Himax Technologies, Inc. Q4 and FY2013

Unaudited Financials and Investor Update Call

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Moderator/Speaker Dial-In Numbers (for John Mattio, Jordan Wu, Jackie Chang, Penny Lin, and Stephanie Kuo): TOLL-FREE 1-877-407-4021 TOLL/INTERNATIONAL 1-201-689-8472	**Replay Dial-In Numbers:** TOLL-FREE 1-877-870-5176 TOLL/INTERNATIONAL 1-858-384-5517 From: 2/13/14 Eastern Standard Time To: 2/20/14 at 11:59 p.m. Eastern Standard Time Replay Pin Number: 13574978

Operator: Opening and standard introduction.

John Mattio: Thank you, operator. Welcome everyone to Himax's fourth quarter and full year 2013 earnings call. Joining us from the company are Mr. Jordan Wu, President and Chief Executive Officer, and Ms. Jackie Chang, 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 call MZ Group at 212-301-7130, or access the press release on financial portals like Bloomberg, Yahoo or Google or you can download a copy from Himax's website at www.himax.com.tw.

Before we begin the formal remarks, I'd like to remind everyone that some of the statements in this conference call, including statements regarding expected future financial results and industry growth, are forward-looking statements that involve a number of risks and uncertainties that could cause actual events or results to differ materially from those described in this conference call. Factors that could cause actual results include, but are not limited to, general business and economic conditions and the state of the semiconductor industry; market acceptance and competitiveness of the driver and non-driver products developed by the Company; demand for end-use applications products; the uncertainty of continued success in technological innovations; and other operational and market challenges and other risks described from time to time in the Company's SEC filings, including those risks identified in the section entitled "Risk Factors" in its Form 20-F for the year ended December 31, 2012 filed with SEC as amended.

Except for the Company's full year of 2012 financials which were provided on the Company's 20-F, filed with the SEC, the financial information included in this conference call is unaudited and consolidated, and prepared in accordance with US GAAP. Such financial information is generated internally and has not been subjected to the same review and scrutiny, including internal auditing procedures and audit by independent auditors, to which we subject our annual consolidated financial statements, and may vary materially from the audited consolidated financial information for the same period. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. At this time, I would now like to turn the call over to Mr. Jordan Wu.

Jordan, the floor is yours…….

Q4 2013 Results

Mr. Jordan Wu: Thank you John and thank you everybody for being with us for today's call. In today's earnings call, in addition to reporting our performance in the fourth quarter, I will also summarize our results for 2013 and highlight key milestones we achieved last year. I will then provide our outlook for the first quarter of 2014 and outline our product areas of focus of this year. Our CFO, Jackie Chang, will then provide additional details on our financial performance.

Our 2013 fourth quarter revenues, gross margin, GAAP and non-GAAP earnings per diluted ADS all met or exceeded our guidance for the quarter. For the fourth quarter, we reported net revenues of $195.2 million with a gross margin of 25.1%. Fourth quarter GAAP earnings per diluted ADS were 9.2 cents and non-GAAP earnings per diluted ADS were 9.7 cents, both results falling at the top end of our guided range.

Our fourth quarter revenues of $195.2 million represented a 2.4% increase from the fourth quarter of 2012 and a 1.3% sequential increase from the third quarter of 2013. Fourth quarter revenues exceeded our guidance driven by better-than-expected driver IC sales in smartphone and tablet applications mainly for Chinese and Korean markets and also non-driver products.

Revenues from large panel display drivers were $46.8 million, down 39.7% from a year ago and down 18.9% sequentially. Large panel driver IC accounted for 24.0% of our total revenues for the fourth quarter, compared to 40.7% a year ago and 29.9% in the last quarter. On the back of the soft global demands for TV, laptop and monitor, our large panel driver IC revenues from Innolux declined, while those from other customers increased.

Sales for small and medium-sized drivers came in at $113.0 million, up 32.3% from the same period last year and up 12.4% sequentially. Driver ICs for small and medium-sized applications accounted for 57.9% of total revenues for the fourth quarter as compared to 44.8% a year ago and 52.1% in the previous quarter in 2013. Sales for small and medium-sized drivers were another record high and are the fourth consecutive quarter that our small and medium-sized driver sales accounted for over half of total revenues. The strong growth was driven by robust sales to Chinese and Korean customers in smartphone and tablet segments.

Revenues from the non-driver businesses were $35.4 million, up 28.1% from the same period last year and up 2.4% sequentially. Non-driver products accounted for 18.1% of total revenues, as compared to 14.5% a year ago and 18.0% in the previous quarter. Our non-driver product sales reached another record high in terms of both absolute value and percentage of total revenues. Timing controllers, programmable gamma OP, touch panel controllers, CMOS image sensor, power management ICs, LED drivers and ASIC services were the main contributors to the growth of non-driver product segment. Also adding to this growth were pilot shipments of LCOS microdisplays for new and exciting head-mounted display applications. I will discuss more on some of these product areas a bit later.

Our GAAP gross margin for the fourth quarter of 2013 was 25.1%, a 180 basis point improvement from 23.3% a year earlier and a 20 basis point decrease from 25.3% in the previous quarter. The sequential decrease was caused by a slightly unfavorable product mix in the quarter. That said, our gross margin for the quarter still improved significantly year over year.

Our GAAP net income for the fourth quarter was $15.8 million, or 9.2 cents per diluted ADS, compared to $14.8 million, or 8.6 cents per diluted ADS, for the same period last year, and $12.3 million, or 7.2 cents per diluted ADS, in the previous quarter. In the last earnings release, we warned about the possible negative impact that a depreciating NT dollar would have on our income tax. To reflect the NT dollar depreciation against the US dollar for the whole of 2013, we have taken an additional $1.1 million charge, or 0.6 cent per diluted ADS, in our fourth quarter 2013 income tax. While our reporting currency is the US dollar, the vast majority of our taxes incur in Taiwan on the basis of our NT dollar book, which is the required reporting currency for the Taiwan tax authorities. The NT dollar depreciation resulted in foreign exchange gains for our US dollar assets and therefore higher tax payable in Taiwan. On the other hand, our tax payable will be lower if the NT dollar appreciates against the US dollar.

GAAP net income grew 7.2% year over year and increased 29.0% from the previous quarter. The sequential net income growth was mainly a result of the difference in

RSU, or Restricted Share Unit, charges as part of our share compensation program with our employees. The third quarter RSU expense was $7.8 million while it was just $0.4 million in the fourth quarter. GAAP EPS per diluted ADS grew 6.4% from the same period last year and grew 28.5% over the previous quarter.

Excluding the share-based compensation, acquisition-related charges and income tax provisions, our non-GAAP adjusted pre-tax income for the fourth quarter decreased 10.0% sequentially, but it still grew 13.9% from the same period last year, reaching $22.5 million. The sequential decline was due to $3.2 million of higher operating expenses. Amid a slow market condition during the quarter, we achieved bottom-line improvement year over year, thanks to better-than-expected revenues from smartphone and tablet segments as well as 180 bps of gross margin expansion.

Jackie Chang, our CFO, will now provide more details on our financial results. After Jackie’s presentation, we will further discuss our full year results, 2014 outlook and then first quarter 2014 guidance.

Jackie……

Ms. Jackie Chang: Thank you, Jordan. I will now provide additional details for our fourth quarter financial results.

Our GAAP operating expenses were $29.6 million in Q4 2013, up 17.6% from a year ago and down 13.6% from the previous quarter. The sequential decrease was primarily the result of the difference in RSU charges as Jordan pointed out earlier. In accordance with our protocol, we grant annual RSUs to our staff at the end of September each year, which, given all other things equal, leads to higher third quarter GAAP operating expenses compared to the other quarters of the year. Excluding RSU expenses, operating expenses increased from the previous year and last quarter as we previously guided due to higher salary expenses for additional headcount, annual pay raises and certain new product tape-outs during the quarter.

GAAP operating income for the fourth quarter of 2013 was $19.4 million, or 9.9% of sales, up 0.9% year over year and 34.3% sequentially.

Non-GAAP net income in the fourth quarter was $16.6 million, or 9.7 cents per diluted ADS, representing a growth of 5.7% year over year and a decline of 14.0% sequentially. Non-GAAP EPS per diluted ADS grew 4.9% from the same period last year and declined 14.3% over the previous quarter.

I will go through 2013 full year financial results and balance sheet analysis a bit later after Jordan's 2013 full year business review.

<u>2013 Full Year Summary</u>

Mr. Jordan Wu: Thank you, Jackie. We are happy that 2013 was another successful year for Himax. Small and medium-sized driver IC, our largest source of sales, delivered the strongest growth. Our leading position in the business enabled us to take advantage of the robust global demand for smartphone and tablet as well as the industry trend toward higher resolution displays. For large panel display driver business, we continued to expand our sales to Chinese customers and penetrate into non-China customers. We also had a terrific year in our non-driver businesses where we maintained our strong growth momentum and made exciting progress including new product launches and major customer design-wins. Some of our non-driver products have already garnered interest by marquee and globally recognized end customers.

Our revenues totaled $770.7 million in 2013, representing a 4.5% increase over 2012. Notably, our customer diversification improved substantially as sales to non-Innolux customers grew 23.0% year over year while those to Innolux declined 31.0%. Innolux accounted for between 15% to 20% of our total sales toward the year end.

Small and medium-sized drivers grew 26.4% and represented 53.9% of our total revenues. Excluding feature phone, our small-and medium sized drivers sales grew 38.6% year over year. We are among the leading suppliers to panel makers across Taiwan, Korea, China and Japan, covering the vast majority of leading smartphone end customer names in both China and international markets. The strong growth momentum of the small and medium-sized driver business will continue into this year, driven by smartphone, tablet and automotive displays. The phenomenal smartphone market growth naturally invited intense competition in the driver IC space, especially in the lower-end segments. However, our technology and cost competiveness, on the back of the industry trend toward higher panel resolution, have enabled us to achieve a decent gross margin improvement last year.

Revenues from large panel display drivers declined 25.0% year over year, representing 29.7% of our total revenues, as compared to 41.4% in 2012. I mentioned earlier that last year sales to Innolux declined by 31.0%. The majority of the decline went to large panel driver ICs. The soft global demand for TVs, monitors and notebooks also attributed to our decline in this sector last year. However, our non-Innolux large panel customers still grew 14.5% year over year, an illustration of our continued competitiveness.

Non-driver products grew 22.4% and represented 16.4% of our total sales, as compared to 14.0% a year ago. Our CMOS image sensor, programmable gamma OP, power management IC, WLED driver, video SOCs and ASIC service all delivered strong growth while LCOS microdisplays continued to gain momentum in 2013. This illustrates our strong R&D capability and our progress toward a more diversified product portfolio.

Gross margin in 2013 was 24.9%, a 180 basis-points improvement, from 23.1% in 2012. The significant margin improvement is a result of our combined product and customer diversification. Gross margin improvement will continue to be one of our major business goals going forward.

Our GAAP net income for the year was $61.5 million, or 35.8 cents per diluted ADS, up from $51.6 million, or 30.2 cents per diluted ADS, for the same period last year. GAAP net income and GAAP EPS per diluted ADS grew 19.1% and 18.4% year over year, respectively.

In July 2013, we paid an annual dividend of 25 cents per ADS, equal to 83.3% of 2012 GAAP EPS per diluted ADS. We remain committed to paying annual dividends, the amount of which is referenced primarily on prior year's profitability. The high payout ratio in 2013 is an illustration of our confidence to continue to improve our profitability.

Now, I will ask Jackie to explain the details for our full year financial results.

Ms. Jackie Chang: Thanks again, Jordan. In terms of 2013 full year performance, our GAAP operating expenses were $117.5 million for the year, up $14.0 million or 13.5% compared to last year. We reported early last year that we intended to expand our R&D expenses to capture the increasing business opportunities, following several years of stable R&D spending.

GAAP operating income of $74.3 million represented a 10.9% increase versus 2012. Non-GAAP net income for 2013 was $71.0 million, or 41.4 cents per diluted ADS, up from $60.3 million, or 35.3 cents per diluted ADS, for 2012. Non-GAAP net income and Non-GAAP EPS per diluted ADS grew 17.8% and 17.1% year over year, respectively.

Our cash, cash equivalents and marketable securities were $128.1 million at the end of December, down from $138.9 million at the same time last year and slightly down from $133.9 million a quarter ago. On top of the above cash position, restricted cash was $108.4 million at the end of the quarter. The restricted cash is mainly used to guarantee the company's short term loan for the same amount. We continue to maintain a very strong balance sheet, and we remind investors that we remain a debt-free company.

Inventories as of December 31, 2013 were $177.4 million, up from $116.7 million a year ago and up from $159.6 million a quarter ago. The higher inventory was prepared for the expected first quarter sales growth of driver ICs for all panel sizes, CMOS image sensor and a few other non-driver products. We expect the inventory level to come down by the end of the first quarter as a result of overall inventory control and expected increasing shipments. Accounts receivable at the end of December 2013 were $200.7 million as compared to $209.0 million a year ago and $202.2 million last quarter. DSO was 95 days at end of December, 2013, as compared to 103 days a year ago and 96 days at end of the last quarter.

Net cash outflow from operating activities for the fourth quarter was $1.8 million as compared to cash inflow of $52.4 million for the fourth quarter of 2012 and cash inflow of $27.4 million for the third quarter of 2013. The net outflow was caused mainly by the relatively high year-end inventory as explained above. While we had to pay for those goods in the fourth quarter, we will not get paid for our sales until the first or second quarter of 2014. Cumulative cash inflows from operations in 2013 were $52.4 million versus $52.2 million the year before.

Capital expenditures were $3.9 million in the fourth quarter versus $2.2 million a year ago and $3.8 million last quarter. The capital expenditure in the fourth quarter consisted mainly of purchases of certain equipments for our WLO and LCOS product lines. Total capital expenditures for the year were $18.4 million versus $6.6 million a year ago.

As of December 31, 2013, Himax had 170.5 million ADS outstanding, unchanged from the last quarter.

I will now turn the floor back to Jordan.

Q1 2014 Outlook

Mr. Jordan Wu: Thank you, Jackie. Following a successful transformation in 2012, we delivered strong operational and financial results in 2013. While the business from Innolux, which stopped being a related party since June 19th, 2013 when it disposed of all its equity holdings in Himax, declined by 31%, sales from other customers were up by 23% during 2013. We were therefore still able to achieve top line growth for the whole year. This accomplishment illustrates the successful execution of our long term strategy to diversify our customer base and product portfolio. Looking into 2014, we are seeing strong fundamentals across all our business segments and we are positive about our full year outlook for continued revenue and earnings growth.

Large panel driver IC remains one of our major business segments. We have maintained a leading position in China, which is now the world's leading market for display capacity expansion. Additionally, we expect a few major non-China panel customers should contribute to our sales significantly in 2014. On the technology front, we remain a market leader in providing state-of-the-art large panel driver IC solutions. For example, we are leading the market in the development of solutions to combat the thermal issues which are common in customers' 4K panel projects. We expect some growth for our large panel drivers in this first quarter of 2014 from sales to both existing and new customers. We believe the main growth engine for large panel driver market this year will come from 4K TV where we are a market leader. This strong first quarter outlook demonstrates that our past efforts are coming to fruition starting this year. We expect to resume the revenue growth of large panel driver business in 2014.

We expect continued sales growth of both smartphone and tablet markets in 2014. However, first quarter will see some decline in smartphone sales due to fewer working days in China. We enjoy a prominent position in the smartphone sector thanks to our leading technologies, competitive products and solid customer base. We have a comprehensive coverage in both panel makers, which are our direct customers, and end user indirect customers including first-tier international and Chinese brands as well as those in the fast growing China white-box market. We expect the sales for smartphone application to accelerate throughout 2014, partially aided by the accelerating adoption of 4G LTE in various countries including China. The trend toward higher panel resolution, in which we enjoy better ASPs and gross margin, will also continue in 2014. However, lower-end smartphone is a more competitive market with intense price competition and eroding margin. We will defend our margin by cost reduction measures and leading the market in higher-end products.

Tablet and automotive displays are the other two growing applications in our small and medium-sized panel driver business where we have a solid customer base and leading market share in both markets. In the tablet market, we are already a market leader in both China and international brand markets. Our leadership position in both smartphone and tablet markets have enabled us to provide our customers with the most comprehensive and optimal solutions in a market where the line between the two product segments has become increasingly blurry. The automotive display market, where we are already a market leader, is unique in that it commands high reliability standard and special know-how. Following a few years of hard work, we achieved a phenomenal growth in 2013 and set a strong foothold in the market. Sales for both applications are expected to grow strongly during the first quarter and the rest of the year.

The non-driver category is our most exciting long-term growth engine. The non-driver business is one of our key differentiators against our competition which enable us to offer total solutions of image processing and human interface related technologies in addition to our driver IC products. Many of our non-driver products, including CMOS image sensor, timing controller, touch panel controller, power management IC, WLED driver, ASIC service, wafer level optics and LCOS microdisplay, are set to grow significantly in 2014. I will highlight some of the non-driver product lines below.

Our CMOS image sensors delivered a phenomenal growth in 2013 and will continue to be a fast growing area for us in 2014. 2013 was the year when we positioned ourselves as one of the high-end image sensor providers by launching our first 8 mega-pixel sensor product in Q4. Currently, our sensor products range from entry-level qVGA and VGA to higher-end 8 mega pixel sensor products, targeting smartphone, tablet, laptop, IP Cam, surveillance and automotive markets. The first quarter revenue prospect for CMOS image sensor looks positive, but gross margin of this product line will be dampened by inventory correction of some mid to low-end products. We are confident that gross margin will improve overtime once we resolve the inventory issue and certain new products with higher margin start to account for a larger proportion of sales for this product line.

Supported by numerous new design-win projects covering both China and international customers, we expect a strong growth of touch panel controller sales in 2014. Our product line covers both cellphone and tablet markets. We are also committed to the development of new technologies such as on-cell and in-cell touch sensors for next generation products. Recent customer feedback and intensive design-in activities firmly supports our belief that touch panel controllers will be one of our growth drivers in 2014 and beyond.

We further expanded our leadership in the LCOS business during the last quarter. We launched our next generation technology with which we have successfully engaged top-tier customers. The new generation technology will enhance product performance and greatly simplify our customers' manufacturing process. We remain very excited about the new head-mounted display opportunities. We continue to work with multiple customers, including some top-tier names, on multiple projects, many of which involved tailor-made designs with customers' development fees. We have made shipments for certain customers' pilot runs of production. Our LCOS sales are expected to accelerate in 2014. We believe our LCOS microdisplay business remains one of the most important area's for Himax's long-term growth.

To sum it up, with all these new developments and the increasing business opportunities across every business segment, we believe we are positioned strongly for another successful year in 2014.

Q1 Guidance

While the first quarter is traditionally the bottom of the year in terms of sales because it has fewer working days due to Chinese New Year, we expect the first quarter revenues to be around flat or slightly down compared to the last quarter. Gross margin is expected to be slightly down from the previous quarter depending upon the final product mix. We expect the first quarter gross margin to be the bottom of the year as our improving product mix will help lift gross margin beyond the first quarter of 2014. GAAP earnings attributable to shareholders are expected to be in the range of 8.0 to 9.5 cents per diluted ADS based on 172.2 million outstanding ADSs. Non-GAAP earnings attributable to shareholders are expected to be in the range of 8.3 to 9.8 cents per diluted ADS based on 172.2 million outstanding ADSs.

Our best estimate of effective income tax rate for 2014 as of today is around 21.0%. In estimating this tax rate, we have considered relevant tax regulations and our internal P&L forecast for the year. Naturally, we have also used 21% as the effective tax rate for the first quarter.

Thank you for your interest in Himax. We appreciate your joining today's call. We are now ready to take your questions.

OPERATOR TO QUEUE QUESTIONS

Jordan's closing remarks

Thank you everyone for taking the time to join today's call. We look forward to talking with you again at our upcoming earnings call in early May. As a final note, Jackie Chang, our CFO, will be on non-deal road show in the U.S. and also attend investor conferences in March. We will announce these as they come about. Please contact our IR department and/or John Mattio at MZ Group if you are interested in meeting with us in person. Thanks again and have a nice day.