Himax Technologies, Inc. Q1 2013 Unaudited Financials and Investor Update Call

Conference Details: Confirmation #: 412584 Call Length: 1 hour Lines: 100 Conference Date: 05/07/13 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: 412584
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: 05/07/13 Eastern Time To: 05/14/13 at 11:59 p.m. Eastern Time Replay Pin Number: 412584

Operator Intro: Welcome to Himax Technologies' first quarter 2013 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 first quarter 2013 earnings call. Joining us from the company are Mr. Jordan Wu, President and Chief Executive Officer, and Ms. Jackie Chang, Chief Financial Officer. After the company's prepared comments, we have allocated time for questions in a Q&A session following the Company's prepared remarks. If you have not yet received a copy of today's results release, please call MZ Group at 212-301-7130, access the press release on financial portals like Bloomberg, Yahoo or Google or you can download a copy from Himax's website at www.himax.com.tw.

Before we begin the formal remarks, I'd like to remind everyone that some of the statements in this conference call, including statements regarding expected future financial results and industry growth, are forward-looking statements that involve a number of risks and uncertainties that could cause actual events or results to differ materially from those described in this conference call. Factors that could cause actual results include, but are not limited to, general business and economic conditions and the state of the semiconductor industry; market acceptance and competitiveness of the driver and non-driver products developed by the Company; demand for end-use applications products; reliance on a small group of principal customers; the uncertainty of continued success in technological innovations; and other operational and market challenges, the capability to maintain the full two-way fungibles between the Company's ordinary shares and ADSs and other risks described from time to time in the Company's SEC filings, including those risks identified in the section entitled "Risk Factors" in its Form 20-F for the year ended December 31, 2012 filed with SEC as amended.

Except for the Company's full year of 2012 financials which were provided on the Company's 20-F, filed with the SEC, the financial information included in this conference call is unaudited and consolidated, and prepared in accordance with US GAAP. Such financial information is generated internally and has not been subjected to the same review and scrutiny, including internal auditing procedures and audit by independent auditors, to which we subject our annual consolidated financial statements, and may vary materially from the audited consolidated financial information for the same period. Any evaluation of the financial information included in this conference call should also take into account our published audited consolidated financial statements and the notes to those statements. In addition, the financial information included in this conference call is not necessarily indicative of our results for any future period. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. At this time, I would now like to turn the call over to Mr. Jordan Wu.

Jordan, the floor is yours…….

Q1 2013 Results

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

As usual, I will provide some preliminary review on our first quarter of the year and then our outlook for the second quarter 2013. I will also comment on a few of our product areas of focus for the year. Our CFO, Jackie Chang, will then provide further details on our financial performance for the period ended March 31, 2013. In addition, on April 30, we filed a Form F-3 shelf registration statement with the SEC. We will give you some details on that.

I am pleased to report that our first quarter revenues, gross margin and GAAP and non-GAAP earnings per ADS all exceeded the guidance we provided on February 7. For the first quarter, we reported net revenues of $175.7 million with gross margin of 24.6%. Our GAAP gross margin for the first quarter improved from the previous quarter by 130 basis points. First quarter GAAP earnings per diluted ADS were 8.2 cents and non-GAAP earnings per ADS were 8.8 cents, which surpassed the top end of our guidance by 9.3% and 10.0%, respectively. These positive performances are a result of our diversification of customer base and expansion of product portfolio to more exciting and high growth areas of small and medium-sized driver and non-driver businesses.

Our first quarter revenues of $175.7 million represented a 5.4% increase from $166.7 million in the first quarter of 2012 and a 7.8% decrease from $190.6 million in the fourth quarter of last year. The sequential decline was expected due to the short quarter and seasonality in our business.

Revenues from large panel display drivers were $60.1 million, down 15.8% from a year ago and down 22.5% sequentially. While large panel driver IC will continue to remain a major part of our sales, it accounted for just 34.2% of our total revenues for the first quarter, compared to 42.8% a year ago and 40.7% in the fourth quarter of 2012. The significant sequential decrease was a result of slow monitor demand, high customer inventory, seasonal slow-downs and reduced sales to our related party customer. Among all our large-sized panel market regions, China continued to show impressive growth year over year.

Sales for small and medium-sized drivers came in at $91.3 million, up 26.1% from the same period last year and up 6.9% sequentially. As a segment, driver ICs for small and medium-sized applications accounted for 51.9% of total revenues for the first quarter as compared to 43.4% a year ago and 44.8% in the previous quarter. Our small and medium-sized driver sales reached another record high in terms of both absolute value and percentage of total revenues, thanks mainly to the fast-growing smartphone sector that has become our single largest revenue contributor. Small and medium-sized applications accounted for over half of total revenues for the first time in our history. Despite of fewer working days due to Chinese New Year, we managed to achieve a sequential growth mainly because of the strong sales to first-tier international smartphone brands. The strong year over year growth is a result of the robust sales of smartphone, tablet and automotive display applications.

Revenues from the non-driver businesses were $24.3 million, up 6.2% from the same period last year and down 12.0% sequentially. Non-driver product revenues accounted for 13.9% of total revenues, as compared to 13.8% a year ago and 14.5% in the previous quarter. The sequential decline is mainly a result of weak sales of CMOS image sensor, which we predicted in the last earnings call. We will elaborate on this later. Our first quarter non-driver businesses overall grew a mere 6.2% year over year. We believe the less-than-ideal growth of the Q1 non-driver products was a temporary setback. We are confident that our non-driver products will resume their strong growth momentum during Q2 and throughout the rest of the year. I will discuss more on some of these product areas a bit later after Jackie's remarks on our financials.

While revenues from our related party continued to decline, we saw strong growth from other customers. Related party sales were down 27.4% from the previous quarter and down 30.4% from the same period last year. In comparison, revenues from non-related parties went up 1.3% quarter over quarter and grew 27.3% year over year. Related party sales accounted for 25.0% of total sales in the first quarter, compared to 37.9% a year ago and 31.8% in the previous quarter. This related party customer remains our single largest customer with sales made to them mainly in large panel driver IC products. 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 first quarter 2013 was 24.6%, a 170 basis points expansion from 22.9% a year earlier and a 130 basis points improvement from 23.3% in the previous quarter. This is the sixth consecutive quarter of gross margin improvement and the highest gross margin level since the third quarter of 2008. The trend in our margin expansion is a direct result of a richer mix of higher margin products like those in our non-driver categories and the fast-growing small and medium-sized panel drivers which are trending toward higher resolution. Gross margin improvement will continue to be one of our business goals going forward.

Our GAAP net income for the first quarter was $14.0 million, or 8.2 cents per diluted ADS, up from $11.3 million, or 6.6 cents per diluted ADS, for the same period last year, and slightly down from $14.8 million, or 8.6 cents per diluted ADS, in the previous quarter. GAAP EPS beats our guidance as a result of higher sales and better gross margin.

In summary, we are pleased with the top and bottom line performance of the first quarter of 2013 when, during a low season period, we achieved both margin expansion and profitability improvement. We will continue to execute our strategy and are excited about further growth opportunities ahead of us.

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 outlook for the remaining quarters of the year and our second quarter 2013 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 $26.4 million in Q1 2013, up 11.8% from $23.7 million a year ago and up 4.9% from $25.2 million in the previous quarter. The increase was mainly resulted from higher expenses related to salaries for R&D's new hires and new product developments.

GAAP operating income for the first quarter of 2013 was $16.8 million, or 9.5% of sales, up $2.3 million compared to the same period last year and down $2.5 million from the previous quarter.

Non-GAAP net income in the first quarter was $15.0 million, or 8.8 cents per diluted ADS, up from $12.1 million, or 7.1 cents per diluted ADS, for the same period last year, and down from $15.7 million, or 9.2 cents, per diluted ADS, in the previous quarter. Non-GAAP net income represents a growth of 23.6% year over year and a decrease of 4.4% as compared to the previous quarter.

Our cash, cash equivalents and marketable securities were $158.9 million at the end of March, 2013, a significant increase from $102.1 million for the same time last year and $138.9 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 $74.1 million at the end of the quarter, down from $84.2 million during the same period last year and no changes compared to the last quarter. The restricted cash is used to guarantee the company's short term loan for the same amount. We want to stress that Himax remains debt-free.

Inventories as of March 31, 2013 were $138.3 million, up from $118.5 million a year ago and up from $116.7 million a quarter ago. We raised the inventory level to accommodate for the expected increase of shipments during the second quarter. Accounts receivable at the end of March were $189.9 million as compared to $189.0 million a year ago and $209.0 million last quarter. DSO was 97 days at end of March, 2013, as compared to 103 days both a year ago and at end of the last quarter. The 97-day DSO signifies an improvement compared to the level between 103 and 109 days over the past 4 quarters.

Net cash inflow from operating activities for the first quarter was $29.4 million as compared to $3.6 million during the same period last year and $52.4 million in the previous quarter.

Capital expenditures were $4.7 million in the first quarter versus $1.6 million a year ago and $2.2 million last quarter. The capital expenditure was mainly for the purchase of some in-house driver IC testers to cope with higher demands anticipated due to strong smartphone and tablet driver sales. While we outsource the majority of our driver IC testing, we have always maintained a certain level of in-house testing facility for the purpose of both R&D and mass production.

We paid an annual dividend of 6.3 cents in July 2012, which equals to 100% of our net income for the year ended December 31, 2012. The board will decide on our 2013 dividend soon.

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 March 31, 2013. No ADS was purchased in Q1 2013 because our share price appreciated significantly in the quarter. As of March 31, 2013, Himax had 169.6 million ADS equivalents outstanding. Out of the total share repurchase plan of $25 million announced in June 2011, $11.6 million remains unused. We will continue to execute the remaining share repurchase program in accordance with Rule 10b-18 and in compliance with any other applicable legal, regulatory and contractual restrictions.

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

Q2 2013 Outlook

Mr. Jordan Wu: Thank you, Jackie. As detailed on our last call, 2012 was a year of transition when we delivered robust revenue and earnings growth on the back of successful customer and product diversification. Throughout 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 IC remains one of our major businesses and will continue to be part of our major revenue stream. As expected, first quarter large panel driver IC sales declined amid a seasonally weak market featuring reduced working days, slow monitor demand and high customer inventory. The sales to our related party customer also declined. We are confident we have maintained a competitive position in the large panel segment and will continue to pursue new growth opportunities presented by China's continued expansion of their overall panel production capacity and potential new business from Korea.

The prospect of our small and medium-sized panel driver business remains a focal point of our business in 2013. We are in a strong position in the smartphone sector with leading technologies, competitive products and good customer line-up. 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. Smartphone application has been the largest revenue contributor among all panel applications since the third quarter of 2012. We expect the sales for smartphone application will continue its growth momentum throughout the rest of 2013. In addition to volume growth, we are also benefiting from the industry trend toward higher resolution as mentioned in our last call. Higher resolution will not only benefit our revenue but also gross margin.

Beyond smartphone, tablet and automotive displays are the other two major applications where our small and medium-sized driver ICs enjoyed the strongest growth. Although the first quarter is usually a low season, the sales for both applications still grew significantly during the quarter. In the tablet market, our penetration covers both international brands and the low-cost white-box market, which surged in 2012 with growth continuing into the first quarter of 2013. We also enjoy a leading market share in automotive display in both before and after markets with leading end user brand customers stretching across all continents. With further design-wins and shipments in the pipeline, we expect these two product lines will continue their growth momentum throughout 2013.

Our non-driver products as a whole declined in the first quarter compared to the last quarter. However, we expect this is a short term setback and growth momentum will return starting Q2 and going forward. I will highlight some of the non-driver product lines below.

We pointed out in the last earnings call that our CMOS image sensor business would suffer from weak demand during the first quarter of 2013 as many of the customers adopting our new sensor products would still be finishing up product tuning and those using existing products were affected by China market's correction and low season. However, we expect our CMOS image sensor product line to rebound strongly in Q2 with sales expected to triple from the previous quarter to become our single largest non-driver segment. Sales are to be boosted by shipments of our 1 mega-pixel sensor for tier-one laptop customers and growing demand for our 2 and 5 mega-pixel sensors from smartphone and tablet makers in China, Taiwan and internationally. With more complete product offerings covering newly-launched 8 mega-pixel and solid shipping track records of our existing products, we expect to break into new and leading smartphone brands in the second half of 2013 and continue to penetrate the tablet, IP Cam, surveillance and automotive markets.

We also continued to make good progress in our ASIC service and video processing IP licensing businesses by winning new projects from top-tier customers. Our execution for the ASIC projects won last year was highly praised by our customers. We have therefore not only obtained additional projects from those existing customers but also leveraged on the track record to win new projects from new international brand customers in Q1, some of which involved projects of massive scale and complicated features. These accomplishments proved our strong R&D capabilities and competiveness in this area. We are excited by this progress and expect this product line to generate more development fees which will contribute to better overall gross margin in 2013.

In several of our previous earnings calls, we updated on the progress of the LCOS technology for new application development. Specifically, we highlighted our collaboration with certain top-tier customers on the new head-mounted display application. I would be remiss not to address the attention lately on our rumored work with certain customers on head-mounted display products. As a general disclosure and PR policy which the members of our team and our IR coordinators abide by, we do not disclose and comment on specific customer information unless it is required by the SEC reporting guidelines or the customer themselves publicly identifies us as a supplier. While the discussions about head-mounted display have reached a fevered pitch, our focus remains to continue to work with our customers to try to bring new head-mounted display products to the market as soon as we can. All such development projects are under strict non-disclosure agreements.

As we mentioned in earlier earnings calls, head-mounted display is a new and exciting product area with a great deal of potential and is an application where we believe our LCOS technology is superior to other competing technologies. We have worked on the application for a long time and pointed out in the Q2 earnings call of 2012 that head-mounted display would be the new focus of our LCOS microdisplay business. In anticipation for potential product delivery ramping, we have recently embarked on certain capital expenditure to upgrade our in-house LCOS facilities.

In addition to head-mounted display, our LCOS microdisplays are applied by numerous partners to create other new application products such as pico-projector, head-up display for automotive application and projectors for toy application. We remain committed to the long-term development of LCOS microdisplay technology and its exciting new applications and market potential. We believe these developing applications will augment Himax's long-term growth and further diversify our revenue stream.

With all these new developments and design-wins of our non-driver products, we expect our non-driver businesses to grow strongly in Q2 2013 and beyond. We will continue to lift the non-drivers' percentage of total sales to further diversify sales base and improve gross margin.

Comment about F-3

Now I would like to spend a few minutes to talk about the shelf registration statement which we filed on April 30, 2013. The filing was mainly in response to the request of Innolux Corporation, one of our major shareholders, to register its entire shareholding in Himax in order for it to facilitate an SEC registered offering. We have been advised that Innolux intends to dispose of its entire holding of Himax's shares. The shelf registration will expire in three years regardless of whether the Company and/or Innolux will have taken down the entire registered number of shares. The shelf registration statement allows Himax and Innolux to offer and sell shares from time to time before the registration expires, in one or more public offerings, of up to 25,472,673 ADSs and 25,399,753 ADSs respectively. For more details regarding our shelf registration statement, you may also refer to our press release on April 30.

Absent Innolux's planned sale, we would not have filed the shelf registration statement at this point. We decided to file for our own primary shares because the shelf registration statement, once declared effective by the SEC, would remain in place for a period of three years, during which time we may offer and sell new shares at any time without going through the registration and SEC review process. Himax does not currently intend to issue any of the primary shares registered under the shelf registration statement. If we should do a primary offering in the future, we will decide on the timing and specifics of any such offering, including price and use of proceeds, on a case-by-case basis for each offering and these will be set out in a prospectus supplement filed with the SEC at the time of the future offering.

Innolux has publicly stated that the planned disposal of shares is part of its divestment strategy as it intends to focus on its core business of TFT-LCD manufacturing. We will continue to work hard to be a value-added supplier to Innolux so as to continue to keep Innolux a significant customer after the sale of shares.

Since we are not issuing new shares, Innolux's sale of shares will not result in dilution of our outstanding shares. We should also point out that Innolux's selldown will significantly increase our public float, potentially boosting Himax's share liquidity and broadening our shareholder base.

After this offering, in accordance with US GAAP ASC 850, we will no longer consider our transactions with Innolux as related party transactions. Our current director, Mr. Tien-Jen Lin, a special assistant to the General Manager of Innolux, will leave our board of directors after the completion of the sales. We intend to elect a new and independent director to fill the vacancy during the next general shareholders meeting in the third quarter.

Q2 Guidance

For the second quarter, we expect a 17% to 20% growth in our revenues compared to the last quarter. Gross margin is expected to be around flat compared to the first quarter of 2013. GAAP earnings attributable to shareholders per diluted ADS are expected to be in the range of 10.5 to 11.5 cents per diluted ADS based on 171.9 million outstanding ADSs. Non-GAAP earnings attributable to shareholders are expected to be in the range of 11.1 to 12.1 cents per diluted ADS based on 171.9 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 August. As a final note, Jackie Chang, our CFO, will be on a non-deal road show in the U.S. during the fourth week of May. We also have plans to attend investor conferences hosted by various banks.

Please contact Jackie or John Mattio at MZ Group if you are interested in meeting with us in person. Thank you and have a nice day!