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Q3 2022 Himax Technologies Inc Earnings Call

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PRESENTATION

Operator

Hello, ladies and gentlemen. Welcome to the Himax Technologies, Inc. Third Quarter 2022 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded. I would now like to turn the conference over to your host, Mr. Mark Schwalenberg from MZ Group.

Mark Schwalenberg *MZ Group S.A. - Director*

Welcome everyone to the Himax Third 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 e-mail 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 results or events 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. Eric, the floor is yours.

Eric Li *Himax Technologies, Inc. - Chief of IR/PR Officer & Spokesperson*

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

Our third quarter revenues and EPS beat the guidance, while gross margin was at the mid-range of the guidance issued on August 11, 2022 despite macro headwinds continuing to challenge our business. Third quarter net revenues of \$213.6 million decreased 31.7% sequentially but exceeded our guidance of a decrease of around 35% to 39% sequentially. Increased sales momentum in our small and medium-sized display driver segment contributed to the better-than-expected sales results. Gross margin came in at 36.3%, a decrease from 43.6% last quarter but at the mid-range of the guidance range of 35.5% to 37.5%. Non-IFRS profit per diluted ADS was 17.0 cents, beating our guidance of 11.6 cents to 15.6 cents. IFRS profit per diluted ADS was 4.8 cents, exceeding our guidance of 0.2 cents to 4.2 cents.

Revenue from large display drivers was \$41.3 million in Q3, a decrease of 39.8% sequentially and below what we typically see on a

seasonal basis. Customers across the board from brands to panel houses continued to impose stringent inventory control measures on the backdrop of slowing end market sell-through and de-stocking pressure. As guided, all three large display driver sectors, covering TV, monitor and notebook, were down double digit sequentially. Large panel driver IC sales accounted for 19.3% of total revenues for this quarter, compared to 22% last quarter and 27.9% a year ago.

Moving on to our small and medium-sized display driver segment, revenue was \$141.4 million, a decrease of 29.9% sequentially, primarily a result of the prolonged inventory reduction effort of our smartphone and tablet customers. Smartphone and tablet driver IC sales contributions were approximately equal in the third quarter. Despite the challenging macro environment, we continue to gain traction with our leading driver solutions being adopted by more customers for their next generation products. As an illustration, our proprietary tablet TDDI solution, once again, was adopted by Xiaomi for their latest premium tablet and 2-in-1 laptop, where our TDDI supports larger sized, high frame-rate display and high precision active stylus features as well as the most touch channels in the market to offer superior touch sensitivity. Meanwhile, for AMOLED business, our global leading customer had more AMOLED premium tablet models commence mass production this quarter where we provide the total solution covering DDIC and Tcon as their sole source supplier. In the third quarter, our AMOLED sales, including DDIC and Tcon, were up more than 45% sequentially and accounted for more than 8% of total sales.

Q3 automotive business was, once again, the largest revenue contributor, representing over 35% of total sales. However, Q3 automotive sales declined double digit sequentially as guided as customers continued with strict inventory control measures to de-stock from the accumulation during China city lockdowns in the previous quarter. Yet, on a year-over-year basis, automotive IC sales increased more than 80% for the nine months ended September 30, 2022, a result of our comprehensive product coverage and increasing design-wins for our automotive TDDI. For our e-paper business, another product in our small and medium-sized driver lineup, sales declined double digit quarter-over-quarter due to customers downsizing their annual business plans amid a weak consumer electronics market. Small and medium-sized driver IC segment accounted for 66.2% of total sales for the quarter, compared to a 64.5% in the previous quarter and 59.9% a year ago.

Third quarter non-driver revenue was \$30.9 million, down 26.9% from a quarter ago. As expected, our Tcon business was down double digit sequentially, pressured by lower shipment for TV, monitor and notebook markets. Yet, Tcon shipment for automotive enjoyed decent growth and we anticipate its business momentum to accelerate in the coming quarters. Tcon business represented more than 7% of our total sales in the third quarter. Non-driver products in Q3 accounted for 14.5% of total revenues, as compared to 13.5% in the previous quarter and 12.2% a year ago.

Non-IFRS gross margin for the third quarter was 36.3%, a decrease from 43.6% of last quarter. As we previously reported, the incurred charges from agreements we entered with foundries and backend suppliers for securing capacity were the predominant factors that adversely impacted our margin profile in the third quarter. Price erosion because of inventory de-stocking, also contributed to the margin contraction. IFRS gross margin was 36% for the quarter.

Our non-IFRS operating expenses for the third quarter were \$46.7 million, slightly up by 3.8% from the previous quarter and 5.0% from a year ago. The sequential increase was caused mainly by increased salary expenses while year-over-year expenses increased because of higher salary and R&D expenses. IFRS operating expenses were \$72.9 million for the third quarter, up 38.5% from the preceding quarter and 6.4% 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 2022 annual bonus compensation including RSUs and cash awards was in line with the guidance we mentioned on our last earnings call that totaled \$39.6 million, out of which \$18.5 million or 8.5 cents per diluted ADS, was immediately vested and recognized in the third quarter of 2022. 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.

Third quarter non-IFRS operating income was \$30.9 million or 14.5% of sales, versus 29.3% of sales in the last quarter and 41.2% of sales from a year ago. Non-IFRS after-tax [profit] (added by company after the call) was \$29.8 million, 17.0 cents per diluted ADS, decreased from \$76.8 million, or 43.9 cents per diluted ADS last quarter.

Turning to the balance sheet, we had \$227.9 million of cash, cash equivalents and other financial assets as of September 30, 2022, compared to \$250.8 million at the same time last year and \$461.6 million a quarter ago. Our cash balance at the end of the third quarter substantially declined following the annual cash dividend payout of \$217.9 million in July. We had \$48.0 million of long-term unsecured loans as of the end of Q3, of which \$6 million was the current portion.

Our quarter-end inventories as of September 30, 2022, were \$410.1 million, up from \$337.3 million last quarter and up from \$160.9 million a year ago. The elevated inventory level reflects the abrupt drop in the demand triggered by strict customer inventory control due to sluggish end customer demand and murky visibility. The excess customer inventory, particularly in consumer electronics, adversely affected our sales, resulting in high inventory levels as our production always begins months in advance. Accounts receivable at the end of September 2022 was \$253.3 million, down from \$371.0 million last quarter and from \$400.9 million a year ago. DSO was 74 days at the quarter end, as compared to 100 days a year ago and 93 days from last quarter. Third quarter capital expenditures were \$3.4 million, versus \$2.5 million last quarter and \$2.1 million a year ago. The third quarter CapEx was mainly for R&D related equipment for our IC design business.

As of September 30, 2022, Himax had 174.4 million ADS outstanding, little changed from last quarter. On a fully diluted basis, total number of ADS outstanding for the third quarter was 174.7 million.

Now turning to our fourth quarter 2022 guidance. We expect fourth quarter revenue to increase 4.0% to 8.0% sequentially. Non-IFRS gross margin is expected to be around 31.5% to 33.5%, depending on the final product mix. Non-IFRS profit attributable to shareholders is expected to be in the range of 21.0 to 24.0 cents per fully diluted ADS. The fourth quarter IFRS profit attributable to shareholders is estimated to be in the range of 17.8 cents to 20.8 cents per fully diluted ADS, attributable to gains from disposal of long-term assets and the certain financial arrangements. I will now turn the call over to Jordan to discuss our Q4 outlook. Jordan, the floor is yours.

Jordan Wu Himax Technologies, Inc. - Founder, CEO, President & Director

Thank you, Eric. The near-term economic outlook appears bleak in the face of elevated inflation and rapidly rising interest rates which are hurting the market along with the ongoing fallout from China city lockdowns and geopolitical conflict. For the display application market, end brands are downsizing their panel procurements which consequently triggers panel makers to further lower fab utilization. Against this backdrop, our business visibility remains limited, especially in consumer-centric products. As we continue to tread through this inventory offloading cycle, we are cautiously managing our new wafer starts, trying to strike a balance between inventory level and foundry contract fulfillment. A silver lining among the clouds is the automotive segment where visibility is relative better. This allows us to continue to maintain new orders to our foundry partners and back-end suppliers. Continuous orders in such segments coupled with our successful negotiation with suppliers will reduce the incurred charges in Q4 from contracts to secure capacity as compared to the third quarter. Judging by our current business pipeline and production plan, we believe, our inventory level has reached the peak at the end of the third quarter.

Looking into Q4, our gross margin is still under pressure due to price erosion from high inventory offloading while the cost of goods sold remains high as the inventory was sourced when foundry and back-end pricings were still at high levels. Despite the soft demand, we remain upbeat about our top line growth from several revenue streams that we consider as our high visibility group: notably automotive, AMOLED, Timing Controller and the WiseEye AI image sensing. In the automotive business, we expect TDDI sales momentum to pick up starting Q4 from the trough in the third quarter. For automotive DDIC, however, customers are still in the process of offloading their inventories accumulated intended for the second quarter production which was severely disrupted by the widespread China city lockdowns. We believe our 2022 full year automotive business growth will reach around 50% despite the challenging environment and expect growth momentum, especially for TDDI, to extend into 2023 for another stellar year of strong growth. Separately, our WiseEye AI image sensing and AMOLED business are poised to deliver an impactful contribution next year. We expect WiseEye sales to grow nicely, backed by strong business pipelines from a wide variety of new AI application adoptions. Among our AMOLED deployments, our AMOLED for smartphone will commence as a new sales stream next year on top of the current AMOLED for tablet and automotive sales. The benefits from the increasing contribution from these higher visibility segments is two-fold. First, our overall corporate visibility improves as their weighting increases. Second, the gross margin for these segments is above our corporate average, lending support to a more sustainable higher margin profile for us. We expect these groups combined to account for more than 50% of total sales in Q4 and believe their contribution weighting will continue to increase for years to come.

With that, I will begin with an update on the large panel [driver] (corrected by company after the call) IC business. Our fourth quarter large display driver IC [revenue] (corrected by company after the call) is projected to be flat sequentially off a low base after three consecutive quarters of decline. Yet on a year-over-year basis this is still a double-digit decline as we brace for a disappointing year-end holiday season. On a positive note, we do see TV panel prices showing signs of stabilization as customers have started to replenish inventory particularly in mainstream models, leading to positive momentum in our TV driver sales which are set to increase single digit sequentially in Q4. Conversely, the downward trend in our IT segment lingers on with further declines expected in both notebook and monitor sales in the fourth quarter on the backdrop of customers' continuous tight inventory control measures and the sluggish economy.

Turning to the small and medium-sized display driver IC business. In the fourth quarter, revenue is expected to increase by single digit sequentially. Our Q4 automotive driver IC sales are anticipated to be flat sequentially following double digit decline in Q3 as customers look to restock inventory. Sales for automotive TDDI are poised to grow by double digit while those for traditional driver IC are set to decrease single digit from the last quarter. The business visibility for automotive segment into next year remains much better than those of consumer-centric products. Smartphone driver IC revenue is set to be slightly down sequentially, a result of lengthy inventory off-loading cycle amid soft demand and limited visibility across those channels. Tablet driver IC revenue, however, is projected to increase double digit sequentially driven by replenishment momentum from leading customers.

Now for a more detailed update on the automotive segment, an area which has more resilient demand and is less vulnerable to the macro headwinds. As we have previously discussed, automotive driver sales are now our largest revenue contributor and set to represent over 35% of our total sales in Q4. The demand trends for automobile interiors continue to favor more stylish and diverse designs, made possible with increasing quantity and size of panels equipped with advanced display technologies. As the leader in automotive display IC market, we not only offer the most comprehensive automotive product portfolio in the industry, ranging from traditional DDIC to new technologies such as TDDI, local dimming Tcon, LTDI and AMOLED, we also are the preferred partner that panel customers like to work with, especially those looking to focus more on growing their automotive business in order to compensate for the soft consumer electronic business. As the pioneer of mass production for automotive TDDI and backed by rapid expansion of automotive TDDI adoption, we expect our automotive TDDI sales will be one of the primary driving forces for our long-term business growth for years to come. The automotive TDDI technology is essential for large-sized, interactive, stylish, and curved automotive displays. To date, we have acquired more than 200 automotive TDDI project awards with only a small portion currently in mass production, implying an enormous growth opportunity ahead. Our TDDI design-win coverage continues to quickly expand with panel makers, Tier 1s and auto brands. Meanwhile, the Chinese government continues to support the NEV industry with stimulus programs, which may accelerate the adoption of premium automobile displays that adopt TDDI. Moreover, we are well positioned with suppliers in support of our automotive segment growth, leveraging diverse foundry sources for optimal operational efficiency and benefit.

Furthermore, we are the first in the industry to launch the cutting-edge LTDI or Large Touch and Display Driver Integration automotive display solution specially designed for the next-generation extra-large-sized automotive displays which are typically larger than 30 inches. The LTDI adopts cascade-topology technique allowing up to 30 chips seamlessly connected in support of extra-large sized display and high-precision touch sensitivity, creating a high-entry barrier for potential competitors. This was featured at CES 2022 early this year by one of our key customers who showcased a 30-inch in-cell touch display powered by Himax LTDI solution. More design collaborations are underway and will debut in 2023 in some of the most modish automotive vehicles.

Next on smartphone and tablet businesses. For smartphone, much of our shipments to key customers for their next generation new designs have been delayed amidst deteriorating demand. As for tablet, shipments are on the rise for premium models that adopt high-end tablet TDDIs and advanced AMOLED tablet solution, of which we offer both DDIC and Tcon to certain leading brands. Q4 sales for these premium tablet solutions are expected to increase more than 100% sequentially and we believe momentum will accelerate into next year, supported by demand for advanced specifications and higher-end displays.

Turning to the e-paper driver business. Our e-paper business is expected to increase double digit quarter-over-quarter, stemming from increasing shipment of a large size display to a leading customer as their sole supplier. We expect long-term demand for both e-paper and e-signage to endure. E-reader demand is fueled by a growing e-learning market along with increasing reading material over the

internet. E-signage market is also on an upswing as the product is being more widely used in smart warehousing, smart retail and many other fields to replace traditional signage. We continue to collaborate with world-leading customers for certain ASIC and Tcon projects with increased R&D efforts spent on their next generation products toward larger size, higher resolution, and colored e-paper displays.

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. Q4 AMOLED sales are set to increase by double digit sequentially and represent over 9% of total sales. Our AMOLED business, including Tcon and driver, is slated for strong growth in the next few years. For AMOLED tablet product, we provide both, AMOLED driver and Tcon, and are the sole source supplier for one global leading brand. For automotive AMOLED display, we continue to win project awards for our flexible AMOLED driver and Tcon with both 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. We expect to start shipping smartphone AMOLED drivers around the middle of 2023. As a reminder, for smartphone AMOLED display driver, we already have secured meaningful capacity and continue to look to expand it moving forward.

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

Starting with an update on timing controller. We anticipate Q4 Tcon sales to increase by high teens sequentially, bolstered by higher shipment of automotive products for both LCD and AMOLED displays. For the AMOLED display market, we successfully commenced production of AMOLED Tcons for tablet and automotive. We also made good progress strategically with leading panel makers on AMOLED notebook Tcon, which features advanced eDP1.5, providing higher resolution, higher refresh rate as well as improved image quality to the notebook. Next on LCD display for automotive. Our position remains unchallenged in automotive Tcon for local dimming technology, which not only enhances display contrast for better viewing and driver safeguard under various ambient light conditions, but also provides effective power saving, critical for EVs and larger sized displays. With years of strenuous work on this high entry barrier technology, we have won numerous awards from various OEMs, Tier-1s and car makers' premium new car models, some of which have already commenced mass production. We anticipate Q4 automotive Tcon sales to increase more than 80% year-over-year and represent around 2% of total sales in the fourth quarter with additional projects slated for meaningful volume shipment starting in 2023. Additionally, we are undertaking new design developments, supporting even larger panel sizes and higher resolution 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 long-term sustainable growth.

Switching gears to the WiseEye AI total solution, which incorporates Himax's propriety ultralow power AI processor, always-on CMOS image sensor, and CNN-based AI algorithm. For WiseEye business for notebook, we continue to support a range of Dell's new models where Himax remains the key supplier for leading-edge ultralow power AI processor and always-on CMOS image sensor.

In order to capture the vast opportunity presented in the emerging notebook AI application market, we have extended deployment of in-house development of new algorithms to advance our AI capabilities while partnering with leading notebook CPU players aiming to expand our partnerships with leading global laptop names to propel this business forward. In addition to features such as human presence, look-away and onlooker detections, we are also working on a variety of enriched new AI features and use cases to broaden possible applications with end customers for next generation smart notebooks.

Aside from notebook, our highly integrated WiseEye total solution, featuring ultralow power tinyML vision AI in a tiny form factor, is a perfect fit for many resource-constrained and battery-powered end point applications, a new AI area which is now ardently explored by AI communities. One successful example worth highlighting is the strong adoption with meaningful shipment of our AI solution in Automatic Meter Reading. Our power efficient AI can help existing conventional water meters operate with a battery pack for over 5 years for real-time water consumption readout and detection of abnormalities such as water leakage. Attracted by the simplicity of installation and superb low power performance, dozens of water authorities, utility companies, meter OEM/ODMs and/or IoT network providers across the globe have commenced joint development projects with us. Moreover, we have additional WiseEye AI customer engagements in areas such as video conference device, shared bike parking, medical capsule endoscope, automotive, smart office, battery cam and surveillance, just to name a few. Decent volume shipment is anticipated within the next few quarters.

As we focus on scaling adoption in this relatively untapped market, we continue to build alliances with numerous AI partners and

communities to make our AI solution more accessible. To that end, during the upcoming CES 2023, several of our proprietary ultralow power WiseEye AI solutions will be showcased jointly with our ecosystem partners and customers in various applications, including smart home, smart agriculture, and surveillance, just to name a few. Also on display will be applications embedded with our Intelli-Sensing Module, a solution that offers numerous pre-trained machine learning models with a plug-and-play design that makes it possible to drastically reduce the significant entry barriers for AI or system developers in deploying computer vision and machine learning AI capabilities to the end point devices. We welcome all interested parties to stop by to learn more about our AI product line and see them in action.

Finally, we recently announced the divestiture of our fully owned subsidiary, Emza Visual Sense. As we mentioned in our press release, this transaction will not affect the existing business with Dell. The divestiture does not change our ultralow power WiseEye AI Image Sensing business model, where we will continue to develop our own algorithms and work with third-party algorithm partners. Furthermore, we are more committed than ever to strengthening our WiseEye product roadmap and retaining our leadership position in ultralow power AI processor and image sensor for end-point AI applications. As a demonstration of this commitment, at CES 2023, we will also debut our next generation AI processor, code-named WE2. The WE2 AI processor features Arm based Cortex CPU and Ethos NPU, rich sets of sensor control interfaces, industrial grade security and cryptography engines, and multi-layer power management architecture to offer superb tinyML computing performance, optimal energy efficiency and best-in-class security and privacy assurance. The WE2 AI processor offers 40% peak power savings and 30-fold inference speed, implying over 50 times power efficiency on a per-inference basis compared to the first generation WE1, which is already leading the industry among AI processors aiming for similar target markets. Several leading laptop names and CPU players have shown strong interest in our WE2 processor to support diverse AI features of their next generation smart notebooks. We are very excited about the potential for WE2 and believe we are well positioned to capture the vast end-point AI opportunities presented ahead.

Lastly, I would like to give an update on our optical-related product lines, including WLO, LCoS and 3D Sensing. Himax is one of the few companies in the technology industry with optical design capabilities and years of proven track record of mass production. We continue to work on strengthening our optical-related technology suite while collaborating with some of the world's largest technology companies that are deeply committed to investing in its development. We are well positioned to play an enabling role in this exciting new industry as it evolves. Now to quickly review some of our recent progress.

First on our 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. One notable highlight in Q3 is a design-win with a partner for new AR glasses with our front-lit LCoS microdisplays which assists hearing-impaired people through audio to text translation that is projected onto the AR glasses on a real time basis. Small volume shipment commenced during Q3. In addition, we also started shipment of front-lit LCoS microdisplay in Q3 for a customer's assisted-reality type hands-free head-mounted device that sits below a person's line of sight to assist workers to access real time working information. Moving on to an update on human interface sensing. We are seeing increasing adoption of our optical components and/or 3D sensing technologies that enable new ways people interact with AR and VR applications. On 3D gesture control, our WLO technology is deployed to empower 3D perception sensing for precise controller-free gesture recognition in VR devices. The collaboration is ongoing with a leading VR player with promising progress with volume production expected during 2023. On 3D scanning for object reconstruction, our 3D sensing technology, which incorporates both, our 3D projector and 3D decoder, is being deployed by a leading customer's 3D scanning device for the purpose of generating real time digital twins, avatar and 3D environment surroundings that ultimately help users transit and connect seamlessly between physical and digital worlds.

While still early in the lifecycle for the optical and metaverse related products, the ongoing commitment by the world's technology leaders, alongside expanding interest in its potential suggests, this next generation technology is poised for significant growth in the years to come. We are excited that Himax is at the forefront of optical innovation for this nascent industry and believe it has potential to be a long-term growth driver for our business. For non-driver IC business, we expect revenue to increase high teens sequentially in the fourth quarter.

That concludes my report for this quarter. Thank you for your interest in Himax. We appreciate you joining today's call, and we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Donnie Teng with Nomura.

Donnie Teng Nomura Securities Co. Ltd., Research Division - VP & Analyst of Greater China Semiconductor and Technology Research

Can you hear me?

Jordan Wu Himax Technologies, Inc. - Founder, CEO, President & Director

Yes, very well.

Donnie Teng Nomura Securities Co. Ltd., Research Division - VP & Analyst of Greater China Semiconductor and Technology Research

Congrats on the very strong results and guidance. My first question is regarding gross margin. I think, you have mentioned like foundries are lowering their price as well. And I think, we have seen some of them lowering the price quite aggressively. But at the same time, I think, our customers are still asking us to lower the price as well. So I think, it's pretty dynamic. But wondering if you could kindly comment on like, when do you think the gross margin would be the lowest point into next year and how should we expect the reasonable gross margin next year after the foundry lower the price and also, we lower our price to our customers?

Jordan Wu Himax Technologies, Inc. - Founder, CEO, President & Director

Thank you, Donnie. It's an interesting question. It's dynamic and it's so evolving. You are right to say that the foundry is kind of lowering their price. Although in doing so they do expect volume from customers in exchange. Now the thing is,-- we, as an industry and Himax included, we are burdened with significantly high inventory, meaning our capability to give significant orders to foundry right now is quite limited. So actually, I think, on a negative note, you are likely to see, across the industry, gross margin continues to be under pressure because we are just offloading our inventory, which was sourced previously at a higher cost. And it doesn't matter really how foundry is lowering their price right now. So that is the major issue.

However, for the products where the industry enjoys better visibility, certainly, we continue to place new orders to foundries. However, the foundries also are aware of this. So on those areas, typically, what we see is that they are priced down will then become less aggressive because they now actually, you do have to continue to place order because you don't have much inventory burden and the market remains visible and relatively strong. So I think and for Himax specifically, for next year, I mean, we will say, first of all, it's too early to comment on the whole year's gross margin because the macro uncertainty, you name it, you know what I'm talking about.

It's still clouding the market, right? So I think, it's still too early to comment. However, I think we are still quite confident on what we called the strong visibility group. In my prepared remarks, and we also mentioned the same in last quarter, there are basically 4 major things in the next few years, which we call high visibility group, namely automotive business in general, and timing controller business and AMOLED business and lastly, our WiseEye ultralow power AI business.

And these 4 segments together account for about 50%, over 50% of our total sales. So they are pretty significant. And they are all projected to enjoy better growth next year than our corporate average. They all are projected to enjoy better gross margin as well than our corporate average. And so I think that is our positive note. So mixing the negative and positive together, what is going to be the outcome for next year? I think, it's indeed too early to tell. However, I do believe, after this inventory destocking cycle is complete, which hopefully will be within 2 to 3 quarters from now. After this destocking cycle is complete, I think, we will emerge a better Company, gross-margin wise supported by this so-called high-visibility group of products. So that will be my kind of long answer to you, Donnie.

Donnie Teng Nomura Securities Co. Ltd., Research Division - VP & Analyst of Greater China Semiconductor and Technology Research

Very helpful. And maybe a housekeeping question is, like in the past 2 years, I think most of the semi and tech companies have hired lots of talents and employees but mostly facing quickly deteriorating outlook in the past few quarters. And I'm wondering, do you have any

expectation on managing the OpEx into 2023? Is there any way you can control OpEx or we should model like the similar OpEx of this year?

Jordan Wu Himax Technologies, Inc. - Founder, CEO, President & Director

I think that will be a fair assumption for your modeling purpose, I think that is right now, the plan, which is not to increase our non-IFRS OpEx. And certainly IFRS OpEx will depend largely on our profitability. As you know, our RSU goes in line with our profitability. Now how do we do that? I think, again, back to my so-called high visibility group. For those product lines, we do need to continue to invest. However, we are likely to regroup our organization so that those people working on other product areas, many of them will be channeled through to support those product areas. That is 1 thing. That is 1 major thing. That is the way to control our headcount, knowing that actually, the business visibility is poor. And, so on selected areas, I think, we will continue to invest and expand, but we just have to do that more smartly.

And again, 1 of the approaches is to re-channel some of the people from other areas into those focus areas. And we are still in the process of finalizing our BP for next year and it's very dynamic, a lot of uncertainties. But I think, also considering inflation, which is creating pressure for wage increase across the industry. And on the top of the fact that Taiwan is still -- high talent engineers are still in quite hot demand. So we have to remain competitive for such talents. So again, I think, the bottom line is, given the low visibility for the business, our target is to keep a flat OpEx expense next year compared to this year while still continuing to invest in those, especially for those high visibility group of product lines.

Operator

(Operator Instructions)

We have a question from the line of Tiffany Yeh with Morgan Stanley.

Tiffany Yeh Morgan Stanley, Research Division - Research Associate

Can you hear me?

Jordan Wu Himax Technologies, Inc. - Founder, CEO, President & Director

Yes, loud and clear.

Tiffany Yeh Morgan Stanley, Research Division - Research Associate

^ Okay. And my first question will be about your future foundry adoption plan. Could you kindly let us know whether you will leverage more Chinese foundries in the future? And I have a follow-up for this.

Jordan Wu Himax Technologies, Inc. - Founder, CEO, President & Director

We have been using Chinese foundries, although our vast majority of our foundry supplies still come from Taiwan, and also, a bit from Korea as well. China is a new source of supplier, and we do intend to collaborate with Chinese foundries. Now understanding the U.S.-China tension at the moment, right? So I think on the one hand, I mean, our Chinese customers would certainly love to see our using more Chinese foundries. On the other hand, I mean even our Chinese customers, let alone other international customers, they do need to target non-China customers.

And for many of those non-China customers, they are, I mean, seeing the uncertainty, again, this current tension, the prevailing tension between China and U.S. They are worried. So they need to hedge against Chinese foundries. So I think, the good news is that, for guys like us, China is such a big foundry base. It doesn't matter how you strategize your foundry position. I'm talking about my customers or even end customers, you can't really get away with utilizing or counting on Taiwan as a sole foundry place. So I think that leaves us with a pretty good position. So I think looking forward, we are going to continue to count on Taiwan as our primary source of foundry supply while continuing to expand our China and Korean foundry bases.

Tiffany Yeh Morgan Stanley, Research Division - Research Associate

Okay. Very clear. If possible, could you kindly let us know like your ideal proportion between Chinese, Taiwanese and Korean foundries?

Jordan Wu Himax Technologies, Inc. - Founder, CEO, President & Director

I don't have the data right in front of me, right now. But there are product considerations. There are just areas where we find Korean foundries are quite suitable in certain areas, they do have capacity, they do have a track record and technology that is suitable for us. Likewise for China. But in China, we are now doing actually, across the board, quite a diversified line of product and areas, covering smartphone, tablet, to a lesser extent, TV and monitor. Our source of supply for automotive is still primarily Taiwan, almost exclusively Taiwan. And for example, our sensor is Taiwan plus Korea. So I don't exactly quantify them by percentage of our sourcing because I look at them more on a product and technology perspective. And if you like, I mean, our IR can follow up with you for a more specific number breakdown.

Tiffany Yeh Morgan Stanley, Research Division - Research Associate

Okay. My second question is about your thoughts on the coming Chinese competitors. Could you kindly let us know whether you see any impact on your business from these like new Chinese competitors? And could you also share your plans in encountering more peer competition from them?

Jordan Wu Himax Technologies, Inc. - Founder, CEO, President & Director

Yes. Thank you, Tiffany. It's a fair question. I think, China has always wanted to localize. It's a directive from the government for years. So it's nothing new to us. So throughout the years, we have been dealing with Chinese competition, all the time. And certainly, it's being intensified over the last few years because, again, Chinese government is giving it another push. So regardless, we are still doing our best to support our China customers, both in terms of technology and service and capacity and what not. And we are actually viewed by many of them, by vast majority of them as their strategic partners as well.

I think, the fact that China wants to localize more, doesn't mean they are going to stop using foreign suppliers, outside suppliers. So our strategy is to upgrade our technology and our offering and try to, where possible, dominate in certain applications. For example, automotive, where our position remains quite dominant and Chinese competition is still having a hard time trying to get in because the qualification process, the technology requirements and the willingness for adoption from Tier 1 and end user customers, are all higher.

The barriers are much higher, even for Chinese Tier 1s because many Chinese Tier 1s, they still have to deal with international end customers. Even for dealing with local end customers, much of leading local end customers still want better quality and better technology support. So that is 1 thing in automotive, we are working very hard to safeguard our position. And in the meantime, excluding Chinese competition. We are seeing Chinese competition most severe from 2 segments, TV and smartphone. Both segments share 1 common characteristic, which is in both, local Chinese end brands do master a major market share globally. So it's a push from the end customer that panel makers get to have an easier position in terms of introducing Chinese IC vendors to the end customers' products.

Whereas if you look at notebook and monitor in comparison, where Chinese end customers presence is less compared to the 2 sectors I mentioned earlier. You see less Chinese competition. I'm not saying, this will last forever. So I'm saying, automotive will be the most difficult, not just for Himax across the board. It's just also a sector where Himax enjoys the best position and followed by notebook and monitor where the end customers, you have still pretty much international dominance. And lastly, TV and smartphone, where Chinese end customers do together command a pretty sizable market share.

So that is 1 thing. And the other thing is, we are diversified into new businesses, such as our optics, such as our WiseEye where are really local competition, it's not really an issue as such. We are dealing with international customers, we are competing in international markets. So this China factor is relatively small in those areas. I hope that addresses your question.

Tiffany Yeh Morgan Stanley, Research Division - Research Associate

Yes, yes. Very clear. And congrats on the great results and guidance.

Operator

(Operator Instructions) We are showing no further questions in queue at this time. I'd like to turn the call back to Jordan Wu for closing remarks.

Jordan Wu Himax Technologies, Inc. - Founder, CEO, President & Director

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.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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