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Q1 2023 Himax Technologies Inc Earnings Call

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PRESENTATION

Operator

Hello, ladies and gentlemen. Welcome to the Himax Technologies, Inc. First Quarter 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will follow at that time. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to hand the conference over to your host, Mr. Mark Schwalenberg from MZ Group.

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

Welcome everyone to 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. 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 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 to $244.2 million, a decrease of 6.9% sequentially, but markedly better than our guidance of a decrease of 12% to 17%, 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% to 30%. 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 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 dollars, 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% 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 million, a decline of 2.9% from the previous quarter and down 1% 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 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.

Now turning to our second quarter 2023 guidance. We expect the second quarter revenue to be in the range of flat to down 9% sequentially. IFRS gross margin is expected to be around 20% to 21%, depending on the final product mix. The second quarter IFRS profit attributable to shareholders is estimated to be in the range of minus 2.9 cents to 0.6 cents per basic ADS. Non-IFRS profit attributable to shareholders is expected to be in the range of 0.1 cents 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.

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

Thank you, Eric. Soft consumer consumption coupled with recession fears continue to present challenges to market demand and amplify uncertainty throughout the tech [industry] (corrected by company after the call). 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 that 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.

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.

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 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 to 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 or 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 have 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, an update on AMOLED. Himax offers both DDIC and Tcon for AMOLED 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.

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

Stating 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 dimming 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 therefore expect a strong growth trajectory for automotive Tcon starting 2023 and in the coming years.

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 its 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.

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 or 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 Himax's 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 LA, 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 in 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 interest in Himax. We appreciate you joining today's call and we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Our first question comes from Jerry Su with Credit Suisse. You may proceed.

Jerry Su ***CrÃ©dit Suisse AG, Research Division - Director***

Thanks for taking my question. Just want to follow-up on your previous comment about the second quarter guidance, which show the gross margins that was impacted by the termination of the wafer contracts. Can you give us an idea of what is the impact on the margin? How much of penalties that you are recognizing in the second quarter? That's the first question.

And secondly, when I look at your Large size driver IC outlook, it seems like that you are a little bit different for the industry because I look at the panel makers or back end or your driver IC peers all are expecting a sequential growth. Can you give us an idea of what is the discrepancy between your guidance versus the industry trend? Thank you.

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

Thank you, Jerry. On the first question, our last quarter gross margin was above 28%, just above 28%. And for this quarter, we are guiding for 20% to 21%, if we take the midpoint about 20.5% there's a differential of about 7%. So the impact from the termination of a long term contract, the impact is we said in the prepared remarks, the predominant factor. That means far greater than half. Right? That means far greater than half, meaning, with the 7% differential, far greater than half difference actually came from this termination, meaning without the termination, our margin would have been much closer to that of the previous quarter of [28.1%] (corrected by company after the call) I think.

Now the remaining difference I think comes primarily from the fact that in the second quarter, the automotive business was hit by what we described as certain global turbulence especially in the EV market in China, which actually is related to your second question, right? So, because our automotive market exposure is far greater than those of our peers at 30% to more than 35% historically, over the last, I don't know how many quarters, many quarters already. So the impact, especially TDDI, which is presumably on the fast track of growth every single quarter. But I mean, unexpectedly in Q2, we are now seeing some sequential decline, which we believe will be a short-term surprise and we emphasize in our prepared remarks that growth will resume probably strongly in the second half for automotive business, especially for TDDI where we are very, very confident that this temporary setback will be a short-term phenomenon.

So, because the weighting of sales coming from automotive is so high for Himax and there is a short-term, how we call, market turbulence in automotive market. So that is why we are probably harder hit than our peers during the second quarter. So, I think that covers both parts of the first question as well as the second question. The difference primarily comes from automotive. We said earlier in our prepared remarks, actually, if you look at our smartphone and tablet TDDI, they will be actually growing. And non-driver will be flattish to certain small growth as that's what we expect and others. So I think automotive is the main difference. But again, I think, among all the applications for display, we are happy, we are betting big on automotive because in the long term, I'm talking about next several years, automotive is still on track to outgrow the rest in our view.

And so, having such high exposure to automotive while it's actually a negative news for Q2. I think looking forward it's going to be very good news, especially given our dominant position in new project design wins, covering both TDDI and local dimming Tcon, where I mentioned in my prepared remarks, of the 300 TDDI design win projects, only about 100, i.e. one third has gone to mass production with the rest were to start mass production over the next one or two years. Even more so a lot more so for local dimming Tcon, which is a very high value and high margin. And it appears to becoming a major trend, becoming trendy for automotive makers and panel makers to adopt our local dimming Tcon, which is right now still the only choice in the industry.

So starting mass production in 2023 but only small portion. I think we expect very strong growth of local dimming Tcon going forward. So again, the difference for Q2 comes from Auto but we are quite positive on Auto in the long term.

Jerry Su ***CrÃ©dit Suisse AG, Research Division - Director***

I think my previous question regarding the revenue trend for this quarter was mainly large-sized driver IC, because I think you guided that the large-sized driver will decline of double digit quarter-over-quarter. When we look at the guidance from the panel makers or your

peers, apparently that they are guiding for some sort of growth, right, for a large-sized business. So the question was actually more related to this front. And then the other one on automotive, just a follow-up, can you elaborate a little bit about what is your end customer mix for automotive? Is it more Chinese customers or is it more global customers? Thank you.

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

You mean end customer? Do you mean the end customer?

Jerry Su ***CrÃ©dit Suisse AG, Research Division - Director***

Yes, end customer, panel end customers, if possible? Thank you.

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

Okay. I will probably give you an overview of the customer base. Now on the first question, I apologize for misunderstanding your question. Yes, we guided for some decline for large panel, where you see some of our peers have guided for large panel, guided for upside. I think it comes primarily from TV, the difference for TV. I think TV for most of our peers, including Himax is the largest sector by far in the large display space.

Now, yes, we do see recovery for TV market and we have actually enjoyed over the past few quarters steady growth for TV driver. And also, another good news is, panel price through panel makers various measures has been stabilized and even going up a little bit going forward. But in this quarter, in particular, we don't get a full benefit because of the difference in customer base. Our TV panels are supplied primarily by Chinese makers, largely by Chinese makers and followed by Taiwanese panel makers. Our customer base is much more exposed in China than in Taiwan.

While for certain reasons, leading end customers panel allocation decision, hopefully, is a short term decision but has swung from bigger focus on China to more focus on Taiwan. And so, it's really our end customers panel allocation that causes our probably different direction compared to our peers because our exposure is more towards Chinese panel makers. A lot more than Taiwan's panel makers, where the current trend the short-term trend is for allocation to go to Taiwan's panel makers more. So I think that is the main reason.

But we are discussing extensively with end customers who we have a very direct technical and business relationship with. I think various measures are on the way and including our getting into more exposure to certain Taiwanese panel makers. And also, their longer term strategy towards allocation among these two markets. So hopefully, we'll be on track starting in the second half for TV panels market.

As far as your second question is concerned about our customer base for automotive. With our market share every single customer, every single panel maker is our customer. And in many cases we are actually the predominant supplier. In some other cases, we are number one or number two suppliers. So I'm talking about every single panel maker and that is the easy question. Now, with the panel makers that you have Tier 1 makers and ultimately to end user OEMs, we have also very comprehensive global reach, we realized end brand OEMs. Firstly, the number of brands are many and with a global diversification, right? You have North American brands, Korean brand, Japan, European, Chinese, et cetera. So with our market share, we need to cover them all. So there's no focus one way or the other as such for Himax.

And ditto for Tier 1s. They are European, Korean, Japanese, American and Chinese Tier 1s. There is some crossover European Tier 1s in addition to European market will also cover some Chinese market and so on Chinese Tier 1s will cover some European market and so on and so forth, but they still reached global diversification with a lot of global buyers for Tier 1 market. And again, our strategy and we have implemented that quite successfully. Our strategy is to cover them all and to try to get a leadership position to the extent possible with as many of them as possible. So we have major engineering support offices certainly in China, in Japan, in Korea and we have engineering support office even in Europe in the core of Europe in Germany. And even in North America. Not just in Bay Area, but also in Detroit. And that illustrates our efforts to extend our global footprint for automotive market. I hope that answers the question.

Operator

And this concludes the Q&A session. I now I turn the call back over to CEO, Mr. Jordan Wu for any closing remarks.

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

As a final note, Eric Li, our Chief IR/PR Officer, will maintain investor marketing activities and continue to attend investor conference. We will announce the details as they come about. Thank you and have a nice day.

Operator

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