Himax Technologies, Inc. Q3 2014 Unaudited Financials and Investor Update Call

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Moderator/Speaker Dial-In Numbers (for Scott Powell, Jordan Wu, Jackie Chang and Nadiya Chen): 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: 11/13/14 Eastern Standard Time To: 11/20/14 at 11:59 p.m. Eastern Standard Time Replay Pin Number: 13593468

Operator: Opening and standard introduction.

Scott Powell: Thank you, operator. Welcome everyone to Himax's third 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…….

Q3 2014 Results

Mr. Jordan Wu: Thank you Scott and thank you everybody for being with us for today's call. As usual, I will provide some preliminary review on our third quarter, then discuss our outlook for the fourth quarter of the year and then I will also comment on a few product areas of focus. Our CFO, Jackie Chang, will also provide additional details on our financial performance.

I am pleased to report that our 2014 third quarter revenues, gross margin, GAAP and non-GAAP earnings per diluted ADS all met our guidance for the quarter. For the third quarter, we reported net revenues of $222.3 million with a gross margin of 24.5%. Third quarter GAAP earnings per diluted ADS were 6.5 cents and non-GAAP earnings per diluted ADS were 11.1 cents.

Our third quarter revenues of $222.3 million represented a 15.3% increase from the same quarter last year and a 13.2% increase from the previous quarter. The third quarter revenues were the highest since the fourth quarter of 2008. Equally important to the sales growth is the mix of revenues, which are a lot more diversified than before. The non-driver products accounted for 21.5% of our total revenues in the third quarter of 2014 versus just 5.1% in 2008. Likewise, the drivers for small and medium size panels represented 51% of the third quarter revenues, as opposed to just 16.7% in 2008.

Revenues from large panel display drivers were $61.2 million, up 6.1% from a year ago and up 20.5% sequentially. Large panel driver IC accounted for 27.5% of our total revenues for the third quarter, compared to 29.9% a year ago and 25.9% in the last quarter. This is the first quarter when sales from large panel driver IC enjoyed a year-over-year growth since Q1, 2013. We are happy that our large panel driver business has resumed growth starting this quarter as a result of increasing shipment for both new and existing customers.

Sales for small and medium-sized drivers came in at $113.3 million, up 12.8% from the same period last year and up 5.9% sequentially. Driver ICs for small and medium-sized applications accounted for 51.0% of total revenues for the third quarter as compared to 52.1% a year ago and 54.5% in the previous quarter. Driver IC sales for smartphones rebounded strongly from those of Q2 mainly as a result of the demand from our Korean end-customer coming back from last quarter's unusually low level. We also enjoyed strong growth in Chinese smartphone market, especially in the higher end segments. However, as expected, this growth was offset by the sequential decline for tablets due to slowing demand in China's white-box market and stagnant tablet market in general.

Revenues from our non-driver businesses were $47.8 million, up 37.9% from the same period last year and up 23.8% sequentially. Non-driver products accounted for

21.5% of total revenues, as compared to 18.0% a year ago and 19.6% in the previous quarter. Our non-driver product sales reached another record high in terms of both absolute value and percentage of total revenues. CMOS image sensor, touch panel controllers, timing controllers and power management ICs were the main contributors to the growth of non-driver product segment. I will discuss more on some of these product areas a bit later.

Our GAAP gross margin for the third quarter of 2014 was 24.5%, down from 25.3% a year earlier and up from 24.2% in the previous quarter. We guided for a slightly improved gross margin in the last earnings call, anticipating benefit from better product mix, including higher resolution CMOS image sensor, high end smartphone driver ICs, and certain NRE incomes.

GAAP operating expenses were $41.8 million in Q3 2014, up 22.0% from a year ago and up 44.1% from the previous quarter. The significant sequential increase was caused by the higher RSU expense in the third quarter. As an annual practice, we provide annual bonus compensation to employees at the end of September each year which always leads to a substantial increase in the third quarter GAAP operating expenses compared to the other quarters of the year. This year, the annual bonus compensation, including shares and cash payout, totaled $15.1 million which is in line with what we indicated in providing the guidance. However, $9.3 million of the total RSUs was vested and expensed in the third quarter of 2014, a bit higher than the $8.7 million that we assumed in coming up with the EPS guidance. The difference of $0.5 million represents 0.3 cents of earnings per diluted ADS. Therefore, the Q3 EPS came in at low end of the guided range. Jackie will add more details on this later.

Excluding the RSU charge, our third quarter operating expenses were $32.5 million, up 22.6% from the same quarter 2013 and up 12.1% from the previous quarter. The increase was related to higher salary expenses caused by additional engineering headcount and annual salary raises and more new project tape-outs. This is in line with the repeated indications we made earlier that we intended to expand our R&D team to capture the increasing business opportunities.

Despite significant increase in operating expenses, our operations remained robust. Excluding RSU charges, non-GAAP operating income for the third quarter of 2014 was $22.8 million, or 10.2% of sales, up 20.1% from the previous quarter and down 3.4% compared to the same period last year.

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 third quarter results, detail our 2014 outlook and then provide fourth quarter 2014 guidance.

Jackie……

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

GAAP operating income for the third quarter of 2014 was $12.6 million, or 5.7% of sales, down 13.1%, compared to the same period last year and down 31.9% from the previous quarter. As Jordan mentioned earlier, the sequential decline was mainly a result of the higher RSU expense in the third quarter.

Our GAAP net income for the third quarter was $11.1 million, or 6.5 cents per diluted ADS, compared to $12.3 million, or 7.2 cents per diluted ADS, for the same period last year, and $24.1 million, or 14.0 cents per diluted ADS, in the previous quarter. GAAP net income declined 9.2% year over year and was down 53.8% from the previous quarter. The year over year decline was a result of higher operating expenses. The sequential profit decline, on the other hand, was caused mainly by a $10.7 million one-time gain booked in Q2 for disposal of an investment, on top of the higher RSU charge in the third quarter as mentioned before. GAAP EPS per diluted ADS declined 9.3% from the same period last year and declined 53.7% over the previous quarter.

Excluding share-based compensation and acquisition-related charges, non-GAAP net income was $19.1 million, or 11.1 cents per diluted ADS. This represents a decline of 0.9% year over year, and a decline of 21.8% sequentially. Again, the sequential decline was mainly due to the investment gain of $10.7 million booked in the last quarter. Excluding the aforementioned one-time investment gain, non-GAAP net income for the third quarter of 2014 grew 20.3% sequentially.

Our cash, cash equivalents and marketable securities were $147.7 million at the end of September, up from $133.9 million at the same time last year and down from

$172.9 million a quarter ago. We made a cash RSU payment of $9.3 million and a dividend of $46.0 million during the quarter. On top of the above cash position, restricted cash was $140.5 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 September 30, 2014 were $157.1 million, down from $159.6 million a year ago and down from $166.3 million as of June 30, 2014. The lower inventory was a result of increased shipments in the quarter. We expect inventory to be at about the same level by year end. Accounts receivable at the end of September 2014 were $218.8 million as compared to $202.2 million a year ago and $199.0 million last quarter. DSO was 97 days at the end of September, 2014, as compared to 96 days a year ago and 92 days at end of the last quarter. The sequential increase of DSO was due to higher driver IC sales for large panel customers who tend to have longer credit terms.

Net cash inflow from operating activities for the third quarter was $22.8 million as compared to $26.2 million for the third quarter of 2013 and $22.9 million for the second quarter of 2014. Cumulative cash inflow from operating activities through the third quarter was $55.0 million as compared to $52.9 million in 2013. We expect to generate a substantial net cash inflow from operations in 2014.

Capital expenditures were $2.1 million in the third quarter versus $3.8 million a year ago and $3.8 million last quarter, bringing the total capital expenditures to $8.5

million through the first three quarters of 2014 as compared to $14.5 million a year ago. We purchased less CP testers this year, resulting in the differential in capital expenditure.

As of September 30, 2014, Himax had 171.2 million of ADS outstanding, little changed from the last quarter. On a fully diluted basis, the total ADS outstanding is 171.8 million.

Looking ahead, we'd like to point out that our fourth quarter EPS guidance, which Jordan will provide in a few minutes, has taken into account an adjustment of additional $1.5 million, or 0.87 cent per diluted ADS, of income tax charge. This is to reflect the impact of NT dollar depreciation against the US dollar so far this year. While we make timely adjustments, when deemed necessary, to reflect the effect of NTD/USD exchange fluctuation on our taxation, It is our usual practice to make final adjustments in the fourth quarter for the whole year. As of November 10, the NTD stood at 30.55 against the USD, significantly depreciated against the 29.805 at the beginning of the year. This would lead to approximately $2.3 million more income tax charge for us than otherwise. As we have already made approximately $0.8 million, or 0.44 cent per diluted ADS, of adjustment previously, we are now providing another $1.5 million, or 0.87 cent per diluted ADS, of additional income tax charge during the fourth quarter, assuming the exchange rate at the end year stands at exactly the same level as that of today. Obviously, the final outcome will depend on the actual exchange rate at the end of the year.

We would like to emphasize that the exchange rate has very little effect on our margins and operating results as we maintain vast majority of our cash, conduct all our buy and sale activities, and keep our books all in US dollar. The only major impact it does have is on our effective income tax. This is because we pay literally all our taxes in Taiwan where the tax authorities determine our taxation based on our NT dollar dominated ROC GAAP accounting. In general, as NT dollar depreciates against US dollar, as is the case this year and especially starting from mid-September, we are worse off in our US GAAP effective tax rate and vice versa. We choose to maintain natural hedge in our operational activities as we believe it minimizes the overall exchange rate impact over time.

I will now turn the floor back to Jordan.

Q4 2014 Outlook Introduction…..

Mr. Jordan Wu: Thank you, Jackie. Our Q3 operational result was in line with our guidance made in the previous earnings call. Business recovered from Q2 mainly as a result of strong rebound from our Korean end-customer, exciting growth of 4K2K TV, and our non-driver products.

The fourth quarter is typically a low season for semiconductor and we do see many of our semiconductor peers guiding conservatively for the quarter. Nevertheless, we are seeing business slightly above typical seasonal level. Our overall sales for the second half 2014 is still looking strong compared to the first half and definitely so relative to the same period last year. We expect the growth momentum of the second half will continue into 2015. However, we do see Q4 revenue and gross margin being constrained by shortage in foundry capacity. It is now difficult to meet short lead time demands on 8” wafers. Himax has foreseen this coming since more than a few quarters ago, and has been proactively adding new supply partners to secure more capacity. It has been a long and challenging process but we are confident that such strategic planning will position us well with a more stable and diversified supply chain as we enter into 2015.

Our **large panel driver IC** business in the fourth quarter will remain stable. Fourth quarter is expected to be the second consecutive quarter when sales from large panel driver ICs achieve year-over-year growth since Q1, 2013. We see driver IC sales for 4K TVs being the strongest area in this segment. As we expected, 4K TV penetration has increased greatly in 2014. However, seasonal adjustment in inventory from various customers in the fourth quarter will temporarily slow down the pace of growth.

Despite inventory adjustment and the fact that the large panel driver IC market remains competitive and seasoned, our capability to provide total solution covering sophisticated timing controller and driver IC positions us very well in the 4K TV market. For example, 4K TV requires point to point high-speed interface between timing controller and driver IC. We are one of the very few houses offering an in-house solution. The capability has led to business wins from customers who adopt our interface as their standard. We are also in partnerships with customers using their own interfaces where we stand out for being able to provide reliable, flexible and timely engineering support. We believe this total solution approach represents a high barrier of entry for many of our competitors as 4K TV continues to proliferate.

The total solution approach is also valuable for customers in ultra slim notebook products. In their recently launched YOGA 2, a multi-mode laptop/tablet with a 13.3" screen, Lenovo came to Himax for a total solution of timing controller and driver IC, which is consigned to their various panel vendors. Thanks to our leading technology and comprehensive customer coverage, we are confident that we are at the beginning of a long term growth trend for our large panel driver products, a trend which should last for the next few years.

Let's now turn to our driver ICs used in small and medium-sized panels, which are primarily used in smartphones, tablets and for automotive applications. Fourth quarter sales for smartphones are likely to remain stable from our primary Korean client and we anticipate the same from the Chinese market. In the short term, China smartphone market is slowing down mainly as a result of change in government policy, which has led to substantially reduced subsidy from cell phone operators. We expect China market to regain momentum by 2015 as retail, ecommerce, and direct sales point channels gradually replace operators as sales channel for smartphones. We also expect more shipment to the third world countries by China's phone makers, which will also contribute to demand growth for next year.

Switching gear, we expect to experience sequential sales decline for tablets in the fourth quarter, the second quarter in a row, which is attributed to lower demand both from China's branded and white-box markets. The weakening tablet demand is mainly a result of recent slowing China exports to the third world countries and the Chinese government's credit tightening policy, an action that is pushing some smaller and less resourceful companies out of the market. The declining demand might be a result of changing consumer behavior as some consumers are moving to smartphones with screen sizes similar to those of smaller sized tablets. Meanwhile, demand for driver ICs used in automotive displays appears to stay flat in Q4.

The non-driver business segment provides our most exciting long-term growth prospect. It is also the key differentiator for us against many of our competitors. Non-driver businesses experienced solid growth in Q3, accounting for 21.5% of total revenues, another record high. Compared to the same period last year, it grew 37.9%. Sales of many of our non-driver products, especially CMOS image sensors and touch panel controllers will deliver strong growth in the fourth quarter, while the rest of the products may be affected by seasonality and, in some areas, capacity constraint. Overall, the non-driver business category will enjoy approximately 35% growth for the whole of 2014. We expect this momentum to continue into 2015. I will now highlight some of the specific non-driver areas.

Revenues from CMOS image sensors continued to show strength in the third quarter, increasing more than 20% from the previous quarter. Sales of the 2 and 5 megapixel products were particularly strong, mainly due to demands from certain international brands as well as Chinese white-box customers. However, we saw some delays in certain customers' replacing older generation sensors with lower cost new designs. This did have some impact on our gross margin.

As expected, our 8 megapixel CMOS image sensors began small volume sales in the third quarter. As you know, 8-megapixel camera has become the mainstream design for smartphones. We are starting to accelerate our sales of 8 megapixel sensors in Q4 2014. We also launched our first 13 megapixel sensor during the fourth quarter. We anticipate 8 megapixel CMOS image sensors to continue to be the mainstream in 2015, and 13 megapixel the rising star in high end smartphones. This puts Himax firmly in the map as one of a handful of companies capable of offering a comprehensive product portfolio for main cameras of smartphones.

In addition to the afore-mentioned consumer applications, we are also developing CMOS image sensors for non-consumer applications, which typically enjoy higher margins and have less intensive competition. For example, following years of efforts, we now have a competitive CMOS image sensor product line for automotive and surveillance applications, both large, lucrative and fast-growing markets. We will start early shipment to a Korean automotive end customer shortly. Collectively, we expect our CMOS image sensor business to more than double in 2014, making us a fast rising player in the market. As we increase sensor sales for automotive and surveillance applications and continue to turn the balk of our CMOS image sensor sales from 2 and 5 megapixels to higher margin 8 and 13 megapixels, we expect CMOS image sensor business to accelerate in 2015, allowing us to improve corporate gross margin.

Our touch panel controller product line continued to enjoy phenomenal growth in Q3, increasing 20% sequentially. The sales of touch panel controllers more than doubled for the nine months ended September 30. We expect the strong growth momentum to continue in the fourth quarter as a result of several 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 in new in-cell and on-cell touch panel technologies have placed us in a leading position for the future. These new touch panel technologies are being driven by leading TFT-LCD makers and we are in close partnerships with many of them in this very promising future technology. We have been working closely with multiple customers in their in-cell touch panel development. We expect the market to see major launches of this new technology very soon and we will be an integral partner in making this a reality.

Regarding our LCOS business, we continue to work with our existing customers, as well as some exciting new tier 1 customers. We are working with them on multiple designs simultaneously, many of which involve custom-built designs that are funded by our customers' development fees.

As mentioned previously, we unveiled the Front-Lit™ LCOS technology, our latest, proprietary and patented LCOS offering. 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 key components of optical engines and integrating them into the micro display module itself.

I'd now like to address the one topic that the investor community cares very much about, which is Google's decision not to exercise its investment option in our subsidiary, Himax Display Inc, which we announced on Oct. 21st. In our announcement for Google's decision, we also stated that we were authorized by

Google to make the following statement: “Google continues to work closely with Himax as a strategic partner on future technologies and products and will remain a board observer.” This strong message from Google demonstrates the continued close partnership of the two companies, despite of Google’s decision not to exercise its investment option. The ongoing development and collaboration between Google and HDI validates our LCOS technology as the most superior and best suited microdisplay for head-mounted devices such as Google Glass.

Finally, we continue to partner with various industry leading companies using our cutting edge and industry-dominant wafer level optics, or WLO, for the development of three technologies of the future, namely, array camera, special purpose sensors and microdisplay light guides for head-mounted devices. This product development often requires adoption of our internal CMOS image sensor, LCOS microdisplay and video processing algorithm teams. Himax sits in a leading and unique position with respect to these exciting new technologies and we are the only company in the industry which is able to offer such a one-stop total solution. To meet the anticipated demand growth for LCOS and WLO products, we are working on new plans to expand our production capacity. We will report the progress in due course.

As stated in several of our previous earnings calls, we will continue to increase R&D spending in the fourth quarter in order to quickly capture several areas of new business opportunities in front of us. We expect the fourth quarter operating expenses to be the highest among all quarters of the year as certain new high-end product tape-outs are taking place within the quarter in both driver and non-driver areas. Last but not least, we also remain positive with respect to our business outlook for 2015 when we expect both revenue and earnings growth to continue.

Q4 Guidance

While the fourth quarter is traditionally a low season, we expect revenues of this year's Q4 to be flat to slightly up compared to the third quarter of 2014. Gross margin is expected to be down within 1% from the previous quarter depending upon the final product mix. GAAP earnings attributable to shareholders are expected to be in the range of 7.5 to 9.2 cents per diluted ADS based on 172.2 million outstanding ADSs. Non-GAAP earnings attributable to shareholders are expected to be in the range of 7.8 to 9.5 cents per diluted ADS based on 172.2 million outstanding 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 December and January. 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.