



Magnachip Semiconductor (NYSE: MX)

Q4 2020 Earnings Materials

February 17, 2021



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 first quarter 2021 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, escalated trade tensions and supply constraints on Magnachip's first quarter 2021 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 uncertainties related to market conditions or macroeconomic and/or general economic conditions, such as those caused by or related to the COVID-19 pandemic, recessions, economic instability or civil unrest, 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; 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; and 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 February 21, 2020 and our Form 10-Qs filed on May 11, 2020, August 7, 2020, and November 6, 2020 (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 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.

Information in this presentation does not take into effect the potential impact of the COVID-19 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 pandemic. 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 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.

Q4 and Year 2020 Highlights

- **Fourth quarter revenue of \$142.9 million was up 14.5% sequentially and up 15.9% year-over-year (YoY) — it surpassed the midpoint of October guidance by \$10.9 million; Full-year revenue of \$507.1 million decreased 2.6% YoY due mainly to the exit from the non-automotive LCD business.**
- **Fourth quarter OLED DDIC revenue of \$80.4 million set a new quarterly record, representing a 19.0% sequential increase and a 19.4% increase YoY; Full-year OLED revenue of \$284.6 million increased 6.5% YoY.**
- **Gross profit margin for the fourth quarter was 26.9%, up 400 bps sequentially and up 220 bps YoY; Full-year gross profit margin of 25.3% was an increase of 290 bps YoY due mainly to the product mix improvement.**
- **GAAP diluted earnings per share (EPS) for the fourth quarter was \$1.45; Full-year GAAP EPS was \$7.54.**
- **Non-GAAP diluted EPS from continuing operations was 40 cents; Full-year non-GAAP EPS from continuing operations was 73 cents.**
- **Cash use of \$227.4 million to fully redeem the 6.625% Senior Notes due 2021; Stockholder's equity turned positive to reach \$345.6 million at the end of 2020 versus negative \$15 million in 2019.**

Q4 and 2020 Report by Business Line

Display Solutions

	Q4 2020	Q3 2020	Q/Q Change	Q4 2019	Y/Y Change	2019 Revenue	2020 Revenue	Y/Y change
Revenue	\$82.7 M	\$69.6 M	up 18.9%	\$75.5 M	up 9.6%	\$308.5 M	\$299.1 M	down 3.1%
OLED	\$80.4 M	\$67.6 M	up 19.0%	\$67.3 M	up 19.4%	\$267.0 M	\$285 M	up 6.5%

- Q4 OLED revenue hit record revenue, second quarter in a row.
- Momentum in 5G smartphone especially with High Frame Rate (HFR) grew stronger: All of 8 new design-wins in Q4 were 5G and HFR DDIC; ~70% of our Q4 OLED revenue was from 5G phones, 40% of total 2020 OLED revenue was from 5G phones.
- Record design-wins in 2020: 54 cumulative design-wins, including 38 new design-wins (34 cumulative wins, including 21 new wins in 2019).
- Development of new products in emerging technologies/applications, such as OLED TV, Micro LED TV and QD Display, is progressing well.

Power Solutions

	Q4 2020	Q3 2020	Q/Q Change	Q4 2019	Y/Y change	2020	2019	Y/Y change
Revenue	\$46.9 M	\$46.7 M	up 0.4%	\$37.8 M	up 23.9%	\$166.5 M	\$176.3 M	down 5.6%

- Power IC revenue crossed \$10M annual revenue threshold in 2020 and is expected to grow >35% in 2021.
- 3 key design-wins with our power IC products: 2 from laptop and 1 from SSD-related applications.
- Total number of new products released in 2020 more than doubled as compared to the number in 2019.
- Fab 3 re-establishment is on track with the goal of adding about 40% incremental power standard products capacity by 2022.

Q4 2020 Key Financials

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

Profitability	Q4 2020	Q3 2020	Q4 2019
Adjusted Operating Income	\$15.4	\$8.8	\$10.1
Adjusted EBITDA	\$18.6	\$11.7	\$12.8
Adjusted Net Income	\$17.3	\$5.1	\$6.6
Adjusted Earnings per Common Share - Diluted	\$0.40	\$0.14	\$0.17
Balance Sheet	Q4 2020	Q3 2020	Q4 2019
Cash and cash equivalents	\$279.9	\$542.1	\$151.7
Days Sales Outstanding (DSO)*	41 days	43 days	39 days
Days in Inventory*	34 days	32 days	46 days
Borrowings, net	\$83.5	\$306.6	\$304.7
Total Stockholders' Equity (Deficit)	\$345.6	\$278.3	(\$15.0)

* Prior to the closing of the sale of the Foundry Services Group business and Fab 4, for the calculation of DSO and Days in Inventory, revenue and cost of sales from the Standard Products Business (formerly referred to as Standard Products Group prior to the sale of the Foundry Services Group business and Fab 4) were used, respectively.

Long-term Targets and Q1 2021 Outlook

Long-term Target*	By 2023
Revenue	Double-digit CAGR growth
Gross Profit Margin	Consistently above 30%
Adjusted Operating Expense**	Below 18% of revenue
Adjusted Operating Income %	Exceed 10%
Tax Rate***	14-16% in 2-3 years (utilizing NOL)
Capital Expenditure	Special CAPEX in Fab 3 for 2020 & 2021 From 2022, moderate level of 3% of revenue or below
Free Cash Flow	In excess of 8% of revenue

Q1 2021 Financial Guidance:

Q1 is our seasonally low quarter, but the demand in most of our end markets remains very healthy. Currently, the industry is going through severe supply constraints. While we are leaving some demand unmet in Q1 due to supply constraints, we are working closely with our strategic customer and our foundry partners to address supply constraints, and we expect the supply situation to improve later in the quarter. While actual results may vary, Magnachip currently anticipates for Q1 2021:

Revenue	\$119 million to \$124 million, including \$10 million of the Transitional Fab 3 Foundry Services
Gross Profit Margin	25% to 27%

* The following metrics are based on the Standard Products Business revenue, excluding transitional Fab 3 foundry service as such service is expected to cease after a certain period of time.

** Operating expenses minus equity-based compensation expense.

*** Based on the Company's current organizational and business structure, and tax strategies.

Q4 and 2020 Financial Highlights

In thousands of U.S. dollars, except share data	GAAP					GAAP					
	Q4 2020	Q3 2020	Q/Q change	Q4 2019	Y/Y change	2020	2019	Y/Y Change			
Revenues											
Standard Products Business											
Display Solutions	82,705	69,583	up	18.9%	75,490	up	9.6%	299,057	308,531	down	3.1%
Power Solutions	46,861	46,679	up	0.4%	37,814	up	23.9%	166,462	176,316	down	5.6%
Transitional Fab 3 foundry services ⁽¹⁾	13,379	8,551	up	56.5%	10,048	up	33.2%	41,540	35,824	up	16.0%
Gross Profit Margin	26.9%	22.9%	up	4.0% pts	24.7%	up	2.2% pts	25.3%	22.4%	up	2.9% pts
Operating Income	9,206	3,223	up	185.6%	5,691	up	61.8%	27,016	23,725	up	13.9%
Net Income (Loss)⁽²⁾	66,581	272,962	down	75.6%	23,426	up	184.2%	344,965	(21,826)	up	1680.5%
Basic Earnings (Loss) per Common Share	1.87	7.74	down	75.8%	0.68	up	175.0%	9.80	(0.64)	up	1631.3%
Diluted Earnings (Loss) per Common Share	1.45	5.89	down	75.4%	0.54	up	168.5%	7.54	(0.64)	up	1278.1%

In thousands of U.S. dollars, except share data	Non-GAAP ⁽³⁾					Non-GAAP ⁽³⁾					
	Q4 2020	Q3 2020	Q/Q change	Q4 2019	Y/Y change	2020	2019	Y/Y Change			
Adjusted Operating Income	15,355	8,823	up	74.0%	10,136	up	51.5%	41,584	30,416	up	36.7%
Adjusted EBITDA	18,582	11,731	up	58.4%	12,794	up	45.2%	52,919	40,923	up	29.3%
Adjusted Net Income	17,268	5,147	up	235.5%	6,620	up	160.8%	28,260	8,954	up	215.6%
Adjusted Earnings per Common Share—Diluted	0.40	0.14	up	185.7%	0.17	up	135.3%	0.73	0.25	up	192.0%

(1) The Company will provide transitional foundry services for up to 3 years.

(2) Net income of \$66.6 million in Q4 2020 included one-time recognition of deferred tax benefits of \$43.9 million. Net income of \$273.0 million in Q3 2020, including income from discontinued operations reflecting the \$287.1 million gain on sale of the Foundry Services Group business and Fab 4.

(3) Non-GAAP financial measures are calculated based on results from continuing operations. Please refer to the forward-looking statement on slide 1 for more detailed information on Non-GAAP financial measures.

Appendix: GAAP to Non-GAAP Reconciliation

(In thousands of U.S. dollars)

	Three Months Ended			Year Ended	
	December 31, 2020	September 30, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Operating income	\$ 9,206	\$ 3,223	\$ 5,691	\$ 27,016	\$ 23,725
Adjustments:					
Equity-based compensation expense	1,945	2,101	4,392	6,311	6,053
Early termination and other charges	5,075	—	53	5,629	53
Inventory reserve related to Huawei impact of downstream trade restrictions	(871)	2,331	—	1,460	—
Expenses related to Fab 3 power outage	—	1,168	—	1,168	—
Others	—	—	—	—	585
Adjusted operating income	\$ 15,355	\$ 8,823	\$ 10,136	\$ 41,584	\$ 30,416

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) Early termination and other charges, (iii) Inventory reserve related to Huawei impact of downstream trade restrictions, (iv) Expenses related to Fab 3 power outage and (v) Others. For the year ended December 31, 2020, Early termination and other charges eliminate \$4,422 thousand related to the reduction of workforce under a voluntary resignation program and non-recurring professional service fees and expenses incurred in connection with certain treasury and finance initiatives. During the same period, Inventory reserve related to Huawei eliminates a net charge of \$1,460 thousand that we recorded in relation to the U.S. Government's export restrictions on Huawei, and Expenses related to Fab 3 power outage eliminate \$1,168 thousand related to the write-off of the damaged work in process wafers and charges for facility recovery. For the year ended December 31, 2019, Others eliminates a \$585 thousand legal settlement charge related to dispute with a prior customer and a legal expense related to the indemnification of a former employee, which was borne by us under a negotiated separation agreement during the three months ended March 31, 2019.

Appendix: GAAP to Non-GAAP Reconciliation

(In thousands of U.S. dollars, except share data)	Three Months Ended			Year Ended	
	December 31, 2020	September 30, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Income (loss) from continuing operations	\$ 67,902	\$ 8,461	\$ 23,876	\$ 57,059	\$ (20,413)
Adjustments:					
Interest expense, net	863	4,875	4,675	15,404	19,451
Income tax expense (benefit)	(47,064)	(1,145)	(1,116)	(46,228)	2,200
Depreciation and amortization	3,148	2,854	2,615	11,116	10,318
EBITDA	24,849	15,045	30,050	37,351	11,556
Equity-based compensation expense	1,945	2,101	4,392	6,311	6,053
Early termination and other charges	5,075	—	53	5,629	53
Foreign currency loss (gain), net	(13,256)	(8,864)	(21,850)	382	22,316
Derivative valuation loss (gain), net	74	(50)	149	(148)	318
Loss on early extinguishment of borrowings, net	766	—	—	766	42
Inventory reserve related to Huawei impact of downstream trade restrictions	(871)	2,331	—	1,460	—
Expenses related to Fab 3 power outage	—	1,168	—	1,168	—
Others	—	—	—	—	585
Adjusted EBITDA	18,582	11,731	12,794	52,919	40,923
Income (loss) from continuing operations	\$ 67,902	\$ 8,461	\$ 23,876	\$ 57,059	\$ (20,413)
Adjustments:					
Equity-based compensation expense	1,945	2,101	4,392	6,311	6,053
Early termination and other charges	5,075	—	53	5,629	53
Foreign currency loss (gain), net	(13,256)	(8,864)	(21,850)	382	22,316
Derivative valuation loss (gain), net	74	(50)	149	(148)	318
Loss on early extinguishment of borrowings, net	766	—	—	766	42
Inventory reserve related to Huawei impact of downstream trade restrictions	(871)	2,331	—	1,460	—
Expenses related to Fab 3 power outage	—	1,168	—	1,168	—
GAAP and cash tax expense difference	(43,874)	—	—	(43,874)	—
Others	—	—	—	—	585
Income tax effect on non-GAAP adjustments	(493)	—	—	(493)	—
Adjusted Net Income	\$ 17,268	\$ 5,147	\$ 6,620	\$ 28,260	\$ 8,954
Adjusted Net Income per common share—					
- Basic	\$ 0.49	\$ 0.15	\$ 0.19	\$ 0.80	\$ 0.26
- Diluted	\$ 0.40	\$ 0.14	\$ 0.17	\$ 0.73	\$ 0.25
Weighted average number of shares – basic	35,582,966	35,280,864	34,542,415	35,213,525	34,321,888
Weighted average number of shares – diluted	47,062,903	46,581,788	46,078,768	46,503,586	35,405,077

Adjusted EBITDA is defined for the periods indicated as EBITDA adjusted to exclude (i) Equity-based compensation expense, (ii) Early termination and other charges, (iii) Foreign currency loss (gain), net, (iv) Derivative valuation loss (gain), net, (v) Loss on early extinguishment of borrowings, net, (vi) Inventory reserve related to Huawei impact of downstream trade restrictions, (vii) Expenses related to Fab 3 power outage and (viii) Others.

Adjusted Net Income is defined for the periods indicated as income (loss) from continuing operations, adjusted to exclude (i) Equity-based compensation expense, (ii) Early termination and other charges, (iii) Foreign currency loss (gain), net, (iv) Derivative valuation loss (gain), net, (v) Loss on early extinguishment of borrowings, net, (vi) Inventory reserve related to Huawei impact of downstream trade restrictions, (vii) Expenses related to Fab 3 power outage, (viii) GAAP and cash tax expense difference, (ix) Others and (x) Income tax effect on non-GAAP adjustments.