



Himax Technologies, Inc. Q4 and FY 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: 6147328</p> <p>Direct URL to Live Call Console http://www.leaderview.com/leaderview/la.jsp Conference ID number: 6147328 Web PIN: 1069</p> | <p>Replay Dial-In Numbers: TOLL-FREE: (855) 859-2056 TOLL/INTERNATIONAL: (404) 537-3406 From: 2/19/2019 at 11:30 am EST To: 2/26/2019 at 11:30 am EST Replay Pin Number: 6147328</p> |

Operator: Opening and standard introduction.

John Mattio: Thank you, operator. Welcome everyone to Himax’s fourth quarter 2018 and full year 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@lamnaintl.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.

Q4 & FY18 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 full year 2018 and to provide you with our outlook for the first quarter of 2019. 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 fourth quarter 2018 revenues and gross margin met our guidance issued on November 8th while EPS exceeded the guidance. For the fourth quarter, we recorded net revenues of \$191.0 million, an increase of 1.4% sequentially and an increase of 5.5% year-over-year. The revenues increase in the quarter was attributed to the production outputs of newly added foundries for both large display driver ICs and TDDI chips. Our WLO shipment volume to an anchor customer also increased sequentially. Gross margin was 24.3%, up 90 basis points sequentially due to more favorable product mix. IFRS earnings per diluted ADS were 4.9 cents, better than the guidance range of 1.5 to 3.6 cents. The better-than-expected earnings were due to a revaluation gain of 1.7 cents per diluted ADS from an AI startup investment made in November 2017. Non-IFRS earnings

per diluted ADS were 5.0 cents, outperforming the guidance range of 1.7 to 3.8 cents. The better-than-expected earnings were, again, due to the revaluation gain mentioned above.

Revenue from large display drivers was \$74.2 million, up 12.0% sequentially, and up 27.1% year-over-year, driven by Chinese panel customers' continued ramping of new LCD fabs where we have solid design-in penetration. Large panel driver ICs accounted for 38.9% of our total revenues for the fourth quarter, compared to 35.2% in the third quarter of 2018 and 32.3% a year ago.

Revenue for small and medium-sized display drivers came in at \$79.8 million, down 6.0% sequentially and down 1.8% year-over-year. The driver ICs for the segment accounted for 41.8% of total sales for the fourth quarter, as compared to 45.1% in the third quarter of 2018 and 44.9% a year ago. Sales into smartphones were up 20.1% sequentially, thanks to higher sales from TDDI but offset by decreased shipment in traditional driver IC for smartphones. Display drivers for tablet and other consumer products also declined over 30% sequentially. With the major addition of capacity, we are optimistic about the TDDI business growth in 2019. Jordan will elaborate on this a bit later.

Our driver IC revenue for automotive applications stayed strong for the fourth quarter, reaching \$32.9 million, down 3.0% sequentially but up 33% year-over-year, accounting for 21% of our driver IC revenue.

Revenues from our non-driver businesses were \$37.0 million, down 0.5% sequentially and down 10.8% from last year. Non-driver products accounted for 19.3% of total revenues, as compared to 19.7% in the third quarter of 2018 and 22.8% a year ago. The fourth quarter saw continued growth of WLO shipments sequentially, but CIS and timing controller experienced some decline in revenue. The year-over-year decrease was due mainly to lower WLO and timing controller shipments.

Our IFRS gross margin for the fourth quarter was 24.3%, up 90 basis points sequentially and down 30 basis points from the same period last year, both a result of product mix.

Our IFRS operating expenses were \$41.0 million in the fourth quarter, down 5.3% from the preceding quarter and up 1.8% from a year ago. The year-over-year increase was primarily a result of increased R&D expenses. The sequential expense decrease was mainly caused by the difference of the \$3.9 million of RSU charge, offset by R&D and salary expenses increase of \$1.6 million. As an annual practice, 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 IFRS operating expenses compared to the other quarters of the year. The fourth quarter RSU expense was \$0.02 million while it was \$3.9 million in the third quarter. Excluding the RSU expense, operating expenses increased 4.0% from the previous quarter and up 2.0% year-over-year. The QoQ increase was mainly the result of higher R&D expenses during the fourth quarter.

IFRS operating margin for the fourth quarter was 2.8%, up from 2.4% in the same period last year and up from 0.4% in the prior quarter. The IFRS operating income increased 575.8% sequentially and increased 24.8% year-over-year. The sequential increase was

primarily a result of higher gross margin and lower RSU expense. The year-over-year increase was a result of higher sales offset by higher operating expenses.

Fourth quarter non-IFRS operating income was \$5.7 million, or 3.0% of sales, up from 2.6% for the same period last year and up from 2.9% a quarter ago.

IFRS profit for the fourth quarter was \$8.5 million, or 4.9 cents per diluted ADS, compared to \$0.9 million, or 0.5 cents per diluted ADS, in the previous quarter and \$23.5 million, or 13.6 cents per diluted ADS, a year ago. The sequential increase was a result of higher sales, lower RSU expense and the revaluation gain on investment that I mentioned earlier. The year-over-year decrease was, however, mainly the result of an investment gain of \$20.7 million booked in the fourth quarter 2017 as we disposed of a direct investment in Q3 2017 which accounted for 12 cents per diluted ADS. Excluding the investment gains, IFRS profit for Q4 2018 was \$5.6 million or 3.2 cents per diluted ADS versus \$2.8 million, or 1.6 cents per diluted ADS for Q4 2017.

Fourth quarter non-IFRS profit was \$8.7 million, or 5.0 cents per diluted ADS, compared to \$4.5 million, or 2.6 cents per diluted ADS last quarter and \$23.8 million, or 13.8 cents per diluted ADS the same period last year. The sequential and year-over-year variance were from the same reasons stated above. Excluding the investment gains, non-IFRS profit for Q4 2018 was \$5.8 million or 3.3 cents per diluted ADS versus \$3.1M or 1.8 cents per diluted ADS for Q4 2017.

2018 Full Year Summary

Now let's have a quick overview on the 2018 full year financial performance. Revenues totaled \$723.6 million in 2018, representing a 5.6% increase over 2017.

Revenue from large panel display drivers totaled \$260.5 million, an increase of 15.9% year-over-year, representing 36.0% of our total revenues, as compared to 32.8% in 2017.

Small and medium-sized driver sales totaled \$325.7 million, an increase of 6.8% year-over-year, representing 45.0% of our total revenues, as compared to 44.5% in 2017.

Non-driver products sales totaled \$137.4 million, a decrease of 11.6% year-over-year, representing 19.0% of our total sales, as compared to 22.7% a year ago. 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. Excluding \$13.3 million, the year-over-year decrease was 3.3%.

Gross margin in 2018 was 23.3%, down from 24.4% in 2017. The year-over-year decrease was due primarily to the one-off customer reimbursement in 2017 mentioned above.

IFRS operating expenses were \$165.5 million, up \$6.9 million or 4.3% compared to last year. The increase was primarily the result of increased R&D, salary and depreciation expenses offset by reduced RSU charge.

2018 IFRS operating income of \$3.4 million represented a 59.5% decrease versus 2017 mainly for higher operating expenses.

Our IFRS profit for the year was \$8.6 million, or 5.0 cents per diluted ADS, versus \$27.7 million or 16.1 cents per diluted ADS, a decline of 69.0% from last year. Excluding the investment gains that I have explained earlier, our IFRS EPS for the year was 3.8 cents versus 4.1 cents from last year.

Non-IFRS profit for 2018 was \$12.9 million, or 7.5 cents per diluted ADS, down 61.9% year-over-year. Again, the year-over-year decline was due mainly to the investment gains mentioned above. Excluding the investment gains, Non-IFRS EPS for the year was 6.3 cents versus 7.7 cents from last year.

Turning to our balance sheet, we had \$117.7 million of cash, cash equivalents and other financial assets as of the end of December 2018, compared to \$148.9 million at the same time last year and \$102.9 million a quarter ago. On top of the cash position, restricted cash was \$164.3 million at the end of the quarter, same to the preceding quarter and up from \$147.0 million a year ago. The restricted cash is mainly used to guarantee the Company's short-term borrowing for the same amount

Our year-end inventories were \$162.6 million, up from \$145.8 million a quarter ago and up from \$135.2 million at the same time last year. Accounts receivable at the end of December 2018 were \$189.3 million as compared to \$188.8 million a year ago and \$187.6 million last quarter. DSO was 95 days, as compared to 101 days a year ago and 96 days at end of the last quarter.

Net cash inflow from operating activities for the fourth quarter was \$2.3 million as compared to an inflow of \$8.3 million for the same period last year and an inflow of \$2.2 million last quarter. Cash inflow from operations in 2018 was \$4.0 million as compared to \$29.4 million in 2017. 2018's operating cash flow was lower mainly because, in response to capacity shortage of foundry and certain packaging material, we had to keep the inventory level higher than usual. The trend may continue into this year.

Fourth quarter capital expenditures were \$5.2 million, versus \$15.5 million a year ago and \$8.2 million last quarter. The fourth quarter capex consisted mainly of ongoing payments for the new building's construction, WLO capacity expansion and installation of active alignment capacity to support our 3D sensing business. Total capital expenditure for the year was \$49.7 million, versus \$39.3 million a year ago of which \$7.6 million was for the investment of design tools and R&D related equipment related to our traditional IC design business.

Other capital expenditures, mainly investment in land, a new office building and capacity expansion for 3D sensing business, was \$42 million in 2018 versus \$33 million in 2017. In 2019, we anticipate continued payments for the above capex items to be totaling around \$39 million including a payment of \$27.7 million for the land, which will conclude the current phase of capital expenditure.

As of December 31, 2018, Himax had 172.1 million ADS outstanding, unchanged from last quarter. On a fully diluted basis, the total ADS outstanding are 172.6 million.

Q1 2019 Guidance:

The first quarter is traditionally the bottom of the year in terms of sales because it has fewer working days due to the Lunar New Year holidays. Customers' inventory correction on smartphone drivers, reflecting their conservative views for the smartphone market, will also negatively impact our first quarter sales. We expect the first quarter revenue to decrease around 14% to 19% sequentially. Gross margin is expected to be around 23%, depending on our final product mix. IFRS loss attributable to shareholders are expected to be in the range of around 1.0 to 3.0 cents per diluted ADS based on 172.6 million outstanding ADSs. Non-IFRS loss attributable to shareholders are expected to be in the range of 0.8 to 2.8 cents per diluted ADS based on 172.6 million outstanding ADSs.

I will now turn the call over to Jordan.

Q1 2019 Outlook

Mr. Jordan Wu:

Thank you, Jackie.

In the fourth quarter 2018, we delivered solid growth in the areas of TDDI, WLO and large display driver IC despite weak sentiment in the overall consumer electronics markets. Looking into 2019, on the backdrop of an uncertain global economy, the TV panel market is overshadowed by concerns of over-supply and the global smartphone sales are projected to suffer some decline. We are, however, still targeting some top line growth with upside momentum coming from TV and automotive markets as well as significantly more TDDI shipments for smartphone application, where we only made a

small amount of shipment last year when we suffered from foundry capacity shortage. We will continue to advance our technologies across key strategic areas. These include, among others, next generation display driver technology for 8K TV and AMOLED, 3D sensing for both mobile phone and non-mobile phone applications and ultra-low power smart sensing where we are seeing rising momentum in new applications such as smart home. Fully aware that we are operating in an uncertain macro environment, we are also putting cost control at the top of our agenda list, targeting to continuing R&D activities across all our strategic areas without raising R&D expenses from the last year. Total opex is budgeted to be at around the same level as that of last year excluding the anticipated increase in depreciation arising primarily from the construction of the new fab described above. Now let me give you further insights behind our Q1 guidance and trends that we see developing in our businesses.

Display Driver IC Business

LDDIC

Our large display driver IC business enjoyed strong growth in the second half of 2018 as 4K TV penetration continued to rise globally and China continued to ramp brand new advanced generation LCD fabs. Looking into 2019, while the market is facing the challenge of potential oversupply, we are seeing continued strength in our business, backed by strong design-ins with certain LCD makers who are leading the market in capacity and brand customer engagements. Equally important, after a lot of engineering efforts, we are now better prepared than last year in terms getting the necessary capacity support from our strategic vendors. Notably, most of our panel customers have completed qualifications of our new foundry with their key customers and we have also successfully secured additional COF packaging capacity to meet our customers' TV and

monitor demands. Nevertheless, for the first quarter, our large display driver business is likely to decrease by high single digit sequentially due to seasonality and customers' inventory correction.

A number of TV makers showcased their 8K TV technology at the recent CES. I am pleased to report that one of our industry leading customers will be launching a new 8K TV model with Himax technology inside in March. With its cost still high and true 8K content still scarce, 8K TV is unlikely to generate much sales in 2019. But 8K TV is a strategic area for Himax because of its much higher display driver and timing controller contents and high technical barrier of entry. We are encouraged by the recent establishment of the 8K Association to help develop 8K TV ecosystem and accelerate its adoption. Besides TV, we are working with panel customers to deploy 8K technology to new areas such as high-end gaming PC and professional-purpose monitors.

SMDDIC

Turning to the small and medium-sized display driver IC business. With the ramping of the newly added foundry, our capacity constraint for TDDI shipment has largely been alleviated. In Q4 2018, we were able to fulfill more customer orders with improved supply, thereby greatly increased the TDDI revenue from the previous quarter. Another notable milestone for TDDI during Q4 was that we secured a marquee design win from a major Korean smartphone maker and are already making mass production shipment in the first quarter, although starting with a relatively modest volume.

While we are positive on the trend of higher TDDI penetration in smartphone in 2019 and our much improved TDDI supply, our TDDI business will nevertheless be challenged by

the anticipated lackluster sales of global smartphone market and the expected decline of TDDI's average sales price as competition intensifies. To gain market share in 2019, we are working to secure more design wins by offering new generation TDDI solutions. The new solutions can enable narrow bezel panel design without the usage of COF packaging, which not only is costly but also suffers from serious supply constraint. Several leading panel makers are now sampling panels with our new TDDI solution.

As expected, our traditional discrete driver IC sales into smartphone declined by over 25% sequentially in the fourth quarter as the market is being quickly replaced by TDDI and AMOLED. This segment accounted for less than 6% of our total sales in the fourth quarter and will further shrink in 2019. Combining TDDI and discrete smartphone driver, our Q1 sales into the smartphone market is expected to decrease close to 30% sequentially due to seasonality and weak global smartphone market. However, we expect a strong second half rebound in 2019.

On AMOLED product line, we have been collaborating closely with leading panel makers across China for product development. We believe AMOLED driver ICs will be one of the long-term growth engines for our small panel display driver IC business.

During the fourth quarter, our automotive business delivered a solid 33% year-over-year growth. The demands for more sophisticated and higher performing displays are still rising with automakers. We are pleased to see our state-of-the-art technology for super large, end-to-end automotive displays showcased at the CES. In addition, we launched the world's first TDDI design for automotive displays and the technology is scheduled to start shipping within 2019. Our technological prowess will continue to separate us from

the rest as, for the next generation display for automotive, we are the leader in all key technologies including TDDI, AMOLED and local dimming timing controller. Q1 revenue in this segment is, however, set to decrease by close to 10% sequentially, impacted by panel customers' inventory adjustments in response to the weak car sales momentum caused by the US-China trade tension.

Our tablet and consumer electronics businesses declined more than 30% sequentially in Q4 2018, driven by weak overall market sentiment. They accounted for less than 10% of our total sales in the fourth quarter. We expect business in both segments to further shrink in the first quarter by around high single digit sequentially.

For first-quarter small and medium-sized driver IC business, we expect revenue to decrease by high-teens 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

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. Depending on the customers' needs, we provide 3D sensing total solution or just the projector module or optics inside the module. We have

highlighted in the last earnings call that the 3D sensing adoption for Android smartphone 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 fingerprint 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 our platform partners aiming to leapfrog the market by providing high performance, easy to adopt and yet cost friendly total solutions, targeting the majority of Android smartphone players. We have a solid product roadmap and plan including new architecture, new algorithm to make it happen. The development progress is on track and the new solution is aiming for smartphone customers' 2020 models. We believe that 3D sensing will be widely used by more Android smartphone makers when more killer applications become available and 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. In the meantime, we are working closely with a number of leading smartphone makers on multiple projects by providing projector module or critical optical components targeting their 2019 or 2020 models.

I have mentioned previously that 3D sensing can have a wide range of applications beyond smartphone. 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. We are collaborating with Kneron, an industry leader in edge-based artificial intelligence in which we have made an equity investment, to develop an AI-enabled 3D sensing solution targeting

security and surveillance markets. We are also working with partners/customers on new applications covering home appliances and industrial manufacturing. We will update our progress in due course.

WLO

As anticipated, the shipment volume to our WLO anchor customer for the fourth quarter recorded a double-digit sequential growth as a result of the customer's large-scale adoption in more models. The overall 2018 shipment increased considerably year-over-year. However, lower first quarter volume compared to the previous quarter is expected as per the customer's demand forecast. The much-reduced shipment will negatively impact our Q1 gross margin as lower utilization will lead to higher equipment depreciation and factory overhead on a per unit basis. Nevertheless, the Q1 revenue will still record a significant increase from the same time last year. In addition, we are encouraged by the progress of the ongoing new development projects with the said customer for their next generation products centering around our exceptional design know-how and mass production expertise in WLO technology.

CMOS Image Sensor

On CMOS image sensor business updates, we continue to make great progress with our machine-vision sensor product lines. Combining Himax's industry leading super low power CIS and ASIC designs with Emza's unique AI-based, ultra-low power computer vision algorithm, we are uniquely positioned to provide ultra-low power, smart imaging sensing total solutions. 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. In 2018, many AR goggle devices were launched, targeting primarily niche industrial or business applications, while top name multinationals continued to invest heavily to develop the ecosystem -- applications, software, operating system, system electronics, and optics. While AR goggles will take a few more years to fully realize its market potential, we believe LCOS remains the mainstream technology in this space. Our technology leadership and proven manufacturing expertise are 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 has demonstrated its state-of-the-art HUD product with Himax LCOS inside at the 2019 CES with extremely positive market reception. LCOS for both goggle device and HUD represents much higher ASP and gross margin for us and represents a long-term growth driver 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 decrease by over 30% sequentially in the first quarter, driven mainly by lower 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!