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Q3 2023 Himax Technologies Inc Earnings Call

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

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

## PRESENTATION

### Operator

Hello, ladies and gentlemen, and welcome to Himax Technologies, Inc. Third Quarter 2023 Earnings Conference Call. (Operator Instructions) As a reminder, this call is being recorded.

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

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

Thank you. Welcome everyone to the Himax Third 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 question-and-answer session. If you have not yet received a copy of today's results release, please e-mail [himx@mzgroup.us](mailto:himx@mzgroup.us), access the press release on financial portals or download a copy from Himax's website at [www.himax.com.tw](http://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 would now like to turn the call over to Mr. Eric Li. Eric, the floor is yours.

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

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

We are pleased to report that Himax third quarter revenues and profit, both exceeded our guidance while gross margin came in at the upper end of the guidance range issued on August 10, 2023. The better-than-expected results are attributable to the resilience of our core business in the face of macroeconomic challenges.

Third quarter revenues registered \$238.5 million, an increase of 1.5% sequentially and up 11.6% on a year-over-year basis, exceeding the guidance range of a 7.0% decline to flat sequentially. This can be credited to positive order momentum across all business segments.

Gross margin came in at 31.4%, a substantial increase from 21.7% of last quarter, and at the upper end of our guidance range of 30.5% to 32.0%. The Q3 gross margin improvement reflected the absence of the one-time expense incurred in the second quarter related to the strategic termination of certain high-cost foundry capacity agreements, in addition to a favorable product mix, primarily driven by the remarkable performance of our automotive product line which maintains a higher margin profile than corporate average. Q3 profit per diluted ADS was 6.4 cents, exceeding the guidance range of 1.5 cents to 6.0 cents.

Revenue from large display drivers came in at \$43.7 million, a decrease of 3.7% sequentially but up 5.9% year-over-year. TV IC sales declined as expected, as customers already replenished their inventory in previous quarters and suspended further pull-ins. Monitor and notebook IC sales were up single digit and a nice double digit respectively in the third quarter, predominantly driven by rush order from key customers. Large panel driver IC sales accounted for 18.3% of total revenues for this quarter compared to 19.3% last quarter and a year ago.

Moving on to our small and medium-sized display driver segment. Revenue was \$161.1 million, an increase of 7.2% sequentially and up 13.9% compared to same period last year, surpassing the guidance range due to better-than-expected sales performance, particularly in automotive sector and TDDI products. Q3 automotive driver sales saw a decent double-digit sequential increase thanks to a strong uptick in both TDDI and traditional DDIC as clients worldwide resumed order replenishment. Smartphone and tablet driver sales, on the other hand, decreased double-digit and mid-teens sequentially, reflecting continued soft market demand.

In the third quarter, the automotive business remained our largest revenue contributor, accounting for nearly 45% of total sales. One notable highlight during the quarter was our commencement of the world's first mass production of LTDI. This further demonstrates our leadership position in the lucrative automotive display battlefield. Jordan will elaborate in a few minutes.

Small and medium-sized driver IC segment accounted for 67.6% of total sales for this quarter compared to 63.9% in previous quarter and 66.2% a year ago.

Third quarter non-driver sales also exceeded guidance with revenue of \$33.7 million, down 14.4% from a quarter ago, but up 9.0% compared to same period last year. The better-than-expected performance was a result of higher shipments of WLO and CMOS image sensor. Tcon business represented over 8% of our total sales in the third quarter yet experienced a low teens sequential decline, 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 with local dimming technology adoption, rising rapidly by leading panel makers, Tier 1s and car makers across the board. With numerous project awards already in hand, we expect a strong growth trajectory for automotive Tcon in the next few years. Non-driver products accounted for 14.1% of total revenues as compared to 16.8% in the previous quarter and 14.5% a year ago.

Third quarter operating expenses were \$63.7 million, an increase of 19.8% from the previous quarter, but down 12.5% from a year ago. As a reminder, we grant annual bonuses to employees at the end of September each year, including RSU and cash awards. Our 2023 annual bonus compensation of \$10.4 million was in line with guidance, out of which \$9.7 million or 4.4 cents per diluted ADS was immediately vested and expensed in the third quarter. In comparison, [annual] (added by company after the call) bonuses for 2022 and 2021 were \$39.6 million and \$74.7 million respectively, of which \$18.5 million and \$24.8 million were vested and expensed immediately. The changes in Q3 operating expenses were mainly associated with the way we expense the employee annual bonus grants based on IFRS accounting.

To clarify, the Q3 bonus expense includes 2 portions. First, as mentioned above, \$9.7 million for the immediately vested and recognized portion of the current year bonus grant that is based on the expected profit for the full year. Second, \$6.2 million for the amortized tranches of the prior year bonuses. As a reference, the amortized expense of the prior year employee bonuses for full year 2023 would be as high as \$21.8 million due to substantially higher profits in 2021 and 2022, leading to a significantly increased bonus carryover amortization expense. This has caused volatility in our IFRS figures for 2023, while for the annual bonus grant, Himax has always followed a consistent compensation policy and rules for employees. Amidst prevailing macroeconomic headwinds, we are currently exercising strict budget and expense control with full year 2023 OpEx poised to decline compared to last year.

Third quarter operating income was \$11.1 million or 4.6% of sales compared to 1.8% of sales for the same period last year and minus 0.9% last quarter. The sequential increase was primarily a result of increased sales and gross margin, partially offset by higher operating expenses in the third quarter. The year-over-year increase was primarily a result of lower operating expenses brought by lower annual bonus compensation, partially offset by lower gross margin compared to same period last year. Third quarter after-tax profit was \$11.2 million or 6.4 cents per diluted ADS compared to \$0.9 million or 0.5 cents per diluted ADS last quarter and \$8.3 million or 4.8 cents in the same period last year.

Turning to the balance sheet, we had \$155.4 million of cash, cash equivalents and other financial assets as of September 30, 2023, compared to \$227.9 million at the same time last year and \$219.5 million a quarter ago. Third quarter cash flows were impacted by two cash payouts, \$83.7 million for annual dividend and \$29.5 million for employee bonus. The employee bonus is comprised of \$9.3 million for the immediately vested portion of this year's award and \$20.2 million for vested awards granted over the last three years. Despite the substantial payouts in Q3, we delivered strong positive operating cash flow of \$16.0 million, again, due to the ongoing destocking progress across major product lines with inventory experiencing a meaningful reduction compared to the past quarters. We had \$42.0 million of long-term unsecured loans as of the end of the third quarter, of which \$6.0 million was the current portion.

Our quarter end inventories as of September 30, 2023, were \$259.6 million, markedly lower than \$297.3 million last quarter. Accounts receivable at the end of September 2023 was \$248.5 million, up from \$239.0 million last quarter and down from \$253.3 million a year ago. DSO was 95 days at the quarter end as compared to 90 days last quarter and 74 days a year ago. Third quarter capital expenditures were \$2.6 million versus \$2.9 million last quarter and \$3.4 million a year ago. The third quarter capex was mainly for our IC design business.

As of September 30, 2023, Himax had 174.7 million ADS outstanding, little changed from last quarter. On a fully diluted basis, total number of ADS outstanding for the third quarter was 174.8 million.

Now turning to our fourth quarter 2023 guidance. We expect fourth quarter revenues to decline 5.0% to 11.0% sequentially. Gross margin is expected to be around 30%, depending on the final product mix. The fourth quarter profit attributable to shareholders is estimated to be in the range of 9.0 cents to 13.0 cents per fully diluted ADS.

I will now turn the call over to Jordan to discuss our Q4 outlook. Jordan, the floor is yours.

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

Thank you, Eric. We expect our fourth quarter sales growth to be relatively subdued compared to typical seasonal trends primarily due to sluggish end market demand as well as cautious inventory management and rigorous procurement scrutiny by our customers.

Additionally, ongoing macro headwinds are limiting our visibility as panel customers remain tentative about demand prospects, leading to shortened forecasts and more frequent last-minute orders. Having said that, our longer-term outlook for the automotive business, our largest revenue contributor, remains positive, as we maintain a dominant position in the sector.

The majority of our design wins in TDDI and local dimming Tcon, both relatively new technologies for automotive sector, are slated to commence mass production during the next two years, thereby further fortifying our market share leadership amidst growing competition. When coupled with the megatrend of increasing quantity, size and sophistication of displays inside vehicles, Himax is poised to enjoy sustainable growth in the automotive market for years to come, regardless of auto industry headwinds or macroeconomic challenges.

Amidst the prevailing challenging economic conditions, we continue to implement a range of measures to reduce costs, including improving manufacturing and operational efficiencies and leveraging diverse partners in foundries and back-end sources. The recently announced partnership alliance with Nexchip in automotive is an illustration of Himax's foundry supply diversification strategy. The collaboration expands Himax's foundry supply while optimizing cost structure for the thriving automotive market, especially in China. In terms of inventory, the destocking process is progressing nicely with Q3 seeing a meaningful reduction. Currently, we are nearing historical average levels after several quarters of aggressive inventory depletion.

Thanks to accelerating growth in our automotive business, improved cost structure, normalized inventory levels, favorable product mix and our emphasis on higher margin, higher value-added areas, like Tcon, OLED and AI, we are well positioned to deliver sustainable long-term revenue growth and profitability.

With that, I will now begin with an update on the large panel driver IC business. Our fourth quarter 2023 large display driver IC revenue is projected to decline by double digit sequentially, reflecting the absence of festival season shopping this year and intensified China local competition. In the TV IC business, leading end brands continue to implement stringent production control measures amidst soft demand and are maintaining low inventory levels. Consequently, we expect a double-digit quarter-over-quarter decline in Q4 TV IC sales. Notebook and monitor IC are also facing a challenging business environment, where we expect sales for both product lines to decrease by double digit sequentially.

Turning to the small and medium-sized display driver IC business. Fourth quarter revenue is expected to decline single digit, on the backdrop of a muted festival season where demand for consumer electronics remains sluggish. Smartphone sales are projected to decline double digit, while tablet sales are expected to increase single digit sequentially in Q4. Automotive revenue is expected to be flat or slightly down sequentially following a surge in orders resuming for both traditional DDIC and TDDI during the previous quarter. Q4 automotive TDDI sales are poised to continue to increase by low teens sequentially, fueled by strong customer orders across the board and supportive governmental policies, especially in China and U.S., aimed at incentivizing new vehicle purchases.

Secured design-win projects for automotive TDDI continue to expand across the board and now total nearly 400, significantly ahead of our peers. Remarkably, automotive TDDI sales are expected to account for almost 40% of total automotive driver sales in Q4. As Eric mentioned earlier, automotive driver sales are now our largest revenue contributor and, if combined with automotive Tcon, is set to represent almost half of our total sales in Q4.

Moving on to our industry leading LTDI. As we recently announced, Himax is the first in the world to commence mass production of LTDI for certain customers' NEVs starting in Q3 this year. We expect LTDI adoption to further proliferate as it gains traction in car models featuring large size displays as car makers look to distinguish their vehicle products. Additionally, we are seeing an increasing number of customers choosing to adopt our integrated LTDI and local dimming Tcon solution as the standard platform for their ultra-large automotive display development. These newly designed automotive displays are typically larger than 30 inches, deliver a sharp detailed visual experience, and incorporate high-density touch functionality, which typically necessitates the utilization of six or more LTDI chips, together with at least one local dimming Tcon, representing much higher content value for us on a per panel basis. This not only ramps up a new revenue stream, but also reinforces our leadership position in the automotive display market as we move into 2024.

Himax stands at the forefront of the automotive display IC market with a diverse product portfolio covering a full range of specifications and technologies, including DDIC, TDDI, local dimming Tcon, LTDI and AMOLED. These holistic offerings cater to a wide range of customer preferences and needs, fostering strong customer loyalty and collaborations with global panel makers, Tier 1s and car makers. We expect our automotive segment to continue to be a key growth driver for us.

In terms of our smartphone and tablet product lines, we continue to see lackluster demand in the market. On a positive note, our inventory has substantially rebalanced to a satisfactory level after consecutive quarters of inventory depletion. With the destocking process nearly complete, we placed wafer starts for select products starting in Q2 this year and continue to work on improving our cost structure with the aim of improving our efficiency for when demand returns.

Next, for an update on our AMOLED business. By partnering with leading panel manufacturers in Korea and China, we are accelerating our AMOLED driver IC advancements, covering various applications from automotive and tablets to smartphones, notebooks and TVs. In the automotive AMOLED sector, our design-wins are steadily increasing from both traditional car manufacturers and NEV vendors worldwide. For smartphone AMOLED display driver, sluggish demand in the smartphone market has resulted in a slight delay from our original targeted timeline. Nevertheless, we continue collaborations with customers from Korea and China where ongoing verification and partnership projects are in progress.

I would now like to turn to our non-driver IC business where we continue to make steady progress.

First, for an update on our Tcon business. We anticipate Q4 Tcon sales to decrease double digit sequentially, hampered by reduced shipment for large-sized displays and OLED displays for tablet as customer inventory offloading continues due to subdued end market demand. Despite the soft market sentiment, we are actively developing the next generation Tcon IC for OLED tablet, notebook and automotive, aiming to diversify our offerings and strategically position ourselves for a resurgence in demand.

Moving on to our automotive Tcon business for LCD panels. Our position remains unchallenged in local dimming Tcon, evidenced by growing validation and widespread deployment globally in both premium and mainstream new car models. We plan to roll out a series of Tcon for automotive to expand our product offerings catering to different needs of global customers.

Local dimming technology has found increasing application in automotive display, initially in high-end car models and gradually into mainstream vehicles. One emerging use case is in heads-up display or HUD. Thanks to our Tcon's unique ability to deliver a high contrast ratio for selected content, along with low heat dissipation and minimal power consumption.

Our local dimming Tcon can effectively eliminate the frequently occurring "postcard effect" in HUD application, caused by backlight leakage in TFT LCD panels that shows a square-shaped display image on the windshield. Our automotive Tcon business is poised to experience explosive growth with strong momentum expected into 2024 and years to come, serving as one of our major growth engines.

Switching gears to the WiseEye Smart Image Sensing total solution, which incorporates Himax's proprietary ultralow power AI processor, always-on CMOS image sensor, and CNN-based AI algorithm. For notebook, we continue to support the mass production of Dell's notebook. Given the growing prevalence of the human presence detection feature in notebooks, our engagement with global notebook names for their next generation products are progressing nicely.

Our WiseEye solution is also in broad adoption across a range of endpoint AI applications, including video conference device, automotive, access control, shared bike parking, door lock and smart agriculture, among others. Notably, WiseEye adoption is also going smoothly in door lock application where we joined forces with leading door lock players in China with mass production expected to commence starting the end of this year.

Moreover, the latest smart door lock design surpasses the existing human presence detection feature and takes a step forward to support an additional camera set, enabling dual-camera functionality. The secondary camera can be oriented downward for ground-level status monitoring for events such as parcel delivery or placed indoors to enhance security detection. More innovative features are also under development together with key customers in the field targeting their next generation smart door lock. We anticipate that WiseEye adoption in surveillance will significantly increase starting in 2024.

Next, for an update on our WE2 AI processor. Compared to WE1, its predecessor, the WE2 processor offers further advancements in inference speed and ultralow power. In context aware AI, WE2 enables detailed, real time computer vision object analysis, such as 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. Alongside our ongoing collaboration with end customers, we have also made significant progress in partnerships with major CPU and AP SOC players in preparation for their target markets in next generation smart notebooks, surveillance, and a host of other endpoint AI applications. We will provide more details as they come about.

In addition to the WiseEye total solution, we are also focused on expanding our Intelli-Sensing Module business by targeting users that may be less familiar with AI or wish to incorporate AI capabilities into their applications without significant development effort. This particularly applies to small volume or early-stage market engagement applications. The module offerings, incorporating WiseEye technology, provide clients with a series of highly integrated, plug-and-play module boards which are extremely compact in size, user-programmable and loaded with our pre-trained AI models for straightforward system integration.

This can effectively shorten customers' time-to-market and reduce development costs. To broaden market reach, a series of Intelli-Sensing Modules will be rolled out to cover more diverse markets that cater to various AI needs. The Intelli-Sensing Module solution will also be made available through online resellers like DigiKey and other SI partners.

Throughout recent quarters, our Intelli-Sensing Module has received excellent feedback with adoptions for various applications. One particularly successful adoption is in parking systems which has been deployed by several vendors in different regions of Asia. Our module offers precise real-time motion and occupancy detection to streamline the billing procedure for vehicles.

Additionally, our module operates efficiently with ultralow power, making it a viable choice for battery-powered parking systems, thereby greatly simplifying the installation process and reducing maintenance costs. Moreover, our AI functionality can include vehicle type recognition, which enhances the effective utilization of parking spaces.

Beyond the parking solution, there is a growing interest in applications for our Intelli-Sensing Module in areas such as retail shelf management and human flow monitoring, among others. We are excited about the upcoming growth prospects for this product.

Our leading position in ultralow power AI processing and image sensing for endpoint AI applications demonstrates our commitment and conviction to the ongoing development and growth of WiseEye AI business. By leveraging broad ecosystem partners and customers, we aim to maximize market reach and explore more potential endpoint AI applications. While adoption is at an early stage, we believe our WiseEye AI business will serve as a multi-year structural growth driver for Himax.

Lastly, for an update on our optical related product lines. With over a decade of optical and optoelectronics know-how and capabilities under our belt, Himax has been offering various technologies, including WLO, 3D Sensing, and LCoS, driving continuous advancements in diverse fields related to emerging metaverse applications. Additionally, we have other innovative solutions under development to further expand our technological portfolio.

The recent introduction of Liqxtal Graph display technology, unveiled by Himax's subsidiary Liqxtal Technology, is one illustration of Himax's capability to provide more diverse offerings to the industry. This liquid crystal-based optical product provides one-of-a-kind technology that defies imagination through the display of personalized and colored content on the exterior lens of glasses for external viewers to enjoy, while also providing wearers with unobstructed visibility. We expect Liqxtal Graph display technology to create a broad array of application possibilities for wearable devices in the future.

Next on our progress on LCoS, following the unveiling of our cutting-edge Color Sequential Front-Lit LCoS microdisplay at the Display Week in May, several tech giants in the industry have shifted their focus away from micro-LED to our Front-Lit LCoS for their AR goggles. This shift is demonstrative of our exceptional achievements in both performance and functionality, marked by breakthroughs not only in the luminance performance in full RGB color, but also in terms of superior optical efficiency, tiny form factor and ultra-lightweight design. These factors are critical and represent technological advancements that can readily meet rigorous requirements to support next generation see-through goggles.

Next an update on WLO. As previously mentioned, we initiated volume production of our WLO technology to a leading North American customer in the second quarter. The WLO solution is integrated into the customer's new generation VR goggles to enable 3D gesture control. A decent shipment was made in the third quarter in preparation for the upcoming seasonal shopping sales. For non-driver IC business, we expect revenue to decline mid-teens sequentially in the fourth quarter.

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

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## QUESTIONS AND ANSWERS

### Operator

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

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

Hi, Jordan and Eric, can you hear me?

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

Yes, loud and clear.

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

My first question is regarding your guidance. If I look at your guidance across different product lines or by applications, I feel it's a little bit opposite to the current market condition. For example, smartphone and PC looks like to be recovering, while automotive if you look at the IDM companies recent guidance, it seems like the auto demand in non-China market has been weakening. But your guidance shows that PC, notebook and monitor has been slowing down into the fourth quarter as well as smartphone, while automotive looks like still quite resilient. So could you kindly explain why there is differences between the current market dynamics versus your guidance?

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

Thank you, Donnie. To be honest, I'm not sure I have a very good explanation to that. I agree with your view that our guidance seems to indicate towards a different direction, right? As you said, auto overall, the consensus seems to be pessimistic, while smartphone and PC seems to be in early stage of rebounding.

I think the explanation I can offer perhaps is that for automotive display market, we really dominate the market. And as you recall, the Q1 for this year, there was a sudden drop in demand for automotive display ICs when China started to implement this rather stringent COVID control mandate, right, which causes a lot of factories to get shut down and so on.

And in Q2, there was a widespread industry-wide EV price competition, which kind of led to a lot of customers suspending their orders to us. So in Q3, we saw a very, very strong rebound. And that rebound is not entirely a reflection of market sentiment as such, rather, I think it is for our customers to restock from where they probably were behind in the first and second quarter.

And I think the momentum continues into this quarter for us, although certainly the rebound will not be as strong. So we are guiding for automotive business for this quarter to be flat to slightly down. So I think that reflects our leading market position, where we have a very comprehensive and thorough market coverage and customer coverage. So, when customers need to restock for their production, I think we are probably their first point of call. While in comparison for smartphone and PC, our position was not, certainly not as strong, quite the opposite. Actually, I would highlight for monitor, for example, where our market share was relatively strong. We're also seeing in Q4 demand to be run strong, which if you think about it, it shouldn't be a big departure from the demand for PC, monitor against PC. One would not expect a major departure, but from our perspective, our forecast book or order book, we do see a different picture. I think this, again, can be explained by our different position in these different markets.

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

Understood. Sorry, Jordan. So, you mean the monitor momentum from your side is better than notebook?

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

Yes, slightly, yes.

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

Understood. And my second question is regarding to the ASP trend across the different product lines. Are you seeing ASP is stabilizing or by different products, there could be still some different kinds of ASP erosion trends in the coming months.

And another thing is that you previously announced that you have more cooperation with Nexchip. And I feel recently that driver IC



companies are more aggressively shifting their foundry capacity away from the foundries with higher price to the lower price. So if that will be helpful to your gross margin improvement going forward, if the ASP is not further declined that much, while the foundry cost can be further reduced?

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

First on ASP trend. Compared to the last few quarters certainly, ASP is definitely stabilizing across the board because the overall industry inventory position is now healthier than before. And certainly, our customers, i.e. panel makers, are either just starting to make money or some of them are still under the water in their P&L, right? And certainly, we are aware the macroeconomic conditions have not been looking very positive. So, I think price pressure because of lack of demand and also because of our customers are not being very profitable I think price pressure will persist.

Although, I don't see similar kind of price pressure that we experienced in the last few quarters. And I think that comments kind of applies across different sectors. I can't really tell one sector from another a very different picture. And certainly, that picture may vary as we move along into next year, and we'll report in due course. But for now, we don't see a very different picture across different sectors.

You mentioned, China foundry, in fact also backends, and our collaboration with Nexchip. I mean, certainly, we have a joint press announcement for our strategic alliance, and that is focused on automotive display. And with Nexchip, actually, we have kick-started collaboration on both DDIC and TDDI with mass production for both expected to be around Q4 next year.

And I think price aside, which certainly is always welcome. Price aside, I think having a strong partner in China also helps us in dealing with Chinese customers and covering Chinese markets, where in automotive, especially EV as we're all aware is very, very important. And I think our Chinese customers will certainly favor, welcome this move that we made with Nexchip.

So, yes, so both in foundry and probably a bit more so for back end, where possible, we will look to diversify our supplier base and expand further into China. And longer term, surely, that I think will help us with our cost and hopefully alleviates pressure for price.

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

Understood. Maybe just one last follow-up from me. If look at your fourth quarter guidance, your EPS is between 9.0 cents to 13.0 cents. But surprisingly, I feel that the upper range of 13.0 cents looks like to be higher than my previous expectation if considering your sales is going to decline like 8% quarter-on-quarter in the mid-range. So, do you have lower tax rate in fourth quarter or you have lower OpEx in the 4Q?

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

Yes, indeed. I mean, thank you for this question, and I appreciate you've been very diligent in looking at our financials and building your model. Yes, there will be some tax benefits that we will enjoy because of a certain tax plan that we made earlier in Q4. I wouldn't elaborate on details right now over here, but yes, tax is one of the reasons.

And basically, we also run our financial projection models, right? So, the EPS range certainly is directly the outcome from those models based on our revenue and gross margin guidance, among other things. And yes, you pick up this fine detail, and indeed, there will be some tax benefits that we expect to enjoy in Q4. Again, that is due to earlier tax planning that we did.

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**Operator**

Thank you. At this time, I would now like to turn the call back over to Jordan Wu for closing remarks.

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**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 conferences. We will announce the details as they come about. Thank you and have a nice day.

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**Operator**

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

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