Himax Technologies, Inc. Q3 2012 Unaudited Financials and Investor Update Call

Conference Details:	Participant Dial-In Numbers:
Confirmation #: 402099 Call Length: 1 hour Lines: 100 Conference Date: 11/8/12 Conference Start Time: 8:00 a.m. Eastern Standard Time Pre-Record Message: No Moderator: JOHN MATTIO	TOLL-FREE 1-877-407-4018 TOLL/INTERNATIONAL 1-201-689-8471 CONFERENCE ID: 402099
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: 11/08/12 To: 11/15/12 at 11:59 pm Eastern Time Replay Pin Number: 402099

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

Q3 2012 Results

Mr. Jordan Wu: Thank you John and thank you everybody for being with us for today's call. In this earnings call, I will start with discussing our third quarter performance including key growth drivers and milestones that we have achieved so far in 2012. Our CFO, Jackie Chang, will provide further details on our financials. I will then elaborate on our fourth quarter outlook issued early this morning, US time.

Our 2012 third quarter revenues, gross margin, GAAP and non-GAAP earnings per ADS all met our previous guidance. For the third quarter, we reported net revenues of $190.4 million with gross margin of 23.3%. Third quarter GAAP earnings per ADS were 6.1 cents and non-GAAP earnings per ADS were 9.7 cents, both coming in at the upper end of our earnings guidance.

Our third quarter revenues of $190.4 million represent a 17.5% increase from $162.1 million in the third quarter of 2011 and a 0.5% sequential increase from $189.5 million in the second quarter of this year. Our revenues of this quarter are the highest since the fourth quarter of 2009.

Revenues from large panel display drivers were $76.5 million, up 23.4% from a year ago and down 4.0% sequentially. Large panel drivers accounted for 40.2% of our total revenues for the third quarter, compared to 38.3% a year ago and 42.1% in the second quarter. The sequential decline came in after three consecutive quarters of growth and was attributed to slower demand from the TV models which our customers launched earlier this year. That said, we have experienced an 11.9% growth from large panel segment in the first three quarters mainly thanks to the capacity increase in China.

We are happy to report that our driver sales for small and medium-sized panels reached another record high in the third quarter. They came in at $87.3 million, up

9.5% from the same period last year and up 4.1% sequentially. As a segment, driver ICs for small and medium-sized applications accounted for 45.8% of total revenues for the third quarter with tablet and automotive display being the fastest growing applications. As we pointed out in the previous earnings call, sales from smartphone applications remained flat from those of the second quarter because our main clientele in China, many of them leaders in higher end market, experienced competitive pressure from their lower-end peers which undercut the price to penetrate the marketplace aggressively. Notwithstanding the slow short-term momentum, smartphone remains our strongest-growing product segment overall. We remain bullish on the growth prospects of the smartphone segment and will elaborate more on this later.

Revenues from our non-driver businesses were $26.6 million, an increase of 30.2% from the same period last year and up 2.3% sequentially. Non-driver product revenues accounted for 14.0% of total revenues, as compared to 12.5% a year ago and 13.7% in the previous quarter.

Again, as we discussed in the last earnings call, sequential growth in the non-driver businesses slowed down mainly because of a couple reasons. First, the Win8 launch delay affected our CMOS image sensor business. Second, our Q3 LCOS microdisplay revenues slowed down due to our decision to reposition the business to focus more on the head-mounted display products, although we remain committed to the new developments of pico projector products. Notwithstanding the above-mentioned negative factors, our non-driver businesses overall still grew 30.2% year over year as many products, including touch panel controller, power management IC, WLED driver, wafer level optics and operational amplifiers, experienced double digit growth.

Revenues from related parties remained flat from the previous quarter at 34.0% of total sales in Q3, compared to 39.3% a year ago and 33.4% in the previous quarter.

Our GAAP gross margin for the third quarter 2012 was 23.3%, a 480 basis-point improvement compared to 18.5% a year earlier and a 20 basis-point improvement from 23.1% in the previous quarter. This is the fourth consecutive quarter of gross margin improvement and the highest gross margin level since the fourth quarter of 2008. The trend in our margin expansion is a direct result of a richer mix of higher margin products like those in our fast-growing non-driver category. We will also focus more on better value-added, high-end driver IC products which have higher entry barrier. Gross margin improvement will continue to be one of our business goals going forward.

As was the case in the past, we granted RSUs, or Restricted Share Units, at the end of September which led to higher third quarter GAAP operating expenses compared to the other quarters of the year. The total value of our 2012 RSUs is approximately $11 million, of which $6.3 million was paid to employees in cash and thus expensed in the third quarter. Jackie will add more details on this later.

For the third quarter, GAAP net income was $10.4 million, or 6.1 cents per diluted ADS, compared to $0.6 million, or 0.4 cents per diluted ADS, in the corresponding quarter a year ago and $15.1 million, or 8.9 cents per diluted ADS, in the previous quarter. GAAP net income grew 1521.7% year over year but decreased 31.1% quarter over quarter mainly due to the $6.3 million 2012 RSU charge in the third quarter. Excluding the share-based compensation and acquisition-related charges, non-GAAP net income was $16.5 million, or 9.7 cents per diluted ADS, representing a growth of 244.1% year over year and 3.5% sequentially.

In summary, we are pleased with the top and bottom line financial improvements during the third quarter of 2012. We will continue to execute our strategy and are excited about further growth opportunities going forward.

I will now ask Jackie Chang, our CFO, to provide more clarity and details on our financial results. After Jackie's presentation, I will come back to discuss our outlook for the fourth quarter.

Jackie……

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

Our GAAP operating expenses were $31.1 million in Q3 2012, up 2.1% from $30.5 million a year ago and up 32.4 % from $23.5 million in the previous quarter. As Jordan pointed out, the significant sequential increase arose primarily from the expense of $6.3 million 2012 RSU grant. Without the RSU charge, our operating expenses were $24.6 million in the third quarter 2012, down 6.0% from the same quarter 2011 and up 6.7% from the previous quarter. The increase from the previous quarter came mainly from higher expenses related to salary and new product developments. We raised the annual salary in the middle of the year.

The total value of our 2012 RSUs is approximately $11 million, out of which 58% was paid in cash immediately and therefore expensed in the third quarter. The remainder will be vested equally at the first, second and third anniversaries of the grant date and will be paid in shares. The maximum share dilution in the next three years resulting from 2012 RSU grant is about 2.3 million ADSs in total, or 1.4% of our total shares outstanding.

GAAP operating income for the third quarter of 2012 was $13.2 million, representing 6.9% operating margin. It went down $7.0 million sequentially and up $13.7 million year over year. The main reason for the sequential decline in operating income is the expense from the $6.3 million RSU grant in the third quarter which accounted for 3.3% of sales.

Non-GAAP net income in the third quarter was $16.5 million, or 9.7 cents per diluted ADS, up from $4.8 million, or 2.7 cents per diluted ADS, for the same period last year, and up from $15.9 million, or 9.3 cents per diluted ADS, in the previous quarter.

Our cash, cash equivalents and marketable securities available for sale were $89.0 million at the end of September, 2012, little changed from $90.8 million for the same time last year and $103.2 million a quarter ago. We made a cash payment for RSU of $6.3 million and a cash dividend of $10.7 million during the quarter.

Inventories at the end of September were $128.3 million, up from $104.7 million a year ago and down from $139.2 million a quarter ago. Accounts receivables at the end of September were $218.3 million as compared to $174.7 million a year ago and $212.9 million last quarter. DSOs were 109 days at end of September, compared to 103 days last year and 109 days at end of the last quarter.

Net cash outflow from operating activities for the third quarter was $7.1 million. This is mainly because we had a relatively high inventory level at the end of the second quarter as delivery for much goods prepared for shipping before quarter-end was postponed into the third quarter out of short notice by the customer. As a result, while we had to pay for those goods in the third quarter, we will not get paid until the fourth quarter. We expect to generate a substantial net cash inflow from operations during the fourth quarter.

Capital expenditures were $1.7 million in the third quarter versus $7.1 million a year ago and $1.0 million last quarter, bringing the total capital expenditures to $4.4 million through the first three quarters of 2012.

With regards to our $25 million dollars share buyback program, we have purchased a total of $12.7 million, or approximately 9.1 million ADS, through September 30, 2012, including $0.4 million or approximately 0.3 million ADS purchased in Q3 2012. As of September 30, 2012, Himax had 169.9 million ADS equivalents outstanding. 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 first nine months ended September 30, 2012.

Revenues were $546.7 million, representing a growth of 17.9% over last year. Our gross profits were $126.1 million, or 23.1% gross margins. Our gross profit increased $37.9 million from $88.2 million and our gross margins were up 410 basis points from last year.

GAAP operating expenses were $78.3 million for the first nine months of 2012, down $4.5 million, or 5.4%, from the same period 2011. The significant reduction was due to a better overall cost control and the reducing ramp-up costs for production of WLO, WLM and LCOS products at our in-house fabs, partially offset by an increase of $0.9 million share-based expenses.

Operating income was $47.8 million, or 8.8% of sales, as compared to $5.4 million, or 1.2% of sales, for the first nine months of 2011, representing $42.4 million or 780.9% increase year over year. The improvement in operating income was a reflection of our overall top and bottom line financial improvement from last year.

GAAP net income for the first nine months was $36.8 million, or 21.6 cents per diluted ADS, up from $7.0 million, or 3.9 cents per ADS, last year. GAAP net income for the first nine months of 2012 grew 427.0% year over year. GAAP EPS per diluted ADS grew 453.8% over the same period last year.

Non-GAAP net income for the first nine months was $44.6 million, or 26.1 cents per diluted ADS, up from $14.0 million, or 7.9 cents per ADS, for the same period last year. Non-GAAP net income for the first nine months of 2012 grew 219.5% year over year. Non-GAAP EPS per diluted ADS grew 230.4% year over year.

Net cash outflow from operating activities for the first nine months of 2012 was $0.3 million. As discussed earlier, we expect to generate a substantial net cash inflow from operations during the fourth quarter.

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

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

Mr. Jordan Wu: Thank you, Jackie. I will now provide an outlook for each of our major product segments in greater detail and, after that, our guidance for Q4.

I'll start with our now 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 segment 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 $87.3 million in Q3 this year, or 45.8% of total revenues. 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. On the back of the existing success in China and international brand markets, we have won further design-wins from leading global brands, where we will start shipment from Q4. We have also started to see positive results from our efforts in working with the fast growing tier-2 smartphone customers in China during the third quarter. We will continue to make progress and gain market share in that area. We expect the smartphone sector to experience double digit growth in Q4 and the growth momentum to continue into next year, driven by strong demands from both international and China markets.

Among small and medium-sized panel applications, we also see tablet and automotive displays growing strongly so far this year and we continue to work closely with numerous customers on these applications. These products will continue to contribute noteworthy growth in 2013.

The overall fourth quarter outlook for the small and medium size panel drivers, however, appears lukewarm, because of seasonal reasons.

Large panel driver remains one of our main businesses, accounting for 41.7% of total sales in the first three quarters and were up 11.9% from last year during the period. We continue to strive toward winning more market share in this segment. We are a leader in new technologies such as next generation high speed interface and super high resolution panel, including those for the new 4K by 2K TV. It is for this reason that companies like Himax have retained a favorable market position and the barriers to entry remain high. Large panel driver IC has been the backbone of Himax since 2001 when we got started and will continue to be a major business for us looking ahead.

Mainly affected by slow demands from monitor and laptop markets, the large panel driver sales look set for some slight sequential decline during the fourth quarter.

The non-driver category provides the most exciting long-term prospects for growth. Our third quarter non-driver sales were up 30.2% over the same period last year. I will highlight some of the non-driver areas below.

Our multi-finger capacitive touch panel controllers delivered a phenomenal growth during the third quarter. We started shipping to new handset customers in China in addition to the existing leading smartphone brand customers. We will continue to break into new smartphone brands, the fast-growing tablet market and touch-enabled Win 8 laptops. We believe our touch panel controller will continue to be a long term growth engine for Himax.

In our CMOS image sensor product line, the delay of Win 8 launch from Q3 to Q4 affected our shipments of 1 mega-pixel sensor during the third quarter. However, we expect such demands to resume starting Q4 thanks to our design-wins with a number of tier-one laptop names. Beyond laptop, we have also won design-wins in smartphone, tablet and surveillance applications from a wide range of customers. We also launched a 5 mega-pixel sensor in the third quarter which targets smartphone market. It will begin some shipment in the fourth quarter.

Our wafer level optics experienced double digit growth during the third quarter. The production of WLO for VGA, or 300,000-pixel, lens in our fab has been made smoothly with high and stable yields. With that, we are moving up the scale to start sampling our WLO with HD, or 1 mega-pixel, resolution, which we believe has a good potential of taking up a meaningful amount of the front camera market for smartphone. We expect our HD WLO to start mass production in early next year.

Timing controller (TCON) remains the largest product line in terms of revenues among our non-driver businesses. Again, we are one of the leaders in new technologies such as eDP TCON. The new eDP interface will be applied in high-end laptop and tablet products. It offers the benefits of slim design, high resolution and better power efficiency, as compared to the existing mainstream LVDS interface. Our eDP 1.1 and 1.2 are ready with shipping track record. Our eDP 1.3 is expected to start mass production in early 2013. As the adoption of eDP accelerates, we are well-positioned to benefit on this important new technology.

We also continue to make progress in our ASIC service and video processing IP licensing. During the quarter, we won new ASIC project awards from top-tier brand name customers. The development fees generated from the engagements of these new projects increased substantially in the third quarter and contributed to our gross margin improvement.

Last but not least, our LCOS business also has exciting opportunities on the horizon. We have been working with top-tier customers to develop new head-mounted display products. We are shipping some early volume for customers' pilot runs this quarter.

We remain confident that our non-driver businesses will continue to account for an increasing percentage of our sales revenues over time.

Q4 Guidance

While the fourth quarter is a traditionally low season, we expect revenues of this year's Q4 to remain around flat or slightly down compared to the third quarter of 2012; gross margin to be around flat from the third quarter of 2012, depending upon the final product mix; GAAP earnings attributable to shareholders to be in the range of 7.0 to 8.5 cents per diluted ADS based on 170.5 million outstanding ADSs; and Non-GAAP earnings attributable to shareholders to be in the range of 7.6 to 9.1 cents per diluted ADS based on 170.5 million outstanding ADSs.

For the full year of 2012, we expect revenues of 2012 to be around $737.1 million, up around 16.4% year-over-year; gross margin to be around 23.1%, as compared to 19.8% of 2011; cumulative GAAP net income per diluted ADS for 2012 full year to be in the range of 28.6 to 30.1 cents; and cumulative Non-GAAP net income per diluted ADS for 2012 full year to be in the range of 33.7 to 35.2 cents.

Thank you for your interest in Himax. We appreciate your joining today's call. 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 February. As a final note, Jackie Chang, our CFO, will be on a non-deal road show in the U.S. in the first week of December. 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.