Himax Technologies, Inc. Q3 2015 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): TOLL-FREE: 1-855-842-5904 TOLL/INTERNATIONAL:1-720-634-2980	**Replay Dial-In Numbers:** TOLL-FREE: 1-855-859-2056 TOLL/INTERNATIONAL: 1-404-537-3406 From: 11/12/15 Eastern Standard Time To: 11/19/15 at 11:59 p.m. Eastern Standard Time Replay Pin Number: 58792044

Operator: Opening and standard introduction.

John Mattio: Thank you, operator. Welcome everyone to Himax's third quarter 2015 earnings call. Joining us from the company are Mr. Jordan Wu, President and Chief Executive Officer, and Ms. Jackie Chang, Chief Financial Officer. After the company's prepared comments, we have allocated time for questions in a Q&A session. If you have not yet received a copy of today's results release, please call 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, 2014 filed with SEC as amended.

Except for the Company's full year of 2014 financials which were provided in the Company's 20-F, filed with the SEC on April 15, the financial information included in this conference call is unaudited and consolidated, and prepared in accordance with US GAAP accounting. Such financial information is generated internally and has not been subjected to the same review and scrutiny, including internal auditing procedures and external audits by an independent auditor, to which we subject our annual consolidated financial statements, and may vary materially from the audited consolidated financial information for the same period. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

Q3 2015 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 third quarter, and provide our fourth quarter guidance and outlook. Our CFO, Jackie Chang, will also detail more specifics on our financial performance after my overview.

Our 2015 third quarter revenue was $165.6 million, higher than the guided $154.0 to $160.7 million. Gross margin came in at 21.8% compared to our approximate 22.3% guidance. Third quarter GAAP losses per diluted ADS were 1.4 cents and non-GAAP earnings per diluted ADS were 1.0 cents, while we guided GAAP losses of 1.5 to 0.9 cents and non-GAAP earnings of 1.0 to 1.6 cents. We will review the currency exchange variables which affected our net income a bit later in our financial review.

Let's begin with our sales numbers. Our third quarter revenue of $165.6 million represented a 2.1% sequential decrease from the previous quarter and a 25.5% decrease from the third quarter of 2014. Overall, our driver IC sales came in better than guidance across all applications during the quarter. The gap between our guidance and actual shipments mainly came from rush orders toward the quarter end. Being a DDIC industry leader, we were capable of responding to such short-term shipping scheduling challenges and therefore benefitted from the inflow of rush orders.

Let's now review our various business segments in greater detail.

Revenue from our large panel display drivers was $50.5 million, a decrease of 6.9% sequentially, and down 17.5% from the third quarter of 2014. Large panel driver IC accounted for 30.5% of our total revenues for the third quarter, compared to 32.1% in the last quarter and 27.5% a year ago. Although the overall large panel revenue decreased year-over-year, our driver IC business for TVs outperformed the market, growing more than 25% during the first three quarters versus the market growth of around 11%. This was due to market share gains in the Chinese panel manufacturer market and increasing 4K TV panel builds in China. The overall weakness in our combined large panel DDIC segment was a result of decreasing demand from monitor and NB sectors.

Onto revenue for small and medium-sized drivers, revenues from this segment came in at $84.3 million, up 1.8% sequentially and down 25.6% from the same period last year. Driver ICs for small and medium-sized applications accounted for 50.9% of total sales for the third quarter, as compared to 48.9% in the previous quarter and 51.0% a year ago. During the quarter, geographically, our revenues to Korean end customers grew sequentially while those to Chinese smartphone OEMs declined. On the other hand, the year-over-year decline was a continuous reflection of weak smartphone and tablet markets this year, worsened by key Korean customer strategically increasing the weight of AMOLED panels in their smartphone product portfolio which we haven't been able to service yet.

Revenues from our non-driver businesses were $30.8 million, down 4.2% sequentially and down 35.6% from the same period last year. Non-driver products accounted for 18.6% of total revenues, as compared to 19.0% in the previous quarter and 21.5% a year ago. CMOS image sensor business was the main factor behind the decline. CIS aside, the rest of our non-driver products were down only slightly year over year due to a soft consumer electronics market. Our CMOS image sensors experienced a series of slow quarters this year even though we remain one of the market share leaders in notebook application. The reason for this is found in the weak demand of low end smartphones, the main target market for our 2MP and 5MP sensors. At the same time, we weren't able to ramp 8MP and 13MP at the pace we planned, for reasons which we will elaborate a bit later. Overall, during the first three quarters of this year, CMOS image sensors sales declined more than 50%.

Our GAAP gross margin for the third quarter was 21.8%, a 200 basis points decrease from 23.8% in the previous quarter and down 270 basis points from 24.5% in the same period last year. As guided, we anticipated this result due to pricing pressure of DDIC products and lower NRE income. During the quarter, panel makers have become very cost sensitive, pressured by weakening demands and decreasing panel prices. Our gross margin demonstrated this consequence. Various costs-down measures from our end have already been under way, yet cycle time difference between inventory build-up and actual product shipment hindered the benefit from emerging quick enough. We expect the driver IC pricing pressure to overhang for the next few quarters. However, we do anticipate increasing new development activities, largely in the areas of LCOS and WLO, which will result in additional NRE incomes to lift our gross margin. More importantly, such development activities will eventually lead to mass production, enhancing our gross margin even further in the long run.

Our GAAP net loss for the third quarter was $2.3 million, or 1.4 cents per diluted ADS, compared to GAAP net income of $8.8 million, or 5.1 cents per diluted ADS, in the previous quarter and GAAP net income of $11.1 million, or 6.5 cents per diluted ADS, for the same period last year. The sequential profit decline was caused by lowered revenue and gross margin, and higher operating expenses. Likewise, the year over year revenue and gross margin also declined but lower operating expenses helped offset some of the bottom line pressure. The Q3 2015 GAAP net loss also reflects an additional $3.7 million income tax resulting from NTD devaluation against the US in the quarter, which, for the obvious reason, wasn't counted in our guidance provided in the last earnings call.

Jackie Chang, our CFO, will now provide more details on the income tax situation and our financial results. After Jackie's presentation, we will further discuss our third quarter results from a sector-view and then fourth quarter 2015 guidance.

Jackie……

Ms. Jackie Chang: Thank you, Jordan.

GAAP operating expenses were $38.5 million in Q3 2015, up 22.6% from the previous quarter and down 7.8% from a year ago. The significant sequential increase was caused by the higher RSU expense in the third quarter which was considered in our guidance. We managed to keep our year-to-date GAAP operating expenses flat year over year while we continued to pursue new business opportunities. As an annual practice, we reward employees with annual bonus at the end of September each year which always leads to an increase in the third quarter GAAP operating expenses compared to the other quarters of the year. This year, the annual bonus compensation, including shares and cash payout, totaled $5.0 million, out of which $4.5 million was vested immediately and expensed in the third quarter of 2015. In comparison, the annual bonus compensation was much higher at $15.1 million last year, out of which $9.3 million was vested immediately.

Excluding the RSU charge, our third quarter operating expenses were $34.0 million, up 8.3% from the previous quarter and up 4.6% from the same quarter 2014. Both increases were related to increased salary expenses caused by higher engineering headcount, annual salary raises, and continued project tape-outs. This is in line with the repeated indications we made before that despite ongoing expense control in response to macro uncertainty, we are still expanding in our LCOS and WLO businesses. The combined total headcount of the two areas is expected to be up by around 200 during 2015.

GAAP operating loss for the third quarter of 2015 was $2.5 million or -1.5% of sales, compared to operating income of $8.9 million last quarter and $12.6 million the same period last year.

Excluding share-based compensation and acquisition-related charges, non-GAAP net income for the third quarter of 2015 was $1.7 million, or 1.0 cents per diluted ADS, compared to $9.3 million last quarter and $19.1 million the same period last year.

As Jordan mentioned earlier, our third quarter EPS reflects an adjustment of an additional $3.7 million, or 2.2 cents per diluted ADS, of expected income taxes. This is a direct result of NT dollar devaluation against the US dollar during the course of this year. We make timely adjustments, when deemed necessary, to reflect the effect of NTD/USD exchange fluctuation on our taxation. As of November 9th, 2015, the NTD stood at 32.66 against the USD, significantly depreciated from the 30.86 at the end of June. This would lead to approximately $5.4 million more income tax charge for us than otherwise for 2015 full year. As we have already made approximately $3.7 million, or 2.2 cents per diluted ADS, of adjustment in the third quarter, we have included another $1.7 million, or 1.0 cents per diluted ADS, of additional income tax charge in the fourth quarter guidance, assuming that the exchange rate at the end year stands at exactly the same level as that of today. Obviously, the final outcome will depend on the actual exchange rate at the end of the year.

We would like to emphasize that the exchange rate has very little effect on our margins and operating results as we maintain vast majority of our cash, conduct our entire buy and sell activities, and keep our books all in US dollars. The only major impact it has is on our effective income tax. This is because we pay literally all our taxes in Taiwan where tax authorities determine our tax based on our NT dollar dominated ROC GAAP accounting. In general, as NT dollar depreciates against US dollar, as has been the case so far this year and especially starting from July, we are worse off in our US GAAP effective tax rate and vice versa. We choose to maintain natural hedge in our operational activities as we believe it minimizes the overall exchange rate impact over time.

Our cash, cash equivalents, and marketable securities were $126.0 million at the end of September 2015, down from $164.5 million last quarter and down from $147.7 million during the same time last year. We made a cash RSU payment of $4.5 million and a dividend of $51.4 million during the quarter. In addition to our cash position, our restricted cash was $180.4 million at the end of the quarter. The restricted cash is mainly used to guarantee the Company's short term loan for the same amount. We continue to maintain a strong balance sheet, and we remind investors that we remain a debt-free company.

Inventories as of September 30, 2015 were $177.7 million, down from $189.6 million last quarter and up from $157.1 million for the same period last year. As indicated on the last earnings call, we were able to lower inventory levels starting the third quarter and we will continuously monitor its progress. Accounts receivable at the end of September 2015 were $168.0 million, as compared to $182.3 million last quarter and $218.8 million for the same period last year. DSO was 89 days at end of September 30, 2015, as compared to 95 days at end of the last quarter and 97 days the same period a year ago. The decrease of DSO was due to more efficient cash collection from credit sales.

Net cash inflow from operating activities for the third quarter of 2015 was $14.1 million, as compared to cash outflow of $13.8 million for the second quarter of 2015 and cash inflow of $22.8 million for the third quarter of 2014. The quarter-over-quarter increase was due to lower purchasing costs and income tax payment in the third quarter. The year-over-year decline was mainly due to a decrease in accounts payable at the end of the quarter, offset by lower accounts receivable in the quarter.

Capital expenditures were $2.6 million during the third quarter of 2015 versus $2.0 million last quarter and $2.1 million for the same period last year. Among other things, we continued to expand our clean room facilities for our WLO product lines, and purchase LCOS manufacturing equipment during the quarter.

As of September 30, 2015, Himax had 171.9 million ADSs outstanding, little changed from the last quarter. On a fully diluted basis, the total number of ADSs outstanding is 171.9 million.

I will now turn the floor back to Jordan.

Q4 2015 Outlook Introduction

Thank you, Jackie. The past three quarters have been marked by macro uncertainties and soft demand across consumer electronics in general. Amidst the unfavorable market environment, we continue to solidify our leading position through technology advancement and customer engagement. In the mean time, we are still working closely with top tier partners in developing products which are exploring new frontiers of technologies. Himax stands out from our peers because of such innovative and forward looking activities. Our confidence in growth opportunities are further reaffirmed by the progress of our core business, such as TDDI products for smartphones and tablets, and market share gains for our large panel driver ICs. Our LCOS and WLO businesses, while still in small volume, entered pilot production with a top tier customer in the third quarter. Equally important for LCOS and WLO, we are pleased to see quite a few new project engagements with exciting potentials during the quarter, some of which involve applications other than head mounted display.

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

Q4 Guidance:

For the fourth quarter of 2015, we expect revenue to be between flat to 5% up compared with the previous quarter. Gross margin is expected to be flat to slightly up from the previous quarter, depending on our final product mix. GAAP earnings attributable to shareholders are expected to be in the range of 1.0 to 3.0 cents per diluted ADS based on 172.3 million outstanding ADSs.

Q4 2015 Outlook

Now let me provide you with some details behind our guidance and trends that we see developing in our businesses. In **large panel driver sector**, we are pleased to report that, after a slow third quarter, our driver ICs for TV will regain momentum in Q4 as a result of increasing shipments to Chinese panel customers, who have been continually ramping capacity during the year and bringing more on line. It is especially worth mentioning that our engineering collaboration and design-in activities with Chinese panel customers remain robust despite the soft sentiment and we are encouraged that there will be additional two to four Gen 8.5 and one Gen 10.5 Chinese panel fabs ready for mass production from now till 2018. This new capacity will translate into future growth opportunities for us. On top of strong projections for TV, we are also seeing sequential growth for driver ICs for NB and monitor, thanks to recovering demand. Thus, we expect to see double-digit growth in large panel DDIC in the fourth quarter. The large panel driver IC will remain one of the key growth areas for our business going forward.

The other segment in our driver business is ICs used in **small and medium-sized panels** for applications including smartphones, tablets and automotives. Fourth quarter sales for smartphones are likely to decrease from our primary Korean end customer. However, we expect the sales for smartphones from our Chinese customers to grow modestly in the fourth quarter as they launch new models. As highlighted in our previous earnings call, we were positive that the resolutions would trend above HD720, especially to FHD, from the third quarter. This has successfully played out and we expect the trend to continue in the fourth quarter and beyond. As a testament to this trend, we are glad to see key design-wins in our pipeline.

For our driver ICs used in tablets, as previously indicated, demands have stabilized after declining for quite a few quarters and those for 10” and above have been on the rise in China. This is a favorable trend and the momentum should carry through 2016.

Among driver ICs used in small and medium-sized panels, the best-performing category in 2015 is automotive applications. We remain confident that we should see year-over-year growth for this segment since more and more panels are going into automobiles as navigation systems, central displays, and smart rear-view mirrors. We have comprehensive coverage of all panel makers in automotive sector across Japan, Korea, China and Taiwan, and have successfully secured many of their key projects pipelined for the next few years.

Despite these positive trends, they are mostly 2016 stories. Looking at the fourth quarter, the market conditions remain lukewarm although we are starting to see signs of recovery. Our small and medium-sized driver segment looks to decline by high single digit in the quarter sequentially.

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

Our touch panel controller product line, as mentioned on our last earnings call, grew sequentially since several of our on-cell design-wins entered mass production at multiple major end customers. We believe on-cell shipments will continue to grow beyond 2015. On top of that, we are also excited about our technological advances and product development progress in the latest pure in-cell technology. We are one of the pioneers in offering one-chip solutions integrating driver IC and touch panel controller, or TDDI. Driven by leading TFT-LCD makers, the industry is moving towards pure in-cell panels, which remains poised to start production this quarter in small volume. We are seeing a growing number of end product customers showing high interest in TDDI as a spec for high end devices. Since we are in partnerships with essentially all of the leading panel manufacturers in pure in-cell touch for joint technological development, we feel there is a strong market for us going forward with less competition. We believe it will contribute more significantly beyond 2H16.

Moving on to our CMOS image sensors, though a leader in the driver IC space, we have to admit that we are still a new comer in the high end CMOS image sensor business. We launched 8MP and 13MP in 2014 but missed the market opportunity due to a lack of some of the new product features for high end phones, notably Phase Detection Auto Focus (PDAF) that enables fast auto focus when taking pictures or recording videos. PDAF was first adopted in iPhone6 and has since become a popular feature for new designs of high end smartphones. We are catching up fast. We believe we will be one of the few players capable of providing PDAF-equipped CMOS image sensors in the very near future. We will report progress in due course.

During the past few months, we have received concerns from investors about our LCOS and WLO businesses and how things are evolving given we defined the 2H of

2015 as an inflection point, and yet there are no significant volume results to date. For the record, we would like to reiterate our confidence and commitment to these businesses. On the horizon of new technologies, we see augmented reality (AR) as one of few disruptive technologies on radar screens of our brand customers and consumers. Having invested in the technologies for over 15 years, we are uniquely positioned as the provider of choice for microdisplay and related optics to enable AR. LCOS microdisplay and a highly customized optical system are to account for one of the parts with the highest value in the bill-of-material (BOM) of any AR products. In addition to HMD, our LCOS also enables next generation, full color heads-up displays (HUD) for automotives. Separately, our WLO has been adopted to be microdisplay wave-guides for HMD by some customers. It can also be used in completely different applications, such as array cameras and special purpose sensors.

Our LCOS and WLO businesses hit an inflection point in September with pilot production shipment made to a major customer. We continue to plan our expansion based on indications from our customers. However, we would like to remind investors that our success is tied to our customers'. We will only enjoy mass volume when our customers successfully commercialize this new product concept.

While still in nascent stages, head mounted devices, especially those for AR application, look set to become a valuable enterprise and business tool with consumer adoption to follow a few years later. From where we stand, we are witness to accelerating activity in the AR space along with significant investment activities across leading semiconductor companies and end product players. Looking back on the past 15 years, Himax has invested more than $100 million in LCOS and WLO technologies, close to $15 million this year alone. We have been careful in these investments as we know we can't risk sacrificing short term profits too much despite our long term optimism. Our commitment and vision have led to a solid and unrivaled top notch customer portfolio.

And that will conclude our non-driver business segment. Overall, we expect our non-driver segment to decline by mid single digit sequentially in the fourth quarter.

Thank you for your interest in Himax. We appreciate you joining today's call and are now ready to take questions.

OPERATOR TO QUEUE QUESTIONS

Jordan's closing remarks

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