Himax Technologies, Inc. Q2 2014 Unaudited Financials and Investor Update Call

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Moderator/Speaker Dial-In Numbers (for Scott Powell, Jordan Wu, Jackie Chang and Steven Lin): 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: 8/07/14 Eastern Daylight Savings Time To: 8/14/14 at 11:59 p.m. Eastern Daylight Savings Time Replay Pin Number: 13586400

Operator: Opening and standard introduction.

Scott Powell: Thank you, operator. Welcome everyone to Himax's second quarter 2014 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. If you have not yet received a copy of today's results release, please call PCG Advisory Group, LLC at 1-646-780-8850, or 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; the uncertainty of continued success in technological innovations; and other operational and market challenges 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, 2013 filed with SEC as amended.

Except for the Company's full year of 2013 financials which were provided on the Company's 20-F, filed with the SEC on April 15, 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. 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…….

Q2 2014 Results

Mr. Jordan Wu: Thank you Scott and thank you everybody for being with us for today's call. In today's earnings call, in addition to reporting our performance in the second quarter, I will also highlight key milestones we achieved through the first seven months of the year. I will then provide our outlook for the third quarter of 2014 and comment on a few product area of focus. Our CFO, Jackie Chang, will also provide additional details on our financial performance.

Our 2014 second quarter revenues, gross margin, GAAP and non-GAAP earnings per diluted ADS all met our guidance for the quarter. For the second quarter, we reported net revenues of $196.4 million with a gross margin of 24.2%. Second quarter GAAP earnings per diluted ADS were 14.0 cents and non-GAAP earnings per diluted ADS were 14.2 cents.

Our second quarter revenues of $196.4 million represented a 5.1% decrease from the second quarter of 2013 and a 0.9% sequential increase from the first quarter of 2014.

Revenues from large panel display drivers were $50.8 million, down 21.1% from a year ago and up 4.5% sequentially. Large panel driver IC accounted for 25.9% of our total revenues for the second quarter, compared to 31.1% a year ago and 25.0% in the last quarter. As anticipated, the sequential increase was a result of shipments to both new and existing customers.

Sales for small and medium-sized drivers came in at $107.0 million, down 3.5% from the same period last year and down 3.5% sequentially. Driver ICs for small and medium-sized applications accounted for 54.5% of total revenues for the second quarter as compared to 53.6% a year ago and 56.9% in the previous quarter. Small and medium-sized driver's sales continue to account for over half of total revenues. The slight sequential decrease was mainly due to the inventory correction from our key Korean end customer, an issue we have foreseen and mentioned in our last earnings call.

Revenues from our non-driver businesses were $38.6 million, up 21.6% from the same period last year and up 9.7% sequentially. Non-driver products accounted for 19.6% of total revenues, as compared to 15.3% a year ago and 18.1% in the previous quarter. Of our non-driver business segment, the main contributors included our CMOS image sensor, timing controllers, programmable gamma OP, touch panel controllers, power management ICs and ASIC service.

Our GAAP gross margin for the second quarter of 2014 was 24.2%, a 40 basis point decrease from 24.6% a year earlier and a 50 basis point decrease from 24.7% in the previous quarter. We guided for a slightly declined gross margin in the last earnings call, anticipating pricing competition in China's smartphone market. Plus, shipment of low-end CMOS image sensor also had some negative impact on gross margin in Q2. Although we expect more sales from higher end CMOS image sensor and smartphone driver IC in Q3, pricing remains competitive.

Our GAAP net income for the second quarter was $24.1 million, or 14.0 cents per diluted ADS, compared to $19.4 million, or 11.2 cents per diluted ADS, for the same period last year, and $15.7 million, or 9.1 cents per diluted ADS, in the previous quarter. GAAP net income grew 24.6% year over year and up 53.4% from the previous quarter. The increase was mainly the result of an investment gain of $10.7 million, or 5.0 cents in the second quarter as we disclosed in April. As many of you have already seen in our PR issued on April 29th, we disposed of an investment in a US display company, which was wholly acquired by a third party. The initial investment of $4.0 million, which was made in December 2013, has matured to a total of $12.4 million one-time investment gain. Per our disposal agreement, we booked $10.7 million in investment income on the second quarter, and the remaining amount will be accounted in or around April 2015. This one-time gain of $10.7 million contributed to 5.0 cents of GAAP EPS attributable to shareholders for the second quarter.

Jackie Chang, our CFO, will now provide more details on our financial results for the quarter. After Jackie's presentation, we will further elaborate on our thoughts on the second quarter results, detail our 2014 outlook and then provide third quarter 2014 guidance.

Jackie……

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

Our GAAP operating expenses were $29.0 million in Q2 2014, up 6.8% from a year ago and stay around flat to the previous quarter. Operating expenses increased from the previous year due to higher salary expenses for additional headcount, annual pay raises and certain new product tape-outs during the quarter.

GAAP operating income for the second quarter of 2014 was $18.4 million, or 9.4% of sales, down 22.4% year over year and down 3.5% sequentially. The year-over-year decline was mainly due to lower sales and higher operating expenses.

Non-GAAP net income in the second quarter was $24.5 million, or 14.2 cents per diluted ADS, representing an increase of 21.9% year over year and an increase of 51.0% sequentially. Non-GAAP EPS per diluted ADS grew 21.8% from the same period last year and grew 51.1% over the previous quarter. Again, the increase was mainly due to the investment gain of $10.7 million.

Our cash, cash equivalents and marketable securities were $172.9 million at the end of June, up from $147.1 million at the same time last year and up from $139.7 million a quarter ago. On top of the above cash position, restricted cash was $108.4 million at the end of the quarter. The restricted cash is mainly used to guarantee the company’s short term loan for the same amount. We continue to maintain a strong balance sheet, and we remind investors that we remain a debt-free company.

Inventories as of June 30, 2014 were $166.3 million, up from $142.9 million a year ago and down from $172.3 million as of March 31, 2014. The lower inventory was a result of increased shipments in the quarter. We expect the inventory level to continue to decline by the end of the third quarter. Accounts receivable at the end of June 2014 were $199.0 million as compared to $219.2 million a year ago and $204.5 million last quarter. DSO was 92 days at end of June, 2014, as compared to 104 days a year ago and 95 days at end of the last quarter.

Net cash inflow from operating activities for the second quarter was $22.9 million as compared to cash outflow of $2.7 million for the second quarter of 2013 and cash inflow of $9.3 million for the first quarter of 2014. The improvement year over year was mainly due to lower accounts receivable and improved DSO. The sequential increase was mainly the reflection of lower inventories and accounts receivable at the end of this quarter.

Net cash inflow from investing activities for the second quarter was $8.5 million, primarily resulting from capital expenditures of $3.8 million and disposal of investment of $14.7 million. Capital expenditures in the second quarter were principally for purchases of in-house testers for R&D and certain equipment for LCOS production line.

During the second quarter, we declared our annual cash dividend of 27 cents per ADS, totaling $46.0 million. The dividends were already paid out in July. Our dividend is determined primarily by the prior year's profitability. Our decision to pay out 75% of last year's net profit demonstrates our continued support for our shareholder base and confidence in our long term profitability.

As of June 30, 2014, Himax had 170.5 million ADS outstanding, unchanged from the last quarter. On a fully diluted basis, the total number of ADS outstanding is 172.1 million.

I will now turn the floor back to Jordan.

Q3 2014 Outlook Introduction…..

Mr. Jordan Wu: Thank you, Jackie. Our Q2 operational result was not as strong as those of the past years mostly due to a significant inventory correction of a major Korean end customer, as we reported during our last earnings call. However, as we entered into the third quarter, we are seeing strong growth in all of our product segments, including large panel driver ICs, small and medium driver ICs and non-driver IC businesses. We are also seeing demand from our major Korean end customer rebounding strongly. I will further elaborate on all of the above.

For the third quarter, in our **large panel driver IC** business, we see driver ICs for TVs being the main growth product in this segment. This will be the first quarter that sales from large panel driver IC enjoy a year-over-year growth since Q4, 2012. The forces behind growth in the large panel IC segment include strong sequential demand from Innolux, accelerated growth from the Taiwanese and Korean customers we recently brought on, Chinese TV panel customers' continuously expanding capacity, and, more 4K TV displays rolling off production lines at literally all of our large panel customers. We anticipated in our last few earnings calls that 4K

TV penetration and acceptance would grow strongly this year. We now expect our driver IC shipments for 4K TV to more than double in Q3. We expect this growth trend to continue beyond Q3 2014 and well into 2015. While the large panel sector remains a competitive and mature market, innovation enables us to continue pursuing new technologies and expanding our customer base. We are happy that our large panel driver business has resumed growth starting this quarter. We are confident that this marks the beginning of a long term growth trend which is to last for the next few years.

The other main segment in our driver business is ICs used in **small and medium-sized panels,** which are primarily used in smartphones, tablets and for automotive applications. Q3 sales from smartphones should rebound strongly from those of Q2 mainly as a result of the demand from our Korean end-customer is coming back from last quarter’s unusually low level. We also enjoy strong growth in the Chinese smartphone market, especially in the higher end segments. Although competition remains intense, HIMAX continues to command a leading share in small and medium-sized driver IC market. We launched a new generation of driver ICs for HD720 resolution, the current mainstream market for higher end smartphones, and have enjoyed numerous design-wins in China and elsewhere.

Included in the small and medium-sized panel IC are also drivers for tablet and automotive displays. We expect sequential declines for tablets in the third quarter due to slowing demand in China’s white-box market caused by its recent sluggish export to the third world countries and the government’s tightening of liquidity, a measure that is forcing smaller and weaker players out of the market. Q3’s slower tablet demand may also be a matter of change of consumer behavior as some consumers are switching to buy smartphones with screen sizes close to those of tablets. We are seeing the demand for driver ICs used in automotive displays continuing its steady growth during the third quarter. Summing it up, the decline in tablet demand will be more than offset by the strong rebound in the smartphone sector so the overall small and medium-sized driver segment is expected to enjoy a high single digit growth compared to the previous quarter. We remain positive on the outlook of this segment for the remainder of 2014.

The non-driver businesses remain our most promising product category in terms of growth in the second half of 2014 and into 2015. It is also the key differentiator for us versus many of our competitors. Quite a few of our non-driver products, especially CMOS image sensors, touch panel controllers, and timing controllers are set to grow significantly in Q3. The non-driver business category is expected to grow by close to 20% sequentially in Q3, and we see the momentum continuing well into 2015.

I would now highlight some of our non-driver products. Our CMOS image sensors delivered another strong quarter in Q2, up over 20% sequentially. Our existing 2 and 5 megapixel CMOS image sensors are producing good sales from select international brands and Chinese white-box customers. However, we are experiencing some delay in design-in process with our customers to replace older generation sensors with new designs. Such delays will have a negative impact on our corporate gross margin.

We expect our 8 megapixel sensors to start small volume shipments from Q3. The 8 megapixel sensor products will contribute to sales growth and better gross margin as they enter mass production. We recently launched our first 13 megapixel sensor, which positions us among a small group of players with such high end offering. Additionally, following multi-year design efforts, we now have a competitive CMOS image sensor product line for automotive and surveillance applications, both large, lucrative and fast-growing markets. This is a market with a high entry barrier where special know-how is required. Collectively, we expect the CMOS image sensor business to more than double in 2014.

Our current strategy for the CMOS image sensor business is to focus on increasing shipments and gaining market share. The gross margin for this business will improve when we successfully replace certain old generation designs with new ones and the higher end products, initially 8 megapixel, and then 13 megapixel products, comprise a larger portion of our revenue mix. Looking further ahead, the contribution from sensors for automotives and surveillance applications will further improve the gross margin of this product line.

Our touch panel controller product line looks set to enjoy another significant growth in Q3 after it more than doubled in Q2. We expect our strong growth momentum in touch panel controllers to continue in the second half of 2014 as a result of certain major design-wins across both international and Chinese markets. On the back of our rapidly growing market share in the traditional touch panel market, we believe our committed development on the new 'in-cell' and 'on-cell' touch panel technologies has placed us in a very competitive position for the future. The development of both new ‘in-cell’ and ‘on-cell’ touch panel technologies are led by TFT-LCD makers and we are in close partnerships with some of the leading players in this very important future technology.

As many of you know, our LCOS business has been very exciting, and also very dynamic. We continue to work with multiple customers, including some top-notch names, on multiple designs simultaneously. Many of these projects involve custom-built designs that are funded by our customers’ development fees.

After a lengthy cooperation and research and development period, we are pleased to be able to announce publicly that Himax and Lenovo are also partners for wearable device products. Himax is supplying LCOS micro displays for a variety of Lenovo’s products. Please note that this disclosure has been authorized and approved by Lenovo.

Furthermore, in June we unveiled the Front-Lit™ LCOS technology, our latest, proprietary and patented LCOS offering. We presented the cutting-edge design for the first time to the public at The SID Display Week Conference in San Diego. The new design represents one of the biggest technology breakthroughs of the head-mounted display industry. Our proprietary Front-Lit™ LCOS module enables an ultra-compact and extremely power-efficient optical engine by consolidating two major components of optical engine and integrating them into the micro display module itself. Presently, we are engaged with multiple tier-one customers in developing head mounted display products using our Front-Lit™ LCOS technologies. After testing several competing technologies, these tier-one customers selected Himax’s Front-Lit

LCOS due to its superior overall performance.

We believe our LCOS microdisplay business remains an exciting and significant long-term growth area for Himax.

Last but not least, we have been working with several industry leading partners using our unique and industry-leading wafer level optics, or WLO, for the development of three exciting product areas of the future, namely array cameras, certain special purpose sensors and microdisplay light guides for wearable devices. Such development sometimes involves the capabilities of our in-house CMOS image sensor, LCOS microdisplay and video processing algorithm teams. Himax is in a unique position in these exciting new technology areas in that we are the only player in the marketplace which is able to provide a total solution. We are excited to be in the forefront of such technological developments thanks to many years of technological innovation which leads to a unique product portfolio covering the full range of image processing related knowhow.

As you can see, we are accelerating our R&D activities, hoping to capture the exciting business opportunities I just mentioned as soon as we can. Operating expenses in the third quarter are expected to increase some 20% year over year mainly as a result of accelerating R&D. This is in line with the strategy we set forth last year when, during a few of our earnings call, we indicated that we intended to expand our R&D expenses in 2014, following several years of stable R&D spending. While this will inevitably affect our short-term bottom line, we believe such R&D investment will generate significant top line and bottom line growth starting next year.

Q3 Guidance

For our Q3 guidance, we expect the third quarter revenues to grow 10%-15% sequentially. Gross margin is expected to be slightly up from the previous quarter depending upon the final product mix. GAAP earnings attributable to shareholders are expected to be in the range of 6.0 to 7.5 cents per diluted ADS based on 171.8 million fully-diluted ADSs. Non-GAAP earnings attributable to shareholders are expected to be in the range of 10.2 to 11.7 cents per diluted ADS based on the same number of ADSs.

As we have done in the past, our third quarter GAAP earnings per diluted ADS guidance has taken into account our expected 2014 grant of restricted share units, or RSUs, to our team at the end of September. The 2014 RSUs, subject to our Board approval, is now assumed to be valued in the range of $14.0 to $15.0 million, of which approximately 58% will be vested and expensed immediately on September 30th, the grant date. Excluding this share-based compensation and acquisition-related charges, our third quarter 2014 non-GAAP earnings attributable to shareholders are expected to be between 10.2 cents to 11.7 cents per diluted ADS based on 171.8 million fully-diluted ADSs.

Thank you for your interest in Himax. We appreciate your joining today's call. We are now ready to take your questions.

OPERATOR TO QUEUE QUESTIONS

Jordan's closing remarks

Thank you everyone for taking the time to join today's call. As a final note, Jackie Chang, our CFO, will attend investor conferences in September. We will announce the details as they come about. Please contact our IR department and/or Scott Powell if you are interested in meeting with us in person. Thanks again and have a nice day.