



SYNAPTICS – SECOND QUARTER, FISCAL 2021 CONFERENCE CALL Prepared Comments

JASON: SAFE HARBOR

Good afternoon and thank you for joining us today on Synaptics' second quarter, fiscal 2021 conference call. My name is Jason Tsai and I am the Head of Investor Relations. With me on today's call are Michael Hurlston, our President and CEO and Dean Butler, our CFO. This call is also being broadcast live over the web and can be accessed from the investor relations section of the company's website at synaptics.com.

In addition to a supplemental slide presentation, we have also posted a copy of these prepared remarks on our investor relations website. The supplementary slides have also been furnished as an exhibit to our current report on form 8-K filed with the SEC earlier today and add additional color on our financial results.

In addition to the Company's GAAP results, management will also provide supplementary results on a non-GAAP basis, which excludes share-based compensation, acquisition related costs, and certain other non-cash or recurring or non-recurring items. Please refer to the press release issued after market close today for a detailed reconciliation of GAAP and non-GAAP results.

Additionally, we would like to remind you that during the course of this conference call, Synaptics will make forward-looking statements. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business, including our expectations regarding the potential impacts on our business of the



COVID-19 pandemic. Although Synaptics believes our estimates and assumptions to be reasonable, they are subject to a number of risks and uncertainties beyond our control and may prove to be inaccurate. Synaptics cautions that actual results may differ materially from any future performance suggested in the Company's forward-looking statements. We refer you to the Company's current and periodic reports filed with the SEC, including the Synaptics Form 10-K for the fiscal year ended June 27, 2020, for important risk factors that could cause actual results to differ materially from those contained in any forward-looking statement. Synaptics expressly disclaims any obligation to update this forward-looking information.

I will now turn the call over to Michael.

MICHAEL: BUSINESS OVERVIEW

Thanks, Jason, and I'd like to welcome everyone to today's call. We had a strong finish to 2020 as we continue to make progress in terms of delivering sustainable growth with better predictability and higher profitability. Our diversification strategy is paying dividends as IoT has become our largest business, resulting in the highest non-GAAP gross margin, net income and EPS in Synaptics' history. Both our IoT and PC businesses individually achieved record revenue in the quarter. As we turn our attention to aggressively driving growth, we will adhere to the principles that have guided us to this point: disciplined investments, tight spending control, and a focus on differentiation. We are starting the year with a strong backlog of design wins across all our businesses that puts us in position to drive growth and further improve our profitability in 2021 and beyond.

Now let me give you an update on our business.

First, in IoT, now our largest business, we are seeing broad-based design wins across all segments. We now have a diverse customer base that spans consumer, enterprise, service provider, automotive, and industrial end-markets. We anticipate the overall market for IoT will continue growing at a 10 to 15% CAGR for the next few years. Based upon the strength of our design pipeline and potential share gains driven by a strong product roadmap, we believe we have the opportunity to grow at least inline, but most likely outpace the overall market.

In wireless connectivity, we continue to enjoy solid design win momentum in home automation, smart displays, thermostats, smart watches, drones, home surveillance and streaming devices. We are on-



track to double the run-rate of this business within the next 12 months and expect significant growth to continue in fiscal 2022 and beyond.

Our video interface business saw robust growth in universal and traditional docking solutions as the tailwind from the work from home trend continues. Our new product introductions targeted at the portable docking and protocol adapter markets are also seeing strong adoption, creating additional opportunities in this business. Further, our video and data compression and content delivery technology that stem from our DisplayLink acquisition are expanding our market beyond traditional PCs and into areas such as industrial handheld scanning systems and enterprise class control panels for video conferencing.

In automotive, the first cars with our TDDI chipset are now on the road with a premium SUV from one of the big-three US auto makers. We expect to have several additional vehicles come to market later this year and believe our pipeline of design wins with over 13 major OEMs will drive this business to over \$100 million in annual revenue within the next three years.

Finally, we secured two new service provider wins in Europe last quarter with our edge SoC products on top of previously announced wins over the past few months. We had our initial service provider customer in Asia begin deploying the world's first Nagra-connect set-top boxes powered by our SoC, enabling best-in-class digital rights management and security. Recently, we launched our new Katana product family targeting ultra-low power AI applications for consumer, commercial and industrial applications. Together with our wireless connectivity, we expect the AI-enhanced IoT market to be a meaningful market opportunity, creating an additional avenue for top and bottom-line growth.



Moving on to our PC business, this was a record-breaking quarter for us and we expect the momentum to continue into the March quarter and throughout 2021. We continue to benefit from greatly increased TAM, higher fingerprint attach-rates, and higher ASPs driven by more complex offerings. While we initially thought the strength in work and learn from home phenomenon would be short-lived, we now expect the higher run-rate of this business to be more sustainable, driven by a fundamental shift away from desktops to notebooks, and a realization that mobile devices cannot replace the productivity of PCs. We have also introduced new products targeted specifically for expansion into the consumer and education markets. These solutions are qualified across all the major Chromebook platforms and we have already begun shipping to our first customer.

Before I conclude, let me talk about our mobile business. We continue to see strong traction with our OLED touch products. Our primary mobile customer recently launched two new flagship handsets with our touch controller. In addition, as flexible OLED displays become increasingly prevalent, we secured multiple new wins for our on-cell touch solution with all the leading Chinese handset OEMs. I'm also excited to announce that while we have been engaged with a large Korean handset OEM on multiple opportunities, we have now secured our first win and initial shipments are expected to begin in the fall.

Overall, I am very happy with how we finished 2020 despite the challenging macro environment and the tough start to the year. We have made meaningful strides in our corporate transformation and have already hit many of the financial waypoints we set out just a few quarters ago. While there remains a lot more work ahead, we believe our current portfolio mix is putting us on a trajectory to deliver predictable, sustainable growth and better profitability in the long run.



Now let me turn the call over to Dean to review our second quarter financials and provide our outlook.

DEAN: FINANCIAL RESULTS

Thanks Michael, and good afternoon to everyone.

First, I'll start with a review of our financial results for our recently completed quarter, then provide our current outlook for our fiscal Q3.

Revenue for the December quarter was \$358 million, above the mid-point of our guidance. Revenue was up 9% sequentially, reflecting strong demand for our IoT and PC products, partially offset by a sequential decline in Mobile. Year-over-year, December quarter revenue was down 8%, driven by a decline in mobile revenue as our prior fiscal year still included our now divested TDDI business.

During the quarter, we had two customers above 10% of revenue, at 18% and 13%.

The December quarter marks a defining moment in the company's history with IoT now squarely our largest business, accounting for 43% of revenue in the quarter while PC accounted for 26%, and Mobile accounted for 31%. As Michael highlighted, our corporate transformation is well underway and we are focused on accelerating the growth of our IoT business. We expect our broad portfolio of products and customers in this business to deliver better predictability and consistent growth in the future. Our IoT business reported record revenue of \$155 million this quarter and was up 36% sequentially and up 74% compared with the year-ago quarter as new programs began to scale up across our entire IoT portfolio. This was also a record quarter for our PC products, with revenue of \$92 million, up 14% sequentially and up 12% year-over-year as work-from-home demand continues to drive strong PC sales globally. Revenue from our Mobile products was

down 17% sequentially and down 49% year-over-year. The sequential decline in Mobile was primarily due to the trade restrictions limiting potential sales to Huawei and a decline in LCD display driver shipments to our large mobile customer, offset by touch controller growth in this business.

For the December quarter, our GAAP gross margin was 42.1%, which includes \$22.9 million of intangible asset amortization, \$11.9 million in acquisition related inventory step-up charges, and \$1.0 million of share-based compensation costs.

GAAP operating expenses in the December quarter were \$91.9 million, which includes share-based compensation of \$22.4 million; acquisition and integration related costs of \$9.6 million, consisting of intangibles amortization and non-recurring legal and integration costs; amortization of prepaid development costs of \$2.5 million; retention costs of \$1.1 million; and restructuring & severance related costs of \$600,000; offset by a \$34.2 million gain on the sale and license back of certain audio technology intangible assets.

Our GAAP tax expense was \$2.4 million for the quarter.

In the December quarter we had GAAP net income of \$49.6 million, or GAAP net income of \$1.36 per share.

Now turning to our non-GAAP results:

Our December quarter non-GAAP gross margin of 52.1% was above the high end of our guidance range and reflects the continued operational improvements in our product cost structures and a positive product mix during the quarter as IoT product sales outperformed.



December quarter non-GAAP operating expenses came in slightly below the high-end of our guidance at \$89.9 million, up \$2.4 million from the preceding quarter. The increase reflects a full quarter of operating costs of the newly acquired businesses, which are now fully integrated into Synaptics.

Our non-GAAP tax rate was 12% for the quarter.

We had a record setting non-GAAP net income and EPS for the December quarter of \$83.8 million and \$2.30 per diluted share respectively as our focus on profitable growth continues to drive better earnings for our shareholders.

Now, turning to our balance sheet, we ended the quarter with \$317 million of cash and short-term investments, an increase of \$73 million from the preceding quarter driven by \$71 million of cash provided by operations during the quarter.

Receivables at the end of December were \$249 million and days of sales outstanding was 63 days. Our days of inventory dropped significantly to 38 and ending inventories were \$73 million. The \$41 million decline in inventory was largely the result of supply chain delays at our vendors.

Capital expenditures for the quarter were \$8.3 million, and depreciation was \$5.0 million.

Now, turning to our outlook for the third quarter.



Based on our backlog of approximately \$341 million entering the March quarter, subsequent bookings, customer forecasts, product sell-in and sell-through timing patterns, as well as expected product mix, we anticipate revenue for the March quarter to be in the range of \$310 million to \$340 million. This reflects a significant impact from supply chain shortages that will likely prevent us from fulfilling additional upside demand for our products in the March quarter. We believe this supply chain constraint is pervasive across the semiconductor industry. Specifically for us, these constraints are most prominent in our IoT business as many of these new products are just beginning to ramp, adding to supply chain pressures.

We expect the revenue mix from IoT, PC and Mobile products in the March quarter to be approximately 43%, 30%, and 27%, respectively. IoT and PC will perform better than historic seasonality, reflecting the broad-based wins in IoT and the continuing strength in the overall PC market. We expect our mobile business decline to be consistent with normal seasonality in this business.

I will now provide GAAP outlook for our March quarter and will follow with non-GAAP outlook:

We expect our GAAP gross margins to be in the range of 43.5% to 46.5%.

We expect our GAAP operating expenses in the March quarter to be in the range of \$117 million to \$123 million, which includes acquisition related charges for intangibles and prepaid development cost amortization, stock-based compensation, and restructuring costs.

We expect our Q3 YTD GAAP tax rate to be approximately 15-20%.



Finally, we expect our GAAP net income per share for the third quarter to be in the range of \$0.20 to \$0.50.

Now for the non-GAAP outlook for our March quarter:

We expect non-GAAP gross margin in the March quarter to be between 51.5% to 53.5% as contributions from our IoT product mix continues to drive improvements.

We expect non-GAAP operating expenses in the March quarter to decline slightly from the second quarter and be in the range of \$86 million to \$89 million.

We anticipate our long-term non-GAAP tax rate for fiscal 2021 to continue to be in the range of 11% to 13%.

Non-GAAP net income per diluted share for the March quarter is anticipated to be in the range of \$1.75 to \$2.05 per share, on an estimated 38.5 million dilutive shares for Q3, reflecting the anticipated impact of a higher share price used to determine shares potentially issuable related to our outstanding convertible notes.

Lastly, I want to give an update to our long-term financial targets. Based upon our performance in the December quarter and our guidance for the March quarter, we have met or exceeded the majority of the goals we laid out at our last analyst day. As we continue to drive operational improvements and focus our investments in IoT, we believe there remains meaningful improvements to our long-term financial model from here. We believe growth in IoT will continue to significantly outpace our other businesses, driving higher overall growth potential,



gross margin expansion opportunities and greater profitability longer-term for the company. Taking this into consideration, we expect our long-term revenue growth will increase to be in the range of 8-10%, with long-term target revenue contribution from IoT of 55%, 25% from Mobile and 20% from PC. With our long-term target of IoT contributing more than half of our total revenue, we believe our long-term non-GAAP gross margins can further improve to 57% over time and our non-GAAP operating margins can reach an industry leading 30%. We continue to manage to a long-term leverage target of 1.5x of adjusted EBITDA as our target capital structure.

This wraps up our prepared remarks, I'd like to now turn the call over to the operator to start the Q&A session.

Operator?



OPERATOR: Q&A

MICHAEL: FINAL REMARKS

I would like to thank all of you for joining us today. We look forward to speaking you at our upcoming virtual investor conferences during the quarter.