



Magnachip Semiconductor (NYSE: MX)

Q2 2023 Earnings Materials

August 7, 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 third quarter 2023 and future 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 conflict between Russia and Ukraine, escalated trade tensions between the U.S. and China and continuing supply constraints on Magnachip's third 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 conflict between Russia and Ukraine, 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.

Q2 2023 Financial Summary

Revenue

Revenue of \$61.0 million was within our guidance range (vs \$60.5M mid-point)

Revenue: YoY revenue decreased 39.8% primarily due to:

1. The ongoing smartphone inventory correction and,
2. The supply shortage of 28nm 12-inch OLED wafers in 2021/2022 that impacted 2nd half 2022 design wins.

Gross Profit Margin

Gross profit margin was 22.2%, up 100 basis points from Q1.

The sequential increase was primarily driven by higher utilization at our Gumi Fab.

EPS

GAAP diluted loss per share was \$0.09.

Non-GAAP diluted loss per share was \$0.06.

Q2 2023 Report by Business Line

	Q2 2023	Q1 2023	Q/Q Change	Q2 2022	Y/Y Change	
Display Solutions	Revenue	\$9.7 M	\$10.8 M	down 10.9%	\$28.3 M	down 65.9%
	OLED	\$5.9 M	\$8.0 M	down 26.6%	\$24.6 M	down 76.1%
	<ul style="list-style-type: none"> Display revenue reflects the ongoing smartphone inventory correction and the continued impact of 2021/2022 supply shortage of 28nm 12-inch OLED wafers that affected our 2nd half 2022 design wins. OLED revenue declined due to decreased demand from our large Korean panel customer. Remained focused on expanding customer base to achieve sustainable long-term growth: <ul style="list-style-type: none"> Shipped a revised sample for 2nd OLED DDIC project to our new global panel customer, aiming for final qualification in the next few months and production by end of the year. Sampled 3rd chip in Q2 and is now at the design-in evaluation stage by a smartphone maker for first half 2024 launch Began development of a 4th OLED DDIC project for new global panel customer. Started work on an OLED display driver aimed at driving our revenue growth in 2H 2024 and beyond from the low-to-mid-range OLED smartphone market Began production shipment of our first OLED automotive chip in Q2 for two different car models for a leading European Automaker. Initiated production shipment to a second top-tier European car manufacturer in July. Secured two new design wins with a third European Automaker in Q2, with production slated for 2nd half 2025. 					
	Q2 2023	Q1 2023	Q/Q Change	Q2 2022	Y/Y change	
Power Solutions	Revenue	\$41.7 M	\$40.7 M	up 2.6%	\$63.0 M	down 33.7%
	<ul style="list-style-type: none"> Power revenue benefited in Q2 from an overall improvement in the tone of business in Power end markets and our strength in Industrial and Automotive applications. Core fundamentals strengthening despite weak macro environment: <ul style="list-style-type: none"> ASPs remained strong, increasing 25.3% YoY and down 2.2% sequentially on lower Premium Product mix Continued our record pace of design in and win activities driven by significant momentum in automotive, industrial and computing applications. Introduced four new low voltage MOSFETs that significantly improves power loss of smartphone batteries 					

Q2 2023 Key Financials

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

Profitability	Profitability	Q2 2023	Q1 2023	Q2 2022
	Adjusted Operating Income (Loss)	-\$7.8	-\$12.2	\$4.8
	Adjusted EBITDA	-\$3.6	-\$7.9	\$8.5
	Adjusted Net Income (Loss)	-\$2.5	-\$10.4	\$10.6
	Adjusted Earnings (Loss) per Common Share - Diluted	-\$0.06	-\$0.24	\$0.23

Balance Sheets	Balance Sheets	Q2 2023	Q1 2023	Q2 2022
	Cash and cash equivalents	\$173.0	\$212.1	\$273.8
	Days Sales Outstanding (DSO)	52 days	51 days	54 days
	Days in Inventory	62 days	73 days	45 days
	Total Stockholders' Equity	\$364.3	\$393.4	\$448.1

Q3 2023 Outlook

	Key Metrics	Guidance
Q3 2023 Guidance	Revenue	To be in the range of \$59 million to \$65 million, including about \$8 million of Transitional Fab 3 Foundry Services
	Gross Profit Margin	To be in the range of 22.5% to 24.5%

Q2 2023 Financial Highlights

	In thousands of U.S. dollars, except share data						
	GAAP						
	Q2 2023	Q1 2023	Q/Q change		Q2 2022	Y/Y change	
Revenues							
Standard Products Business							
Display Solutions	9,657	10,841	down	10.9%	28,336	down	65.9%
Power Solutions	41,718	40,673	up	2.6%	62,952	down	33.7%
Transitional Fab 3 foundry services ⁽¹⁾	9,604	5,491	up	74.9%	10,088	down	4.8%
Gross Profit Margin	22.2%	21.2%	up	1.0%pts	28.6%	down	6.4%pts
Operating Income (Loss)	(10,656)	(21,818)	up	n/a	2,002	down	n/a
Net Income (Loss)	(3,947)	(21,470)	up	n/a	(3,340)	down	n/a
Basic Loss per Common Share	(0.09)	(0.49)	up	n/a	(0.07)	down	n/a
Diluted Loss per Common Share	(0.09)	(0.49)	up	n/a	(0.07)	down	n/a

	In thousands of U.S. dollars, except share data						
	Non-GAAP ⁽²⁾						
	Q2 2023	Q1 2023	Q/Q change		Q2 2022	Y/Y change	
Adjusted Operating Income (Loss)	(7,762)	(12,249)	up	n/a	4,787	down	n/a
Adjusted EBITDA	(3,594)	(7,873)	up	n/a	8,525	down	n/a
Adjusted Net Income (Loss)	(2,472)	(10,367)	up	n/a	10,567	down	n/a
Adjusted Earnings (Loss) per Common Share—Diluted	(0.06)	(0.24)	up	n/a	0.23	down	n/a

- (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) 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			Six Months Ended	
	June 30, 2023	March 31, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Operating income (loss)	\$(10,656)	\$ (21,818)	\$ 2,002	\$ (32,474)	\$ 14,881
Adjustments:					
Equity-based compensation expense	2,092	1,120	1,988	3,212	3,626
Early termination and other charges	802	8,449	797	9,251	797
Adjusted Operating Income (Loss)	<u>\$ (7,762)</u>	<u>\$ (12,249)</u>	<u>\$ 4,787</u>	<u>\$ (20,011)</u>	<u>\$ 19,304</u>

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.

For the three months ended March 31, 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 and six months ended June 30, 2023, we recorded \$802 thousand of one-time employee incentives.

For the three and six months ended June 30, 2022, we recorded \$797 thousand of professional service fees and expenses incurred in connection with certain strategic evaluations.

Appendix: GAAP to Non-GAAP Reconciliation

(In thousands of U.S. dollars, except share data)	Three Months Ended			Six Months Ended	
	June 30, 2023	March 31, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Net income (loss)	\$ (3,947)	\$ (21,470)	\$ (3,340)	\$ (25,417)	\$ 6,188
Adjustments:					
Interest income	(2,692)	(2,842)	(1,061)	(5,534)	(1,776)
Interest expense	200	256	499	456	610
Income tax expense (benefit)	(2,977)	(1,227)	(897)	(4,204)	2,586
Depreciation and amortization	4,145	4,357	3,711	8,502	7,602
EBITDA	(5,271)	(20,926)	(1,088)	(26,197)	15,210
Equity-based compensation expense	2,092	1,120	1,988	3,212	3,626
Foreign currency loss (gain), net	(1,237)	3,430	7,012	2,193	7,702
Derivative valuation loss (gain), net	20	54	(184)	74	(55)
Early termination and other charges	802	8,449	797	9,251	797
Adjusted EBITDA	\$ (3,594)	\$ (7,873)	\$ 8,525	\$ (11,467)	\$ 27,280
Net income (loss)	\$ (3,947)	\$ (21,470)	\$ (3,340)	\$ (25,417)	\$ 6,188
Adjustments:					
Equity-based compensation expense	2,092	1,120	1,988	3,212	3,626
Foreign currency loss (gain), net	(1,237)	3,430	7,012	2,193	7,702
Derivative valuation loss (gain), net	20	54	(184)	74	(55)
Early termination and other charges	802	8,449	797	9,251	797
Income tax effect on non-GAAP adjustments	(202)	(1,950)	4,294	(2,152)	5,245
Adjusted Net Income (Loss)	\$ (2,472)	\$ (10,367)	\$ 10,567	\$ (12,839)	\$ 23,503
Adjusted Net Income (Loss) per common share—					
- Basic	\$ (0.06)	\$ (0.24)	\$ 0.24	\$ (0.30)	\$ 0.52
- Diluted	\$ (0.06)	\$ (0.24)	\$ 0.23	\$ (0.30)	\$ 0.51
Weighted average number of shares – basic	41,741,310	43,390,832	44,897,278	42,561,514	45,248,293
Weighted average number of shares – diluted	41,741,310	43,390,832	45,937,515	42,561,514	46,329,559

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. 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 currency loss (gain), net, (iii) Derivative valuation loss (gain), net, (iv) Early termination and other charges and (v) Income tax effect on non-GAAP adjustments.

For the three months ended March 31, 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 and six months ended June 30, 2023, we recorded \$802 thousand of one-time employee incentives.

For the three and six months ended June 30, 2022, we recorded \$797 thousand of professional service fees and expenses incurred in connection with certain strategic evaluations.