



Magnachip Semiconductor (NYSE: MX)

Q1 2022 Earnings Materials

May 3, 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 second quarter 2022 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 or the emergence of various variants of the virus, escalated trade tensions and supply constraints on Magnachip's second 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 the COVID-19 pandemic or the emergence of various variants of the virus, other outbreaks of disease, the Russia-Ukraine crisis, recessions, economic instability or civil unrest; 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 or supply constraints; 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 crisis; 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 (including that the impact of the COVID-19 pandemic or the emergence of various variants of the virus, trade tensions and supply constraints 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.

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.

Q1 2022 Highlights

Revenue

Revenue of \$104.1 million was down 5.7% sequentially and down 15.4% year-over-year (YoY).

The decrease was mainly due to severe supply shortages for 28nm 12” OLED wafers, partially offset by record revenue in our Power Solutions business, which was up 11.4% sequentially and 20.0% YoY on strong demand in premium products.

Gross Profit Margin

Gross profit margin was 37.5%, up 250 basis points from Q4 and up over 960 basis points from Q1 a year ago.

The year-over-year increase was primarily attributable to an improved product mix, combined with an increase in average selling price under a favorable pricing environment. Sequentially, Q1 benefited by approximately 200 basis points from the timing mismatch of lower cost 12” wafers purchased in a prior period and sold in Q1.

EPS

GAAP diluted earnings per share (EPS) was \$0.20.

Non-GAAP diluted EPS was \$0.28.

Q1 2022 Report by Business Line

	Q1 2022	Q4 2021	Q/Q Change	Q1 2021	Y/Y Change
Revenue	\$29.2 M	\$41.3 M	down 29.3%	\$58.9 M	down 50.4%
OLED	\$26.1 M	\$37.7 M	down 30.7%	\$55.7 M	down 53.1%

Display Solutions

- As expected, severe shortages in 28nm 12-inch wafer capacity continued to materially impact our results
- Working closely with the top-tier panel maker in Korea to initiate and support two new projects, will kick off second quarter
- In Q1, we worked very closely with our new top-tier panel maker outside of Korea and successfully taped out the first project in February. This product is expected to greatly contribute to our revenue in the later part of this year. Further, we have engaged in design-in discussions for additional new projects with this customer
- Additional 28nm capacity remains on track to come online in the later part of this year
- Active discussions for multi-year supply agreement with our foundry partners-are progressing

	Q1 2022	Q4 2021	Q/Q Change	Q1 2021	Y/Y change
Revenue	\$64.8 M	\$58.2 M	up 11.4%	\$54.0 M	up 20.0%

Power Solutions

- Achieved the highest revenue in company history in a single quarter primarily driven by strong demand for our premium power products as well as BatteryFETs products
- New design wins in TV and LED lighting as well as share gains in laptop and gaming end markets
- Began ramping shipments of our BOOST ICs for SSD in servers and datacenters
- Strong growth in our IGBT product line driven by strong demand for renewable energy, particularly solar inverter applications
- New 40V MV MOSFET obtained purchase order from tier 1 automotive supplier for major car manufacturers and started mass production in April

Q1 2022 Key Financials

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

Profitability	Profitability	Q1 2022	Q4 2021	Q1 2021
	Adjusted Operating Income	\$14.5	\$14.4	\$10.0
	Adjusted EBITDA	\$18.8	\$18.1	\$13.5
	Adjusted Net Income	\$12.9	\$14.6	\$9.3
	Adjusted Earnings per Common Share - Diluted	\$0.28	\$0.31	\$0.22

Balance Sheets	Balance Sheets	Q1 2022	Q4 2021	Q1 2021
	Cash and cash equivalents	\$284.9	\$279.5	\$290.2
	Days Sales Outstanding (DSO)	44 days	42 days	38 days
	Days in Inventory	51 days	50 days	30 days
	Total Stockholders' Equity	\$461.2	\$452.8	\$420.3

Q2 2022 Outlook

- Our near-term outlook is still being challenged by persisting supply constraints especially for 28nm 12” wafers. While actual results may vary, looking into the next quarter, Magnachip currently expects:

Q2 2022 Guidance

Key Metrics	Guidance
Revenue	To be in the range of \$100 million to \$105 million, including about \$9.5 million of Transitional Fab 3 Foundry Services
Gross Profit Margin	To be in the range of 33% to 35%

Q1 2022 Financial Highlights

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

	GAAP						
	Q1 2022	Q4 2021	Q/Q change		Q1 2021	Y/Y change	
Revenues							
Standard Products Business							
Display Solutions	29,185	41,298	down	29.3%	58,895	down	50.4%
Power Solutions	64,825	58,212	up	11.4%	54,011	up	20.0%
Transitional Fab 3 foundry services ⁽¹⁾	10,083	10,825	down	6.9%	10,113	down	0.3%
Gross Profit Margin	37.5%	35.0%	up	2.5%pts	27.9%	up	9.6%pts
Operating Income (Loss)⁽²⁾	12,879	63,870	down	79.8%	(2,091)	up	n/a
Net Income (Loss)	9,528	53,611	down	82.2%	(7,473)	up	n/a
Basic Earnings (Loss) per Common Share	0.21	1.16	down	81.9%	(0.19)	up	n/a
Diluted Earnings (Loss) per Common Share	0.20	1.12	down	82.1%	(0.19)	up	n/a

	Non-GAAP ⁽³⁾						
	Q1 2022	Q4 2021	Q/Q change		Q1 2021	Y/Y change	
Adjusted Operating Income	14,517	14,421	up	0.7%	9,971	up	45.6%
Adjusted EBITDA	18,755	18,144	up	3.4%	13,504	up	38.9%
Adjusted Net Income	12,936	14,606	down	11.4%	9,346	up	38.4%
Adjusted Earnings per Common Share—Diluted	0.28	0.31	down	9.7%	0.22	up	27.3%

- (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 businesses.
- (2) For the three months ended December 31, 2021, operating income of \$63.9 million included net gain of \$49.4 million that represented \$70.2 million income from the recognition of a reverse termination fee, net of professional service fees and expenses of \$20.8 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		
	March 31, 2022	December 31, 2021	March 31, 2021
Operating income (loss)	\$ 12,879	\$ 63,870	\$ (2,091)
Adjustments:			
Equity-based compensation expense	1,638	1,648	1,646
Inventory reserve related to Huawei impact of downstream trade restrictions	—	(379)	—
Merger-related costs (income), net	—	(49,369)	9,831
Other charges, net	—	(1,349)	585
Adjusted Operating Income	\$ 14,517	\$ 14,421	\$ 9,971

We present Adjusted Operating Income as a supplemental measure of our performance. We define Adjusted Operating Income 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 costs (income), net and (iv) Other charges, net.

For the three months ended December 31, 2021, we recorded in our consolidated statement of operations net gain of \$49,369 thousand that represented income of \$70,200 thousand from the recognition of a reverse termination fee, net of professional service fees and expenses of \$20,831 thousand incurred in connection with the contemplated merger transaction of the Company that was terminated in December 2021. For the same period, we also recorded \$1,419 thousand 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), partially offset by \$70 thousand of non-recurring expenses incurred in connection with the regulatory requests.

For the three months ended March 31, 2021, we recorded \$9,831 thousand non-recurring professional service fees and expenses incurred in connection with the contemplated merger transaction. For the same period, we also recorded \$585 thousand non-recurring professional service fees and expenses incurred in connection with the regulatory requests.

Appendix: GAAP to Non-GAAP Reconciliation

	Three Months Ended		
	March 31, 2022	December 31, 2021	March 31, 2021
(In thousands of U.S. dollars, except share data)			
Net income (loss)	\$ 9,528	\$ 53,611	\$ (7,473)
Adjustments:			
Interest expense (income), net	(604)	(726)	420
Income tax expense	3,483	11,221	290
Depreciation and amortization	3,891	3,663	3,448
EBITDA	16,298	67,769	(3,315)
Equity-based compensation expense	1,638	1,648	1,646
Foreign currency loss (gain), net	690	(147)	4,671
Derivative valuation loss (gain), net	129	(29)	86
Inventory reserve related to Huawei impact of downstream trade restrictions	—	(379)	—
Merger-related costs (income), net	—	(49,369)	9,831
Other charges, net	—	(1,349)	585
Adjusted EBITDA	\$ 18,755	\$ 18,144	\$ 13,504
Net income (loss)	\$ 9,528	\$ 53,611	\$ (7,473)
Adjustments:			
Equity-based compensation expense	1,638	1,648	1,646
Foreign currency loss (gain), net	690	(147)	4,671
Derivative valuation loss (gain), net	129	(29)	86
Inventory reserve related to Huawei impact of downstream trade restrictions	—	(379)	—
Merger-related costs (income), net	—	(49,369)	9,831
Other charges, net	—	(1,349)	585
GAAP and cash tax expense difference	—	907	—
Income tax effect on non-GAAP adjustments	951	9,713	—
Adjusted Net Income	\$ 12,936	\$ 14,606	\$ 9,346
Adjusted Net Income per common share—			
- Basic	\$ 0.28	\$ 0.31	\$ 0.23
- Diluted	\$ 0.28	\$ 0.31	\$ 0.22
Weighted average number of shares – basic	45,603,208	46,369,520	40,292,838
Weighted average number of shares – diluted	46,693,294	47,691,816	47,470,416

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) Inventory reserve related to Huawei impact of downstream trade restrictions, (v) Merger-related costs (income), net and (vi) Other charges, net. EBITDA for the periods indicated is defined as net income (loss) before interest expense (income), net, income tax expense and depreciation and amortization.

Adjusted Net Income is defined for the periods indicated as net income (loss), adjusted to exclude (i) Equity-based compensation expense, (ii) Foreign currency loss (gain), net, (iii) Derivative valuation loss (gain), net, (iv) Inventory reserve related to Huawei impact of downstream trade restrictions, (v) Merger-related costs (income), net, (vi) Other charges, net, (vii) GAAP and cash tax expense difference and (viii) Income tax effect on non-GAAP adjustments.