

Himax Technologies Inc. Q2 2026 Earnings Call Edited Transcript

Event Date: August 6, 2026

Participants

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Karen Tiao	Himax Technologies, Inc. – Head of IR/PR
Donnie Teng	Nomura Securities
Tiffany Yeh	Morgan Stanley

Operator

Hello, ladies and gentlemen. Welcome to Himax Technologies Inc. Second Quarter 2026 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. 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 or download a copy from Himax's website.

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 latest SEC filings, form 20-F in the section entitled "Risk Factors", as may be amended.

Except for the Company's full year of 2025 financials, which were provided in the Company's 20-F and filed with the SEC on March 27, 2026, 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 and may vary materially from the audited consolidated financial information for the same period.

On today's call, I will first review the Himax consolidated financial performance for the second quarter 2026, 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.

The rapid rise in AI demand is placing unprecedented strain on memory chip supply and affecting many non-AI applications, creating a more challenging cost and capacity environment across the industry. Against this backdrop, we are pleased to report that our second quarter revenues, gross margin and profits all exceeded the guidance we provided on May 7, 2026.

Second quarter revenues registered \$227.4 million, representing a sequential increase of 14.2% and up 5.9% compared to the same period last year. Q2 revenues exceeded our guidance range of a 10.0% to 13.0% increase, primarily driven by better-than-expected automotive IC sales. Gross margin was 33.1%, substantially exceeding the guidance of around 32%, up from 30.4% in the previous quarter and 31.2% a year ago. This is primarily due to a more favorable product mix, with increased sales from higher-margin automotive IC products. Q2 profit per diluted ADS was 11.4 cents, significantly exceeding the guidance range of 8.6 to 10.3 cents, up from 4.6 cents in the previous quarter and 9.5 cents a year ago.

Revenue from large display drivers came in at \$19.2 million, representing a decline of 21.0% from the previous quarter, attributable to panel makers pulling forward their inventory purchases for high-end TV ICs in prior quarters. In contrast, sales for both monitor and notebook IC products increased quarter-over-quarter due to higher legacy product shipments to key customers. Sales of large panel driver ICs accounted for 8.4% of total revenues for the quarter, compared to 12.2% last quarter and 11.6% a year ago.

Revenue from the small and medium-sized display driver segment totaled \$162.3 million, reflecting an increase of 19.6% sequentially. Q2 automotive driver sales, including both traditional DDIC and TDDI, increased by double digits quarter over quarter, primarily driven by broad-based customer replenishment of TDDI and DDIC

following seasonally lower shipments during the Lunar New Year in Q1. The ramp-up of new TDDI and DDIC projects for a leading panel customer also contributed to the sequential increase. Customers continued to operate under a make-to-order model while maintaining lean inventory levels. Our automotive business, comprising DDIC, TDDI, Tcon, and OLED IC sales, remained the largest revenue contributor in the second quarter, representing well over 50% of total revenues.

Second quarter tablet IC sales, covering both LCD and OLED products, also increased sequentially, attributable to customers' early pull-in demand against the backdrop of rising memory price sentiment in the market, together with continued shipments for a customer's premium OLED model. In contrast, smartphone IC sales decreased sequentially following the initial ramp up of an OLED IC for a leading smartphone brand's mainstream model in Q1. The small and medium-sized driver IC segment accounted for 71.4% of total sales for the quarter, compared to 68.2% in the previous quarter and 67.3% a year ago.

Q2 non-driver sales reached \$45.9 million, a 17.7% increase from the previous quarter, attributable to robust automotive Tcon shipments, supported by replenishment across a broad customer base. Tcon business accounted for over 10% of total sales, with more than half contributed by automotive Tcon. As the market leader in automotive Tcon, particularly in solutions featuring local dimming functionality, we expect strong growth momentum to continue into next year. Non-driver products accounted for 20.2% of total revenues, as compared to 19.6% in the previous quarter and 21.1% a year ago.

Second quarter operating expenses were \$50.7 million, an increase of 0.8% from the previous quarter and 3.6% compared to the same period last year. The year-over-year increase was mainly attributable to higher tape-out expenses. We remain disciplined in managing costs while continuing to invest strategically in select non-driver IC businesses with compelling long-term growth potential.

Second quarter operating income was \$24.6 million, representing an operating margin of 10.8%, compared to 5.1% in the previous quarter and 8.4% for the same period last year. Both the quarter-over-quarter and year-over-year changes were primarily driven by higher revenues and gross margin. Second-quarter after-tax profit was \$19.9 million, or 11.4 cents per diluted ADS, compared to \$8.0 million, or 4.6 cents per diluted ADS last quarter, and up from \$16.5 million, or 9.5 cents in the same period last year.

Turning to the balance sheet, we had \$298.7 million of cash, cash equivalents and other financial assets as of June 30, 2026. This compares to \$332.8 million at the same time last year and \$287.6 million a quarter ago. The sequential increase was mainly driven by operating cash flow of \$17.5 million in the second quarter. Before moving on, I'd like to highlight one point regarding this quarter's cash flow. As is our usual practice, income tax payments are made in the second quarter. Under a new Taiwan government policy, we are entitled to defer approximately \$11.0 million of these payments for one year without interest. Excluding this deferral, second-quarter operating cash flow would have been approximately \$6.5 million. Looking ahead to Q3, we anticipate a decline in cash, cash equivalents, and other financial assets, primarily due to a payment of \$44 million for annual dividends to shareholders made on July 10. In addition, subject to the final Board decision, we will distribute around \$11.7 million, the immediately vested portion of this year's employee bonus awards, at the end of Q3.

Our quarter-end inventories as of June 30, 2026 were \$151.5 million, about the same as \$151.7 million last quarter but higher than \$134.6 million in the same period last year. After maintaining lean inventory levels for several years, we proactively adjusted our inventory strategy about a year ago, selectively building inventory in anticipation of tightening supply across the industry. Accounts receivable at the end of June was \$220.3 million, up from \$190.9 million last quarter and \$219.0 million a year ago. DSO was 93 days at the quarter end, as compared to 86 days last quarter and 92 days a year ago. Second quarter capital expenditure, primarily for R&D-related equipment for our IC design business, was \$4.3 million, versus \$2.9 million last quarter and \$4.6 million a year ago.

As of June 30, 2026, Himax had 174.4 million ADS outstanding, unchanged from last quarter. On a fully diluted basis, the total number of ADS outstanding for the second quarter was 174.4 million.

During the quarter, on July 1, we announced the proposed divestiture of investment in one of our equity-method investees. Based on the information provided by the said investee company, we expect to recognize a pre-tax gain of approximately \$23 to \$24 million upon closing. The transaction is expected to close in the fourth quarter of this year subject to customary closing conditions and regulatory approvals. We will provide more updates as appropriate as the transaction progresses.

Now, turning to our third quarter 2026 guidance. We expect Q3 revenues to increase 7% to 11% sequentially. Gross margin is expected to be around 34%, depending on the product mix. Q3 profit attributable to shareholders is estimated to be in the range of 8.0 to 10.0 cents per fully diluted ADS.

As we've done historically, we will grant employees' annual bonus, including RSUs and cash awards, on or around September 30 this year. The third quarter guidance for profit per diluted ADS has taken into account the expected 2026 annual bonus, which, subject to Board approval, is now estimated to be around \$13 million, out of which \$11.7 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 expectations and the final Board decision for the total bonus amount and its vesting scheme. It's also worth noting that the \$13 million expected annual bonus does not include the above-mentioned gain on investment from divestiture of an equity-method investee, as the transaction is pending regulatory approvals and has not yet closed. As is the case for previous years, we expect the annual bonus grant in 2026 to lead to higher third quarter operating expenses compared to the other quarters of the year. In comparison, the annual bonus for 2025 and 2024 were \$7.7 million and \$12.5 million respectively, of which \$7.5 million and \$11.2 million vested immediately.

In providing our Q3 financial guidance, the Q3 expense related to employee bonus is estimated to be \$11.8 million, representing 6.8 cents per diluted ADS before tax, comprised of \$11.7 million of the immediately vested portion of this year's bonus as stated above, and \$0.1 million of the amortized portion of the unvested bonuses from previous years. By comparison, employee bonus expense in each of the last three quarters was around \$0.2 million.

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

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

Thank you, Karen. The ongoing surge in AI demand continues to impact non-AI applications. This has rippled across the broader semiconductor supply chain, resulting in capacity constraints at foundry, packaging and testing facilities on the mature process nodes where many of our products are manufactured. Consequently, we are

experiencing higher manufacturing and procurement costs, extended lead times, and increased difficulty in securing sufficient capacity across a broad range of our product lines. We expect the supply environment to remain challenging in the near term.

To enhance production flexibility and secure the capacity needed to meet customer needs and support upcoming production ramps, we continue to leverage our established supply chain in Taiwan while further strengthening our presence across China, Singapore, Korea, Japan and Malaysia. In parallel, as we mentioned last quarter, we have been working closely with customers on pricing adjustments to share these increased costs. Some adjustments took effect in the second quarter with additional pricing adjustments possibly implemented over time as market conditions warrant.

Notwithstanding these industry-wide supply constraints, we remain optimistic about the long-term growth prospects of our automotive display IC business. We continue to view automotive as one of the industry's most attractive secular growth markets, driven by rapid advancements in smart vehicle interiors. This trend is characterized by, among other things, a growing number of displays per vehicle, now averaging more than three and continuing to rise, along with larger, higher-resolution displays and more diverse vehicle cabin configurations, including curved, integrated, multi-display, and pillar-to-pillar designs.

Himax is well positioned to capitalize on these industry trends through our comprehensive automotive display portfolio spanning both LCD and OLED technologies, a broad and diversified global customer base, and a robust design-win pipeline. We further differentiate ourselves by continuously introducing next-generation automotive display technologies, including LTI solutions for ultra-large displays, advanced Tcon solutions for head-up displays, OLED driver and touch controller ICs and Micro LED display technologies. Our portfolio also includes Knob-on-Display solutions and capacitive physical buttons where customer interest continues to grow, driven in part by regulatory and vehicle safety initiatives in key automotive markets, including China and Europe, where greater emphasis is being placed on intuitive physical controls to enhance driving safety and reduce driver distraction. The industry's ongoing pursuit of richer human-machine interfaces, immersive infotainment, and enhanced in-cabin user experiences is driving the adoption of a broader range of our display technologies. This not only increases Himax's dollar content per vehicle but also creates multiple long-term growth opportunities. In addition, our well-established global supply chain provides us with greater flexibility to navigate the current supply environment while securing the

capacity needed to support both existing projects and upcoming production ramps.

We are also seeing an important trend in the automotive industry with automakers introducing new vehicle models at an accelerating pace amid intensifying competition. As a result, product lifecycles are becoming shorter, creating greater pressure to improve engineering efficiency, reduce development costs, and shorten time to market of new car models. These challenges are driving broader adoption of platform standardization across multiple vehicle models, favoring suppliers with comprehensive and validated technology portfolios and proven track records. Himax is one such supplier, boasting the industry's most compelling automotive display IC offerings, market-leading positions across automotive DDIC, TDDI, and Tcon, and continued leadership in next-generation technologies such as LDI and OLED technologies. By adopting Himax solutions as part of their standardized platforms, customers can quickly deploy validated display IC products across multiple new vehicle developments, reducing engineering effort, lowering system costs, and shortening development cycle of each project.

In addition to automotive, we are also making solid progress across several strategic growth areas, including smart glasses, ultralow power AI, and CPO. These emerging businesses diversify our revenue base into markets with attractive long-term growth prospects and margin profiles while strengthening our overall competitive position. We believe they are poised to become increasingly meaningful contributors to our future growth.

First, on smart glasses, an area we remain particularly optimistic about. Himax is one of the few companies offering both ultralow power AI sensing and microdisplay technologies, both critical building blocks for next-generation smart glasses. On the AI sensing front, WiseEye enables ultralow power, always-on outward and inward sensing, supporting an expanding range of AI use cases, including contextual awareness, real-time visual assistance, and personalized user experiences. Recently, a leading global brand just launched a smart glasses product powered by our WiseEye technology, and we continue to see strong design-in momentum across customers worldwide. In particular, we are seeing growing engagement with leading global brands, technology platform providers, ODMs, as well as hyperscalers who traditionally do not offer hardware products but are now entering smart glasses market, with some projects poised to enter mass production as we move into 2027.

On the display side, our Front-lit LCoS microdisplay delivers an optimal balance of size, weight, resolution, image quality, power consumption, and cost. It can also be configured to operate in a high-brightness, ultralow power green-only mode and seamlessly switch to full-color operation as needed. This flexibility differentiates our solution from alternative display technologies, letting customers optimize power efficiency while maintaining visual performance and meeting their system design and cost targets. Together, these capabilities make our Front-lit LCoS a compelling display platform for next-generation AR glasses equipped with see-through displays. Currently we are working closely with multiple waveguide partners across Asia, Europe, and North America to deliver integrated AR display solutions that simplify system integration and shorten customers' development cycles. This is driving broader customer engagement and positioning us to convert more opportunities into design wins. Backed by well over a decade of LCoS expertise and a proven track record of successful production shipments, we are well positioned to support the next generation of AR glasses.

Now, I would like to provide a brief update on our progress in CPO. Customer development timelines remain aggressive with demand showing no sign of slowing. Together with our strategic partner, FOCL, we continue to deepen customer engagements by offering a flexible portfolio of solutions, including customized designs tailored specifically for our customers' needs as well as a standardized technology platform developed in collaboration with a leading foundry partner. Our solutions support both co-packaged and pluggable packaging architectures to address diverse customer needs.

Our primary focus for the second half of this year remains on achieving mass production readiness, including key customer qualification milestones, while continuing to improve manufacturing yields and establish stable mass-production capabilities. We have already made encouraging progress toward these objectives. Both our Gen 1 product, supporting 1.6T and 3.2T transmission bandwidths, and Gen 2 product, designed for 6.4T bandwidth, have begun engineering production ramps as scheduled in the third quarter. These products are expected to drive sequential shipment growth quarter over quarter, laying the foundation for a more meaningful volume shipment beginning in 2027. The official mass-production timing remains subject to customer deployment schedules. Nevertheless, we expect our shipments in 2027 to be significantly higher than in 2026, starting to make meaningful contribution to our financials.

At the same time, we are also co-developing next-generation optical solutions with customers, featuring higher fiber-count architectures, enhanced optical precision, and increasingly sophisticated designs such as CWDM (Coarse Wavelength Division Multiplexing), to address the explosive bandwidth demands of HPC and AI data center applications.

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 by single digit from last quarter. Monitor IC sales are expected to decline quarter over quarter, as customers already pulled forward inventory purchases in prior quarters. In contrast, TV IC sales are poised for sequential increases, driven by higher legacy product shipments to key customers.

Looking ahead in the notebook market, we are seeing encouraging design-in momentum, particularly in OLED notebooks with several industry trends creating favorable tailwinds. Rising memory prices are accelerating the shift from entry-level to premium notebook models, while the scheduled ramp-up of new Gen 8.6 OLED fabs in China later this year and into 2027 is expected to further drive OLED penetration in the notebook market. Himax is well positioned to capitalize on these favorable industry trends with our comprehensive notebook display OLED IC portfolio, spanning DDIC, Tcon, power management IC and touch controllers. This one-stop offering lets us serve customers with a complete solution while increasing our value content per device.

Turning to the small and medium-sized display driver IC business. In Q3, small and medium-sized display driver IC business is expected to increase by high-single-digits from last quarter. Q3 automotive driver IC sales, including TDDI and traditional DDIC, are set to increase by a solid double-digit quarter-over quarter. This increase reflects broader customer demand of DDIC and TDDI products, together with the mass production of multiple LTDI projects across car brands worldwide. Strong sequential growth underscores the accelerating adoption of larger and more sophisticated automotive displays, with Chinese automakers leading the charge.

We continue to see healthy underlying customer demand, supported by multiple new projects entering mass production in the coming quarters. We expect our full-year 2026 automotive driver IC sales to grow by double digits from last year with strong growth momentum extending into next year as adoption of smart car interiors continues to drive increases in the number, size, and sophistication of displays in both electric and conventional vehicles.

As I noted earlier, the industry's shift toward platform standardization is creating meaningful opportunities for Himax. This is evidenced by the growing number of customers adopting our industry-pioneering LTI and local dimming Tcon solutions as the standard platform for their ultra-large automotive displays. Following years of customer engagement, several of these projects are now entering mass production across multiple car brands. These ultra-large display panels typically require four or more LTI chips, and in some cases more than ten, together with at least one local dimming Tcon per panel. As customers increasingly adopt our solution across multiple ultra-large display platforms, this not only strengthens customer stickiness and makes it more difficult for competitors to compete with us, but also increases our content value on a per-panel and per-vehicle basis.

Looking ahead, the accelerating adoption of OLED displays in automotive presents a compelling long-term growth opportunity and is poised to become a key pillar of our automotive business. For several years, we have been collaborating closely with leading OLED panel makers in Korea and China, and our comprehensive portfolio of DDICs, Tcons, touch controller ICs, and customized ASIC solutions gives customers the flexibility to select the solutions that best meet their specific requirements. This broad product coverage and our early customer engagements have already translated into numerous development programs, providing a solid foundation for future growth as premium automotive displays transition from LCD to OLED.

With OLED adoption on the way, we continue to introduce innovative IC solutions to address evolving customer needs. For example, our latest TED (Tcon Embedded Driver IC) solution, which integrates DDIC and Tcon into a single chip, offers a cost-effective, flexible, and highly integrated solution ideal for smaller, lower-resolution automotive displays. Our TED technology is now being adopted across a diverse range of applications, including automotive, robotics, and IT applications, with several projects involving customized ASIC solutions co-developed with leading global end customers.

Moving to smartphone IC sales, we expect Q3 smartphone revenue to increase quarter over quarter, driven by continued shipments for a leading smartphone brand's mainstream models and inventory build-up for its upcoming premium models. For tablet ICs, Q3 sales are expected to decrease sequentially, as capacity constraints limit our ability to support additional shipments.

I'd like to now turn to our non-driver IC business update where we expect Q3 revenue to increase by low-teens sequentially.

First for an update on our Tcon business. We anticipate Q3 Tcon sales to increase by low-teens quarter over quarter. Our automotive Tcon business is expected to deliver decent double-digit growth in Q3, extending the strong momentum from Q2 and far outpacing our corporate average. This growth is driven by continued legacy product shipments across a broad, diversified customer base, along with several new projects entering mass production. Despite ongoing industry-wide capacity constraints, we are confident in the strong growth trajectory of our automotive Tcon business. With hundreds of design wins already secured and new design-ins continuing to expand, we are well positioned for another robust growth year in automotive Tcon as we move into 2027.

During the quarter, we were pleased to announce that our T2000 Tcon has been adopted into E Ink's next-generation color ePaper platform. Himax's proprietary parallel-processing architecture is at the core of this ASIC product, enabling simultaneous display refresh and data transmission, significantly enhancing dynamic display performance while preserving the ultralow power advantage of ePaper technology. This breakthrough enables smoother display of dynamic content on large format ePaper displays, helping accelerate the transition from traditional static signage to dynamic applications such as retail advertising, public information displays, and smart commercial environments.

Switching gears to the WiseEye product line, a cutting-edge ultralow power AI sensing total solution, targeting battery-powered endpoint devices. WiseEye differentiates itself with an industry-leading ultralow power architecture, consuming only a few milliwatts while delivering on-device AI inferencing, 24/7 always-on image and voice sensing, and an exceptionally compact form factor. This unique combination enables endpoint AI devices that were previously impractical due to power and size constraints, driving broad adoption across applications including notebooks, surveillance systems, access control, palm vein authentication, smart office, and smart glasses, with design-in activities continuing to expand across leading customers worldwide.

On the WiseEye module front, design-in activities continue to expand, driven by its plug-and-play architecture, ultralow power consumption, and on-device AI capabilities. During the quarter, we were pleased to announce that our WiseEye biometric palm vein modules achieved the verification of TÜV Rheinland, one of the world's leading and most credible independent testing, inspection, and certification organizations. The assessment validated recognition accuracy, response speed and liveness detection. This verification, together with our earlier achievement of GDPR compliance, one of

the world's strictest data privacy standards, reinforces the privacy, security, and performance of our biometric authentication solutions, giving customers greater confidence to accelerate deployment across security-sensitive applications. We are seeing expanding design-in activities for our PalmVein modules across smart access, workforce management, smart door locks, and, more recently, computer monitors and smart office solutions.

Built on the same core hardware platform as the WiseEye technology, our WiseGuard module is specifically designed for security applications, delivering ultralow power operation, a wide field of view, long-range detection, and exceptional low-light performance. WiseGuard accurately detects and continuously tracks multiple individuals, including their presence, location, and movement, substantially reducing the false triggers commonly associated with traditional PIR-based solutions. Its proactive, 24/7 sensing capability enables security systems to detect and continuously track activity from the outset, capturing the full sequence of events rather than only the moment motion is detected, providing a significant advantage over traditional reactive solutions. WiseGuard delivers up to 5 years of battery life while maintaining high-precision detection over long distances, even in environments with illumination as low as 1 lux. Since its debut just six months ago, WiseGuard has seen encouraging customer engagement across a wide range of applications, including surveillance cameras, access control, IoT, and wildlife monitoring. We are also pleased to share that WiseGuard has already been adopted by a U.S. customer for surveillance applications, with mass production scheduled to begin toward the end of this year.

As mentioned earlier, WiseEye is gaining broad market recognition for smart glasses as a compact, ultralow power, always-on AI perception front end. WiseEye supports outward-facing environmental sensing, first through scene understanding by analyzing the user's contextual surroundings and environment, followed by object classification to recognize and identify specific objects typically associated with the identified scene. It also supports inward-facing capabilities, including eyeball tracking for intuitive gaze-based interaction and iris authentication for secure identity verification. Together, these capabilities enable AI glasses to continuously capture visual snapshots of the real world and enable intelligent, responsive, low-latency human-machine interaction while consuming only a few milliwatts of power. With a leading global brand launching WiseEye powered smart glasses this fall, we are seeing growing engagement from platform providers, ODMs, and consumer electronics companies worldwide. Some of these projects are expected to enter mass production in the upcoming quarters.

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.

Now we will have our first question, Donnie Teng – Nomura Securities. Go ahead, please.

Donnie Teng – Nomura Securities

Thank you, Jordan, for taking my question. My first question is regarding to the CPO revenue outlook into 2027. As you mentioned about, the revenue could be more meaningful for next year. Can you clarify how do you define meaningful for 2027? And maybe you can also provide us with the overall business outlook in 2027 as well. Thank you.

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

Thank you, Donnie. Perhaps let me start with your second question, the outlook for next year. As you know, we don't usually provide guidance beyond one quarter, but we are well positioned, I think, to see robust sales growth next year, with continuously improved gross margin. As you know, our gross margin this year has improved from last year, and we believe the trend is likely to continue next year.

Before I elaborate further, there is one important thing for clarification. As you mentioned in your question, Donnie, for the time being, and before CPO starts mass production officially, it is a good idea that we separate our CPO from our outlook discussion, because while CPO is arguably a once-in-a-lifetime opportunity for Himax

at the pre-mass-production stage, its outlook will be too uncertain to quantify, at least for the purpose of outlook comments. So, what I am about to say below does not include contributions from CPO, and I will leave the comments on CPO for the next question which you already just raised.

So, we start now back to our view on 2027. I think a very important trend for next year's financials is that the non-driver areas will likely outgrow driver ICs, with revenue contribution approaching 30% from around 20% at present. This is driven mainly by automotive Tcons, which will enjoy another year of very strong growth thanks to our robust design-in pipeline, and the WiseEye product line where new applications such as smart glasses, WiseEye modules, and palm vein authentication, which I mentioned in my prepared remarks, are all well positioned to contribute to growth momentum.

As to our mainstream automotive business, now over half of our sales, it will continue to grow as well, on top of a year of double-digit growth this year. In saying so, we are assuming a flattish year for global vehicle shipments, which I think is a fair assumption, implying our confident to outperform the auto market again, like we do this year and actually the last few years.

Our positive outlook is driven by two factors. One, the continuous growth in the number of displays per vehicle, which has already exceeded three this year, from almost none 15 years back. And two, more importantly, the fast-rising IC content per automotive display. In other words, both the number of displays and the content value per display will continue the favorable trend that we have experienced over the last few years.

So, I will take HUD as an example. We mentioned HUD in our prepared remarks. HUD used to be a tiny niche market that did not use LCD for image projection. Starting just a few years ago, HUD has become one of the strongest growth segments within our design-win pipeline. Now we have many, many such design-wins for HUD, with volume production starting this year and over the next few years. Every new HUD in a car represents an increase in the number of LCD displays per vehicle, as almost all new HUDs now use LCD for image projection and i.e., requiring our solutions. Himax has been leading the charge in supporting the industry's new HUD designs, which require not only traditional DDICs but also very sophisticated Tcons for so-called de-warping

and the elimination of the so-called postcard effect. Perhaps for those who are not familiar with this, de-warping is a feature in our HUD Tcon that mathematically counteracts optical distortion caused by the curved surface of the windshield. The postcard effect is a visual artifact, so to speak, where the rectangular borders of the projection become illuminated and visible by the driver, which is bad right? So our Tcon can get rid of that artifact. Such advanced features add significantly to our IC content value and have become a strong moat that helps fend off competitors.

And I would say LTDI, which again, we also mentioned in our prepared remarks, is also a good example where we pioneered the technology concept a few years back, targeting ultra-large-sized automotive displays requiring touch functionality. We are now the exclusive supplier of the solution in the market right now, which numbers at least five chips per panel, including one Tcon, and for higher-end designs, more than ten. Our LTDI solution is ramping nicely this year across several leading auto brands, with a solid and still-expanding design-win pipeline.

Perhaps the last, but certainly not least important example is the higher-value per display content for IC is OLED displays for automotive. There, we offer DDICs, Tcons, TED, and discrete touch controllers, each of them having higher ASP compared with those using LCD panels because of the more complicated features required of OLED displays. And because OLED is now projected to replace LCD over time, over the next few years, for high-end auto displays, we are working closely with several leading OLED panel makers in Korea and China, with major ramping expected starting probably in the second half of next year and certainly well into 2028.

So, in short, again, we don't give official guidance for next year, so I am not going to be able to quantify the growth. But we are quite positive about the prospects of our automotive business for next year. Having said that, the industry supply will remain tight, with literally all major foundries, indicating further price hikes next year - certainly all foundries in Taiwan and, to a great extent, major foundries in China as well. So, it is just something we will need to continue to manage, like we have done so far this year. I hope that addresses your second question for next year's outlook.

And your first question about the CPO, sales indication, sales outlook for next year. Again, I will not be able to quantify that. But qualitatively, what I can say is that, for

sure, CPO will see very significant growth next year, but will be compared with a low base this year. But the growth will be very significant.

The extent of CPO's contribution to our overall financials next year will depend on when the end customers kick off mass production and, obviously, the ramping curve. For now, it is too early to say. But as I said earlier, even in the most conservative scenario, CPO will make a meaningful contribution to our financials, especially the bottom line, starting 2027, with volume growth quarter over quarter starting from this quarter, next quarter, and throughout the whole of next year. While the volume indication from end customer is actually extremely, extremely high, so with that, the main goal for us this year, and our partner FOCl, is to complete the validation of our products by key customers / partners in terms of both quality and manufacturability.

But as I said earlier, revenue contribution during this year will still be limited. However, we are seeing quite significant growth this quarter and another very significant growth next quarter out of engineering runs.

Again, while we don't comment on the exact timing of mass production, because the ecosystem is far too complicated for us to even speculate the exact timing of mass production. We should be able to see meaningful top- and bottom-line contribution from the CPO product starting in 2027. And actually, even before official mass production, early shipments for engineering runs will already have a positive impact on our financials starting 2027.

Now, you asked me to quantify what is meaningful. I guess meaningful means meaningful. Meaningful means it is not going to be a low-single-digit percentage, certainly not for the bottom line. So, meaningful is something, when it happens, we can categorize and elaborate further. It is not going to be a marginally, negligible, addition to our financials.

But again, while some early indication for next year's volume has been provided by end customers, I think this year we should focus on validation. Once we have solid footing on that, with customers' firmer indications of mass-production timetable and ramping curve, hopefully, in the not-too-distant future, we will be able to better

quantify the impact to our financials. But I guess it is fair to say that our confidence level toward the success of mass production continues to rise. Our confidence level continues to rise, and it has surely risen to another level compared to even just a quarter ago.

And I guess the last point I want to say is that, in close collaboration with a few top customers, FOCl and us, we are focusing on what we call Gen 2 products right now, which is a high-end product supporting 6.4T bandwidth or higher. And it is a spec, for the time being, that is positioned for the market with the biggest volume potential. And actually, we will continue to make innovative designs for our optics to meet the ever-rising need for higher transmission bandwidth, with the next target, the next goal, being 12.8T. So, it is going to be a long road ahead. And again, as I said earlier, I think it is a once-in-a-lifetime opportunity for Himax, the CPO opportunity. I hope that addresses your question, Donnie.

Donnie Teng – Nomura Securities

Thank you, Jordan.

Operator

Thank you. Next, Tiffany Yeh from Morgan Stanley. Go ahead, please.

Tiffany Yeh – Morgan Stanley

Thanks, Jordan. Thanks, Karen, for taking my question. I would like to follow up on the CPO front. I think there are many peers or emerging players that would want to tap into this FAU, or I would say WLO market. May I ask how you would address this competition, and what are Himax's key advantages over the peers? Thank you.

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

Okay. Thank you, Tiffany. It is a good question. I think, as far as we know, we are probably the only one providing optics using wafer-level optics, or wafer-based

solution. The so-called competition actually uses traditional molding glass type of technology. So, I think there is a key difference, and we certainly believe our technology offers a lot of advantages.

But again, nobody has proven itself by having a big volume mass production yet. So, I think we just have to prove it by actually doing it successfully. Now, having said that, I think our technology, together with FOCl, is much more mature compared to the peers, as far as we can tell.

But having said that, I think, again, our focus for now, the mindset for now, for us, is not to worry too much about competition. We are our own enemy for the time being. We focus on getting our products validated this year solidly and with customers' requests for volume, try to ramp the volume successfully with a good yield rate and good outcomes to meet their demands.

And I think, again, it is also a policy for us not to comment on our competition. But for the time being, the most important thing for us is to focus on our self's efforts on successful mass production. Having said that, I think, again, this is a market, a once-in-a-lifetime-opportunity kind of market. The market is so big that I can't imagine, a few years down the road that Himax and FOCl will be the only players, the only vendors, in the market. That is just unthinkable because the market is so big, and I don't think anybody can take 100% of the market. So, for us, I think the mindset, again, is to focus on our own efforts, bring the successful mass production, and hoping that we will be one of the earliest and we will be serving among the best customers. We will take it from there.

And lastly, certainly, we have a lot of analysis on the pros and cons of our technology versus others, but again, I am not going to comment on that publicly. Last but not least, the market is too big for anybody to try to take 100%, and it is a market big enough for quite a few players to prosper tremendously, I think.

Now the important thing is to bring it out successfully and to prove it is a real technology, a real deal.

Tiffany Yeh – Morgan Stanley

All right, very clear. I have a question regarding the overall CPO industry. As you guys have been working with FOCl on all these mass-production preparations for so many years, I think you in talk with other guys in the supply chain. What do you think are the biggest bottlenecks for CPO mass production right now, and how much time do you think it would take for these to be conquered? Thank you.

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

We are very, very upstream, right? So, I mean, you probably asked the wrong person to make a comment on the so-called bottlenecks throughout the entire ecosystem. What I can emphasize is that the ecosystem is actually quite complicated, and our focus for now is, again, to make sure we are not going to be the bottleneck. So, we don't want to be the bottleneck ourselves, technology-wise, that is step one. And once mass production gets started, we don't want to be the bottleneck for capacity as well and that is the goal.

As to the bottlenecks of the whole ecosystem, to be honest, I really don't know. What I can say is that software engineering runs, which will have some meaningful volume by us and FOCl, let's say by the end of this year, not just to validate our solution, but also to validate the whole ecosystem. So, our technology will be taken to validate our end customers, the major GPU and CPU makers of the world, their total solutions. And with that, they will also take their solutions to their server customers and certainly the back-end houses or OSAT houses, who have to put the CoWoS, the FAU, together with TSMC COUPE solution and all that. So, by the end of this year, at least, I think there will be a lot of effort in this regard.

But we being the very upstream, provide our FAU, and before that, the optics within the FAU, first. And our FAU has to be validated in itself. Then, with good FAU, the ecosystem can start to validate the packaging and assembly of the whole module, all the way down to servers, and eventually probably changes of algorithms too, because the transmission methodology will be different compared to traditional metal-based transmission.

I think, to be honest, it is far too complicated for me to comment. All I can say is that we don't want to be the bottleneck ourselves. That is the goal.

Tiffany Yeh – Morgan Stanley

Thank you, Jordan.

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

Thank you, Tiffany.

Operator

Thank you.

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

One question from the online Q&A box: How do you expect your smart glasses revenue to trend in 2027? Do you expect smart glasses revenue to be large next year?

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

We are talking about WiseEye, right, which we are not going to repeat it, we have mentioned, elaborating on our prepared remarks. LCoS will be for the future. LCoS, for now, is to seek design-win, so that is not going to be a mass-production story for next year. WiseEye, however, will be very much a story for next year for smart glasses.

We mentioned that there is a major customer which has launched its product a while back, with our WiseEye serving the function of always-on visual understanding of the surroundings. We actually asked the major end customer about their volume potential, and their response was that, they are just getting started, promotion-wise. So, we have to wait a while for them to give us more meaningful feedback. So, we are not getting, one way or the other, conservative, pessimistic, or positive feedback from them yet,

for understandable reasons.

I think what is equally exciting is that there are quite a number of major design-in or design-win projects in the pipeline that certainly we haven't announced because the customers are not fully ready yet. They involve, in some cases, major hyperscalers who have not known to be offering hardware devices like smartphones as part of their business portfolios. But they are very much into smart glasses because they all see smart glasses as a very good conduit for their AI models, to get useful data, useful information of the actual users.

I think we are seeing very strong design-in momentum. With each major customer, how they use WiseEye are not totally identical. Everybody is trying to be innovative. And in our prepared remarks, what we mentioned, broadly speaking, a typical uses concept, where we are always-on, watching the surroundings on a continuous basis. First, we determine the scene that you are standing in. Then, with that, we do object classification, and with that, you can have AI interaction. That is a common theme.

All I can say is, probably give us two or more quarters and we should be able to quantify it better. For now, we can see the momentum. But even with the first customer, a major name with a very high-profile launch, we are not really getting feedback yet in terms of the number of chips they need for next year or the year after.

So, the momentum is very strong, but I am afraid it is too early for me to give a quantitative comment yet. Hopefully, in a few quarters' time, we will be able to provide better answers.

Operator

Thank you, Jordan. And we have no further questions at the moment. We thank you for all your questions, 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 investor conferences. We will announce the details as they come about. Thank you and have a nice day.

Operator

Thank you, Mr. Wu. Ladies and gentlemen, this concludes the second quarter 2026 earnings conference. You may now disconnect. Thank you again. Goodbye.