Himax Technologies, Inc. Q1 2023 Unaudited Financials and Investor Update Call

Conference Details: Conference Topic: Himax Technologies, Inc. First Quarter 2023 Earnings Conference Call Date of call: 5/11/2023 Time of call: 08:00 a.m. EDT Pre-Record Message: No Moderator: Mark Schwalenberg	**Participant Conference Call link (for Dial-In or Call Back):** https://register.vevent.com/register/BI407f9ac3fe284ba4ac5b38a0d1c10c02
Himax Speakers: **Jordan Wu, President & Chief Executive Officer** **Eric Li, Chief IR/PR Officer** **Direct URL to Webcast Registration:** https://edge.media-server.com/mmc/p/4co8cyii	**Replay Links:** https://edge.media-server.com/mmc/p/4co8cyii From: 5/11/2023 at 11:30 a.m. EDT To: 5/11/2024 at 11:30 a.m. EDT

Operator: Opening and standard introduction.

Mark Schwalenberg: Welcome everyone to the Himax First Quarter 2023 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.

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, 2022 in the section entitled "Risk Factors", as may be amended.

Except for the Company's full year of 2022 financials, which were provided in the Company's 20-F and filed with the SEC on April 6, 2023, 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 2023, followed by our second quarter outlook. Jordan will then give an update on the status of our business, after which we will take questions. We will review our financials on both IFRS and non-IFRS basis. The non-IFRS financials exclude share-based compensation, acquisition-related charges and cash award.

Despite the challenges of ongoing macro headwinds and seasonal effects, first quarter revenues and EPS both beat our guidance, while gross margin was within the guidance range issued on February 9, 2023.

First quarter revenues registered $244.2 million, a decrease of 6.9% sequentially, but markedly better than our guidance of a decrease of 12.0% to 17.0% sequentially. The better-than-guided sales were attributable to increased order momentum particularly in the large display driver IC business and smartphone and tablet TDDI segments as well as our continuous efforts to deplete inventory. IFRS gross margin came in at 28.1%, a decrease from 30.5% last quarter, but within the guidance range of 28.0% to 30.0%. Gross margin was impacted by several factors. First and primarily, we incurred the high cost of our excess inventories that were sourced during a period when foundry and backend prices peaked. Second, we had to write-down certain unsold inventories due to market price declines. Finally, there was price erosion, a requisite part of the ongoing inventory offloading process. Yet, IFRS profit per diluted ADS was 8.5 cents, surpassing our guidance of 3.5 cents to 7.0 cents. Non-IFRS profit per diluted ADS was 11.5 cents, beating our guidance of 6.5 cents to 10.0 cents.

Revenue from large display drivers was $53.0 million, an increase of 21.8% sequentially and substantially above our prior guidance of up high single digit from last quarter. Monitor IC sales grew remarkably as expected, increasing by a decent double-digit quarter over quarter. This increased momentum is primarily due to leading customers starting to replenish chips following several quarters of channel inventory reduction. Notebook sales were also better than guided due to demand from chip replenishment. We saw strong sequential growth of TV IC sales stemming from increasing orders from customers preparing for the upcoming China shopping festivals. Large panel driver IC sales accounted for 21.7% of total revenues for this quarter, compared to 16.6% last quarter and 26.8% a year ago.

Moving on to our small and medium-sized display driver segment, revenue was $154.7 million, a decrease of 12.8% sequentially, yet ahead of our guidance due to increasing shipment of smartphone and tablet, especially TDDI products, to global leading brands after Lunar New Year holidays. Q1 automotive driver sales decreased mid-teens quarter over quarter as guided. Automotive DDIC sales were better than expected due to customers' moderated inventory reduction measures. For automotive TDDI, despite the widespread adoption of our products in the NEV, sales unexpectedly declined as panel houses cutback their IC purchases while experiencing sudden order suspensions from their EV customers. The underlying cause is the exacerbated EV price competition, which has led major Chinese automakers to drastically cut production and enforce stringent cost control measures. Yet automotive driver business still represented the largest revenue contributor for us with 30% of total sales in the first quarter. We remain optimistic about our automotive TDDI growth potential in the coming years as we have secured around 300 design-wins, a number which is still growing as we speak, which puts us significantly ahead of our peers. At this moment, only one third of the acquired design-wins have commenced production, indicating enormous upside potential in the coming years as the remaining design-wins enter mass production. Small and medium-sized driver IC segment accounted for 63.3% of total sales for the quarter, compared to 67.6% in the previous quarter and 62.6% a year ago.

First quarter non-driver sales also exceeded guidance with revenue of $36.5 million, down 11.8% from a quarter ago. Our Tcon business was up single digit in the first quarter, markedly surpassing the guidance of mid-teens decline, bolstered by decent shipment of automotive Tcon as well as better-than-expected shipment of large sized display Tcon. Tcon business represented over 9% of our total sales in the first quarter. It's worth highlighting that our automotive local dimming Tcon technology was recently awarded Gold Panel Award at Touch Taiwan 2023, another illustration of our leading position in cutting-edge technology for automotive display. Jordan will elaborate on this later. For

automotive Tcon, backed by a strong order pipeline, we anticipate business momentum to accelerate with rapidly expanding design-wins across the board. Non-driver products in Q1 accounted for 15.0% of total revenues, as compared to 15.8% in the previous quarter and 10.6% a year ago.

Our IFRS operating expenses for the first quarter were $51.0 million, a decline of 2.9% from the previous quarter and down 1.0% from a year ago. Amidst prevailing macroeconomic headwinds, we continued to tighten our expense control. Non-IFRS operating expenses were $44.5 million for the first quarter, down 2.5% from the preceding quarter and up 1.1% from a year ago.

First quarter IFRS operating income was $17.6 million, or 7.2% of sales, versus 10.5% of sales in the last quarter and 34.5% of sales from a year ago. Non-IFRS operating income was $24.2 million, or 9.9% of sales, compared to 13.1% last quarter and 36.3% same quarter last year. IFRS after-tax profit was $14.9 million, or 8.5 cents per diluted ADS, compared to $42.2 million, or 24.1 cents per diluted ADS last quarter. First quarter non-IFRS after-tax profit was $20.1 million, or 11.5 cents per diluted ADS, compared to $47.7 million, or 27.3 cents in the previous quarter.

Turning to the balance sheet, we had $223.8 million of cash, cash equivalents and other financial assets as of March 31, 2023, compared to $447.1 million at the same time last year and $229.9 million a quarter ago. The decrease in cash was a result of cash outflow from investing activities, which was mainly used to make final payment for a major AMOLED capacity agreement for smartphone that we had signed in 2021, offset by $66.4 million of operating cash inflow in the first quarter. We had $45.0 million of long-term unsecured loans as of the end of first quarter, of which $6.0 million was current portion.

The $335.2 million inventories, while still higher than $253.1 million a year ago, were markedly lower than $370.9 million last quarter. Accounts receivable at the end of March 2023 was $252.2 million, down from $261.1 million last quarter and down from $442.2 million a year ago. DSO was 93 days at the quarter end, as compared to 96 days a year ago and 79 days last quarter. First quarter capital expenditures were $2.8 million, versus $2.3 million last quarter and $3.6 million a year ago. The first quarter capex was mainly for our IC design business.

Just prior to today's call, we announced an annual cash dividend of 48.0 cents per ADS, totaling approximately $83.7 million and payable on July 12, 2023. The payout ratio is 35.4%. We have decided on the relatively low payout ratio in the light of prevailing macroeconomic uncertainty. 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 while maintaining a healthy balance sheet.

As of March 31, 2023, Himax had 174.4 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 2023 Guidance

Now, turning to our second quarter 2023 guidance. We expect the second quarter revenue to be in the range of flat to down 9.0% sequentially. IFRS gross margin is expected to be around 20.0% to 21.0%, depending on the final product mix. The second quarter IFRS profit attributable to shareholders is estimated to be in the range of -2.9 to 0.6 cents per basic ADS. Non-IFRS profit attributable to shareholders is expected to be in the range of 0.1 to 3.6 cents per fully diluted ADS. I will now turn the call over to Jordan to discuss our Q2 outlook. Jordan, the floor is yours.

Q2 2023 Outlook

Thank you, Eric. Soft consumer consumption coupled with recession fears continue to present challenges to market demand and amplify uncertainty throughout the tech industry. The semiconductor industry appears to have come to a consensus to some degree with the expectation that inventory digestion will extend longer than previously projected. In the display market, end brands remain cautious toward their panel procurements, while panel makers implement stringent output controls and rigorous procurement scrutiny.

Amidst ongoing macroeconomic uncertainty, our visibility remains limited as panel customers continue to shorten the duration of their forecasts. However, our inventory has been reduced to a comfortable level after several quarters of aggressive destocking. While our current inventory level is still somewhat above the historical norm, the good news is the remaining stocks are comprised of IC products which have a solid customer design-in base and long expected lifetimes. Moreover, after quarters of write-downs, the book costs of the stocks are at least equal to and, in many cases, much lower than the prevailing market prices. In light of the better-than-expected inventory offloading, we stand by our expectation that inventory will revert to historical levels no later than the third or fourth quarter of this year.

In an effort to improve our cost structure for new wafer starts and maintain competitiveness, we have strategically terminated certain high-cost foundry capacity agreements recently prior to their expiration dates. This, however, has resulted in a significant one-time early termination expense incurred in the second quarter and hit our Q2 gross margin. In fact, this is the predominant factor for the second quarter gross margin contraction, on top of the price pressure incurred from destocking. Termination of the aforementioned capacity agreements is a crucial operational strategy for us whereby making a

short-term sacrifice can help us achieve long-term gains. Moving forward, for those terminated contracts, our new wafer starts will not be subject to minimum fulfillment requirements and fixed contractual prices set at the time of severe industry capacity shortage. This also gives us the flexibility to diversify suppliers. Given the significant contract termination expense, Q2 will mark the trough of our gross margin with sequential expansion expected throughout the second half of 2023. As an important side note, we have retained necessary capacity to support the growth of our AMOLED business, which we believe will be a major growth driver in the coming years as OLED displays gain traction in a wide range of applications.

Next on the Q2 sales guidance. Sudden demand drop in automotive business is among the main reasons causing the sequential sales decline. As we have talked about previously, automotive has been our largest business contributor for many quarters, accounting for over 30% of the total sales, a far greater contribution than our peers. The sudden decline in the automotive demands, therefore, has a heavier impact on our total sales. Automotive sales are being adversely impacted by recent price turbulence in Chinese EV market as we reported earlier. However, we view the current setback as a temporary and short-term phenomenon. Our outlook for the automotive business remains positive given the megatrend of increasing quantity and sophistication of displays inside vehicles and backed by our undisputed leading market share as well as new design-win pipelines. This is particularly true for automotive TDDI where we have already achieved a global market share leadership position. Our TDDI sales are already on track to resume rapid growth momentum and we remain confident in its potential to be a primary driving force for our long-term business growth.

Last but not least, we remain committed to our strategy of expanding in high value-added areas, including TDDI and Tcon for automotive, OLED and AI, where secular trends of growth remain intact,

and in some of these areas we have already achieved a leading market position. This not only warrants much higher content value, but also establishes higher barriers of entry for late comers.

With that said, we are going through a challenging second quarter in terms of both sales and gross margin but believe this will be a short-term phenomenon with a rebound around the corner starting in the second half.

Display Driver IC Businesses

LDDIC

I'll now begin with an update on the large panel driver IC business. Our second quarter 2023 large display driver IC revenue is projected to be down double digit sequentially. We expect TV IC business to decline double digit quarter over quarter as customers have pulled forward demand in preparation for the upcoming seasonal shopping sales, replenishing chips over the past two quarters. Monitor IC sales in the second quarter are set to decline single digit sequentially following the strong order replenishment we saw last quarter, while notebook driver segment is expected to slightly decline.

SMDDIC

Turning to the small and medium-sized display driver IC business. We expect Q2 revenue for this segment to be down single digit sequentially. However, there are indications of business momentum recovery for our smartphone and tablet in the second quarter, particularly in TDDI products, both are projected to increase mid-teens sequentially, fueled by resumed customer orders following several quarters of downturn. Importantly, our inventory depletion for smartphone and tablet TDDI is progressing nicely and improving as we speak. As such, we have initiated new wafer starts for select products which will enjoy better margin starting Q2. Automotive IC sales are anticipated to be down low teens sequentially, a result of weakening demand in China, which is prompting automotive panel

houses to implement cost reduction measures and re-calibrate inventory levels. Having said that, our position as the market share leader in both DDIC and TDDI for automotive remains intact. Looking at a longer-term perspective, while only moderate growth is anticipated for our automotive DDIC, our TDDI business is projected to expand explosively, backed by the fast-expanding TDDI adoption for new generation vehicles and our dominating new project design-win status.

Himax also continues to lead the industry with the launch of its LTDI (Large Touch and Display Driver Integration) automotive display solution, specifically designed for the next generation extra-large automotive displays, typically 30 inches or larger. Our cutting-edge LTDI technology enables ultrahigh-resolution displays and high-precision touch sensitivity, catering to the growing demand for large, seamless, and intuitive in-car experiences. We are scheduled to start mass production this quarter, which is well ahead of the competition. Concurrently, we are working on several design collaborations for some of the modish automotive vehicles with major panel makers.

As we've repeatedly said before, the trend for automobile interiors continues to evolve towards more stylish and diverse designs, such as free-form and curvature, with ever improving image quality, made possible with panels equipped with advanced technologies. Himax is the front runner in automotive display IC market, offering a comprehensive product portfolio covering the entire spectrum of specifications and technologies to address varying design needs, including traditional DDIC, TDDI, local dimming Tcon, LTDI, and AMOLED. We are encouraged by our progress, having expanding design-win coverage across panel makers and engaging more Tier 1s and OEMs to incorporate new technologies into their new vehicle models. This implies we not only have been able to reinforce much higher content value on a per panel basis but will also enjoy better profit margin. We are confident that the automotive driver business will continue to be our primary sales contributor moving forward.

Next for an update on AMOLED. Himax offers both DDIC and Tcon for OLED display and has commenced production for tablet and automotive applications jointly with global leading panel makers. For automotive AMOLED display, we continue to see robust design-in activities as well as increasing project awards with both conventional car makers and NEV vendors across different continents. Additionally, we continue to gear up for AMOLED driver IC development strategically partnering with major Korean and Chinese panel makers on various applications, covering smartphone, notebook, and TV. For smartphone AMOLED display driver, we already have secured meaningful capacity and expect to commence production toward the end of 2023. Our AMOLED business, including display driver and Tcon, 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 decrease by low teens sequentially, hampered by decreased demand for both large display panels and AMOLED displays for tablet. On a positive note, we continue to solidify our leadership in the automotive Tcon market, particularly in local dimming technology. As Eric mentioned earlier, Himax's automotive local dimming Tcon was awarded the Gold Panel Award by Touch Taiwan 2023, another grand recognition by the industry after our years of strenuous work on this high entry barrier technology. Let me take a few seconds to elaborate on our award-winning local dimming Tcon. The adoption of local diming Tcon not only dramatically improves contrast ratio of the display but also provides enhanced power efficiency, both of which are critical especially for EV display. Our industry-leading local dimming Tcon offerings support super high frame rate and a wide range of resolutions from FHD up to 8K. Additionally, when two Tcons are paired, the solution can even accommodate up to 16K resolution.

We see rapidly increasing adoption by all leading panel makers, Tier 1s and car makers, starting from premium new car models and, in some cases, extending to mainstream models. Tremendous progress has been made with numerous project awards already. Similar to that of TDDI for automotive, only a small number of design awards of automotive Tcon have commenced mass production starting last year. We expect a strong growth trajectory for automotive Tcon starting 2023 and in the coming years.

WiseEye Smart Image Sensing

Switching gears to the WiseEye Smart Image Sensing total solution, which incorporates Himax proprietary ultralow power AI processor, always-on CMOS image sensor, and CNN-based AI algorithm. We continue to support the mass production of Dell's notebook along with other end-point AI applications, such as video conference device, shared bike parking, door lock, smart agriculture, among others. We are unwavering in our commitment to WiseEye as we look to proliferate our industry leading ultralow power AI solution by fostering innovation in a broad spectrum of end-point AI applications across the globe. Furthermore, we remain dedicated to bolstering development in the domain of energy-efficient AI processors and AI image sensors for end-point AI applications to maintain our top-ranked status in the space.

The home surveillance application, such as doorbell, door lock, and security camera, showcases another successful deployment of ultralow power WiseEye technology. WiseEye offers embedded context-aware AI that accurately identifies humans to reduce excessive false triggers, avoiding unnecessary SoC processing and leading to efficient power usage for the surveillance system. This facilitates the transition of conventional surveillance systems from wired to battery-powered ones, broadening real-life adoption. Furthermore, WiseEye features ultralow power pre-roll AI to enable

always-on, full-color “negative time” image recording before a classified event, resulting in a complete video stream with pre-roll clips of what happened before the said event. This also illustrates another significant improvement compared to existing surveillance solutions. In March this year at ISC West, a leading security industry trade show, Himax joined forces with various ecosystem partners and customers to unveil a broad array of battery-operated home surveillance devices that embed our WiseEye technology. The adoption of WiseEye in surveillance areas is quickly proliferating and we are seeing more active design-in activities and broad inquiries after the event. Moreover, for the upcoming China shopping festivals, Himax is teaming up with a leading door lock vendor in China specializing in smart home and security to debut a smart door lock solution with advanced security and low power consumption. This is yet another confirmation of the WiseEye technology in the rapidly emerging end-point ultralow power image AI era.

Next for an update on our next generation WE2 AI processor which builds upon our industry leading WE1 processor and performs contextual awareness AI particularly in detecting user engagement levels based on more subtle presence or movement. WE2 is designed with advanced computer vision engines that can recognize images over a longer distance at much enhanced accuracy, speed, power efficiency and inferencing performance. Based on its superb AI processing capabilities, WE2 can enable more comprehensive and detailed types of object detection such as facial landmark, hand landmark and body skeleton to perceive complex human body movement, enabling high-precision AI detection for a wide range of applications and use cases in real life. It has gained significant traction for next generation smart notebook, targeting to hit the market starting 2024, where we are making solid design progress with leading laptop brands as well as CPU and AP SoC partners to jointly work on the enrichment of new AI features on notebooks. The breadth of business activities is also expanding with IoT players specializing in various domains to meet different demands that were

previously unknown to us. We are thrilled to be at the forefront of these innovative developments that lie ahead in the near future.

Supported by fast expanding customer adoption from various domains, we are committed to the development of the WiseEye product line while leveraging broad ecosystem partners to capture the vast end-point AI opportunities. We believe our WiseEye product line will be a significant long-term growth driver for us.

Optical Related Product Lines / Metaverse

Lastly, for an update on our optical related product lines including WLO, 3D Sensing and LCoS. Himax is one of the few companies in the technology industry with a wide array of optical related product lines that play a vital role in immersive technologies development and realization of the metaverse. Our technology leadership and manufacturing expertise are evidenced by the growing list of AR/VR goggle device customers and ongoing engineering projects. We continue to work on strengthening our optical-related technology suite, while collaborating with global technology leaders in the space. Now to quickly review some of our recent progress.

First on 3D sensing. On 3D gesture control, we are delighted to share that we will commence volume production of our WLO technology to one leading North American customer for their next generation VR devices starting Q2 this year. Our WLO technology is deployed to empower VR devices with 3D perception sensing for precise controller-free gesture recognition. Separately, we are expanding our 3D processor offerings to cover Time of Flight (ToF) 3D, in addition to structured

light 3D decoding where we are already a market leader with a proven track record in mass production. This will enable us to meet the diverse use case of 3D sensing, where ToF is more effective for long-range 3D perception while structured light excels in high precision 3D detection for shorter distance. All our 3D processors are equipped with advanced sensor fusion, offering industry-leading, fast response rates, a characteristic that makes our processors a perfect fit for high-precision spatial reality applications.

Next on LCoS. We are delighted to announce that we will unveil our state-of-the-art Color-Sequential Front-lit LCoS technology at the Display Week 2023 in Los Angeles, one of the world's most renowned display industry symposiums and tradeshows. Our proprietary LCoS design offers unrivaled performance and functionality, featuring a lightweight and compact form factor with a total volume, that includes the illumination optics and LCoS panel, of around 0.5 cc as well as high illumination efficiency, delivering brightness of up to 100K nits. These outstanding characteristics make it the perfect microdisplay solution to meet the stringent specifications of the most advanced AR glasses deploying 2D exit pupil expansion waveguides that support greater than 50 degrees field-of-view. We are honored to be invited to give a deep-dive presentation of our Color-Sequential Front-lit LCoS technology to industry experts at the symposium. Additionally, one-on-one meetings with literally all major tech names eyeing AR goggles have also been lined up. We will provide updates on our progress for this exciting new technology as they come about.

We remain steadfast to strengthening our optical-related technology suite and forging strong partnerships with the world's leading technology companies that are deeply committed in investing its developments. As the metaverse and immersive technologies continue to develop, we believe

that Himax is well-positioned to capitalize on its growth with years of research and development, a unique product portfolio, production history, and key partnerships.

For non-driver IC business, we expect revenue to remain flattish 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!