Magnachip

Magnachip Semiconductor (NYSE: MX)

MX 3.0: Accelerating Profitable Growth

January 2022

Forward-Looking Statement

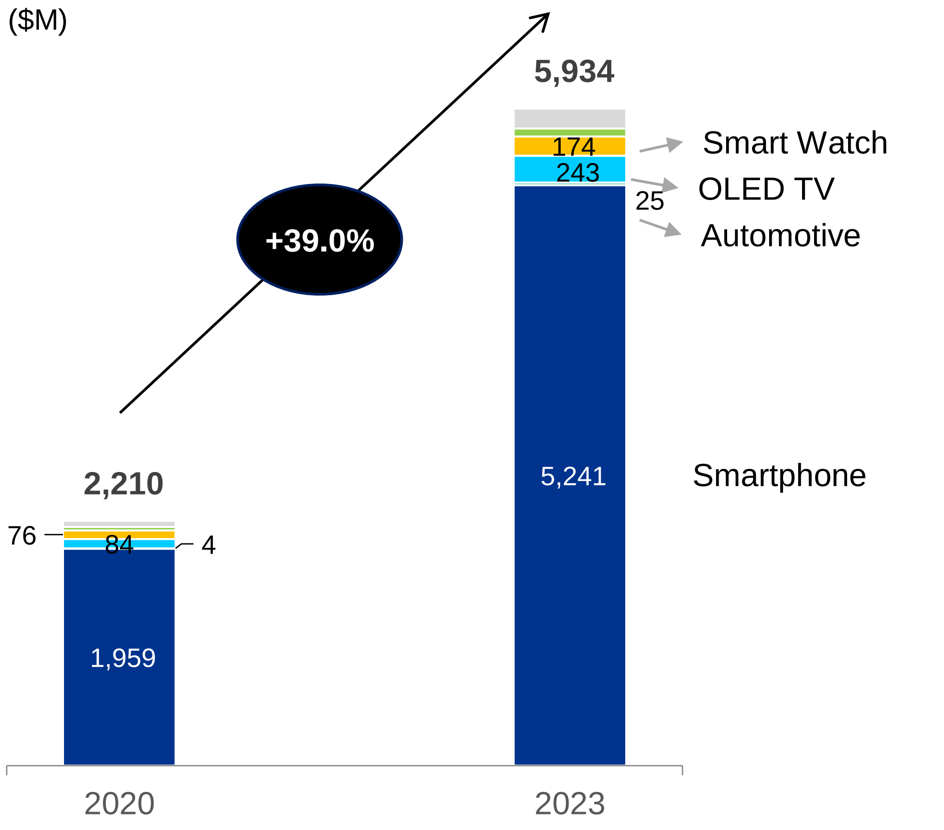
Information in this presentation regarding Magnachip's forecasts, business outlook, expectations and beliefs are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. All forward-looking statements included or incorporated 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 2020 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 and escalated trade tensions on Magnachip's fourth quarter 2020 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 and without limitation, uncertainties related to the impact of changes in macroeconomic and/or general economic conditions, including those caused by or related to the COVID-19 outbreak, recessions, economic instability and the outbreak of disease; 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 and our distributors; 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; 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 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 March 9, 2021 (including that the impact of the COVID-19 pandemic, 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 Securities and Exchange Commission 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 pandemic 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.

Ⅰ. Q1-Q3 2021 Business Update

Display Market Trends

OLED DDIC SAM



(Source: OMDIA, Oct.'21)

Market Update

- Severe wafer supply shortage is expected to continue through 2022 and set to last till 2023 for certain chips.
- Wafer supply constraints affect DDIC prices increase.
- OLED penetration is expected to have increased from 32% in 2020 to 38% in 2021.

Core Competencies

- Pioneered in 28nm OLED drivers with best power consumption and size in industry
- Favorable market trends: 5G, OLED TV, OLED automotive & emerging new technologies
- Strategic alignment with top-tier panel makers in the world

Display Business Update: Demand Creation

OLED Smartphones

- Amidst severe wafer shortage, we carefully focused on 9 design activities with high volume and high margin. Total 41 cumulative design-wins at the end of Q3
- Expanding customer base to include top-tier panel maker outside Korea; initial revenue to start later part of 2022

OLED TV

- Under qualification process with a major Korean TV OEM; Initial production commenced in Q4 2021

OLED Automotive

- Next generation OLED DDIC displays featuring all-in-one solution
- Secured 2 design wins with premium European auto makers for center stack display and instrument cluster display; Initial mass production scheduled for 1H of 2023 based on our customer's current plan

MicroLED

- For very large next generation high-end TVs that offer the potential for high luminance, fast response time, excellent contrast ratio and long product lifetimes; Expect an imminent launch in 2022

Display Business Update: Supply Allocation

Global manufacturing capacity shortage to persist

- Severe supply shortage in 12” OLED wafer negatively impacted our Display revenue in recent quarters and we expect our supply shortage to continue in the near term
- We side with the view that ongoing global shortages in manufacturing capacities will persist throughout 2022 and is set to last until 2023 for certain chips

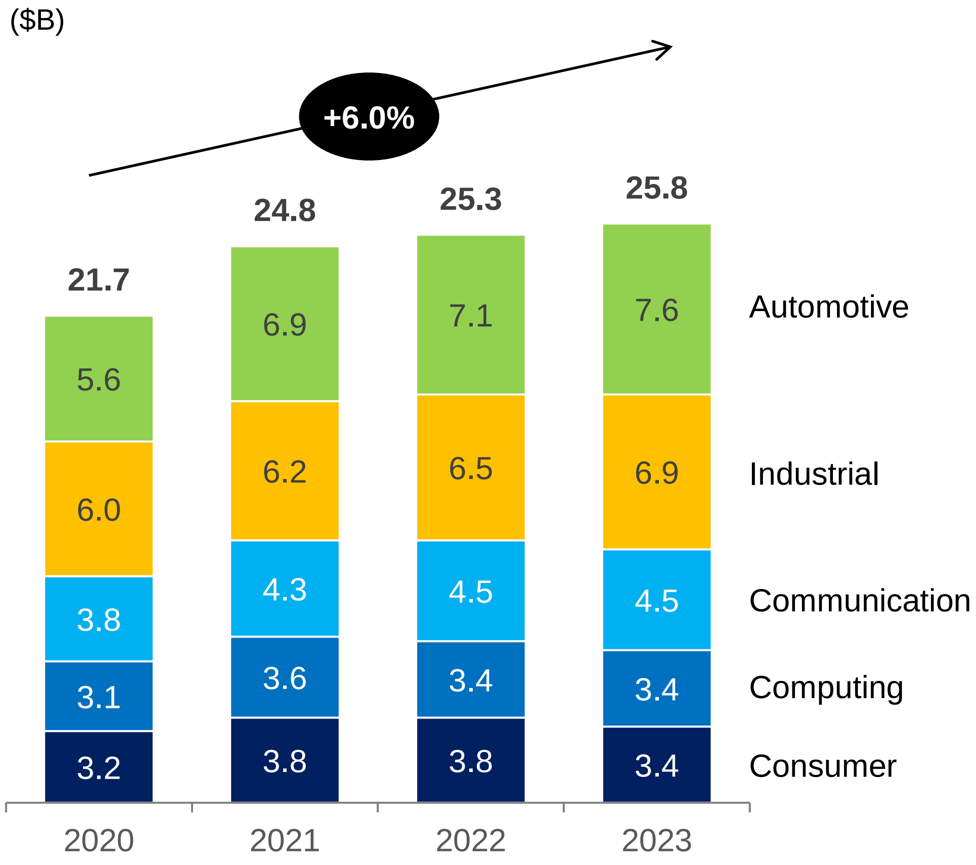
Striving to secure and expand meaningful and sustainable supply capacity

- Secured some additional 28nm manufacturing capacity for coming years, which will come online in the later part of 2022
- In discussion with our foundry partners regarding a multi-year supply agreement in order to secure long-term capacity

Near term focus on efficient mix management

Power Semiconductor Market Trends

Power Semiconductor SAM



(Source: OMDIA, Sep'21)

Market Update

- Power Semiconductor TAM
  - $46.8B('20) → $58.7B('23), CAGR('20~'23): 7.8%
- Power Semiconductor SAM
  - PMIC and other IC ($14.1B in '23)
  - Power MOSFET and discrete IGBT ($11.1B in '23)
  - IGBT chips for Power module ($554M in '23)

Core Competencies

- Go-to-market strategy for China market generating great momentum
- Introduction of a set of next generation power discrete product portfolios in 2022
- Additional 40% Power capacity expansion in Fab 3 by end of 2022
- Automotive qualification progresses in line with end customer's request

Power Semi Business Update: Demand Creation

Efficient R&D and go-to-market strategy gaining momentum in new product introduction

- Strong design pipelines especially for premium products

Greater than 50% premium product mix at the end of Q3'21

- Power IC achieved >50% growth for the three quarters of 2021 surpassing through Q3 the original expected trajectory of +35% Y/Y growth for 2021
- SJ MOSFET demonstrates strong momentum in TV, LED lighting, and industrial applications.
- IGBT expanded into solar and renewable energy

Exciting next generation product portfolio introduction

- Launched new logic PMIC for tablet and notebook display
- Launched new generation LV MOSFET (6.5G) for battery protection
- Commenced pre-production of next generation Super Junction MOSFET (2.5G)

Automotive Power

- Working with the end-customer to address evolving changes requested by them
- While the initial shipment timing is delayed, the qualification and design activities are progressing in line with the end-customer's request

Power Semi Business Update: Supply Management

Prudent supply management along with demand creation led to strong performance

- Power semi business achieved record quarterly revenue for three quarters in a row bolstered by Fab 3 high utilization, ASP increase, and favorable product mix
- 6th consecutive quarter of achieving sequential revenue growth

Fab 3 update

- Add about 40% incremental capacity for standard power product by the end of 2022 compared to the 2020 level
- In 2022, we will introduce a set of next generation power discrete product portfolio

Mid/Long-term supply plans

- Utilize transitional Fab 3 foundry service until Q3 2023
- Plan to tap into additional external capacity; Planning to utilize external foundries for Power IC and some of MOSFETs in the future

Ⅱ. 2020–2023 Plan Update

Original 2020-2023 Plan

Key Metrics	Original Plan published in October 2020(*)
Revenue	Double-digit CAGR growth
Gross margin	Consistently Above 30% by 2023
Adjusted Operating Margin	Exceed 10%
Tax Rate	14-16% next 2-3 years
Free Cash Flow(*)	>8% of revenue by 2023

(*) Free cash flow is calculated by subtracting capital expenditures from operating cash flow.

Updated 2020-2023 Plan

Key Metrics	Original Plan published in October 2020(*)	Updated Plan as of January 6, 2022
Revenue	Double-digit CAGR growth	• Despite the sequential revenue decline in 2021 caused by severe global capacity shortage, we are committed to a double-digit CAGR growth for 2020-2023(*)
Gross margin	Consistently Above 30% by 2023	• Already achieved above 30% • We will strive to consistently maintain it above 30%
Adjusted Operating Margin	Exceed 10%	• Already exceeded 10% for the nine months of 2021 • We expect it to go up to mid-teen when we exit 2023
Tax Rate	14-16% next 2-3 years	• 22-24%(**)
Free Cash Flow(***)	>8% of revenue by 2023	• Exceed 10% of revenue when we exit 2023

(*) 2022 and 2023 revenue growth expectations assume continued supply constraints.
(**) Based on the Company's current organizational/business structure and tax strategies considering the effective tax laws.
(***) Free cash flow is calculated by subtracting capital expenditures from operating cash flow.

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Ⅲ. Capital Allocation Plan

Capital Allocation Philosophy

We will use cash to build and maintain sustainable competitive advantages and enhance the value to shareholders.

- Reinvesting cash flow back into organic growth
  - Innovative technologies and products
  - Talent management
  - Manufacturing and supply chain management
  - Efficient sales marketing channels
- Funding potential inorganic growth opportunities
- Returning capital to stockholders

Near Term Capital Allocation Focus

Target to maintain $100M+ cash on the balance sheet

- Working capital
- Consideration of customer confidence level

Authorized $75M Stock Repurchase

- Entered into $37.5M Accelerated Stock Repurchase agreement to be completed by Q1 2022

Flexible optionality to support key investments for long-term sustainable growth

- Organic business: Demand creation and supply chain management
- Opportunistic and accretive acquisitions / technology tuck-in

Appendix

Q1 – Q3 2021 Key Financials

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

Income Statement	Q3 2021	Q2 2021	Q1 2021
Total revenues:	$127.0	$113.9	$123.0
Net sales – standard products business	$117.4	$103.3	$112.9
Net sales – transitional Fab 3 foundry services	$9.6	$10.6	$10.1
Gross profit as a % of standard products business	39.0%	31.8%	29.8%
Gross profit as a % of total revenues	36.7%	29.8%	27.9%
Adjusted Operating Income	$22.7	$9.1	$10.0
Adjusted EBITDA	$26.4	$12.7	$13.5
Adjusted Net Income	$20.1	$7.0	$9.3
Adjusted Earnings per Common Share – Diluted	$0.42	$0.15	$0.22
Balance Sheet	**Q3 2021**	**Q2 2021**	**Q1 2021**
Cash and cash equivalents	$276.3	$271.9	$290.2
Days Sales Outstanding (DSO)	38 days	45 days	38 days
Days in Inventory	44 days	47 days	30 days
Total Stockholders' Equity	$433.3	$422.6	$420.3

Appendix: GAAP to Non-GAAP Reconciliation

(In thousands of U.S. dollars)

	Three Months Ended		
	September 30, 2021	June 30, 2021	March 31, 2021
Operating income (loss)	$ 20,001	$ 1,627	$ (2,091)
Adjustments:			
Equity-based compensation expense	2,005	2,405	1,646
Inventory reserve related to Huawei impact of downstream trade restrictions	(1,081)	—	—
Other charges	1,766	5,020	10,416
Adjusted operating income	$ 22,691	$ 9,052	$ 9,971

We present Adjusted Operating Income as supplemental measures of our performance. We define Adjusted Operating Income for the periods indicated as operating income adjusted to exclude (i) Equity-based compensation expense, ii) Inventory reserve related to Huawei impact of downstream trade restrictions and (iii) Other charges. Other charges related to non-recurring professional service fees and expenses in connection with the merger transaction and regulatory requests.

Appendix: GAAP to Non-GAAP Reconciliation (Con't)

(In thousands of U.S. dollars)	Three Months Ended September 30, 2021	June 30, 2021	March 31, 2021
Income (loss) from continuing operations	$ 10,768	$ (198)	$ (7,473)
Adjustments:			
Interest expense (income), net	(439)	(493)	420
Income tax expense	3,149	2,601	290
Depreciation and amortization	3,578	3,550	3,448
EBITDA	17,056	5,460	(3,315)
Equity-based compensation expense	2,005	2,405	1,646
Foreign currency loss (gain), net	7,579	(250)	4,671
Derivative valuation loss (gain), net	(237)	57	86
Inventory reserve related to Huawei impact of downstream trade restrictions	(1,081)	—	—
Other charges, net	1,039	5,020	10,416
Adjusted EBITDA	$ 26,361	$ 12,692	$ 13,504
Income (loss) from continuing operations	$ 10,768	$ (198)	$ (7,473)
Adjustments:			
Equity-based compensation expense	2,005	2,405	1,646
Foreign currency loss (gain), net	7,579	(250)	4,671
Derivative valuation loss (gain), net	(237)	57	86
Inventory reserve related to Huawei impact of downstream trade restrictions	(1,081)	—	—
Other charges, net	1,039	5,020	10,416
Adjusted Net Income	$ 20,073	$ 7,034	$ 9,346
Adjusted Net Income per common share—			
- Basic	$ 0.43	$ 0.15	$ 0.23
- Diluted	$ 0.42	$ 0.15	$ 0.22
Weighted average number of shares – basic	46,449,234	46,322,027	40,292,838
Weighted average number of shares – diluted	47,808,457	47,846,217	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 and (v) Other charges, net.
Adjusted Net Income is defined for the periods indicated 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) Inventory reserve related to Huawei impact of downstream trade restrictions and (v) Other charges, net.

For the three months ended September 30, 2021, June 30, 2021 and March 31, 2021, other charges, net included the expenses of $1,766 thousand, $5,020 thousand and $10,416 thousand, respectively, related to non-recurring professional service fees and expenses in connection with the merger transaction and regulatory requests. And, for the three months ended September 30, 2021, this adjustment was offset in part by $727 thousand legal settlement gain related to certain expenses incurred in the prior period 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.

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Q&A

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Thank you!