



Himax Technologies, Inc. Q2 2022 Unaudited Financials and Investor Update Call

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<p>Himax Speakers: Jordan Wu, President & Chief Executive Officer Eric Li, Chief IR/PR Officer</p> <p>Direct URL to Webcast Conference ID number: https://edge.media-server.com/mmc/p/r5og5y58</p>	<p>Replay Links: Webcast: https://edge.media-server.com/mmc/p/r5og5y58 Dial in or Call Back Registration: https://register.vevent.com/register/Bla86dc40e32ca474485de6315315fbb69 From: 8/11/2022 at 11:30 a.m. EDT To: 8/11/2023 at 11:30 a.m. EDT</p>

Operator: Opening and standard introduction.

Mark Schwalenberg: Welcome everyone to the Himax Second 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.

Q2 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 second quarter 2022, followed by our third quarter 2022 outlook. Jordan will then give an update on the status of our business, after which we will take questions.

The second quarter presented a challenging business environment, yet we continue to diligently focus on navigating these obstacles while positioning ourselves for long-term sustainable growth. Accelerating interest rate hikes to combat rising inflation, ongoing rolling lockdowns in China and the Russia-Ukrainian war continued to plague business activity and reduce consumer confidence. The gloomy visibility of our end customers led to reduced and shorter forecasts along with more stringent inventory controls across the board from brands to panel houses. We revised our guidance on June 20, 2022 to better reflect these soft conditions. Our second quarter revenues, gross margin and EPS were all in line with the updated guidance range.

Second quarter net revenues of \$312.6 million decreased 24.3% sequentially but were within our updated guidance of a decline of 22% to 27%. Our gross margin came in at 43.6%, a decrease from 47.0% last quarter, but within our initial guidance of around 43% to 45%. Non-IFRS profit per diluted ADS was 43.9 cents, at upper range of the updated guidance of 40.0 to 45.0 cents. IFRS profit per diluted ADS was 40.4 cents, at high end of the updated guidance of 36.5 to 41.5 cents.

Revenue from large display drivers was \$68.6 million in Q2, a decrease of 38.0% sequentially. TV and notebook IC revenues were down double digit sequentially due to customers' inventory control on the backdrop of slowing end market sell-through and reduced business visibility. Monitor IC sales declined sequentially in Q2 but increased more than 100% year-over-year for the six months ended June 30, 2022, thanks to substantial shipment growth for high-end areas such as high frame rate gaming monitor. Large panel driver IC sales accounted for 22.0% of total revenues for this quarter, compared to 26.8% last quarter and 23.4% a year ago.

Moving on to our small and medium-sized display driver segment, revenue was \$201.6 million, a decline of 22.0% sequentially. Our automotive business, as was the case in Q1, was once again the largest revenue contributor in the second quarter, representing over 30% of total sales. We expect this upward trend in automotive sales contribution to continue throughout 2022. Meanwhile, for AMOLED business, we successfully piloted the production of our total solution covering DDIC and Tcon for the premium tablet of a global leading name as the sole source supplier. Our AMOLED business, in the second quarter, accounted for more than 4% of total sales. Small and medium-sized driver IC segment accounted for 64.5% of total sales for the quarter, compared to 62.6% in the previous quarter and 63.1% a year ago.

The automotive IC sales in Q2 decreased low teens sequentially as the market was adversely impacted by logistical hurdles brought on by China city lockdowns. However, on a year-over-year basis, automotive IC sales for the quarter were up almost 100% thanks to broad design-win coverage and better product mix. Our automotive IC sales in the first half were up 130% year-over-year despite macroeconomic headwinds and supply chain disruption.

Second quarter smartphone and tablet revenues both declined double digit sequentially as channel inventories across panel houses, OEMs and end brands remained stubbornly high against the backdrop of continued sluggish demand. Both smartphone and tablet driver IC sales represented almost equal sales weighting in the second quarter. Our e-paper business grew more than 100% sequentially in the second quarter, stemming from increasing demand by a leading customer along with the catch-up shipments that were delayed last quarter due to logistical disruptions from lockdowns in China.

Second quarter non-driver revenue was \$42.4 million, slightly down from a quarter ago. Our Tcon business was flat sequentially, supported by increasing Tcon shipment for automotive, AMOLED for tablet and high-end displays. Tcon business represented over 8% of our total sales in the second quarter. Non-driver products in Q2 accounted for 13.5% of total revenues, as compared to 10.6% in the previous quarter and 13.5% a year ago.

Non-IFRS gross margin for the second quarter was 43.6%, a decrease from 47.0% of last quarter and 47.5% of the same period last year. As we previously reported, there were two primary factors that adversely impacted our margin profile. First, price adjustments in support of our non-automotive customers amidst soft demand worldwide. Second, our cost of goods sold for Q2 reflected the higher foundry prices from the previous quarter. IFRS gross margin was also 43.6% for the quarter.

Our non-IFRS operating expenses for the second quarter were \$45.0 million, up 2.1% from the previous quarter and up 14.4% from a year ago. The sequential increase was caused mainly by increased R&D expenses while year-over-year expenses increased because of higher salary and R&D expenses. IFRS operating expenses were \$52.6 million for the second quarter, up 2.1% from the preceding quarter and up 32.9% 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 second quarter non-IFRS operating income was \$91.5 million, or 29.3% of sales, versus 36.3% of sales in the last quarter and 36.8% of sales from a year ago. Non-IFRS after-tax profit was \$76.8 million, or 43.9 cents per diluted ADS, decreased from \$121.9 million, or 69.7 cents per diluted ADS, last quarter.

Turning to the balance sheet, we had \$461.6 million of cash, cash equivalents and other financial assets as of June 30, 2022, compared to \$270.4 million at the same time last year and \$447.1 million a quarter ago. The higher cash balance was mainly from \$9.1 million of operating cash inflow during the quarter and payments received from customers to secure their long-term chip supply. We had \$49.5 million of long-term unsecured loans as of the end of Q2, of which \$6.0 million was the current portion. It's worth noting that our cash balance at the end of the third quarter will be substantially reduced following the annual cash dividend payout of \$217.9 million in July. The annual dividend of \$1.25 per ADS is equivalent to 50% of last year's net profit. The payout ratio was lower than our historical average, reflecting our decision to reserve cash in the light of macroeconomic uncertainty.

Our quarter-end inventories as of June 30, 2022 were \$337.3 million, up from \$253.1 million last quarter and up from \$134.2 million a year ago. Our higher inventory level reflected the abrupt drop in demand triggered by strict customer inventory control due to sluggish end market demand and reduced visibility which led to growing customer inventory, particularly in consumer electronics. The halt in demand adversely affected our sales and in turn caused elevated inventory levels as our production always begins months in advance. Accounts receivable at the end of June 2022 was \$371.0 million, down from \$442.2 million last quarter but up from \$329.0 million a year ago. DSO was 93 days at the quarter end, as compared to 88 days a year ago and 96 days from last quarter.

Second quarter capital expenditures were \$2.5 million, versus \$3.6 million last quarter and \$1.4 million a year ago. The second quarter capex was mainly for R&D related equipment for our IC design business.

As of June 30, 2022, Himax had 174.3 million ADS outstanding, unchanged from last quarter. On a fully diluted basis, total number of ADS outstanding for the second quarter was 174.8 million.

Q3 2022 Guidance

Now, turning to our third quarter 2022 guidance. We expect third quarter revenue to decrease 35% to 39% sequentially. Non-IFRS gross margin is expected to be around 35.5% to 37.5%, depending on the final product mix. Non-IFRS profit attributable to shareholders is expected to be in the range of 11.6 to 15.6 cents per fully diluted ADS.

The third quarter IFRS profit attributable to shareholders is estimated to be in the range of 0.2 to 4.2 cents per fully diluted ADS. Similar to our usual practice, we will grant employees' annual bonus, including RSUs and cash awards, on or around September 30 this year. The third quarter guidance for IFRS profit per diluted ADS has taken into account the expected 2022 annual bonus, which, subject to Board approval, is now assumed to be around \$40 million, out of which \$17.6 million, or 8.0 cents per diluted ADS, will be vested and expensed immediately on the grant date. As a reminder, the total annual bonus amount and the immediately vested portion are our current best estimates only and the actual amounts could vary materially depending on, among other things, our Q4 profit and the final Board decision for the total bonus amount and its vesting scheme. As is the case for previous years, we expect the annual bonus grant in 2022 to lead to higher third quarter IFRS operating expenses compared to the other quarters of the year. In comparison, the 2021 annual bonus totaled \$74.7 million, out of which \$24.8 million was vested immediately.

As a side note regarding a proposed resolution regarding the company's LTIP (Long-term Incentive Plan) at this year's annual general meeting to be held on August 16, 2022, we'd like to clarify that the proposal is to extend the duration of company's existing LTIP for another 3 years, rather than to initiate a new plan. As mentioned earlier, we grant an annual bonus, including cash and RSU, to employees on or around September 30 every year to award them for their devotion to the company. The existing LTIP, which was initiated in 2011 for a duration of 5 years and thereafter extended a couple of times at annual general meetings in the past few years, will expire again on September 6, 2022. Therefore, unless the plan is extended again this year or a new plan is initiated, for this year's annual bonus, we will be able to grant only cash to employees at the end of September and lose RSU as the other means of compensation. We believe RSU is an important incentive for employees to focus on long term success of the company. As of the end of June this year, among the total number of 20,000,000 authorized ordinary shares of the existing LTIP, 49% have already been granted with the remaining 51% still valid to award our employees if the plan is extended. I will now turn the call over to Jordan. Jordan, the floor is yours.

Q3 2022 Outlook

Thank you, Eric. Several macro level factors continue to present significant headwinds to our business while also clouding visibility as we enter the second half of the year. Decades-high inflation, rapidly rising interest rates in addition to the ongoing war and potential for more China city lockdowns have caused widespread disruption to demand. Faced with frozen demand, piled-up inventory, and eroding panel prices, end brands are downsizing their panel procurement plans. Consequently, panel makers all initiated downward and extended fab utilization adjustments along with rigorous IC inventory cuts. The sudden halt in demand, together with the length of our production lead time, has led to elevated inventory level for Q3. While in the midst of this inventory offloading cycle, we are naturally cutting back on new orders with our suppliers. However, the contracts that we entered with foundries and

backend suppliers when the industry experienced unprecedented demand in 2021 may incur charges if the minimum purchase orders are not fulfilled. While the negotiations with suppliers are still ongoing as we seek ways to increase flexibility in executing the agreements, such supplier charges have already been factored in for our Q3 guidance and is the predominant factor for the Q3 gross margin contraction.

While we are uncertain about when the current business environment could turnaround, we believe our inventory will peak in Q3 as we curtail our new wafer starts and our customers continue to restock after inventory digestion. On the revenue front, we believe the growth will be restored in Q4, boosted by healthy demand for automotive and tablet segments where there is better visibility. Yet LDDIC sector is still set to remain sluggish for the remainder of the year. Against the backdrop of challenging market conditions, we expect our Q4 gross margin to be still under pressure because the cost of goods sold still reflects high pricing from previous quarters while inventory offloading could lead to selling price erosion. However, the sequential decline in Q4 gross margin will likely be modest as there is still solid price support from a few product areas, notably automotive, Tcon, AMOLED and AI image sensing, which all together now account for more than 40% of total sales. Our automotive sales, especially, have a high likelihood of a strong fourth quarter rebound from the trough of Q3. From a longer-term perspective, we are very optimistic about our automotive business and continue to look to expand our leading market position.

Display Driver IC Businesses

LDDIC

With that, I'll begin with an update on the large panel driver IC business. Our third quarter large display driver IC revenue is projected to decline by double digit sequentially, and below what we typically see on a seasonal basis, as customers impose tight inventory control measures to reduce near-term inventory due to continuous deterioration of forecast visibility from their customers. The outlook for large size driver IC business remains soft with moderating TV sell-through and muted Chromebook sales, while monitor customers exercise strict inventory control. Q3 monitor, notebook and TV IC sales are expected to decline double digit, reflecting the overall market softness, reduced business visibility and de-stocking pressure from our customers.

SMDDIC

Turning to the small and medium-sized display driver IC business. In the third quarter, revenue is expected to decline double digit sequentially. Our Q3 automotive driver IC sales are anticipated to be down double digit sequentially as customers de-stock inventory accumulated during the second quarter when production was severely disrupted by the widespread city lockdowns in China.

However, the extent of the sequential revenue decline for automotive is likely to be less than those suffered by other product areas while business visibility into Q4 and next year are also much better for our automotive business. As indicated earlier, despite the Q3 decline, we expect our automotive driver IC sales to see strong business momentum in Q4 with TDDI sales outgrowing those of DDIC. We expect our automotive TDDI business to continue to be a key driver of high-margin growth for Himax for many quarters to come. In the meantime, smartphone and tablet driver IC sales are set to decline double digit, a result of the ongoing deterioration of forecast visibility as our customers prolong their efforts to reduce inventory amidst the backdrop of soft demand and the weaker macro environment.

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 now is our largest revenue contributor, set to represent over 35% of our total sales in Q3. We are poised to sustain our leading position and dominant global market share as we offer the most comprehensive automotive product portfolio ranging from traditional DDIC to new technologies such as TDDI, local dimming Tcon, LTDI and AMOLED. 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, it is on track to be a fast growing segment. We are glad to report that we expect our automotive TDDI to reach a milestone of over 10 million units cumulatively shipped by the end of Q3. TDDI adoption rate for automotive has been advancing at a rapid pace and our design-win coverage continues to quickly expand with panel makers, Tier-1s and auto brands. Meanwhile, China's government recently created incentives to stimulate more NEV sales which may trigger accelerating adoption of high-end automotive displays that incorporate in-cell TDDI. While our automotive sales growth for 2022 might be less than previously predicted, the growing reliance on automotive electrification and smart cabin dictates that semiconductor content values are increasing rapidly per vehicle. We will be a key beneficiary of these trends and expect to see sustainable growth in the automotive market on top of the already strong 2021 base.

Next, regarding smartphone and tablet businesses, we expect both product lines to decline double digit sequentially as earlier stated. With that said, our shipments for high-end AMOLED tablet where we provide both DDIC and Tcon to certain leading brands, are on the rise with momentum expected to last in the foreseeable future. As for smartphone, despite being awarded a growing number of projects by brand customers, much of our shipments to key customers for their next generation new designs that support higher frame rate, ultra slim bezel and higher resolution features have been

postponed in the midst of excess inventory for their older models on the backdrop of frozen end market demand.

Turning to the e-paper driver business, another product in our small and medium-sized driver lineup. Our e-paper business is expected to decline double digit quarter-over-quarter due to customers downsizing their annual business plans amid soft consumer electronics market. As the world continues to transition toward green energy and carbon footprint reduction, we expect long-term demand for e-paper to endure. Therefore, we continue to collaborate with world-class 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. We are glad to report that one of our e-paper ASICs in collaboration with E Ink for their latest e-book solution was awarded “Best Choice Award” of COMPUTEX 2022. The ASIC enables fast handwriting speed for e-paper display, while also greatly improving the average latency of the display with reduced power consumption, characteristics that are critical for next generation e-paper devices.

Next for an update on AMOLED. We continue to gear up for AMOLED driver IC development jointly with major Korean and Chinese panel makers in various applications. In the third quarter, AMOLED sales are expected to increase more than 50% sequentially with more AMOLED for tablet models commencing mass production this quarter. Our AMOLED business, including Tcon and driver, is expected to amount to more than 8% of total sales in Q3 and slated for strong growth in the next few years. As a reminder, we provide both AMOLED driver and Tcon and are the sole source supplier for a global leading tablet customer. In addition, the number of awarded projects for our flexible AMOLED driver and Tcon for automotive is also increasing with worldwide conventional car makers and NEV vendors. Finally, we are making good progress with leading panel houses for the development of AMOLED display drivers for smartphone, TV and notebook applications. In light of serious constraints

on the capacity for smartphone AMOLED display driver in the next few years, we have secured and continue to vie for more such capacity for the future.

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 Q3 Tcon sales to decline double digit sequentially, pressured by lower shipment for TV, monitor and notebook markets. Yet, Tcon shipment for AMOLED tablet and automotive sectors is set to enjoy decent growth and we expect these two areas to see accelerating design-in momentum in the coming quarters. Our cutting-edge automotive local dimming Tcon has won numerous awards and penetrated into OEMs, Tier-1 and car makers' premium new car models with some of which already commencing mass production. We anticipate more than 50% year-over-year sales growth of automotive Tcon which will represent around 2% of total sales in the third quarter with additional projects slated for bigger volume shipment starting 2023. For AMOLED tablet Tcon, as reported earlier, in the second quarter, we successfully commenced the mass production of our tablet AMOLED solution, including both Tcon and driver, to support a leading tablet brand as the sole source supplier in their newly launched tablet model. Additionally, we are undertaking new design developments supporting even larger panel sizes with more named customers. We expect to gain traction with more shipments to key customers in upcoming quarters and are optimistic about the long-term potential of our Tcon business with secured capacity from our foundry partners in pursuit of sustainable 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 the AI image sensing business for notebook, we continue to support Dell's production ramp up in a range of their new models. In addition, a number of other leading laptop vendors and CPU platform players have also shown interest in our AI total solution in an effort to further broaden use cases for next generation notebooks. In addition to presence, look-away and onlooker detections, we are developing a variety of new context-aware AI features for next generation smart notebook market.

Our AI image sensing solution, featuring ultralow power tinyML vision AI in a tiny form factor, is a perfect fit for the resource-constrained and battery-powered end-point applications, a new AI area which is now ardently explored by AI communities. Automatic meter reading (AMR) is one of our successful showcases to the end-point AI industry where our AI total solution has been adopted by several China vendors and shipment is slated to begin in the second half of this year after some delays caused by widespread lockdowns in China. We have also kicked off projects jointly with water authorities, utility companies, meter OEM/ODMs and/or IoT network providers from China, Japan, Europe, and India over the past few quarters. Our power efficient AMR solution can operate with a battery pack for over 5 years and is easy to install over the existing conventional water meters for real-time water consumption readout and detection of abnormalities such as water leakage.

We are also seeing expanding adoption of our tinyML based, end-point AI solution in new areas such as shared bike parking, capsule endoscope and more broadly in areas of automotive, smart office, smart home, agriculture and environmental conservation. In smart office, we have several projects ongoing with office automation ODMs where our ultralow power AI solution is used for meeting room human presence detection and people counting with an aim to save energy for lighting and

temperature control. For environmental conservation, we are collaborating with Seeed Studio, Edge Impulse and hackster.io, jointly organizing the event of "IoT Into the Wild Contest for Sustainable Planet 2022", aiming to cluster AI experts around the world to tackle different real-world environmental challenges. We are excited by the traction this relatively new AI product line has generated and expect to see increasing sales contribution through 2022 and beyond.

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. Himax continues to work on strengthening our optical-related technologies, at the same time better positioning ourselves to capture the vast opportunity presented by the future of the metaverse. Equipped with exceptional know-how and years of proven track record of mass production, Himax is playing a key role in enabling next generation metaverse related applications. Currently we have multiple intensive collaborations ongoing with world-leading tech giants who are aggressively investing in this emerging field with a lot of potential. Now to quickly go over a few recent updates.

First on our LCoS microdisplay. We continue to have steady joint-collaboration with leading tech names and OEMs for their next generation products in AR glasses where we offer leading edge front-lit LCoS microdisplay that features light-weight, small form factor, and full color with unique characteristics of high illumination and low power consumption, which are critical for the success of future AR glasses. We have received promising feedback thus far and will report more progress in due course. Moving on to the update for 3D gesture control for human interface sensing. Our WLO technology is deployed into 3D camera to empower 3D perception sensing for precise gesture control, a technology that can be applied to current AR/VR goggles for controller-free gesture recognition. Last for an update on 3D scanning and reconstruction project. Our 3D sensing technology is deployed for customer's 3D scanning device for the purpose of generating real time digital twins, avatar and 3D

environment surroundings. The collaboration is still underway, and we expect to begin engineering build from the end of 2022.

While the opportunity in optical and metaverse related products is vast, it is still very much in the early innings. We are optimistic about its potential though and continue to work to position our strong optical product portfolio for future growth in the years to come.

For non-driver IC business, we expect revenue to decline double 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!