Himax Technologies, Inc. Q2 2012 Unaudited Financials and Investor Update Call

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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: 08/09/12 To: 08/16/12 at 11:59 pm Eastern Time Replay Pin Number: 398094

Operator Intro: Welcome to Himax Technologies' second 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 second 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…….

Q2 2012 Results

Mr. Jordan Wu: Thank you John and thank you everybody for being with us for today's call. In this earnings call, in addition to reporting our performance for the second quarter, I will also summarize key growth drivers and highlight milestones we have achieved so far in the first half of 2012. I will then provide our outlook for the third quarter 2012 and outline our strategic focus areas for the rest of 2012. Our CFO, Jackie Chang, will provide further details on our financial performance**.**

We issued our second quarter earnings press release yesterday. Q2 revenues came in at $189.5 million while gross margin was 23.1% and GAAP earnings per ADS were 8.9 cents, mapped with what we stated in the preliminary results issued on July 9th. These strong results reflect further progress we have made across our organization.

Starting with our sales performance, second quarter revenues of $189.5 million represented 18.0% growth year-over-year and 13.7% increase sequentially. Strong sales in our small and medium-sized drivers and non-driver ICs remained the top contributors to our revenue growth. Our sales to non-related parties increased an impressive 36.5% year over year and grew 21.9% sequentially.

Revenues from large panel display drivers were $79.7 million, up 4.3% from a year ago and also increased 11.7% sequentially. Large panel drivers accounted for 42.1% of our total revenues for the second quarter, compared to 47.6% a year ago and 42.8% in the previous quarter. The sales increase was mainly due to the growing sales to the panel customers in China. Thanks to the new capacity ramp currently underway in China, we anticipate this positive trend to continue in the second half of 2012.

Sales of small and medium-sized applications came in at $83.8 million, up 34.7% from the same period last year and up 15.8% sequentially. The growth was mainly a result of strong sales in a number of fast-growing product segments including smartphones, automotive and tablets. Sales for smartphone driver ICs, particularly those to the China market, were particularly robust. Our small and medium-sized driver sales totaled $83.8 million for the second quarter, a record high in our history.

Revenues from our non-driver businesses were $26.0 million, an increase of 18.4% from the same period last year and up 13.2% sequentially. Non-driver product revenues accounted for 13.7% of total revenues, as compared to 13.7% a year ago and 13.8% in the previous quarter.

We were able to deliver a decent growth for our non-driver revenues as a whole in Q2. Touch panel controllers, power management ICs, CMOS image sensors and wafer level optics were among the non-driver products which delivered outstanding sequential growth. Whereas, LCOS microdisplay and TV chipset units saw revenue declines both sequentially and year over year as both product lines were undergoing business repositioning. I will elaborate on some of these product areas a bit later after Jackie's remarks our financials.

Revenues from related parties in the second quarter 2012 remained flat from the previous quarter. Overall sales from related parties continued to decline as a percentage of our total sales, reflecting strength in our non-large panel driver businesses. Related party sales were 33.4% of total sales in Q2, as compared to 42.4% a year ago and 37.9% in the previous quarter. We continued to transform our product mix and expand our reach to other customers. 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 second quarter was 23.1%, a 450 basis-point improvement compared to 18.6% a year earlier and a 20 basis-point improvement from 22.9% in the previous quarter. This is the third consecutive quarter of gross margin improvement and the highest level since the fourth quarter of 2008. This increase in our gross margin is a direct result of a richer mix of higher margin products. Continued gross margin improvement will remain one of our main focuses.

For the second quarter, GAAP net income was $15.1 million, or 8.9 cents per ADS, compared to $3.6 million, or 2.0 cents per ADS, in the corresponding quarter a year ago and $11.3 million, or 6.6 cents per ADS, in the first quarter of 2012. GAAP Net Income grew 316.8% year over year and 33.5% quarter over quarter. GAAP EPS per ADS grew 342.5% from the same period last year and 34.7% over the previous quarter.

In summary, we are pleased with our second quarter performance where we achieved both top and bottom line growth. This signifies the success we have achieved for more balanced sales from various product lines and a more diversified customer base. In addition, we delivered strong growth in our higher margin products and kept our operating expenses under control. All of these factors resulted in substantial improvements in our bottom line profitability. We are confident that Himax is heading in the right direction to achieve additional improvements for the balance of 2012 and beyond.

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

Jackie……

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

Our GAAP operating expenses were $23.5 million in Q2 2012, down 11.2% from $26.5 million a year ago and down 0.6% from $23.7 million in the first quarter of 2012.

GAAP operating income for the second quarter of 2012 was $20.2 million, or 10.7% of sales, up $16.8 million, or 492.3%, as compared to $3.4 million, or 2.1% of sales, during the same period in 2011 and up $5.7 million, or 39.7%, from $14.5 million, or 8.7% of sales, in the previous quarter.

Non-GAAP net income in the second quarter was $15.9 million, or 9.3 cents per diluted ADS, up from $5.0 million, or 2.8 cents per ADS, for the same period last year, and up from $12.1 million, or 7.1 cents per ADS, in the previous quarter. Non-GAAP net income for the second quarter 2012 grew 216.8% over the same period last year and 31.1% over first quarter of 2012.

Our cash, cash equivalents and marketable securities available for sale were $103.2 million at the end of June, little changed from $104.1 million for the same period last year and $102.1 million a quarter ago.

Inventories at the end of June were $139.2 million, up from $124.4 million a year ago and up from $118.5 million a quarter ago. The increase in inventory from last quarter is primarily because some customer orders originally scheduled for shipment toward the end of Q2 got pushed back to the third quarter. Accounts receivables at the end of June were $212.9 million as compared to $179.3 million a year ago and $189.0 million last quarter. DSOs were 109 days at end of June, 2012 compared to 108 days last year and 103 days at end of the last quarter. The DSO increase over the last quarter was attributed to increased sales from large panel customers in China who, like large panel customers elsewhere, are granted slightly longer payment terms.

Net cash inflow from operating activities for the second quarter was $3.2 million, which consists of net income before depreciation and amortizations of $18.1 million, offset by increase in receivables, inventory and trade and tax payables.

We spent approximately $1.0 million in capital expenditures in the second quarter versus $8.7 million a year ago and $1.6 million last quarter, bringing the total capital expenditures to $2.6 million in the first six months of 2012.

On June 11th, we declared a cash dividend of 6.3 cents per ADS, totaling $10.7 million, for 2011, paid out on July 25, 2012. This pay-out is consistent with our cash dividend policy, which has always been based primarily on our prior year's profitability. The decision to pay out 100% of our last year's net profit signifies our board's confidence in the positive business outlook for 2012.

With regards to our $25 million dollars share buyback program, we have purchased a total of $12.3 million, or approximately 8.9 million ADS, through June 30, 2012, including $1.14 million or approximately 0.6 million ADS purchased in Q2 2012. As of June 30, 2012, Himax had 169.5 million outstanding equivalent ADSs. We will continue to execute the remaining share repurchase program in accordance with Rule 10b-18.

Before I turn the floor back to Jordan, let me quickly summarize our financial results for the six months ended June 30, 2012.

Revenues were $356.2 million and gross profits were $81.8 million, representing growth of 18.1% and 40.6% over the first half of 2011 respectively. Our gross margin increased to 23.0%, up from 19.3% in the same period last year, a 370 basis-point improvement.

Our GAAP operating expenses were $47.2 million for the first six months 2012, down $5.1 million or 9.7% from $52.3 million for the same period 2011. The significant reduction was due to a better overall cost control and the reduction in the ramp-up costs for production of WLO, WLM and LCOS products at Himax's dedicated factories for these product lines.

Operating income of $34.7 million represented a 482.4% increase from the first half of 2011. The improvement in operating income was mainly the result of gross margin expansion and cost control measures discussed earlier.

GAAP net income for the first half was $26.4 million, or 15.4 cents per diluted ADS, up from $6.3 million, or 3.6 cents per ADS, for the same period last year. GAAP net income for the first half of 2012 grew 316.2% over the same period last year.

Non-GAAP net income for the first half was $28.1 million, or 16.4 cents per diluted ADS, up from $9.2 million, or 5.1 cents per ADS, for the same period last year. Non-GAAP net income for the first half of 2012 grew 206.6% over the same period last year.

All of the above are strong indications that our overall business has come out from the trough of last year. The management is committed to continuing the improvement of our overall financial performance.

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

Mr. Jordan Wu: Thank you Jackie. I will now discuss each of our major business segments in greater detail.

I'll start with now our largest business segment, small and medium-sized drivers. Thanks to our leading technology and strong execution, we have enjoyed a phenomenal growth in this product category for quite some time. It has not only lifted our overall sales, but also contributed to the diversification of our revenues. As recent as Q4 2009, small and medium-sized drivers' quarterly sales were only $37.7 million, or 21.1% of our total sales at the time. In comparison, they were $83.8 million in Q2 this year, or 44.2% of total revenues. In particular, smartphone applications have delivered the strongest growth since the third quarter of last year, mainly due to our successful penetration into the first tier brands in China.

We remain bullish on the growth prospects of the smartphone segment, having had recent successful new product launches and project wins from leading smartphones brands across China and internationally. However, we do foresee our smartphone driver growth momentum slowing down in the third quarter with sales expected to remain flat from those of the second quarter. Our main clientele in China, many of them leaders in higher end market, are experiencing competitive pressure from second-tier and white-box players who are launching numerous entry level phones, dubbed by some "pseudo smartphones", to penetrate the marketplace. While the existing first tier customers will continue to be our area of focus, we intend to regain our growth momentum by actively improving our engagement with China's second tier handset manufacturers.

Beyond handsets, our numerous design-wins in tablet, notebook and automotive display applications also contributed to growth in the second quarter. These products will continue to produce noteworthy shipments in the second half of this year.

We experienced second quarter growth in the large panel business in all large panel product categories mainly thanks to the growth from panel manufacturer customers in China who expanded their capacity and increased their capacity utilization. We expect the growth trend in China to continue through the remainder of 2012. Large panel display drivers remain one of our long-term focuses, and we intend to commit additional R&D investments in this business.

I mentioned earlier that there were highs and lows in the performance of our non-driver areas in the second quarter. I will now highlight those key areas and share with you about where we are and our strategy going forward.

I'll start with CMOS image sensor. We delivered a decent sales growth in CMOS image sensor in the second quarter thanks to some early shipments of our 1 mega-pixel products which were taken by customers to manufacture the new generation notebook PCs with the Windows 8 operating system. As many of you are aware, 1 mega-pixel, or HD, sensor is replacing the 300,000-pixel VGA sensor to become the mainstream for notebook PCs after Windows 8. However, with the delay of Windows 8 launch from Q3 to Q4, we are seeing a sudden and drastic demand slow-down for our 1 mega-pixel sensor during Q3. Given our design-wins with a number of tier-one notebook names, we expect such demands to resume in Q4 and accelerate in next year, assuming Windows 8 is launched in Q4 as most people now expect.

Our multi-finger capacitive touch panel controllers have been growing very nicely since we shipped our first product in the last quarter of 2011. We have seen increasing orders for various panel size smartphones and expanded our share in the existing leading smartphone brand customer. Additionally, we have secured design-wins from new handset customers to begin shipments in the third quarter of 2012. We believe touch panel controller is a long-term growth engine for Himax.

I mentioned earlier that two of our non-driver product segments are undergoing business repositioning, namely LCOS microdisplay and TV chipset. Our original focus for LCOS microdisplay, namely embedded pico projector in handphone, has proven premature with sales peaking in the second quarter of last year and declining ever since. We are now shifting the focus of our LCOS microdisplay business to a new application, head-mounted display. It is a new and exciting product area with a great deal of potential and is an application where we believe our technology is superior to other competing technologies. In addition to head-mounted display, we are still working with numerous partners to create new pico projector applications using our LCOS microdisplays.

We talked about the repositioning of our TV chipset business in one of our previous earnings calls. Basically, starting the second half of last year, we exited the integrated TV chipset business and switched our focus to the provision of two product lines: (1) comprehensive and competitive monitor and projector scaler products and (2) tailor-made video processing IC solutions and silicon IPs. We are extremely encouraged by our early success with the engagements of several top-tier brand customers who need such tailor-made ICs to create differentiation for their end products. While such engagements have generated immediate development fee incomes, overall short-term revenues for this business are lower due to lost revenues from the TV chipset product line which we have exited. The lost revenues will be more than recovered once some of these tailor-made ICs start mass production next year.

For the reasons above, we do foresee some decline in our non-driver business as a whole in the third quarter. However, we expect it will regain its upward momentum starting Q4 and going forward. We remain confident that the non-driver businesses still represent our long-term growth engine.

Q3 Guidance

For the third quarter of 2012, we anticipate revenue to be around flat compared to the second quarter of 2012, gross margins to be slightly up and GAAP net income attributable to shareholders to be between 4 cents to 6.5 cents per diluted ADS based on 169.6 million outstanding ADSs, about 10 to 16.3 times compared to the same period last year.

Our third quarter GAAP earnings per diluted ADS guidance has taken into account our expected 2012 grant of restricted share units, or RSUs, to our team at the end of September. The 2012 RSUs, subject to Himax's Board approval, is now assumed to be valued in the range of $11 to $12 million, of which approximately 60% will be vested and expensed immediately on the grant date. Excluding share-based compensation and acquisition-related charges, our third quarter 2012 non-GAAP earnings are expected to be between 8 cents to 10.5 cents per diluted ADS based on 169.6 million outstanding ADSs, about 3 to 3.9 times compared to the same period last year.

Our cumulative GAAP net income per diluted ADS through the third quarter 2012 is forecasted at 19.4 to 21.9 cents, about 5 to 5.6 times year over year. Our non-GAAP net income per diluted ADS through the third quarter 2012 is forecasted at 24.4 to 26.9 cents, about 3.1 to 3.4 times year over year.

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 November. As a final note, Jackie Chang, our CFO, will be on a non-deal road show in the U.S. in early September. Please contact her and/or John Mattio at MZ Group if you are interested in meeting with us in person. Thanks again and have a nice day.