



Himax Technologies, Inc. Q1 2022 Unaudited Financials and Investor Update Call

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Operator: Opening and standard introduction.

Mark Schwalenberg: Welcome everyone to the Himax First Quarter 2022 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. A list of risk factors can be found in the Company's SEC filings, form 20-F for the year ended December 31, 2021 in the section entitled "Risk Factors", as may be amended.

Except for the Company's full year of 2021 financials, which were provided in the Company's 20-F and filed with the SEC on March 23, 2022, 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.

Q1 Results

Mr. Eric Li: Thank you Mark and thank you everyone for joining us. My name is Eric Li, Chief IR/PR Officer at Himax. On today's call, I will first review the Himax consolidated financial performance for

the first quarter 2022, followed by our second quarter 2022 outlook. Jordan will then give an update on the status of our business, after which we will take questions.

Historically our first quarter sales are seasonally the low point of year due to the Lunar New Year holidays. This year, starting from end of February, additional factors also weighed in, mainly new lockdowns in China to contain the spread of the Omicron variant and geographical conflict erupting in Ukraine, both causing major disruptions to our supply chain. Despite these additional challenges, our first quarter revenues, gross margin and EPS were all in line with the guidance range issued on February 17th, 2022.

First quarter net revenues of \$412.8 million decreased 8.6% sequentially, within our guidance of down 5% to 9%. Yet Q1 sales were up 33.6% on a year over year basis. Our gross margin came in at 47.0%, a decrease from the record high of 51.8% in the fourth quarter last year, but within our guidance of around 46% to 48%. Non-IFRS profit per diluted ADS was 69.7 cents, at mid-range of the guidance of 67.0 to 73.0 cents, but significantly up 81.5% from same period last year. IFRS profit per diluted ADS was 66.3 cents, at mid-point of the guidance of 63.5 to 69.5 cents, but significantly up 73.1% year-over-year.

Revenue from large display drivers was \$110.6 million in Q1, a decrease of 11.5% sequentially but an increase of approximately 60% year-over-year. TV revenue was flat sequentially, anchored by high-end and large-sized TV IC shipments to key accounts despite the first quarter being a seasonally slow period and continued soft TV demand. After consecutive quarters of strong growth, both monitor and notebook IC sales decreased sequentially as we guided on the backdrop of slowing end market sell-through. However, both grew nicely on a year over year basis, a reflection of our leading position

across higher end displays and premium models. Large panel driver ICs accounted for 26.8% of total revenues for this quarter, compared to 27.7% in the fourth quarter of 2021 and 22.6% a year ago.

Moving on to our small and medium-sized display driver segment, revenue was \$258.5 million, a decline of mid-single digit sequentially but an increase of more than 25% year-over-year. The robust sales growth in our automotive segment for the past several quarters continued during Q1.

Automotive IC sales increased more than 30% sequentially and more than 170% year over year.

Our e-paper sales increased more than 15% sequentially in Q1 despite a shipment halt at the end of the quarter caused by city lockdowns in China. Small and medium-sized driver IC segment accounted for 62.6% of total sales for the quarter, compared to 61.2% in the previous quarter and 66.1% a year ago. In Q1, the automotive driver segment became our single largest revenue contributor, representing over 25% of total sales. We expect this upward trend in automotive contribution to continue throughout 2022.

The revenue growth in automotive driver IC was backed by comprehensive design-win coverage across panel houses, Tier-1's and car makers alongside increased capacity for both discrete DDIC and TDDI. Automotive DDIC sales, which is still the predominant portion of our automotive IC revenue, enjoyed decent first quarter growth, up more than 20% sequentially with demand continuing to outpace supply. On TDDI for automotive, we reached an impressive new milestone with over 3 million units shipped during the quarter as we previously guided. Given our leadership position in automotive driver IC, comprehensive product offering, and the growing vehicle display market, we expect sustainable robust growth in our automotive business with further market share gains on top of a fast-expanding market.

After many quarters of consecutive growth, our Q1 tablet revenue slightly declined off a high base by mid-single digit. However, tablet revenue was up low teens on a year over year basis, due to strength in our TDDI sales which grew low single digit from the proactive adoption by all leading non-iOS tablet names. We maintained our leading market share position in the non-iOS tablet market with accelerated TDDI penetration among leading name-brands.

In line with our guidance, first quarter smartphone revenue declined double digit sequentially. The smartphone market continued to be challenged by sluggish demand, unexpected lockdowns in China and geopolitical tensions, resulting in significantly reduced demand visibility at panel houses and OEMs which have started to reduce their IC inventory. As we mentioned on last quarter's call, we expected a portion of the first quarter decline due to our strategically initiated product transition for key customers' new designs, which led to less production output during Q1.

First quarter non-driver revenue came in better than expected at \$43.7 million, a sequential decrease of low-teens but up around 25% year-over-year. The better-than-expected result was driven by higher shipment of our ultralow power AI image sensing total solution to the notebook market. Our Tcon business was slightly down mid-single digit sequentially but increased more than 50% year-over-year, a reflection of better mix towards higher-end product areas such as 4K/8K TV, gaming monitor, low power notebook, and automotive Tcon. Non-driver products in Q1 accounted for 10.6% of total revenues, as compared to 11.1% in the fourth quarter of 2021 and 11.3% a year ago.

Non-IFRS gross margin for the first quarter was 47.0%, a decrease from 51.8% of last quarter but much higher than 40.2% of the same period last year. As we previously discussed, there were two primary factors that adversely impacted our margin profile. First, our cost of goods sold for Q1 reflected the higher foundry prices from the previous quarter. Second, expedited customer orders for

which we enjoyed premium prices decreased in Q1 due to market softness. IFRS gross margin was also 47.0% for the quarter.

Our non-IFRS operating expenses for the first quarter were \$44.0 million, down 9.3% from the previous quarter but up 12.3% from a year ago. As a reminder, the sequential operating expense decrease was caused by a one-time cash bonus at the end of December last year to further reward employees for our last year's remarkable financial results. The year-over-year increase was caused mainly by increased salary and R&D expenses. IFRS operating expenses were \$51.5 million for the first quarter, down 8.0% from the preceding quarter but up 30.5% from a year ago. The higher IFRS figures were mainly due to the tranche of annual bonus compensation which we award employees at the end of September each year. The 2021 annual bonus compensation including RSUs and cash awards totaled \$74.7 million, out of which \$24.8 million was immediately vested and recognized in the third quarter of 2021. The remainder will be equally vested in three tranches at the first, second and third anniversaries of the grant date. The remaining compensation expenses will be recognized on a straight-line basis over the vesting period of each tranche.

The first quarter non-IFRS operating income was \$149.9 million, or 36.3% of sales, versus 41.1% of sales in the last quarter and 27.5% of sales from a year ago. Non-IFRS after-tax profit was \$121.9 million, or 69.7 cents per diluted ADS, decreased from \$148.4 million, or 84.9 cents per diluted ADS, last quarter, but significantly higher than \$67.1 million, or 38.4 cents for the same period last year.

Turning to the balance sheet, we had \$447.1 million of cash, cash equivalents and other financial assets as of March 31, 2022, compared to \$245.8 million at the same time last year and \$364.4 million a quarter ago. The higher cash balance was mainly from \$72.0 million of operating cash inflow during the quarter and payments received from customers for the purpose of securing their long-term chip

supply. We had \$51.0 million of long-term unsecured loans as of the end of Q1, of which \$6.0 million was current portion.

Our quarter-end inventories as of March 31, 2022 were \$253.1 million, up from \$198.6 million last quarter and up from \$114.9 million a year ago. Accounts receivable at the end of March 2022 was \$442.2 million, up from \$410.2 million last quarter and up from \$289.1 million a year ago. DSO was 96 days at the quarter end, as compared to 84 days a year ago and 97 days from last quarter.

First quarter capital expenditures were \$3.6 million, versus \$2.0 million for both last quarter and a year ago. The first quarter capex was mainly for R&D related equipment and in-house tester for our IC design business.

Just prior to today's call, we announced an annual cash dividend of \$1.25 per ADS, totaling approximately \$217.9 million and payable on July 12, 2022. The payout ratio is 50% of net profit of last year, which is lower than our average payout ratio historically. The relatively low payout ratio reflects our decision to reserve sufficient working capital in the light of macroeconomic uncertainty and to facilitate our anticipated growth for the next few years. We are grateful for the continued support of our shareholders as we continue to execute on our business objectives and strive to deliver sustainable long-term growth.

As of March 31, 2022, Himax had 174.3 million ADS outstanding, unchanged from last quarter. On a fully diluted basis, total number of ADS outstanding for the first quarter was 174.8 million.

Q2 2022 Guidance:

Now, turning to our second quarter 2022 guidance. We expect second quarter revenue to decline 16% to 20% sequentially. Non-IFRS gross margin is expected to be around 43.0% to 45.0%, depending on the final product mix. Non-IFRS profit attributable to shareholders is expected to be in the range of 45.0 to 50.0 cents per fully diluted ADS. IFRS profit attributable to shareholders is estimated to be in the range of 41.5 to 46.5 cents per fully diluted ADS. I would now like to turn the call over to Jordan, Jordan the floor is yours.

Q2 2022 Outlook:

Thank you, Eric. Looking ahead to the second quarter, a host of geopolitical, macroeconomic and pandemic related factors are creating challenges and impairing our near-term outlook. The war in Ukraine, rising inflation and rolling lockdowns throughout China have significantly impacted the supply chain and consumer electronics demand, leading to a particularly abnormal business environment. Murky order visibility is leading to smaller and shorter demand forecasts by leading global brands. In response, starting at the end of Q1, panel makers began taking aggressive measures in an attempt to quickly reduce their IC inventories.

Against the backdrop of challenging market conditions and short-term uncertainty, for the second quarter we expect a sequential decline in gross margin mainly because our cost of goods sold this quarter represents pricing from previous quarters when foundries were still raising their prices. We also have some mild price adjustments in support of our non-automotive customers amidst soft demand worldwide. However, with both foundry and backend pricing already stabilizing, our cost of goods sold moving into the second half will unlikely continue its upward trend over the first half of the year.

As Covid-induced lockdowns begin to fade and supply chain disruptions are alleviated, visibility will improve and ultimately lead to a rebound in market demand. We anticipate Q2 sales to be the low point of this year. For full year, despite the murky short-term market condition, we remain upbeat about our top line for 2022, supported by the automotive business and two new revenue streams which all enjoy solid business visibility. We now expect our 2022 full year sales to stay at approximately the same high level of 2021. For the automotive business, regardless of the macroeconomic concerns, we are targeting sales to double from last year which already more than doubled from the year before. Meanwhile, backed by strong order pipelines, our ultralow power AI image sensing and OLED business, two new sales streams, are poised to deliver an impactful contribution. The increased contribution of these key sectors comes with the added benefit of improving our long-term product mix in terms of both profit margin and business visibility.

Display Driver IC Businesses

LDDIC

With that, I'll begin with an update on the large panel driver IC business. For the second quarter, large display driver IC revenue is projected to be down double digit sequentially due to production disruptions in the midst of China's lockdowns, coupled with weakness in consumer demand. The outlook for large size driver IC business remains murky with moderating TV sell-through and muted Chromebook sales. TV and notebook IC sales are expected to decline double digit sequentially in the second quarter due to customer's inventory control in response to sluggish global demand and reduced business visibility. We expect monitor IC sales to also decline sequentially, reflecting the overall market softness in the second quarter. Yet, on a year-over-year basis, monitor IC sales are expected to increase by more than 60%. This demonstrates our leading position across major

customers for their higher end displays and premium monitor models, as well as our ability to offer total solutions covering display driver ICs and advanced Tcons.

SMDDIC

Turning to the small and medium-sized display driver IC business. In the second quarter, revenue is expected to decline mid-teens sequentially. Sales for automotive are foreseen to be flat sequentially and up more than 110% year-over-year. Smartphone sales are set to decline single digit sequentially while sales for tablet are expected to decline by double digit, both due to our customers' efforts to reduce their near-term inventory, a result of the sudden deterioration of forecast visibility from their customers on the backdrop of China's ongoing city lockdowns, weaker macro environment and slowing end market demands.

Now for a quick update on each of the major sectors in our small and medium-sized display driver IC business. First on the automotive segment. As Eric mentioned earlier, automotive overtook other sectors to become our largest revenue contributor during Q1, representing over 25% of our total sales. To elaborate on our success in this core segment, Himax is the market leader in automotive display driver technology with a 40% global market share. We boast a comprehensive product portfolio with market leadership ranging from traditional DDIC to new technologies such as TDDI, local dimming Tcon, LTDI and OLED. Despite strong consumer demand, the global car market continues to suffer from ongoing key component shortages and port congestion, which are hurting automobile sales worldwide. However, the increase in the number, size and sophistication of displays inside vehicles is evolving at a rapid rate, all indicating much more driver IC content per vehicle. We are uniquely suited to continue to expand our footprint in this lucrative market, backed by secured multi-year foundry capacity and customer purchase agreements, as well as strong design-in coverage from all major panel houses, Tier-1s and automotive OEMs. Additionally, we are the pioneer of mass

production for TDDI, a technology that is essential for large sized, interactive, stylish, and curved automotive displays. While TDDI is still in early stage of mass deployment for automotive market, we already achieved a milestone of over 3 million units shipment in Q1 alone while continuing to see rapid increases in TDDI design-win coverage across a broad range of automotive customers around the world for their upcoming vehicle models. In addition, our cutting-edge LTDI, which caters to larger than 30-inch displays and incorporates sophisticated touch feature with multi-chip design architecture, is yet another promising product in which we expect to see tremendous long-term results starting 2023. We expect to double our automotive sales again in 2022, on top of the already strong 2021 sales growth of 111%.

For the second quarter, we expect the automotive DDIC sales, which are still much larger than those of TDDI and AMOLED, to be flat to slightly up sequentially, but up more than 90% year-over-year. Our total IC output was adversely impacted by fab maintenance at one of our major foundry suppliers at the end of the first quarter. The maintenance was long overdue because of the heavy backlog of unmet demand. While we expect our automotive DDIC output to increase quarter over quarter for the rest of the year, the severe foundry capacity shortage continues to be a constraint for our automotive DDIC business. Q2 sales for automotive TDDI are expected to decline single digit sequentially as a side effect from the Russia-Ukraine war and Chinese city lockdowns which have led to postponement of certain new projects' mass production timetable. Nevertheless, we still see extraordinary business momentum into the second half of 2022 for our automotive TDDI. We are well prepared in terms of secured long-term foundry capacity for automotive TDDI which is on track for exponential growth throughout 2022 and the foreseeable future.

Next, regarding smartphone and tablet businesses. The smartphone market continues to be depressed by excess inventory for panel makers, ODMs and brands. Pandemic-induced logistic and

supply chain disruptions are also weakening market sentiment, while rising inflation adversely affects household disposable income, leading to a prolonged replacement cycle at the consumer end. Against this backdrop, we expect Q2 smartphone IC business to down single digit sequentially. For tablet, we expect sales to fall double digit sequentially from the high base in the first quarter, driven by the slow-down in orders as our customers digest their inventory. In addition, the mass production timetables for some of the new larger-sized tablets were postponed due to China lockdowns. With that said, we believe the pandemic has fueled a secular shift towards remote work and e-learning that consequently will keep tablet demand above pre-pandemic levels. TDDI penetration continues to rise for tablets which are moving toward larger sized displays, higher frame rate and particularly active stylus features where we are seeing expanding adoption. Himax still has the leading position in non-iOS tablet market with decent market share. As soon as brands regain confidence in their outlook, we expect our sales momentum to rebound from panel makers replenishing inventory and preparing to launch new models. We therefore remain positive in our Q3 business outlook with a high likelihood of sequential rebound from the trough of Q2.

Turning to the e-paper driver business, another product in our small and medium-sized driver lineup. Our e-paper business is set to grow more than 120% sequentially, representing around 2% of total sales in Q2. The phenomenal sequential growth stems from increasing demands to a leading customer as well as catch-up shipments that were delayed last quarter due to logistic disruptions from lockdowns in China. On a year over year basis, e-paper business is expected to increase significantly by around 300% due to a growing number of awarded projects with leading customers for their ASIC product shipment. We continue to collaborate with world-class e-paper customers for certain ASIC projects with increased R&D efforts spent on their next generation products toward larger size, higher resolution, and colored e-paper displays. Backed by long-term supply agreements and lasting

partnerships with industry leading customers, we expect to capture significant market share in the ever-expanding e-reading and e-signage markets throughout 2022.

Next for an update on AMOLED. In partnership with major Korean and Chinese panel makers in various applications, we continue to gear up for AMOLED driver IC development. Our AMOLED solution for tablet has commenced mass production starting this quarter where we provide both AMOLED driver and Tcon total solution and are the sole source supplier for a global leading tablet customer. We are working to secure additional capacity to meet the customers' product launch schedule and desired volume. In addition, our flexible AMOLED driver and Tcon for automotive display successfully ramped up for a customer's flagship EV model in Q1. Concurrently, the number of awarded projects with worldwide conventional car makers and EV vendors is increasing.

As for smartphone, we continue to commit R&D resources to AMOLED driver ICs through arrangements with top tier customers. In the light of serious constraints on AMOLED display driver capacity in the next few years, we have secured meaningful capacity in this area with our secured capacity fully booked up by leading panel makers. Finally, for AMOLED TV and notebook sectors, we are encouraged by our progress in the last few quarters with designs made for leading customers and panel houses' next generation products. In the second quarter, our AMOLED business, including Tcon and driver, is expected to account for around 4% of total sale and is slated for strong growth in the next few years

Non-Driver Product Categories

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

Tcon

Starting with an update on timing controller. We anticipate Q2 Tcon sales to grow low single digit sequentially, a result of higher shipment of Tcon for monitor, OLED tablet and automotive sectors. The consumer market continues to expand its appetite toward advanced displays for visual enjoyment and diverse video entertainment. After years of commitment and R&D effort, we have successfully positioned ourselves towards high end areas, including 4K/8K TV, high frame rate gaming monitor, low power notebook, local dimming Tcon for automotive as well as OLED for tablet and automotive. These high-end areas not only warrant much higher content value on a per panel basis but also represent a higher barrier to entry for late comers.

As OLED displays gain traction in the market due to technological advantages, we have been collaborating closely with major panel houses to joint-develop an industry-leading AMOLED tablet display solution. We provide both AMOLED Tcon and drivers, with both commencing mass production in Q2. Additionally, we extended our Tcon product reach from higher end tablet into notebook sector where currently we are initiating projects jointly with panel makers for next generation premium OLED notebook. We are optimistic about the long-term potential of our Tcon business and continue to look to secure more capacity from our foundry partners in pursuit of sustaining the growth.

Ultralow power AI image sensing

Switching gears to the ultralow power AI image sensing total solution, which incorporates Himax ultralow power CMOS image sensor, our proprietary AI processor and CNN-based AI algorithm. On April 14, our wholly owned subsidiary Emza announced that its revolutionary and innovative AI-based

visual sensing technology was adopted in a range of Dell's new notebook models. The WiseEye AI image sensing solution, which runs Emza's algorithms on Himax's proprietary ultralow power AI processor and AoS image sensor, features always-on, ultralow power contextual-aware vision AI. The solution can detect user engagement levels based on presence, movements, and facial direction. This contributes to better laptop power management, maximizing battery life and ultimately enhancing the laptop's user experience. We are thrilled by this deployment and anticipate continuous market proliferation as we engage in ongoing discussions with worldwide notebook brands and platform partners where the number of design-in projects are increasing as we speak.

Another area we are gaining momentum with our AI total solution is the automatic meter reading (AMR) application where we have seen surging adoption across the continents over the past few quarters. With greater focus on sustainability and environmental consciousness, more countries are devoting resources to water preservation and are eager to implement intelligent water conservation technology. AMR embedded with Himax ultralow power AI image sensing technology is an ideal fit for this market. Our power-efficient AI solution, installed over the existing traditional water meters, can automatically collect water consumption data with AI operating locally on the AMR device itself, providing in-time detection of abnormal leakage. So far, we have received most of the inquiries from China where our AI total solution has been widely adopted by numerous customers covering a wide geographical area. Some of these projects were slated for mass production starting Q1 but subsequently delayed due to the pandemic resurgence. In addition to China, we are also seeing a growing number of inquiries from other countries in Asia and Europe as well as India, an indication that our solution is effective, easy to use and affordable for this application. The AMR application is expected to start generating sales in the near future.

The rapid advancement of AI over the past few years has expanded both the function and popularity of AI applications that are now finding their way into nearly every business sector. For our ultralow power AI image sensing solution, we are seeing a wide variety of successful use cases and adoption in areas such as panoramic video conferencing, smart parking, fitness equipment, smart agriculture, and medical inspection, among others. As an illustration, in the areas of smart agriculture and environmental protection, our solution was adopted by Seeed Studio, an IoT platform enabler, into their “IoT into the Wild” product launch. We expect to see many more of these types of engagements with mass production in some of these exciting new channels.

Optical product line-up/ Metaverse

Lastly, I'd like to give an update on our optical related product lines covering WLO, LCoS and 3D Sensing. On our last earnings call, I provided a brief overview of our optical technology roadmap and applications in the metaverse market. In short, Himax is at the forefront of this exciting yet early-stage industry, having meticulously developed technologies for many years in collaboration with leading companies in the space. We believe our optical technologies, individually or combined, will play a key role in enabling metaverse AR/VR devices. Now to provide an update on our progress this quarter.

First on our LCoS microdisplay. I am pleased to report a new LCoS design-win for a projector product from a leading global player. For AR glasses, currently we have several joint-development projects underway with leading tech names, some of which using our cutting-edge Front-Lit LCoS Microdisplay for their next generation products. Our Front-Lit LCoS Microdisplay features light-weight, small form factor, high illumination, and full RGB color displaying characteristics, making it ideal for future AR glasses. Next on human interface sensing for 3D gesture control. We have several AR/VR projects underway with industry leaders, aiming to achieve immersive and precise controller-free gesture recognition. Moving on to 3D eye-tracking. We have been engaged by some of the leading display

companies for the adoption of our 3D eye-tracking technology which enables immersive 3D naked eye displays free of motion sickness for monitor, notebook, and medical applications. Last on 3D scanning and reconstruction. Creating virtual worlds involves huge datasets of 3D images including avatars, objects, and other environment surroundings and 3D scanning device is required for the purpose of generating these 3D images. Currently we have a few projects underway with leading virtual object companies whose 3D scanning devices adopt Himax proprietary dual 3D sensing architecture to reconstruct 3D virtual objects on a real time basis.

As I mentioned last quarter, metaverse development is still in an early stage. Yet, Himax is well positioned with years of research and development, a strong product portfolio, production history and key partnerships to capitalize on its growth in the years to come.

For non-driver IC business, we expect revenue to be up low single digit sequentially in the second 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!