# Himax Technologies, Inc. Q1 2012 Unaudited Financials and Investor Update Call

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| **Moderator/Speaker Dial-In Numbers (for John Mattio, Jordan Wu & Jackie Chang):**<br>TOLL-FREE 1-877-407-4021<br>TOLL/INTERNATIONAL 1-201-689-8472 | **Replay Dial-In Numbers:**<br>TOLL-FREE 1-877-870-5176<br>TOLL/INTERNATIONAL 1-858-384-5517<br>From: 05/09/12<br>To: 05/15/12 at 11:59 pm Eastern Time<br>Replay Pin Number: 392552 |

**Operator Intro:** Welcome to Himax Technologies' first quarter 2012 financial results conference call. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session. At that time, if you have a question, you will need to press star 1 on your push button phone. The call is scheduled for one hour. As a reminder, this conference call is being recorded today. A replay will be available 2 hours after the call today.

**John Mattio:** Thank you, operator. Welcome everyone to Himax's first quarter 2012 earnings call. Joining us from the company are Mr. Jordan Wu, President and Chief Executive Officer, and Ms. Jackie Chang, Chief Financial Officer. After the company's prepared comments, we have allocated time for questions in a Q&A session following the Company's prepared remarks. If you have not yet received a copy of today's results release, please call MZ Group at 212-301-7130, access the press release on financial portals like Bloomberg, Yahoo or Google or you can download a copy from Himax's website at www.himax.com.tw.

Before we begin the formal remarks, I'd like to remind everyone that some of the statements in this conference call, including statements regarding expected future financial results, and industry growth, are forward-looking statements that involve a number of risks and uncertainties that could cause actual events or results to differ materially from those described in this conference call. Factors that could cause actual results include, but are not limited to, general business and economic conditions and the state of the semiconductor industry; market acceptance and competitiveness of the driver and non-driver products developed by the Company; demand for end-use applications products; reliance on a small group of principal customers; the uncertainty of continued success in technological innovations; and other operational and market challenges including Company's Taiwan depository listing (TDR), the capability to maintain the full two-way fungibles between the Company's ordinary shares and ADSs and other risks described from time to time in the Company's SEC filings, including those risks identified in the section entitled "Risk Factors" in its Form 20- F for the year ended December 31, 2011 filed with SEC as amended.

Except for the Company's full year of 2011 financials which were provided on the Company's 20-F, filed with the SEC, the financial information included in this conference call is unaudited and consolidated, and prepared in accordance with US GAAP. Such financial information is generated internally and has not been subjected to the same review and scrutiny, including internal auditing procedures and audit by independent auditors, to which we subject our annual consolidated financial statements, and may vary materially from the audited consolidated financial information for the same period. Any evaluation of the financial information included in this conference call should also take into account our published audited consolidated financial statements and the notes to those statements. In addition, the financial information included in this conference call is not necessarily indicative of our results for any future period. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. At this time, I would now like to turn the call over to Mr. Jordan Wu.

Jordan, the floor is yours…….

**Q1 2012 Results**

**Mr. Jordan Wu:** Thank you John and thank you everybody for being with us for today's call.

As you know, we revised our first quarter guidance on April 5, raising our forecast revenues to $166.7 million, gross margin to 22.9% and GAAP earnings per ADS to 6.6 cents. All these numbers exceeded the initial guidance we provided on February 13. I am pleased to report that the actual first quarter results are the same as our revised guidance. I will give you some details today as to how we were able to achieve a better Q1 than we initially anticipated.

Now, let's start from our top line performance. Our first quarter revenues came in at $166.7 million, representing 18.1% growth year-over-year and 1.5% decline sequentially. Notwithstanding the slight decline, we are happy with the sales performance as the first quarter was a seasonally slow quarter, marked by fewer business days due to Chinese New Year holidays.

Revenues from large panel display drivers were $71.4 million, up 9.9% from a year ago and 6.6% sequentially. Large panel drivers accounted for 42.8% of our total revenues for the first quarter, compared to 46.0% a year ago and 39.6% in the previous quarter. The quarter over quarter increase was mainly due to strong orders from the TV segment as many of our Chinese end customers launched new models in Q1 which generated strong sales. We are also receiving new business from Chinese panel customers, which contributed to the year over year growth. We see the trend continuing through 2012.

Sales of small and medium sized applications continued to demonstrate strong momentum year over year in the first quarter. Revenues from small and medium-sized applications were $72.4 million, up 21.4% from the same period last year and down 10.1% sequentially. The sequential sales decrease was mainly a reflection of the seasonal behavior in the sector as well as the New Year holiday breaks in China. As expected, demand for small and medium-sized applications rebounded in March. The year over year growth, on the other hand, is a result of our focus and strong execution on a number of fast growing product segments, particularly smartphone, automotive and tablets. Our drivers for small and medium-sized applications accounted for 43.4% of total revenues for the first quarter, as compared to 42.3% for the same period last year, and 47.6% in the previous quarter.

Revenues from our non-driver businesses were $22.9 million, an increase of 38.8% from the same period last year and up 5.6% sequentially. The strong result is an illustration of the continuing growth in all of our non-driver products with many of them experiencing quarter over quarter double digit increase. As a reminder, our non-driver product lines include touch-panel controllers, CMOS image sensors, wafer level optics, LCOS micro displays, power management ICs (PMICs), LED diver ICs, timing controllers, ASIC services and IP licensing. Our non-driver products accounted for 13.8% of our total revenues in the first quarter, as compared to 11.7% a year ago and 12.8% in the previous quarter.

Revenues from related parties were 37.9% of total sales in Q1, as compared to 47.5% a year ago and 35.1% in the previous quarter. We continued to transform our product mix and expand our reach to other customers successfully. A more diversified customer base will further reduce our dependence on any single customer and help minimize our business risk.

Our GAAP gross margin for the first quarter was 22.9%, a 280 basis points improvement over 20.1% a year earlier, and a 80 basis points improvement from 22.1% in the previous quarter. This improvement is the direct result of our product mix change, especially from high margin non-driver products. Continued gross margin improvement will remain one of our main focuses in 2012.

For the first quarter, GAAP net income was $11.3 million, or 6.6 cents per ADS, compared to $2.7 million, or 1.5 cents per ADS, in the corresponding quarter a year ago, and $3.7 million, or 2.1 cents per ADS, in the fourth quarter of 2011. GAAP net income grew 315.5% from the same period last year and 204.4% over the previous quarter.

We reported non-GAAP adjusted pre-tax income in the fourth quarter of 2011 which, we believed, could best reflect our fundamental financial performance for the period. In calculating the non-GAAP adjusted pre-tax income, we excluded one-off charges such as bad debt collections and year-end tax charge-offs. On a comparable basis, the non-GAAP adjusted pre-tax income for the first quarter 2012 was $15.6 million, or 9 cents per diluted ADS, up 346.2% as compared to $3.5 million, or 2 cents per diluted ADS, during the same period 2011 and up 50.7% from $10.3 million, or 5.9 cents per diluted ADS, in the previous quarter. While there can be no assurance that there will be no further one-time charge-off for tax or other reasons for this year, we have taken and will continue to take measures to try to adequately provide for such potential charge-offs in each quarter so as to minimize quarterly fluctuation of our bottom line resulting from such causes as exchange rate and R&D tax credits.

The bottom line improvement for the first quarter was mainly a result of a positive change in our product mix toward higher margin, non-driver and small and medium-sized driver sales which command higher gross margins. At the same time, we continued to make efforts in managing our operating expenses. Again, margin expansion remains one of our highest priorities.

The big picture summary of our first quarter performance is that we achieved satisfactory sales and higher gross margin amidst a seasonally weak season. With controlled operating expenses, we have therefore substantially improved bottom line profitability. This is in line with the overall strategy we set in place several years ago. While I am pleased with the progress we have made in the past few quarters, our entire organization remains focused on achieving additional improvements in 2012 and beyond.

I will now ask Jackie Chang, our CFO, to provide more clarity and details on our financials. After Jackie's presentation, we will further discuss our outlook for the second quarter of 2012.

Jackie……

**Ms. Jackie Chang:** Thank you, Jordan. I will now provide additional details for our first quarter financial results.

Our GAAP operating expenses were $23.7 million in Q1 2012, down 8.2% from $25.8 million a year ago and down 9.7% from $26.2 million in the fourth quarter of 2011. GAAP operating income for the first quarter was $14.5 million, or 8.7% of sales, up $12.0 million from $2.5 million, or 1.8% of sales, a year ago, and up $3.3 million from $11.2 million, or 6.6% of sales, in the fourth quarter of 2011. GAAP operating income grew 469% over same period of 2011 and it grew 29.4% over the last quarter.

Reported GAAP net income and earnings per diluted ADS was $11.3 million, or 6.6 cents per ADS, for the first quarter of 2012, compared to $2.7 million, or 1.5 cents per ADS, in the corresponding quarter a year ago, and up from $3.7 million, or 2.1 cents per ADS, in the previous quarter. As Jordan mentioned earlier, it grew 204.4% over the fourth quarter of 2011.

Jordan mentioned earlier about the non-GAAP adjusted pre-tax income. For investors' easy reference, we have provided detailed reconciliation in the earnings release.

Our cash, cash equivalents and marketable securities available for sale were $102.1 million at the end of March, down slightly from $116.4 million for the same period last year and from $106.3 million a quarter ago. On top of the above cash position, restricted cash was $84.2 million at the end of first quarter, up from $57.5 million during the same period last year and the same as the end of the last quarter. The quarter over quarter decrease was due to the 4.5 million ADSs we bought back, totaling $6.5 million in the first quarter of 2012.

Inventories at the end of March were $118.5 million, down from $130.1 million a year ago and slightly up from $113.0 million a quarter ago. Accounts receivables at the end of March were $189.0 million as compared to $166.8 million a year ago and $181.1 million last quarter. DSOs were 103 days at the end of March, 2012, little changed versus 106 days last year and 104 days at the end of the last quarter.

Net cash inflow from operating activities for the first quarter was $3.6 million which consist of net income before depreciation and amortizations of $14.4 million, offset by increase in receivables and inventory.

We spent approximately $1.6 million in capital expenditures in the first quarter versus $1.9 million a year ago and $1.2 million last quarter.

With regards to our $25 million dollars share buyback program, we purchased approximately $6.5 million, or 4.5 million ADSs, in the first quarter. Cumulatively, we have purchased a total of $11.2 million, or approximately 8.3 million ADSs, through March 31, 2012. As of March 31, 2012, Himax had 170.1 million outstanding equivalent ADSs. We will continue to execute the remaining share repurchase program in accordance with Rule 10b-18.

I will now turn the floor back to Jordan to discuss our growth strategies and second quarter guidance.

**Mr. Jordan Wu:** We experienced growth in the large panel business in the first quarter mainly due to our customers' new TV model launches and signing new panel manufacturer customers in China. Large panel drivers accounted for 42.8% of our total revenues for the first quarter, compared to 46.0% a year ago and 39.6% in the previous quarter. Large panel display driver remains one of our long-term focuses, over which we have continued to commit to R&D activities. As an illustration, large panels require more and more high speed interface for higher resolution and frame rate. We are in the leading edge in the development of various high-speed interfaces, which we believe will be crucial for next generation large panel products.

As we reported earlier, our small- and medium-sized drivers grew 21.4% year over year during the first quarter, representing 43.4% of our total revenues, as compared to 42.3% a year ago. The single fastest growing application in this product segment is smartphone. We are currently in a strong position in the smartphone sector with leading technologies, competitive products and good customer line-up. We carry a comprehensive, industry-leading range of products across mainstream and high-end smartphone. We are also working with panel manufacturer partners across Taiwan, China, Japan and Korea to supply drivers for numerous smartphone brand customers in China and internationally. We expect the growth momentum to continue throughout 2012, driven by strong demand from both Chinese and well-known international brands. Beyond smartphone, we are also working closely with numerous panel makers on other small and medium-sized applications, including automotive and tablets, among others, which all show strong signs of growth.

Our non-driver products continue to show solid growth. Our non-driver products accounted for 13.8% of our total revenues, as compared to 11.7% a year ago and 12.8% in the previous quarter. We are confident that the growth momentum from our non-driver products will continue throughout the rest of 2012 and beyond.

We started shipments of our multi-finger capacitive touch panel controllers to a leading smartphone maker in 2011. Ever since then, we have been awarded with multiple new projects with that same customer in 2012. Additionally, thanks to our proven product quality and first-tier customer shipping record, we have won projects with other brand-names, some of which we hope will contribute to our sales starting the second half.

In our CMOS image sensor product line, we have successfully penetrated several top-tier customers in the notebook/PC markets with some shipments already started at the end of the first quarter. In 2012, we expect to see significant shipments of our HD720p sensors, which are used by many customers to replace the older VGA sensors with the proliferation of Windows 8. We are also seeing rapid growth and promising opportunities in China for our new sensor products used in both the smartphone and automotive/surveillance product segments.

For our PMIC and WLED product line, we continue to focus on monitor and TV applications and make efforts to extending our product coverage for the different needs of various customers. We are also adding customers in new regions such as China and Japan and new segments such as TV converter and TV/monitor system maker, as opposed to our initial focus of panel makers in Taiwan. We expect this product line to contribute positively to our overall profitability starting 2012.

We are particularly excited about some recent business progress we have made in our LCOS products. We are working with a number of top-tier customers to develop certain new applications using our LCOS panels. Separately, we have also signed major contracts with tier-1 customers for providing IP licensing and ASIC services, some of which involve the same customers using our LCOS panels for their brand new product ideas. We are happy that we are able to offer a one-stop shopping for our customers who need both the LCOS microdisplay for their new product ideas and sophisticated ASIC service to facilitate their new system design. This is an illustration of not just our strong R&D capability, but also the synergy of product and knowhow that we can bring to our customers. While these will not bring in immediate financial contribution, we believe these products can facilitate our long term growth.

## Q2 Guidance

Moving to the second quarter outlook, we are seeing strong demand across virtually all product lines, particularly in smartphone driver IC, PMIC, WLO, touch controller ICs and CMOS image sensors. The strong demand will not only drive revenues, but also help the company's overall gross margin and profitability.

For the second quarter of 2012, we expect revenues to increase by 15% to 20% compared to the first quarter of 2012, gross margin to be slightly up and GAAP earnings attributable to shareholders to be in the range of 8 to 10 cents per diluted ADS based on 170 million outstanding ADSs.

Thank you for your interest in Himax. We appreciate your joining today's call and we look forward to a productive and profitable year in 2012. Operator, we will now open the floor for questions.

**OPERATOR TO QUEUE QUESTIONS**

**Jordan's closing remarks**

Thank you everyone for taking the time to join today's call. We look forward to talking with you again at our next call in early August and meeting some of you on our upcoming trip to the US for conferences and investor meetings in California and New York.