



Magnachip Semiconductor (NYSE: MX)

Q3 2022 Earnings Materials

November 2, 2022



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 fourth quarter 2022 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 fourth quarter 2022 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.

Q3 2022 Highlights

Revenue

Revenue of \$71.2 million was within our guidance range.

The decrease was primarily due to the supply shortages of 28nm 12-inch OLED wafers in the 2nd half of this year that impacted design-in projects from our large panel customer in Korea, which are typically awarded in advance based on future wafer supply allocation.

Gross Profit Margin

Gross profit margin was 24.2%, below the low end of our guidance range.

The decrease was primarily due to that we recorded a \$3.3 million charge to scrap 12-inch wafers as a result of slowing demand caused by elevated smartphone inventories in China.

EPS

GAAP diluted loss per share was \$0.38.

Non-GAAP diluted earnings per share (EPS) was \$0.02.

Q3 2022 Report by Business Line

	Q3 2022	Q2 2022	Q/Q Change	Q3 2021	Y/Y Change
Display Solutions					
Revenue	\$6.4 M	\$28.3 M	down 77.6%	\$58.5 M	down 89.1%
OLED	\$3.1 M	\$24.6 M	down 87.6%	\$55.3 M	down 94.5%

- Our Display business in the 2nd half is being 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.
- Successfully released new OLED DDIC to our new top-tier panel customer and expect to go into mass production in 2023.
- Taping out two new OLED driver IC projects in November and anticipate to begin mass production in 2nd half of 2023.

	Q3 2022	Q2 2022	Q/Q Change	Q3 2021	Y/Y change
Power Solutions					
Revenue	\$56.4 M	\$63.0 M	down 10.4%	\$58.9 M	down 4.2%

- Weakening demand in consumer end markets drove the revenue decline in Power.
- Premium Tier products remained resilient in Q3 and grew 5.8% YoY and 2.3% sequentially driven by record demand for our IGBT products for industrial solar applications, which was up 80% year-over-year and 24.3% sequentially.
- SJ MOSFETs remains resilient on strength in industrial applications like LED Lighting due to higher energy efficiency requirements.
- Awarded several new design-wins with our 600V and 650V SJ MOSFETs with a leading TV manufacturer and an adaptor OEM.
- Introduced a new 200V Medium Voltage MOSFET perfect for LEV Motor controllers and industrial power supplies requiring high efficiency and stable power supply in various rugged conditions.

Q3 2022 Key Financials

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

Profitability	Profitability	Q3 2022	Q2 2022	Q3 2021
	Adjusted Operating Income (Loss)	-\$6.6	\$4.8	\$22.7
	Adjusted EBITDA	-\$3.0	\$8.5	\$26.4
	Adjusted Net Income	\$1.1	\$10.6	\$20.1
	Adjusted Earnings per Common Share - Diluted	\$0.02	\$0.23	\$0.42

Balance Sheets	Balance Sheets	Q3 2022	Q2 2022	Q3 2021
	Cash and cash equivalents	\$250.8	\$273.8	\$276.3
	Days Sales Outstanding (DSO)	47 days	54 days	38 days
	Days in Inventory	64 days	45 days	44 days
	Total Stockholders' Equity	\$413.2	\$448.1	\$433.3

Q4 2022 Outlook

Q4 2022 Guidance

- The Company's near-term outlook is being challenged by previous OLED wafer allocation constraints that impacted 2nd half design-in projects, elevated smartphone channel inventories, a pushout of the initial mass production ramp of our new OLED customer and weakening demand in consumer end markets on growing recession fears and cost increases, including labor, due to inflationary pressures. In addition, we estimate our Q4 revenue will be further negatively impacted by approximately \$5 million of foreign exchange hedging instruments. While actual results may vary, looking into the next quarter, Magnachip currently expects:

Key Metrics	Guidance
Revenue	To be in the range of \$57 million to \$62 million, including about \$7 million of Transitional Fab 3 Foundry Services Our Q4 revenue guidance includes approximately \$5 million loss from foreign exchange hedging instruments
Gross Profit Margin	To be in the range of 26% to 28%

Q3 2022 Financial Highlights

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

	GAAP						
	Q3 2022	Q2 2022	Q/Q change	Q3 2021	Y/Y change		
Revenues							
Standard Products Business							
Display Solutions	6,355	28,336	down	77.6%	58,528	down	89.1%
Power Solutions	56,416	62,952	down	10.4%	58,887	down	4.2%
Transitional Fab 3 foundry services ⁽¹⁾	8,428	10,088	down	16.5%	9,585	down	12.1%
Gross Profit Margin	24.2%	28.6%	down	4.4%pts	36.7%	down	12.5%pts
Operating Income (Loss)	(10,008)	2,002	down	n/a	20,001	down	n/a
Net Income (Loss)	(17,195)	(3,340)	down	n/a	10,768	down	n/a
Basic Earnings (Loss) per Common Share	(0.38)	(0.07)	down	n/a	0.23	down	n/a
Diluted Earnings (Loss) per Common Share	(0.38)	(0.07)	down	n/a	0.23	down	n/a

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

	Non-GAAP ⁽²⁾						
	Q3 2022	Q2 2022	Q/Q change	Q3 2021	Y/Y change		
Adjusted Operating Income (Loss)	(6,646)	4,787	down	n/a	22,691	down	n/a
Adjusted EBITDA	(2,995)	8,525	down	n/a	26,361	down	n/a
Adjusted Net Income	1,097	10,567	down	89.6%	20,073	down	94.5%
Adjusted Earnings per Common Share—Diluted	0.02	0.23	down	91.3%	0.42	down	95.2%

- (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) 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

	Three Months Ended			Nine Months Ended	
	September 30, 2022	June 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
(In thousands of U.S. dollars, except share data)					
Operating income (loss)	\$ (10,008)	\$ 2,002	\$ 20,001	\$ 4,873	\$ 19,537
Adjustments:					
Equity-based compensation expense	861	1,988	2,005	4,487	6,056
Inventory reserve related to Huawei	—	—	(1,081)	—	(1,081)
Merger-related costs	—	—	1,552	—	13,842
Other charges, net	2,501	797	214	3,298	3,360
Adjusted Operating Income (Loss)	\$ (6,646)	\$ 4,787	\$ 22,691	\$ 12,658	\$ 41,714

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 (iii) Merger-related costs and (iv) Other charges, net. For the three and nine months ended September 30, 2022, Other charges, net includes \$2.8 million of one-time employee incentives, in each period, and professional service fees and expenses of \$0.2 million and \$1.0 million, respectively, 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 three and nine months ended September 30, 2021, Other charges, net includes professional service fees and expenses of \$0.2 million and \$3.4 million, respectively, incurred in connection with the regulatory requests.

Appendix: GAAP to Non-GAAP Reconciliation

(In thousands of U.S. dollars, except share data)	Three Months Ended			Nine Months Ended	
	September 30, 2022	June 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Net income (loss)	\$ (17,195)	\$ (3,340)	\$ 10,768	\$ (11,007)	\$ 3,097
Adjustments:					
Interest income, net	(1,506)	(562)	(439)	(2,672)	(512)
Income tax expense (benefit)	(3,942)	(897)	3,149	(1,356)	6,040
Depreciation and amortization	3,623	3,711	3,578	11,225	10,576
EBITDA	(19,020)	(1,088)	17,056	(3,810)	19,201
Equity-based compensation expense	861	1,988	2,005	4,487	6,056
Foreign currency loss, net	12,809	7,012	7,579	20,511	12,000
Derivative valuation gain, net	(146)	(184)	(237)	(201)	(94)
Inventory reserve related to Huawei	—	—	(1,081)	—	(1,081)
Merger-related costs	—	—	1,552	—	13,842
Other charges, net	2,501	797	(513)	3,298	2,633
Adjusted EBITDA	\$ (2,995)	\$ 8,525	\$ 26,361	\$ 24,285	\$ 52,557
Net income (loss)	\$ (17,195)	\$ (3,340)	\$ 10,768	\$ (11,007)	\$ 3,097
Adjustments:					
Equity-based compensation expense	861	1,988	2,005	4,487	6,056
Foreign currency loss, net	12,809	7,012	7,579	20,511	12,000
Derivative valuation gain, net	(146)	(184)	(237)	(201)	(94)
Inventory reserve related to Huawei	—	—	(1,081)	—	(1,081)
Merger-related costs	—	—	1,552	—	13,842
Other charges, net	2,501	797	(513)	3,298	2,633
Income tax effect on non-GAAP adjustments	2,267	4,294	—	7,512	—
Adjusted Net Income	\$ 1,097	\$ 10,567	\$ 20,073	\$ 24,600	\$ 36,453
Adjusted Net Income per common share—					
- Basic	\$ 0.02	\$ 0.24	\$ 0.43	\$ 0.55	\$ 0.82
- Diluted	\$ 0.02	\$ 0.23	\$ 0.42	\$ 0.53	\$ 0.78
Weighted average number of shares – basic	44,865,266	44,897,278	46,449,234	45,119,214	44,377,250
Weighted average number of shares – diluted	45,747,255	45,937,515	47,808,457	46,134,231	47,718,578

We present Adjusted EBITDA and Adjusted Net Income 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, net, (iii) Derivative valuation gain, net, (iv) Inventory reserve related to Huawei, (v) Merger-related costs and (vi) Other charges, net. EBITDA for the periods indicated is defined as net income (loss) before interest income, net, income tax expense (benefit) and depreciation and amortization.

We prepare Adjusted Net Income by We believe that Adjusted Net 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. Income is particularly useful because it reflects the impact of our asset base and capital structure on our operating performance. We define Adjusted Net Income for the periods as net income (loss), adjusted to exclude (i) Equity-based compensation expense, (ii) Foreign currency loss, net, (iii) Derivative valuation gain, net, (iv) Inventory reserve related to Huawei, (v) Merger-related costs, (vi) Other charges, net and (vii) Income tax effect on non-GAAP adjustments.

For the three and nine months ended September 30, 2022, Other charges, net includes \$2.8 million of one-time employee incentives, in each period, and professional service fees and expenses of \$0.2 million and \$1.0 million, respectively, 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 three and nine months ended September 30, 2021, Other charges, net includes professional service fees and expenses of \$0.2 million and \$3.4 million, respectively, incurred in connection with the regulatory requests, both of which were offset in part by a \$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.