



Himax Technologies, Inc. Q2 2023 Unaudited Financials and Investor Update Call

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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/7r8hbkz7	Replay Links: https://edge.media-server.com/mmc/p/7r8hbkz7 From: 8/10/2023 at 11:30 a.m. EDT To: 8/10/2024 at 11:30 a.m. EDT

Operator: Opening and standard introduction.

Mark Schwalenberg: Welcome everyone to the Himax Second 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.

Q2 Results

Mr. Eric Li: Thank you Mark and thank you everyone for joining us. My name is Eric Li, Chief IR/PR Officer at Himax. On today's call, I will first review the Himax consolidated financial performance for the second quarter 2023, followed by our third 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 an IFRS basis.

Challenging business conditions due to ongoing macro headwinds persisted during the second quarter, yet we continued to execute successfully with gross margin surpassing the guidance range while both revenues and EPS landed at the upper end of guidance range issued on May 11, 2023.

Second quarter revenues registered \$235.0 million, a decrease of 3.8% sequentially, yet at the upper end of our guidance range. This was attributable to improved order momentum particularly in the automotive DDIC, large display driver IC and non-driver business. Gross margin came in at 21.7%, a decrease from 28.1% of last quarter, but above our guidance range of 20.0% to 21.0%, due to a favorable product mix. As we previously reported, Q2 gross margin was impacted significantly by a one-time expense related to the strategic termination of certain high-cost foundry capacity agreements in addition to price erosion related to destocking. Q2 profit per diluted ADS was 0.5 cents, at the upper end of the guidance range of -2.9 cents to 0.6 cents.

Revenue from large display drivers came in at \$45.4 million, a decrease of 14.3% sequentially, yet above our prior guidance. Monitor IC sales surpassed our prior guidance, up single digit sequentially, driven by our clients' proactive pull-forward in preparation for the Q2 sales festivals and recovery of gaming display. Notebook sales notably outperformed our guidance, thanks to strong shipment to key customers. TV IC sales declined as expected as customers suspended pull-ins, having already replenished their inventory over the prior two consecutive quarters. Large panel driver IC sales accounted for 19.3% of total revenues for this quarter, compared to 21.7% last quarter and 22.0% a year ago.

Moving on to our small and medium-sized display driver segment, revenue was \$150.3 million, a slight decline of 2.9% sequentially. Smartphone and tablet driver sales increased mid-teens and single digit respectively in the second quarter as we saw a recovery in business momentum, particularly in TDDI

products. Q2 automotive driver sales decreased single digit sequentially, but outperformed our guidance of a low teens decline as clients resumed order replenishment for both traditional DDIC and TDDI. Automotive driver business was still our largest revenue contributor with around 30% of total sales in the second quarter. We are particularly confident in our automotive TDDI growth potential, backed by hundreds of design-wins already secured, significantly ahead of our peers, and among these design-wins only a small portion has commenced mass production. With the design-win projects under our belt, we believe we can continue to grow our market share in automotive TDDI, in addition to our already dominant position in traditional DDICs where we have a 40% global market share. Small and medium-sized driver IC segment accounted for 63.9% of total sales for the quarter, compared to 63.3% in the previous quarter and 64.5% a year ago.

Second quarter non-driver sales also exceeded guidance with revenue of \$39.3 million, up 7.9% from a quarter ago. The better-than-expected sales performance was a result of higher shipment for Tcon and CMOS image sensor. Despite the slight sequential decline in Tcon sales in the second quarter, it surpassed guidance of a low-teens decline, bolstered by better-than-expected shipment of monitor and automotive Tcons. Tcon business represented over 9% of our total sales in the second quarter. Lastly for WLO, notably during the quarter we commenced volume production to one leading North American customer for their new generation VR devices to enable gesture control. Non-driver products accounted for 16.8% of total revenues, as compared to 15.0% in the previous quarter and 13.5% a year ago.

Our operating expenses for the second quarter were \$53.2 million, an increase of 4.3% from the previous quarter and 1.2% from a year ago. The sequential increase was mainly a result of increased R&D expenses. Yet, amidst prevailing macroeconomic headwinds, we remain focused on strict cost controls. Our second quarter operating expenses include the amortized expenses for annual bonus

grants made in prior years of \$6.4 million, as compared to \$6.5 million in the previous quarter and \$7.4 million from a year ago. As a reminder, we grant annual bonuses to employees at the end of September each year, including RSU and cash award. A portion of those bonuses is immediately vested and recognized in the third quarter with the remainder equally vested in three tranches on the first, second and third anniversaries of the grant date and recognized on a straight-line basis over the vesting period of each tranche. Second quarter after-tax profit was \$0.9 million, or 0.5 cents per diluted ADS, compared to \$14.9 million, or 8.5 cents per diluted ADS last quarter.

Turning to the balance sheet, we had \$219.5 million of cash, cash equivalents and other financial assets as of June 30, 2023, compared to \$461.6 million at the same time last year and \$223.8 million a quarter ago. Second quarter operating cash inflow was approximately \$1.7 million, as compared to an inflow of \$66.4 million in Q1, primarily due to \$51.0 million income tax paid during Q2, an illustration of our continuous efforts to deplete inventory for the past few quarters. We had \$43.5 million of long-term unsecured loans as of the end of second quarter, of which \$6.0 million was the current portion. During the third quarter, we have made a payment of \$83.7 million for annual dividend to shareholders. Further, we expect to pay out a total of around \$30 million for employee bonus awards, comprised of around \$9.3 million for the immediately vested portion of this year's award and \$21.0 million for vested awards granted over the last 3 years. Despite the substantial employee bonus payout, we still expect to generate positive operating cash flow in Q3, again, due to the ongoing destocking progress across major product lines.

Our quarter-end inventories as of June 30, 2023 were \$297.3 million, markedly lower than \$335.2 million last quarter. Accounts receivable at the end of June 2023 was \$239.0 million, down from \$252.2 million last quarter and down from \$371.0 million a year ago. DSO was 90 days at the quarter end, as compared to 93 days last quarter and a year ago. Second quarter capital expenditures were

\$2.9 million, versus \$2.8 million last quarter and \$2.5 million a year ago. The second quarter capex was mainly for our IC design business.

As of June 30, 2023, Himax had 174.4 million ADS outstanding, unchanged from last quarter. On a fully diluted basis, total number of ADS outstanding for the second quarter was 174.7 million.

Q3 2023 Guidance

Now, turning to our third quarter 2023 guidance. We expect third quarter revenues to be flat to decline 7.0% sequentially. Gross margin is expected to be around 30.5% to 32.0%, depending on the final product mix. The third quarter profit attributable to shareholders is estimated to be in the range of 1.5 to 6.0 cents per fully diluted ADS.

As we've done historically, we will grant employees' annual bonus, including RSUs and cash awards, on or around September 30 this year. The third quarter guidance for profit per diluted ADS has taken into account the expected 2023 annual bonus, which, subject to Board approval, is now assumed to be around \$10.5 million, out of which \$9.3 million, or 4.2 cents per diluted ADS, will be vested and expensed immediately on the grant date. As a reminder, the total annual bonus amount and the immediately vested portion are our current best estimates only and the actual amounts could vary materially depending on, among other things, our Q4 profit and the final Board decision for the total bonus amount and its vesting scheme. As is the case for previous years, we expect the annual bonus grant in 2023 to lead to higher third quarter operating expenses compared to the other quarters of the year. In comparison, the annual bonus for 2022 and 2021 were \$39.6 million and \$74.7 million respectively, of which \$18.5 million and \$24.8 million vested immediately. I will now turn the call over to Jordan to discuss our Q3 outlook. Jordan, the floor is yours.

Q3 2023 Outlook

Thank you, Eric. The prevailing sentiment in the consumer electronics market for semiconductor remains sluggish. Customers continue to exercise caution towards panel procurements, limiting our visibility into the second half for consumer products. However, we see improving business momentum in the automotive sector, our largest sales contributor, where a healthy rebound from the first half weakness appears to be underway. As a reminder, the global automotive market experienced a severe downturn throughout the first half of the year as major Chinese automakers cut back production and implemented strict cost control measures due to intensified EV price competition, adversely impacting our first half sales. Now, looking ahead with renewed momentum in the automotive market, we believe the stage is set for a sales rebound as we approach the end of the year, supported by more favorable product mix, improved cost structure and normalized inventory level which should also lead to improved gross margin.

In terms of gross margin, for the third quarter, we expect substantial improvement from the Q2 trough which was primarily related to the one-time early termination expense to foundry partners as we reported last quarter. I'd like to again stress how this early termination decision was part of a crucial operating strategy for us. By sacrificing margin last quarter, we now have added flexibility where new wafer starts are no longer bound by minimum fulfillment requirements and high wafer costs set during the severe foundry capacity shortage period. Furthermore, we can now leverage diverse foundry sources for optimal operational efficiency and much improved cost structure, thereby maintaining our product competitiveness.

Favorable product mix shift is also a key factor contributing to our expected Q3 gross margin expansion. This is predominately driven by increased automotive sales as discussed earlier, thanks to a robust recovery in the Chinese automotive market leading to order resumption from customers.

Notably, our automotive sales for traditional DDIC, TDDI and Tcon are all set to enjoy decent double-digit sequential growth in the third quarter and, collectively, are expected to represent almost 45% of our total sales. As a reminder, all these automotive products have a better than corporate average margin profile.

Moving on to inventory destocking. Our inventory depletion is progressing nicely with Q3 inventory level on track for a meaningful reduction. At this point, we are comfortable in our overall inventory level, thanks to our continuous effort to destock for several quarters. In addition, the remaining stocks are comprised of IC products which have a solid customer design-in base and long expected lifetimes. We now expect that our inventory will normalize near historical average levels by the end of the year.

While the macroeconomic environment still presents some headwinds for us, given the expected strength in automotive sales, improved operating flexibility and cost structure, in addition to our commitment to expand our presence in high value-added areas, such as Tcon, OLED and AI, we expect second half sales and gross margin to improve from the first half and believe we are well positioned for long-term sustainable revenue growth.

Display Driver IC Businesses

LDDIC

With that, I'll now begin with an update on the large panel driver IC business. Our third quarter 2023 large display driver IC revenue is projected to be down single digit sequentially. We expect TV IC business to be down high-teens quarter over quarter due to leading end brand's stringent production control measures amidst soft market. Notebook IC sales are expected to increase by a decent double digit sequentially, predominantly from rush orders from one leading brand. Meanwhile, monitor IC

sales are set to increase single digit sequentially, continuing the customers' restocking momentum we saw last quarter.

SMDDIC

Turning to the small and medium-sized display driver IC business. Despite continuing uncertainty in consumer electronics, with improved visibility and demand in the automotive market, Q3 revenue is expected to be flat or slightly up sequentially. Our automotive driver IC business is poised to increase by a decent double digit sequentially on a strong uptick in both TDDI and traditional DDIC. However, smartphone and tablet sales are both projected to decline double digit. The sequential growth of automotive DDIC business is fueled by resumption of customer orders across the board following several quarters of inventory correction. Automotive TDDI business also resumed its growth trajectory in the third quarter, driven by increasing production of customers' new vehicles, after an unexpected second quarter disruption. The automotive recovery has been further bolstered by supportive governmental policies, especially in China and the U.S, to incentivize new vehicle purchases. Given the rapid adoption of TDDI in new generation vehicles, where we have already secured well over 300 design-wins and the number of new design-in projects is still increasing as we speak, we remain confident that we will continue to enjoy strong growth as our leading market share position remains unchallenged. It's worth noting that automotive TDDI sales will account for over 30% of total automotive sales in the third quarter and are poised to continue to increase.

Let's move on to LTDI, a technology where Himax has been a pioneer in the market. Given the growing global demand for large, panoramic, interactive, and intuitive in-car display experiences, we anticipate accelerating adoption of LTDI in the coming years. LTDI is gaining popularity particularly among high-end car models with fancy and/or larger than 30-inch automotive displays. Our integrated solution of LTDI and local dimming Tcon has been adopted by many customers as their standard

platform for high-end displays from which a variety of large automotive displays will be developed. This further solidifies our position among customers in the high-end automotive display market. We expect an influx of collaborations leading to a growing number of projects slated for mass production starting 2024.

As we've mentioned repeatedly, Himax is at the front runner position 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. Having the broadest, one-stop-shop offering also drives customer loyalty as evidenced by years of extensive collaboration with panel makers across the globe as well as deep engagement with Tier 1s and OEMs who deeply trust and rely on Himax expertise for their product roadmap. We are confident that our automotive business will continue to be our primary sales growth engine moving forward.

Next on smartphone and tablet product lines, we continue to see lackluster demand in the market. Currently a small group of peers are still in the midst of offloading inventory, offering aggressive pricing while enduring losses to deplete their excess inventory. As we near the end of our destocking process, our strategy is to not engage in pricing competition, even at the expense of forfeiting revenues by turning away unprofitable projects. Having said that, we have placed wafer starts for select products starting Q2.

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 OLED display, design-in activities are going smoothly with both conventional car makers and NEV vendors across different continents. Concurrently, we continue to gear up for

AMOLED driver IC development by strategically partnering with major Korean and Chinese panel makers on various applications, covering smartphone, tablet, notebook, and TV. For smartphone AMOLED display driver, amidst a muted smartphone market, we still target to commence production toward the end of 2023.

Non-Driver Product Categories

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

Tcon

Starting with an update on timing controller. We anticipate Q3 Tcon sales to decrease single digit sequentially, hampered by reduced shipment for monitors and OLED displays for tablet. For our OLED tablet business, our customers are still in the midst of inventory offloading due to muted end market demand. Despite the soft demand environment, we are actively working on the next generation IC for OLED tablet, aiming to broaden our offering and better position us for when demand returns. Next on our automotive Tcon business. We continue to solidify our leadership position, particularly in local dimming Tcon which can improve display contrast while also lowering power consumption. We are encouraged by the growing validation and widespread deployment in both premium and mainstream car models across the globe. Our automotive Tcon business is poised to experience explosive growth with notable sales contribution starting 2024. We expect it to be one of our major growth engines in 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 endpoint

AI applications, including video conference device, shared bike parking, door lock, and smart agriculture, among others. We are also focused on strengthening our Intelli-Sensing Module business in an effort to further broaden our customer base and application. The module offerings, incorporating WiseEye technology, provide clients with a series of highly integrated, plug-and-play module boards which are user-programmable but also loaded with our pre-trained AI models for simple system integration. This can effectively shorten customers' time-to-market and reduce development cost, making it particularly well-suited for markets featuring high variety and small quantity. Throughout recent quarters, we have received excellent feedback from customers while seeing large increases in projects for various applications. Building on this momentum, we plan to roll out a series of modules that will expand our product offerings to cover more diverse markets and seize upon the vast opportunities presented in endpoint AI.

Over the past few quarters, we have witnessed steady growth in the adoption of our WiseEye products particularly in home surveillance applications, specifically door lock, doorbell and battery camera. Notably, we are pleased to report a successful collaboration with a leading door lock vendor in China, the largest market globally. The project is slated for mass production starting in second half this year with anticipated growth extending to 2024. Our WiseEye solution is also being implemented for automotive applications, where it can intelligently detect the presence, movement or posture of the driver or passenger, delivering a broad array of AI use cases inside a vehicle. Such demand is expanding rapidly with global leading car brands for new car models, primarily in application for car owner recognition and keyless access, with other new use cases also under development.

Next for an update on our WE2 AI processor where we have engaged global notebook names for their next generation product development. We have made significant progress in enriching AI features and use cases through collaborations with major CPU and AP SOC players for next

generation smart notebook, surveillance and a host of other endpoint AI applications. The WE2 processor offers further advancements in inference speed and ultralow power, maintaining superior power efficiency compared to our already industry-leading first-generation AI processor, WE1. Furthermore, in context aware AI, WE2 enables more detailed computer vision object analysis, such as real-time facial landmark, hand landmark, and human pose and skeleton, among others, at extremely low power consumption. This enables sophisticated human expression detection for smart notebook and broader AIoT applications.

Having established a leading position in ultralow power AI processing and image sensing for endpoint AI applications, we are firmly committed to the WiseEye product line's ongoing development and growth. By leveraging broad ecosystem partners and customers, we aim to maximize market reach and explore potential applications. We believe that our WiseEye AI business will serve as a multi-year structural growth driver for Himax.

Optical Related Product Lines / Metaverse

Lastly, for an update on our optical related product lines. Himax is one of the few companies in the world that can offer a diverse range of optical products including WLO, 3D Sensing, and LCoS for the development of immersive technologies and the realization of the metaverse. Himax is well-positioned to capitalize on the growth of this nascent industry as our technologies are vital for facilitating immersive content, evidenced by the growing list of AR/VR goggle device engineering projects with leading customers across the board.

First on WLO update. We recently commenced volume production of our WLO technology to a leading North American customer starting in the second quarter for their new generation VR devices to enable

3D gesture control. We expect a decent shipment for this customer in the second half in preparation for the upcoming seasonal shopping sales.

On LCoS, Himax state-of-the-art Color Sequential Front-lit LCoS microdisplay technology was one of the most high-profile demos at the Display Week 2023 in May and successfully captured the attention of numerous tech giants. Through years of strenuous development, our Color Sequential Front-lit LCoS has achieved exceptional and industry-leading illumination in full RGB color, along with a groundbreaking tiny form factor, ultra lightweight and a wide degree field-of-view. These features make our LCoS microdisplay particularly well suited for next generation AR goggles, outperforming other competing technologies, mainly MicroLED. A growing number of engineering engagements are proceeding nicely with leading tech names. We are confident our Color Sequential Front-lit LCoS can be one of the most promising technologies that meets the rigorous requirements to enable AR goggles.

The introduction of the latest mixed reality device of a leading tech giant exhibited a significant advancement for the whole metaverse ecosystem. It illustrates how the metaverse and immersive technologies continue to evolve, are increasingly accessible, and may gradually become a more integral part of our everyday life in the future. We believe given our expertise in optical related technologies including hundreds of patents in AR/VR and 3D, customers can leverage our product suite to develop immersive experiences for a variety of futuristic and mainstream products in their metaverse applications. We continue to strengthen our optical-related technology suite while forging partnerships with global technology leaders to strategically secure a distinct position in the space and create an additional diverse long-term revenue stream.

For non-driver IC business, we expect revenue to decline double digit sequentially in the third quarter.

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

OPERATOR TO QUEUE QUESTIONS

Jordan's closing remarks

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