Himax Technologies, Inc. Q2 2021 Unaudited Financials and Investor Update Call

Conference Details: Conference Topic: Himax Technologies, Inc. Second Quarter 2021 Earnings Conference Call Conference ID: 7248119 Date of call: 8/05/2021 Time of call: 08:00 a.m. EDT Pre-Record Message: No Moderator: Mark Schwalenberg	**Participant Dial-In Numbers:** TOLL-FREE: (866) 444-9147 TOLL/INTERNATIONAL: (678) 509-7569 CONFERENCE ID: 7248119
Moderator/Speaker Dial-In Numbers (for Mark Schwalenberg, Jordan Wu, Eric Li, Jessica Pan and Karen Tiao): Leader Dial in (toll free) (855) 842-5904 Leader Dial in (international) (720) 634-2980 Conference ID number: 7248119 **Direct URL to Live Call Console** https://edge.media-server.com/mmc/p/hbt43kh5 Conference ID number: 7248119 Web PIN: 1069	**Replay Dial-In Numbers:** TOLL-FREE: (855) 859-2056 TOLL/INTERNATIONAL: (404) 537-3406 From: 8/05/2021 at 11:30 am EDT To: 8/13/2021 at 11:30 am EDT Replay Pin Number: 7248119

Operator: Opening and standard introduction.

Mark Schwalenberg: Welcome everyone to Himax's Second Quarter 2021 Earnings Call. Joining us from the Company are Mr. Jordan Wu, President and Chief Executive Officer, Ms. Jessica Pan, Chief Financial Officer and Mr. Eric Li, Chief IR/PR 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 HIMX@mzgroup.us, access the press release on financial portals or download a copy from Himax's website at www.himax.com.tw.

Unless otherwise specified, we will discuss our financials based on non-IFRS measures. You can find the related reconciliation to IFRS on our website. 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, the effect of the Covid-19 pandemic on the Company's business; 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; our ability to develop and protect our intellectual property; pricing pressures including declines in average selling prices; changes in customer order patterns; changes in estimated full-year effective tax rate; shortage in supply of key components; changes in environmental laws and regulations; changes in export license regulated by Export Administration Regulations (EAR); exchange rate fluctuations; regulatory approvals for further investments in our subsidiaries; our ability to collect accounts receivable and manage inventory 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, 2020 filed with the SEC, as may be amended.

Except for the Company's full year of 2020 financials, which were provided in the Company's 20-F and filed with the SEC on March 31, 2021, 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 Mr. Eric Li. The floor is yours.

Q2 Results

Mr. Eric Li: Thank you Mark and thank you everybody for joining us. My name is Eric Li and I am the Chief IR/PR Officer. Joining me are Jordan Wu, our CEO, and Jessica Pan, our CFO. On today's call, I will first review the Himax consolidated financial performance for the second quarter 2021, followed by the third quarter 2021 outlook. Jordan will then give an update on the status of our business, after which we will take questions.

Our second quarter revenues and gross margin were both at the upper range of the guidance issued on May 6, 2021 and EPS exceeded the guidance. Revenues, gross margin and EPS, again, all reached all-time highs in the second quarter of 2021.

For the second quarter, we recorded net revenues of $365.3 million, an increase of 18.2% sequentially and an increase of 95.3% compared to the same period last year. The sequential increase was at the upper range of the guidance of an increase of around 15-20% quarter-over-quarter. Gross margin was 47.5%, at the upper range of the guidance of 45.5% to 47.5% and a significant 7.3 percentage

points improvement from the 40.2% of the first quarter 2021. Non-IFRS profit per diluted ADS was 62.4 cents, exceeding our guidance of 54.2 cents to 60.2 cents. IFRS profit per diluted ADS was 62.3 cents, exceeding our guidance of 54.0 cents to 60.0 cents.

Revenue from large display drivers was $85.4 million, up 22.2% sequentially and up 43.7% year-over-year with sales growing through all three major product areas, namely TV, monitor and notebook. Both monitor and notebook IC revenues delivered decent sequential increases thanks to continuous home working and distance education demands. TV revenue was up an impressive double-digit quarter-over-quarter mainly due to strong shipments of high-end TV products, including those to a world-leading end customer, as we indicated in the last earnings call. Large panel driver ICs accounted for 23.4% of total revenues for this quarter, compared to 22.6% in the first quarter of 2021 and 31.8% a year ago.

Small and medium-sized display drivers saw continued strong momentum with revenue of $230.6 million, up 13.0% sequentially and up 133.4% year-over-year. Automotive segment delivered a more than 22% sequential increase in Q2, the highest growth among the three segments in the small and medium-sized driver IC business. TDDI for tablet was up more than 30% sequentially, a continuation from the high base last quarter, while smartphone TDDI posted low single digit sequential growth. Small and medium-sized segment accounted for 63.1% of total sales for the quarter, compared to 66.1% in the previous quarter and 52.8% a year ago.

The second quarter smartphone sales came in better-than-expected, with revenue reaching $83.9 million, up more than 200% compared to the same period last year. The smartphone segment represented around 23% of our total sales in Q2. Our smartphone TDDI sales were still capped by

severe capacity constraint and, as we explained before, we continued to strategically allocate more capacity to tablet TDDI at the expense of smartphone shipment as we were the major supplier in the tablet TDDI market. Sales of traditional smartphone DDICs grew nicely as expected with seasonal demand. As mentioned several times before, traditional smartphone DDICs are quickly being replaced by TDDI and AMOLED.

Our tablet revenue continued to break sales records, reaching $85.3 million in Q2. Tablet sales grew 17.0% sequentially and doubled year-over-year, reflecting strong market demand from home working and online learning as well as our market share gains. Tablet revenue accounted for more than 23% of our total sales in the second quarter, slightly above our smartphone IC business in weighting. While our tablet TDDI sales continued an uninterrupted growth streak since the product's initial mass production in the first quarter of 2020, our shipments were still limited by the ongoing industry-wide capacity shortage. The accelerated growth, however, illustrated our market leadership in non-iOS tablet market and TDDI's increasing penetration in the tablet market. Revenue of traditional discrete driver ICs for tablet was flat sequentially in the second quarter as the market continued to be quickly replaced by TDDI.

Our second quarter driver IC revenue for automotive amounted to $53.3 million, up 22.1% sequentially and more than doubled year-over-year, while demand continued to outpace supply. Automotive driver IC business accounted for around 15% of total revenues in the quarter. As we predicted in the last earnings call, we expect our automotive shipment to grow quarter over quarter in 2021 and into next year. Jordan will elaborate on this in a few minutes.

Second quarter revenue from our non-driver businesses was $49.3 million, up more than 40% sequentially and up more than 70% year-over-year. Tcon business registered a remarkable growth of over 60% sequentially, up more than 130% year-over-year. Non-driver products accounted for 13.5% of total revenue, as compared to 11.3% in the first quarter of 2021 and 15.4% a year ago.

Gross margin for the second quarter was 47.5%, up from 40.2% of the previous quarter and greatly increased from 21.0% of the same period last year.

Our Non-IFRS operating expenses for the second quarter were $39.3 million, little changed from the previous quarter but up 5.7% from a year ago mainly because of increased salary.

Reflecting higher sales and better gross margin, non-IFRS operating income was $134.3 million, or 36.8% of sales, versus 27.5% of sales in the last quarter. Again, both operating income and operating margin reached historical highs. Non-IFRS after-tax profit was $109.1 million, or 62.4 cents per diluted ADS, a new record high and greatly up from $67.1 million, or 38.4 cents per diluted ADS, of the last quarter.

Turning to the balance sheet, we had $270.4 million of cash, cash equivalents and other financial assets as of June 30, 2021, compared to $107.1 million at the same time last year and $245.8 million a quarter ago. The higher cash balance was derived mainly from $85.2 million of operating cash inflow during the quarter, offset by the $59.6 million cash outflow for refundable deposits made for the purpose of securing foundry capacity. Restricted cash was $112.1 million at the end of Q2, compared to $114.8 million a quarter ago and $164.0 million a year ago. The restricted cash was mainly used

to guarantee the short-term secured borrowings for the same amount. We had $55.5 million of long-term unsecured loans as of the end of Q2, of which $6.0 million was current portion.

Our quarter-end inventories as of June 30, 2021 were $ 134.2 million, up from $114.9 million last quarter and down from $161.5 million a year ago. Compared to the prior year, our inventory remains at lower levels as customers request finished goods delivery as soon as they are available, reflecting the prolonged supply-demand imbalance. As the overall semiconductor industry is unlikely to have sizable capacity increases anytime soon while demand far outpaces supply, we anticipate similar level of inventory position in the next few quarters. Accounts receivable at the end of June 2021 was $329.0 million, up from $289.1 million last quarter and up from $206.1 million a year ago due to higher sales. DSO was 88 days at the quarter end, as compared to 101 days a year ago and 84 days at the end of the last quarter.

Now turning to the cashflow for the quarter, net cash inflow from operating activities amounted to $85.2 million as compared to an inflow of $60.3 million last quarter and an outflow of $9.2 million for the same period last year. Investing activities saw a net cash outflow of $58.2 million during the second quarter mainly because of a net increase of $59.6 million in refundable deposits that we made during the second quarter for the purpose of securing foundry capacity. Also as part of investing activities, second quarter capital expenditures were $1.4 million, versus $2.0 million last quarter and $0.7 million a year ago. The second quarter capex was mainly for R&D related equipment of our IC design business.

We declared an annual cash dividend of 27.2 cents per ADS during the second quarter, totaling $47.4 million and equivalent to 100% of last year's net profit. The dividend was paid out on July 12, 2021. As before, our dividend was determined primarily by the prior year's profitability. Our decision to pay

out full net profit of last year demonstrated the management's strong confidence for our business prospect.

As of June 30, 2021, Himax had 174.3 million ADS outstanding, little changed from last quarter. On a fully diluted basis, the total number of ADS outstanding was 174.7 million.

Q3 2021 Guidance:

Now, turning to our third quarter 2021 guidance. For the third quarter, we expect further revenue growth from the already high level of Q2 2021. Gross margin shall see another uptick and could reach another quarterly high.

For the third quarter, we expect revenues to increase by 13% to 17% sequentially. Gross margin is expected to be in the range of 50.5% to 52.0%, depending on the final product mix. With the increases of both revenue and margin, we anticipate net profit shall increase substantially in the third quarter. Non-IFRS profit attributable to shareholders is expected to be in the range of 75.0 to 81.0 cents per fully diluted ADS.

The third quarter IFRS profit attributable to shareholders is estimated to be in the range of 63.0 to 69.0 cents per fully diluted ADS. Similar to our usual practice, we will grant RSUs on or around September 30 this year for employees' share-based compensation. The third quarter guidance for IFRS profit per diluted ADS has taken into account the expected 2021 RSU grant, which, subject to Board approval, is now assumed to be around $75 million, out of which $26.3 million, or 11.8 cents per diluted ADS, will be vested and expensed immediately on the grant date. As a reminder, the total RSU amount and the immediately vested portion are our current best estimates only and could vary materially depending on, among other things, our Q4 profit and the final Board decision for the total

RSU amount and its vesting scheme. As is the case for previous years, the RSU grant in 2021 would lead to higher third quarter IFRS operating expenses compared to the other quarters of the year. In comparison, the 2020 RSUs totaled $5.0 million, out of which $4.8 million was vested immediately. Needless to say, our estimated total RSU amount is significantly higher than those of the prior years due to the anticipated record high profit for this year. This is an illustration of our appreciation to the team for their hard work. This also demonstrates our confidence in our long-term growth prospects. I will now turn the call over to Jordan. Jordan, the floor is yours.

Q3 2021 Outlook:

Mr. Jordan Wu: Thank you, Eric. The semiconductor industry continues to go through a severe foundry shortage, especially in the mature process nodes where we are mainly anchored. With foundries running at more than full capacity while demand shows no indication of abating, the long-lasting unaddressed supply-demand imbalance remains. In view of the foundry shortage and anticipated growing demand for the foreseeable future, we have entered into strategic agreements with foundry partners to cover both our short-term and long-term needs. We are in the process of entering into further such agreements as we speak, with some of them involving new foundry partners, leaving nothing untried to expand our capacity pool. Likewise, across various product lines, we are entering into strategic agreements with customers who wish to secure their IC supplies. Some of them are indirect customers who don't necessarily source ICs directly from us but still wish to enter into supply deals with us to ensure that their direct vendors, mostly panel makers in our case, will get their desired supply quantities from us. All such contractual arrangements will help boost our future growth prospects and improve earnings visibility.

Notwithstanding all these efforts, demand continues to outpace supply and we believe the imbalance could last well into 2022. However, we are on track for more accessible capacity to grow our business

quarter by quarter this year. Looking further ahead, we expect to also secure more capacity for 2022 as compared to this year. We will provide more details as they come available.

Display Driver IC Businesses

LDDIC

With that, now let us start with an update on the large panel driver IC business. For the third quarter, large display driver IC revenue is projected to increase more than 30% sequentially with all the three major product lines set for further growth. In Q3, we expect both monitor and notebook businesses to post double digit growth, benefiting from remote work and online schooling trends. For TV segment, we expect over 20% sequential growth in Q3 anchored by higher-end and larger-sized TVs, despite the slight dip in worldwide TV shipments anticipated for the second half. While demand remains resilient for us, supply still falls well short of demand fulfillment.

As consumers spend more time indoors and the number of connected devices per household is rising steadily, we are seeing more demand for advanced displays, such as higher resolution TV, higher refresh rate monitor, and ultra-large-sized, high-aspect-ratio curved-view displays. We continue to lead the high-end TV and gaming monitor markets by offering major panel makers and end customers total solutions of our driver ICs and advanced Tcons together. In addition, we are also working on next generation notebook DDICs, shooting for high-end and low power consumption features to enhance our product portfolio and market share gains.

SMDDIC

Now let's turn to the small and medium-sized display driver IC business. In the third quarter, revenue is expected to increase by low-teens sequentially and around 70% year-over-year, driven by persisting demand for tablet and automotive segments, while sales for smartphone are expected to see single digit decline. In Q3, the automotive driver business is set to grow by more than 30% sequentially and more than 150% year-over-year, once again showing the highest growth among the three segments in the small and medium-sized driver IC business. In early 2020, foreseeing the foundry shortage, we secured a long-term agreement with our strategic foundry partner to enlarge our capacity specifically for the automotive application. While the capacity accessible to us is still far behind customer demands right now, we have been able to grow our shipment and sales amidst the prevailing shortage especially for automotive ICs. As for the tablet market, we remain committed to allocating capacity in favor of tablet over smartphone to strengthen our leading position in the tablet driver market. For the third quarter, we expect tablet sales to grow by mid-teens and smartphone sales to be down single digit compared to the previous quarter, reflecting our capacity allocation decision. Again, we are unable to meet all customer demands due to tight foundry capacity.

Now let's review each of the three major product segments within the small and medium-sized display driver IC business. Sales growth for tablet IC business is expected to extend into the third quarter thanks to robust consumer demand driven by unprecedented stay-at-home lifestyle. Tablet sales are expected to account for the highest proportion of all the product lines in Q3, benefitting from the proactive adoption by all leading non-iOS tablet names of our TDDI solutions. It's worth highlighting that we are the dominant tablet TDDI player in non-iOS market, taking more than 60% market share.

Himax continues to lead in the next generation tablet TDDI technology by offering state-of-the-art solutions for higher frame rate, higher resolution, larger screen size and more accurate active stylus designs. We are glad to report that recently we started mass production for the world's first 12.4" WQXGA super high-resolution tablet with a leading end customer. In addition, we successfully piloted our tablet TDDI solution for the fast-expanding education tablet, a market with great potential. For the third quarter, we expect tablet TDDI sales to grow mid-teens. Revenue of traditional DDIC for tablet is expected to increase high single digit sequentially.

Next a quick update of smartphone driver. The worldwide smartphone market confronted a short-term headwind from the recent spreading of the pandemic in the Southern Asia. However, our demand for smartphone still far surpasses supply. Limited by the total accessible capacity, we continue to strategically allocate capacity in favor of tablet over smartphone, as we mentioned before. Consequently, we anticipate our smartphone sales to be down single digit in Q3. Looking ahead at our smartphone TDDI lineups, we are undertaking new design developments supporting higher frame rate, ultra slim bezel and higher resolution features. We expect successful engagements with key customers in the coming quarters. Discrete drivers for smartphone, running at relatively low volume, are expected to grow strongly with seasonal demand for the third quarter.

Turning to the automotive sector. As I just mentioned, we expect strong growth for our automotive IC business in Q3 on the backdrop of severe global IC shortage for the automotive market. With the rising volume for EV and anticipated proliferation of autonomous driving, the display for automotive market will grow in not only volume but also chip size and sophistication. As a world-leading automotive driver supplier who commands well over 30% of the global market, we are leading the

charge in answering to such demands. We continue to work closely with panel suppliers, Tier-1 players, and car makers for their future generation display designs.

The most prominent among the new technologies for automotive display is TDDI which is especially critical for large size and free form displays. Himax is the pioneer in the world of automotive TDDI development, having started the first generation TDDI mass production as early as the second quarter of 2019. Taking advantage of the first mover position and our long-standing close engineering collaboration with Tier-1 customers, we further upgraded our design and now our Gen 2 TDDI for automotive has officially entered into mass production in this quarter with dominating design-win coverage across literally all display makers, numerous Tier-1 players and leading car manufactures across all automotive markets. The number of awarded projects is already in the dozens and still growing quickly as we speak. We expect the TDDI volume to expand exponentially starting from this quarter.

Aside from providing comprehensive coverage to address varying design needs, most important of all, our product portfolio adheres to the demanding standards of quality and reliability required of automotive products. Our early engagement with customers and mass production experience will prove invaluable for our long-term competitiveness.

Also during the third quarter, we are again pioneering in the launch of the leading-edge LTDI (Large-display Touch and Driver Integration) solution that incorporates sophisticated multi-chip system design and is essential for very large-sized, stylish, curved automotive displays in a

customers' upcoming first launch in vehicles. With these new technologies unleashed, we expect our automotive driver business to enjoy phenomenal growth for the next few years.

Next for an update on AMOLED. As AMOLED technology is embraced in the high-end display market, Himax is highly devoted to this area, covering smartphone, wearable, tablet and automotive areas. Our successful collaboration with BOE Varitronix, a subsidiary of BOE, the world's largest TFT LCD player, on flexible AMOLED driver and Tcon for automotive application is expected to be in mass production commencing in the fourth quarter this year. We are also excited about the significant progress in other fields with major China panel partners and will update the status when appropriate.

Capacity shortage is expected to continue across all business segments in our small and medium-sized driver IC business. Our shipping quantity will be constrained by capacity shortage during the third quarter.

Non-Driver Product Categories

Now let me share some of the progress we made on the non-driver IC businesses.

TCON

Let's start from the timing controller. For the third quarter, we anticipate mid-teens sequential growth in Tcon sales. While also still limited by accessible capacity, we are optimistic about long term growth prospect of the Tcon business with strong demand coming from some of the high value products areas such as 4K/8K TV, gaming monitor, and low power notebook. Looking further ahead, we are particularly excited about the potential for automotive Tcon which incorporates our leading-edge local

dimming feature that, coupled with mini-LED backlight, enables thousands of dimming zones for superior display contrast comparable to that of AMOLED. Our industry-leading local dimming Tcon already won numerous project awards from OEMs and Tier-1s. We believe Tcon segment will continue to be one of the growth drivers for our non-driver business.

WLO

Next on WLO update. In the third quarter, we will continue to support an anchor customer's legacy product and anticipate sales to remain flat sequentially, which will help sustain WLO factory utilization. WLO technologies continue to play an important role in enabling future generation optical applications. As a leader in the diffractive optics field, we keep on collaborating with worldwide tech giants and OEMs where we are fully involved in optical-related innovation and development of ToF 3D sensing, AR glasses, and other applications in a wide range of different fields.

3D Sensing

Next a quick update on 3D sensing. Our proprietary 3D decoder IC has been broadly acknowledged in the leading e-payment ecosystems in China since its initial mass production in the second half of 2020. Our 3D decoder IC provides high-performance decoding capability for high-precision face recognition and is particularly popular in areas such as door lock and industrial access control where privacy is a major concern. We expect more design-win awards and growing volume throughout the year.

Ultralow Power Smart Sensing

Now switching gears to the WiseEye smart sensing solution. To maximize market visibility and explore potential applications, we continue to push forward with two WiseEye business models, namely total solution and discrete component.

Let's start with the update on WiseEye total solution. Our WiseEye total solution implements ultralow power computer vision AI that aims at endpoint devices with constraints in processor resource and power consumption. In addition to the design-win for a mainstream application from a leading tech name that we reported last quarter, we are pleased to report new awards during the second quarter from utility meter, battery camera and panoramic video conferencing applications. Some of these applications are expected to enter into mass production beginning the fourth quarter of 2021. We continue to work on various new solutions covering a wide variety of applications including door bell, surveillance, smart city, healthcare, agriculture and many other AIoT devices, with joint efforts from multiple algorithm partners in different domains, including Himax subsidiary Emza. We are at the forefront of delivering cutting-edge ultralow power smart image sensing solutions to the edge AI markets.

For WiseEye key component business model, we reinforced our go-to-market strategy by intensively participating in leading AI partners' infrastructures and ecosystems. Following the successful collaboration with Google's TensorFlow Lite for Microcontrollers and Microsoft Azure, we also joined Arm AI Partner Program and tinyML Foundation in an attempt to reach out to more diverse AI communities. More recently, we teamed up with online store Digi-Key, in addition to SparkFun that we announced before, to showcase our edge device components and easy-to-use development tools for developers to conveniently access our WiseEye solution. Hundreds of evaluation boards and developments kits have been purchased online and distributed to AI developers across the globe.

With extended outreach to various AI channels, we have received priceless feedbacks from numerous users for different application domains that never occurred to us. We are excited about the business progress and are confident that WiseEye will play a key role in our non-driver segment looking ahead into 2022 and beyond.

For non-driver IC business, we expect revenue to increase low-single digit sequentially in the third quarter.

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, Eric Li, our Chief IR/PR Officer, 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!