Himax Technologies, Inc. Q4 and FY 2014

Unaudited Financials and Investor Update Call

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Moderator/Speaker Dial-In Numbers (for Scott Powell, Jordan Wu, Jackie Chang and Nadiya Chen): 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: 2/12/15 Eastern Standard Time To: 2/19/15 at 11:59 p.m. Eastern Standard Time Replay Pin Number: 13599287

Operator: Opening and standard introduction.

Scott Powell: Thank you, operator. Welcome everyone to Himax's fourth quarter and full year 2014 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 PCG Advisory Group, LLC at 1-646-780-8850, 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, 2013 filed with SEC as amended.

Except for the Company's full year of 2013 financials which were provided on the Company's 20-F, filed with the SEC on April 15, 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 2014 Results

Mr. Jordan Wu: Thank you Scott 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 2014 and highlight key milestones we achieved last year. I will then discuss our outlook for the first quarter of 2015 and comment on a few product areas of focus of this year. Our CFO, Jackie Chang, will also provide additional details on our financial performance.

I am pleased to report that our 2014 fourth quarter revenues, gross margin, GAAP and non-GAAP earnings per diluted ADS all met at high end or exceeded our guidance. For the fourth quarter, we reported net revenues of $227.2 million with a gross margin of 24.7%. Fourth quarter GAAP earnings per diluted ADS were 9.1 cents and non-GAAP earnings per diluted ADS were 9.4 cents. Our revenue, GAAP and Non-GAAP earnings per diluted ADS all came in at the high end of our guidance while our gross margin exceeded the guidance for the quarter. In response to market rumors that Himax might miss its Q4 guidance, we preannounced the Q4 revenues and gross margin on January 14th. In the same preannouncement, we also provided renewed GAAP earnings per diluted ADS guidance of 8.7 to 9.2 cents. We came in at the higher end of the range.

Our fourth quarter revenues of $227.2 million represented a 16.4% increase from the same quarter last year and a 2.2% sequential increase from the previous quarter. Our fourth quarter revenues were the highest since the fourth quarter of 2008. Fourth quarter revenues came in at the high end of our guidance, driven by better-than-expected driver IC sales for TV, smartphone and tablet applications, mainly in the Chinese and Korean markets.

Revenues from large panel display drivers were $65.5 million, up 39.9% from a year ago and up 7.0% sequentially. Large panel driver IC accounted for 28.8% of our total revenues for the fourth quarter, compared to 24.0% a year ago and 27.5% in the last quarter. We've been guiding large panel DDIC to resume steadfast growth since early 2014 and, as anticipated, this is the fourth quarter in a row when large panel driver IC sales enjoyed sequential growth. The growth was driven by strong shipments to both existing and new customers with 4K TV demand particularly robust in the second half of last year. We are confident that the positive momentum will continue into 2015, and we will anticipate gaining share in this segment.

Sales for small and medium-sized drivers came in at $114.8 million, marking a quarterly record-high. These revenues were up 1.7% from the same period last year and up 1.4% sequentially. Driver ICs for small and medium-sized applications accounted for 50.5% of total revenues for the fourth quarter as compared to 57.9% a year ago and 51.0% in the previous quarter. Korean and Chinese smartphone customer's demand was robust, especially in the higher end segments. It is worth highlighting that we experienced a nice surprise in branded tablet market. Despite a slight decline from the last quarter, tablet revenues were better than initially guided. We believe that branded tablets, with larger screens and attractive functions such as convertibility, innovative covers and keyboard design, are enjoying a competitive advantage against the white box products.

Revenues from our non-driver businesses were $46.9 million, up 32.1% from the same period last year and down 2.0% sequentially. Non-driver products accounted for 20.7% of total revenues, as compared to 18.1% a year ago and 21.5% in the previous quarter. Touch panel controllers, timing controllers, CMOS image sensors, and LCOS microdisplay ICs were the main contributors to the growth of the non-driver product segment in the quarter. Among non-driver products, touch controllers showed the strongest growth, nearly tripling from the same period of 2013, and growing more than 40% sequentially. CMOS Image sensor sales nearly doubled year over year. I will discuss more about some of these product areas a little later.

Our GAAP gross margin for the fourth quarter of 2014 was 24.7%, down from 25.1% a year earlier and up from 24.5% in the previous quarter. We guided gross margin to be down within 1% sequentially in the last earnings call. Gross margin beat guidance mainly due to a more favorable product mix including high end smartphone and tablet driver ICs, and higher NRE incomes.

GAAP operating expenses were $33.4 million in fourth quarter of 2014, up 12.8% from a year ago and down 20.1% from the previous quarter. The sequential decrease was primarily the result of the difference in RSU charges. In accordance with our protocol, we grant annual RSUs to our staff at the end of September each year, which, given all other items are equal, leads to higher third quarter GAAP operating expenses compared to the other quarters of the year. The fourth quarter RSU expense was only $0.5 million while it was $9.3 million in the third quarter. Excluding RSU expenses, operating expenses increased 12.3% year over year and 3.2% from last quarter. The sequential increase was mainly attributable to certain new product tape-outs, while the year over year increase was due mainly to salary raises and more headcounts. The increase was partially offset by lower salary expenses in USD terms. We paid the vast majority of our salaries in NTD which represented a lower amount in USD in our accounting as the NTD depreciated against the USD.

Excluding RSU and acquisition-related charges, our non-GAAP operating income for the fourth quarter of 2014 was $23.4 million, or 10.3% of sales, up 14.0% from the same quarter of 2013 and up 2.6% from the previous quarter.

Jackie Chang, our CFO, will now provide more details on our financial results for the quarter. After Jackie’s presentation, we will further discuss our full year results, 2015 outlook and then provide first quarter 2015 guidance.

Jackie……

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

GAAP operating income for the fourth quarter of 2014 was $22.6 million or 10.0% of sales, up 16.6% year over year and up 80.3% sequentially. As Jordan mentioned earlier, the sequential increase was mainly a result of the higher RSU expense booked in the previous quarter. However, non-GAAP operating income still experienced 2.6% sequential growth.

Our GAAP net income for the fourth quarter was $15.6 million, or 9.1 cents per diluted ADS, compared to $15.8 million, or 9.2 cents per diluted ADS, for the same period last year, and $11.1 million, or 6.5 cents per diluted ADS, in the previous quarter.

In the last earnings call, we warned about the possible negative impact that depreciating NT dollar would have on our income tax. It did hit our fourth quarter bottom line with a total impact of $4.8 million and it was $3.3 million higher than the $1.5 million we assumed when providing our EPS guidance last quarter.

While our reporting currency is the US dollar, the vast majority of our taxes are incurred in Taiwan on the basis of our NT dollar book, which is the required reporting currency for the Taiwan tax authorities. NT dollar depreciation resulted in foreign exchange gains for our US dollar assets and therefore higher income tax in Taiwan. On the other hand, our income tax will be lower if the NT dollar appreciates against the US dollar.

In our last earnings call, we estimated $1.5 million of additional income tax charges caused by the NTD depreciation based on the exchange rate of 30.55 on the date of the EPS guidance (November 10th). However, from November 10th to the year end, the NTD further depreciated to 31.65 against the USD, resulting in an additional $3.3 million, or 1.9 cents per diluted ADS, of income tax charges. If the NTD/USD rate had stayed at 30.55, our EPS would have been higher by 1.9 cents, far outperforming our original guidance.

GAAP net income declined 1.3% year over year and increased 40.2% from the previous quarter. Excluding the exchange rate impact on our income tax, GAAP net income actually grew 20.8% year over year and 80.3% sequentially. The sequential net income growth was mainly a result of the difference in RSU charges as Jordan mentioned earlier. The year over year growth was primarily due to higher revenues.

To sum up, excluding the share-based compensation, acquisition-related charges and income tax provisions, our non-GAAP adjusted pre-tax income for the fourth quarter increased 6.9% sequentially, and it grew 13.6% from the same period last year, reaching $25.6 million. The sequential increase was a result of a slight margin improvement on higher revenue, while the year over year profit increase was due to the 16.4% higher revenue offset by $4.1 million of higher operating expenses. Amid a slow market environment during the quarter, we managed to achieve significant top and bottom-line improvement year over year, thanks to better sales from large panel DDICs, DDICs for tablets, CMOS image sensors and touch controller ICs.

I will go through 2014 full year financial results and a balance sheet analysis a little later after Jordan’s 2014 full year business review.

2014 Full Year Summary

Mr. Jordan Wu: Thank you, Jackie. We are happy that despite a few challenges, we still managed to grow in 2014. Small and medium-sized driver IC remained our largest source of sales. Our market leading position in this business segment enabled us to take advantage of the growing global demand for smartphones and tablets as well as the industry trend toward higher resolution displays. For our large panel display driver business, we continued to expand our sales to Chinese customers and secured a leading market share in that country. We also gained market share from non-China customers. Meanwhile, non-driver products continued to outgrow driver ICs and achieve record high revenues. We saw exciting progress on many of our non-driver products. Many of the non-driver products have already penetrated into marquee and globally recognized end customers.

Our revenues totaled $840.5 million in 2014, representing a 9.1% increase over 2013. Notably, our customer diversification continued to expand as we added multiple tier 1 customers across all of our product lines.

Small and medium-sized driver sales grew 7.3% and represented 53.1% of our total revenues, another record high. Of the 7.3% growth, tablet and automotives DDICs showed particular strength, while smartphone DDICs delivered modest growth. Tablet driver IC sales grew nearly 10% in 2014; however, sales in the second half of the year declined 20% from the first half, signaling weak overall market demand. Meanwhile, automotive driver IC sales registered the strongest growth in this segment, at approximately 50%, and the momentum is expected to carry over into

2015. We are among the leading suppliers of small and medium-sized DDIC for panel makers across Taiwan, Korea, China and Japan, covering the vast majority of leading smartphone and tablet end customer names in both China and the international markets. Our leading technology, on the back of the industry's migration toward higher panel resolution over the past few years, has enabled us to achieve respectable growth in these segments.

Revenues from large panel display drivers declined 1.2% year over year, representing 26.9% of our total revenues, as compared to 29.7% in 2013. However, the business bottomed out in the first quarter of 2014, and we enjoyed three consecutive quarters of growth thereafter. We were able to achieve a more diversified customer base by adding new customers in Taiwan, China and Korea. Being the technology leader, we also benefitted from the surging 4K TV demand, a higher dollar content business with significant barriers of entry. We are pleased that large panel DDIC has once again become a growing segment for us despite the continued soft demand in monitors and notebook markets.

Non-driver products grew 33.5% and represented 20.0% of our total sales, as compared to 16.4% a year ago. Our touch controller, CMOS image sensor, timing controller, LCOS microdisplay ICs and ASIC service all delivered strong growth. We also experienced growing market interest and deepening customer engagement in our LCOS and WLO businesses. As noted previously, we continue to work with several industry heavyweights in the LCOS and WLO business. These two technologies are being applied in some of their future products, ranging from head mounted displays to next generation mobile devices, and the Internet of Things. We are excited that LCOS and WLO should experience this inflection point in 2015.

Gross margin in 2014 was 24.5%, a 40 basis-point decline, from 24.9% in 2013. The slight margin decline was mainly the result of higher shipments of older generation CMOS image sensors in first half of last year. Foundry capacity constraint in second half of the year also had some negative impact on gross margin. However, the above mentioned factors were largely offset by growing demand from 4K TV and NRE income from our ASIC, LCOS and WLO products.

Our GAAP net income for the year was $66.6 million, or 38.7 cents per diluted ADS, up from $61.5 million, or 35.8 cents per diluted ADS, for the same period last year. As mentioned earlier, the exchange rate impact on income tax was $5.6 million for 2014 and $2.3 million for 2013. Excluding the exchange rate impact on income tax, 2014 GAAP net income grew 13.2% year over year.

In July 2014, we paid an annual dividend of 27 cents per ADS, equal to 75.0% of 2013 GAAP earnings per diluted ADS. We remain committed to paying annual dividends, the amount of which is based primarily on our prior year’s profitability. The high payout ratio in 2014 is an illustration of our confidence in our future profitability.

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

Ms. Jackie Chang: Thanks again, Jordan. In terms of 2014 full year performance, our GAAP operating expenses were $133.2 million for the year, up $15.6 million or

13.3% compared to last year. We have repeatedly indicated since late 2013 that we intended to increase our R&D expenses to capture new business opportunities, following several years of stable R&D spending. We believe that such investments will really come to fruition starting in 2015.

Due to higher OPEX, GAAP operating income of $72.7 million represented a 2.2% decrease versus 2013. Non-GAAP net income for 2014 was $76.0 million, or 44.2 cents per diluted ADS, up from $71.0 million, or 41.4 cents per diluted ADS, for 2013. The increase in non-GAAP net income was mainly the result of an $8.6 million net gain from the disposal of an investment in the second quarter. Non-GAAP net income and Non-GAAP earnings per diluted ADS grew 7.0% and 6.9% year over year, respectively.

Our cash, cash equivalents and marketable securities were $187.8 million at the year end, compared to $128.1 million at the same time last year and $147.7 million a quarter ago. This is a historical high in our cash position since the second quarter of 2009. On top of the above cash position, restricted cash was $130.2 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, 2014 were $166.1 million, down from $177.4 million a year ago and up from $157.1 million a quarter ago. The higher inventory was due to the expected customer restocking of driver ICs for all panel sizes, CMOS image sensors and a few other non-driver products after Chinese New Year and into the second quarter of 2015. This is also a move to counter foundry capacity constraints. Nevertheless, the year-over-year decline in inventory reflects better inventory management in 2014 despite a healthy sales growth in the year. We have successfully reduced the average days in inventory by 23 days. Accounts receivable at the end of December 2014 were $219.4 million as compared to $200.7 million a year ago and $218.8 million last quarter. DSO stayed flat at 95 days at the end of December, 2014, little changed from 95 days a year ago and 97 days at end of the last quarter.

Net cash inflow from operating activities for the fourth quarter was $38.7 million as compared to an outflow of $1.8 million for the fourth quarter of 2013 and an inflow of $22.8 million for the third quarter of 2014. Cumulative cash inflow from operations in 2014 was $93.7 million as compared to $51.1 million in 2013, the second highest year since the company's inception in 2006. The growth in cash inflow was a result of improved profitability and inventory reduction.

Capital expenditures were $2.4 million in the fourth quarter of 2014 versus $3.9 million a year ago and $2.1 million last quarter. The capital expenditure in the fourth quarter consisted mainly of purchases of certain equipment for our driver IC products and facility updates for LCOS and WLO product lines. Total capital expenditures for the year were $10.9 million versus $18.4 million a year ago. We purchased less CP testers in 2014, resulting in the differential in capital expenditures year over year.

As of December 31, 2014, Himax had 171.2 million ADS outstanding, unchanged from last quarter. On a fully diluted basis, the total ADS outstanding are 172.2 million.

I will now turn the floor back to Jordan.

Q1 2015 Outlook

Mr. Jordan Wu: Thank you, Jackie. Following a successful business transformation in 2013, we delivered strong operational and financial results in 2014. Himax continues to execute on our strategy of becoming a more diversified company with regard to product offerings as well as customers. We are very pleased to be experiencing growth in both our driver and non-driver business segments. We are particularly excited about the prospects for our LCOS microdisplay and WLO products, which are integral parts of the eco-system for the rapidly emerging head mounted display products and next-generation cameras for mobile devices. Equally exciting is our market leading single-chip solutions for pure in-cell touch display, which we believe will soon become mainstream in portable and wearable devices. In summary, Himax is at a significant inflection point, with many of our non-driver products ready to enter the consumer market after many years of product development and R&D. As we look into 2015, despite the current softness in China's smartphone and tablet markets, which is worsened by fewer working days due to the timing of Chinese New Year, we are excited about our full year outlook and believe that we will experience strong growth across all our business segments. We anticipate 2015 to be another year of continuous revenue and earnings growth.

Following a few years of revenue decline, large panel driver IC sales should be a major growth engine for us in 2015. We expect our large panel drivers in the first quarter of 2015 to register strong growth compared to the same period last year, at approximately 25%. We should continue to benefit from the display capacity expansion in China, where we are the market leader in driver IC sales. Furthermore, we expect to grow market share in the non-China large panel market in 2015. On the technology front, we remain a market leader in providing state-of-the-art, high-end large panel driver IC solutions. 4K TV penetration should continue to be the driving force for growth in this segment with its sales volume expected to more than double this year.

In our previous earnings calls, we mentioned that large panel makers are increasingly demanding a total solution from IC vendors. We are experiencing accelerating demand from panel manufacturers seeking IC vendors who can provide driver IC, TCON, Gamma OP, and PMIC as a total solution. Meanwhile, TCON is getting more and more technologically advanced, with high end models integrating sophisticated functions such as MEMC. This positions us very well in the 4K TV market and beyond. As the industry migrates to 8K TVs, which is already starting to take place in product development, our business and technology strength and integrated product solutions will be a significant differentiator against our competitors. Thanks to our leading technology and comprehensive customer base, we are confident that we are at the beginning of a long term growth trend for our large panel driver products, a trend which should last for the next several years.

Let's now turn to our driver ICs used in small and medium-sized panels, which are primarily used in smartphones, tablets and for automotive applications. We expect continued resolution upgrades this year in both the smartphone and table markets.

FHD is quickly replacing HD720 to become the new mainstream for high end smartphones. We also expect to begin mass producing driver IC for the very high end QHD resolution panel at the beginning of Q2 this year. A more favorable product mix should help us mitigate margin pressure in the competitive smartphone market. Notwithstanding our positive outlook, first quarter sales for smartphone drivers are likely to decline substantially, which we already indicated in our last earnings call. The weakness is particularly significant in China where smartphone vendors, lacking new government stimulus programs, are turning cautious as they are forced to try new sales channels such as e-commerce and direct sales points to replace the previous approach of selling through telecom operators. Worse yet, exports are also weak because Chinese smartphone manufacturers are worried that a strong RMB would further compress their already thin profit margin. Following two quarters of market weakness, we have started to build inventory in preparation for a market rebound toward the end of Q1 or Q2. In addition to our leading position in TFT-LCD smartphone driver IC product offerings, we started small shipments of AMOLED driver IC to certain Chinese customers in Q4 2014. AMOLED is likely to be a future growth engine for our small panel driver IC business and we are collaborating with multiple customers both in Korea and China on AMOLED product development. It is worth mentioning that quite a few new AMOLED fabs are being built in China and we have the most comprehensive customer coverage there, although this will not bring in meaningful revenue contribution until later this year.

We also expect a significant sequential sales decline for tablets in the first quarter, for reasons similar to those for the smartphone market mentioned above. Moreover, in the Chinese tablet market, there are more smaller and less resourceful players, many of them being forced out of the market due to the Chinese government's credit tightening policy, causing further market weakness. The declining demand might also be a result of changing consumer behavior, as some consumers are moving to smartphones with screen sizes similar to those of smaller sized tablets. Tablet demand, after a lengthy slump, may improve after Chinese New Year; yet sales visibility is still low as we speak. Going forward, mainstream demand will be 10" and above with higher resolutions, instead of the once popular sizes of 7" to 9"s. We are seeing many tier-1 OEMs pursuing this segment aggressively which may materialize in 2015 and trigger new market demands.

Among driver ICs used in small and medium-sized panels, the most noteworthy category in 2015 is the automotive application. We have successfully engaged key panel manufacturers and module houses for long term partnerships. We anticipate Q1 sales to be slightly stronger than the previous quarter and expect robust sequential growth throughout the year. We believe that with numerous tier 1 automobile brands being our indirect end customers, we are well positioned to take advantage of the growing market in 2015 and beyond.

The non-driver business segment provides our most exciting long-term growth prospect. Overall, our non-driver business category enjoyed approximately 35% growth during 2014. Amid a weak overall market sentiment and the usual seasonality, we expect a double digit sequential decline in our non-driver products for the first quarter. However, looking ahead, many of our non-driver products, including our CMOS image sensor, timing controller, touch panel controller, power management IC, ASIC service, wafer level optics and LCOS microdisplay, are poised to grow significantly in 2015. I will now highlight some of the non-driver product lines.

Our touch panel controller product line continued to experience significant growth in Q4 2014, increasing more than 40% sequentially. We exited 2014 with our touch controller sales more than doubling from the previous year. We expect this strong growth momentum to continue in 2015. On top of our rapidly growing market share in the discrete touch panel market segment, we are extremely excited about technological advances in the latest pure in-cell technology where we are one of the pioneers in offering one-chip solutions integrating driver IC and touch panel controllers, or TDDI. Driven by top-tier TFT-LCD makers, the industry is moving towards pure in-cell panels, which is set to start mass production in the second half of this year. We are in partnership with essentially all of the leading panel manufacturers in pure in-cell touch for joint technological development and expect the market to see major launches of this new technology very soon.

Our CMOS image sensors also experienced significant growth in 2014 and should continue to be a fast growing product area for us in 2015. Sales of our 2 and 5 megapixel products were particularly strong, mainly due to robust demand from several international customers as well as from Chinese white-box customers. Looking into 2015, we expect our sales of 8-megapixel sensors, now the mainstream design for smartphones, to accelerate while high end 13 megapixel sensors to start mass production later in the year. This puts Himax firmly on the map as one of a small handful of companies capable of offering a comprehensive product portfolio for smartphone cameras.

In addition to the afore-mentioned consumer applications, we are also making significant progress in CMOS image sensors for non-consumer applications, which typically enjoy higher margins and have relatively little direct competition. We already started initial shipments to a Korean automotive end customer and are actively engaging more module houses to penetrate into Chinese before-market-installation automotive applications. As we grow sensor sales for automotive and other non-consumer applications and continue to turn the bulk of our CMOS image sensor sales from 2 and 5 megapixels to higher end, higher margin 8 and 13 megapixels, we expect our CMOS image sensor business to accelerate in 2015.

Regarding our LCOS business, we were very pleased to see major new head-mounted display devices and/or programs unveiled by a growing list of industry heavyweights recently. Some of these devices are truly revolutionary in nature with potentially breakthrough applications which are not possible without a head-mounted display. This is clear evidence that the head mounted display is establishing itself as a new product segment for future computing. Major technology companies are moving quickly to develop HMD technologies and that this new product category should transform the way people interact with the environment. Being the market leader in the microdisplay technology, we are therefore in a unique position to benefit significantly from this industry trend where our products are integral components. As we mentioned repeatedly in previous earnings calls, we continue to work with multiple top tier customers who are committing significant resources to develop cutting edge HMD products. We are working with some of them on multiple designs simultaneously, many of which involve custom-built designs that are funded by these customers' development fees.

Our Front-Lit™ LCOS technology, which we unveiled in the middle of last year, still represents one of the most significant technological breakthroughs in the HMD industry. We are seeing more and more customers adopting our proprietary technology. By consolidating two key components of optical engines and integrating them into the micro display module itself, Front-Lit™ LCOS enables an ultra-compact, high brightness and extremely power-efficient optical engine which is also easier to manufacture compared to traditional optical engines. There is essentially no competition to this product.

Furthermore, we continue to partner with numerous industry leading companies using our cutting edge and industry-dominant wafer level optics, or WLO, for the development of three technologies of the future, namely array cameras, special purpose sensors and microdisplay wave guides for head-mounted displays. This product development often requires the collaboration of our internal CMOS image sensor, LCOS microdisplay and/or video processing algorithm teams. Himax sits in a leading and unique position with respect to these exciting new technologies and we are the only company in the industry able to offer a true one-stop total solution. As these Tier 1 customers begin to mass produce products embedding these new and unique features, Himax, being in the heart of that supply chain, should benefit significantly. To meet the anticipated demand growth for our LCOS and WLO products, we are expanding our production capacity starting in Q1 2015. We will report our progress in due course.

Collectively, our LCOS sales and WLO NRE incomes should more than double in the first quarter of 2015. This illustrates our strong customer engagements with tailor-made designs and represents products in the pipeline which will translate into meaningful sales and profit contribution in the near future.

Although we are seeing weakness in market demand, especially in China, which will lead to sequential revenue decline in the first quarter, we remain confident and excited about all these aforementioned new developments and the increasing business opportunities across every business segment for 2015. We believe Himax is strongly and uniquely positioned for another successful year. We are excited with respect to our business outlook in 2015 and beyond, both in terms of revenue, profitability growth, and the adoption of many of our non-driver products.

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 revenues of this year's Q1 to decline 15 to 22% compared to the last quarter. Gross margin is expected to rise 1.0 to 1.5% from the previous quarter depending on the final product mix. GAAP earnings attributable to shareholders are expected to be in the range of 7.0 to 8.5 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 7.3 to 8.8 cents per diluted ADS based on 172.2 million outstanding ADSs.

In providing the above earnings guidance, we have assumed a 20.5% income tax rate, calculated based on exchange rate of NTD 31.65 against the USD, which is also the exchange rate as of the end of 2014.

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. As a final note, Jackie Chang, our CFO, will host investor meetings and attend investor conferences in the U.S. in the coming month. We will announce the details as they come about. Please contact our IR department and/or Scott Powell if you are interested in meeting with us in person. Thanks again and have a nice day.