Himax Technologies, Inc. Q4 and FY2012

Unaudited Financials and Investor Update Call

Conference Details: Confirmation #: 407795 Call Length: 1 hour Lines: 100 Conference Date: 02/07/13 Conference Start Time: 8:00 a.m. Eastern Standard 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: 407795
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: 02/07/13 Eastern Time To: 02/14/13 at 11:59 p.m. Eastern Time Replay Pin Number: 407795

Operator Intro: Welcome to Himax Technologies' fourth quarter and full year 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 fourth quarter and full year 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, 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…….

Q4 2012 Results

Mr. Jordan Wu: Thank you John 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 fourth quarter, I will also summarize our results for 2012 and highlight key milestones we achieved last year. I will then provide our outlook for the first quarter 2013 and outline our strategic focus areas for the full year 2013. Our CFO, Jackie Chang, will then provide further details on our financial performance.

Our 2012 fourth quarter revenues, gross margin, GAAP and non-GAAP earnings per ADS all met our guidance. For the fourth quarter, we reported net revenues of $190.6 million with gross margin of 23.3%. Fourth quarter GAAP earnings per ADS were 8.4 cents and non-GAAP earnings per ADS were 8.9 cents, both results falling in the top end of our guided range.

Our fourth quarter revenues of $190.6 million represented a 12.7% increase from $169.2 million in the fourth quarter of 2011 and a 0.1% sequential increase from $190.4 million in the third 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 $77.5 million, up 15.8% from a year ago and up 1.3% sequentially. Large panel drivers accounted for 40.7% of our total revenues for the fourth quarter, compared to 39.6% a year ago and 40.2% in the third quarter. The sequential increase was attributed to strong TV demand arising from customers' stock preparation for the Chinese New Year sales and China panel customers' further new capacity ramp, offset by slower demand for notebooks. Among all our large-sized panel market regions, China showed the greatest growth year over year and sequentially.

Sales for small and medium-sized drivers came in at $85.4 million, up 6.0% from the same period last year and down 2.2% sequentially. As a segment, driver ICs for small and medium-sized applications accounted for 44.8% of total revenues for the fourth quarter as compared to 47.6% a year ago and 45.8% in the previous quarter. The sequential decline was mainly due to the weak feature phone demands as we switched our focus to smartphone. China's white box market for both smartphones and tablets also experienced some correction toward the end of the fourth quarter. Excluding feature phones, sales for small and medium-sized drivers, especially those for smartphone, tablet and automotive display applications, grew substantially for the fourth quarter 2012 from the same period last year. We will elaborate more on this later.

Revenues from our non-driver businesses were $27.7 million, an increase of 27.6% from the same period last year and up 4.2% sequentially. Non-driver product revenues accounted for 14.5% of total revenues, as compared to 12.8% a year ago and 14.0% in the previous quarter. CMOS image sensors, power management ICs and IP licensing were among the non-driver products which delivered outstanding sequential growth. Also adding to this growth were our pilot shipments of LCOS microdisplays for the new and exciting head-mounted display application. Our fourth quarter non-driver businesses overall grew 27.6% year over year as many products experienced double digit growth. Such products include CMOS image sensor, touch panel controller, power management IC, WLED driver, wafer level optics, IP licensing and operational amplifiers.

As a percentage of total revenues, revenues from related parties continued to decline relative to those from other parties. They were down 6.3% from the previous quarter and up 2.2% from the same period last year. In comparison, revenues from other parties went up 3.4% quarter over quarter and up 18.3% year over year. Related party sales accounted for 31.8% of total sales in the fourth quarter, compared to 35.1% a year ago and 34.0% in the previous quarter. As recent as Q4 2009, related party still accounted for 68.8% of total sales. The figure has come down to 31.8% in Q4 2012 mainly because our related party customer that owns 15.0% of Himax equity undertook to diversify its supply base. The related party sales as a percentage of total revenues may continue to decline as our other businesses now look set to outgrow the related party business. However, the related party customer remains our single largest customer and we will continue to provide them with the best service in an effort to win the most possible business from them.

Our GAAP gross margin for the fourth quarter 2012 was 23.3%, a 120 basis-point improvement from 22.1% a year earlier and a slight improvement from the previous quarter. This is the fifth 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 non-driver categories and the fast-growing small and medium-sized panel drivers. Gross margin improvement will continue to be one of our key business goals going forward.

For the fourth quarter, GAAP net income was $14.3 million, or 8.4 cents per diluted ADS, compared to $3.7 million, or 2.1 cents per diluted ADS, in the corresponding quarter a year ago and $10.4 million, or 6.1 cents per diluted ADS, in the previous quarter. GAAP net income grew 285.8% year over year and 37.7% versus the previous quarter. The sequential net income growth was mainly a result of the difference in RSU charges. The third quarter RSU expense was $6.3 million while it was just $0.5 million in the fourth quarter. The net income surge of 285.8% year over year was partly attributable to difference in income taxes and tax credit provisions. Excluding share-based compensation, acquisition-related charges, income tax and tax credit provisions, our non-GAAP adjusted pre-tax income for the fourth quarter was little changed from the previous quarter; but it still grew 95.4% from the same period of previous year, reaching $20.2 million. The strong year over year growth resulted from a combination of 12.7% top line growth and a 120 bps gross margin expansion, on top of $1.0 million operating expenses reduction. GAAP EPS per diluted ADS grew 300.0% from the same period last year and 37.7% over the previous quarter.

In summary, we are pleased with the top and bottom line financial performance during the fourth 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, we will further discuss our full year results and then 2013 outlook and first quarter 2013 guidance.

Jackie……

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

Our GAAP operating expenses were $25.2 million in Q4 2012, down 3.8% from $26.2 million a year ago and down 19.1% from $31.1 million in the previous quarter. The significant sequential decrease was primarily the result of the difference in RSU charges. The third quarter RSU expense was $6.3 million while it was just $0.5 million in the fourth quarter. In accordance with our protocol, we grant annual RSUs to our staff at the end of September each year, which, given all other things equal, leads to higher third quarter GAAP operating expenses compared to the other quarters of the year. Ignoring the higher RSU expenses in the third quarter of 2012, our Q4 operating expenses actually stayed stable comparing to the previous quarter and down $1 million from the same quarter last year.

GAAP operating income for the fourth quarter of 2012 was $19.2 million, or 10.1% of sales, up $8.1 million, or 72.0%, compared to the same period last year and up $6.1 million, or 46.1%, from $13.2 million, or 6.9% of sales, in the previous quarter. Again, excluding RSU expenses, operating income for the fourth quarter remained around flat compared to the previous quarter.

Non-GAAP net income in the fourth quarter was $15.3 million, or 8.9 cents per diluted ADS, up from $4.3 million, or 2.5 cents per diluted ADS, for the same period last year, and down from $16.5 million, or 9.7 cents per diluted ADS, in the previous quarter. Non-GAAP net income represents a growth of 252.2% year over year but was down 7.3% from the previous quarter.

I will go through the fourth quarter and full year balance sheet analysis and 2012 full year financial results a bit later after Jordan gives a 2012 full year business review.

2012 Full Year Summary

Mr. Jordan Wu: Thank you, Jackie. Now let me summarize our 2012 full year performance. I will also take the opportunity to highlight our main business themes going forward. As we mentioned on our previous calls and in numerous interactions with investors throughout the year, the first and all successive quarters of 2012 demonstrated a successful turnaround in our business from the trough of 2011. Small and medium-sized driver IC replaced the large panel sector to become our largest source of sales, thanks to the exciting growth in global demands for smartphone and tablet and our leading position in those new applications. Large panel driver IC sales also experienced a double digit growth last year, benefiting from the growth in China market where most of the new buildings of panel capacity took place. Last but not least, our non-driver products delivered the strongest growth last year owing to many new product launches and project wins. We expect our non-driver products to continue to outgrowth driver ICs in the years ahead.

Our revenues totaled $737.3 million in 2012, representing a 16.5% increase year over year. The growth was a result of increasing sales in all product segments.

Small-and medium-sized drivers, now our largest product segment, grew 16.6% year over year, representing 44.6% of our total revenues. As I reported earlier, our sales into the feature phone sector declined in 2012 as we switched our focus to smartphone. Excluding feature phone sales, our small-and medium sized drivers grew over 50% year over year. We were able to achieve such an outstanding performance in this area last year because we were able to expand our reach to end customers across China, Korea, and the US. This strong growth momentum will continue into this year, thanks mainly to the rapid growth in smartphone, tablet and automotive displays.

Revenues from large panel display drivers grew 12.9% year over year, representing 41.4% of our total revenues, as compared to 42.7% in 2011. The growth was mainly driven by the sales to China customers. It also led to our market share gain during 2012 in the large panel sector.

Non-driver products grew 28.0% year over year, representing 14.0% of our total sales, as compared to 12.7% a year ago. Our timing controller IC, touch panel controller, power management IC, WLED driver, ASIC service, IP licensing and wafer level optics all delivered strong growth in 2012. This illustrated our strong R&D capability and our commitment to a more diversified product portfolio.

Revenues from related parties were down $6.3 million, or 2.4%, from the previous year. In comparison, revenues from other parties went up $110.5 million, or 29.5%, year over year. Related party sales accounted for 34.2% of total sales in 2012, compared to 40.8% a year ago.

Gross margin in 2012 was 23.1%, a 330 basis-point improvement, from 19.8% in 2011. The significant margin improvement is a result of our product diversification.

Our GAAP net income was $51.2 million, or 30.0 cents per diluted ADS, compared to $10.7 million, or 6.1 cents per diluted ADS, last year. The strong year over year growth resulted from a combination of 16.5% top line growth and a 330 bps gross margin expansion, on top of $5.5 million operating expenses reduction. GAAP net income for the year of 2012 grew 377.9% year over year. GAAP EPS per diluted ADS grew 391.8% year over year.

In July, 2012, we paid an annual dividend of 6.3 cents per ADS, equal to 100% of 2011 net income. We remain committed to paying annual dividends, the amount of which is referenced primarily on prior year's profitability. The high payout ratio in 2012 is an illustration of our confidence for our profitability to continue to improve.

As I did with our report of the fourth quarter, I will now ask Jackie to explain the details for our full year financial results.

Ms. Jackie Chang: Thanks again, Jordan. In terms of 2012 full year performance, our GAAP operating expenses were $103.5 million, down $5.5 million, or 5.0%, from the same period 2011. Excluding the bad debt collection from SVA-NEC in 2011 and higher RSU expenses in 2012, our 2012 full year GAAP operating expenses were $97.2 million, down $13.3 million, or 12.0% from the same period 2011. The significant reduction was due to a better overall expense control and reduced ramp-up costs for the production of WLO at our in-house manufacturing facility.

Operating income was $67.1 million, or 9.1% of sales, as compared to $16.6 million, or 2.6% of sales, in 2011, representing 303.8% increase year over year.

Non-GAAP net income for 2012 was $59.9 million, or 35.1 cents per diluted ADS, up from $18.3 million, or 10.3 cents per diluted ADS, for 2011. Non-GAAP net income for 2012 grew 227.3% year over year. Non-GAAP EPS per diluted ADS grew 240.8% year over year.

Our cash, cash equivalents and marketable securities were $138.9 million at the end of December, 2012, significantly improved from $106.3 million for the same time last year and $89.0 million a quarter ago due to the substantial net cash inflow from operations during the quarter. On top of the above cash position, restricted cash was $73.0 million at the end of December, down from $84.2 million during the same period last year and the same at the end of the last quarter.

Inventories at the end of December were $116.7 million, up from $113.0 million a year ago and down from $128.3 million a quarter ago. Accounts receivable at the end of December were $209.0 million as compared to $181.1 million a year ago and $218.3 million last quarter. DSOs were 103 days at end of December, 2012, as compared to 104 days last year and 109 days at end of the last quarter.

Net cash inflow from operating activities for the fourth quarter was $52.4 million as compared to $17.3 million during the same period last year and an outflow of $7.1 million in the previous quarter. As indicated in our previous earnings call, we managed to generate a substantial net cash inflow from operations during the fourth quarter due to increased cash receipts from AR collection and less vendor payments for improved inventory control. Cumulative cash inflows from operations in 2012 were $52.2 million versus $43.4 million the year before.

Capital expenditures were $2.2 million in the fourth quarter versus $1.2 million a year ago and $1.7 million last quarter, bringing the total capital expenditures to $6.6 million through 2012 as compared to $18.9 million in 2011.

With regards to our $25 million share buyback program, we have purchased a total of $13.4 million, or approximately 9.5 million ADS, through December 31, 2012, including $0.7 million, or approximately 0.3 million ADS, purchased in Q4 2012. As of December 31, 2012, Himax had 169.6 million ADS equivalents outstanding. We will continue to execute the remaining share repurchase program in accordance with Rule 10b-18.

I will now turn the floor back to Jordan to discuss our 2013 outlook and first quarter guidance.

2013 Outlook

Mr. Jordan Wu: Thank you, Jackie. 2012 was a year of successful transition when we delivered robust revenue and earnings growth. Looking into 2013, we are seeing strong fundamentals across many of our product lines and will continue to execute our strategy to focus on image processing related technologies while diversifying our customer base and product portfolio.

Large panel driver business remains one of our long-term focuses. We gained some market share in 2012 and continue to be on the leading edge in key technology trends such as various high-speed interfaces and 4K by 2K TV. However, large panel driver's short-term prospect looks sluggish. It is likely to experience some sequential decline during the first quarter 2013 because of slow monitor demand, high customer inventory, seasonal slow-downs and reduced large panel driver sales to our related party customer. We believe that this is a temporary set-back as we are confident that our competitiveness in this segment remains strong with potential growth opportunities coming from customers in China and Korea.

The prospect of our small and medium-sized panel driver business remains robust and solid in 2013. We are currently in a strong position in the smartphone sector with leading technologies, competitive products and good customer line-up. We carry a comprehensive range of products covering both mainstream and high-end smartphones. We will further expand our smartphone customer base which has already covered first-tier international and Chinese brands as well as the fast growing China white-box market. We believe that our leading position in this segment will be further solidified as the industry moves toward higher resolution where the technical complexity of driver IC is vastly complicated and the barrier of entry is higher than before. We expect the sales for smartphone application to accelerate throughout 2013.

Boosted mainly by the China white-box market, tablet PC is embarking on a new stage of growth similar to feature phones and smartphone before it. Led by Chinese makers selling to both domestic and emerging markets, the demand of low-cost white-box tablets surged in 2012 and is expected to further accelerate in 2013. Himax has long been a leading player in China's medium-size panel market and is well positioned to benefit from the new found momentum of the white-box tablet market. Moreover, we have successfully penetrated into several leading international tablet brands and have started to make shipments for some of them since Q4 2012. With further design-wins and shipments in the pipeline, we expect the tablet market will contribute to noteworthy growth for Himax in 2013 and beyond.

Our non-driver business provides not only the most exciting long-term growth prospects but also the synergy of product and knowhow that we can bring to our customers through offering a total solution of image processing related technologies in addition to our driver IC products. This is one of our key differentiators against our competition. Our goal is to further lift the non-drivers' percentage of total sales from the 14% of 2012. We will benefit not only from a more diversified sales base but also higher gross margin. Many of our non-driver sectors, including CMOS image sensor, wafer level optics, timing controller, touch panel controller, power management IC, WLED driver, ASIC solution, and LCOS microdisplay, are on track to enjoy decent growth during 2013.

I will now elaborate on a few non-driver product lines which we believe will see robust growth this year and going forward.

The technology of timing controller is undergoing major changes recently in preparation for the industry trend toward higher panel resolution. We are among the leaders in this new technology development. Our eDP 1.1 and 1.2 solutions are already in mass production. In addition, we have successfully developed new eDP 1.3 timing controller IC which was among the very few solutions to have passed worldwide leading graphic card and chipset company's compliance test. eDP 1.3 Tcon provides low power consumption and fast interface for high-end notebook and tablet applications. We are working with numerous panel and end-user customers in the development of eDP 1.3 projects and are excited about its long term prospect.

Our CMOS image sensors delivered a phenomenal growth during the fourth quarter of 2012, mainly due to numerous design-wins in smartphone, tablet, laptop and surveillance applications. We currently offer mainstream and entry-level sensor products with pixel counts of up to 5 mega and are on track to release a new 8 mega pixel product soon. However, the Q1 prospect for CMOS image sensor looks gloomy as China market is going through correction and many of the customers adopting our new sensor products are still finishing up their product tuning. Notwithstanding the short-term downturn, we do expect the sales of this product line to surge in 2013, boosted by shipments of our new products, many of which were only launched in the second half of last year. We also expect to break into new and leading smartphone brands and further penetrate the tablet, IP Cam, surveillance and automotive application markets.

The sales of touch panel controllers more than tripled in 2012, as we expanded share in our existing leading smartphone brand customer and began shipments to new handset customers in China from Q3 2012. Beyond handsets, we are expanding our product offering to cover larger panel for tablet applications, targeting both international and China white-box markets. Recently, we were awarded for new tablet projects from a leading brand name customer. We are confident that touch panel controller will continue to deliver growth in 2013 through gaining new customers in smartphone, tablet and Win 8 laptop applications.

Working with several top-tier customers to develop new head-mounted display products using our LCOS panels, we shipped some early volume for customers' pilot runs in the fourth quarter 2012. We expect some early stage volume shipments in 2013. In addition, we are still working with numerous partners to create new pico-projector applications using our LCOS microdisplays. We remain committed to the long term development of LCOS microdisplay and its exciting new applications.

With all these new developments and design-wins of our non-driver products, we expect that our non-driver businesses will continue to account for an increasing percentage of our sales and contribute to overall gross margin improvement in 2013. The non-driver products represent our best long-term growth engine.

Q1 Guidance

In the first quarter, we expect a high-single-digit to low-teens decline in our revenues compared to the last quarter. The first quarter is likely to be the bottom of the year in terms of sales because it has fewer working days due to Chinese New Year. Gross margin is expected to be slightly up from the fourth quarter of 2012. We expect small and medium-sized panel driver sales will contribute to an increasing percentage of product mix and revenue in the first quarter. GAAP earnings attributable to shareholders per diluted ADS are expected to be in the range of 6.5 to 7.5 cents per diluted ADS based on 171.0 million outstanding ADSs. Non-GAAP earnings attributable to shareholders are expected to be in the range of 7.0 to 8.0 cents per diluted ADS based on 171.0 million outstanding ADSs.

Thank you for your interest in Himax. We appreciate your joining today's call and we look forward to a productive and profitable year in 2013. 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 May. As a final note, Jackie Chang, our CFO, will be on a non-deal road show in the U.S. in the last week of February. Please contact Jackie or John Mattio at MZ Group if you are interested in meeting with us in person. Thanks again and Happy New Year!