Himax Technologies, Inc. Q2 2013 Unaudited Financials and Investor Update Call

Conference Details: Confirmation #: 418538 Call Length: 1 hour Lines: 100 Conference Date: 08/15/13 Conference Start Time: 8:00 a.m. Eastern Daylight Savings Time Pre-Record Message: No Moderator: JOHN MATTIO	**Participant Dial-In Numbers:** TOLL-FREE 1-877-407-4018 TOLL/INTERNATIONAL 1-201-689-8471 CONFERENCE ID: 418538
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: 08/15/13 Eastern Daylight Savings Time To: 08/22/13 at 11:59 p.m. Eastern Daylight Savings Time Replay Pin Number: 418538

Operator: Opening and standard introduction.

John Mattio: Thank you, operator. Welcome everyone to Himax's second quarter 2013 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, 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, 2012 filed with SEC as amended.

Except for the Company's full year of 2012 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…….

<u>Q2 2013 Results</u>

Mr. Jordan Wu: Thank you John and thank you everybody for being with us for today's call. We have some exciting developments to report.

As usual, I will provide some preliminary review on our second quarter and then discuss our outlook for the third quarter 2013. I will also comment on a few product areas of focus. Our CFO, Jackie Chang, will then provide further details on our financial performance and the sale of Himax stocks by Innolux Corporation.

I am pleased to report that our second quarter revenues, gross margin, GAAP and non-GAAP earnings per diluted ADS all met the guidance. For the second quarter, we reported net revenues of $207.0 million with gross margin of 24.6%. Second quarter GAAP earnings per diluted ADS were 11.2 cents and non-GAAP earnings per diluted ADS were 11.7 cents, both coming in at the upper end of our earnings guidance. These positive performances are a result of our diversification of customer base and expansion of product portfolio to more exciting and high growth areas of small and medium-sized driver and non-driver businesses.

Our second quarter revenues of $207.0 million represented a 9.2% increase from $189.5 million in the second quarter of 2012 and a 17.8% increase from $175.7 million in the previous quarter of this year. Our second quarter revenues were the highest since the fourth quarter of 2008.

Revenues from large panel display drivers were $64.3 million, down 19.3% from a year ago and up 7.0% sequentially. Large panel driver ICs accounted for 31.1% of our total revenues for the second quarter, compared to 42.1% a year ago and 34.2% in the last quarter. The sequential increase was mainly a result of seasonal demand for TV panels. The year-over-year decrease was caused by reduced sales to Innolux, a formerly related party. Among all our large-sized panel market regions, China continued to show impressive growth both sequentially and year over year.

Sales for small and medium-sized drivers came in at $110.9 million, up 32.3% from the same period last year and up 21.5% sequentially. As a segment, driver ICs for small and medium-sized applications accounted for 53.6% of total revenues for the second quarter as compared to 44.2% a year ago and 51.9% in the previous quarter. Our small and medium-sized driver sales reached another record high in terms of both absolute value and percentage of total revenues, thanks mainly to the fast-growing smartphone sector that has become our single largest source of revenue. This is the second consecutive quarter for our small and medium-sized driver sales to account for over half of total revenues in our history. The sales increase was a result of the robust sales from the smartphone sector as mentioned, but also tablet and automotive display applications which all grew substantially during the second quarter both sequentially and year over year.

Revenues from the non-driver businesses were $31.8 million, up 22.3% from the same period last year and up 30.4% sequentially. Non-driver product revenues accounted for 15.3% of total revenues, also a record high, as compared to 13.7% a year ago and 13.9% in the previous quarter. CMOS image sensors, wafer level optics, LCOS microdisplay, ASIC services and power management ICs were among the non-driver products which delivered outstanding growth. I will discuss more on some of these product areas a bit later.

Innolux disposed of its entire equity holding in Himax on June 19th, 2013, thereby ending its status as a related party. We therefore give you two set of figures for the second quarter related party sales. By counting the sales to Innolux only up to June 19th, the related party sales accounted for 20.6% of total sales in the second quarter. However, on a comparable basis, the sales to Innolux in the second quarter accounted for 25.0% of total sales, compared to 33.4% a year ago and 25.0% in the previous quarter. Going forward, Innolux is no longer a related party. Jackie will provide more details of the transaction a bit later

Our GAAP gross margin for the second quarter of 2013 was 24.6%, a 150 basis point improvement from 23.1% a year earlier and a slight increase from the previous quarter. This is the seventh consecutive quarter of gross margin improvement and the highest gross margin level since the third quarter of 2008. The trend in our margin expansion is a direct result of better product mix. Gross margin improvement will continue to be one of our major business goals going forward.

Our GAAP net income for the second quarter was $19.4 million, or 11.2 cents per diluted ADS, up from $15.1 million, or 8.9 cents per diluted ADS, for the same period last year, and up from $14.0 million, or 8.2 cents per diluted ADS, in the previous quarter. GAAP net income grew 28.1% year over year and 37.9% from the previous quarter. GAAP EPS per diluted ADS grew 27.0% from the same period last year and 37.5% over the previous quarter.

In summary, we are pleased with our second quarter performance where we achieved significant top and bottom line growth. We will continue to execute our strategy and are excited about growth opportunities going forward.

Jackie Chang, our CFO, will now provide more details on our financial results. After Jackie's presentation, we will further discuss outlook for the third quarter of the year and our third quarter 2013 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 $27.2 million in Q2 2013, up 15.6% from a year ago and up 2.8% from the previous quarter. The increase was mainly resulted from expenses related to salaries for R&D's new hires and new product developments.

GAAP operating income for the second quarter of 2013 was $ 23.7 million, or 11.5% of sales, up 17.5%, compared to the same period last year and up 41.7%, from the previous quarter.

Non-GAAP net income in the second quarter was $20.1 million, or 11.7 cents per diluted ADS, up from $15.9 million, or 9.3 cents per diluted ADS, for the same period last year, and up from $15.0 million, or 8.8 cents, per diluted ADS, in the previous quarter. Non-GAAP net income represents a growth of 26.1% year over year and a growth of 33.8% as compared to the previous quarter. Non-GAAP EPS per diluted ADS grew 25.6% from the same period last year and 33.4% over the previous quarter.

Our cash, cash equivalents and marketable securities were $147.1 million at the end of June, 2013, a significant increase from $103.2 million at the same time last year and slightly down from $158.9 million a quarter ago. The decrease is related to free cashflow of which I will provide more details shortly. On top of the above cash position, restricted cash was $74.1 million at the end of the quarter, up from $63 million during the same period last year and no changes compared to the last quarter.

The restricted cash is mainly used to guarantee the company's short term loan for the same amount. We continue to maintain a very strong balance sheet with no debt.

Inventories as of June 30, 2013 were $142.9 million, up from $139.2 million a year ago and up from $138.3 million a quarter ago. Accounts receivable at the end of June were $219.2 million as compared to $212.9 million a year ago and $189.9 million last quarter. DSO was 104 days at end of June, 2013, as compared to 109 days a year ago and 97 days at end of the last quarter. The DSO increase was attributed to increased sales quarter over quarter from large panel customers who are granted extended payment terms.

Net cash outflow from operating activities for the second quarter was $2.7 million. The net outflow is mainly due to difference in AR and AP terms. We raised the inventory level at the end of the first quarter in prepared for the expected increase of shipments during the second quarter. While we had to pay for those goods in the second quarter, we will not get paid for our sales until the third quarter. We expect to generate a substantial net cash inflow from operations in 2013.

Net cash used in investment activities in the second quarter includes capital expenditures of $6.0 million and a guarantee of $2.9 million provided by our LCOS subsidiary for R&D grant from the government. In comparison, capital expenditures were $1.0 million a year ago and $4.7 million last quarter. The guarantee for the government will be returned to us upon the completion of the R&D project. The capital expenditure in the second quarter consisted mainly of purchases of in-house testers for driver IC, R&D design tools and LCOS manufacturing equipments. While we outsource the majority of our driver IC testing, we have always maintained a certain level of in-house testing facility for the purpose of both R&D and mass production.

During the second quarter, we declared our annual cash dividend of 25 cents per ADS, totaling $42.4 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 83.3% of last year's net profit signifies our confidence in the business outlook of 2013.

As of June 30, 2013, Himax had 169.6 million ADS equivalents outstanding, unchanged from the last quarter.

On June 10, 2013, Innolux Corporation, then a 14.98% equity shareholder, announced its plan to dispose of its entire stake in Himax through a marketed offering. The transaction was successfully priced at $5.25 per ADS on June 13 and the syndicate exercised its 15% greenshoe option on June 19. Innolux raised a total of $133 million gross proceeds. Following the completion of the transaction, Mr. Tien-Jen Lin, Innolux's appointed representative, resigned from Himax's board of directors. This was effective on June 28, 2013. The transaction only involved selling of existing shares and therefore did not result in any dilution in our outstanding shares. We should also point out that our public float was significantly increased to 68.3% from 53.3% previously. The shares were placed mainly to broad-based high-quality institutional investors.

Before I turn the floor back to Jordan, let me quickly summarize our financial results for the six months ended June 30, 2013.

Revenues were $382.7 million and gross profits were $94.1 million, representing growth of 7.4% and 15.0% over the first half of 2012 respectively. Our gross margin increased to 24.6%, a 160 basis point improvement from the same period last year.

Our GAAP operating expenses were $53.6 million for the first six months of 2013, up 13.7% for the same period in 2012. The increase was mainly resulted from higher expenses related to salaries for R&D new hires and product developments.

Operating income of $40.5 million represented a 16.8% increase from the first half of 2012. The improvement in operating income was mainly the result of higher sales and gross margin expansion which was however somewhat offset by higher R&D expenses.

GAAP net income for the first half of 2013 was $33.4 million, or 19.4 cents per diluted ADS, up from $26.4 million, or 15.4 cents per diluted ADS, for the same period last year. GAAP net income for the first half of 2013 grew 26.4% over the same period last year. GAAP EPS per diluted ADS for the first half of 2013 grew 25.9% from the same period last year.

Non-GAAP net income for the first half of 2013 was $35.1 million, or 20.4 cents per diluted ADS, up from $28.1 million, or 16.4 cents per diluted ADS, for the same period last year. Non-GAAP net income for the first half of 2013 grew 25.0% over the same period last year. Non-GAAP EPS per diluted ADS for the first half of 2013 grew 24.6% from the same period last year.

Net cash inflow from operating activities for the first half of 2013 was $26.7 million as compared to $6.8 million for the same period of 2012.

I will now turn the floor back to Jordan.

Q3 2013 Outlook

Mr. Jordan Wu: Thank you, Jackie. We are pleased with our second quarter result where we achieved record-high sales in terms of both absolute value and percentage of sales in two of our focused growth areas – small and medium panel driver IC and non-driver products. However, we are seeing a short-term slowdown ahead of us in the third quarter, for which I will elaborate further shortly. In addition to the Innolux clean-out equity sale in Q2, which Jackie just covered, another major event was Google's investment in Himax Display, our LCOS microdisplay subsidiary, which took place in July. I will also talk about that a bit later.

Large panel driver's Q3 prospect looks sluggish due to the global weakening demands of TV and laptop. This was worsened by the termination of China government's TV subsidy program effective at the end of May. However, we believe that this is a temporary set-back and we are confident about the long-term growth prospect of driver IC in TV application, which remains one of our major business focuses. We have maintained a competitive position in the segment and will continue to pursue growth opportunities presented by China's continued expansion of their panel production capacity as well as potential new businesses from other major panel makers in Korea and Taiwan.

The short-term prospect of our small and medium-sized panel driver business is also softening. China market slowed down in June and July due to smartphone makers' model transitioning and the overall market's inventory correction. However, smartphone panel resolution continues to rise, which is a trend that has benefited our gross margin as we are among the leading players at the higher end of the market. In comparison, we are seeing intense price competition and margin pressure in the lower-end smartphone and feature phone markets - areas where we have lost some market share. Despite this market condition in smartphones, our small and medium sized driver IC's for tablet and automotive displays are yet growing strongly so far this year.

Our non-driver business enjoyed a 30.4% growth on a sequential basis in the second quarter. It remains our most promising product category in 2013 and beyond.

As we predicted in the last earnings call, CMOS image sensor product line rebounded strongly in Q2. It has become our single largest non-driver segment starting from Q2. The second quarter sales were boosted by shipments of our 1 mega-pixel sensor for tier-one laptop customers and growing demand for our 2 and 5 mega-pixel sensors from smartphone and tablet makers in China and internationally. Armed with a more complete product line including the newly-launched 8 megapixel sensor, we expect to break into new smartphone names in the second half of 2013 and continue to penetrate the tablet, IP Cam, surveillance and automotive markets. We are confident that CMOS image sensor will be a fast growing area for us going forward.

Our execution in the ASIC projects awarded last year was highly praised by our customers. Leveraging the track record, we have won new projects from both existing and new customers during Q2; all of them are leading international brands. These accomplishments validate our R&D capabilities and competiveness in this area. We are excited by this progress and expect this product line to generate more development fees which will improve our overall gross margin in 2013. Our ASIC service business line will enjoy a more stable revenue stream once the projects progress to the mass production stage.

For power management IC and LED driver, our sales have more than doubled in the first half of 2013 thanks to the shipments of a few new products for TV and monitor applications. We continue to expand our customer bases especially in China and Japan. We are also seeing rapid growth in China for our power management ICs used in the tablet market. We have also extended our product coverage to the LED lighting market.

On July 22nd, we announced the signing of an agreement under which Google would invest in Himax Display, Inc. ("HDI"), our LCOS subsidiary. The purpose of the investment is to fund production upgrades, capacity expansion and further enhancement of production capabilities at our LCOS fab. Such products are used in applications including head-mounted display such as Google Glass, head-up display and pico-projector. Upon closing, Google will hold a 6.3% interest in HDI. Google also has an option to make additional investment at the same price within one year from closing. If the option is exercised in full, Google will own a total of up to 14.8% in HDI. We hold 81.5% of HDI at present and will remain the major shareholder of HDI after the transaction. Google's investment in HDI will not have a dilutive effect on our Nasdaq-traded shares.

This investment signifies a strategic partnership that we formed with Google, a preeminent global technology leader. Beginning the second quarter of this year, we have already begun expanding and upgrading our LCOS capacity. This investment from Google further validates our commitment to developing breakthrough technologies and state-of-the-art production facilities for LCOS microdisplay. We look forward to leveraging this investment and our collective expertise with Google to create unique and transformational LCOS technologies for many years ahead. We believe the Google's investment will further solidify our long term growth prospect in microdisplay business.

We mentioned in our earlier conference calls that our LCOS microdisplays are applied by numerous customers and partners to create products targeting a wide range of applications. In addition to head-mounted display, such applications also include pico-projector, head-up-display for automotives, and projector for toy application. Our strategy is to maintain global leadership in microdisplay technology by working with multiple customers for multiple applications. We believe our LCOS microdisplay business will be one of the most important areas for Himax's long-term growth.

With all these new developments and a steady stream of design-wins for our non-driver products, we expect our non-driver businesses to grow strongly in Q3 2013 and beyond. As a result of all that I mentioned above, we expect our non-drivers' percentage of total sales will continue to increase as it further diversifies our customer base, improves gross margins and contributes to our profitability.

Q3 Guidance

Last but not least, some color on our Q3 guidance. The current market environment shows relatively poor visibility. We therefore give a wide range in our guidance for the quarter. For the third quarter, we expect a 5% to 12% decline in our revenues compared to the last quarter. Gross margin is expected to go slightly up from the previous quarter. GAAP earnings attributable to shareholders per diluted ADS are expected to be in the range of 6.5 to 8.0 cents per diluted ADS based on 171.6 million outstanding ADSs, 6.6% to 31.1% increase compared to the same period last year.

As we have done in the past, our third quarter GAAP earnings per diluted ADS guidance has taken into account our expected 2013 grant of restricted share units, or RSUs, to our team at the end of September. The 2013 RSUs, subject to our Board approval, is now assumed to be valued in the range of $13 to $14 million, of which approximately 55% will be vested and expensed immediately on September 30th, the grant date. Excluding this share-based compensation and acquisition-related charges, our third quarter 2013 non-GAAP earnings attributable to shareholders are expected to be between 10.2 cents to 11.7 cents per diluted ADS based on 171.6 million outstanding ADSs, about 5.2% to 20.6% increase compared to the same period last year.

Our cumulative GAAP net income per diluted ADS through the nine months of 2013 is projected to be in the range of 25.9 to 27.4 cents, 19.9% to 26.9% increase year over year. Our non-GAAP net income per diluted ADS is expected to be in the range of 30.7 to 32.2 cents, 17.6% to 23.4% increase year over year.

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 upcoming earnings call in early November. Jackie Chang, our CFO, will attend Oppenheimer's Conference in NYC and be on a non-deal road show in September. You can contact John Mattio at MZ Group or our IR department if you are interested in meeting with us in person. Thanks again and have a nice day.