



Himax Technologies, Inc. Q3 2018 Unaudited Financials and Investor Update Call

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<p>Moderator/Speaker Dial-In Numbers (for John Mattio Jordan Wu, Jackie Chang and Ophelia Lin): Leader Dial in (toll free) (855) 842-5904 Leader Dial in (international) (720) 634-2980 Conference ID number: 3755507</p> <p>Direct URL to Live Call Console http://www.leaderview.com/leaderview/la.jsp Conference ID number: 3755507 Web PIN: 1069</p>	<p>Replay Dial-In Numbers: TOLL-FREE: (855) 859-2056 TOLL/INTERNATIONAL: (404) 537-3406 From: 11/08/2018 at 11:30 am EST To: 11/15/2018 at 11:30 am EST Replay Pin Number: 3755507</p>

Operator: Opening and standard introduction.

John Mattio: Thank you, operator. Welcome everyone to Himax's Third quarter 2018 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 email jmattio@lamniaintl.com 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 events or results to differ materially from those described in this conference call 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, 2017 filed with SEC in March, 2018.

Except for the Company's full year of 2017 financials, which were provided in the Company's 20-F and filed with the SEC on March 28, 2018, the financial information included in this conference call is unaudited and consolidated, and prepared in accordance with IFRS 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 Ms. Jackie Chang – the floor is yours.

Q3 Results

Ms. Jackie Chang: Thank you John and thank you everybody for joining us. Our outline for today's call is first to review the Himax consolidated financial performance for the quarter and to provide you with our outlook for the fourth quarter of 2018. Jordan will then give an update on the status of our business, after which we will take questions. We will review our financials on both IFRS and non-IFRS basis. The non-IFRS financials exclude share-based compensation and acquisition-related charges.

Our third quarter 2018 revenues, gross margin and EPS all exceeded our guidance issued on August 9 and were in line with our October 5 pre-announced key financial results. For the third quarter, we recorded net revenues of \$188.4 million, an increase of 3.9% sequentially and a decrease of 4.4% year-over-year. Revenues were better than our guidance of flat QOQ. The revenues increase in the quarter was attributed to greater-than-expected production outputs of the new foundries for both large display driver ICs and TDDI chips that allowed us to fulfill more customer orders. As anticipated, our WLO shipment volume to an anchor customer also increased significantly against that of Q2 2018. Gross margin was 23.4%, up 40 basis points sequentially, outperforming the guidance by 90 basis points. A more favorable product mix and stronger-than-expected engineering fees from project engagements enhanced the gross margin. IFRS earnings

per diluted ADS were 0.5 cents, better than the guidance of around -1.0 cents. Non-IFRS earnings per diluted ADS were 2.6 cents, outperforming the guidance of around 1.5 cents.

Revenue from large display drivers was \$66.3 million, up 9.4% sequentially, and up 20.6% year-over-year, driven by increasing 4K TV penetration and Chinese panel customers' ramping of new LCD fabs. Large panel driver ICs accounted for 35.2% of our total revenues for the third quarter, compared to 33.4% in the second quarter of 2018 and 27.9% a year ago.

Revenue for small and medium-sized display drivers came in at \$85.0 million, down 4.8% sequentially and down 2.6% year-over-year. The driver ICs for the segment accounted for 45.1% of total sales for the third quarter, as compared to 49.2% in the second quarter of 2018 and 44.2% a year ago. Sales into smartphones were down 30.5% sequentially, as opposed to 40% that we indicated in the last earnings call, due to better-than-expected TDDI production output in the early ramp of our new foundry. With the major addition of TDDI capacity available to us, we are very optimistic about the smartphone business growth in Q4 and next year. Jordan will elaborate on this a bit later.

Our driver IC revenue for automotive applications recorded another historical quarter, up 18.3% sequentially and 55.4% year-over-year. The quarterly revenue reached \$33.9 million, accounting for more than 22% of our driver IC revenue. We are happy with the strong momentum and our leading market position in this space.

Revenues from our non-driver businesses were \$37.1 million, up 18.0% sequentially but down 32.5% from last year. Non-driver products accounted for 19.7% of total revenues,

as compared to 17.4% in the second quarter of 2018 and 27.9% a year ago. The sequential increase was mainly driven by the significantly higher WLO shipments to an anchor customer. The year-over-year decrease was due mainly to certain one-off customer reimbursement totaling \$13.3 million booked in Q3 2017 in relation to the AR goggle business. We expect WLO shipments to continue to increase strongly in the fourth quarter and into 2019. Jordan will also elaborate on this a bit later.

Our IFRS gross margin for the third quarter was 23.4%, up 40 basis points from 23.0% in the second quarter of 2018 but down 210 basis points from the same period last year. The sequential increase was due mainly to improved product mix. The year-over-year decrease was, again, due to the one-off customer reimbursement mentioned above. The reimbursement accounted for 120 basis points in Q3 2017.

Our IFRS operating expenses were \$43.4 million in the third quarter, up 5.0% from the preceding quarter and down 7.7% from a year ago. The sequential expense increase was caused by \$3.8 million of RSU expense, offset by R&D and salary expenses reduction of \$1.7 million. The year-over-year decrease was mainly a result of reduced RSU and R&D expenses. As an annual practice, we reward employees with an annual bonus at the end of September which always leads to a substantial increase in the third quarter IFRS operating expenses compared to the other quarters of the year. This year, the RSU grant totaled \$3.9 million, out of which \$3.8 million was vested immediately and expensed in the third quarter. The remainder will be vested equally at the first, second, and third anniversaries of the grant date. The non-IFRS operating expenses for the third quarter were \$38.8 million, down 5.3% from the previous quarter and down 3.6% from the same quarter 2017.

IFRS operating margin for the third quarter was 0.4%, down from 1.7% in the same period last year and little changed from 0.3% in the prior quarter.

Third quarter non-IFRS operating income was \$5.4 million, or 2.9% of sales, down from 5.2% for the same period last year and up from 0.5% a quarter ago.

IFRS profit for the third quarter was \$0.9 million, or 0.5 cents per diluted ADS, compared to \$2.0 million, or 1.2 cents per diluted ADS, in the previous quarter and \$3.6 million, or 2.1 cents per diluted ADS, a year ago. The year-over-year decrease was, again, due to the one-off customer reimbursement mentioned above.

Third quarter non-IFRS profit was \$4.5 million, or 2.6 cents per diluted ADS, compared to \$2.3 million, or 1.3 cents per diluted ADS last quarter and \$8.9 million, or 5.2 cents per diluted ADS the same period last year.

Turning to our balance sheet, we had \$102.9 million of cash, cash equivalents and other financial assets as of the end of September 2018, compared to \$151.6 million at the same time last year and \$126.7 million a quarter ago. The cash position dropped \$23.8 million from last quarter due primarily to the dividend payout of \$17.2M and capex of \$8.2 million.

On top of the above cash position, restricted deposit was \$164.3 million at the end of the quarter, as compared to \$147.0 million in the preceding quarter and \$147.2 million a year ago. The increase is due to additional restricted cash deposit made to guarantee the

dividend payment withdrawn from the banking facility in the quarter. The restricted deposit is mainly used to guarantee the Company's short-term borrowings for the same amount.

As of September 30, 2018, our inventories were \$145.8 million, up from \$142.1 million a quarter ago and \$130.1 million at the same time last year. Accounts receivable at the end of September 2018 were \$187.6 million as compared to \$183.2 million a year ago and \$176.3 million last quarter. DSO was 96 days at the end of September 2018, as compared to 99 days a year ago and 93 days at end of the last quarter.

Net cash inflow from operating activities for the third quarter was \$2.2 million as compared to an inflow of \$16.9 million for the same period last year and an outflow of \$2.8 million last quarter. The year over year variance is mainly due to inventory pre-build in reaction to foundry capacity shortage. We expect this will repeat in the fourth quarter.

Capital expenditures were \$8.2 million in the third quarter versus \$10.1 million a year ago and \$17.7 million last quarter. The third quarter capex consisted mainly of ongoing payments for the new building's construction, WLO capacity expansion and installation of active alignment equipment for our 3D sensing business.

As of September 30, 2018, Himax had 172.1 million ADS outstanding, unchanged from last quarter. On a fully diluted basis, the total ADS outstanding are 172.5 million.

Q4 2018 Guidance:

For the fourth quarter of 2018, we expect revenues to be around flat to up 5.0% sequentially. Gross margin is expected to be around 24.2% to 25.2%, depending on our

final product mix. IFRS earnings attributable to shareholders are expected to be in the range of around 1.5 to 3.6 cents per diluted ADS based on 172.6 million outstanding ADSs. Non-IFRS earnings attributable to shareholders are expected to be in the range of 1.7 to 3.8 cents per diluted ADS based on 172.6 million outstanding ADSs.

I will now turn the call over to Jordan.

Q4 2018 Outlook

Mr. Jordan Wu:

Thank you, Jackie.

Our Q3 results outperformed the original guidance. As indicated in the last earnings call, we are confident that we are moving out of the trough and will deliver better performance in the fourth quarter and next year. We are seeing solid growth momentum in the areas of TDDI, WLO and large display driver IC in the fourth quarter, despite the prevailing weak sentiment in the overall consumer electronics and in particular the smartphone market. Traditional discrete display driver for smartphone, however, will continue to decline in Q4 as it is being quickly replaced by TDDI and AMOLED as we mentioned repeatedly. The other area of decline in Q4 will be the display driver for tablet, a sector which is still experiencing weak market demand. Now let me give you some insights behind our Q4 guidance and trends that we see developing in our businesses.

Display Driver IC Business

LDDIC

Our large display driver IC business recorded high-single-digit growth in the third quarter due mainly to a few factors, namely, improved supply from the newly added foundry capacity, our Chinese panel customers' ongoing capacity expansion, and shipment to a new panel customer who only started ramping up their first fab lately. The ramping of our new foundry was in good progress as more of our panel customers completed qualification with their customers for the new capacity. Looking into Q4, we are seeing continued strength in customer demands and we are able to improve order fulfillment from last quarter, despite the new emergence of an industry-wide capacity constraint in relation to the packaging of the large panel display driver IC. With that, we expect large display driver business to increase by high single digit sequentially.

Looking into the future, many TV manufacturers are planning on introducing consumer-grade super high-end products with 8K resolution, which will benefit both our large panel display driver and timing controller businesses. One of our industry leading customers will be launching a new 8K TV with Himax technology inside in early next year and we expect more to come from this and other customers in the future. Capitalizing on our 4K TV success, we are strongly positioned for this emerging high-end market opportunity.

SMDDIC

Turning to the small and medium-sized display driver IC business, I am pleased to report that we were able to start the mass production of TDDI at the new foundry earlier than the original schedule and achieved greater-than-expected output yield at the early stage of mass production. With the ramping of the new capacity, our constraint of TDDI shipment will be increasingly alleviated starting from the fourth quarter. We will be able to fulfill more

customer orders from the design-wins we already achieved, thereby doubling the revenue of Q4 from the last quarter. With the new capacity's continued ramping, we target to completely resolve our foundry capacity issue in the third quarter of next year. For the time being when our capacity remains a constraint, our resources are prioritized for higher end FHD projects as they yield higher revenue and better margin with less competition.

TDDI penetration is expected to reach more than 30% in smartphone in 2019, representing a tremendous upside potential for Himax. Backed by the new foundry capacity and fast expanding design-win portfolio with tier 1 smartphone OEMs and leading panel makers, we are well positioned to win a major market share in this new space, repeating our historical success in the smartphone display driver IC business. We believe TDDI will be the biggest growth driver for our business in 2019. With higher ASP and better margin, TDDI chips will help improve our corporate sales and profit significantly in 2019.

As expected, our traditional discrete driver IC sales into smartphone is set to decline by close to 50% sequentially in the fourth quarter as the market is being quickly replaced by TDDI and AMOLED. This segment will account for less than 5% of our total sales in the fourth quarter. Combining TDDI and discrete smartphone driver, our Q4 sales into the smartphone market is expected to grow more than 20% sequentially.

During the third quarter, our automotive business continued to perform well and recorded another historical high, delivering a 44.4% growth YOY through nine-month 2018. The demands for more sophisticated and higher performing displays are still rising with automakers. Our technological prowess will continue to separate us from the rest as, for the next generation display for automotive, we are the leader in key technologies such as

TDDI, AMOLED and local dimming timing controller. Q4 revenue in this segment is set to grow around low single digit sequentially as we continue to benefit from our design-wins which took place during the last few years

Our tablet and consumer electronics businesses are expected to decline by over 30% sequentially driven by weak overall market momentum. They account for less than 10% of our total sales in the fourth quarter.

For fourth-quarter small and medium-sized driver IC business, we expect revenue to decrease by low single digit sequentially.

Non-Driver Product Categories

The non-driver IC business segment has been our most exciting growth area and a differentiator for Himax in the past few years. Now let me share some of the progress we made in the last quarter, as well as our views on future growth opportunities. First on 3D sensing business update.

3D Sensing Business

As a leader in 3D sensing, we have participated in most of the smartphone OEMs' ongoing 3D sensing projects covering all three types of technologies, namely structured light, active stereo camera (ASC) and time-of-flight, where we provide 3D sensing total solution or just the projector module or optics inside the module, depending on the customers' needs. By offering either the projector module or critical optics, we have been collaborating with a small handful of smartphone names that have in-house capability to come up with their own customized 3D sensing solutions. We already have one such end customer using our

technology for mass production with two more in the pipeline targeting 2019 product launch. For most Android smartphone makers who don't have such in-house capability, however, we have to provide total solution to enable their 3D sensing. At present, the 3D sensing adoption for this market remains low. The adoption is hindered primarily by the prevailing high hardware cost of 3D sensing and the long development lead time required to integrate it into the smartphone. Instead of 3D sensing, most of the Android phone makers have chosen the lower cost finger print technology which can achieve similar phone unlock and online payment functions with somewhat compromised user experience. Reacting to their lukewarm response, we are working on the next generation 3D sensing with an aim to leapfrog the market by providing high performance, easy to adopt and yet cost friendly total solutions, targeting the majority of Android smartphone players. In addition, we are providing 3D sensing developer kit which is being used to develop applications over both smartphone and non-smartphone platforms. We believe that 3D sensing will be widely used by more Android smartphone makers when the ecosystem is able to substantially lower the cost of adoption while offering easy-to-use, fully-integrated total solutions, for which Himax is playing a key part.

I have mentioned previously that 3D sensing can have a wide range of applications beyond smartphone. While smartphone remains our top priority, we have started to explore business opportunities in various industries by leveraging our SLiM™ 3D sensing total solution. Such industries are typically less sensitive to cost and always require a total solution. Our recently announced collaboration with Kneron, an industry leader in edge-based artificial intelligence, to develop an AI-enabled 3D sensing security and surveillance solution is just an example of real world applications using our 3D sensing technology.

WLO

As anticipated, the shipment volume to our WLO anchor customer for the third quarter was a lot higher than that of the previous quarter, thereby improving our WLO capacity utilization substantially. The fourth quarter will see another very significant sequential growth thanks to the customer's large-scale adoption on more models. The overall 2018 shipment will increase considerably year-over-year. Meanwhile, we are encouraged by the progress of the ongoing R&D projects with the said customer for their next generation products centering around our exceptional design know-how and mass production expertise in WLO technology.

Let me also talk about other WLO businesses. As we mentioned previously, we are already collaborating with a small handful of smartphone makers that have in-house capability to come up with their own customized 3D sensing solutions targeting 2019 product launch. For these customers, we provide full projectors or critical optics inside the 3D sensing module of which WLO optics is a major component.

Capex

Now some update on our capital expenditure. We announced the increase of the Phase I capital expenditure budget, which is on top of our regular capex for the IC design business, from \$80 million to \$105 million in early 2018. The majority of the Phase I investment goes to land and building, new equipment for the WLO anchor customer, and an initial capacity of 2 million units per month for 3D sensing. Of the Phase I capex of \$105 million budget, \$33 million has been paid out in 2017, followed by \$38.6 million made in the first nine months of 2018.

As we mentioned in previous earnings calls, the capex budget will be funded through our internal resources and banking facilities. We have more than sufficient banking facilities with favorable cost for such capex budget.

CMOS Image Sensor

On CMOS image sensor business updates, we continue to make great progress with our two machine vision sensor product lines, namely, near infrared (“NIR”) sensor and Always-on-Sensor (“AoSTM”). NIR sensor is a critical part for both of our structured light and ASC 3D sensing total solutions. On the AoSTM product line, the joint offering of Emza and Himax technologies uniquely positions us to provide ultra-low power, smart imaging sensing total solutions, leveraging Himax’s industry leading super low power CIS and ASIC designs and Emza’s unique AI-based computer vision algorithm. We are pleased with the status of engagement with leading players in areas such as connected home, smart building and security, all of which new frontiers for Himax.

For traditional human vision segments, we see strong demands in laptop and increasing shipment for multimedia applications such as car recorders, surveillance, drones, home appliances, and consumer electronics, among others.

LCOS

I will now give an update on the LCOS business where our main focus areas are AR goggle devices and head-up-displays (HUD) for automotive. While AR goggles will take a few years to fully realize its market potential, LCOS remains the technology of choice in this space. Our technology leadership and proven manufacturing expertise have little competition, evidenced by the growing list of AR goggle device customers and ongoing

engineering projects. In addition, we continue to make great progress in developing high-end holographic head-up displays for high-end automotive. One of our customers will demo its state-of-the-art HUD product with Himax LCOS inside at the 2019 CES. LCOS for both goggle device and HUD represents much higher ASP and gross margin for us. In the meantime, we are working with various OEMs to bring LCOS microdisplays to mini projectors with revenue contribution to start from 2019.

For non-driver IC business, we expect revenue to increase by low single digit sequentially in the fourth quarter, driven mainly by WLO shipment.

That concludes my report for this 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 continue to attend investor conferences. We will announce the details as they come about.

Thank you and have a nice day!