Himax Technologies, Inc. Q1 2014 Unaudited Financials and Investor Update Call

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Confirmation #: 13580554 Call Length: 1 hour Lines: 100 Conference Date: 5/08/14 Conference Start Time: 8:00 a.m. Eastern Daylight Savings Time Pre-Record Message: No Moderator: JOHN MATTIO	TOLL-FREE 1-877-407-4018 TOLL/INTERNATIONAL 1-201-689-8471 CONFERENCE ID: 13580554
Moderator/Speaker Dial-In Numbers (for John Mattio, Jordan Wu, Jackie Chang 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: 5/08/14 Eastern Daylight Savings Time To: 5/15/14 at 11:59 p.m. Eastern Daylight Savings Time Replay Pin Number: 13580554

Operator: Opening and standard introduction.

John Mattio: Thank you, operator. Welcome everyone to Himax's first quarter 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 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, 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…….

Q1 2014 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 first quarter, I will also highlight key milestones we achieved through the first four months of the year. I will then provide our outlook for the second quarter of 2014 and outline our product areas of focus of this year. Our CFO, Jackie Chang, will also provide additional details on our financial performance.

Our 2014 first quarter revenues, gross margin, GAAP and non-GAAP earnings per diluted ADS all met our guidance for the quarter. For the first quarter, we reported net revenues of $194.6 million with a gross margin of 24.7%. First quarter GAAP earnings per diluted ADS were 9.1 cents and non-GAAP earnings per diluted ADS were 9.4 cents, both results falling at the top end of our guided range. As some of our longer term investors know, the first quarter has traditionally been the "slow season" due to the 10 less working days for Chinese New Year. As a result sequential revenues versus the fourth quarter were traditionally down, sometimes by double digits. The fact that our revenues were flat with the fourth quarter of last year demonstrates our product and customer diversification strategies have been working.

We are gaining market share and for those also keeping track, we outperformed our competitors.

Our first quarter revenues of $194.6 million represented a 10.8% increase from the first quarter of 2013 and a 0.3% sequential decrease from the fourth quarter of 2013.

Revenues from large panel display drivers were $48.6 million down 19.2% from a year ago and up 3.9% sequentially. Large panel driver IC accounted for 25.0% of our total revenues for the first quarter, compared to 34.2% a year ago and 24.0% in the last quarter. As anticipated, the increase was a result of shipments from new and existing customers and the increasing penetration of 4K TV's.

Sales for small and medium-sized drivers came in at $110.8 million, up 21.5% from the same period last year and down 1.9% sequentially. Driver ICs for small and medium-sized applications accounted for 56.9% of total revenues for the first quarter as compared to 51.9% a year ago and 57.9% in the previous quarter. It is the fifth consecutive quarter that our small and medium-sized driver's sales accounted for over half of total revenues. The slight sequential decrease was mainly due to the 10 less working days in China for Chinese New Year along with the increasing competition in the smartphone market in which we have foreseen last quarter.

Revenues from our non-driver businesses were $35.2 million, up 44.5% from the same period last year and down 0.8% sequentially. Non-driver products accounted for 18.1% of total revenues, as compared to 13.9% a year ago and 18.1% in the previous quarter. Of our non-driver business segment, the main contributors included our timing controllers, programmable gamma OP, touch panel controllers, CMOS image sensor, power management ICs, LED drivers, LCOS microdisplay and ASIC service.

Our GAAP gross margin for the first quarter of 2014 was 24.7%, a 10 basis point increase from 24.6% a year earlier and a 40 basis point decrease from 25.1% in the previous quarter. We mentioned in the last earnings call that we anticipated pricing competition in China's smartphone market. Such competition is one of the factors that have attributed to the slight sequential decrease of our first quarter gross margin.

Our GAAP net income for the first quarter was $15.7 million, or 9.1 cents per diluted ADS, compared to $14.0 million, or 8.2 cents per diluted ADS, for the same period last year, and $15.8 million, or 9.2 cents per diluted ADS, in the previous quarter. GAAP net income grew 12.0% year over year and stayed about flat from the previous quarter. We achieved bottom-line improvement of $1.7 million year over year, thanks to increased revenues from small and medium-sized driver and non-driver product segments.

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

Jackie……

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

Our GAAP operating expenses were $28.9 million in Q1 2014, up 9.4% from a year ago and down 2.4% from the previous quarter. Operating expenses increased from the previous year 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 first quarter of 2014 was $19.1 million or 9.8% of sales, up 14.0% year over year and down 1.6% sequentially.

Non-GAAP net income in the first quarter was $16.2 million, or 9.4 cents per diluted ADS, representing a growth of 8.0% year over year and a slight decline of 2.4% sequentially. Non-GAAP EPS per diluted ADS grew 7.6% from the same period last year and declined 2.4% over the previous quarter.

Our cash, cash equivalents and marketable securities were $139.7 million at the end of March, down from $158.9 million at the same time last year and up from $128.1 million a quarter ago. On top of the above cash position, restricted cash was $108.3 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 strong balance sheet, and we remind investors that we remain a debt-free company.

Inventories as of March 31, 2014 were $172.3 million, up from $138.3 million a year ago and down from $177.4 million at December 31, 2013. The lower inventory was a result of increased shipment in the quarter. We expect the inventory level to continue to decline by the end of the second quarter. Accounts receivable at the end of March 2014 were $204.5 million as compared to $189.9 million a year ago and $200.7 million last quarter. DSO was 95 days at end of March, 2014, as compared to 97 days a year ago and 95 days at end of the last quarter.

Net cash inflow from operating activities for the first quarter was $9.3 million as compared to cash inflow of $29.4 million for the first quarter of 2013 and cash outflow of $3.1 million for the fourth quarter of 2013. The decline year over year was mainly due to higher account receivables as a result of higher sales this quarter. The sequential increase was mainly the reflection of lower inventory at the end of this quarter.

Capital expenditures were $2.7 million in the first quarter versus $4.7 million a year ago and $3.9 million last quarter. The capital expenditure in the first quarter consisted mainly of purchases of certain equipment for our in-house testers for R&D and LCOS and MEMS product lines.

As of March 31, 2014, Himax had 170.5 million ADS outstanding, unchanged from the last quarter. On a fully diluted basis, the total number of ADS outstanding is 172.2 million.

I will now turn the floor back to Jordan.

Q2 2014 Outlook Introduction…..

Mr. Jordan Wu: Thank you, Jackie. While pleased with our first quarter results, just like our investors, we are constantly looking ahead to future quarters. On April 15th, we preannounced our revenues and also provided insight to a short-term inventory correction with one of our end customers in Korea. As much has been questioned about this, let me go on record and say that we constantly monitor the inventory position of our customers and their demand forecasts, which are updated to us on a weekly basis under normal circumstances and more frequently when there are major changes. Where demand forecast is made available to us in an agreed time frame, it is our duty to deliver the goods on time. However, when there are significant downward adjustments, while we pride ourselves for reacting swiftly, there is inevitably a short-term excess inventory issue to address. Over the last month, we did experience some rare and rather significant reductions of forecast from one of our major end-customers. While the customer has indicated that they will work with us to clear the excess inventory eventually, this has led to a significant impact on our second quarter results and brought down our Q2 sales growth by way over 10%. However, let me emphasize that we have not lost any customer in Korea, or anywhere, for that matter.

As a semi company, we are not immune to customer's forecast adjustments which can work in or against our favor. We believe this is a normal occurrence in the semi industry which should not affect our long term valuation. We remain hyper conservative to this reality and have successfully implemented a multi-year plan to diversify our products and customer base for this very reason. In some technology and semi companies, not getting an order could be the kiss of death, but for us, we seek and record growth in other markets and products to offset this natural, and normal, cycle in our industry. With that, I will review with you our second quarter guidance right now.

Q2 Guidance

We expect the second quarter revenues to be flat compared to the last quarter. Gross margin is expected to be flat to slightly down from the previous quarter depending upon the final product mix.

As many of you have already seen in our PR issued on April 29th, we disposed of an investment in a US display company, which was wholly acquired by a third party. The initial investment of $4.0 million, which was made in December 2013, has matured to a total of $12.24 million one-time investment gain. Per our disposal agreement, we will book $10.53 million in investment income on the second quarter, and the remaining $1.7 million will be accounted in or around April 2015. This one-time gain of $10.53 million will contribute to 5.0 cents of GAAP earnings attributable to shareholders for the second quarter.

As a result, GAAP earnings attributable to shareholders are expected to be in the range of 13.0 to 15.0 cents per diluted ADS based on 172.2 million fully-diluted ADSs. Non-GAAP earnings attributable to shareholders are expected to be in the range of 13.2 to 15.2 cents per diluted ADS based on the same number of ADSs. To help our investors with the math, the disposal of the investment netted 5.0 cents in EPS and has been included in our Q2 2014 guidance.

……Q2 2014 Outlook Continued

Now let me provide you the detail behind our guidance and trends we see developing in our business segments. In our **large panel driver IC** business, we see driver ICs for TVs being the main growth product in this segment, offsetting any softness of notebooks and monitors ICs. The forces behind growth in the large panel IC segment are attributed to: new customers we brought on, more TV sales in China, and 4K TVs rolling off production lines. Though this remains a competitive and mature market, innovation enables us to continue pursuing new technologies and growth opportunities that will strengthen our large panel driver IC business, which, as many of you know is our longest standing business segment. We remain positive on the outlook of this segment in 2014 and beyond.

The other segment in our driver business are ICs used in **small and medium-sized panels** for applications including smartphones, tablets and automotive. Though smartphones have, and will continue to drive sales in this segment, the inventory correction by our Korean end-customer, which I mentioned earlier, will result in a decline in our second quarter smartphone IC sales. Offsetting the customer-specific inventory correction is our continued growth in the Chinese smartphone market during the second quarter. We see market momentum in China carrying strongly into the second half of the year as 4G LTE adoption and resolution upgrades to HD go mainstream. Our customer base in China is highly diversified and not one end-customer there is 10% or more of our driver IC sales for smartphones.

Included in the small and medium-sized panel IC are also drivers for tablet and automotive displays. As mentioned on previous calls, these product segments have been growing steadily. As a market leader in the tablet display market, we are pleased to report new revenues from globally-branded customers which are new entrants to our customer list for tablet sales.

So for the small and medium-sized driver segment, compared to the previous quarter, we expect revenues to be down for driver ICs for smartphones, to remain flat for tablets and to rise for automotives. Summing it up, the total small and medium-sized driver segment is expected to finish the quarter flat to slightly down as a result. Notwithstanding the short-term setback in the second quarter, we are positive on the third quarter prospect and believe sales for this segment will rebound strongly from there.

Lastly, the most exciting long-term growth prospect is our non-driver business, which is the key differentiator for us versus many of our competitors. Our expertise in image processing and human interface related technologies, together with our driver IC products make Himax a comprehensive solution provider to our customers. Many of our non-driver products including CMOS image sensor, touch panel controller, power management IC and ASIC service are set to grow significantly in Q2. The non-driver business category is expected to grow double-digit in Q2, and we see the momentum to continuing throughout 2014 and beyond.

I would now like to highlight some of our non-driver products. Our CMOS image sensors delivered a strong sales growth in Q1, up close to 30% sequentially. Our existing 2 and 5 megapixel CMOS image sensors are producing good sales from select international brands and Chinese white-box customers. However, as noted in the last earnings call, the current shipments comprise mainly of older generation products which are of higher costs. The sales of these products, given their rather significant amount by now, is the key reason why our overall corporate gross margin in the second quarter looks to stay flat or even go slightly down. Without it, our overall gross margin for the quarter would have continued to expand. Maintaining sales of such older generation products is necessary while we are going through design-in process with our customers to replace these products with new designs with much improved gross margins. The new generation products are expected to start shipments in the third quarter.

We expect our 8 megapixel sensors to start shipments later this year, which we believe will contribute to significant sales growth and better gross margin in the second half of the year. Additionally, following multi-year design efforts, we now have a competitive CMOS image sensor product line for automotive and surveillance markets, both large, lucrative and fast-growing markets. This is a market segment with a high barrier of entry where special know-how is required. Collectively, we expect the CMOS image sensor business to more than double in 2014.

Our touch panel controller product line looks set to triple in revenue sequentially in Q2 with shipments made to tier-one Asian branded customers and also the Chinese white-box market. On the back of our rapidly growing market share in the traditional touch panel market, we believe our committed development on the new “in-cell’ and ‘on-cell’ touch panel technologies has placed us in a very competitive position for the future. The development of both new “in-cell’ and ‘on-cell’ touch panel technologies are led by TFT-LCD makers and we are in close partnerships with some of them in this very important future technology. We expect our strong growth momentum in touch panel controller to continue throughout the rest of 2014.

We are equally bullish on our ASIC business, in which we have been awarded multiple new leading-edge projects for tier-one international customers in the second quarter. We see this accomplishment as a strong validation of our R&D competitiveness and capabilities. We expect to generate more development fees for the projects we are working on and to grow double digit in the second quarter.

As many of you know, our LCOS business has been very exciting, and also very dynamic. We believe we have, and will maintain, our lead in the LCOS microdisplay market for some time. Though we cannot be very customer specific, we continue working with multiple customers, including top-notch names, on multiple designs simultaneously, many of which involve custom-built designs that are funded by our customers’ development fees. We are also working with some new top-tier customers who started focusing intently on head-mounted technology product development. We believe our LCOS microdisplay business still remains the most exciting and significant long-term growth area for Himax.

For the quarter, we expect our non-driver revenues to be up around 20% and margins to decline slightly from the previous quarter. Those margins are the highest of the three segments of our business lines and are trend north of 30%.

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 August. As a final note, Jackie Chang, our CFO, will be on non-deal road show and also attend investor conferences in May and June. We will announce these as they come about. Please contact our IR department and/or John Mattio if you are interested in meeting with us in person. Thanks again and have a nice day.