Himax Technologies, Inc. Q1 2015 Unaudited Financials and Investor Update Call

Conference Details:	Participant Dial-In Numbers:
Confirmation #: 36840753 Call Length: 1 hour Lines: 100 Conference Date: 5/14/15 Conference Start Time: 8:00 a.m. Eastern Daylight Savings Time Pre-Record Message: No Moderator: Adam Holdsworth	TOLL-FREE 1-855-219-9220 TOLL/INTERNATIONAL 1-973-935-8720 CONFERENCE ID: 36840753
Moderator/Speaker Dial-In Numbers (for Adam Holdsworth, Jordan Wu, Jackie Chang and Nadiya Chen): TOLL-FREE 1-888 358 6205 TOLL/INTERNATIONAL 1- 973 935 8338	**Replay Dial-In Numbers:** TOLL-FREE 1-855-859-2056 TOLL/INTERNATIONAL 1-404-537-3406 From: 5/14/15 Eastern Daylight Savings Time To: 5/21/15 at 11:59 p.m. Eastern Daylight Savings Time Replay Pin Number: 36840753

Operator: Opening and standard introduction.

Adam Holdsworth: Thank you, operator. Welcome everyone to Himax's first quarter 2015 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 at 1-646-862-4607, or access the press release on financial portals, or 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, the state of the semiconductor industry; market acceptance and competitiveness of the driver and non-driver products developed by Himax; demand for end-use application products; the uncertainty of continued success in technological innovations; as well as 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, 2014 filed with SEC as amended.

Except for the Company's full year of 2014 financials which were provided in 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 accounting. Such financial information is generated internally and has not been subjected to the same review and scrutiny, including internal auditing procedures and external audits by an independent auditor, 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…….

Q1 2015 Results

Mr. Jordan Wu: Thank you Adam 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 first quarter, I will also provide our outlook for the second quarter of 2015 and update our product areas of focus for this year. Our CFO, Jackie Chang, will also provide additional details on our financial performance.

Our 2015 first quarter revenue, gross margin, GAAP and non-GAAP earnings per diluted ADS all met our guidance for the quarter. For the first quarter, we reported net revenue of $179.0 million with a gross margin of 25.7%. First quarter GAAP earnings per diluted ADS were 7.3 cents and non-GAAP earnings per diluted ADS were 7.6 cents, both within our guided range. As we warned in the previous earnings call, ongoing softness in China's smartphone and tablet markets, which was worsened by fewer working days due to the timing of Chinese New Year, dampened our first quarter performance and near term outlook. We will now review that in greater detail.

Our first quarter revenue of $179.0 million represented an 8.0% decrease from the first quarter of 2014 and a 21.2% sequential decrease from the fourth quarter of 2014.

Revenue from large panel display drivers was $57.6 million, which is an increase of 18.4% from the first quarter of 2014, and down 12.1% sequentially. Large panel driver IC accounted for 32.2% of our total revenue for the first quarter, compared to 25.0% a year ago and 28.8% in the last quarter. The year-over-year increase in total revenue was a result of market share gain, yet the sequential decrease was caused by a slow-down in notebook and monitor markets, and lower shipments of 4K TVs from our customers in this business segment.

Revenue for small and medium-sized drivers came in at $87.0 million, down 21.5% from the same period last year and down 24.2% sequentially. Driver IC revenue for small and medium-sized applications accounted for 48.6% of total sales for the first quarter, as compared to 56.9% a year ago, and 50.5% in the previous quarter. It is the first quarter that we saw substantial quarter-over-quarter and year-over-year decline in our small and medium-sized driver sales since the smartphone boom that lifted this segment in 2011. As we have forecasted since the third quarter of 2014, the small and medium driver IC weakness is particularly significant in China, and the overall market sentiment is low. China's smartphone vendors, lacking new government stimulus programs, have remained cautious as they are forced to try new sales channels such as e-commerce and direct sales points to replace the previous approach of selling through telecom operators. Although these new channels represent strong growth engine for the market in the future, they do not yet have the size to offset the loss in the telecom market. Another factor adding to current weakness is a significant decline in Chinese exports due to Chinese smartphone manufacturers' concerns that a strong RMB would further compress their already thin profit margins.

Revenue from our non-driver businesses were $34.4 million, down 2.2% from the same period last year and down 26.5% sequentially. Non-driver products accounted for 19.2% of total revenue, as compared to 18.1% a year ago, and 20.7% in the previous quarter. Within our non-driver business segment, the main contributors included our timing controllers, programmable gamma OP, touch panel controllers, CMOS image sensors, power management ICs, LCOS microdisplays, and ASIC services. As we reported in the last earnings call, many of the growth engines in our non-driver business segment were affected by weakness in the China market of all panel sizes, particularly in the smartphone and tablet segments, which resulted in the sequential decline.

Our GAAP gross margin for the first quarter of 2015 was 25.7%, a 100 basis point increase from the same period last year and from the previous quarter, both at 24.7%. Gross margin expansion came from lower revenue percentage of driver ICs used in China smartphones, yet it only met the low end of our guidance due to continuous price pressure.

Our GAAP net income for the first quarter of 2015 was $12.6 million, or 7.3 cents per diluted ADS, compared to $15.7 million, or 9.1 cents per diluted ADS, for the same period last year, and $15.6 million, or 9.1 cents per diluted ADS, in the previous quarter. GAAP net income declined 20.0% year-over-year and declined 19.6% from the previous quarter.

Jackie Chang, our CFO, will now provide more details on our financial results. After Jackie's presentation, we will further discuss our first quarter results and second quarter 2015 guidance.

Jackie……

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

Our GAAP operating expenses were $30.4 million in the first quarter of 2015, up 5.1% from the same period a year ago and down 9.0% from the previous quarter. Operating expenses increased from the first quarter of 2014 due to higher expenses for additional headcount to support our new projects and annual salary increases. The quarter-over-quarter operating expense decline reflected decreases in R&D expenses and allowances for bad debt.

GAAP operating income for the first quarter of 2015 was $15.6 million or 8.7% of revenue, down 18.1% year-over-year and down 30.9% sequentially. The decline was mainly due to lower sales in the quarter.

Non-GAAP net income in the first quarter was $13.1 million, or 7.6 cents per diluted ADS, representing a decline of 19.3% year-over-year and a decline of 18.9% sequentially. Non-GAAP earnings per diluted ADS declined 19.3% from the same period last year, and declined 19.0% over the previous quarter.

Our cash, cash equivalents, and marketable securities were $178.8 million at the end of March 2015, up from $139.7 million during the same time last year, and down from $187.8 million last quarter. In addition to our strong cash position, our restricted cash was $130.2 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 March 31, 2015 were $186.1 million, up from $172.3 million for the same period last year and up from $166.1 million last quarter. As mentioned in the last earnings call, we foresaw higher inventory as a move to counter foundry capacity constraints in 8" wafers, but expected customer restocking after the Chinese New Year and into the second quarter of 2015. The overall market weakness has resulted in less shipment in the quarter, thus, higher inventories. When market demand rebounds, we believe we will be able to decrease these inventory levels. Accounts receivable at the end of March, 2015 were $192.7 million, as compared to $204.5 million for the same period last year, and $219.4 million last quarter. DSO was 97 days at end of March 31, 2015, as compared to 95 days the same period a year ago and 95 days at end of the last quarter.

Net cash outflow from operating activities for the first quarter of 2015 was $3.7 million, as compared to cash inflow of $9.3 million for the first quarter of 2014, and cash inflow of $38.7 million for the fourth quarter of 2014. Both the year-over-year and sequential declines were mainly due to higher inventory and a decrease in accounts payable, offset by lower accounts receivable in the quarter.

Capital expenditures were $1.8 million during the first quarter of 2015 versus $2.7 million for the same period last year, and $2.4 million last quarter. Among other things, we expanded our clean room facilities for WLO product line during the quarter.

As of March 31, 2015, Himax had 171.2 million ADSs outstanding, unchanged from the last quarter. On a fully diluted basis, the total number of ADSs outstanding is 172.2 million.

I will now turn the floor back to Jordan.

Q2 2015 Outlook Introduction

Mr. Jordan Wu:

Thank you, Jackie. Following the soft overall market in the first quarter of 2015, the semiconductor industry and Himax will likely continue to feel pressure in the second quarter due to continuous weak demand in the China smartphone market. As a result, the second quarter revenue is unlikely to enjoy its usual rebound from the first quarter. Pressured by the poor market sentiment, our gross margin will decline during the quarter. Two additional factors that will impact gross margin negatively in the second quarter are a slight decline of non-driver products as a percentage of our total revenue and lower NRE (Non-Recurring Engineering) income. We expect non-driver sales percentage to rise again in the second half of the year.

As a semiconductor company, we are subjected to customer forecast fluctuations and changes in market conditions. We believe this is a normal occurrence in the industry that should not affect our long-term growth prospect. However, we remain focused on our diversified business model and long-term strategy.

Regardless of the near term performance, we continue to be committed to our long-term growth strategy. We have successfully implemented a multi-year plan to diversify our products and customer base. China panel manufacturer's aggressive capacity expansion across all panel sizes will also work in our favor. We also see further catalysts for growth in our CMOS image sensor, LCOS, and WLO businesses starting in the second half of this year, and we remain positive on the business outlook during this period. With that, I will now provide our second quarter guidance, followed by more detailed outlook for the second quarter.

Q2 Guidance:

For the second quarter of 2015, we expect revenue to be down 5 to 9% compared to the last quarter. Gross margin is expected to decrease about 2% from the previous quarter depending on the final product mix. GAAP earnings attributable to shareholders are expected to be in the range of 4.0 to 5.0 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 4.3 to 5.3 cents per diluted ADS based on 172.2 million outstanding ADSs.

Q2 2015 Outlook

Now let me provide you with some detail behind our guidance and trends that we see developing in our business segments. In our **large panel driver IC** business, TV applications will be the main growth area, partially offsetting the softness of those for notebooks and monitors. The forces behind growth in the TV application include our market share gains with several customers, sales of 4K TVs tracking better than the first quarter, and display manufacturing capacity expansion in China. We are confident that our large panel driver IC business will generate double-digit growth this year.

The other segment in our driver business are ICs used in **small and medium-sized panels** for applications including smartphones, tablets and automotive. We highlighted in our previous earnings call that we will be monitoring smartphone sell-through in China closely to see if a major rebound is on the horizon. Unfortunately, our Chinese customers did not see strong sell-through during the Chinese New Year and Labor Day holidays, and therefore we remain cautious in our short-term outlook for the smartphone market. As mentioned earlier, the China market is experiencing sluggish consumer demand in smartphones due to the lack of government subsidies and unfavorable macro factors such as the strong RMB that negatively affects exports. We believe these factors will continue to impact small and medium-sized panel driver ICs longer than the market has expected. Recent market statistics showed that the number of smartphone subscribers in China is growing at a slow single digit pace in 2015, and analysts are predicting flat year-over-year smartphone shipments in China for 2015.

Our smartphone IC business in China also suffered from the outcome of the recent competitive landscape where our main end customer base – the traditional leading local and Korean names, has been outcompeted by others. Our second quarter outlook is also affected as many of such end customers postponed their new model launches from the second quarter to the second half of the year. Regardless of the bearish market sentiment, we are working on three product areas which will fuel the next growth ride. Further resolution migration to QHD is raising the bar of driver IC design and display development for the industry. Our QHD driver IC shipment will start by the end of the second quarter and we believe this product transition is a promising trend for Himax with less intensive competition. On top of the expected resolution migration, we are also optimistic about the longer term contribution from two product areas, namely AMOLED driver IC and TDDI which integrates the driver and touch panel controllers into one. On the AMOLED driver IC front, we collaborate closely with multiple panel customers in Korea and China, some of which are likely to see meaningful volume starting early next year. AMOLED drivers require rather different know-how compared to those for the traditional TFT LCD displays and often need tailor-made design for each individual panel maker's special technical requirements. There are few competitors in this marketplace and we are well positioned, having been engaged by numerous existing and new AMOLED panel makers in their new panel developments. I will elaborate further on the TDDI opportunity a bit later.

For our driver ICs used in the tablet market, the tightening of credit from the Chinese government has resulted in business closures of some white-box tablet customers, which has resulted in a decline of 3 consecutive quarters, and we are now finally seeing this market improving in Q2. Our observations remain that the trends in the mainstream tablet market will be upgraded to 10” and above from the once popular sizes of 7” to 9” with higher resolutions, which is a favorable trend to the driver IC demand. However, its contribution to our sales will not be significant until 2016.

Among driver ICs used in small and medium-sized panels, the best performing category in 2015 are for automotive applications. We have successfully engaged key panel manufacturers and module houses for long-term partnerships. We anticipate Q2 sales to be slightly stronger than the same quarter last year, although we saw a slight decline sequentially versus Q1 of 2015. We expect this segment to continue to grow in the second half of 2015. Himax’s ICs are well recognized by numerous tier 1 automobile brands globally, thus we are well positioned to take advantage of this growing market.

So, compared to the previous quarter, our small and medium-sized driver segment will decline high single digit in the quarter sequentially.

On a side note, we would like to point out that on the backdrop of soft market demand, we are seeing gross margin pressure in driver ICs used in all panel sizes. However, we remain focused on margin expansion and continue to work on diversifying our products and customer base to achieve this.

For the past few years, our non-driver business segment has been our most exciting growth engine. However, as several main product areas of this segment share similar end markets with small and medium panel driver ICs, a temporary setback in the first and second quarter cannot be avoided this year and we are forecasting a high single digit decline for the quarter. With that said, as new product development evolves, we remain positive on the long-term growth prospect of our non-driver businesses.

Our touch panel controller product line declined approximately 20% sequentially in the first quarter. We anticipate the softness to be carried into the second quarter. While the discrete touch panel market is sluggish, we started to see our on-cell products making its way into several major end customers with new design-wins on track to start contributing to our top line in the third quarter. On top of that, we are also excited about our technological advances and product development progress in the latest pure in-cell technology, where we are one of the pioneers in offering one-chip solutions integrating driver IC and touch panel controllers, or TDDI. Driven by top-tier TFT-LCD makers, the industry is moving towards pure in-cell panels, which is set to start mass production in the second half of this year. We are in partnership with essentially all of the leading panel manufacturers in pure in-cell touch for joint technological development, and feel there is a strong market for these products ahead.

Our CMOS image sensors also experienced a down quarter since 4G smartphone adoption in China remained weak. The lack of smartphone replacement demand hurt the shipments of our high end product offerings. We are optimistic of the possibility of securing significant design-wins in the second half of the year with our 8-megapixel and 13-megapixel sensors.

Regarding our LCOS business, Himax continues to collaborate with industry heavy weights on tailor made head mounted display designs, and we remain enthusiastic about the products in the pipeline. These products incorporate our LCOS technology and are truly revolutionary in nature with breakthrough capabilities. Our team continues to push technological limits to new levels and integrate key components to our LCOS modules. As an integral component provider of head-mounted displays, we stand by our customers as they work on designs for this next generation product segment. Recently, our LCOS team has been very busy, gearing up for early stage pilot production for some of our top tier customers in their new head mounted devices.

Furthermore, we continue to partner with numerous industry leading players using our cutting edge and industry-dominant wafer level optics, or WLO, for the development of three technologies of the future, namely array cameras, special purpose sensors, and microdisplay wave-guides for head-mounted displays. As our top-tier customers begin to mass produce products embedding these new technologies, Himax, being in the heart of that supply chain, should benefit significantly. To meet the anticipated demand for our LCOS and WLO products, we started to expand our production capacity in Q1 2015. We will report our progress in due course. However, we would like to remind investors that we believe, like HMD, while WLO can enable cutting edge products, such products are early stage in nature. Himax, along with our partners, are pioneers in these technologies and are committed to bring them into commercialization.

As you may have already seen in our press release issued on May 11th, we are pleased to announce that our annual cash dividend will be 30 cents per ADS in 2015, totaling $51.4 million. The dividends will be paid out in July. Our dividend is determined primarily by the prior year's profitability. Our decision to pay out 77.5% of last year's net profit demonstrates our continued support for our shareholder base and confidence in our long-term profitability.

Thank you for your interest in Himax. We appreciate you joining today's call and are now ready to take 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 maintain investor marketing activities and attend future investor conferences in the U.S. We will announce the details as they come about. Please contact our IR department and/or Adam Holdsworth if you are interested in speaking with Management and taking meetings with the Company. Thanks again and have a nice day.