Himax Technologies, Inc. 2011 Full Year and Q4 Unaudited Financials and Investor Update Call

Conference Details:	Participant Dial-In Numbers:
Confirmation #: 387248 Call Length: 1 hour Lines: 100 Conference Date: 02/13/12 Conference Start Time: 6:00 pm Eastern Pre-Record Message: No Moderator: JOHN MATTIO	TOLL-FREE 1-877-407-4018 TOLL/INTERNATIONAL 1-201-689-8471
Moderator/Speaker Dial-In Numbers (for John Mattio, Jordan Wu & Jackie Chang): TOLL-FREE 1-877-407-4021 TOLL/INTERNATIONAL 1-201-689-8472	**Replay Dial-In Numbers:** TOLL-FREE 1-877-870-5176 TOLL/INTERNATIONAL 1-858-384-5517 From: 02/13/12 at 9:00 pm Eastern Tim To: 02/20/12 at 11:59 pm Eastern Time Replay Pin Number: 387248

Operator Intro: Welcome to Himax Technologies' fourth quarter and full year 2011 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 1on your push button phone. The call is scheduled for one hour. As a reminder, this conference is being recorded today. A replay will be available 2 hours after the call today, through 1PM on Tuesday, February 20, 2012 in Taiwan.

John Mattio: Thank you, operator. Welcome everyone to Himax's fourth quarter 2011 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 will have time for any questions today. 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.

Q4 2011 Results

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, 2010 filed with SEC on dated May 20, 2011, as amended.

Except for the Company's full year of 2010 financials which were provided on the Company's 20-F, filed with the SEC on May 20, 2011, 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…….

Q4 2011 Results

Mr. Jordan Wu: Thank you John and thank you everyone for joining today's call. In today's earnings call, in addition to reporting our performance in the fourth quarter, I will also summarize our results for 2011 and highlight key milestones we achieved last year. I will then provide our outlook for the first quarter 2012 and outline our strategic focus areas for the full year 2012. Our CFO, Jackie Chang, will then provide further details on our financial performance**.**

Our fourth quarter revenue, gross margin and earnings per ADS all met or exceeded our guidance. Our fourth quarter revenues came in at $169.2 million, representing 19.8% growth year over year and 4.4% growth sequentially.

Revenues from large panel display drivers were $67.0 million, up 8.0% sequentially and down 5.8% from a year ago. The quarter over quarter increase was mainly due to strong rush order demand from TV segment as many Chinese end customers pulled in their demands into Q4 to make up for the loss of working days during the Chinese New Year holidays in January. Large panel drivers accounted for 39.6% of our total revenues for the fourth quarter compared to 50.3% a year ago and 38.3% in the third quarter.

We are happy to report that sales of small and medium-sized applications were a record high for us in the fourth quarter of 2011. Driver IC revenues from small and medium-sized applications were $80.6 million, up 40.2% from the same period last year and up 1.1% sequentially. Driver IC for small and medium-sized applications accounted for 47.6% of total revenues for the fourth quarter, as compared to 40.7% for the same period last year, and 49.2% in the previous quarter. Sales for cell phone applications, in particular, enjoyed a spectacular 53.0% growth in the fourth quarter on a year over year basis and up 2.5% sequentially, mostly thanks to strong demand of smartphones which nearly tripled year-over-year and doubled sequentially. We are extremely excited about the strong and steady growth in this sector, which more or less offset the lower sales in large panel display drivers versus last year. I will elaborate more on this later.

Fourth quarter revenues from our non-driver businesses were $21.7 million, an increase of 71.3% from the same period last year and up 6.4% sequentially. Non-driver products accounted for 12.8% of our total revenues in the fourth quarter, as compared to 9.0% a year ago and 12.5% in the previous quarter.

With double digit sales growth from many of our customers, revenues from related parties remained below 40% at 35.1% of total sales in Q4 last year, compared to 52.5% a year ago and 39.3% in the previous quarter. We believe we have transformed our product mix and expanded our reach to other customers successfully. A more diversified customer base would reduce our dependence on any single customer and help minimize our business risk.

Our GAAP gross margin for the fourth quarter was 22.1%, as compared to 21.5% a year earlier, and 18.5% in the previous quarter. The primary driver for the year-over-year and quarter-over-quarter increase in gross margin was the shift of our product mix. Smartphone and non-driver segments were the major contributors to the improvement of gross margin in Q4.

Operating expenses for the fourth quarter was $26.2 million, down $4.3 million from the previous quarter. The reduction is partially a result of our higher RSU charges in Q3. In accordance with our protocol, we grant annual RSUs to our staff at the end of September each year, which, given all other things equal, leads to higher third quarter GAAP operating expenses compared to the other quarters of the year. The total value of our 2011 RSUs is approximately $3 million, out of which 97% were immediately vested and expensed in the third quarter 2011.

The bottom line performance of our last quarter was complicated by a few factors, most of which one-off in nature. This makes it hard for a straightforward comparison on both quarterly and annual basis. I will therefore give you adjusted pre-tax results for now. Jackie will then elaborate the full details a bit later. Our non-GAAP adjusted pre-tax income for the fourth quarter was $10.3 million, up 51.5% year over year and up 83.3% from the previous quarter. The non-GAAP adjusted pre-tax income does not take into account such factors as RSU expenses, acquisition-related charges, bad debt collection, income taxes and tax credit provisions.

The strong bottom line improvement for the fourth quarter was mainly a result of strong smartphone sales, which enjoyed higher margins, and our well controlled operating expenses. I would now ask Jackie Chang, our CFO, to provide more clarity and detail on our financials. After Jackie's presentation, we will further discuss our full year results and then 2012 outlook.

Jackie……

Ms. Jackie Chang: Thank you, Jordan. With that introduction, we thought it best to address our appropriate adjustments and reasons to report an non-GAAP adjusted pre-tax income and EPS. As mentioned earlier, our fourth quarter 2011 GAAP operating expenses were $26.2 million, up 50.2% from $17.4 million a year ago and down 14.1% from $30.5 million in the previous quarter. The significant increase from last year was largely due to a bad debt collection of $8.6 million from SVA-NEC in Q4 2010 which was an offset against the sales expenses. Whereas, the significant sequential decrease was primarily due to the charges of the 2011 RSU granted in the third quarter. Ignoring the bad debt collection of Q4, 2010 and the higher RSU charges of Q3, 2011, our Q4 operating expenses actually stayed stable compared to the previous quarter and the same period last year.

Without counting the bad debt collection, RSU expenses and acquisition related charges, our pretax income was $10.3 million in Q4 2011, up 51.5% from $6.8 million year-over-year and up 83.3% from $5.6 million in the previous quarter.

Now let me spend a few minutes to explain our effective tax rate. Our Q4 2011 income tax expenses were affected by two issues. First, high effective tax rate, which was resulted from two reasons. One, our consolidated effective tax rate was artificially high because while our subsidiaries were loss making, their losses could not be used to offset against the profit made by the parents. This will reverse as the subsidiaries start to turn profitable, as we believe many of them will in the near future, because their early profits will be tax-free due to their past losses that can be carried forward for tax purposes. Another factor to lead to our higher effective tax rate was the NT dollar depreciation against the US dollar for the whole year last year. There are two areas of impact here. Firstly, while our reporting currency is the US dollar, super majority of our taxes incur in Taiwan on the basis of our NT dollar book, which is the required reporting currency for the Taiwan tax authorities. The NT dollar depreciation resulted in foreign exchange gains for our US dollar assets and therefore higher tax payable in Taiwan. The second impact was related to remeasuring of deferred tax assets, which naturally is NT dollar based. The total additional income tax for the reason of NT dollar depreciation amounted to $5.5 million in the fourth quarter of 2011.

The second issue impacting our fourth quarter 2011 taxes was non-cash tax credit provisions. As part of our typical accounting practices, we reviewed our balance sheet in Q4 and decided to make provisions of approximately $3.3 million of tax credits. We applied for and were granted these tax credits in the past years mainly out of our R&D expenditure. We believe it is prudent to make such provisions given the uncertain global economic outlook. Notwithstanding the provisions, these tax credits remain effective for the local tax authorities, meaning if we should make more pre-tax profits than we currently anticipated for this year, we will still be eligible to enjoy such tax credits.

Excluding the afore-mentioned tax credit provisions, our GAAP net income for fourth quarter would be $6.7 million, or 3.8 cents per ADS.

GAAP net income attributable to shareholders for the fourth quarter was $3.7 million, or 2.1 cents per diluted ADS, compared to $11.7 million, or 6.6 cents per diluted ADS, a year ago, and $0.6 million, or $0.4 cents per diluted ADS, in the prior quarter. The significant decrease from last year was primarily due to the $8.6 million bad debt collected from SVA-NEC in Q4 2010. Excluding the bad debt recovery, net of its associated tax benefit at the time of the bad debt expense was charged, GAAP net income for the fourth quarter of 2010 was $5.4 million, or 3.1 cents per ADS.

We have provided reconciliation detailing the above in the earnings release for those of you who wish to follow along. We believe non-GAAP adjusted figures can best provide investors with a picture which is more reflective of our underlying performance.

I will talk about the fourth quarter and full year balance sheet analysis together a bit later after Jordan gives a 2011 full year business review.

2011 Full Year Summary

Mr. Jordan Wu: Thank you, Jackie. Now let me summarize our 2011 full year performance. 2011 was a year full of both challenges and progress. While we lost share in large panel drivers, we also benefited from our gains in small and medium size panels, especially in the smartphone segment. Meanwhile, we also picked up strong momentum during last year across all our non-driver businesses, which we have cultivated for years. We are confident that the strong momentum will continue into this year and beyond.

Large-panel drivers remained a market with high customer concentration as there are still just a small number of large panel makers in the market. We continued to experience declines in our large panel driver business last year primarily because one of our major customers continued to diversify their driver IC supply base. We are confident that our competitiveness in this segment remains strong and we will continue to drive toward winning more market share in this account and others. During 2011, we did gain share in the large panel sector in China where there are relatively new panel makers emerging in the market place with aggressive capacity expansion plans.

We were also able to grow our small and medium-sized driver businesses and significantly expand our market share there. The market for smaller size panel manufacturing is a lot more fragmented with a much larger number of customers participating in the market space. The fact that we were able to achieve outstanding performance in this area last year was a strong indication of our continued competitiveness in the driver IC industry. Meanwhile, our non-driver products remained on an excellent growth track, each showing strong momentum. 2011 marked the first year in our history where non-driver sales reached a double digit percentage of our total revenue. We believe the growth momentum will continue into 2012 and beyond.

Our revenues totaled $633.0 million in 2011, representing a 1.5% decline year-over-year. The decline was a result of the 26.2% reduction of large-panel driver sales, which represented 42.7% of 2011 revenues, as compared to 57.0% in 2010. We don’t expect further loss of market share for large-sized drivers with our existing major customers for this year. Moreover, as mentioned earlier, we are confident that we will gain share in China where there are aggressive panel capacity expansion plans, providing attractive new driver IC business opportunities for this year, especially in the large panel segment.

Small-and medium-sized drivers, on the other hand, grew 26.2% year over year, representing 44.6% of our total revenues, as compared to 34.8% a year ago. This strong growth momentum will continue into this year, thanks mainly to the fast growing smartphone demand. We believe the increase in sales from the small-and-medium sized drivers will also help boost gross margin this year.

Non-driver products grew 53.1% year over year, representing 12.7% of our total sales, as compared to 8.2% a year ago. We achieved numerous milestones for non-driver products in 2011, the first year when we commenced mass production for several new product areas, including touch controller ICs, CMOS image sensors, wafer-level optics, wafer-level camera modules, and 2D to 3D conversion solutions. Moreover, our LCOS micro-display solutions, power management ICs and WLED drivers all delivered strong shipments in 2011. These accomplishments are illustrations of our strong R&D capability and our commitment to a more diversified product portfolio. We are confident that the strong growth momentum from all our non-driver products will continue into 2012 and beyond.

Gross margin in 2011 was 19.8% compared to 21.0% in 2010. Our GAAP net income was $10.7 million, or 6.1 cents per ADS, compared to $33.2 million, or 18.7 cents per ADS last year. We expect our small and medium driver IC and non-driver products to contribute to our revenue, gross profit and net income growth in 2012. We have passed the period of ramping time in the initial stage of mass production in 2011 and expect the further ramp up of our non-driver products to generate higher gross margins than our driver products, leading to higher overall margins.

As I did with our report of the fourth quarter, I will now pass the phone to Jackie to explain the details for our full year financial results.

Ms. Jackie Chang: Thank you again, Jordan. First let me start with our GAAP numbers then I will detail to you our adjusted numbers which we feel more properly reflect our underlying performance.

In terms of 2011 full year performance, our GAAP operating expenses were $109.0 million as compared to $99.7 million a year earlier. Excluding the bad debt collection from SVA-NEC, GAAP operating expenses were little changed from last year, at $110.5 million and $108.5 million for 2011 and 2010, respectively.

GAAP operating income was $16.6 million as compared to $35.4 million a year earlier. Excluding the bad debt collection from SVA-NEC, GAAP operating income were $15.1 million and $26.6 million for 2011 and 2010, respectively. With total revenues declining only slightly from the previous year, the operating income decline was primarily due to the lower gross margin from 21.0% to 19.9%, or $9.6 million reduction of gross profit, as well as $2.0 million of higher operating expenses.

Our cash, cash equivalents and marketable securities available for sale went up to $106.3 million at the end of December, from $105.5 million a year ago and $90.8 million a quarter ago. On top of the above cash position, restricted cash was $84.2 million at the end of December, up from $58.5 million during the same period last year and down from $84.7 million at the end of the last quarter.

Inventories at the end of December were $113.0 million, compared to $118.0 million during the same period last year and $104.7 million a quarter ago. We had a slight increase in inventory at the quarter end primarily due to higher rush customer orders to be fulfilled during the first quarter, 2012.

Accounts receivables at the end of December were $181.1 million as compared to $176.2 million a year ago and $174.7 million last quarter. DSOs were 104 days at end of 2011, little changed versus 100 days last year and 104 days at end of last quarter.

Net cash inflow from operating activities for the fourth quarter was $17.3 million, as compared to $29.8 million during the same period last year and $17.4 million in the previous quarter. Cumulative cash flows from operations in 2011 were $43.4 million versus $57.6 million the year before.

With regards to our $25 million dollars share buyback program, we have purchased a total of $9.2 million, or approximately 7.1 million ADS through February 10, 2012. We will continue to execute the remaining share repurchase program in accordance with Rule 10b-18.

2012 Outlook

Mr. Jordan Wu: Looking ahead into year 2012, we believe that our business is bottoming out and we are on track to regain robust top line and bottom line growth starting this year. We also foresee a more balanced business portfolio with small- and medium-panel driver and non-driver businesses continue to contribute more significantly to our growth.

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 range of products covering both mainstream and high-end smartphones. We are also working with panel maker partners in Taiwan, China, Japan and Korea to supply drivers for numerous smartphone brand customers. The growth momentum is expected to continue in 2012 with strong demand coming from both Chinese and international brand customers.

As stated earlier, our non-driver products grew 53.1% last year with many products experiencing double digit growth. We expect another year of strong growth momentum for our non-driver products. I will now elaborate a bit on four particular non-driver segments which we believe will see robust sales growth this year. I will then discuss about the repositioning of our TV and monitor chipset businesses.

CMOS image sensor, while in its first year of commercial shipment, already accounted for a significant portion of our non-driver sales last year. We currently offer 3 mega pixel, 2 mega pixel, 1.3 mega pixel, HD, VGA and qVGA products, focusing on handset, laptop and tablet applications. We plan to release new sensor products this year to further strengthen our product portfolio and to penetrate into new markets such as TV Cam, PC Cam, drive recorder, surveillance and automotive applications. CMOS image sensor is and will continue to be a fast-growing area for us. While we are a new comer to the market, our sensors have been highly praised by many to have outperformed those offered by the incumbent players in terms of image quality. Consequently we have numerous design-wins from customers ranging from camera module makers, contract manufacturers to system integrators with world leading brand names. 2011 was the year when we put our name clearly in the map. We are confident that 2012 will be a year of strong sales growth in this product area.

We expect our touch panel controller to be the next bright spot for our non-driver products. In the fourth quarter, we started to ship our multi-finger capacitive touch controllers to a world-leading smartphone maker. With our proven product quality and first-tier customer shipping record, we are confident that we will continue to gain more new customers in the future. We are now working closely with several touch panel makers and a few leading handset and tablet PC brand names. We will also leverage our leading market share in the small- and medium-panel drivers and solid customer relationships we have built over the years for the long term success in this fast growing segment.

We made solid shipments for LCOS panels last year, mainly from cellphone-embedded PICO projector sales into third world countries as well as sales for certain toy and educational applications. We remain committed to the long term development of LCOS micro display and its new applications. We achieved major technology breakthroughs in both color and brightness performance for our proprietary color-filter type LCOS panel last year. We are particularly excited about certain projects we are working on with a number of top-tier customers in developing brand new applications using our LCOS panels. We typically receive development fees for such tailor-made products.

We achieved very strong sales growth for our LED driver product line last year. With promising new design-wins across customers in Taiwan, Japan and China, we are looking forward to another year of phenomenal growth this year. We also launched our integrated power management ICs for panels last year and have since won quite a number of new projects from tier one customers – many of them praised the robustness of our products. Mass production has commenced during this quarter. Again, we are excited about the strong sales prospect for this new product line this year.

We decided to reposition our TV and monitor chipset team at the end of last year. We stopped the development of our integrated TV chipset and turned the team's focus into providing solutions for customers who need sophisticated, tailor-made video processing ICs. We have had some exciting early successes in the engagement of such customers. We will continue to maintain our monitor scaler business and strengthen our product line there by offering high value added scalers such as one with 3D function. As part of the repositioning, we transferred some of the manpower internally at the end of last year to enhance our driver IC and touch panel controller teams. By stopping new TV chipset development and transferring manpower internally, we will be able to cut our expenses significantly while better utilizing our resources. Our goal is to turn this business with substantial historical losses to profitability soon.

Q1 Guidance

In the first quarter, we expect a mid-single-digit decline in our revenues compared to the last quarter with gross margin being flat or down slightly. Given that the first quarter has fewer working days due to Chinese New Year and that it is a cyclically low season, we believe it will be the bottom of the year in terms of sales. GAAP earnings attributable to shareholders per ADS are expected to be in the range of 3 to 4 cents per ADS based on 172 million outstanding ADSs. The guided EPS improvement against the last quarter reflects our expectation that the effective income tax rate would be back to a more normal level versus the unusually high level of the last quarter, as explained earlier.

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.

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 upcoming earnings call in early May. Thank you.