Himax Technologies, Inc. Q1 2018 Unaudited Financials and Investor Update Call

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Operator: Opening and standard introduction.

Greg Falesnik: Thank you, operator. Welcome everyone to Himax's first quarter 2018 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 email greg.falesnik@mzgroup.us, 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 events or results to differ materially from those described in this conference call 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, 2017 filed with SEC in March, 2018.

Except for the Company's full year of 2017 financials, which were provided in the Company's 20-F and filed with the SEC on March 28, 2018, the financial information included in this conference call is unaudited and consolidated, and prepared in accordance with IFRS accounting. Such financial information is generated internally and has not been subjected to the same review and scrutiny, 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 Ms. Jackie Chang – the floor is yours.

Q1 Results

Ms. Jackie Chang: Thank you Greg and thank you everybody for joining us. Our outline for today's call is: first, review of the Himax consolidated financial performance for the quarter, followed by the second quarter 2018 outlook. Jordan will then provide an update on the status of our business, after which we will take questions. We will review our financials on both IFRS and non-IFRS basis. The non-IFRS financials exclude share-based compensation and acquisition-related charges. .

We mentioned in the last earnings call that, beginning January 1, 2018, we would adopt International Financial Reporting Standards ("IFRS") to prepare our consolidated financial statements. We don't expect the transition from US GAAP to IFRS to have any significant impact on our financial results. To illustrate the difference, we prepared a comparison table under both US GAAP and IFRS using 2017 numbers. The comparison table is included in our first quarter 2018 earnings press release.

Our first quarter 2018 revenues came in at the high end of our guidance while gross margin and IFRS loss per diluted ADS were both better than guidance. For the first quarter, we reported net revenues of $162.9 million, a decrease of 10.1% sequentially

and an increase of 4.9% year-over-year. Gross margin was 22.5%, 50 basis points higher than guidance. IFRS loss per diluted ADS was 1.6 cents, better than the guidance range of 2.0 to 3.0 cents.

Revenue from large display drivers was $59.3 million, up 1.6% sequentially and up 0.1% year-over-year. Large panel driver ICs accounted for 36.4% of our total revenues for the first quarter, compared to 32.3% in the fourth quarter of 2017 and 38.2% a year ago. The first quarter is traditionally the bottom of the year because it has fewer working days due to Chinese New Year. Against seasonality, our large panel driver business grew low-single-digit sequentially, driven by increasing 4K TV penetration and Chinese panel customers' ramping of new LCD fabs.

Revenue for small and medium-sized display drivers came in at $71.7 million, down 11.8% sequentially and up 7.6% year-over-year, due to seasonality and the overall weak smartphone market. The product segment accounted for 44.0% of total sales for the first quarter, as compared to 44.9% in the fourth quarter of 2017 and 42.9% a year ago. Sales into smartphones were down 23.0% sequentially and declined 5.4% year-over-year. Our TDDI shipment in Q1 was still hindered by customers' high inventory despite our numerous design-wins for HD+ and FHD+ projects with top tier customers. However, we expect the shipment of our TDDI chips to accelerate starting the second quarter, but the volume would be somewhat offset by foundry capacity constraint that the industry is facing right now. Jordan will elaborate on this a bit later.

Our small and medium-sized driver IC sales for automotive application recorded another historical quarter. Revenue, against seasonality, went up 1% sequentially and close to

40% year-over-year. The quarterly revenue is now close to $25 million, reaching almost 20% of the total driver IC revenues. Driver IC sales for tablets were down 9.2% sequentially but up 2.4% year-over-year due to weak overall market demand in this product segment.

Revenues from our non-driver businesses were $31.9 million, down 23.2% sequentially but up 8.5% versus last year. Non-driver products accounted for 19.6% of total revenues, as compared to 22.8% in the last quarter and 18.9% a year ago. The sequential decline was mainly due to lower than expected WLO shipment, offset by higher NRE income. The year-over-year increase was driven mainly by the WLO product shipment to a leading customer and, to a lesser extent, rising sales of timing controllers, CMOS image sensors and NRE income. We expect WLO shipment to increase in the second quarter and rebound strongly in the second half. Jordan will elaborate on this a bit later.

Our IFRS gross margin for the first quarter was 22.5%, down 210 basis points from the last quarter and down 60 basis points from the same period last year. The sequential margin decline was due mainly to the reduced order from our WLO anchor customer, resulting in higher depreciation and overhead charges on a per unit basis.

Our IFRS operating expenses were $39.8 million in the first quarter, down 1.1% from the preceding quarter but up 16.1% from a year ago. The significant year-over-year increase was primarily the result of rising R&D expenses in the areas of 3D sensing, WLO, TDDI, and high-end TV as well as annual merit increase. In addition, NT dollar appreciation against the US dollar caused our salary expense to increase around $1.2 million as we pay the bulk of our employee salaries in NT dollars.

IFRS operating margin for the first quarter was -2.0%, down from 1.0% for the same period last year and 2.4% in the previous quarter. The sequential decline was a result of lower sales and lower gross margin. The year-over-year decrease was caused by lower gross margin and higher expenses.

First quarter non-IFRS operating loss was $2.9 million or -1.8% of sales, down from 1.3% for the same period last year and down from 2.6% a quarter ago. Again, the sequential decline was a result of lower sales and lower gross margin. The year-over-year decrease was caused by lower gross margin and higher expenses.

IFRS loss for the first quarter was $2.8 million, or 1.6 cents per diluted ADS, compared to profit of $23.5 million, or 13.6 cents per diluted ADS, in the previous quarter and profit of $1.2 million, or 0.7 cents per diluted ADS, a year ago. The sequential decline was a result of lower sales and lower gross margin. An investment gain of $20.7 million in the last quarter for disposal of a direct investment in September 2017 also caused the first quarter profit to decline. The year-over-year decrease was caused by higher expenses.

First quarter non-IFRS loss was $2.6 million, or 1.5 cents per diluted ADS, compared to non-IFRS profit of $23.8 million, or 13.8 cents per diluted ADS last quarter and non-IFRS profit of $1.6 million, or 1.0 cent in the same period last year.

Turning to our balance sheet, we had $151.9 million of cash, cash equivalents and other financial assets as of the end of March 2018, compared to $199.5 million at the same time last year and $148.9 million a quarter ago. On top of the above cash position,

restricted cash was $147.0 million at the end of the quarter, unchanged from $147.0 million in the preceding quarter and up from $107.4 million a year ago. The restricted cash is mainly used to guarantee the Company's short-term borrowings for the same amount. We continue to maintain a very strong balance sheet and remain a debt-free company.

Our inventories as of March 31, 2018 were $148.0 million, down from $148.3 million a year ago and up from $135.2 million a quarter ago. Accounts receivable at the end of March 2018 were $166.6 million as compared to $169.1 million a year ago and $188.8 million last quarter. DSO was 92 days at the end of March 2018, as compared to 98 days a year ago and 101 days at end of the last quarter.

Net cash inflow from operating activities for the first quarter was $2.3 million as compared to an inflow of $5.5 million for the same period last year and an inflow of $8.3 million for the last quarter. The decrease in operating cash flow is mainly due to lower net profit.

Capital expenditures were $18.6 million in the first quarter of 2018 versus $2.0 million a year ago and $15.5 million in the last quarter. The first quarter's capital expenditure consisted mainly of ongoing payments for the new building's construction, WLO capacity expansion and installation of active alignment equipment to support our 3D sensing business. Other CAPEX, primarily for the investment of design tools and R&D related equipment for our traditional IC design business, is around $1 million during the quarter.

As of March 31, 2018, Himax had 172.1 million ADS outstanding, unchanged from last quarter. On a fully diluted basis, the total ADS outstanding are 172.5 million.

Q2 2018 Guidance:

For the second quarter of 2018, we expect revenue to increase around 9% to 14% sequentially, representing a double-digit year-over-year growth. Gross margin is expected to be around 23%, depending on our final product mix. IFRS earnings attributable to shareholders are expected to be in the range of 0.0 to 1.0 cent per diluted ADS based on 172.5 million outstanding ADSs.

I will now turn the call over to Jordan.

Mr. Jordan Wu:

Q2 2018 Outlook

Thank you, Jackie.

We expect a solid rebound in the second quarter overall and sequential growth across all three major product categories. With that, let me give you some insights behind our guidance and trends that we see developing in our businesses.

Display Driver IC Business

LDDIC

Our large display driver IC business recorded low-single-digit growth in the first quarter against seasonality due mainly to our Chinese panel customers' capacity expansion and

the market's increasing 4K TV demands. As many of our panel customers continue to ramp new fabs and run the existing capacity at high utilization, we would likely see continued growth in the second quarter, on the back of the first quarter's performance. We remain the market leader in the large panel driver IC business in China and will be a major beneficiary from China's ongoing capacity expansion. In the last earnings call, I highlighted that the whole industry is going through a capacity shortage of 8" foundry where the vast majority of large panel driver ICs are fabricated. We were not able to fulfill some orders due to tight foundry capacity during the first quarter. While the capacity shortage continued into the second quarter when we still cannot fulfill all the orders, we have successfully added a 12" fab into the pool of our foundry capacity to ease the shortage issue. We expect to make small volume shipment for TV related driver IC products from this fab starting the second quarter. However, the ultimate ramping schedule will depend on how fast our panel customers can go through their customer qualification, something all our major customers are working very hard on. With the 2020 Tokyo Olympics approaching, TV makers are rushing to develop super high end products with 8K resolution. I am pleased to report that our team has recently secured another 8K TV design win for a major panel maker and expect more to come in the next few quarters. We expect low-single-digit sequential revenue growth for large display driver ICs, a double-digit growth year-over-year.

SMDDIC

Turning to the small and medium display driver IC business, despite the first quarter decline in smartphone display driver IC sales due to soft market demand and seasonality, we do see smartphone makers starting to replenish inventory in the second quarter in preparation for the launch of new phones, which will benefit our second quarter business.

Overall, we are expecting a strong sequential growth for our smartphone business and our HD+ and FHD+ TDDI shipment are set to ramp up in Q2 as we indicated. TDDI represents a new source of revenue for Himax with higher ASP and better margin than the traditional driver IC, hence we expect the acceleration of TDDI shipment will lead to improvement of our small and medium panel driver IC product mix and contribute to overall sales growth in 2018. Moreover, our new generation FHD+ TDDI with chip on film (COF) package have secured design wins from leading Chinese smartphone brands with mass production expected in the latter half of this year. TDDI with COF package for LCD displays can enable super-slim bezel design for premium smartphone models at a much lower cost than having similar form factor using OLED displays. Similar to the situation in the large display driver IC, the TDDI market is also facing a foundry capacity shortage issue. While trying to get as much capacity as we can from the existing foundries, we are working very hard to source and qualify additional foundry capacity for our TDDI ICs.

As to automotive segment, we continue to have new projects going into mass production which were design-wins of the prior years. In the first quarter, sales into automotive sector have accounted for more than 15% of our total revenues and we achieved a very significant milestone to gain the world's first TDDI design-wins for automotive application with mass production target of late 2019 to 2020. Q2 revenue in this segment is set to grow around 20% sequentially and around 50% year-over-year. We have engaged all of the major automotive panel manufacturers worldwide for long-term partnerships and secured many of their key projects pipelined for the next few years.

Going into the second quarter, due to customers' new launches of smartphones, increasing TDDI shipment and the fast growing automotive display driver sales, we

expect small and medium-sized driver IC revenue to be up around 20% both sequentially and year-over-year.

Non-Driver Product Categories

The non-driver IC business segment has been our most exciting growth area and a differentiator for Himax in the past few years. Now let me share some of the progress we made in the last quarter, as well as our views on future growth opportunities.

New Technologies Needed for Edge-to-Edge Display

As I reported previously, our 3D sensing total solution is primarily targeting the Android based smartphone at present. Nowadays new smartphone designs feature edge-to-edge displays, removing home button and minimizing border area to provide better viewing experience. Along with the new design, three new approaches of biometric authentication for phone unlock and online payment are emerging to replace the traditional home button with capacitive fingerprint technology. These three new solutions for the Android smartphones are: structured light 3D sensing and active stereoscopic camera (ASC) 3D sensing, both for facial recognition, as well as under-display optical sensor for fingerprint authentication.

Naturally, all of these three solutions have advantages and challenges. We think all three can fulfill different demands and can therefore co-exist in the market place. Structured light 3D sensing offers outstanding depth precision but the cost is the highest for its complex projector design and manufacturing. ASC is a lower cost alternative to structured light 3D for its relatively simple projector and the fact that it is built on the existing dual camera ecosystem. It is, however, constrained by more limited depth

precision. Under-display fingerprint, with a similar cost to the ASC solution, is the closest alternative to the prevailing capacitive type fingerprint which is already familiar to the consumer. However, under-display fingerprint is limited to a single function of authentication without the possibility for other applications such as gesture sensing, photo enhancement or AR as can be achieved by the two 3D sensing approaches. Himax enjoys a unique position in that we offer critical technologies in all of the three solutions and are already a key player by forming different collaboration partnerships for each of the three alternatives. They represent immense revenue opportunities with much higher ASP and gross margin versus our mainstream display driver IC business. Now let me give you updates for each of the three solutions.

Structured Light 3D Sensing

SLiM™, our structured light based 3D sensing total solution, which we announced jointly with Qualcomm last August, brings together Qualcomm's industry leading 3D algorithm with Himax's cutting-edge design and manufacturing capabilities in optics and NIR sensors as well as our unique know-how in 3D sensing system integration. The majority of the key technologies inside the SLiM™ solution is developed and supplied by Himax ourselves. These critical technologies include, on the projector end, DOE and collimator utilizing our world leading WLO technology, a tailor-made laser driver IC, and high precision active alignment for the projector assembly; and on the receiver end, a high efficiency near-infrared CMOS image sensor. Last but not least, Himax also developed an ASIC by incorporating Qualcomm's algorithm for 3D depth decoding. The fact that all of these critical elements are developed in-house puts us in a unique leading position. It represents a very high barrier of entry for any potential competition and a much higher ASP and better profit margin for us.

The Qualcomm/Himax solution is by far the highest quality 3D sensing total solution available for the Android market right now. It has the industry's best performance in all of 3D depth accuracy, indoor/outdoor sensitivity, power consumption and dimension. It has passed the toughest eye safety standards with a proprietary glass broken detection mechanism to safeguard the user from any potential harm. We are pleased to report that the Himax SLiM^{TM} solution is now ready for mass production. We have delivered production ready samples to select smartphone makers as well as their preferred facial recognition and secure online payment ecosystem partners for their development into end products, typically flagship or premium models. As each smartphone maker's design and requirement are somewhat different, such developments are taking longer than we anticipated. We are now targeting the end of the year for shipment to customers for their smartphones' sales in the first quarter of next year.

Right now, Himax SLiM^{TM} solution is only available on Qualcomm Snapdragon premium mobile platforms. Equipped with the ASIC for 3D depth decoding that Himax has developed, we can extend the solution to more mid- to high-end platforms. This initiative will make the SLiM^{TM} solution more affordable for smartphone makers as the price differential among different application processor platforms can be very significant. With 3D depth decoding handled by the ASIC, the smartphone's AP can be freed up for other applications and lower end platforms with less computing power can be adopted for structured light 3D sensing.

Active Stereoscopic Camera 3D Sensing

In the last earnings call, we unveiled our plan for a lower cost 3D sensing solution with ASC technology, targeting more mass market smartphone models for facial recognition. We are pleased to report that the joint development with an industry leading AP platform player is well under way. The collaboration leverages our WLO and DOE expertise, as well as active alignment manufacturing know-how and high sensitivity NIR sensors. Our target is to have ASC 3D sensing solution ready for mass production by the end of this year. Given the cost benefit, it has attracted a lot of interest from potential smartphone customers. While lower cost compared to structure light 3D, ASC will still represent a much higher ASP and better gross margin potential for us.

We believe the 3D sensing adoption on Android smartphone in 2018 would be limited but foresee the market demands will increase substantially starting 2019. With our leading technologies, proven manufacturing expertise, new solution roadmap and alliance with leading AP providers, we believe we are well positioned to be the partner of choice for Android smartphone makers in their 3D sensing projects.

Optical Fingerprint

Now, I would like to talk about optical fingerprint, an emerging opportunity for Himax. We have been working with an industry leading fingerprint solution provider to develop an under-display optical fingerprint product in the last two years, targeting smartphones using OLED displays. A number of design-in projects are already ongoing and we expect more to come. Combining the leading fingerprint solution design of our partner and a low-power CMOS image sensor with superior sensitivity which we fully customized for this purpose, this optical fingerprint solution is able to deliver outstanding performance even under extreme conditions such as ultra low light or direct bright sunlight, or when

the finger is very cold or dry. Similar to 3D sensing, optical fingerprint is new and complex with a high barrier of entry. Again, the CMOS image sensor used in the solution will have a much higher ASP and better margin than our traditional display driver IC products.

WLO

In the last earnings call, we reported that our WLO anchor customer had lowered its volume for the first quarter. After the earnings call, the customer made a further order reduction. The much reduced shipment negatively impacted our Q1 gross margin as lower utilization of our WLO fab led to much higher equipment depreciation and factory overhead on a per unit basis. Judging by the customer's forecast, we are optimistic that the shipment for the second quarter will rise from that of the first quarter and expect the volume to be significantly higher in the second half. Meanwhile, we are very encouraged by the progress of our new R&D projects with the said customer for their future generation products centering around our exceptional design know-how and mass production expertise in WLO technology.

Capex

Next on our capital expenditure. We announced the increase of the Phase I capital expenditure budget from $80 million to $105 million in the last earnings call. The Phase I is being executed as scheduled. Since February, we have been moving in equipment and some manufacturing related staff to the new building and started tuning the manufacturing process and conducting production trial run for our 3D sensing solutions. We have already achieved pretty satisfactory production yields in the internal pilot production. Of the $105 million budget, $33 million has been paid out in 2017 and

another $17.5 million in the first quarter 2018. The payment for the remaining $54.5 million is to be made throughout the rest of 2018.

As we mentioned in the previous earnings calls, the CAPEX budget for Phases I will be funded through our internal resources and banking facilities, if so needed.

CMOS Image Sensor

Now onto our CMOS image sensor business update. We continue to make great progress with our two machine vision sensor product lines, namely, near infrared ("NIR") sensor and Always-on-Sensor ("AoS™"). NIR sensor is a critical part of our SLiM™ and ASC 3D sensing solutions. Our NIR sensors' overall performance, measured primarily by way of quantum efficiency, is far ahead of those of our peers for 3D sensing. On the AoS product line, we announced the full acquisition of Emza in March. With the acquisition, Himax is now uniquely positioned to provide ultra low power imaging sensing solutions, complete with Himax's industry leading super low power CIS design and Emza's unique AI-based computer vision algorithm. This will also help Himax enter into markets beyond consumer electronics, such as connected homes, smart buildings and security.

For the traditional human vision segments, we see strong demands in laptops and increasing shipments for multimedia applications such as car recorders, surveillance, drones, home appliances, and consumer electronics, among others.

LCOS

I will now give an update on the LCOS business where our main focus areas are AR goggle devices and head-up-displays (HUD) for automotives. While AR will take a few

years to fully realize its market potential, we have seen many companies, be the top name multinationals or new start-ups, invest heavily to develop the ecosystem -- applications, software, operating system, system electronics, and optics. We continue to have active engineering activities with several tier-1 tech names with ambition to bring next generation smart glasses to the market. In addition, we continue to make great progress in developing high-end head-up display for automotives. We and our partners together have secured a few design wins. Timing for such revenue contribution would be 2019 the earliest. We believe LCOS represents a significant long term growth opportunity for us.

For non-driver IC business, we expect a low-single-digit revenue growth sequentially in the second quarter, and around 10% growth year-over-year.

That concludes my report for this quarter. Thank you for your interest in Himax. We appreciate you joining today's call and are now ready to take questions.

OPERATOR TO QUEUE QUESTIONS

Jordan's closing remarks

As a final note, Jackie Chang, our CFO, will maintain investor marketing activities and continue to attend investor conferences. We will announce the details as they come about. Thank you and have a nice day!