Himax Technologies Inc. Q3 2026 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

Operator

Hello, ladies and gentlemen. Welcome to Himax Technologies Inc. Third 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 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 third quarter of 2026, followed by our fourth quarter outlook. Jordan will then give an update on the status of our business, after which we will take questions. You can submit your questions online through the webcast or by phone. We will review our financials on an IFRS basis.

We are pleased to report that our Q3 profit exceeded the guidance range announced on August 6, while revenues and gross margin were both in line with the guidance.

Third quarter revenues registered $246.8 million, representing a sequential increase of 8.5%. Gross margin was 34.2%, in line with our guidance of around 34%, and up from 33.1% in the previous quarter. Q3 profit per diluted ADS was 10.7 cents, exceeding the guidance range of 8.0 to 10.0 cents, attributable to lower-than-expected operating expenses.

Revenue from large display drivers came in at $19.0 million, a slight decline of 1% from the previous quarter. Both monitor and notebook IC sales declined quarter-over-quarter as customers had already pulled forward inventory purchases in prior quarters. In contrast, sales for TV IC products increased sequentially due to higher legacy product shipments to key customers. Sales of large panel driver ICs accounted for 7.7% of total revenues for the quarter, compared to 8.4% last quarter and 9.5% a year ago. Revenue from the small and medium-sized display driver segment totaled $176.8 million, reflecting an increase of 8.9% sequentially. Q3 automotive driver sales, including both traditional DDIC and TDDI, increased by solid double digits quarter-over-quarter, marking the second consecutive quarter of strong growth. This was primarily driven by broad customer demand for DDIC and TDDI products. Some panel makers also accelerated IC purchases in response to a surge in orders from Chinese automakers, which are expanding overseas amid slowing demand in their domestic market. The mass production of multiple LTDI projects across automotive brands worldwide also contributed to the quarter-over-quarter growth.

Q3 smartphone IC sales, covering both LCD and OLED products, increased sequentially, driven by continued shipments for a leading smartphone brand's mainstream models and inventory build-up for its new premium models. In contrast, tablet IC sales decreased sequentially as expected, primarily reflecting customers' accelerated purchases in the first half of the year against the backdrop of rising memory price sentiment in the market. The small and medium-sized driver IC segment accounted for 71.6% of total sales for the quarter, compared to 71.4% in the previous quarter and

70.8% a year ago.

Q3 non-driver sales reached $51.0 million, an 11.2% increase from the previous quarter, attributable to robust automotive Tcon shipments that extended the strong momentum from Q2. This growth was supported by continued legacy product shipments to a broad, diversified customer base, as well as several new projects entering mass production. Tcon business accounted for over 10% of total sales, with more than half contributed by automotive Tcon. Himax continues to hold an undisputed leadership position with a dominant market share 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 20.7% of total revenues, as compared to 20.2% in the previous quarter and 19.7% a year ago.

Third quarter operating expenses were $61.8 million, an increase of 21.9% from the previous quarter and 1.7% 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 and results in much higher employee compensation expense compared to other quarters of the year. Our annual bonus compensation grant for 2026 was $13.3 million, slightly higher than the guidance of $13 million, as the bonus amount, determined by the expected full-year profit, was revised upward following an improved Q3 profit. Of the $13.3 million, $11.8 million was immediately vested and expensed in Q3. Including the portion of awards granted in prior years, the total bonus expense for Q3 2026 amounted to $11.9 million, higher than $8.1 million recorded in Q3 2025. For reference, the annual bonuses granted for 2025 and 2024 were $7.7 million and $12.5 million respectively, of which $7.5 million and $11.2 million were vested and expensed immediately. We continue to exercise prudent cost management while prioritizing strategic investments in non-driver IC businesses that offer attractive long-term growth opportunities.

Third quarter operating income was $22.7 million, representing an operating margin of 9.2%, compared to 10.8% in the previous quarter and negative 0.3% for the same period last year. The sequential decline was primarily attributable to higher employee bonus expense, which, as mentioned earlier, totaled $11.9 million, compared to $0.2 million last quarter. Meanwhile, the year-over-year increase was primarily driven by higher revenues and improved gross margin. Third-quarter after-tax profit was $18.6 million, or 10.7 cents per diluted ADS, compared to $19.9 million, or 11.4 cents per diluted ADS last quarter, and up from $1.1 million, or 0.6 cents in the same period last

year.

Turning to the balance sheet, we had $285.3 million cash, cash equivalents and other financial assets as of September 30, 2026. This compares to $278.2 million at the same time last year and $298.7 million a quarter ago. The sequential decline in cash balance mainly reflected the $44 million dividend and $11.9 million employee bonus payout. Q3 operating cash inflow was $23.9 million, compared to an inflow of $17.5 million in Q2. The employee bonus paid out this year included $11.4 million for the immediately vested portion of this year's award and $0.5 million for vested awards granted over the past three years.

Our quarter-end inventories as of September 30, 2026 were $159.8 million, up from $151.5 million last quarter and higher than $137.4 million in the same period last year. Our inventory levels remain healthy, particularly considering extended manufacturing lead times across the industry. Accounts receivable at the end of September was $228.4 million, up from $220.3 million last quarter and $200.7 million a year ago. DSO was 93 days at the quarter end, the same as last quarter and 87 days a year ago. Third quarter capital expenditure, primarily on R&D-related equipment for our IC design business, was $3.9 million, versus $4.3 million last quarter and $6.3 million a year ago.

As of September 30, 2026, 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.

Regarding the proposed divestiture of our stake in an equity-method investee announced in July, the transaction is progressing as planned and expected to close in Q4, subject to customary closing conditions and regulatory approvals. Upon closing, we expect to recognize a pre-tax gain of approximately $23 to $24 million and an after-tax gain of approximately $19 to $20 million. We will provide further updates as appropriate.

Now, turning to our Q4 2026 guidance. We expect Q4 revenues to decrease 22% to 26% sequentially. Gross margin is expected to be flat to slightly up, depending on the product mix. Q4 profit attributable to shareholders is estimated to be in the range of 4.5 to 6.5 cents per fully diluted ADS. This estimate does not yet include the potential gain from the proposed divestiture just mentioned earlier.

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

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

Thank you, Karen. Demand for data center AI applications remains robust, with no signs of slowing. Notably, AI-related demand extends beyond advanced process nodes to a wide range of supporting applications involving legacy process nodes, such as Photonic ICs (PICs), interposers, power management ICs, and MOSFETs. As the supply-demand imbalance continues to intensify, capacity at legacy process nodes is expected to tighten further in 2027. Against this backdrop, foundries, as well as packaging and testing providers, including those in China, have recently announced significant price increases for 2027.

In the face of these mounting supply chain pressures, securing sufficient capacity has become our top priority, particularly as automotive now accounts for most of our revenues. Automotive customers have far more stringent requirements for supply stability, long-term capacity assurance, and delivery reliability than consumer electronics customers do. Through a series of recent proactive measures, we have fully secured capacity commitments for 2027 from our key suppliers and for key product areas. In terms of costs, we continue to work closely with customers to share the impact of rising costs.

As just mentioned, our Q4 revenue is projected to decline sequentially. This is primarily due to an abrupt and significant correction in automotive driver IC orders, covering both TDDI and DDIC. Automotive Tcon sales, on the other hand, are expected to continue growing sequentially. It is worth highlighting that our automotive IC sales recorded a decent 16% year-over-year increase in the first nine months of 2026. Despite the sharp correction in Q4, we still expect full-year automotive IC revenue to grow by approximately 10% year-over-year, outperforming the global automotive market, with worldwide vehicle production expected to decline this year.

Now, let me elaborate on what we are seeing in automotive demand lately. The year started on a soft note in Q1, followed by robust inventory replenishment in Q2 and Q3, as certain panel makers accelerated IC purchases to meet surging orders from Chinese automakers expanding overseas. In Q4, however, shortly after China's National Day holidays in early October, we saw a sudden and sizable decline in demand among the customers that had purchased aggressively in prior quarters. In recent weeks, certain

panel makers with high exposure to Chinese automakers' export programs have significantly scaled back their Q4 forecasts. For context, after years of solid growth, China's domestic automotive market has experienced a substantial decrease in demand amid intensifying competition this year, prompting Chinese automakers to increasingly rely on exports. According to data released by the China Association of Automobile Manufacturers (CAAM) in October, China's domestic sales for locally made vehicles declined by 22.4% year-over-year in the first nine months of 2026, while exports of locally manufactured vehicles surged by 65.8% in the same period. We believe the recent significant reduction in our Q4 forecasts reflect in part Chinese automakers' earlier, overly aggressive export expectations, along with their growing concerns over inventory levels across distribution channels, including shipments in transit, following three quarters of extraordinary export growth.

Adding to the uncertainty, there is mounting pressure from various countries, including the European Union, to tighten trade barriers on Chinese vehicle imports. Compounding these headwinds, in October, the Chinese government announced reductions in export tax rebates for new energy vehicles. Together, these factors may have contributed to the recent reduction in our Q4 automotive sales outlook and are limiting our near-term order visibility.

By contrast, panel makers primarily serving non-China customers have maintained steady forecasts, with some posting slight sequential increases in their fourth quarter orders.

We believe the sharp decline in the fourth-quarter automotive forecasts reflects abrupt, short-term order adjustments by certain customers, while our market leader position remains firmly intact.

Himax has long maintained a dominant position with strong, longstanding relationships with not only panel makers, but also carmaker brands worldwide as well as leading Tier 1 suppliers across the U.S., Europe, Japan, and Korea. More recently, fueled by the rapid expansion of Chinese automakers in both domestic and export markets, we have also witnessed the rise of Chinese Tier 1 players, which are quickly emerging as a force to be reckoned with. In the process, these suppliers have significantly expanded their manufacturing capacities, gained extensive mass production experience, strengthened their cost competitiveness, and achieved rapid product development capabilities. These Chinese Tier 1 players are located across a broad geographic area in China, enabling them to serve automakers across multiple

regions effectively. With our deep automotive experience, comprehensive automotive display IC portfolio spanning both LCD and OLED technologies, best-in-class customer service, and an extensive global network providing timely, localized technical support, we have attracted a great number of Chinese automotive Tier 1s to our customer base in recent years. Moreover, their eagerness to embrace new technologies and ability to bring them rapidly into mass production create additional opportunities for us to expand adoption of our advanced automotive display IC solutions across a growing number of vehicle programs. This has already translated into a substantial number of design wins and a rapidly growing pipeline of new projects.

Looking ahead, we remain optimistic about the long-term growth prospects of our automotive display IC business, supported by rapid advancements in smart vehicle interiors, a trend characterized by more displays per vehicle, larger and higher-resolution screens, and increasingly complex display configurations. These trends are driving growing demand for advanced display technologies, as exemplified by our fast-growing LTDI solutions for large-format automotive displays, which continue to gain traction and demonstrate resilience amid broader automotive market fluctuations. Meanwhile, the accelerating adoption of automotive OLED displays represents another significant long-term growth opportunity, supported by our comprehensive IC portfolio and numerous design wins secured through years of close collaboration with leading OLED panel makers in Korea and China. In addition to conventional in-cabin displays, head-up displays (HUDs) are also gaining traction, evolving into an increasingly important application for new generation smart vehicles as automakers seek to bring advanced driver assistance information, AI-powered interactive features, and real-time driving data directly into the driver's field of view. This creates additional opportunities for our HUD IC solutions, where we hold a commanding market position. As these trends continue to unfold, we see significant opportunities to further increase our IC content value both per panel and per vehicle.

EPD (Electronic Paper Display) is another area where we see meaningful growth opportunities heading into 2027. In e-Readers, we expect growing sales through newly secured project wins and a larger share of a leading global end brand’s products. In addition, we continue to expand our presence in the electronic shelf label (ESL) market, a sizable and growing market with significant potential. We are expanding our sales coverage to address diverse customer requirements and broaden our market reach.

Meanwhile, our WiseEye technology continues to gain traction across a growing range of applications, particularly in the rapidly expanding smart wearables market. During

the quarter, we were pleased to announce that Alibaba adopted our WiseEye AI processor for its latest Qwen Glasses, just one quarter after another leading global technology heavyweight announced their latest smart glasses incorporating our WiseEye. The retail sales of these glasses are already or soon to be in place. These recent developments further validate WiseEye's technological strengths in ultralow power consumption, always-on visual sensing, and on-device AI processing. In addition to smart glasses, we are making progress in other emerging wearable applications, including smart pendants and earbuds. Numerous smart wearable projects are underway, several involving global tech names. This growing design-in momentum underscores WiseEye's strong fit for next-generation smart wearables, which are evolving toward proactive, context-aware AI experiences that require continuous on-device AI without compromising battery life. I will elaborate further on this in a few minutes.

Lastly, turning to our CPO business, we continue to work closely with our strategic partner, FOCI, focusing on further improving manufacturing yields and establishing stable mass production capabilities to support the next phase of production scaling. We are pleased that, as part of these ongoing efforts, FOCI announced earlier today that its Board of Directors approved capital expenditures in the amount of NT$3.33 billion (approximately US$100 million) for the expansion of both fab space and manufacturing equipment in preparation for FAU mass production. Engineering ramps are already underway, with shipments expected to expand quarter by quarter from this point onward. While the timing of mass production is ultimately a call to be made by our end customers, we remain confident that our CPO business will begin making a meaningful contribution to both our top and bottom lines starting in 2027.

At the same time, we continue to engage with a growing number of customers and advance the joint development of next-generation optical solutions featuring higher fiber counts, enhanced optical precision, and increasingly sophisticated designs, including WDM (Wavelength Division Multiplexing), targeting the surging bandwidth demands of HPC and AI data centers.

Himax is uniquely positioned to drive further advancements in FAU technology and performance, leveraging the fundamental strengths of our proprietary WLO technology. Unlike other optical technologies available in the market, our WLO technology offers distinct competitive advantages in nanometer-level optical precision, optical performance, manufacturing consistency, and scalability. These capabilities make it particularly well suited for the evolving requirements of future-generation CPO

applications, enabling reliable, highly repeatable and scalable mass production of high-precision optical components.

Beyond CPO, Himax has been at the forefront of high-precision optics technology for nearly two decades, having worked on various designs across a wide range of applications with some of the world's most prominent technology names. We are pleased to share that a leading global technology company has selected Himax's WLO technology to enable its advanced optical sensing solution to support autonomous driving. Our technology delivers high optical efficiency, precision, cost competitiveness, and a solid volume production track record. These advantages, together with our proven manufacturing expertise, enable us to meet the stringent performance and reliability requirements of automotive applications. Shipments are expected to commence in upcoming quarters. This adoption by a leading global technology company not only validates our technical strengths but also demonstrates the versatility of our WLO technology, further expanding its applications beyond consumer electronics, wearable devices, and AI data centers to include automotive.

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 by low teens from last quarter. Both TV and monitor IC sales are poised for sequential increases, driven by higher shipments of legacy products to key customers. This growth, however, is expected to be partially offset by a decline in notebook IC sales, as a leading customer has pushed back mass production of a new high-end notebook model to early 2027.

Looking ahead in the notebook market, we are seeing increasing adoption of OLED displays in premium notebooks, supported by notebook makers' growing focus on higher-end models amid rising memory prices and the ramp-up of new Gen 8.6 OLED fabs in China starting later this year and into 2027. Himax is well positioned to capitalize on these favorable industry trends with our comprehensive portfolio of notebook OLED display ICs, spanning DDICs, Tcons, power management ICs, and touch controllers. We have also completed development of our Tcon solution supporting the eDP 1.5 interface, applicable to both LCD and OLED panels. This interface supports high refresh rates, low-power panel replay, adaptive-sync, and high-resolution displays, enabling enhanced visual performance and improved power efficiency. Our comprehensive product portfolio allows us to offer customers a one-stop solution while increasing our content value per device.

Turning to the small and medium-sized display driver IC business. In Q4, small and medium-sized display driver IC business is expected to decrease by double-digits sequentially, following two consecutive quarters of robust growth. Automotive, tablet and smartphone driver IC sales are set to decrease quarter-over-quarter in Q4. As noted earlier, the anticipated decline in automotive sales reflects order reductions from certain panel makers following two quarters of strong sales. These panel maker customers have been aggressively scaling back their Q4 projections in recent weeks as the outlook for Chinese automakers export growth began to reverse significantly.

Despite the recent slowdown, we expect our full-year 2026 automotive display IC revenue to grow by approximately 10% year-over-year, outperforming the projected decline in global vehicle shipments. This growth is driven by the continued expansion of our automotive TDDI, wider adoption of our Tcon solutions, and growing contributions from LTDI.

Looking ahead, we remain confident in the long-term trajectory of our automotive IC business, with multiple growth drivers in place, starting with a rebound in automotive DDIC. Following several years of modest decline driven by gradual displacement by TDDI, DDIC is poised for a recovery, backed by the anticipated volume growth of relatively new non-touch display applications such as HUD and e-mirror, where we have built a strong pipeline of design-win projects accumulated over the last few years, as well as mainstream displays such as dashboards and in-vehicle infotainment systems. Our automotive TDDI business, meanwhile, should keep expanding on the back of additional customer vehicle model ramps and broader adoption across automotive display applications. To round out the picture, LTDI and OLED solutions are also set to contribute more meaningfully from 2027 onward as more projects ramp following years of design-in development with customers.

Himax continues to introduce innovative technologies that reinforce our market leadership and expand our opportunities across diverse automotive display applications. Our LTDI technology is a prime example, particularly suited for large format displays exceeding 30 inches, which typically require four or more chips per panel, and in some cases more than ten, as well as at least one local dimming Tcon. This translates into significantly higher IC content value on a per panel and per-vehicle basis. Reflecting the widening adoption of this emerging display technology, Q4 LTDI revenue is expected to grow by single digits quarter-over-quarter and account for over 5% of total sales during the quarter.

Integrating a high-speed eDP interface, touch controller, and display driver into a single chip, our recently introduced industry-leading automotive eDP TDDI solution is another example. Supporting displays of up to 30 inches, this highly integrated solution delivers high resolution, superior display quality, and responsive touch performance. Customers can also opt for an IC configuration that further integrates our industry-leading local dimming technology, eliminating the need for a separate Tcon while enhancing contrast and image detail in both bright and dark areas, as well as reducing overall system costs and display power consumption. Together, these technologies broaden our automotive display portfolio, giving customers greater flexibility to select solutions that best meet their specific display needs, performance requirements, and cost targets.

Building on our leadership in automotive LCD, we are also well positioned to capture the accelerating shift to OLED in premium automotive displays, which we expect to become another key growth driver. Working closely with leading OLED panel makers in Korea and China, we have developed a comprehensive portfolio of DDICs, Tcons, touch controller ICs, and customized ASIC solutions to address diverse customer needs and display requirements. Our extensive offerings and early customer engagements have led to a strong pipeline of design-wins.

We are also expanding our OLED portfolio with innovative, highly integrated solutions, such as our TED (Tcon Embedded Driver IC) technology, which combines DDIC and Tcon into a single chip to deliver a cost-effective and flexible solution particularly suited for smaller, lower-resolution automotive displays. Our TED technology continues to gain traction across a diverse range of applications, including automotive, robotics, and IT. Shortly after its introduction, the TED solution achieved its first mass production milestone with a leading global brand in the robotics market, with production commencing in Q4. Several additional design-win projects are also underway with customers for their upcoming vehicle models.

I'd like to now turn to our non-driver IC business update where we expect Q4 revenue to be flat to slightly down sequentially.

First for an update on our Tcon business. We anticipate Q4 Tcon sales to increase by high single digit quarter-over-quarter. Our automotive Tcon business is expected to deliver low teens growth in Q4, marking the third consecutive quarter of strong quarter-over-quarter growth despite subdued demand in the broader automotive market. The sequential growth is supported by continued shipments of our legacy

products to a broad and diversified customer base, along with the ramp-up of several new projects. Notably, one is for a U.S. Big Tech for its robotaxi offering, underscoring the broadening application of our automotive Tcon solutions beyond conventional passenger vehicles. Our full-year 2026 automotive Tcon sales are on track to grow by over 40% with another strong growth expected next year.

With automotive Tcon adoption still largely concentrated in premium vehicles, we see significant room for broader market penetration. At the same time, we hold a leading market position in the growing adoption of advanced HUDs where our automotive Tcon solutions are widely adopted to address complex issues of de-warping and post card effect elimination which are unique to HUDs. Together, these trends position us well to deliver another year of strong automotive Tcon growth in 2027 and beyond.

During the quarter, we also introduced our groundbreaking multi-output Tcon solution, designed to support next-generation free-form, ultra-wide, and high-resolution automotive displays. Featuring a high-speed eDP input and up to eight LVDS outputs, the solution supports resolutions of up to 12K and incorporates advanced image enhancement capabilities, including local dimming and HDR (high dynamic range). It also integrates built-in automotive safety features such as failure detection and on-screen display (OSD) for safety alerts and fault notifications. The solution simplifies system architecture, enhances design flexibility, and reduces overall costs, making it a compelling choice for next-generation automotive display applications ranging from HUDs to pillar-to-pillar displays. Its strong market appeal is already reflected in the design-in momentum with leading panel makers and Tier 1 players globally. This new solution demonstrates our continued execution on our technology roadmap and reinforces our leadership in advanced automotive display solutions.

Switching gears to the WiseEye product line, a cutting-edge ultralow power AI sensing total solution, targeting battery-powered endpoint devices. WiseEye has demonstrated its versatility through growing adoption across diverse applications, including notebooks, smart door locks, surveillance systems, access control, palm vein authentication, smart offices, and, more recently, smart glasses, with design-in activities continuing to expand. At the core of WiseEye's competitive advantage is its industry-leading ultralow power architecture, consuming only a few milliwatts while enabling on-device AI inference, 24/7 always-on visual and voice sensing, all in an exceptionally compact form factor. These capabilities enable customers to incorporate AI sensing into their products while minimizing power consumption, extending battery life, and reducing reliance on host processors, creating further opportunities across

emerging edge AI and endpoint AI markets.

As mentioned earlier, during the quarter we announced another significant milestone in the smart glasses market, with Alibaba adopting our WiseEye AI processor for its Qwen Glasses. The Qwen Glasses feature a three-chip architecture, with dedicated processors handling image processing, everyday tasks, and ultralow power visual sensing. Himax's WiseEye AI processor, featuring a compact form factor and integrated into the temple of the glasses near the ear, serves as the always-on, ultralow power AI vision engine. It enables continuous outward-facing environmental sensing and real-time understanding of the surroundings while consuming only a few milliwatts of power. This division of processing tasks allows the glasses to handle functions such as photography and audio processing while maintaining continuous environmental awareness without keeping the main processor constantly active, helping reduce overall system power consumption and extend battery life.

Beyond outward-facing environmental sensing for AI glasses, WiseEye also supports inward-facing eye tracking, enabling intuitive gaze-based interaction. In addition, it supports iris recognition for secure user authentication. Together, these capabilities lay the foundation for new-generation physical AI agent applications, enabling devices to proactively understand their surroundings, anticipate user needs, and provide timely, context-aware assistance rather than simply responding to user commands. In the smart glasses market, we continue to expand our WiseEye engagements with platform providers, ODMs, and consumer electronics names worldwide, with numerous projects poised to enter mass production starting in 2027.

On the WiseEye module front, design-in activities continue to expand, supported by its plug-and-play offering, ultralow power consumption, and on-device AI capabilities. A recent example is the adoption of our palm vein recognition module by WAFERLOCK, a Taiwan-based smart door lock brand. Powered by WiseEye, the door lock features fast, secure, and contactless palm vein authentication, with biometric processing performed on device to safeguard sensitive biometric data and enhance user privacy. Several additional PalmVein module projects are underway with customers, including certain global leaders in door lock, access control and security, reflecting growing demand for biometric authentication across residential, commercial, and smart building applications.

Finally, we continue to see growing design-in activities for our WiseEye AI solution with applications extending to capsule endoscopy, spanning both human and veterinary

healthcare. Leveraging WiseEye's ultralow power AI capabilities, our solution enables compact, swallowable capsule endoscopes to continuously capture and transmit images while consuming negligible power. This approach offers a less invasive and more convenient examination experience compared with conventional endoscopy, which typically requires the insertion of an endoscope tube. We are pleased to share that one of our capsule endoscopy projects for human health examinations is slated to enter mass production this quarter, following an extensive and lengthy review and approval process by China's National Medical Products Administration (NMPA) under its Class III medical device classification. This marks an important milestone for WiseEye in healthcare and further demonstrates its versatility across industries.

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

Thank you. Ladies and gentlemen, we are now in question-and-answer session. If you would like to ask a question, please press *1 on your telephone keypad and you will enter the queue. After you are announced, please ask your question. If you find that your question has been answered before it is your turn to speak, you may press *2 to cancel the question. In addition to submitting questions via phone, you may also submit questions through the webcast, where a chat box is available on the right-hand side of the screen. Thank you.

Now please press *1 on your telephone keypad if you would like to ask a question. Thank you. As a reminder, please press *1 on your telephone keypad if you would like to ask a question. Thank you.

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

We do receive online quite a few questions, mainly regarding overall market projection, particularly in relation to the automotive market, and also CPO. I think I will start with this combination of a few questions:

Question: Is the auto big down going to continue into next year? Is there anything to do with China, market share decline and impact gross margin next year? Okay, I think this is a combination of a few questions.

Answer: Well, thank you guys for the questions.

As you know, we don't usually provide guidance beyond one quarter, so I'm not going to give specific financial projections for next year. However, based on our current internal assessment, we are actually quite confident about our growth prospects for next year, which is now looking to enjoy double-digit growth.

Starting with revenue, we believe the sudden and substantial correction of revenues for Q4 this year is a temporary, short-term setback. It reflects our customers' overly aggressive inventory buildup in the previous two quarters, in light of the extraordinary growth of the export markets for Chinese car makers. What we are seeing over the last three or four weeks also, right after the Chinese National Day holidays, right after, some of our major customers, perhaps sensing early signals of the market conditions taking a turn for the worse, they decided to heat the brake hard, very hard. And actually, that kind of surprised us as well.

But as I pointed out earlier in the prepared remarks, our full-year automotive sales forecast for this year still stands at around 10% growth. This has accounted for the Q4 pretty drastic correction in sales numbers already. So this 10% sales growth is still achieved notwithstanding the sharp decline of the fourth quarter, outperforming the overall automotive shipment, which is well projected for decline this year.

So we believe, again, we are well positioned to achieve double-digit year-over-year revenue growth in 2027, driven primarily by automotive business, with growth across DDIC, TDDI, LTDI, and Tcon. I'm not going to go through the details again because we covered a lot of those in our prepared remarks. What I want to say is that our positive outlook is not built on the growth of global car shipments next year. It's not built on the growth of global car shipments next year. Rather, we are building our projection based on flattish global automotive shipments next year.

So our positive sales position is supported by the strong pipeline of design wins accumulated over the past few years, with customers' new project mass-production timetable already set for the coming quarters. So contrary to total vehicle shipment, which can swing one way or the other, based on various economic and political factors and is actually harder to predict, the gradual increase of number of displays per vehicle and IC dollar content inside each display are however, quite certain. Again, we have demonstrated this year we are still able to grow 10% year-over-year despite the decline of global car shipments. So this is also evidenced by the aggressive adoption of our leading-edge display IC solutions for automotives by Tier 1s and OEMs globally.

So that is the first area, the main area of global automotive display driver IC, which is now almost half of our total sales.

The next area to cover is EPD, or electronic paper display businesses, including DDIC and Tcons for e-readers and e-tag. This is another area of display ICs where growth prospects for next year look quite positive, supported by recent mass production of major e-reader brands' mainstream products where our ICs are adopted, and the broader coverage of customer base for the e-tag business. So I guess that's my quick summary for driver IC sales outlook for next year.

Now turning to non-driver businesses, which are expected to outgrow driver ICs' next year with revenue contribution approaching 30% next year, up from 20% of today. So the non-driver business will outgrow driver ICs next year. And the non-driver growth will be driven primarily by automotive Tcons, which are expected to deliver another year of very strong growth following this year's projected growth of 40%, supported by our robust design-in pipeline.

Our WiseEye product line is set to be another key growth driver, with very strong momentum across emerging applications, including smart glasses, WiseEye modules, and palm-vein authentication. I have highlighted all those in my prepared remarks. In smart glasses, in addition to the Alibaba Qwen Glasses and another global technology titan's AI glasses, we are quite confident that more product launches from various customers incorporating our WiseEye are actually on the way and they will be announced along the way in the next few quarters. All these developments, together with growing opportunities in WiseEye modules and palm vein authentication,

position us well for continued growth in 2027.

I want to highlight, the revenue outlook I just mentioned, meaning double-digit growth expected for next year, this does not include CPO, which is expected to start MP from 2027. And this will certainly add to our 2027 revenue as well. But because CPO is a new business, we still don't have a good grasp of how the business ramp-up will look in its first year of mass production. So I think it's prudent that we don't include it as part of our next-year sales discussion for the time being. And certainly, hopefully we will be able to give you concrete updates as we move along in the next few quarters. So that's a quick summary of next year's top-line projection.

People asks about gross margin. We do see some challenges ahead on gross margin because, as I pointed out earlier, our foundries and backend suppliers, including those in China, have announced significant price increases starting from the very beginning of next year. This is an industry-wide issue, and we are working closely with our suppliers and customers to manage the impact.

I mentioned earlier that sales contributions from non-driver IC product lines will be higher next year, approaching 30% from the current 20%. This will be accretive for gross margin because all major non-driver IC products, such as I highlighted earlier, Tcon and WiseEye, offer better gross margin than driver IC's. As I said earlier, our current outlook does not factor in potential contribution from CPO, which does offer much better gross margin than our corporate average, and it will certainly help enhance our gross margin rather meaningfully once ramping gets started. But again, even excluding CPO, we still expect gross margin to remain relatively stable compared to this year, or hopefully improve slightly next year, despite the challenging conditions on the supply side.

I hope that kind of covers all these questions. Let me see if I missed anything.

On market share decline, no, well, again, I pointed out, right, we actually outgrew the global car shipment data. So I think that's strong evidence that we are not losing market share. Rather, it is a very sudden and short-term customer order correction.

Anything to do with China? I've said it quite clearly both in my response to questions and prepared remarks that the Chinese exports over the first three quarters of this year grew almost 70% year-over-year. And this is very new and so strong, so I think logistics for exports is a lot more complicated than domestic sales. So I think some of the customers with big exposure to Chinese car exports are still getting used to this new market. And in light of the very strong growth, they probably over-built, and they sensed something early signal and they decided to slam on the brake. So, yes, it does have a lot to do with China, in particular Chinese cars.

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

Okay, there are quite a few questions. Again, I'll try to combine them together. They are all about CPO.

Many new players entering CPO, your market share got eroded? Your position still solid? How you compare with them, meaning the newcomers? Are we exclusively with FOCI for now? And are we facing pressure in light of the new competition? So that's the question about CPO.

So CPO, or more specifically FAU, right, FAU targeting the CPO application. That is our market. FAU targeting CPO application is a greenfield market for everyone. And that is a market which is super exciting, technically very, very challenging, and with enormous potential. So it is not surprise that more players are entering the race, and different players approaching the market with different competing technologies. So that is kind of expected, and we did expected that all along.

So first off, as far as we know, we are probably the only company offering optical solutions for FAU based on WLO technology, wafer-level optics technology, with products already in pretty advanced stage of engineering validation by some of the largest and leading end customers. So that kind of sets us apart from this so-called new competition, in that we are in a very advanced stage and we use WLO.

Before I continue, I'd like to point out that there are various optical and mechanical components inside an FAU, and since day one, Himax has focused our efforts on only

a select number of optical components which are of the highest technical challenge. And that is why we chose them because we feel we will be of the best value if we succeed. What I want to say is, we don't cover all optical components, every single piece of optical component inside the FAU. And we certainly don't intend to enter the field of mechanical components inside FAU. We don't do mechanical components. So we notice that certain press reports have mistakenly compared other companies' solutions with those of ours, while we are actually working on different things. So that is one clarification I wish to make, taking the advantage of the Q&A session.

Having said that though, there are some other competitors who are in fact competing head-to-head with us on the optical components that we chose to develop. While I won't comment on competing players or their technologies, we are very, very confident in the competitive advantage of our unique WLO approach. We have developed our solutions from the ground-up with extensive feedback from our customers and partners along the way over the last four or five years, during which time we have actually accumulated extensive know-how and experience, and we have filed numerous, in some cases, very critical patents, which is an advantage only unique to pioneers such as us and FOCI.

What I can say is that the latest feedback we have received from customers has been both encouraging and very promising. Although, we are again, we haven't really officially entered mass production stage, we are in hopefully last stages of engineering validation. Our WLO technology offers very unique advantages in nanometer-level optical precision, down to nanometer level. We offer outstanding optical performance and manufacturing consistency. Compared with conventional optical approaches, our WLO technology is particularly well suited for highly repeatable and reliable big volume production. Once the manufacturing process is established, we can repeatedly produce high-precision optical structures or components with consistent quality and stable yields.

I want to emphasize this, because it is one thing to be able to produce samples with so-called good quality or good precision, but the real challenge is maintaining that same level of quality consistently while shipping at scale. So right now, our worry is not really exactly on competition. Our focus is on execution, establishing reliable mass production capabilities, positioning ourselves among the early suppliers to serve leading customers. So again, engineering ramps are already underway, and we expect

shipments to gain strong momentum over the coming quarters, with rising revenue contribution quarter by quarter in the next foreseeable quarters. And that is something we have good confident about.

And lastly, in my prepared remarks, I mentioned that FOCI coincidentally announced earlier today that its Board of Directors approved capital expenditure in the amount of about $100 million for the expansion of fab space and manufacturing equipment. So I believe that is an illustration of our strategic partner's strong confidence in bringing the technology toward production soon. So in summary, we remain very confident that our CPO business will begin making a meaningful contribution to both our revenue and profitability starting from some point next year.

Whether our market share or market position will be eroded? I believe we are still clearly the market leader. I think it's way too early to talk about anybody's market share. And if anything, I think the market is so big that, well, first off, I don't believe anybody going forward in the long term will enjoy a monopoly in this huge market; it's impossible. So it's reasonable that there will be competition. So I think we are still ahead in the race, and market share erosion, I think, is really too early to tell, because nobody has really has the market share to speak of to begin with. Is our position is still solid? It is still very solid, because as I said, we are in the most advanced stage of validation and we are getting very, very close, and FOCI just announced major capital expansion. So I think all these are strong evidence for our position.

Are we still exclusively for FOCI for now? Yes, we still are, although we have been approached by others. But for the time being, I think it is to the best of our interests, our shareholders' interests, that we focus on FOCI and bring it up for mass production, getting it really nailed down, because having one partner is already quite exhausting, engineering-resource-wise. So I think it is a good idea that we focus on our strategic partner and nail it down to start mass production before we think of anything else.

I think that's my summary of my response to all these different questions. Operator, are there any other questions?

Operator

We don't have further questions at the moment. We thank you for all your questions, and I'll pass the call back to Mr. Jordan Wu for closing comments. Thank you.

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

Thank you, operator. As a final note, Karen, 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 third quarter 2026 earnings conference. You may now disconnect. Thank you again. Goodbye.