Magnachip Semiconductor (NYSE: MX)

Q3 2023 Earnings Materials

November 2, 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, outlook and business plans, including fourth quarter 2023 revenue and gross profit margin expectations, future growth and revenue opportunities from new and existing products and customers, the impact of market conditions associated with inflation and higher interest rates, remaining effects from the COVID-19 pandemic, geopolitical conflicts between Russia-Ukraine and between Israel-Hamas, escalated trade tensions between the U.S. and China and continuing supply constraints on Magnachip's fourth 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 conditions, including those caused by or related to inflation, potential recessions or other deteriorations, economic instability or civil unrest; remaining effects from the COVID-19 pandemic, the geopolitical conflicts between Russia-Ukraine and between Israel-Hamas, and escalated trade tensions between the U.S. and China; 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 and impact demand for our products from customers who are similarly affected by such capacity constraints or disruptions; the impact of competitive products and pricing; timely acceptance of our designs by customers; timely introduction of new products and technologies; our ability to ramp new products into volume production; industry-wide shifts in supply and demand for semiconductor products; overcapacity within the industry or at Magnachip; 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; change to or ratification of local or international laws and regulations, including those related to environment, health and safety; public health issues, including the remaining effects of the COVID-19 pandemic; other business interruptions that could disrupt supply or delivery of, or demand for, Magnachip's products; 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 22, 2023, 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 2023 Financial Summary

Revenue	Revenue of $61.2 million was in-line with our guidance range (vs $62.0 M mid-point) and was down 14.0% YoY and up 0.4% sequentially
	The sequential increase was mainly driven by a higher mix of premium tier Power products and strong demand in Consumer, Computing, and Communication markets.
Gross Profit Margin	Gross profit margin of 23.6% was above the mid-point of guidance range, up 140 basis points from Q2.
	The sequential improvement was mainly driven by higher fab utilization.
EPS	GAAP diluted loss per share was $0.13.
	Non-GAAP diluted loss per share was $0.04.

Q3 2023 Report by Business Line

Display Solutions

	Q3 2023	Q2 2023	Q/Q Change	Q3 2022	Y/Y Change
Revenue	**$6.4 M**	**$9.7 M**	**down 33.7%**	**$6.4 M**	**up 0.8%**
OLED	**$3.5 M**	**$5.9 M**	**down 41.2%**	**$3.1 M**	**up 13.3%**

- OLED revenue remained muted due largely to slower than planned design-wins in China from our large Korean panel customer.
- Expanded footprint with new global panel makers and smartphone OEMs, while maintaining an ongoing commitment to deliver differentiated and competitive products to drive long-term growth as an industry leader in display:
  - 3rd OLED DDIC chip passed qualification at quarter end and is now in the design-in stage with a leading Chinese smartphone OEM for its flagship model. Expected launch at the end of the year.
  - We now have two design-ins at leading smartphone OEMs outside of Korea.
  - Initiated the 4th OLED DDIC project with global Tier 1 panel maker for foldable smartphones; we expect to provide IC samples to our panel maker by early next year.
  - Started development on mass-market OLED DDIC, 5th chip, targeting the low-to-mid-range smartphone display market, expected to fuel revenue growth in 2H 2024 and beyond.
  - Began production shipments to our large Korea panel maker of OLED drivers for three car models from two top-tier European car manufacturers between May and July. Revenues from these devices began in May and are currently expected to continue throughout the year.

Power Solutions

	Q3 2023	Q2 2023	Q/Q Change	Q3 2022	Y/Y change
Revenue	**$45.2 M**	**$41.7 M**	**up 8.4%**	**$56.4 M**	**down 19.9%**

- Power business benefited from a higher mix of premium tier products and strong demand in TVs, notebooks, and smartphones.
- However, industrial markets, previously an area of strength for us, slowed by double-digit percentages in Q3 as our customers reduced orders to better manage their inventories.
- Continued strong momentum of design activities, particularly in Automotive Power products.
- Product portfolio is getting stronger as we continue to focus on rolling out next-generation power products to maintain our momentum of design-in/wins:
  - Secured 2 new design-wins and 3 design-ins with two of the top 5 automakers in the world; expect revenue contribution over the coming quarters.
  - Introduced two new IGBTs for the EV market in September and launched 8th generation 150V Medium Voltage MOSFETs in October.
  - Power products ASPs continued to remain stable, increased 11.3% YoY but down 5% sequentially.

Q3 2023 Key Financials

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

Profitability

Profitability	Q3 2023	Q2 2023	Q3 2022
Adjusted Operating Loss	-$7.1	-$7.8	-$6.6
Adjusted EBITDA	-$2.7	-$3.6	-$3.0
Adjusted Net Income (Loss)	-$1.6	-$2.5	$1.1
Adjusted Earnings (Loss) per Common Share - Diluted	-$0.04	-$0.06	$0.02

Balance Sheet

Balance Sheet	Q3 2023	Q2 2023	Q3 2022
Cash and cash equivalents	$166.6	$173.0	$250.8
Days Sales Outstanding (DSO)	62 days	52 days	47 days
Days in Inventory	61 days	62 days	64 days
Total Stockholders' Equity	$353.7	$364.3	$413.2

Q4 2023 Outlook

Amid heightened global geopolitical and macroeconomic uncertainty, we expect Power demand to soften driven by normal Q4 seasonality and inventory correction in industrial end markets.

Q4 2023 Guidance	Key Metrics	Guidance
	Revenue	To be in the range of $50 million to $55 million, including approximately $8 million of Transitional Fab 3 Foundry Services
	Gross Profit Margin	To be in the range of 22.5% to 24.5%

Q3 2023 Financial Highlights

	In thousands of U.S. dollars, except share data						
	GAAP						
	Q3 2023	Q2 2023	Q/Q change		Q3 2022	Y/Y change	
Revenues							
Standard Products Business							
Display Solutions	6,404	9,657	down	33.7%	6,355	up	0.8%
Power Solutions	45,215	41,718	up	8.4%	56,416	down	19.9%
Transitional Fab 3 foundry services[(1)]	9,626	9,604	up	0.2%	8,428	up	14.2%
Gross Profit Margin	23.6%	22.2%	up	1.4%pts	24.2%	down	0.6%pts
Operating Loss	(9,235)	(10,656)	up	n/a	(10,008)	up	n/a
Net Loss	(5,165)	(3,947)	down	n/a	(17,195)	up	n/a
Basic Loss per Common Share	(0.13)	(0.09)	down	n/a	(0.38)	up	n/a
Diluted Loss per Common Share	(0.13)	(0.09)	down	n/a	(0.38)	up	n/a

	In thousands of U.S. dollars, except share data						
	Non-GAAP[(2)]						
	Q3 2023	Q2 2023	Q/Q change		Q3 2022	Y/Y change	
Adjusted Operating Loss	(7,064)	(7,762)	up	n/a	(6,646)	down	n/a
Adjusted EBITDA	(2,735)	(3,594)	up	n/a	(2,995)	up	n/a
Adjusted Net Income (Loss)	(1,591)	(2,472)	up	n/a	1,097	down	n/a
Adjusted Earnings (Loss) per Common Share—Diluted	(0.04)	(0.06)	up	n/a	0.02	down	n/a

(1) Following the consummation of the sale of the Foundry Services Group business and Fab 4 in Q3 2020, we provided transitional foundry services to the buyer for foundry products manufactured in our fabrication facility located in Gumi, Korea, known as “Fab 3” (“Transitional Fab 3 Foundry Services”). The contractual obligation to provide the Transitional Fab 3 Foundry Services ended August 31, 2023, and we are planning to wind down these foundry services and convert portions of the idle capacity to Power Solutions standard products beginning around the second half of 2024. Because these foundry services during the wind-down period are still provided to the same buyer by us using our Fab 3 based on mutually agreed terms and conditions, we will continue to report our revenue from providing these foundry services and related cost of sales within the Transitional Fab 3 Foundry Services line in our consolidated statement of operations until such wind down is completed. 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) 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			Nine Months Ended	
	September 30, 2023	June 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Operating income (loss)	$ (9,235)	$ (10,656)	$ (10,008)	$ (41,709)	$ 4,873
Adjustments:					
Equity-based compensation expense	2,171	2,092	861	5,383	4,487
Early termination and other charges, net	—	802	2,501	9,251	3,298
Adjusted Operating Income (Loss)	$ (7,064)	$ (7,762)	$ (6,646)	$ (27,075)	$ 12,658

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 and (ii) Early termination and other charges, net.

For the nine months ended September 30, 2023, we recorded in our consolidated statement of operations $8,449 thousand of termination related charges in connection with the voluntary resignation program that we offered to certain employees during the first quarter of 2023. For the three months ended June 30, 2023 and nine months ended September 30, 2023, we recorded $802 thousand of one-time employee incentives, in each period.

For the three and nine months ended September 30, 2022, Early termination and other charges, net includes $2,821 thousand of one-time employee incentives, in each period, and professional service fees and expenses of $217 thousand and $1,014 thousand, respectively, incurred in connection with certain strategic evaluations, both of which were offset in part by a $537 thousand gain on sale of certain legacy equipment of the closed back-end line in our fabrication facility in Gumi.

Appendix: GAAP to Non-GAAP Reconciliation

(In thousands of U.S. dollars, except share data)	Three Months Ended September 30, 2023	Three Months Ended June 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Net loss	$ (5,165)	$ (3,947)	$ (17,195)	$ (30,582)	$ (11,007)
Adjustments:					
Interest income	(2,382)	(2,692)	(1,784)	(7,916)	(3,560)
Interest expense	189	200	278	645	888
Income tax benefit	(4,373)	(2,977)	(3,942)	(8,577)	(1,356)
Depreciation and amortization	4,081	4,145	3,623	12,583	11,225
EBITDA	(7,650)	(5,271)	(19,020)	(33,847)	(3,810)
Equity-based compensation expense	2,171	2,092	861	5,383	4,487
Foreign currency loss (gain), net	2,583	(1,237)	12,809	4,776	20,511
Derivative valuation loss (gain), net	161	20	(146)	235	(201)
Early termination and other charges, net	—	802	2,501	9,251	3,298
Adjusted EBITDA	$ (2,735)	$ (3,594)	$ (2,995)	$ (14,202)	$ 24,285
Net loss	$ (5,165)	$ (3,947)	$ (17,195)	$ (30,582)	$ (11,007)
Adjustments:					
Equity-based compensation expense	2,171	2,092	861	5,383	4,487
Foreign currency loss (gain), net	2,583	(1,237)	12,809	4,776	20,511
Derivative valuation loss (gain), net	161	20	(146)	235	(201)
Early termination and other charges, net	—	802	2,501	9,251	3,298
Income tax effect on non-GAAP adjustments	(1,341)	(202)	2,267	(3,493)	7,512
Adjusted Net Income (Loss)	$ (1,591)	$ (2,472)	$ 1,097	$ (14,430)	$ 24,600
Adjusted Net Income (Loss) per common share—					
- Basic	$ (0.04)	$ (0.06)	$ 0.02	$ (0.35)	$ 0.55
- Diluted	$ (0.04)	$ (0.06)	$ 0.02	$ (0.35)	$ 0.53
Weighted average number of shares – basic	40,145,290	41,741,310	44,865,266	41,747,255	45,119,214
Weighted average number of shares – diluted	40,145,290	41,741,310	45,747,255	41,747,255	46,134,231

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 currency loss (gain), net, (iii) Derivative valuation loss (gain), net and (iv) Early termination and other charges, net. EBITDA for the periods indicated is defined as net loss before interest income, interest expense, income tax benefit and depreciation and amortization.

We prepare Adjusted Net Income (Loss) by adjusting net 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 loss, adjusted to exclude (i) Equity-based compensation expense, (ii) Foreign currency loss (gain), net, (iii) Derivative valuation loss (gain), net, (iv) Early termination and other charges, net and (v) Income tax effect on non-GAAP adjustments.

For the nine months ended September 30, 2023, we recorded in our consolidated statement of operations $8,449 thousand of termination related charges in connection with the voluntary resignation program that we offered to certain employees during the first quarter of 2023. For the three months ended June 30, 2023 and nine months ended September 30, 2023, we recorded $802 thousand of one-time employee incentives, in each period.

For the three and nine months ended September 30, 2022, Early termination and other charges, net includes $2,821 thousand of one-time employee incentives, in each period, and professional service fees and expenses of $217 thousand and $1,014 thousand, respectively, incurred in connection with certain strategic evaluations, both of which were offset in part by a $537 thousand gain on sale of certain legacy equipment of the closed back-end line in our fabrication facility in Gumi.