,768)	(2,995)	down	n/a	18,144	down	n/a
Adjusted Net Income (Loss)	(15,848)	1,097	down	n/a	13,699	down	n/a
Adjusted Earnings (Loss)per Common Share—Diluted	(0.36)	0.02	down	n/a	0.29	down	n/a

2022 Financial Highlights

	In thousands of U.S dollars, except share data		
	GAAP		
	2022	2021	Y/Y Change
Revenues			
Standard Products Business			
Display Solutions	71,432	205,322	down 65.2%
Power Solutions	230,464	227,777	up 1.2%
Transitional Fab 3 foundry services(1)	35,762	41,131	down 13.1%
Gross Profit Margin	30.0%	32.4%	down 2.4% pts
Operating Income (Loss)(2)	(5,244)	83,407	down n/a
Net Income (Loss)	(8,036)	56,708	down n/a
Basic Earnings (Loss) per Common Share	(0.18)	1.26	down n/a
Diluted Earnings (Loss) per Common Share	(0.18)	1.21	down n/a

	In thousands of U.S dollars, except share data		
	Non-GAAP(3)		
	2022	2021	Y/Y Change
Adjusted Operating Income	4,091	56,135	down 92.7%
Adjusted EBITDA	19,517	70,701	down 72.4%
Adjusted Net Income	8,752	50,152	down 82.5%
Adjusted Earnings per Common Share—Diluted	0.19	1.07	down 82.2%

(1) Following the consummation of the sale of the Foundry Services Group business and Fab 4 in Q3 2020, and for a period of up to three years, we will provide transitional foundry services to the buyer for foundry products manufactured in our fabrication facility located in Gumi (“Transitional Fab 3 Foundry Services”). 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 display solutions and power solutions business lines.

(2) For the year ended December 31, 2021, operating income of $83.4 million included net gain of $35.5 million that represented $70.2 million income from the recognition of a reverse termination fee, net of professional service fees and expenses of $34.7 million incurred in connection with the contemplated merger transaction.

(3) 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 income (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			Year Ended	
	December 31, 2022	September30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Operating income (loss)	$ (10,117)	$ (10,008)	$ 63,870	$ (5,244)	$ 83,407
Adjustments:					
Equity-based compensation expense	1,550	861	1,648	6,037	7,704
Inventory reserve related to Huawei impact of downstream trade restrictions	—	—	(379)	—	(1,460)
Merger-related income, net	—	—	(49,369)	—	(35,527)
Other charges, net	—	2,501	(1,349)	3,298	2,011
Adjusted Operating Income (Loss)	$ (8,567)	$ (6,646)	$ 14,421	$ 4,091	$ 56,135

We present Adjusted Operating Income (Loss) as a supplemental measure of our performance. We define Adjusted Operating Income (Loss) for the periods indicated as operating income (loss) adjusted to exclude (i) Equity-based compensation expense (ii) Inventory reserve related to Huawei impact of downstream trade restrictions (iii) Merger-related income, net and (iv) Other charges, net.

For the year ended December 31, 2022, Other charges, net includes $2.8 million of one-time employee incentives and professional service fees and expenses of $1.0 million, incurred in connection with certain strategic evaluations, both of which were offset in part by a $0.5 million gain on sale of certain legacy equipment of the closed back-end line in our fabrication facility in Gumi. For the year ended December 31, 2021, Other charges, net includes $3.4 million of non-recurring professional service fees and expenses incurred in connection with the regulatory requests, partially offset by $1.4 million gain on sale of certain legacy equipment of the closed back-end line in our fabrication facility in Gumi (which was closed during the year ended December 31, 2018).

For the year ended December 31, 2021, we recorded in our consolidated statement of operations net gain of $35.5 million that represented income of $70.2 million from the recognition of a reverse termination fee, net of professional service fees and expenses of $34.7 million incurred in connection with the contemplated merger transaction of the Company that was terminated in December 2021.

Appendix: GAAP to Non-GAAP Reconciliation

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

	Three Months Ended			Year Ended	
	December 31, 2022	September30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Net income (loss)	$ 2,971	$ (17,195)	$ 53,611	$ (8,036)	$ 56,708
Adjustments:					
Interest income	(2,420)	(1,784)	(858)	(5,980)	(2,609)
Interest expense	269	278	132	1,157	1,371
Income tax expense (benefit)	6,513	(3,942)	11,221	5,157	17,261
Depreciation and amortization	3,775	3,623	3,663	15,000	14,239
EBITDA	11,108	(19,020)	67,769	7,298	86,970
Equity-based compensation expense	1,550	861	1,648	6,037	7,704
Foreign currency loss (gain), net	(17,492)	12,809	(147)	3,019	11,853
Derivative valuation loss (gain), net	66	(146)	(29)	(135)	(123)
Inventory reserve related to Huawei impact of downstream trade restrictions	—	—	(379)	—	(1,460)
Merger-related income, net	—	—	(49,369)	—	(35,527)
Other charges, net	—	2,501	(1,349)	3,298	1,284
Adjusted EBITDA	$ (4,768)	$ (2,995)	$ 18,144	$ 19,517	$ 70,701
Net income (loss)	$ 2,971	$ (17,195)	$ 53,611	$ (8,036)	$ 56,708
Adjustments:					
Equity-based compensation expense	1,550	861	1,648	6,037	7,704
Foreign currency loss (gain), net	(17,492)	12,809	(147)	3,019	11,853
Derivative valuation loss (gain), net	66	(146)	(29)	(135)	(123)
Inventory reserve related to Huawei impact of downstream trade restrictions	—	—	(379)	—	(1,460)
Merger-related income, net	—	—	(49,369)	—	(35,527)
Other charges, net	—	2,501	(1,349)	3,298	1,284
Income tax effect on non-GAAP adjustments	(2,943)	2,267	9,713	4,569	9,713
Adjusted Net Income (Loss)	$ (15,848)	$ 1,097	$ 13,699	$ 8,752	$ 50,152
Adjusted Net Income (Loss) per common share—					
- Basic	$ (0.36)	$ 0.02	$ 0.30	$ 0.20	$ 1.12
- Diluted	$ (0.36)	$ 0.02	$ 0.29	$ 0.19	$ 1.07
Weighted average number of shares – basic	44,054,275	44,865,266	46,369,520	44,850,791	44,879,412
Weighted average number of shares – diluted	44,054,275	45,747,255	47,691,816	45,795,559	47,709,373

We present Adjusted EBITDA and Adjusted Net Income (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 loss (gain), net, (iii) Derivative valuation loss (gain), net, (iv) Inventory reserve related to Huawei impact of downstream trade restrictions, (v) Merger-related income, net and (vi) Other charges, net. EBITDA for the periods indicated is defined as net income (loss) before interest income, interest expense, income tax expense (benefit) and depreciation and amortization.
We prepare Adjusted Net Income (Loss) by adjusting net income (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 Income (Loss) is particularly useful because it reflects the impact of our asset base and capital structure on our operating performance. We define Adjusted Net Income (Loss) for the periods as net income (loss), adjusted to exclude (i) Equity-based compensation expense, (ii) Foreign loss (gain), net, (iii) Derivative valuation loss (gain), net , (iv) Inventory reserve related to Huawei impact of downstream trade restrictions, (v) Merger-related income, net, (vi) Other charges, net and (vii) Income tax effect on non-GAAP adjustments.

For the year ended December 31, 2022, Other charges, net includes $2.8 million of one-time employee incentives and professional service fees and expenses of $1.0 million, incurred in connection with certain strategic evaluations, both of which were offset in part by a $0.5 million gain on sale of certain legacy equipment of the closed back-end line in our fabrication facility in Gumi. For the year ended December 31, 2021, Other charges, net includes $3.4 million of non-recurring professional service fees and expenses incurred in connection with the regulatory requests, partially offset by $1.4 million gain on sale of certain legacy equipment of the closed back-end line in our fabrication facility in Gumi (which was closed during the year ended December 31, 2018) and $0.7 million legal settlement gain related to certain expenses incurred in prior periods in connection with our legacy Fab 4 (which was sold during the year ended December 31, 2020) and awarded in the third quarter of 2021.
For the year ended December 31, 2021, we recorded in our consolidated statement of operations net gain of $35.5 million that represented income of $70.2 million from the recognition of a reverse termination fee, net of professional service fees and expenses of $34.7 million incurred in connection with the contemplated merger transaction of the Company that was terminated in December 2021.

For the quarter and year ended December 31, 2021, the adjustment for GAAP and cash tax expense difference in connection with the release of valuation allowances will no longer be an adjustment included in the Company’s non-GAAP financial measure. As such, Adjusted Net Income and Adjusted Net Income per Common Share for Q4 2021 and for the full year 2021 presented here have been recast to reflect the removal of this adjustment in accordance with Securities and Exchange Commission guidance.