

Himax Technologies Inc. Q3 2025 Earnings Call Edited Transcript

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Participants

Jordan Wu	Himax Technologies, Inc. - Co-Founder, President & CEO
Karen Tiao	Himax Technologies, Inc. – Head of IR/PR
Donnie Teng	Nomura Securities

Operator

Hello, ladies and gentlemen. Welcome to the Himax Technologies Inc. Third 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 Third 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 third quarter 2025, 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.

During the third quarter, U.S. tariff measures continued to disrupt global trade dynamics, adding to macroeconomic and demand uncertainty. Despite these headwinds, we are pleased to report that our third-quarter revenues and profit both significantly exceeded the guidance range announced on August 7, 2025, while gross margin came in within guidance.

Third quarter revenues registered \$199.2 million, representing a sequential decline of 7.3%, which significantly outperformed our guidance range of a 12.0% to 17.0% decline, primarily driven by better than-expected sales from automotive IC and Tcon product lines. Gross margin was 30.2%, in line with our guidance of around 30%. Q3 profit per diluted ADS was 0.6 cents, substantially exceeding the guidance range of a loss of 2.0 to 4.0 cents, attributable to stronger-than-guided revenues.

Revenue from large display drivers came in at \$19.0 million, representing a decline of 23.6% from the previous quarter. All three product lines within the large panel driver IC segment declined, primarily due to the absence of the traditional seasonal shopping momentum amid a volatile macroeconomic environment, as well as customers pulling forward purchases in prior quarters. Sales of large panel driver ICs accounted for 9.5% of total revenues for the quarter, compared to 11.6% last quarter and 13.8% a year ago.

Revenue from the small and medium-sized display driver segment totaled \$141.0 million, reflecting a slight decline of 2.4%. Q3 automotive driver sales, including both traditional DDIC and TDDI, increased single digit quarter over quarter, outperforming

our guidance of a slight sequential decline, indicating resilient underlying demand despite global softness in automotive sales. The sequential growth was mainly driven by replenishment in both TDDI and DDIC products, with customers adhering to a make-to-order model and keeping inventories lean in view of an uncertain demand outlook. Our automotive business, comprising DDIC, TDDI, Tcon, and OLED IC sales, remained the largest revenue contributor in the third quarter, representing over 50% of total revenues. Meanwhile, revenues for both smartphone and tablet IC segments declined quarter-over-quarter, as customers pulled forward purchases in prior quarters. The small and medium-sized driver IC segment accounted for 70.8% of total sales for the quarter, compared to 67.3% in the previous quarter and 69.9% a year ago.

Q3 non-driver sales reached \$39.2 million, a 13.7% decrease from the previous quarter but outperforming our guidance range primarily attributable to increased shipment of Tcon for automotive application. Himax continues to hold an undisputed leadership position with a dominant market share in automotive Tcon. Tcon business accounted for around 12% of total sales, with notable contributions from automotive Tcon. Non-driver products accounted for 19.7% of total revenues, as compared to 21.1% in the previous quarter and 16.3% a year ago.

Third quarter operating expenses were \$60.7 million, an increase of 24.2% from the previous quarter and roughly flat compared to the same period last year. The sequential increase was mainly attributed to the annual bonus compensation which we award employees at the end of September each year, typically resulting in much higher Q3 employee compensation expense compared to other quarters of the year. Increased tape-out expenses, salary expenses as well as the appreciation of the NT dollar against the U.S. dollar in Q3 were also factors behind the sequential increase. Our annual bonus compensation grant for 2025 was \$7.7 million, slightly higher than the guidance of \$7.5 million, as the bonus amount, determined based on the expected full-year profit, was revised upward following a much-improved Q3 financial performance. Of the \$7.7 million, \$7.5 million was immediately vested and expensed in the third quarter. Including the portion of awards granted in prior years, the total bonus expense for Q3 2025 amounts to \$8.1 million, significantly lower than \$13.9 million recorded in Q3 2024. For reference, the annual bonuses granted for 2024 and 2023 were \$12.5 million and \$10.4 million respectively, of which \$11.2 million and \$9.7 million were vested and expensed immediately. Amid ongoing macroeconomic challenges, we continue to exercise strict budget and expense controls.

Third quarter operating loss was \$0.6 million, representing a negative operating margin of 0.3%, compared to 8.4% in the previous quarter and 2.6% for the same period last year. The sequential decline was primarily attributable to higher employee bonus which, as stated earlier was \$8.1 million, compared to \$0.8 million last quarter, coupled with lower revenues and gross margin. The year-over-year decrease was mainly due to reduced sales. Q3 after-tax profit was \$1.1 million, or 0.6 cents per diluted ADS, compared to \$16.5 million, or 9.5 cents per diluted ADS last quarter, and down from \$13.0 million, or 7.4 cents in the same period last year. Turning to the balance sheet, we had \$278.2 million of cash, cash equivalents and other financial assets as of September 30, 2025. This compares to \$206.5 million at the same time last year and \$332.8 million a quarter ago. The sequential decline in cash balance mainly reflected the \$64.5 million dividend and \$13.1 million employee bonus payout. Q3 operating cash inflow was \$6.7 million, compared to an inflow of \$60.5 million in the prior quarter. The sequential decrease mainly reflected higher accounts payable payments in Q3 for inventory procured in prior quarters to support customer demand, along with employee bonus payment mentioned above. The employee bonus paid out this year included \$7.3 million for the immediately vested portion of this year's award and \$5.8 million for vested awards granted over the past three years. We had \$30.0 million of long-term unsecured loans at the end of Q3, of which \$6.0 million was the current portion.

Our quarter-end inventories were \$137.4 million, a slight increase from \$134.6 million last quarter but lower than \$192.5 million a year ago. After several quarters of inventory decline from its peak during the industry-wide supply shortage, Q3 inventory slightly increased but remained 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 September 2025 was \$200.7 million, decreased from \$219.0 million last quarter and down from \$224.6 million a year ago. DSO was 87 days at the quarter end, as compared to 92 days last quarter and a year ago. Third quarter capital expenditures were \$6.3 million, versus \$4.6 million last quarter and \$2.6 million a year ago. Third 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 September 30, 2025, Himax had 174.5 million ADS outstanding, little changed from last quarter. On a fully diluted basis, the total number of ADS outstanding for the third quarter was 174.4 million.

Now, turning to our fourth quarter 2025 guidance. We expect Q4 revenues to be flat sequentially. Gross margin is expected to be flat to slightly up, depending on product mix. Q4 profit attributable to shareholders is estimated to be in the range of 2.0 to 4.0 cents per fully diluted ADS.

I will now turn the call over to Jordan to discuss our Q4 2025 outlook. Jordan, the floor is yours.

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

Thank you, Karen. U.S.–China tariff negotiations recently reached a preliminary framework, sending a positive signal to the market. Yet most panel customers continue to adopt a make-to-order model and maintain low inventory levels. In the automotive display IC business, Himax's most important market accounting for over 50% of total revenues, demand visibility remains low as customers continue to act conservatively and sustain lean inventory levels. Despite the limited short-term visibility in the automotive market, we remain optimistic about our automotive business outlook for the next few years, backed by our leading new technology offerings and comprehensive customer coverage. Meanwhile, we continue to focus on the expansion into emerging areas beyond display ICs, including ultralow power AI, CPO, and smart glasses, all novel applications characterized by high growth potential, high added value, and high technological barriers that are well positioned to become new growth drivers for Himax soon.

Before I elaborate on those new business areas, let me touch base on the automotive IC business. Himax has been deeply engaged in the automotive display market for nearly two decades, offering a comprehensive range of display IC technologies spanning from LCD to OLED. Amid intense industry competition, Himax holds a solid leadership position with No.1 global market share across all segments of automotive display ICs and an overwhelming lead over competitors. As smart interiors advance, demand for automotive displays continues to grow, shifting toward larger, higher-resolution and more innovative displays, including the adoption of OLED displays for high-end vehicles. Himax is well positioned to benefit from this trend. Looking ahead, we expect further growth in automotive TDDI and Tcon technologies, driven by continued adoption from global panel makers, Tier 1 suppliers, and automakers. Both TDDI and Tcon are advanced display solutions for vehicles and have already been successfully designed into hundreds of projects worldwide. Meanwhile, in the traditional DDIC segment, shipments remain relatively stable due to long product life

cycles and the nature of many applications such as dashboards, head-up displays, and rear- and side-view mirrors that do not require touch functionality, thereby continuing to generate long-term and stable DDIC revenues for Himax. In addition, Himax has been deeply engaged in automotive OLED technology development for many years. With a continuously expanding product portfolio and an increasing number of leading global automakers accelerating adoption of OLED technology in new vehicle models, we expect OLED display adoption in the automotive sector to grow rapidly starting in 2027.

Despite lingering economic uncertainty, Himax continues to actively expand its business beyond display ICs, focusing on ultralow power AI, CPO, and smart glasses. Through years of dedicated investment and R&D, Himax has established a solid technological foundation and a strong patent portfolio in these areas, while closely collaborating with partners to drive products toward mass production and real-world applications. As these emerging businesses gradually materialize, they are poised to become key growth engines for Himax, reduce our reliance on the display IC market and further enhance both profitability and long-term competitiveness.

First, on the WiseEye AI domain. WiseEye enables battery-powered endpoint devices with real-time analysis, precise recognition, and environmental awareness at ultralow power consumption of merely a few milliwatts. Leveraging these core strengths, WiseEye has been successfully adopted by multiple leading global notebook brands with ongoing collaborations with customers to integrate more AI features into next-generation laptops. WiseEye has also been widely deployed across various domains such as smart door locks, palm vein authentication, and smart home appliances, partnering with top-tier global customers to co-develop a range of innovative applications. Our WiseEye module business features a simple design and ease of integration, making it highly suitable for diverse AIoT applications. It has already been adopted in applications such as smart parking systems, access control, palm vein authentication, smart offices, and smart home, with the number of design-in projects fast expanding. Further, a recent major application addition is in smart glasses, a new product category characterized by extremely demanding low power. WiseEye enables real-time AI functionality at industry-leading ultralow power consumption while supporting always-on sensing for surroundings and event-based eye-tracking to deliver a natural and intuitive human-machine interaction. It has been adopted by numerous major tech giants, traditional ODMs, brands, and startups to integrate into their new smart glasses projects. Looking ahead, the WiseEye business is entering a phase of rapid growth, becoming one of our key growth engines.

In the field of Co-Packaged Optics (CPO), Himax leverages its proprietary WLO advanced nano-imprinting technology. Together with our partner, FOCl, we have achieved significant breakthroughs in silicon photonics technology, with the first-generation solution being validated by key customers and partners as we work toward mass production readiness in 2026. In parallel, joint development efforts with leading customers and partners are underway, focusing on future-generation high-speed optical transmission technologies to meet the explosive bandwidth demands of HPC and AI applications, while addressing the critical challenge of overheating in high-speed transmission. Himax expects CPO to become a major revenue and profit contributor in the years ahead.

Last but not least, let me touch base on the status of our smart glasses businesses. Driven by generative AI and large language models (LLMs), the smart glasses market is experiencing a resurgence and is seen as the next high-growth, high-volume market opportunity. Smart glasses has been one of Himax's key long-term strategic focus areas where we are among the few in the industry that possess three critical enabling technologies for smart glasses, namely ultralow power intelligent image sensing, microdisplay, and nano-optics, giving Himax a unique opportunity to take advantage of the potentially explosive growth of smart glasses. In intelligent sensing, Himax's WiseEye AI delivers always-on, 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 of the smart glasses device. In microdisplay, Himax's latest Front-lit LCoS microdisplay specifically tailored for AR glasses has attracted strong market attention since its debut. It achieves an optimal combination of form factor, weight, power consumption, and cost, while delivering high brightness and high color saturation in full-color display performance, all key attributes for AR glasses. With over a decade of mass production experience with leading tech names and a proven record of reliable delivery, Himax's new LCoS product, now in sampling stage, has attracted the attention of numerous AR glasses players worldwide. In the field of nano-optics, Himax offers proprietary WLO technology for advanced nano-optical foundry service to selected customers to develop waveguide solutions which, when bundled with microdisplay, forms the display system required of AR glasses. Looking ahead, we expect revenues from AR and AI glasses related applications to grow substantially over the next few years.

With that, I will now begin with an update on the large panel driver IC business. In Q4, large display driver IC sales are expected to increase single digit sequentially, driven by new notebook TDDI projects entering mass production, along with customers'

restocking of monitor IC products following several subdued quarters.

Despite a challenging market environment, we continue to advance our technology roadmap for next-generation displays to achieve faster data transmission, lower latency, improved power efficiency, and high-speed interface for next generation premium and gaming displays. In the notebook sector, we continue to focus on the growing adoption of OLED displays and advanced touch features in premium models, driven by the rise of AI PCs and demand for more interactive, productivity-enhancing experiences. Himax is well-positioned to capitalize on opportunities with a comprehensive range of ICs for both LCD and OLED notebooks, including DDIC, Tcon, touch controllers, and TDDI. Multiple projects for OLED displays, as well as gaming monitors and notebooks, are currently underway in collaboration with leading panel makers in Korea and China.

Turning to the small and medium-sized display driver IC business. In Q4, small and medium-sized display driver IC business is expected to slightly decline from last quarter. However, Q4 automotive driver IC sales, including TDDI and traditional DDIC, are set to increase single digit quarter-over-quarter, largely driven by the continued adoption of TDDI technology among major customers across all continents. Despite the challenging macro environment, our automotive driver IC sales for the full year 2025 are projected to grow single digit year-over-year, with total volume projected to outgrow the global automotive shipment. Himax remains the leader in this market, with a market share well above 50%, far outpacing those of competitors. Traditional automotive DDIC demand remains solid despite partial replacement by TDDI. The transition continues to be gradual, as many automotive displays, such as dashboards, 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 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 while addressing diverse design needs and cost considerations. For example, in ultra-large touch displays, we led the industry by introducing LTDI solution which began mass production in Q3 2023. LTDI has been gaining traction, driven by increasing popularity of larger in-vehicle displays that demand higher performance, improved signal integrity, and simplified system design. Additional LTDI projects with multiple leading global brands are on track to enter mass production as we move into 2026. For smaller displays with form factor

and budget constraints, 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, making it an attractive choice for customers. For high end displays, during the recent SID Vehicle Displays and Interfaces Symposium, one of the industry's leading events for automotive display and HMI technologies, Himax showcased the industry's first OLED touch IC that supports both tactile knobs and capacitive touch keys, enabling flexible design options and delivering a safer, more intuitive control experience for OLED automotive displays. Himax continues to advance interactive display technologies that enhance driver safety and cabin ergonomics.

Looking ahead, OLED panel adoption in automotive displays is expected to accelerate starting in 2027. This presents an attractive opportunity to further solidify our leadership in the automotive display market where we already have a dominant market share position across DDIC, TDDI, and local dimming Tcon for LCD displays. We provide ASIC OLED driver and Tcon solutions that entered mass production a few years back, and now we also provide standard ICs ready for broader deployment. In parallel, we are collaborating with major panel makers on new custom ASIC developments to address diverse customer requirements. Additionally, our advanced OLED on-cell touch-control technology delivers an industry-leading signal-to-noise ratio, ensuring reliable performance even under challenging conditions such as glove or wet-finger operation. These 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. As the industry transitions to next-generation OLED display for high-end vehicles, Himax is uniquely positioned to capture the accelerating adoption of OLED in future automotive displays, replicating our success in LCD by leveraging nearly two decades of automotive display expertise, strategic partnerships established with leading panel makers across Korea, China, and Japan, and a proven record in mass production and product quality that adheres to the world's most stringent global standards for quality, reliability, and safety.

Moving to smartphone and tablet IC sales for LCD panel, we expect revenues for both segments to decline quarter-over-quarter, as customers pulled forward purchases in prior quarters. However, in the smartphone OLED market, we are making solid progress in collaborations with customers in Korea and China, with mass production set to ramp in Q4 this year and volume to increase further in the following quarters. Meanwhile, for OLED tablets, several new projects with top-tier brands are expected to enter mass production heading into 2026. In parallel, we are

developing new technologies that enable value-added features such as active stylus, ultra-slim bezel designs, and higher frame rate to further differentiate our products and reinforce our competitive edge.

I'd like to now turn to our non-driver IC business update where we expect Q4 revenue to increase single digit sequentially.

First for an update on our Tcon business. We anticipate Q4 Tcon sales to be flat sequentially. However, Q4 automotive Tcon sales are well positioned to grow single digit sequentially, fueled by a strong pipeline of more than 200 design-win projects that are gradually entering mass production. Many of these projects feature local dimming functionality, an area where Himax maintains a dominant market position. Our full year 2025 automotive Tcon sales are set to grow by approximately 50% year over year, laying a solid foundation for sustained growth as we move into 2026. In contrast, Tcon for monitor, notebook and TV products are expected to decline sequentially, primarily a result of customers pulling forward inventory purchases early this year.

We continue to lead in automotive Tcon innovation. 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. Meanwhile, head-up displays are rapidly emerging, evolving beyond simple text and symbols to deliver high-brightness, high-contrast, AR-enhanced visuals within automotive displays, fueling demand for advanced Tcon solutions. To address this trend, we launched an integrated Tcon that features the industry's first full-area selectable local de-warping function, combined with Himax's market-leading local dimming and on-screen display (OSD) technologies.

The newly introduced multifunctional Tcon offers industry-first full-area selectable local de-warping capability, a major advancement over existing solutions that typically offer only full-screen or limited split-screen de-warping. Built on Himax's dominant local dimming technology, the new de-warping Tcon solution continues to deliver exceptional contrast performance and effectively eliminates the undesired "postcard effect" commonly seen in HUDs, caused by backlight leakage typical of conventional TFT-LCD panels. Our industry-leading OSD function is also integrated within the new Tcon, allowing critical safety information to remain visible on the display even when the main system is shut down, thereby enhancing overall driving safety. The new Tcon solution supports a broad range of HUD architectures, including

Windshield HUD (WHUD), Augmented Reality HUD (ARHUD), and Panoramic HUD (PHUD) systems, while accommodating diverse design and cost requirements. Several customer projects are already underway, reflecting strong market recognition of our advanced HUD Tcon technology.

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. As AI continues to advance at an unprecedented pace, WiseEye is uniquely positioned with context-aware, on-device AI inferencing that delivers industry-leading power efficiency of just a few milliwatts with a compact form factor while fortified by industrial-grade security. This combination enables advanced AI capabilities in endpoint devices that were once constrained by power and size limitations, driving expanding adoption across a wide range of applications, including notebooks, tablets, surveillance systems, access control devices, smart home solutions, and, more recently, AI and AR glasses. This growing momentum highlights WiseEye's role as a trusted on-device AI sensing enabler, powering smarter and more power-efficient solutions across everyday devices and AIoT applications.

In notebooks, WiseEye's human presence detection has seen expanding adoption across leading global brands, driven by its ultralow power consumption of merely a few milliwatts, instant responsiveness, and privacy-centric design, perfectly aligned with the industry's transition toward always-aware, AI-driven PCs. More notebook models are scheduled to enter mass production starting in 2026. Meanwhile, additional feature upgrades are being developed with our notebook customers to tackle more complex real-world scenarios and deliver greater user convenience, all while maintaining exceptional power efficiency. One such feature is gesture recognition that mimics keyboard input, allowing page scrolling or volume adjustment without keyboard. With large language model AI driving a shift from predefined command inputs to natural language human-machine interaction, another advanced feature currently under development is the voice-activated keyword-spotting function, in which WiseEye serves as an ultralow power front end that performs wake-word detection, activating the CPU only when a specific trigger phrase is detected, enabling continuous audio monitoring while consuming very little power.

In the surveillance domain, WiseEye AI enhances security systems by combining accurate human-object distinction with event-driven activation, significantly reducing

false triggers. In addition to the China market, where shipments to leading smart door lock vendors are already underway, we are now partnering with world-leading door lock manufacturers to introduce novel on-device AI features such as palm vein biometric access, parcel recognition, and anti-pinch protection. Recently, we introduced a state-of-the-art bimodal solution combining palm vein and facial authentication to meet customer demand for greater flexibility and reliability in smart door lock. The dual-authentication approach enhances both security and user convenience, marking a significant advancement in biometric technology while still consuming extreme low power, making it ideal for door lock application which is extremely demanding for power consumption. Several of the projects are slated for mass production starting in 2026. Notably, Himax solution complies with Europe's General Data Protection Regulation (GDPR), one of the world's strictest data privacy laws. Our recent exhibitions at Sectech Sweden 2025 illustrate Himax's proactive expansion into Europe's security and access control market, one of the most privacy-regulated and innovation-driven markets globally. Himax demonstrated its technological readiness and credibility to European system integrators, OEMs, and customers seeking secure, contactless, and power-efficient authentication solutions.

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. It's designed to make AI simple and accessible, helping developers accelerate innovation and scale their products from prototype to commercial deployment. Thanks to its broad applicability, the WiseEye Module has been adopted across a wide range of domains, including leading brands' upcoming smart home appliances and various security applications. Notably, our PalmVein module has attracted strong interest across multiple industries, rapidly securing design wins in smart access, workforce management, smart door locks, and more. Many of our WiseEye Module projects are scheduled to enter mass production in 2026.

In the AI sensing domain for AR and AI glasses, WiseEye AI processors continue to build strong momentum, being adopted and integrated into next-generation smart glasses by a growing number of customers, while deepening collaborations with major tech companies, brands, and startups worldwide. Smart glasses makers are leveraging WiseEye to deliver instant responsiveness for a wide range of AI applications while maintaining extended battery life. The increasing number of design-in activities reflects broad recognition of WiseEye's unique ability to bring intelligent, context-aware vision sensing to next-generation wearable and AR devices, specifically to empower both outward and inward vision sensing. Outward vision

sensing supports surrounding perception, object recognition, and spatial awareness, while inward sensing tracks eye movements, gaze direction, and pupil dynamics to enable natural and intuitive user interactions. Together, these capabilities redefine how users engage with both digital and physical environments, paving the way for more immersive, power-efficient, and personalized AR experiences.

Moving on to our latest advancement in LCoS microdisplay technology. Following years of dedicated R&D and close collaboration with leading industry players, our proprietary Dual-Edge Front-lit LCoS microdisplay has achieved a breakthrough, delivering an optimal combination of form factor, weight, power efficiency, performance, and cost, while offering ultra-high luminance and vibrant RGB display that meets the industry's stringent specifications for next-generation see-through AR glasses. This breakthrough is showcased in our industry-leading Front-lit LCoS microdisplay, which combines the illumination optics and LCoS panel into an ultra-compact form factor of just 0.09 c.c. and 0.2 grams, delivering up to 350,000 nits of brightness and 1 lumen output with a maximum power consumption of just 250 mW. This exceptional luminance performance ensures outstanding user visibility even under bright sunlight, while the ultra-compact design enables sleek and lightweight AR glasses suitable for everyday use. Samples of our Front-lit LCoS were released early this quarter and are now being actively evaluated by several leading global tech companies and specialized smart glasses makers, with joint development efforts progressing steadily. We will announce further progress in due course.

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.

Question-and-Answer Session

Operator

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.

Donnie Teng – Nomura Securities

Thank you, Jordan, for taking my question. My first question is regarding to your fourth quarter guidance. So it looks like the revenue and gross margin can sequentially improve from third quarter, but just curious, why we have a little bit conservative EPS guidance for the fourth quarter?

And the second question is for the CPO progress, I noticed that I think in the past couple of quarters, you indicated some breakthrough on the CPO business. And it looks like we have another progress recently. So just wondering if you can elaborate more on when we can deliver meaningful revenue from the CPO business into 2026. Thank you.

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

Thank you, Donnie, for your first question about our seemingly better top line and gross margin guidance compared to bottom line. Well, thank you for pointing that out. One of the key reasons is income tax adjustment. We, as a standard practice, estimate our quarterly income tax based on our assessment of full year total income. And in Q3, as you know, we actually underestimated the Q3 profit in our guidance, right? And therefore, we have a major beat in our guidance. And so we underestimated Q3 profit and therefore, also the income tax expense. So we underestimated at the time we provided our guidance last quarter, therefore, we have to kind of “add back” the income tax that we under accrued in Q3 into Q4, and that turned out to be rather significant, given that compared to our current level of income. So we have to add back the income tax expense in the fourth quarter.

Another major reason is higher R&D expenses during Q4. So in addition to a few relatively expensive new tape outs scheduled for Q4, which is just a timing issue, right? It's not, I mean, we don't necessarily plan it that way, but it just happened that way. So we have a few more expensive tape out scheduled for Q4. And also, in addition to that, we have recently been awarded a major R&D grant by Taiwan government's, so-called, I don't know what it's called, IC Innovation Program. The government actually announced that publicly, so I'm allowed to talk about it. The schedule of the grant is as such that we are kind of asked to accelerate the R&D spending related to that project, which by the way is about our WiseEye product line. So we are kind of requested to speed up the spending. We are also getting the spend up in our grant, but as you know, our spending has to be much higher than the grant and that's how

the game is made, right. So we have to kind of speed up the R&D spending related to that project in Q4 as well. So these are the reasons. So you are right. If I take a longer-term view, there is no particular reason why our expense in Q4 are higher than those of the other three quarters of the year, but it just happened a few factors together. And again, thank you for pointing that out.

And in regard to the CPO progress, your second question. We are, together with our partner FOCl, right? Our focus right now is getting the first-generation product validation completed and at the same time finalizing the development for the second-generation product, which by the way is in a very advanced stage, i.e., the second generation product which is targeting CPO or GPU product line, customer GPU product line. So to recap, this year, 2024, actually 2025, sorry, 2025 has been a year for engineering validation with small quantity sample shipments. So in all likelihood, we will be fully ready for volume production in 2026.

Now, as for the timing of the customer's mass production and also the revenue contribution for us in 2026, the next year, it is much harder for us to comment. And again, the main goal of 2026 is to complete the validation of our product and manufacturing process, right, by key customers/partners. And we believe, conservatively, there could be revenue contribution, but we don't really estimate the revenue contribution to be significant compared to our overall revenue. Rather, we believe it will be still limited, because the switch to CPO involves a pretty complex ecosystem, which requires long lead time, right? So our technology may be ready and our immediate customer may be ready, but the repercussion of the switch throughout the whole ecosystem all the way down to the data center operators can be quite complex. So that is why we are not, we don't necessarily hold a very aggressive view on that timing. However, we believe we can potentially see rather meaningful top line and bottom line contributions starting in 2027 when we expect shipments for engineering runs, that is actually, by the way, based on our assessment, it is still before MP, that is only engineering runs. But that engineering run contribution, we believe, can already contribute rather meaningfully to our top line and bottom line. And after that, after 2027, we shall enter official MP when the growth will likely be explosive. But again, I want to emphasize all this, everything I said above about timetable and contribution and all that are just our own best estimate for now. Ultimately, when and how the ramp will take place is a call to be made by the customers.

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

I've seen online a question submitted about potential market penetration of the CPO technology. So I would address the question online as well.

Naturally, based on the timetable, our best guestimate is 2028, it will be full blown mass production. And again, the growth will be explosive. And naturally, as the technology becomes proven and more mature, CPO adoption, we believe will rise for AI data center application. So we believe with all the obvious benefits, like substantially raising transmission bandwidth and reducing power consumption and all that, right, of data transmission, we all know the drill. And all at the relatively low cost compared to the overall cost of a complex AI system.

The CPO technology has the potential of very, very high market penetration of data center eventually. And we're not just saying this as our own opinion, we actually got opinions from across the board, our direct customer or end customer. Everybody seems to be holding that view. So everybody is like holding their breath and watching our step by step from validation to engineering run to mass production. And so it's a very exciting time for us and we are certainly under a lot of pressure, but we are quite confident we should be able to achieve what I just mentioned. But again, the ultimate timetable will be a call to be made by the customer.

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

There's one other question about our outlook, particularly for automotive market products 2026.

I guess the question is because we do hold a very significant market share in the automotive display market, so display IC market, automotive display IC market. So I guess our view is probably meaningful for investors.

We believe the auto market seems to be showing signs of bottoming out, judging by the customer's low inventory levels and strong rush orders over the last few quarters, and that is also actually the main reason for our exceeding our guidance last quarter. Having said that, the automotive market is quite sensitive to the overall economic condition and tariffs. And therefore, we don't really anticipate a very strong recovery next year. And in our view and in our base, our internal business projection, we are budgeting for a mild recovery only next year.

So our current strategy is to maintain the technology leadership and we start to further deepen customer engagement. And the very important focus for us next year is to continue to diversify our supply chain. And this is in response to the customer's request, some customer's request or need for our geographical diversification of our supply chain and our production. So we have very strong confidence over our dominant market share right now, backed by leading technology offerings and strong design-win pipelines, numbering hundreds of programs across a very diverse customer base. So we feel we are probably reaching the bottom, but next year, if there's a rebound, we don't anticipate a very, very strong rebound. We believe it's a mild recovery. That's our current view.

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

Another question is from online box, what is driving your confidence in AR/AI revenue growth? Is this a design win with a single large customer or multiple smaller ones?

Presumably, you are talking about smart glasses. In our prepared remarks, we have three things for smart glasses, WiseEye, for always on application, both looking outward and inward for smart glasses. That covers both AR glasses and AI glasses. And the second thing is our LCoS microdisplay, which is only applicable to AR see-through glasses. And the third one is our WLO, nano imprint technology, where we are holding a what we call optical foundry service business model, targeting only a very selected small number of customers. So the third one, involving rather complex design manufacturing process development, it is going to be a few years away, although we are talking about some of the most significant customers, the biggest, some of the biggest names in the industry. So we still feel obligated to mention that there's a business potential in our prepared remarks. But in terms of revenue contribution, the third thing, meaning WLO as a foundry service for waveguide targeting very big name customers, I think it's still a few years away.

WiseEye AI is an ongoing progress, very active ongoing progress. Customers, big and small, across not just US major names, but also Chinese, even Korean and Japanese are coming to us. And also, there are also major customers who are offering a platform of AR glass or smart glasses solution, and we have been working very closely with them for WiseEye solution, and our solution, our technology has been taken as their standard offering, part of their standard offering. So as that platform solution gets into more volume production, which is anticipated to take place starting next year, I think we'll see revenue contribution from our WiseEye product ramp.

And for LCoS microdisplay, which is for AR see-through glasses only, but not AI glasses. You need to have glasses with display to need our LCoS solution. We, again, in our prepare remarks, we believe we are offering a combination of factors with a real product, which is very promising and we believe it's something that is fully addressing the very difficult requirements of AR glasses for now. However, that product, we are only in sampling stage. So from sampling stage to ultimate mass production it is going to take some time. So, I don't really anticipate meaningful sales contribution from LCoS next year, hopefully the year after. Because again, we are only in sampling stage and customers need to take our LCoS solution to match waveguides and then with that, as a display solution that developed the full set of smart glasses products. So that is still going to take some time, although our solution has been anticipated by a lot of customers, big names or small names across the board. Again, this is very new and we are in the sampling stage, so it's going to be still quite an effort for us to take that to mass production together with our customers.

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

Another questions from the online box. Could you give us an update on the second-generation CPO progress, do you expect a higher revenue number with second gen?

I cannot comment on specifics, but the key difference of first gen and second gen is the number of channels, right? And basically, we are more than doubling up from first gen to second gen. And actually, the technical challenge is tremendous. And that also involves a pretty fundamental revision of our optical design to achieve that goal. And customers have made it very specific that, they are, key customers are very helpful for the success of our second gen because with the success of our second gen, it will be a very good product idea for GPU, which, as you know, is something requiring high bandwidth transmission. So upon the success and mass production of second gen, we believe certainly the revenue contribution will be significant. However, as I mentioned in my earlier Q&A, I stick to our timetable for next year, the year after and 2028. So again, we don't want to over promise and let people feel that it is going to be immediate revenue contribution, but second gen is a big deal, it's a huge deal for us, for our partner and our customer.

Operator

Okay then thank you for all your questions. I think that will be the end of the Q&A session. And I'll pass the call back to Mr. Jordan Wu. Thank you.

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

Thank you, operator. As a final note, Karen Tiao, our Head of IR/PR will maintain investor marketing activities and continue to attend investors 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 third quarter 2025, you may now disconnect. Thank you and goodbye.