



Magnachip

# Magnachip Semiconductor (NYSE: MX)

## Q1 2023 Earnings Materials

May 3, 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 second quarter 2023, third quarter 2023 and full year 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 conflict between Russia and Ukraine, escalated trade tensions between the U.S. and China and continuing supply constraints on Magnachip's second 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.

# Q1 2023 Highlights

## Revenue

Revenue of \$57.0 million was within our guidance range.

YoY, revenue decreased 45.2% primarily due to continued effects of last year's 28nm wafer supply shortage that impacted 2nd half 2022 design wins and the ongoing inventory correction driven by weak consumer demand.

## Gross Profit Margin

Gross profit margin was 21.2%, at the low end of our guidance range.

The sequential decrease was primarily due to lower utilization rate of our internal fabrication facility in response to the industry-wide slowdown and higher fab costs.

## EPS

GAAP diluted loss per share was \$0.49.

Non-GAAP diluted loss per share was \$0.24.

# Q1 2023 Report by Business Line

	Q1 2023	Q4 2022	Q/Q Change	Q1 2022	Y/Y Change
<b>Revenue</b>	<b>\$10.8 M</b>	<b>\$7.6 M</b>	<b>up 43.5%</b>	<b>\$29.2 M</b>	<b>down 62.9%</b>
<b>OLED</b>	<b>\$8.0 M</b>	<b>\$5.5 M</b>	<b>up 44.7%</b>	<b>\$26.1 M</b>	<b>down 69.2%</b>

**Display Solutions**

- Display revenue reflects the continued impact of last year’s wafer supply shortage, which impacted 2<sup>nd</sup> half design wins and the ongoing smartphone inventory correction. However, we are encouraged by some market recovery in the Premium Tier as we saw higher demand in Q1 from our large Korean panel customer to support multiple high-end smartphone designs.
- Remained steadfast in executing our recovery plan in Q1:
  - Began shipping initial volume of our 1st OLED DDIC project to our large non-Korean panel customer, after qualifying it in the previous quarter.
  - Delivered our second OLED DDIC project sample ahead of schedule and mass production is on track for 2nd half end-customer fall smartphone launches.
  - Completed tape out of a high-end smartphone DDIC project with large panel customer in Korea and entered evaluation phase. Targeting to release samples in Q2, with mass production expected to begin near the end of the year.
  - Rescheduled automotive OLED project’s mass production shipment timing to mid-May and are optimistic about securing more design wins in upcoming quarters.

	Q1 2023	Q4 2022	Q/Q Change	Q1 2022	Y/Y change
<b>Revenue</b>	<b>\$40.7 M</b>	<b>\$46.3 M</b>	<b>down 12.1%</b>	<b>\$64.8 M</b>	<b>down 37.3%</b>

**Power Solutions**

- Power revenue continued to be impacted by weak consumer demand across most of our end markets, particularly in Computing and Consumer related applications, which resulted in a material inventory correction at our distributors and customers. To normalize inventories, we significantly reduced production at our internal Fab.
- Core fundamentals remain unchanged despite challenging environment:
  - Premium Tier products continued to maintain strong product mix and ASPs and represented 64.4% of total Power revenue while Premium Tier ASPs increased 6.4% YoY.
  - Continued our record pace of design in and win activities driven by significant momentum in automotive, industrial and computing applications.
  - Introduced nine new 600V SJ MOSFET products featuring proprietary design IP that improves on-resistance and overall system efficiency.
  - Automotive business continued to make solid progress in various applications in the XEV automotive market.

# Q1 2023 Key Financials

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

<b>Profitability</b>	<b>Profitability</b>	<b>Q1 2023</b>	<b>Q4 2022</b>	<b>Q1 2022</b>
	Adjusted Operating Income (Loss)	-\$12.2	-\$8.6	\$14.5
	Adjusted EBITDA	-\$7.9	-\$4.8	\$18.8
	Adjusted Net Income (Loss)	-\$10.4	-\$15.8	\$12.9
	Adjusted Earnings (Loss) per Common Share - Diluted	-\$0.24	-\$0.36	\$0.28

<b>Balance Sheets</b>	<b>Balance Sheets</b>	<b>Q1 2023</b>	<b>Q4 2022</b>	<b>Q1 2022</b>
	Cash and cash equivalents	\$212.1	\$225.5	\$284.9
	Days Sales Outstanding (DSO)	51 days	53 days	44 days
	Days in Inventory	73 days	82 days	51 days
	Total Stockholders' Equity	\$393.4	\$428.2	\$461.2

# Q2 2023 Outlook

## Q2 2023 Guidance

- We expect our results to remain soft in the near term, but we believe both Display and Power are poised for a recovery in the second half of this year based on our current customer feedback. Based on our current projections, and assuming a steady state global economy, we are cautiously optimistic that our key financial metrics have the potential to show sequential improvement in both the third and fourth quarters of 2023.
- While actual results may vary, Magnachip currently expects the following for Q2 2023:

Key Metrics	Guidance
Revenue	To be in the range of \$58 million to \$63 million, including about \$8 million of Transitional Fab 3 Foundry Services
Gross Profit Margin	To be in the range of 21% to 23%

# Q1 2023 Financial Highlights

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

	GAAP							
	Q1 2023	Q4 2022	Q/Q change		Q1 2022	Y/Y change		
<b>Revenues</b>								
Standard Products Business								
Display Solutions	10,841	7,556	up	43.5%	29,185	down	62.9%	
Power Solutions	40,673	46,271	down	12.1%	64,825	down	37.3%	
Transitional Fab 3 foundry services <sup>(1)</sup>	5,491	7,163	down	23.3%	10,083	down	45.5%	
<b>Gross Profit Margin</b>	21.2%	26.4%	down	5.2%pts	37.5%	down	16.3%pts	
<b>Operating Income (Loss)</b>	(21,818)	(10,117)	down	n/a	12,879	down	n/a	
<b>Net Income (Loss)</b>	(21,470)	2,971	down	n/a	9,528	down	n/a	
<b>Basic Earnings (Loss) per Common Share</b>	(0.49)	0.07	down	n/a	0.21	down	n/a	
<b>Diluted Earnings (Loss) per Common Share</b>	(0.49)	0.07	down	n/a	0.20	down	n/a	

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

	Non-GAAP <sup>(2)</sup>							
	Q1 2023	Q4 2022	Q/Q change		Q1 2022	Y/Y change		
<b>Adjusted Operating Income (Loss)</b>	(12,249)	(8,567)	down	n/a	14,517	down	n/a	
<b>Adjusted EBITDA</b>	(7,873)	(4,768)	down	n/a	18,755	down	n/a	
<b>Adjusted Net Income (Loss)</b>	(10,367)	(15,848)	up	n/a	12,936	down	n/a	
<b>Adjusted Earnings (Loss) per Common Share—Diluted</b>	(0.24)	(0.36)	up	n/a	0.28	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		
	March 31, 2023	December 31, 2022	March 31, 2022
Operating income (loss)	\$ (21,818)	\$ (10,117)	\$ 12,879
Adjustments:			
Equity-based compensation expense	1,120	1,550	1,638
Early termination charges	8,449	—	—
Adjusted Operating Income (Loss)	<u>\$ (12,249)</u>	<u>\$ (8,567)</u>	<u>\$ 14,517</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 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.

# Appendix: GAAP to Non-GAAP Reconciliation

(In thousands of U.S. dollars, except share data)	Three Months Ended		
	March 31, 2023	December 31, 2022	March 31, 2022
Net income (loss)	\$ (21,470)	\$ 2,971	\$ 9,528
Adjustments:			
Interest income	(2,842)	(2,420)	(715)
Interest expense	256	269	111
Income tax expense (benefit)	(1,227)	6,513	3,483
Depreciation and amortization	4,357	3,775	3,891
EBITDA	(20,926)	11,108	16,298
Equity-based compensation expense	1,120	1,550	1,638
Foreign currency loss (gain), net	3,430	(17,492)	690
Derivative valuation loss, net	54	66	129
Early termination charges	8,449	—	—
Adjusted EBITDA	\$ (7,873)	\$ (4,768)	\$ 18,755
Net income (loss)	\$ (21,470)	\$ 2,971	\$ 9,528
Adjustments:			
Equity-based compensation expense	1,120	1,550	1,638
Foreign currency loss (gain), net	3,430	(17,492)	690
Derivative valuation loss, net	54	66	129
Early termination charges	8,449	—	—
Income tax effect on non-GAAP adjustments	(1,950)	(2,943)	951
Adjusted Net Income (Loss)	\$ (10,367)	\$ (15,848)	\$ 12,936
Adjusted Net Income (Loss) per common share—			
- Basic	\$ (0.24)	\$ (0.36)	\$ 0.28
- Diluted	\$ (0.24)	\$ (0.36)	\$ 0.28
Weighted average number of shares – basic	43,390,832	44,054,275	45,603,208
Weighted average number of shares – diluted	43,390,832	44,054,275	46,693,294

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, net and (iv) Early termination 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, net, (iv) Early termination 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.