Himax Technologies Inc. Q3 2024 Earnings Call Edited Transcript
Event Date: Nov. 07, 2024

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PRESENTATION

Operator

Hello, ladies and gentlemen. Welcome to the Himax Technologies Inc. Third Quarter 2024 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. As a reminder, this conference call is being recorded. I would now like to turn the conference over to Mr. Eric Li, Chief IR/PR Officer at Himax.

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

Welcome everyone to the Himax Third Quarter 2024 Earnings Call. My name is Eric Li, Chief IR/PR Officer at Himax. Joining me today are Jordan Wu, President and Chief Executive Officer, Jessica Pan, Chief Financial 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 or hx_ir@himax.com.tw, 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, 2023 in the section entitled "Risk Factors", as may be amended.

Except for the Company's full year of 2023 financials, which were provided in the Company's 20-F and filed with the SEC on April 2, 2024, 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.

On today's call, I will first review the Himax consolidated financial performance for the third quarter 2024, followed by our fourth quarter outlook. Jordan will then give an update on the status of our business, after which we will take questions. You can submit your questions online through the webcast or by phone. We will review our financials on an IFRS basis.

We are delighted to announce that Q3 revenues and profits both surpassed guidance, while gross margin was in-line with the guidance issued on August 8, 2024, despite prevailing economic challenges. The better-than-expected financial results stemmed primarily from stronger order momentum in automotive, tablet and Tcon product lines.

Third quarter revenues registered $222.4 million, a decrease of 7.2% sequentially, yet significantly exceeded our guidance range of a 12% to 17% decrease. Gross margin came in at 30.0%, in-line with our guidance of around 30%, but down from 32.0% in the previous quarter and 31.4% in the same period last year. The sequential decline was a result of unfavorable product mix. Q3 profit per diluted ADS was 7.4 cents, considerably above the guidance range of 1.5 cents to 4.5 cents due to better-than-expected revenues.

Revenue from large display drivers came in at $30.7 million, reflecting a sequential decrease of 21.2%. The decrease was primarily attributed to weaker monitor and TV IC sales due to customers' de-stocking amid challenging market conditions following substantial Q2 replenishment for shopping festivals. In contrast, notebook IC sales increased notably, resulting from rush orders for legacy products from leading panel customers. Sales of large panel driver ICs accounted for 13.8% of total revenues for the quarter, compared to 16.3% last quarter and 18.3% a year ago.
Revenue from the small and medium-sized display driver segment totaled $155.4 million, a decline of 2.2% sequentially but significantly better than our guidance of a low-teens decline, thanks to stronger-than-expected sales in the automotive and

tablet markets. In Q3, automotive driver sales, which include both traditional DDIC and TDDI, experienced a mid-single digit decrease, yet largely outperformed our expectation of a high teens decline. This better-than-expected result was primarily fueled by rush orders from our Chinese panel customers shortly after our last earnings call on the backdrop of the Chinese government's renewed trade-in stimulus announcement made in mid-August, as part of their efforts to further boost automobile consumption. Our automotive business, comprising drivers, Tcon, and OLED sales, remained the largest revenue contributor in the third quarter, representing nearly half of total sales. Meanwhile, Q3 tablet IC sales also exceeded guidance of a sequential decline, with sales slightly up from last quarter, fueled by rush orders from leading end customers. Q3 smartphone IC sales increased a decent double-digit sequentially, thanks to new product launches of leading phone makers. The small and medium-sized driver IC segment accounted for 69.9% of total sales for the quarter, compared to 66.3% in the previous quarter and 67.6% a year ago.

Third quarter non-driver sales reached $36.3 million, a decline of 13.1% from the previous quarter. This decrease was primarily driven by a double-digit sequential decline in Tcon sales, particularly for monitor application, as customers pulled forward their inventory purchases in the prior quarter anticipating strong sales during the shopping festivals. However, automotive Tcon sales saw an impressive sequential increase of over 30%, as our solutions, especially the market leading local dimming Tcon, continue to be rapidly adopted by major panel manufacturers, Tier 1 suppliers, and automotive manufacturers worldwide. In the third quarter, our Tcon business accounted for over 9% of total sales, with notable contributions from automotive Tcon, representing almost half of Tcon sales, supported by steady growth with well over one hundred secured design-win projects. Non-driver products accounted for 16.3% of total revenues, as compared to 17.4% in the previous quarter and 14.1% a year ago.

Third quarter operating expenses were $60.8 million, an increase of 28.4% from the previous quarter and a decline of 4.7% from a year ago. The sequential increase stemmed primarily from the expense for annual bonus compensation which we award employees at the end of September each year, typically resulting in higher Q3 employee compensation expense compared to other quarters of the year. The year-over-year decrease was mainly due to a decline in employee bonus compensation as the amortized portion of prior year’s bonuses for last year was higher than that for this year. As a reminder, we grant annual bonuses to employees at the end of September each year, including RSU and cash awards based on the expected profit

for the full year. Our annual bonus compensation grant for 2024 was $12.5 million, in line with guidance, out of which $11.2 million, was immediately vested and expensed in the third quarter. In comparison, the annual bonuses for 2023 and 2022 were $10.4 million and $39.6 million respectively, of which $9.7 million and $18.5 million were vested and expensed immediately. To further elaborate, our Q3 bonus expense includes two portions. First, as I just mentioned, $11.2 million was the allocation for the immediately vested and recognized portion of the current year's bonus grant. Second, $2.7 million was expensed for the amortized tranches of prior years' bonuses, compared to $2.8 million last quarter and $6.2 million a year ago. Amid ongoing macroeconomic challenges, we are strictly enforcing budget and expense controls, with full-year 2024 OPEX projected to decline mid-single digit compared to last year.

Third quarter operating income was $5.9 million or 2.6% of sales, compared to 12.2% last quarter and 4.6% of sales for the same period last year. The sequential decrease, aside from lower sales and a contraction in gross margin, primarily reflected the difference in annual employee bonus compensation, as mentioned earlier, totaling $11.2 million or 5.1% of sales, the immediately vested and expensed portion of this year’s new grant. The year-over-year decrease in operating margin was mainly driven by a decline in sales and lower gross margins. Third-quarter after-tax profit was $13.0 million, or 7.4 cents per diluted ADS, compared to $29.6 million, or 16.9 cents per diluted ADS last quarter, and $11.2 million, or 6.4 cents in the same period last year. In calculating the Q3 after-tax profit, we made a favorable income tax adjustment to rectify overestimated tax expenses for preceding quarters this year, hence the sequential increase in after-tax profit.

Turning to the balance sheet, we had $206.5 million of cash, cash equivalents and other financial assets at the end of September 2024, compared to $253.8 million a quarter ago and $155.4 million at the same time last year. The sequential decrease in cash balance was mainly the result of a $50.7 million payment for annual dividends. Operating cash outflow for the third quarter was approximately $3.1 million, compared to an inflow of $26.9 million in Q2. The outflow was primarily due to $30.1 million paid to employees for their bonuses, which included $10.8 million for the immediately vested portion of this year’s award and $19.3 million for vested awards granted over the past three years. Operating cashflow excluding employee bonus was a $27.0 million inflow during the quarter. We had $36.0 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, 2024 were $192.5 million, lower than the $203.7 million last quarter and $259.6 million in the same period last year, indicating a well-managed and balanced inventory level from quarter to quarter. Accounts receivable at the end of September 2024 was $224.6 million, down from $242.4 million last quarter and $248.5 million a year ago. DSO was 92 days at the quarter end, as compared to 99 days last quarter and 95 days a year ago. Third quarter capital expenditures were $2.6 million, versus $4.6 million last quarter and $2.6 million a year ago. The third quarter capex was mainly for R&D related equipment for our IC design business.

As of September 30, 2024, Himax had 175.0 million ADS outstanding, little changed from last quarter. On a fully diluted basis, the total number of ADS outstanding for the third quarter was 175.0 million.

Now, turning to our fourth quarter 2024 guidance. We expect fourth quarter revenues to be flat to slightly down sequentially. Gross margin is expected to be flat to slightly up sequentially, depending on product mix. The fourth quarter profit attributable to shareholders is estimated to be in the range of 9.3 to 11.0 cents per fully diluted ADS.

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

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

Thank you, Eric. Looking ahead to Q4, the macro environment remains challenging. Panel customers are reducing production to stabilize panel prices in response to the current market conditions. At the same time, end brands are also taking a cautious approach to panel procurement and maintaining low inventory levels. Taken together, these factors have suppressed IC demand, leading to our conservative outlook for the fourth quarter.

Against this backdrop, we continue to strictly manage expenses and implement various cost optimization measures, including enhancing manufacturing and operational efficiency, as well as leveraging a diverse range of vendors in foundries and backend suppliers. Looking ahead, while the global economy still looks uncertain, we are confident in the business outlook of several key areas, namely automotive, AI, WLO, and OLED, and expect these product lines to drive significant growth of our business.

First let me elaborate on the automotive sector, our primary revenue contributor. We remain optimistic in our long-term outlook as the automotive display market continues to expand through innovation and technological advancements. Our confidence also stems from our comprehensive offering and leading position in the market, particularly in the areas of LCD TDDI, OLED, and Tcon, all of which are relatively new and cutting-edge technologies for automotive display. These technologies are expected to see continued adoption, providing us with sustainable long-term growth opportunities.

It's worth noting that there have been significant fluctuations in automotive market demands in recent quarters, particularly from the Chinese market, which accounts for over 30% of global vehicle sales. Government policies, subsidies, and aggressive discount campaigns by car manufacturers have made supply and demand less predictable, creating new challenges for automotive IC suppliers. Automotive ICs, unlike consumer electronics products, feature rigorous safety and reliability standards, resulting in longer production lead time, which poses greater challenges in handling customers' rush orders. However, thanks to our dominant market share and substantial shipment volume in the automotive sector, we are well-equipped to navigate these market fluctuations. In fact, our ability to respond to these last-minute demands for automotive ICs was instrumental in our better than expected third quarter financial results, with final revenues exceeding the midpoint of our guidance by as much as 7%. The higher revenues were driven primarily by rush orders that arose after our last earnings call held in the middle of the third quarter. Indeed, being able to quickly respond to changing customer needs has become a crucial competitive advantage in the automotive IC sector for us.

In terms of our WLO business, we are confident in our collaboration with FOCI on the LPO/CPO business where I am pleased to share that we are making decent progress in the initial small-scale production of the first-generation solution. Demand for high-speed optical communication technology is surging, driven by advancements in high-performance computing and artificial intelligence. Moreover, Himax and FOCI, along with world-leading AI semiconductor companies and foundry partner, have begun new technology development for future generation products. We believe this will create new revenue streams for Himax and make a significant contribution to our total revenue and profit in the coming years.

With that, I'll now begin with an update on the large panel driver IC business. In Q4,

we anticipate a double-digit sequential sales decrease for large display driver ICs due to soft holiday shopping demand expectations, ongoing customers destocking since Q2, and intensified China local competition. As I just mentioned, panel manufacturers are strategically reducing production to safeguard panel prices while end brands are enforcing strict procurement control in response to soft demand and maintaining low inventory levels.

Looking ahead in the notebook sector, the emergence of AI PC is prompting display upgrades towards OLED displays and displays equipped with touch features. Through strategic collaborations with leading panel makers in Korea and China, Himax is well positioned to capitalize on this trend, offering a comprehensive range of notebook IC products including DDIC, Tcon, and touch controller for OLED displays and TDDI and Tcon for LCD display. First on TDDI for LCD, we are pioneering in-cell touch TDDI for notebook LCD display. Our state-of-the-art in-cell touch TDDI solution features a proprietary architecture where the touch controller is embedded inside the TDDI chip with the display portion of the TDDI taking advantage of the conventional display driver configuration to convey Tcon data to drive the panel. This allows customers to maintain the existing Tcon adoption, substantially reducing their product development effort and enhancing production flexibility. Additionally, the TDDI features high integration, multi-chip cascade, and increased channel output, enabling higher resolution of up to 4K and larger screen of up to 16 inches, with compact PCB and narrower bezel designs, making it suitable for both mainstream and high-end LCD laptops. In the third quarter, our newly introduced in-cell touch TDDI successfully entered mass production for a prominent brand's first AI PC. Several projects are also in progress with other brands for their upcoming notebook models.

The second area of focus is OLED, which is seeing increasing adoption in premium laptops. In addition to our OLED DDIC and Tcon solutions, we are also pioneering on-cell touch control technology on notebook OLED display. Multiple projects with top panel and laptop leaders are underway. Finally, we are developing the next generation eDP 1.5 display interface for Tcon, applicable to both LCD and OLED panels, supporting high frame rates, low power panel replay, adaptive sync, and high-resolution. We aim to launch our eDP 1.5 Tcon in the second half of 2025. We are confident that, with these initiatives, Himax will be the frontrunner for next-gen AI PCs and premium notebooks. With several projects slated for mass production starting in 2025, we believe our LCD and OLED notebook solutions will act as growth catalysts for our notebook IC business for the coming years.

Turning to the small and medium-sized display driver IC business, we anticipate fourth quarter revenue to be flat sequentially. Automotive IC revenue in Q4 is expected to resume growth and increase single digit sequentially, mainly supported by ongoing China market promotional events and the Chinese government's renewed trade-in stimulus policies as earlier mentioned. Notably, our automotive driver IC sales for the full year 2024 are projected to grow high-teens year-over-year, significantly outperforming global automotive growth, primarily driven by continued expansion of TDDI adoption among all major end customers worldwide. In the automotive TDDI sector, we continue to strengthen our market dominance with cumulative shipments already exceeding 70 million units, far surpassing those of our competitors. With nearly 500 design-in projects secured and only about 30% currently in mass production, we continue to see substantial growth potential ahead. Remarkably, our Q4 automotive TDDI sales are set to surpass DDIC sales for the first time, highlighting the widespread adoption of our solutions worldwide, along with growing demand for more intuitive, interactive, and cost competitive touch panel features enabled by TDDI solutions. While our full year 2024 traditional automotive DDIC sales are expected to decline as they are partially replaced by TDDI, our shipping quantity for DDIC is set to see a modest increase. This is indicative of the product's long-life cycle as many of our customers' legacy models will not be retired for years, and many displays, such as cluster display, HUD, or rear- and side-view mirrors, do not require touch feature. We remain the leader of the automotive DDIC market, with approximately 40% global market share.

Meanwhile, an emerging market trend shows more customers are opting for Himax's TDDI or LTDI, coupled with our local dimming Tcon, as their standard development platforms for new automotive displays across various sizes and applications. This growing platform adoption of more of our automotive IC offerings not only reflects strong customer loyalty to our technologies and services but also signifies the increase in content value for Himax on a per-panel basis. Himax is widely recognized as the leader in the automotive display IC market, offering the industry's broadest range of products with leading market share in each of the product areas. The diverse range of offerings allows us to address different customer needs and adapt to changing market trends, thereby strengthening our market presence and boosting potential revenue. Our newly introduced TED (Tcon Embedded Driver IC) solution, which combines TDDI with local dimming Tcon into a single chip, exemplifies our commitment to providing customers with more competitive, flexible and broader options. This solution is ideal for smaller panels that typically require only 1 to 2 ICs for cost consideration, while still offering advanced touch and local dimming

features. Production is set to begin in early 2025 with several projects and engagements currently underway with major customers. Meanwhile, we are actively collaborating with automotive Tier 1 partners to develop more advanced, innovative and/or cost optimized solutions tailored to various market needs. This not only underscores our customers' confidence in our technology leadership but also reflects their commitment to engaging with us in future roadmap collaborations.

Moving to smartphone IC sales, we anticipate Q4 to slightly decline sequentially with ongoing shipment to key customers. Q4 tablet IC sales are projected to decline low teens sequentially, as end customers are extending their replacement cycles due to challenging economic conditions.

Next for an update on our OLED business. In the automotive OLED market, we have formed strategic partnerships with leading panel manufacturers in Korea, China, and Japan. As OLED technology gains traction beyond premium car models, Himax is well-positioned as the preferred partner, thanks to our strong presence and proven track records in the LCD automotive display sector. Leveraging our first-mover advantage, we look to capitalize on the growing adoption of OLED in automotive displays by offering a comprehensive range of OLED solutions, including DDIC, Tcon, and on-cell touch controller. We believe this positions us as the primary beneficiary of the growing adoption of OLED display in automotive. For instance, our advanced OLED on-cell touch controllers are setting new industry standards with an impressive touch signal-to-noise ratio of over 45 dB, ensuring reliable performance under challenging conditions such as glove-wearing or wet-finger operations. Our OLED on-cell touch controller for automotive applications entered production last quarter and adoption is expanding across the board. With additional projects starting mass production next year, we expect this segment’s contribution to our revenues to increase starting in 2025.

Beyond the automotive sector, we have made notable advances in the tablet and notebook sectors with top OLED panel manufacturers in Korea and China. Our comprehensive OLED product offerings, encompassing DDIC, Tcon, and touch controllers, have led to several new projects that are on track to enter mass production during Q4 and as we move into 2025. Regarding smartphone OLED, we expect mass production to commence next year. Currently, we are making good progress in collaborations with customers in Korea and China on several verification and partnership projects. Additionally, we are building strong, long-term partnerships with leading OLED players to enhance our market position.

I'd like to now turn to our non-driver IC business update where we expect the fourth quarter revenue to increase mid-teens sequentially.

First for an update on our Tcon business. We anticipate Q4 Tcon sales to increase mid-teens sequentially, driven by automotive and a one-time ASIC Tcon product shipment to a leading projector customer. Automotive Tcon business is expected to achieve high-teens growth sequentially, driven by the shipment of secured design wins. For the full year, our automotive Tcon business is projected to grow over 80% compared to last year, contributing to nearly 4% of our total sales. Moving forward, we are confident in the strong growth trajectory in the automotive Tcon business, backed by our dominant local dimming Tcon market position with over one hundred design-win projects, of which only a small portion are currently in mass production and new design-ins continuing to expand. Many panel houses, Tier 1s, and OEMs worldwide have now expanded the adoption of our leading-edge local dimming Tcon solutions from premium to mainstream car models. We are well positioned for decent growth in automotive Tcon over the next few years.

Despite subdued end-market demand, we are actively developing next-generation OLED Tcon ICs for tablets, notebooks, and automotive applications. This proactive approach not only broadens and diversifies our product offerings, but also helps us navigate through industry shifts towards wider adoption of OLED displays across applications. Some of our newly developed Tcon ICs for OLED tablets and notebooks are already showing promising results. For automotive OLED Tcon, an area rich with exciting growth potential, we began production in 2021 and anticipate new product launches with advanced feature enhancements in 2025.

Switching gears to the WiseEye™ Ultralow Power AI Sensing solution, a cutting-edge endpoint AI integration featuring industry-leading ultralow power AI processor, always-on CMOS image sensor, and advanced CNN-based AI algorithm. In the fast-changing AI landscape, WiseEye AI technology stands out for its expertise in on-device tinyML microcontroller solutions, characterized by remarkably low power consumption, operating at just single-digit milliwatts, making it possible to add AI functionalities to battery-powered endpoint devices. Our WiseEye technology is unlocking new opportunities across various applications, particularly in endpoint devices for everyday life. A prime example is the smart door lock. Stemming from our collaboration with DESMAN, a leading vendor in China's high-end smart door lock market, we are expanding use cases with other world-leading door lock makers across continents by integrating innovative AI features such as parcel recognition,

smart anti-pinch protection, and palm vein biometric access. This approach targets diverse home security markets that value WiseEye's ultralow power consumption and on-device AI capabilities, which are crucial for battery-powered endpoint AI devices.

Next for an update on our WiseEye module business. We continue to offer a diverse range of plug-and-play modules, collaborating with ecosystem partners and third-party system integrators to develop pretrained no-code and low-code AI solutions with the goal of lowering barriers and timelines for developers entering the AI space. Progress is being made across various domains, including smart parking, access control, palm vein authentication, smart offices, smart homes, and more.
Among these, Himax PalmVein solution, which is part of our WiseEye AI module business, has garnered significant attention and positive feedback from customers since its launch early this year. It has already been adopted by a U.S. customer for smart access control systems and is on track to begin mass production by the end of the year. Extensive engineering activities of WiseEye PalmVein are ongoing with world-leading players across various industries, including smart door locks, access control, notebooks, and automotive, among others. The WiseEye PalmVein solution integrates the Himax WiseEye2 AI processor, an AoS CMOS sensor, and a proven palm vein authentication algorithm. It features an ultralow power, compact module capable of authenticating an individual's identity in under 100 milliseconds while consuming only a few milliwatts of power, ideal for battery-charged, on-device AI endpoint applications. Palm vein authentication utilizes unique internal vein patterns that are difficult to replicate or spoof. In addition to exceptional low power consumption, WiseEye PalmVein provides robust security and reliability with industry-leading low rates of false acceptance and rejection, making it nearly impossible to bypass or misidentify. Equally important, WiseEye PalmVein processes identification locally, eliminating privacy risk associated with cloud access required for solutions that perform authentication remotely. We anticipate increasing sales contribution from WiseEye PalmVein across a diverse array of applications starting next year and are excited about the strong customer interest and opportunity for rapid growth in our WiseEye module business.

Now switching to a quick update on WLO. In June of this year, Himax joined forces with FOCI, a global leader in silicon photonics connectors, to announce the launch of an industry-leading optical communication solution designed for the most advanced multi-chip modules. Himax and FOCI are currently progressing through the small-scale production phase of our first-generation solution designed for the LPO

architecture. In addition, Himax, in collaboration with FOCI, along with leading global AI IC design companies and foundry partner, has commenced development for next-generation technologies, with the objective of incorporating these advancements into more sophisticated CPO architectures.

Leveraging our years of WLO engineering expertise, Himax has meticulously designed and developed nano-scale precision optical systems for LPO/CPO. In the LPO/CPO optical solution, our precision-engineered optical design and manufacturing technologies ensure that the optical signals in each fiber couple precisely with the silicon photonic integrated circuit (PIC) in the LPO/CPO optical components. This achieves high precision, low loss, and high-speed transmission to meet the demands of silicon photonic transmission in high-speed computing.

In addition to the progress made in LPO/CPO, we are seeing an increase in engineering collaborations with global technology leaders who are leveraging our WLO expertise for AR/VR and a range of other applications, underscoring the widespread recognition of our technology. We believe that WLO will make a significant contribution to our overall revenue and profit in the coming years.

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.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Now we'll have our first question. Donnie Teng, Nomura. Go ahead, please.

Donnie Teng – Nomura

Thank you, Jordan, and Eric, for taking my question. My first question is regarding to your automotive business. So based on your guidance, automotive driver IC sales in fourth quarter will be growing like single digits sequentially. But when we look at some of peers' announcements, like, for example, Novatek, like Raydium, they all mentioned about that automotive driver IC sales in fourth quarter may decline a little bit sequentially. And also, I remember that back in the past few months, it seems like the automotive business was pretty volatile. You know, customers adding orders and cut orders within a couple of months. So, what makes this kind of volatility that big? And how confident we are to outperforming our peers in terms of automotive business into fourth quarter? Thank you.

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

Thank you for the question. As you know, we are always very confident and always, for somehow, we are always on the conservative side when we provide our guidance. So when we say the Q4 automotive overall business is likely to, is projected to grow, I mean, we certainly, we mean business. And similar to the last quarter, we are seeing a lot of rush orders, which, you know, fortunately, we are able to fulfill because of the reasons I mentioned earlier in my prepared remarks. And I think the customers appreciate that, the fact that Himax, you know, has the leading market position and also is fulfilling our responsibility, right, you know fulfilling such rush orders, for being the leading market share player.

And I think that the main reason for the Q4 is really a continuation of the last-minute Q3 rush orders. You know, China is renewing its stimulus plan, and that is rushing the car makers and, to a great extent, consumers to make their purchases before the incentive plan expires. And I think that is what we're seeing. Having said that though, so again, we are very confident about our projection for Q4.

We are, however, less confident on the prospect of Q1. So perhaps, you know, a more important question is, what is our prospect for 2025? I know you didn't ask that question, but I think it's probably a good opportunity for me to elaborate a little bit on our prospect here. So again, we are very confident about our continued market share leadership and close engagement with our customers across the global automotive supply chain. However, we don't have good visibility, to be quite honest, for our automotive business for 2025. And this is mainly because of the uncertainty related to the macro environment, both politically and economically.

I think I don't need to elaborate further on that. We all know what I'm talking about, you know, about the uncertainty. Nevertheless, regardless of the macro environment, we are quite comfortable about further growing our automotive TDDI business next year, which, surpassing DDIC, is already our largest source of revenue right now, as you know. Our confidence stems from our large number of design-win projects which are yet to enter mass production and the penetration of in-cell TDDI for automotive, which is still projected to somehow grow further, although certainly not at the same kind of high growth rate that we got to enjoy over the last few years.

Our confidence level is even higher for growing our local dimming Tcon as well as LTDI business in 2025 for very similar reasons, i.e. a large number of design-win

projects already in hand and dominant market position. We are actually now projecting for the Tcon to grow a rather decent double digit next year. And for LTDI, starting from a relatively low base, to grow triple digit actually, next year. Again, we are fairly confident about this prospect.

However, I can't say the same for traditional DDIC for next year. As you know, the overall DDIC volume of the market is projected to decline somehow. It is being partially replaced by TDDI. But it still has solid demands for applications that do not require touch features. So, the business next year for our automotive DDIC will depend largely on the overall automotive shipment. We don't really expect our market share to decline, but we can't really, with our 40% market share, which is already quite high, we can't really project our market share to grow much further either.

If I try to complete the story, let me also look further ahead into 2026 and 2027. We are likely to see our OLED business taking off for automotive. We are already collaborating very closely with leading customers in Korea, China, and Japan on new generation projects that are already in design-in stage with Tier1s and ODMs involving all of our DDIC, Tcon and on-cell touch solutions for OLED, with our touch already in early stage of mass production, as we just mentioned. So while the automotive OLED will be the story of 2026 and beyond, we believe it will represent a major growth engine for Himax when it happens, because as what we are experiencing right now is very, very busy design-in activities with not just panel makers but also Tier 1s and OEMs for their high-end models. So I hope that addresses your question.

Donnie Teng – Nomura

Thank you, Jordan. Another follow-up on this, as I mentioned, some of the peers mentioned about fourth quarter may sequentially decline a little bit. So other than the overall customer situation seems like getting better towards the end of this year, is there any specific company reason to drive our automotive sales to be, outperforming of peers?

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

I certainly don't know what is happening with our peers, but we are seeing these rush orders actually coming from not just one or two single customer. It is actually widespread from almost across the board, various panel makers and covering both

DDIC and TDDI and Tcon actually. And I recall very vividly, with our automotive Tcon, which has actually very, very long production lead time, and we are scrambling to meet the customer's demand, which luckily, we are able to achieve. However, in the meantime, we are complaining to the customer that this should not happen anymore because, you know, partially by luck, we are able to make the delivery for Tcon, and with its long production lead time. If it happens next time, we can't really guarantee it. But anyway, what I'm trying to say is the rush orders actually came from not just Chinese, also other countries' panel makers, Tier1s, and automotives.

Donnie Teng – Nomura

Understood. My second question is regarding to the CPO progress. I'm wondering if you, okay, firstly, it looks like non-driver IC sales growth in fourth quarter was primarily driven by Tcon. So, is CPO playing any role there in fourth quarter yet? Or how should we look at the update progress there for CPO?

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

The answer is no, not in Q4. In Q4, we do see some small amount of revenue from this, starting from Q4. These are early, very early, very small quantity shipment for customers, engineering verification and trial production purposes. So WLO for CPO doesn't really contribute to our non-driver growth for Q4.

Donnie Teng – Nomura

I see. Do you have any update on the future progress? I mean, when exactly we will see more meaningful progress or sales contribution from CPO? Is there any update on the schedule and the industry dynamics as well.

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

Okay, good question. Let me probably elaborate a little bit. In our prepared remarks, we talked about working on next generation technologies and products. Right, and so you may wonder what exactly those are and its timeline, and therefore your question about contribution potentially for next year or the year after. So, the short answer is we are trying to squeeze more and more optical fiber lines into a very, very limited space, right? And that is a very tremendous engineering challenge. Now, as we all know, one of the main purposes of using LPO/ CPO technology is to substantially

raise the data transmission rate, or what we call bandwidth, of the advanced multi-chip module, which, as you know, is essentially the bundling of multiple chiplets into a single module through so-called advanced packaging, right? The module, after such “bundling”, can therefore process a very large amount of data. But to make the module useful, the module also needs to have sufficient bandwidth to transmit that data with the outside in both ways. And we all know optical fiber is being used to replace the traditional metal wire for such a high-bandwidth data transmission. However, the bandwidth of each optical fiber line is still fixed, is still limited, right? And therefore, to up the overall bandwidth of the whole multi-chip module, the simple idea is to have multiple optical fiber lines working in parallel. And that is exactly what we're working on when we talk about technology roadmap. We are trying to squeeze more and more optical fiber lines into a very limited space. We are targeting some phenomenal increases over the next few years to cope with the projected increase of data amount that need to be transmitted by the advanced multiple, multi-chip module. So, to achieve that, among other things, we need to push the boundary of optical design and manufacturing for better. For example, for better waveform integrity after transmission. And another example would be for more precise coupling of the optical fiber with the photonic IC that our device connected to, right?

So, in terms of timeline, I can't really speak on behalf of my customers, so all I can say is that we are being requested to accelerate the timeline from something already quite challenging, for the migration from first-generation LPO to more advanced CPO, as well as for the readiness of our next-generation products, enabling a fast-increasing number of optical fiber lines. So, and we also mention, it's part of our Q&A last quarter as well, some people wonder about whether we have the capacity to meet such demands when it really happens. And we certainly, we have run the math internally several times, right? We are certainly very excited about the prospect because, you know, if we look at our partners or customers' projected capacity expansion as well as their projected growth of such high-end 2.5D modules or XPUs, even if we to fully utilize our existing capacity, we can only meet a small fraction of their projected demand. Now, to be honest, we don't have, we still don't have their long-term forecast, long-term projection for their demand for covering, you know, next few years yet. But we feel we are very prepared because all these generations of products I just mentioned, whether this generation or future generation of our products will be manufactured in our existing WLO fab with existing capacity, which was built for the purpose of some earlier projects that we worked on several years back for consumer electronic products. Without specifics, we believe the same

existing capacity will generate substantially more revenue and profit for us as the products for LPO/CPO demand much more sophisticated optical design and manufacturing, compared to those used for our earlier products, which, as I mentioned, is for consumer electronics. So I hope all address your questions regarding this WLO business.

Donnie Teng – Nomura
Thank you, Jordan, it's helpful.

Operator
Ladies and gentlemen, we are still in Q&A session. If you would like to ask questions, please. Press *one on your telephone keypad. Thank you.

Jordan Wu - Himax Technologies, Inc. - Co-Founder, President & CEO
As a final note, Eric Li, our Chief IR/PR Officer, will maintain investor marketing activities and continue to attend investor conferences. We'll announce the details as they come about. Thank you and have a nice day.
