Himax Technologies Inc. Q2 2025 Earnings Call Edited Transcript
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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Hello, ladies and gentlemen. Welcome to the Himax Technologies Inc. Second Quarter 2025 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 Miss Karen Tiao, Head of IR/PR at Himax.

Karen Tiao - Himax Technologies, Inc. - Head of IR/PR

Welcome everyone to the Himax Second Quarter 2025 Earnings Call. My name is Karen Tiao, Head of IR/PR at Himax. Joining me today are Jordan Wu, President and Chief Executive Officer, and 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 hx_ir@himax.com.tw or 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, 2024 in the section entitled "Risk Factors", as may be amended.

Except for the Company's full year of 2024 financials, which were provided in the Company's 20-F and filed with the SEC on April 2, 2025, 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 second quarter 2025, followed by our third 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.

During the second quarter, broadening U.S. tariff measures continued to intensify global trade tensions, heightening macroeconomic and demand uncertainty. This was compounded further by the abrupt and significant appreciation of the NT dollar against the US dollar during the quarter. Jordan will elaborate on the impact of NT dollar fluctuation on our financials in a moment. Despite these headwinds, we are pleased to report that our Q2 gross margin exceeded the guidance provided on May 8, 2025, while both revenue and profit came in within the projected range.

Second quarter revenues registered $214.8 million, representing a sequential decline of 0.2%, better than the midpoint of guidance range, which was a 5.0% decline to 3.0% increase. Gross margin was 31.2%, outperforming our guidance of around 31.0%, and improving from 30.5% in the prior quarter, primarily driven by a favorable product mix. Q2 profit per diluted ADS was 9.5 cents, within the guidance range of 8.5 to 11.5 cents.

Revenue from large display drivers came in at $24.9 million, representing a slight decline of 0.6% from the previous quarter. Both notebook and monitor IC sales declined in Q2, while TV IC sales outperformed guidance with a single-digit sequential increase, driven by higher shipments to key customers after several subdued quarters. Sales of large panel driver ICs accounted for 11.6% of total revenues for the quarter, compared to 11.6% last quarter and 16.3% a year ago.

Revenue from the small and medium-sized display driver segment totaled $144.5 million, reflecting a sequential decline of 4.0%. However, Q2 automotive driver sales, including both traditional DDIC and TDDI, outperformed our guidance of a mid-teens sequential decline, posting only a single digit decrease quarter over quarter. The sequential decline reflected the combined impact of tariffs and the tapering effect of China's automotive subsidy program. Nevertheless, automotive driver sales for the

first half of 2025 still recorded a 3.2% year-over-year increase, indicating resilient underlying demand despite global softness in automotive sales. Our automotive business, comprising DDIC, TDDI, Tcon, and OLED IC sales, remained the largest revenue contributor in the second quarter, representing approximately 50% of total revenues. Meanwhile, Q2 smartphone IC sales outperformed our guidance of a mid-teens sequential decline, showing a slight increase from the prior quarter, mainly driven by a rush order from a leading customer. Tablet driver sales increased as expected, supported by renewed demand from leading customers following several quarters of soft demand. The small and medium-sized driver IC segment accounted for 67.3% of total sales for the quarter, compared to 70.0% in the previous quarter and 66.3% a year ago.

Q2 non-driver sales reached $45.4 million, a 14.7% increase from the previous quarter. The sequential increase was primarily attributable to increased shipment of Tcon for automotive and monitor products. Himax continues to hold an undisputed leadership position with a dominant market share in automotive Tcon, particularly in solutions featuring local dimming functionality. Our growing pipeline, now exceeding 200 design wins, is poised to transition into mass production over the next few years. Tcon business accounted for over 12% of total sales, with notable contributions from automotive Tcon. Non-driver products accounted for 21.1% of total revenues, as compared to 18.4% in the previous quarter and 17.4% a year ago.

Second quarter operating expenses were $48.9 million, an increase of 6.9% from the previous quarter and 3.3% from a year ago. The appreciation of the NT dollar against the U.S. dollar in Q2 was the key factor behind the sequential increase. Similar factors drove the year-over-year increase, though it was partially offset by a decline in employee bonus compensation due to a decline in the annual bonus expense for the amortized tranches of the previous years' bonuses. Excluding the impact of NT dollar appreciation, second-quarter operating expenses would have remained flat year-over-year. Amid ongoing macroeconomic challenges, we remain vigilant in enforcing budget and expense controls.

Second quarter operating income was $18.1 million, representing an operating margin of 8.4%, compared to 9.2% last quarter and 12.2% for the same period last year. Operating profit declined 8.6% sequentially mainly due to higher operating expenses, partially offset by an increase in gross margin and gross profit. Excluding the impact of NT dollar appreciation on Q2 expenses, operating income increased slightly compared to the previous quarter. Operating profit declined 38.1% year-over-year, primarily due

to lower sales and reduced gross margins. Second-quarter after-tax profit was $16.5 million, or 9.5 cents per diluted ADS, compared to $20.0 million, or 11.4 cents per diluted ADS last quarter, and down from $29.6 million, or 16.9 cents in the same period last year.

Turning to the balance sheet, we had $332.8 million of cash, cash equivalents and other financial assets as of June 30, 2025. This compares to $253.8 million at the same time last year and $281.0 million a quarter ago. The sequential increase was mainly driven by strong positive operating cash flow of $60.5 million in the second quarter. Looking ahead to Q3, we anticipate a decline in cash, cash equivalents, and other financial assets, primarily due to a payment of $64.5 million for annual dividends to shareholders which was made on July 11. In addition, subject to the final Board decision, we will distribute a total of approximately $13.3 million for employee bonus awards at the end of the third quarter, which includes around $7.2 million for the immediately vested portion of this year’s awards and $6.1 million for vested awards granted over the past three years.

Our quarter-end inventories were $134.6 million, higher than $129.9 million last quarter but lower than $203.7 million a year ago. After ten consecutive quarters of inventory decline from its peak during the industry-wide supply shortage, Q2 inventory has slightly increased but is now still at a healthy level. As macroeconomic uncertainty limits visibility across the ecosystem, we will continue to manage our inventory conservatively. Accounts receivable at the end of June 2025 was $219.0 million, a slight increase from $217.5 million last quarter but down from $242.4 million a year ago. DSO was 92 days at the quarter end, as compared to 91 days last quarter and 99 days a year ago. Second quarter capital expenditures were $4.6 million, versus $5.2 million last quarter and $4.6 million a year ago. Second quarter capex was mainly for R&D related equipment for our IC design business and the construction in progress for the new preschool near our Tainan headquarters built for employees' children.

As of June 30, 2025, Himax had 174.3 million ADS outstanding, declining from last quarter. On a fully diluted basis, the total number of ADS outstanding for the second quarter was 174.5 million.

Now, turning to our third quarter 2025 guidance. We expect third quarter revenues to decrease 12% to 17% sequentially. Gross margin is expected to be around 30%, depending on product mix. The third quarter loss attributable to shareholders is estimated to be in the range of 2.0 to 4.0 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. Our third quarter guidance of a loss per diluted ADS has taken into account the expected 2025 annual bonus, which, subject to Board approval, is now assumed to be around $7.5 million, out of which $7.2 million 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 2025 to lead to higher third quarter operating expenses compared to the other quarters of the year. In comparison, the annual bonus for 2024 and 2023 were $12.5 million and $10.4 million respectively, of which $11.2 million and $9.7 million vested immediately.

In providing our Q3 financial guidance, the Q3 expense related to employee bonus is estimated to be $8.2 million, representing 4.7 cents per diluted ADS before tax, comprised of $7.2 million, the immediately vested portion of this year's bonus as stated above, and $1.0 million, the amortized portion of the unvested bonuses from previous years. For the sake of completeness, employee bonus expense in each of the last three quarters was also around $0.8 million.

I will now turn the call over to Jordan to discuss our Q3 2025 outlook. Jordan, the floor is yours.

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

Thank you, Karen. Uncertainty surrounding tariff policies persisted across the global economy throughout the second quarter and into July. However, starting in August, the U.S. began clarifying its tariff measures toward most of the countries, including major economies such as Japan and the EU. These developments have helped reduce uncertainty in the global trade environment. That said, less than 24 hours ago, the U.S. government announced plans to impose tariffs of approximately 100% on semiconductor chips imported from companies that do not manufacture in the United States. As the details of the new tariff plan have yet to be released, we are unable to comment further regarding its potential impact at this time. We are closely monitoring the situation and will respond accordingly. It's worth noting that tariffs have not had a significant direct impact on Himax's business, as our IC products are not directly exported to the U.S. Instead, they are integrated into panels or modules

by customers outside the United States and then sold globally, including into the U.S. market. Only a negligible portion — about 2% — of Himax's products are shipped directly to the United States.

In the automotive sector, the U.S. recently reached separate agreements with EU, Japan and Korea. These tariff agreements among the world's major automotive manufacturing and consumption regions help ease market uncertainty, and trade and shipments among these markets are expected to gradually normalize. Notwithstanding these early signs of clarity regarding automotive tariffs, given the timing of the announcements, which were made just days prior to this earnings call, we have not yet received any customer adjustments in demand for automotive ICs in response to the new tariffs. The situation remains dynamic and subject to further observation.

Overall, automotive market demand visibility remains low, with customers continuing to adopt a cautious stance by maintaining low inventory levels and delaying new product introduction. As a result, we are maintaining a conservative outlook for the third quarter and continuing our strategy of strict expense controls while actively reducing procurement costs and enhancing supply flexibility. At the same time, we are accelerating the geographic diversification of our foundry and backend vendors to address customers' diversified deployment needs stemming from geopolitical considerations. This strategy aims to strengthen our global manufacturing resilience and reduce risks associated with regional concentration.

In the automotive sector, we remain optimistic about our long-term business outlook, primarily driven by the continued upgrade of smart cockpits, where displays serve as a key component fueling market growth. With nearly two decades of dedicated experience in the automotive field, Himax offers the industry's most advanced and comprehensive automotive display IC solutions, spanning LCD to OLED technologies. Himax holds the No.1 global market share across all segments of automotive display ICs, with an overwhelming lead over competitors. Looking ahead, we expect continued growth in automotive TDDI and Tcon technologies, both of which are relatively new and advanced display solutions for vehicles. To date, these technologies have been successfully designed into hundreds of projects worldwide, with just approximately one-third already in mass production and the remainder expected to enter mass production within the next few years. In the area of traditional automotive DDICs, although DDICs have gradually been replaced by TDDIs in panels with touch functionality, traditional DDICs remain essential for applications

such as dashboard, HUDs, and rear- and side-view mirrors, which do not require touch integration. In addition, Himax has spent years cultivating its automotive OLED business in close collaboration with leading panel makers. The number of new project engagements is rising rapidly, and starting in 2027, automotive OLED-related growth momentum is expected to accelerate significantly, making it one of our key long-term revenue drivers.

Despite limited visibility into the second half of the year, the recent clarification of tariff policies and continued low inventory levels at panel customers provide some positive signals. We will remain prudent in navigating market dynamics by continuing to closely monitor customer demand.

Throughout this ongoing macroeconomic uncertainty, we remain committed to expanding beyond display ICs into new business areas characterized by high growth potential, high added value, and high technological barriers, areas expected to drive our long-term growth. Himax has been deeply engaged in these fields for one or two decades, establishing significant technical barriers and securing a robust portfolio of key patents. As these efforts begin to bear fruit, they are expected to inject strong momentum into future operations.

First, in the WiseEye AI domain, we continue to collaborate with several leading notebook brands, such as Dell and Acer, achieving significant results. We expect this growth to continue over the coming years by adding more leading notebook customers and introducing further AI features to the notebook. In addition, Himax has made both technological and market breakthroughs in additional battery-powered applications such as smart door locks, palm vein recognition, and smart home, jointly developing unprecedented and innovative AI applications with top-tier global customers. These applications are mostly battery-powered, showcasing WiseEye’s unique advantage in ultralow power computing. Further, a recent major application addition is in smart glasses, where WiseEye has gained strong design-in traction due to the stringent power efficiency requirements of smart glasses. Looking ahead, the WiseEye business is entering a phase of rapid growth after years of customer and application developments, becoming one of our key growth drivers.

In the field of Co-Packaged Optics (CPO), Himax's proprietary WLO technology plays a critical role. Together with our partner, FOCI, we have achieved significant breakthroughs in silicon photonics technology with the first-generation solution being validated by our anchor customers/partners. We are working toward the goal

of entering mass production in 2026. Meanwhile, Himax and FOCI are collaborating with several heavy-weight customers and partners to jointly develop future-generation high-speed optical transmission technologies to meet the explosive bandwidth demands of HPC and AI applications, while also helping to address the pain point of overheating associated with high-speed transmission.

Turing to smart glasses. After years of lukewarm consumer reception, smart glasses are getting extraordinary market attention of late and becoming a segment of strategic importance for Himax. With the adoption of generative AI and large language models (LLMs), AR and AI glasses are widely expected by the industry to become the next breakout market. Numerous world-class hyperscalers and specialized smart glasses developers from around the globe are actively investing in the development of new smart glasses, with China in particular leading the way in terms of number of players. Himax stands out as one of the few companies in the industry to possess three critical enabling technologies for smart glasses, namely ultralow power intelligent sensing, microdisplay, and nano-optics, giving it a unique competitive advantage in this emerging field. In intelligent sensing, Himax's WiseEye AI delivers all-day, ultralow power contextual awareness with average power consumption of just a few milliwatts. It significantly enhances the interactivity and perception of smart glasses while preserving battery life and data privacy. The technology has been widely adopted and successfully integrated into the next-generation smart glasses of multiple customers. In microdisplay, Himax' s latest Front-lit LCoS microdisplay features 350,000 nits of brightness, exceptional optical power efficiency, and outstanding image quality, all in an extremely compact and lightweight form factor. It is considered the most commercially viable solution, closest to the "ideal microdisplay" for see-through AR glasses. Since its debut at Display Week 2025, the module has drawn strong attention and is soon entering sampling stages with multiple customers. In the field of nano-optics, Himax offers proprietary WLO technology for advanced nano-optical foundry service to selected customers, developing waveguide solutions which can significantly enhance both light transmission and display efficiency of AR glasses. Looking ahead, we expect revenues from AR and AI glasses-related applications to grow substantially over the next few years, becoming a key driver of the company's mid- to long-term growth.

Lastly and before I get into comments on specific sectors, regarding foreign exchange, while Himax is a Taiwan-based company, our financial statements are U.S. dollar denominated. Since both of our revenues and cost of goods sold are in U.S. dollars, this provides a natural hedge for Himax's trade activities. Additionally, a portion of

our operating expenses are also in U.S. dollars, offering further natural hedging. The non-USD-denominated operating expenses primarily include employee salaries and utility costs. Other non-USD expenses are mainly corporate income tax. Overall, the impact of currency fluctuations on Himax's financials is relatively limited. Based on internal estimates and at around current revenue levels, a 1% appreciation of the NT dollar against the U.S. dollar would reduce operating margin by approximately 0.15%. Himax's third-quarter financial guidance is calculated based on 29.4 NT dollar against the U.S. dollar, which is equivalent to the daily average of the quarter up to the day before the earnings call.

With that, I will now begin with an update on the large panel driver IC business. In Q3, large display driver IC sales are expected to decline double-digit sequentially. Amid the volatile macro environment, most panel customers remained cautious, adhering to a make-to-order model and maintaining lean inventories in response to a murky demand outlook. The absence of traditional seasonal shopping momentum, coupled with customers pulling forward purchases in previous quarters, is expected to drive declines across all three product lines in the large panel driver IC segment for Q3.

In the notebook sector, we continue to focus on the growing trend among premium models to adopt OLED displays and advanced touch features. This shift is driven in part by the rise of AI PCs and increasing demand for more interactive technologies that enhance user experience, boost productivity, and support creative applications. Himax is well-positioned to capitalize on this trend by offering a comprehensive range of ICs for both LCD and OLED notebooks, including DDIC, Tcon, touch controllers, and TDDI. In addition, we are expanding our high-speed interface product portfolio to support faster data transmission, lower latency, and improved power efficiency, features that are critical for next-generation displays.

Turning to the small and medium-sized display driver IC business. In Q3, small and medium-sized display driver IC business is expected to decline single-digit from the last quarter. Q3 automotive driver IC sales, including TDDI and traditional DDIC, are set to decline slightly quarter-over-quarter as customers adopt a cautious stance, delaying orders amid ongoing tariff negotiations. Despite near-term headwinds, global adoption of automotive TDDI continues to expand, fueled by growing demand for intuitive, interactive, and cost-effective touch features in modern vehicles. Himax remains the leader in this market, with cumulative shipments already exceeding 100 million units, representing a market share well above 50%, far outpacing those of

competitors. To date, we have secured around 500 design-in projects across a wide range of global automotive brands and Tier 1s, spanning entry-level to high-end vehicle models. Supported by a continuous flow of new project pipelines and widespread design-wins, we are well positioned to maintain our growth momentum and reinforce our leadership in the market. While traditional automotive DDIC sales declined in Q3 due to partial replacement by TDDI, the transition remains gradual, as many automotive displays, such as dashboard, HUDs, and rear and side-view mirrors, do not require touch functionality and typically have long product lifecycles. Himax holds a solid 40% market share in the traditional DDIC and remains the go-to supplier for both legacy and next-generation automotive display applications.

Himax also continues to lead in automotive display IC innovation by pioneering solutions across a wide range of panel types, addressing diverse design needs and cost considerations. For ultra-large touch displays, we offer LTDI where we led the industry by introducing the technology and commencing its mass production in Q3 2023. Additional LTDI projects with multiple leading global brands are on track to enter mass production in the third quarter, with more programs expected to follow as we move into 2026. For smaller displays with tight form factor and budget requirements, we provide single-chip designs that combine TDDI and local dimming Tcon. This enables advanced local dimming in small-size displays, reduces overall system cost, and improves power efficiency. Meanwhile, Himax is recognized for its dominance in local dimming Tcon technology, which I will elaborate on in a few minutes. We continue to lead the global automotive display market with a 40% share in DDIC, over 50% in TDDI, and an even higher market share in local dimming Tcon.

Moving to smartphone and tablet IC sales, we expect revenues for both segments to decline quarter-over-quarter, as customers pulled forward purchases in prior quarters.

Next for an update on our OLED business. In the automotive OLED market, we have established strategic partnerships with leading panel makers across Korea, China, and Japan. As OLED technology gains broader adoption for premium vehicles, Himax is well positioned to become the partner of choice, leveraging our nearly two decades of experience and strong foothold in the automotive display market. Capitalizing on our first mover advantage, we offer a comprehensive suite of solutions, including DDIC, Tcon, and on-cell touch controllers. Our automotive OLED driver and Tcon solutions began production for EVs of leading car makers a few years ago, and we now also offer standard ICs ready for broader deployment. In parallel, we are

collaborating with leading panel makers on custom ASIC developments. In addition, our advanced OLED on-cell touch-control technology features an industry-leading signal-to-noise ratio, ensuring reliable performance even in challenging conditions such as glove use or wet fingers. The OLED on-cell touch ICs entered mass production in 2024 and are being increasingly adopted by major global automotive brands for their upcoming car models. Looking ahead, we expect OLED panel adoption in automotive displays to accelerate starting in 2027. Himax is well positioned to be a key beneficiary, unlocking a new growth engine that further strengthens our leadership in the automotive display market.

We have also expanded our comprehensive OLED portfolio into the tablet and notebook markets, covering DDIC, Tcon, and touch controllers, through partnerships with leading OLED panel makers in Korea and China. Several new projects are slated to enter mass production with top-tier brands later this year. Meanwhile, we are developing new technologies for value-added features such as active stylus, ultra slim bezel design and gaming models to further differentiate our products and reinforce our competitive edge. In the smartphone OLED market, we are making solid progress in our collaborations with customers in Korea and China with mass production on track starting the end of this year.

I'd like to now turn to our non-driver IC business update where we expect the third quarter revenue to decrease double digit sequentially.

First for an update on our Tcon business. We anticipate Q3 Tcon sales to decrease by double digit sequentially but increase by single digit year-over-year. The sequential decline is primarily a result of customers pulling forward inventory purchases of Tcon for monitor, notebook and TV products during the prior quarters, against the backdrop of Chinese government subsidies boosting domestic consumption. In automotive, Q3 sales are set to increase by single digit sequentially fueled by a strong pipeline of over two hundred design-win projects gradually entering mass production. We believe our automotive Tcon business is well positioned for sustained growth in the years ahead.

We continue to lead the industry in the innovation of automotive Tcon technology. Our new generation local dimming Tcons offer advanced features such as edge sharpness and high dynamic range, ideal for customers looking to upgrade their displays for better panel performance.

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 CNN-based AI algorithm at its core. Amid a rapidly evolving AI landscape, WiseEye AI stands out by delivering on device AI inferencing with industry leading ultralow power, merely a few milliwatts, alongside a compact form factor and industrial grade security, enabling AI functionality in battery powered endpoint devices. With always-on sensing and intelligent, low-power perceptual input, WiseEye serves as an ideal front-end for LLMs, supporting multimodal AI that goes beyond vision, language, audio, and intent to include rich contextual awareness, such as motion, proximity, and behavior, for smarter, more responsive user experiences.

WiseEye adoption is accelerating across diverse applications, including notebooks, tablet, surveillance systems, access control, smart home, and more recently, smart glasses and many others. On notebooks, following our major design win with Dell, we are pleased to report that Acer has also adopted WiseEye for its latest AI PC. WiseEye is now being integrated by other leading notebook vendors, with some entering production later this year and expanding further into 2026. WiseEye's advanced local inferencing capability goes beyond human-presence detection, supporting a broad set of intelligent features, including proximity detection and presence awareness alerts, posture reminders, and automatic cursor teleporting to the display the user is viewing. In the surveillance domain, WiseEye AI enhances security systems by combining two key capabilities, namely accurate human-object distinction and event-driven activation. This significantly reduces false triggers, conserving power and minimizing system overhead, outperforming widely used conventional PIR sensors that often mis-identify motion and unnecessarily activate the high power consuming main processor and/or image sensor. In addition to the China market where shipments to leading smart door lock vendors are already underway, we are now partnering with leading door lock vendors worldwide to introduce advanced AI features, such as palm vein biometric access, parcel recognition, and anti-pinch protection, with several designs slated for mass production starting 2026.

Recently, we achieved another compelling demonstration of our ultralow power WiseEye AI for motion sensing through our collaboration with Rabboni, marked by the launch of the bboni Ai platform. Built on a 6-axis gyroscope, bboni Ai empowers wearables with advanced on-device capabilities such as motion analysis, posture recognition, and behavioral interpretation, all delivered with low latency, exceptional

energy efficiency, and a privacy-first design. With WiseEye AI, the bboni Ai platform can also interface with LLMs, further expanding its ability to perceive, understand, and interact with complex real-world scenarios. This enables a wide range of real-world applications, including smart healthcare, sports, education, and interactive learning.

Next for an update on our WiseEye Module business, which integrates Himax's ultralow power image sensor, AI processor, and pre-trained no-code/low-code AI algorithm, enabling easy deployment across a broad spectrum of applications. Himax's biometric authentication portfolio complies with Europe's General Data Protection Regulation (GDPR), one of the world's strictest data privacy laws, ensuring strong privacy protection and enabling adoption in highly regulated markets. Our PalmVein module has attracted strong interest across multiple industries, rapidly securing design wins in areas such as smart access, workforce management, smart door locks, and more, with some projects scheduled to enter mass production in 2026. To address the growing demand for more flexible access control, we have upgraded the WiseEye PalmVein suite with multimodal authentication capabilities, combining palm vein and facial recognitions to enable multi-layer biometric verification, delivering stronger security and greater user convenience.

In the field of AI sensing for AR and AI glasses, we are excited to see WiseEye AI's growing adoption and active engineering engagements across major tech giants, traditional ODMs, brands, and startups. Smart glasses makers are leveraging WiseEye to enable instant responsiveness for a wide range of AI applications while ensuring extended battery life. More specifically, WiseEye empowers both outward and inward vision sensing capabilities. For outward vision sensing, it enables environmental awareness and real-time analysis, such as object recognition, navigation assistance, and environmental mapping, significantly enhancing AR interactivity while consuming just a few milliwatts of power. Concurrently for inward vision sensing, WiseEye tracks eye movements, gaze direction, pupil size, and blinks to support intuitive user interactions. Multiple projects are underway for customers' next-generation AR and AI glasses, further validating WiseEye as the preferred ultralow power AI solution for emerging wearable applications requiring real-time user-environment interaction.

Moving on to our latest advancement in LCoS microdisplay technology. Following the debut of our proprietary Dual-Edge Front-lit LCoS microdisplay at Display Week this May, customers across the board are eagerly anticipating samples of our newly

introduced LCoS solution, targeted for release in September, for their new see-through AR glasses projects. This industry-leading solution integrates both the illumination optics and LCoS panel into an exceptionally compact form factor as small as 0.09 c.c. and weighing only 0.2 grams, while achieving up to 350,000 nits of brightness and 1 lumen output at just 250 mW maximum power consumption. The luminance breakthrough ensures excellent eye-level visibility even in bright ambient conditions, while the ultra-compact form factor makes sleek, everyday AR glasses possible. The collaborations with leading global tech companies and specialized smart glasses vendors continue to progress steadily. We will provide more updates as they come about

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) Ladies and gentlemen, we are now in question-and-answer session. You may press *1 on your keypad if you would like to ask a question. Thank you very much. And in addition to submitting questions via your phone, you may also submit your question through the webcast system. Thank you.

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

Actually we have a couple of questions from on-line QA box related to our CPO status

Question 1: The question is about the, you know, some updates from last quarter, our mass production timetable, next generation progress, sales contribution etc. So I think I will combine the questions together and provide the answers together.

So in short, the project is on track, and I mean, we really don't have a whole lot of progress for update. So together with our partner, FOCI, we are focused on getting the first generation product validated. So 2025, this year, will be a year for engineering validation with only sample shipments for us. So the sample shipments certainly in terms of revenue contribution will be rather limited. And in all likelihood, mass production will commence next year. But at this point we will not comment on exactly when in 2026. So as far as the new generation is concerned, we are actually developing more than one generation of future products. I mean, obviously I cannot give details of the future generation design. What I can say is that these products, when successful, will represent much higher revenue for us on a per unit basis or per

FAU basis. Because our new design will cover a wider, much wider scope of optics inside the FAU, while at the same time enable higher transmission bandwidth and lower the overall module cost for our customers. Actually, I commented on the revenue potential in my last one or two earnings call, so I think I will just quickly go through that again. So again, next year, 2026 is likely to be the first year of mass production. But it's still too early to give a revenue indication for the year because as I just said, exactly when MP will commence is yet to be determined by our customer. I said in the Q&A of last earnings call that our annualized CPO revenue could reach over $100 million in so-called early stage of mass production. And I'm still holding the same view. So by early stage, I'm thinking the early stage of MP, when only mostly AI switches of AI data center are equipped with CPO. Naturally, as the technology is more proven, CPO will be adopted by more end customers and penetrate further to also cover XPU for AI data center. Now if you look further ahead, I believe automotive and humanoid robot, you know, the automotive and humanoid robot are two likely new major markets where advanced high bandwidth AI are also needed. And because our WLO optics is a critical element of CPO, we are seeing this business as a major game changer for Himax. So it's something we are certainly committed to for many, many years.

Question 2. So regarding question of when this will start ramping up?

To me this is not really a question of whether or even when it will happen, but rather how fast and how much the CPO technology will penetrate. And we believe, with all its obvious benefits like raising transmission bandwidth and substantially reducing power consumption of data transmission. You know, and all at pretty low cost compared to those of complex AI systems. The CPO technology has the potential of ramping very quickly with high market penetration. But ultimately, this is a decision again to be made by our end customers. So what we can do is get ourselves prepared for any ramping plan and equally important, aggressively push the boundaries of the technology. And I guess lastly, I think it’s important to point out that the progress of collaboration with our customers are not affected and not deterred by the prevailing macro uncertainty or the tariff situation. So our customers / partner are as determined and focused as ever to push this forward as planned. So that's my answer to a few questions related to CPO.

Question 3. There's actually another question about, again about CPO. Can you disclose the number of planned CPO product generations and whether they are currently in preparation for validation.?

The validation is now being focused on the current generation only, with the next generation, you know, going through design collaboration with FOCI, the design and sampling stage. And the number of planned CPO product generations, I'm not sure exactly what this means. Actually I can tell you there is a longer term rather fundamental and important advancement of CPO technology that we are working on, which if successful, could cover a few generations of products. If it's successful, it's gonna be a major breakthrough for what we are doing right now. But I mean obviously, I'm not allowed to disclose too much. So I guess at this current generation, which is, I think, you know, validation, yield improvement and so on, at this stage, we are gearing up for mass production next year. And there is the next generation with specs coming from the customer's collaboration, close collaboration with ourselves and FOCI, and there are, for future generations further ahead, technology developments that could fundamentally improve the cost and efficiency of CPO and that can cover several generations to come, if successful.

Question 4. Why is Himax losing money in Q3?

We are projecting to lose 2 to 4 cents a share in Q3, and I just mentioned in my prepared remarks that is because of our pretty peculiar way of expensing our employee bonuses. And we have been doing that almost 20 years ago, ever since we got listed in 2006. And so, I'm sure for those analysts and investors following us are already familiar with this. So in short, what happens is our employee bonuses or RSU expenses in every year will reach a peak in Q3 and with much, much smaller amounts during Q1, Q2 and Q4. It has been the pattern for 20 years also, because of our approach of issuing employee bonuses whereby we basically announce employee bonus every year at the end of September, or 30th of September. We are just strictly following accounting rules, and I wish we can, based on our accounting practices, we can have our expenses evenly distributed across four seasons, but we are not allowed to. So if you take away the employee bonus, we can actually turn the small profit during Q3 and we are projecting also positive cash flow during Q3. But that's just the way we do our accounting. But, I mean, naturally we are not doing well in Q3 overall as I just mentioned, the automotive, non-automotive, all sectors, limited visibility and tariffs. I'm not going to repeat that, but there's a particular reason for our Q3 projected loss.

I guess there are no further questions at this time on my list. Okay also, as a final note, Karen Tiao, our head of IR/PR 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.

Operator

Thank you, President Wu. Ladies and gentlemen, this concludes second quarter 2025, you may now disconnect. Thank you and goodbye.