Himax Technologies, Inc. 1Q 2016 Unaudited Financials and Investor Update Call

Conference Details: Confirmation #: 88294326 Call Length: 1 hour Lines: 100 Conference Date: 05/12/16 Conference Start Time: 8:00 a.m. EDT Pre-Record Message: No Moderator: John Mattio	**Participant Dial-In Numbers:** TOLL-FREE: 1-866-444-9147 TOLL/INTERNATIONAL: 1-678-509-7569 CONFERENCE ID: 88294326
Moderator/Speaker Dial-In Numbers (for John Mattio, Jordan Wu, Jackie Chang and Nadiya Chen): Leader Dial in 1 720 634 2980 Leader Dial in - Toll Free 1 855 8425904 Leader Passcode: 88294326 **Direct URL to Live Call Console** http://www.leaderview.com/leaderview/la.jsp Username 88294326	**Replay Dial-In Numbers:** TOLL-FREE: 1-855-859-2056 TOLL/INTERNATIONAL: 1-404-537-3406 From: 5/12/16 EDT To: 5/19/16 at 11:59 p.m. EDT Replay Pin Number: 88294326

Operator: Opening and standard introduction.

John Mattio: Thank you, operator. Welcome everyone to Himax's first quarter 2016 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

Lamnia International 1-203-885-1058, or access the press release on financial portals, or 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, the state of the semiconductor industry; market acceptance and competitiveness of the driver and non-driver products developed by Himax; demand for end-use application products; the uncertainty of continued success in technological innovations; as well as 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, 2015 filed with SEC in April, 2016.

Except for the Company's full year of 2015 financials which were provided in the Company's 20-F, filed with the SEC on April 13, 2016 the financial information included in this conference call is unaudited and consolidated, and prepared in accordance with US GAAP accounting. Such financial information is generated internally and has not been subjected to the same review and scrutiny, including internal auditing procedures and external audits by an independent auditor, 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.

I will now turn the call over to Mr. Wu. Jordan – the floor is yours.

Q1 2016 Results

Mr. Jordan Wu: Thank you John and thank you everybody for being with us for our earnings call on which we will detail results from the first quarter 2016, and provide our second quarter 2016 guidance and outlook. Our CFO, Jackie Chang, will also detail more specifics on our financial performance after my overview.

We are pleased to begin by saying that both our 2016 first quarter gross margin and EPS exceeded our guidance while revenues came in within our guided range.

The first quarter revenue of $180.3 million represented a 1.3% sequential increase and a 0.7% increase from the same period last year. The sequential growth was due mainly to China's panel capacity expansion, coupled with Himax's large panel driver IC share gains. We also benefited from stronger than expected small and medium-sized driver IC momentum, including the addition of a new major smartphone customer since the fourth quarter of 2015, and accelerating AR/VR related business. However, the earthquake that hit in Tainan on February 6th did cause some delayed shipments of large panel driver ICs to one of our major customers during the quarter. Without the earthquake, we could have been at the high end of, if not beat, our

revenue guidance. We do not expect further negative impact from the earthquake as that customer's facilities have recovered entering the second quarter.

Revenue from our large panel display drivers was $65.7 million, up 5.8% sequentially, and up 14.1% from a year ago. Large panel driver ICs accounted for 36.4% of our total revenues for the first quarter, compared to 34.9% in the last quarter and 32.2% a year ago. Without the earthquake mentioned earlier, we could have achieved double digit sequential growth that we indicated earlier for this product line. Monitor demand continued to show strength for the past few quarters as UHD resolution models started to outgrow legacy models. TV remained the bright spot as in the last few quarters with 4K TV penetration doubled from the previous quarter. To sum up, if we look only at China, our driver IC business for TVs and large panel overall grew phenomenally both sequentially and year-over-year. In comparison, worldwide TV panel shipments actually declined over 10% during the same period compared to the previous quarter, according to market research firm IHS. Our leading market share in China, coupled with rapid capacity ramping of Chinese panel customers and more in-sourcing from their local set maker customers, have led to this favorable result. It is especially worth highlighting that our engineering collaboration and design-in activities with Chinese panel customers remain robust despite the soft market sentiment.

Revenue for small and medium-sized drivers came in slightly better than guided at $79.4 million, down 3.0% sequentially and down 8.7% from the same period last year. Driver ICs for small and medium-sized applications accounted for 44.1% of total sales for the first quarter, as compared to 46.0% in the previous quarter and 48.6% a

year ago. The main reason behind the year-over-year decline was the slowdown of business from our primary Korean end customer as they replaced much of the use of LCD displays, for which we were a major IC vendor, with AMOLED displays for their smartphone products. We only started the shipment of AMOLED driver IC in March 2016, thereby creating a gap in our small and medium sized business compared to the same period last year. I will provide more update and illustrate our competitive strength in AMOLED driver ICs a bit later when giving outlook for the coming quarter. Without this, our small and medium driver grew mid-teens versus the same period last year while smartphone driver ICs grew over 20%. Sequentially, first quarter sales for smartphones grew low single digit despite fewer working days around Chinese New Year. The positive momentum came from our Chinese smartphone customers, including a new first-tier player that we added at the end of the fourth quarter of 2015, launching new models and replenishing inventories. But again, the strength was offset by double digit sequential decline in tablets.

As in the last few years, the best-performing category among driver ICs used in small and medium-sized panels continued to be those used in automotive with Q1 revenue up 4% from the previous quarter. It grew double digit from the same period last year.

Revenues from our non-driver businesses were $35.2 million, up 3.4% sequentially and up 2.2% from the same period last year. Non-driver products accounted for 19.5% of total revenues, as compared to 19.1% in the previous quarter and 19.2% a year ago. The sequential growth in our non-driver segment was mainly driven by our AR/VR related businesses as LCOS and WLO revenues more than doubled during the quarter. We have been making shipments for multiple customers, including a

major U.S. customer who has recently started shipping their new AR device. Additionally, timing controller, ASIC service and CMOS image sensor product lines also enjoyed sequential growth due to mass production of new design wins. The year-over-year growth was also led by AR/VR related businesses and timing controllers, partially offset by the deceleration in out-cell touch controllers.

Our GAAP gross margin for the first quarter was 26.2%, a 330 basis points increase from 22.9% in the previous quarter and up 50 basis points from 25.7% in the same period last year, exceeding the original guidance of around 25%. The margin improvement came mainly from better product mix in small and medium-sized driver ICs and non-driver product segments. Major contributors included the accelerating higher end driver IC for smartphones and strong development fees from AR/VR related businesses, as well as improving gross margins for the CMOS image sensor and touch controller product lines. Our gross margin expansion was also a testament to our cost reduction efforts. Gross margin improvement remains one of our business focuses.

Our GAAP net income for the first quarter was $13.1 million, or 7.6 cents per diluted ADS, compared to $6.1 million, or 3.6 cents per diluted ADS, in the previous quarter and $12.6 million, or 7.3 cents per diluted ADS, for the same period last year. GAAP net income increased 113.5% from the previous quarter and increased 4.2% year-over-year. GAAP EPS exceeded our 5.5 to 7.5 cents guided range.

In our last earnings call, we have assumed a 20% income tax rate, calculated based on exchange rate of NTD 33.45 against the USD, the exchange rate at the beginning

of February 2016. As it turned out, the NTD has appreciated against the USD since February. We have thus adjusted our income tax rate to 15%.

The sequential and year-over-year profit increase was a combination of higher revenue, much improved gross margin, together with lower income tax.

Jackie Chang, our CFO, will now give more details on our financial results. After Jackie's presentation, we will provide our second quarter 2016 guidance and insight on our business, markets and strategies going foward.

Jackie……

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

GAAP operating expenses were $32.0 million in the first quarter of 2016, down 0.4% from the previous quarter and up 5.3% from a year ago. First quarter operating expenses included a one time donation of NT$10 million, or US$0.3 million, to the earthquake relief fund initiated by the Tainan Municipal Government. Operating expenses increased from the first quarter of 2015 due to higher expenses for additional headcount to support our new AR/VR projects, annual salary increases, and increase in R&D expenses. We continue to streamline core business R&D activities and implement other expense control measures.

GAAP operating income for the first quarter of 2016 was $15.2 million or 8.4% of sales, up 76.3% sequentially and down 3.0% year-over-year.

First quarter non-GAAP operating income, which excludes share-based compensation and acquisition-related charges, was $15.7 million, or 8.7% of sales, up 72.1% from the previous quarter and down 4.1% from the same quarter of 2015.

First quarter non-GAAP net income, which excludes share-based compensation and acquisition-related charges, was $13.5 million, or 7.8 cents per diluted ADS, compared to $6.5 million last quarter and $13.1 million the same period last year. This represents an increase of 107.2% sequentially and increase of 2.9% year-over-year.

Our cash, cash equivalents and marketable securities were $168.0 million at the end of March 2016, compared to $178.8 million at the same time last year and $148.3 million a quarter ago. On top of the above cash position, restricted cash was $180.5 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 March 31, 2016 were $182.8 million, down from $186.1 million a year ago and up from $171.4 million a quarter ago. We were able to lower the inventory year-over-year because of demand rebound. The sequentially higher inventory shows our confidence in strong quarters to come. Accounts receivable at the end of March 2016 were $173.0 million as compared to $192.7 million a year ago

and $177.2 million last quarter. DSO was 87 days at the end of March 2016, as compared to 97 days a year ago and 93 days at end of the last quarter. The decrease of DSO was due to more efficient cash collection from credit sales.

Net cash inflow from operating activities for the first quarter was $21.5 million as compared to an outflow of $3.7 million for the first quarter of 2015 and an inflow of $25.9 million for the fourth quarter of 2015. The year-over-year increase is mainly due to lower working capital (lower A/R, lower A/P). The sequential decrease in cash flow was a result of higher net profit offset by higher working capital.

Capital expenditures were $2.2 million in the first quarter of 2016 versus $1.8 million a year ago and $3.6 million last quarter. The capital expenditure in the first quarter consisted mainly of facility updates and capacity de-bottlenecking for LCOS and WLO product lines.

As of March 31, 2016, Himax had 171.9 million ADS outstanding, unchanged from last quarter. On a fully diluted basis, the total ADS outstanding are 172.4 million.

I will now turn the floor back to Jordan.

Q2 2016 Outlook

Mr. Jordan Wu: Thank you, Jackie.

In our last call, we provided an overview of the trends developing in the industry and how we could stand out as a unique beneficiary from them and keep our business resilient to the current macro headwinds. I'm glad to say that we had a good start this year and that should be the beginning of a long term growth ahead of us.

The impressive momentum of our large panel driver ICs for TV application will continue to come from accelerating 4K TV penetration. We are a unique beneficiary of our Chinese panel customers' continued capacity expansion at a time when Chinese TV makers are sourcing more panels locally and starting to make more exports. Equally important, we finally saw smartphone driver IC order rebounds in China coming from end customers' restocking and new model launches in the first quarter of 2016, backed by more 4G smartphone proliferation. Small revenue contribution from TDDI will start in the second quarter and we believe it will accelerate thereafter. Sales for automotive applications, where we have a leading market share, will continue to show strong growth as more and larger-sized panels are going into vehicles. For non-driver products, 2016 will be the year for us to see a bigger revenue percentage generated by LCOS and WLO product lines as shipments to our major customers started to take off. We are also on track regarding tapping into new territories such as IoT and machine vision with our latest CIS and WLO product offerings as stated in our recent technology press releases. Other non-driver products such as timing controllers and ASIC services will also continue the growth momentum as they are adopted by panel manufacturers for many new product areas. Overall, we are seeing strong momentum across all our major product lines and feel good about the growth prospect of 2016, despite the uncertain economic environment.

With that, I will now provide our second quarter guidance, followed by a more detailed outlook.

Q2 Guidance:

For the second quarter of 2016, we expect revenue to be up 7.5% to 12.5% sequentially. Gross margin is expected to be around 26%, depending on our final product mix. GAAP earnings attributable to shareholders are expected to be in the range of 8.5 to 10.5 cents per diluted ADS based on 172.4 million outstanding ADSs.

In providing the above earnings guidance, we have assumed a 15% income tax rate, calculated based on exchange rate of NTD 32.4 against the USD, which is also the exchange rate as of beginning of May 2016.

Q2 2016 Outlook

Now let me give you some more details behind our guidance and trends that we see developing in our businesses.

Following a strong first quarter, though somewhat dented by the earthquake, large panel driver ICs should grow again by high single digit sequentially and more than 25% year–over-year, with China and 4K TV still the major growth engines. For reasons detailed earlier, we expect sales from our Chinese panel customers to almost double year-over-year.

The other segment in our driver business is ICs used in **small and medium-sized panels** for applications including smartphones, tablets and automotive. Second quarter smartphones sales look set to continue its growth, to be up more than 20% sequentially as the outlook for end-market demand is turning positive and China's local mobile operators have started to offer subsidies on smartphone purchases. Many of our end customers in China are aggressively launching new models, replenishing inventories in an effort to gaining market share. Switching gear to AMOLED market, since we are an early mover in the related driver IC technology, we have been collaborating with multiple panel customers across Korea, China and Japan for AMOLED product developments and are seeing more design-ins at these panel makers, reaffirming our technology leadership. We believe that AMOLED driver ICs will be one of the critical future growth engines of our small panel driver IC business, especially with quite a few new AMOLED fabs being built in China where we have the most comprehensive coverage.

Among driver ICs used in small and medium-sized panels, the best-performing category has been automotive in recent years. We anticipate its Q2 revenue to grow more than 30% year-over-year. In this product segment, after two strong years, we still expect to see robust and sustainable growth throughout 2016 and beyond. Our confidence comes from the fact that higher resolution and larger panels are becoming mainstream for automotive applications. With numerous top automobile brands having been our indirect end customers, we are well positioned to take advantage of this fast growing market. Tablet market, as previously indicated, remain weak in Q2, although the decline will likely slow down. Overall, we expect small and

medium-sized driver IC segment in the second quarter to be up double digit sequentially.

For the past few years, our **non-driver** business segment has been our most exciting growth segment and a differentiator for Himax. New product developments continue to evolve and gain traction, and we remain positive on the long-term growth prospect of our non-driver businesses.

We expect around 20% growth in our non-driver products for the second quarter sequentially and more than 30% year-over-year. Looking ahead, many of our non-driver products, including CMOS image sensor, timing controller, touch panel controller, power management IC, ASIC service, wafer level optics and LCOS microdisplay, are set to grow significantly in 2016 and the years ahead. I will now highlight some of the non-driver product lines.

First onto our touch panel controller product line. We expect on-cell to emerge as the new mainstream touch technology in 2016. Our on-cell sales started to accelerate in late first quarter with shipments to Chinese and Japanese smartphone makers and we expect the momentum to be carried into the second quarter. We have also launched force touch products, a new feature to the touch panel, and already secured design-wins from certain leading smartphone makers for their 2016 models. Furthermore, we are one of the pioneers in offering TDDI solutions for the state-of-art in-cell panels, and are in partnerships with essentially all of the panel manufacturers in pure in-cell touch for joint technological development. As announced on April 19th, we started mass production and volume shipment of TDDI for a leading Chinese

smartphone customer. We are seeing the use of in-cell display with TDDI rapidly becoming the preferred choice for end product customers' new high end smartphone designs. The volume shipment record validates our leading pioneer position and confirms the industry's trend towards pure in-cell panels. We anticipate several TDDI design-wins to enter mass production at additional Chinese and Korean smartphone customers and panel makers this year and expect meaningful contribution from TDDI in late 2016 and beyond.

Moving on to our most exciting AR/VR related businesses. The AR/VR era of technology is upon us. Over the last quarter, the level of excitement in the industry as well as capital markets reached a new high as numerous new AR/VR devices were launched with some of them even started making shipment. New applications and markets are being explored. Our design engagements with current and new customers now cover leading companies in gaming, search, mobile, social media, military, automotive and consumer electronics industries; many of them have committed huge amounts of R&D and capital to capture the rapidly expanding future of this game changing product category. Having invested in related technologies for over 15 years, we are uniquely positioned as the provider of choice for microdisplay and related optics to enable AR, which is projected by many market research firms to be grabbing a lion's share in the addressable market of AR/VR in the long term.

As some of our major customers have already started shipment, we saw phenomenal growth from LCOS and WLO product lines in the first quarter. And in the second quarter, revenues from LCOS and WLO are expected to triple again sequentially. Though we don't expect big volume from the early generation products of our

customers this year, we already see positive top line and bottom line contribution from these two product areas this year. We are confident that LCOS and WLO will account for a significant portion of our business longer term. Over the past couple of months, we have been seeing constant additions of new or existing customers concurrently working on multiple future generation AR designs/devices using our LCOS and/or WLO for a variety of new applications. These applications range from various glass type AR devices to toys, industrial helmets and head-up displays for automotive. We currently have more than 30 customers using our LCOS and/or WLO for their AR devices and optical engine designs, with the vast majority of them in the U.S. When adopted, our LCOS and WLO typically represent two of the parts with the highest value in an AR product's bill-of-materials. The models we are joint-developing with some of these largest, most recognized companies in the world for consumer market launches will advance the entire sector. We believe this is just the beginning of a long term growth story.

As for VR applications, our customers' continuous efforts in introducing new products aiming for consumer market are also encouraging. We have been developing customized driver chips with high refresh rate to perfect the performance of VR displays in the next generation AMOLED panels with two top-notch VR players. This reaffirms our leading position in AMOLED driver IC technology. We expect mass production to start in late 2016 to early 2017. Additionally, certain of our VR customers are also showing strong interests in our AR related product offerings as they work towards their AR product line.

It is also worth highlighting that our CMOS image sensor product line bottomed out in

the first quarter, rebounding from its trough in 2015. Looking into the second quarter, there will be mass production of several design wins for notebooks and increased shipments for multimedia applications. In recent press releases and the last earnings call, we briefly introduced our new smart sensor product lines targeting new applications across smartphones, tablets, AR/VR devices, IoT and artificial intelligence. These include the ultra-low-power QVGA CMOS image sensor and the Diffractive Optical Element ("DOE") integrated WLO laser diode collimator to be paired with a Near Infrared (NIR) sensor. We believe the former is by far the lowest power CIS in the industry with similar resolution. It can be applied in a constant state of operation, enabling "always on", contextually aware, computer vision capabilities. Regarding DOE integrated WLO laser diode collimator with NIR sensor, we believe this is the most effective total solution for 3D sensing and detection in the smallest form factor. This breakthrough allows 3D image sensing feature to be easily integrated into next-generation consumer electronics. Currently, we are making good progress and have seen encouraging and increasing customer responses. We will report the developments in this new territory in due course.

And that will conclude our non-driver business segment.

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

OPERATOR TO QUEUE QUESTIONS

Jordan's closing remarks

As a final note, Jackie Chang, our CFO, will maintain investor marketing activities and attend investor conferences in the U.S. and Hong Kong. We will announce the details as they come about. Thank you for your time and have a nice day!