Himax Technologies, Inc. 2Q 2016 Unaudited

Financials and Investor Update Call

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Moderator/Speaker Dial-In Numbers (for John Mattio, Jordan Wu, Jackie Chang and Nadiya Chen): Leader Dial in 1 720 634 2980 Leader Dial in - Toll Free 1 855 842 5904 Leader Passcode: 29519799 **Direct URL to Live Call Console** http://www.leaderview.com/leaderview/la.jsp Conference ID number: 48151364 Web PIN: 1069	**Replay Dial-In Numbers:** TOLL-FREE: 1-855-859-2056 TOLL/INTERNATIONAL: 1-404-537-3406 From: 8/11/16 EDT To: 8/18/16 at 11:59 p.m. EDT Replay Pin Number: **48151364**

Operator: Opening and standard introduction.

John Mattio: Thank you, operator. Welcome everyone to Himax's second quarter 2016 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 Lamnia International 1-203-885-1058, 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, 2015 filed with SEC in April, 2016.

Except for the Company's full year of 2015 financials which were provided in the Company's 20-F, filed with the SEC on April 13, 2016 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.

I will now turn the call over to Mr. Wu. Jordan – the floor is yours.

Q2 2016 Results

Mr. Jordan Wu: Thank you John and thank you everybody for being with us for our earnings call, on which we will detail results from the second quarter 2016, and provide our third quarter 2016 guidance and outlook. Our CFO, Jackie Chang, will give further specifics on our financial performance after my overview.

We are pleased to begin by saying our revenues, gross margin and EPS for the quarter were as pre-announced on July 5th. For the second quarter, we reported net revenues of $201.1 million with a gross margin of 26.1%, both reaching the high end of our guidance while GAAP earnings per diluted ADS came in at 11.5 cents, exceeding our guidance.

The second quarter revenues of $201.1 million represented an 11.5% sequential increase and an 18.8% increase year-over-year. The sequential growth was due mostly to strong sales in small and medium-sized driver IC, mainly increased order flow from our Chinese smartphone customer base and their demand for higher

resolution display drivers. Accelerating AR related business from our leading US customer also contributed to the second quarter growth.

Revenue from the large panel display drivers was $67.5 million, up 2.8% sequentially, and up 24.4% from a year ago. Large panel driver ICs accounted for 33.6% of our total revenues for the second quarter, compared to 36.4% in the last quarter and 32.1% a year ago. As opposed to original guidance of high-single-digit sequential growth, our large panel driver business grew just low-single-digit due to a certain customer's short-noticed adjustment of production plan for its monitor products. Without the last minute change, we could have achieved high-single-digit sequential growth that we guided. Despite the lower than expected sales mentioned above, our large panel products actually enjoyed close to 25% year-over-year growth mainly thanks to strong demands from Chinese panel customers with 4K TV still the major growth engine. In China, our driver IC business for large panel almost doubled year-over-year during the quarter. In comparison, worldwide large-size TFT-LCD panel shipments declined around 3% in the same period, according to market research firm IHS. It is especially worth highlighting that our engineering collaboration and design-in activities with large panel customers across China, Taiwan and Korea all remain robust and we expect these trends to continue throughout the year.

Revenue for small and medium-sized drivers came in at $90.6 million, up 14.0% sequentially and up 9.4% from the same period last year. Driver ICs for small and medium-sized applications accounted for 45.0% of total sales for the second quarter, as compared to 44.1% in the previous quarter and 48.9% a year ago. Sales into

smartphones were especially robust, up more than 30% sequentially and close to 25% year-over-year. We have the most comprehensive coverage of leading Chinese smartphone names and their growing market share has led to our good result this quarter. Additionally, driver ICs for tablets also resumed growth following several quarters of decline, thanks to new product launches from several leading brand customers in the US and Korea.

Revenues from our non-driver businesses were $43.0 million, up 22.1% sequentially and up 33.6% from the same period last year. Non-driver products accounted for 21.4% of total revenues, as compared to 19.5% in the previous quarter and 19.0% a year ago. The sequential growth was driven mainly by the LCOS and WLO shipments for AR application. Other product lines such as touch panel controller, power IC, ASIC and NRE incomes also enjoyed sequential growth. The performance of LCOS and WLO was phenomenal, increasing several folds year-over-year as our major customer started producing its AR product. The growth was, however, partially offset by the decline of programmable gamma OP and CMOS image sensors. I will discuss more on some of these product areas a bit later.

Our GAAP gross margin for the second quarter was 26.1%, around flat from the previous quarter and up 230 basis points from the same period last year. We have been able to maintain a relatively strong margin mainly thanks to a more favorable product mix in small and medium-sized driver ICs and higher engineering fees from AR/VR new project engagements. Our gross margin expansion was also a testament

to our cost reduction measures. Gross margin improvement remains one of our business focuses.

Our GAAP net income for the second quarter was $19.8 million, or 11.5 cents per diluted ADS, compared to $13.1 million, or 7.6 cents per diluted ADS, in the previous quarter and $8.8 million, or 5.1 cents per diluted ADS, a year ago. GAAP net income increased 51.2% quarter-over-quarter and 124.0% year-over-year, respectively. GAAP EPS exceeded our 8.5 to 10.5 cents guided range.

The sequential and year-over-year profit increase was a combination of higher revenue and much improved gross margin, together with lower operating expenses.

Jackie Chang, our CFO, will now provide more details on our financial results. After Jackie's presentation, we will discuss about the third quarter guidance and insight on our business, markets and strategies going forward.

Jackie……

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

GAAP operating expenses were $30.6 million in the second quarter of 2016, down 4.4% from the preceding quarter and little changed from a year ago. GAAP operating margin for the second quarter of 2016 improved to 10.9% from 5.2% for the same

period last year and 8.4% a quarter ago. The GAAP operating income increased 44.3% sequentially and 146.8% year-over-year.

Second quarter non-GAAP operating income, which excludes share-based compensation and acquisition-related charges, was $22.4 million, up 42.8% sequentially and up 133.5% from the same quarter of 2015.

Second quarter non-GAAP net income was $20.2 million, or 11.7 cents per diluted ADS, compared to $13.5 million last quarter and $9.3 million the same period last year.

Turning to our balance sheet, our cash, cash equivalents and marketable securities were $179.3 million as of the end of June 2016, compared to $164.5 million at the same time last year and $168.0 million a quarter ago. On top of the above cash position, restricted cash was $138.0 million at the end of the quarter, a decrease of $42.5 million from the preceding 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, and we remind investors that we remain a debt-free company.

Inventories as of June 30th, 2016 were $186.7 million, little changed sequentially and year-over-year. Accounts receivable at the end of June 2016 were $187.9 million as compared to $182.3 million a year ago and $173.0 million last quarter. DSO was 90 days at the end of June 2016, as compared to 95 days a year ago and 87 days at end of the last quarter.

Net cash inflow from operating activities for the second quarter was $13.1 million as compared to an outflow of $13.8 million for the same period last year and an inflow of $21.5 million last quarter.

Capital expenditures were $1.7 million in the second quarter of 2016 versus $2.0 million a year ago and $2.2 million last quarter. The capital expenditure in the second quarter consisted mainly of purchases of R&D related equipment.

During the second quarter, we declared an annual cash dividend of 13 cents per ADS, totaling $22.3 million, which was paid out in early August. Our dividend is determined primarily by the prior year's profitability. Our decision to pay out 89.0% of last year's net profit demonstrates our continued support for our shareholder base and strong confidence in the outlook for revenues and earnings growth in 2016 as well as in our long-term growth prospect.

As of June 30, 2016, Himax had 171.9 million ADS outstanding, unchanged from last quarter. On a fully diluted basis, the total ADS outstanding are 172.4 million.

I will now turn the floor back to Jordan.

Q3 2016 Outlook

Mr. Jordan Wu: Thank you, Jackie.

The increasing momentum of our large panel driver IC sales will continue to come from China and the world's accelerating 4K TV adoption. Our smartphone driver IC business has rebounded well this year, reflecting our leading position in Chinese smartphone market where our end brand customers are performing strongly, and better demand are stimulated by rising 4G adoption. Leveraging on our technology leader and early mover advantage in AMOLED driver and pure in-cell TDDI technology, we are well positioned to benefit from increasing adoption of AMOLED and pure in-cell displays. For non-driver products, the true highlight of the year will be LCOS microdisplay and WLO products, which are integral parts of the eco-system for the booming AR sector. During the first three quarters of the year, LCOS and WLO combined will grow more than ten times through accelerating shipment to our existing AR customers. We are also making good progress in new territories such as IoT and machine vision with our CIS and WLO products, evidenced by more design-ins and engagements with leading consumer electronics brands and a leading international smartphone chipset maker. Overall, we are seeing strong momentum across all our major product lines and feel very good about the growth prospect of 2016 and beyond.

With that, I will now provide our third quarter guidance, followed by a more detailed outlook.

Q3 Guidance:

For the third quarter of 2016, we expect revenue to be up 5.0% to 10.0% sequentially. Gross margin is expected to be flat to slightly down sequentially, depending on our final product mix. GAAP earnings attributable to shareholders are expected to be in

the range of 6.0 to 8.0 cents per diluted ADS based on 172.4 million outstanding ADSs. Non-GAAP earnings attributable to shareholders are expected to be in the range of 10.0 to 12.0 cents per diluted ADS based on 172.4 million outstanding ADSs.

As we have done in the past, our third quarter GAAP earnings per diluted ADS guidance has taken into account our expected 2016 grant of restricted share units, or RSUs, to our team at the end of September. The 2016 RSUs, subject to our Board approval, is now assumed to be around $11.5 million, of which approximately $8.1 million, or 4.0 cents per diluted ADS, will be vested and expensed immediately on September 30th, the grant date. In comparison, the 2015 RSUs totaled $5.0 million, out of which $4.5 million, or 2.0 cents per diluted ADS, was vested immediately. The grant of RSUs would lead to higher third quarter GAAP operating expenses compared to the other quarters of the year.

In providing the above earnings guidance, we have assumed a 13.5% income tax rate for 2016, calculated based on exchange rate of NTD 31.4 against the USD, the exchange rate as of the beginning of August 2016.

Q3 2016 Outlook

Now let me provide some details behind our guidance and trends that we see developing in our businesses.

For reasons mentioned earlier, our **large panel driver IC** sales and market share have further increased this year. We expect our large panel IC revenue to grow by double digit sequentially and more than 50% year-over-year. In addition to benefiting

from our leading market share in China and in 4K TV, we are also leading the charge in new technology areas such as 8K TV by working with our Chinese and Korean panel customers.

The other segment in our driver business is ICs used in **small and medium-sized panels** for applications including smartphones, tablets and automotive. Demand for driver ICs for smartphone has remained strong but our sales in this area will likely just stay flat sequentially in Q3, as we can hardly make enough delivery for the surging rush orders of late from Chinese and Korean end customers. However, it will still grow around 20% year-over-year. We also continue to see resolution upgrade in the second half of the year, which should help mitigate some gross margin pressure for the product segment. On AMOLED, demand has taken off as smartphone brand customers increasingly adopt AMOLED panels in their premium models. This trend has prompted more panel makers to ramp up their investments in AMOLED manufacturing and accelerate their timetable for the mass production of AMOLED panels. We have been collaborating closely with multiple panel customers across Korea, China and Japan for AMOLED product development and are seeing more design-ins especially with key Chinese and Japanese panel customers and smartphone makers. Such progress reaffirms our technology leadership. We believe that AMOLED driver IC will kick off a new growth cycle for our small panel driver IC business starting 2017.

Automotive has been the best-performing category among driver ICs used in small and medium-sized panels in recent years. We expect the category's Q3 revenue to grow double digit sequentially and more than 30% year-over-year. The strong growth

will likely continue into the next few years. Our confidence comes from the fact that higher resolution and larger panel sizes are becoming mainstream for automotives. With numerous top automobile brands having been our indirect end customers, we are well positioned to take advantage of this fast growing market. Further, our driver ICs used in tablets resumed growth in the first half and will continue to produce noteworthy growth in the second half of the year, driven by the strength of high-resolution displays of 10” and above. Overall, we expect small and medium-sized driver IC segment in the third quarter to be up by high-single-digit sequentially.

For the past few years, the **non-driver** business segment has been our most exciting growth area and a differentiator for Himax. New product developments continue to evolve and gain traction, and we remain positive on the long-term growth prospect of our non-driver businesses.

We expect high-single-digit growth in our non-driver products for the third quarter. Sales of timing controller, touch panel controller, ASIC chip, wafer level optics and LCOS microdisplay will deliver strong growth this quarter, partially offset by lower sales of the CMOS image sensors. I will now highlight some of the non-driver product lines.

Numerous on-cell design wins from leading Chinese smartphone names have led to growing sales of our touch panel controller in Q2 and we expect the growth to further accelerate throughout the rest of 2016. We are also one of the pioneers in offering TDDI solutions and are in partnerships with essentially all of the display makers in the state-of-art pure in-cell touch panel for joint technological development. The

volume shipment record from a leading Chinese smartphone customer validates our leading pioneer position. We are adding more design-wins and will start shipping in mass production of our TDDI solutions to additional Chinese and Korean smartphone customers and panel makers in the second half of 2016. Along with AMOLED DDIC, TDDI is another major growth engine for our small panel business starting from 2017.

I will now turn to the LCOS and WLO product lines and AR/VR, their key applications. The recent staggering success of Pokémon Go has provided a looking glass into the future trajectory of the AR technology and given one early answer for why and how you'd want it to. Since its launch just over a month ago, the AR game has taken the digital world by storm with already more than 100 million app downloads and 20 million active users. Thanks to the viral popularity of Pokémon Go, AR is now getting the attention and consumer validation that we, at Himax, have always known to be possible. While we must give credit where it is due, the AR technology used by Pokémon Go today is still quite primitive. Compared to the AR/MR technologies being developed by our customers and partners, Pokémon Go pales in comparison in terms of how AR can bring alive the consumer experience to interact directly with the physical environment with more sophisticated holographic imagery, 3D sensing and real-time surroundings detection. If you have not seen demonstration of AR devices already, its holographic imagery will actually appear on your desk, your chair or walking next to you on the street. Moreover, the world of AR is much more than just gaming. It represents a next generation computing platform. Future versions of the technology will cover both commercial and consumer uses and will be much more sophisticated and produce an endless stream of uses. These could include daily computing in a virtual office, social networking, teleconferencing, etc. Due to the

eye-opening effect of Pokémon Go, those who thought AR required several more years to gain traction are changing their models as the game, almost overnight, elevated AR to mass-market and added 10's of billions of dollars to its market potential in the next few years. A new and lucrative marketing tool on top of AR software and applications are being created that will catapult AR device development and intensify further investment in the sector. We believe the path Pokémon Go started will prompt an AR industry that most didn't think possible before.

Having invested in related technologies for over 15 years, we are uniquely positioned as the provider of choice for microdisplay and related optics, both critical enablers to the AR device. With little competition, we continue to work with 30+ new and existing customers for various AR devices, many of which you have seen news from lately. Our design engagements now cover leading companies in a wide variety of industries such as software, gaming, search, mobile, social media, military, automotive, wearable, and toy. Many of our customers have committed huge amounts of R&D and capital to capture the rapidly expanding future of this game changing product category.

We expect revenues and shipments of our LCOS and WLO to continue to accelerate during the second half of 2016. Further new launches of AR products from more customers, as well as increasing shipment of existing customers, could greatly lift our sales further of these two product areas during 2017. With little new capital investment, we will be able to substantially enlarge our output to meet additional demands through de-bottlenecking and continuous yield improvement. Looking beyond 2017, however, we will need further capacity for our LCOS and WLO

products to address the strong demand anticipated out of the very busy design-in activities that we are having right now.

We are pleased to report that we have just kick-started our expansion plan for next generation LCOS and WLO production lines. Backed upon our customers' demands and feedbacks, the expansion plan includes a major increase of new capacity based upon state-of-the-art processes largely developed from within. The new production lines will not only offer far better cost and product quality for mass production, it is also a major technology advancement for very high end products of the future. The total investment is now budgeted to be $80 to $100 million for monthly capacities of 3,000 12” wafer input for LCOS and 6,000 8” equivalent mother glass input for WLO. The actually output volume can vary widely, depending on the size of the chips. For LCOS, a 12” wafer can yield between 80 and 1,500 chips on our existing product designs, while for WLO, an 8” mother glass can produce as many as thousands of chips or as few as less than ten. The scheduled mass production is end of 2017 to early 2018. The new capacity will be located at a newly acquired land adjacent to our headquarters in Tainan which is 5 hectares in size, some 1.6 times the size of our current headquarters. The investment will be financed through our internal resources and existing bank facilities. The current plan only uses around 20% of the land; we will therefore still have plenty of room for future expansion. We have also reserved sufficient space in the building for customers’ future consignment needs. Part of our existing WLO equipment was purchased by our customer and consigned to us.

To sum up, the next generation expansion will substantially enlarge our existing capacity and lift our technology to another level, thereby further strengthening our

leadership position in the AR sector worldwide. We believe this is just the beginning of a very long term growth story.

Of note about LCOS and WLO, they enjoy better margin compared to our corporate average. The margin will be further lifted with new designs from a more diversified customer base and, in particular, the commencement of the new fabs' mass production. We expect the expansion project will enjoy a phenomenal return on investment in the years to come.

For VR applications, we have been developing customized driver chips for next generation OLED panels with two top-notch VR players. We expect mass production to start in late 2016 to early 2017. Additionally, we have started to engage with certain VR customers to develop their AR devices.

Last but not least, we continue to make good progress in two new smart sensor areas which we announced earlier by collaborating with certain heavyweight partners, including leading consumer electronics brands and a leading international smartphone chipset maker. By pairing a DOE integrated WLO laser diode collimator with a near infrared (NIR) CIS, we are offering the most effective total solution for 3D sensing and detection in the smallest form factor which can be easily integrated into next generation smartphones, AR/VR devices and consumer electronics. Similarly, the ultra-low-power QVGA CMOS image sensor can also be bundled with our WLO module to support super low power computer vision to enable new applications across mobile devices, consumer electronics, surveillance, drones, IoT and artificial intelligence. We will report the business developments in these new territories in due

course. Regarding other CIS products, we maintain a leading position in laptop application and will increase shipments for multimedia applications.

And that concludes our non-driver business discussion.

Thank you for your interest in Himax. We are now ready to take questions.

OPERATOR TO QUEUE QUESTIONS

Jordan's closing remarks

As a final note, Jackie Chang, our CFO, will maintain investor marketing activities and attend future investor conferences in the U.S. and Asia. We will announce the details as they come about. Please contact our IR department and/or John Mattio if you are interested in speaking with the management. Thank you and have a nice day!