



# Magnachip Semiconductor (NYSE: MX)

## Q2 2022 Earnings Materials

August 8, 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 third 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 third 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.

# Q2 2022 Highlights

## Revenue

Revenue of \$101.4 million was down 2.6% sequentially and down 11.0% year-over-year (YoY).

The YoY decrease was mainly due to severe supply shortages for 28nm 12" OLED wafers, partially offset by an 11.1% YoY increase in Power solutions business revenue.

## Gross Profit Margin

Gross profit margin was 28.6%, down 890 basis points from Q1 and down 120 basis points from Q2 a year ago.

The sequential decrease was primarily the result of: 1) Q1 gross profit margin benefited 200 basis points from a one-time timing mismatch of lower cost 12" wafers, 2) lower demand for China smartphones resulted in an inventory reserve of approximately \$4.7 million related to 12" display products, 3) higher foundry cost relating to 12" wafers and 4) unfavorable product mix.

## EPS

GAAP diluted loss per share was \$0.07.

Non-GAAP diluted earnings per share (EPS) was \$0.23.

# Stock Buyback Program and Strategic Review Committee

## Stock Buyback

Our Board of Directors has reaffirmed the remaining \$37.5 million stock repurchase program that was announced previously. We believe that with this stock repurchase program and continuing to drive our OLED business recovery plan combined with the continued momentum of our Power solutions business, we are well positioned to drive significant accretion and value for shareholders over the coming years.

## Strategic Review Committee

Magnachip also announced today that the Board of Directors has activated a Strategic Review Committee to assist the Board in reviewing, considering, exploring and evaluating strategic alternatives that may be available to the Company to maximize shareholder value. The committee's mandate is to review the Company's capital allocation plans and actively explore potential strategic and transactional opportunities, including, but not limited to, joint ventures, strategic partnerships and M&A possibilities that may arise in the future, and make recommendations to the Board regarding those matters, as appropriate. The Strategic Review Committee includes directors Melvin Keating, Ilbok Lee, Camillo Martino and Gary Tanner.

# Q2 2022 Report by Business Line

	Q2 2022	Q1 2022	Q/Q Change	Q2 2021	Y/Y Change
Revenue	\$28.3 M	\$29.2 M	down 2.9%	\$46.6 M	down 39.2%
OLED	\$24.6 M	\$26.1 M	down 5.7%	\$44.2 M	down 44.3%

## Display Solutions

- Severe supply shortages for 28nm 12-inch OLED wafer capacity which began in 2021 and worsened this year.
- Lower demand for China smartphones and the Korean flagship smartphone, partially offset by higher demand for the latest generation Korean flagship model that launched in Q2.
- Successfully sampled our fully functional next generation OLED DDIC to our new top-tier panel customer outside of Korea using our newly qualified foundry partner in Asia
  - On track to ramp production with this customer as we enter 2023, and we expect them to contribute meaningfully to next year's growth
- Kicked off development of two new OLED Driver IC projects with the top-tier panel maker in Korea.
- New 28nm manufacturing capacity remains on track to come online in the later part of this year.

	Q2 2022	Q1 2022	Q/Q Change	Q2 2021	Y/Y change
Revenue	\$63.0 M	\$64.8 M	down 2.9%	\$56.7 M	up 11.1%

## Power Solutions

- Continued strong demand across the board particularly for our premium products such as our SJ MOSFET, Power IC and IGBT in key end markets like communication, consumer, industrial and computing all driven by the trend in electrification of everything.
- Robust SJ MOSFET demand from TV, PC Power and Lighting applications due to increasing energy efficiency requirements.
- Strong growth in our IGBT product line driven by strong demand for renewable energy, particularly solar inverter applications.
- MV MOSFET achieved record-high quarterly revenue in driven by strong demand and multiple design-wins, particularly in power tool motors and e-bikes.

# Q2 2022 Key Financials

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

<b>Profitability</b>	<b>Profitability</b>	<b>Q2 2022</b>	<b>Q1 2022</b>	<b>Q2 2021</b>
	Adjusted Operating Income	\$4.8	\$14.5	\$9.1
	Adjusted EBITDA	\$8.5	\$18.8	\$12.7
	Adjusted Net Income	\$10.6	\$12.9	\$7.0
	Adjusted Earnings per Common Share - Diluted	\$0.23	\$0.28	\$0.15

<b>Balance Sheets</b>	<b>Balance Sheets</b>	<b>Q2 2022</b>	<b>Q1 2022</b>	<b>Q2 2021</b>
	Cash and cash equivalents	\$273.8	\$284.9	\$271.9
	Days Sales Outstanding (DSO)	54 days	44 days	45 days
	Days in Inventory	45 days	51 days	47 days
	Total Stockholders' Equity	\$448.1	\$461.2	\$422.6

# Q3 2022 Outlook

## Q3 2022 Guidance

- Our near-term outlook is being challenged by further OLED wafer shortages, pushout of initial mass production ramp for our new OLED customer outside of Korea, weakening demand in consumer end markets on growing recession fears and cost increases, including labor, due to inflationary pressures. While actual results may vary, looking into the next quarter, Magnachip currently expects:

Key Metrics	Guidance
Revenue	To be in the range of \$70 million to \$75 million, including about \$9 million of Transitional Fab 3 Foundry Services
Gross Profit Margin	To be in the range of 26.5% to 28.5%

# Q2 2022 Financial Highlights

	In thousands of U.S. dollars, except share data						
	GAAP						
	Q2 2022	Q1 2022	Q/Q change		Q2 2021	Y/Y change	
<b>Revenues</b>							
<b>Standard Products Business</b>							
Display Solutions	28,336	29,185	down	2.9%	46,601	down	39.2%
Power Solutions	62,952	64,825	down	2.9%	56,667	up	11.1%
Transitional Fab 3 foundry services <sup>(1)</sup>	10,088	10,083	up	0.0%	10,608	down	4.9%
<b>Gross Profit Margin</b>	28.6%	37.5%	down	8.9%pts	29.8%	down	1.2%pts
<b>Operating Income<sup>(2)</sup></b>	2,002	12,879	down	84.5%	1,627	up	23.0%
<b>Net Income (Loss)</b>	(3,340)	9,528	down	n/a	(198)	down	n/a
<b>Basic Earnings (Loss) per Common Share</b>	(0.07)	0.21	down	n/a	(0.00)	down	n/a
<b>Diluted Earnings (Loss) per Common Share</b>	(0.07)	0.20	down	n/a	(0.00)	down	n/a

	In thousands of U.S. dollars, except share data						
	Non-GAAP <sup>(3)</sup>						
	Q2 2022	Q1 2022	Q/Q change		Q2 2021	Y/Y change	
<b>Adjusted Operating Income</b>	4,787	14,517	down	67.0%	9,052	down	47.1%
<b>Adjusted EBITDA</b>	8,525	18,755	down	54.5%	12,692	down	32.8%
<b>Adjusted Net Income</b>	10,567	12,936	down	18.3%	7,034	up	50.2%
<b>Adjusted Earnings per Common Share—Diluted</b>	0.23	0.28	down	17.9%	0.15	up	53.3%

- (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 business lines.
- (2) In Q2 2022, operating income of \$2.0 million included professional service fees and expenses of \$0.8 million incurred in connection with certain strategic evaluations. In Q2 2021, operating income of \$1.6 million included professional service fees and expenses of \$2.5 million incurred in connection with the contemplated merger transaction and non-recurring professional service fees and expenses of \$2.6 million incurred in connection with the regulatory requests.
- (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			Six Months Ended	
	June 30, 2022	March 31, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Operating income (loss)	\$ 2,002	\$ 12,879	\$ 1,627	\$ 14,881	\$ (464)
Adjustments:					
Equity-based compensation expense	1,988	1,638	2,405	3,626	4,051
Merger-related costs	—	—	2,459	—	12,290
Other charges	797	—	2,561	797	3,146
Adjusted Operating Income	<u>\$ 4,787</u>	<u>\$ 14,517</u>	<u>\$ 9,052</u>	<u>\$ 19,304</u>	<u>\$ 19,023</u>

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) Merger-related costs and (iii) Other charges.

For the three and six months ended June 30, 2021, we recorded \$2,459 thousand and \$12,290 thousand, respectively, of professional service fees and expenses incurred in connection with the contemplated merger transaction.

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. For the three and six months ended June 30, 2021, we recorded \$2,561 thousand and \$3,146 thousand, respectively, of non-recurring professional service fees and expenses 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			Six Months Ended	
	June 30, 2022	March 31, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Net income (loss)	\$ (3,340)	\$ 9,528	\$ (198)	\$ 6,188	\$ (7,671)
Adjustments:					
Interest income, net	(562)	(604)	(493)	(1,166)	(73)
Income tax expense (benefit)	(897)	3,483	2,601	2,586	2,891
Depreciation and amortization	3,711	3,891	3,550	7,602	6,998
EBITDA	(1,088)	16,298	5,460	15,210	2,145
Equity-based compensation expense	1,988	1,638	2,405	3,626	4,051
Foreign currency loss (gain), net	7,012	690	(250)	7,702	4,421
Derivative valuation loss (gain), net	(184)	129	57	(55)	143
Merger-related costs	—	—	2,459	—	12,290
Other charges	797	—	2,561	797	3,146
Adjusted EBITDA	\$ 8,525	\$ 18,755	\$ 12,692	\$ 27,280	\$ 26,196
Net income (loss)	\$ (3,340)	\$ 9,528	\$ (198)	\$ 6,188	\$ (7,671)
Adjustments:					
Equity-based compensation expense	1,988	1,638	2,405	3,626	4,051
Foreign currency loss (gain), net	7,012	690	(250)	7,702	4,421
Derivative valuation loss (gain), net	(184)	129	57	(55)	143
Merger-related costs	—	—	2,459	—	12,290
Other charges	797	—	2,561	797	3,146
Income tax effect on non-GAAP adjustments	4,294	951	—	5,245	—
Adjusted Net Income	\$ 10,567	\$ 12,936	\$ 7,034	\$ 23,503	\$ 16,380
Adjusted Net Income per common share—					
- Basic	\$ 0.24	\$ 0.28	\$ 0.15	\$ 0.52	\$ 0.38
- Diluted	\$ 0.23	\$ 0.28	\$ 0.15	\$ 0.51	\$ 0.36
Weighted average number of shares – basic	44,897,278	45,603,208	46,322,027	45,248,293	43,324,088
Weighted average number of shares – diluted	45,937,515	46,693,294	47,846,217	46,329,559	47,685,875

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 (gain), net, (iii) Derivative valuation loss (gain), net, (iv) Merger-related costs and (v) Other charges. 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 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 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 (gain), net, (iii) Derivative valuation loss (gain), net, (iv) Merger-related costs, (v) Other charges and (vi) Income tax effect on non-GAAP adjustments.