SYNAPTICS – THIRD QUARTER, FISCAL 2023 CONFERENCE CALL
Prepared Comments

MUNJAL: SAFE HARBOR

Good afternoon and thank you for joining us today on Synaptics' third quarter, fiscal 2023 conference call. My name is Munjal Shah 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.

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, which can be accessed from the investor relations section of the company's website at synaptics.com.

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. 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 our most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q, 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, Munjal. I'd like to welcome everyone to today's call. Our fiscal third quarter revenue was slightly above the mid-point of our guidance range, a solid result against a challenging economic backdrop. We maintained strong gross margins which ultimately drove EPS above the mid-point of our guidance.

Let me start by highlighting how the recent macro events are impacting our business. As we have reported previously, we have been focused on reducing customer and distributor inventories in our consumer-facing businesses such as Virtual Reality and Wi-Fi. However, we have been surprised by the slower pace of inventory draw down. Sell through hasn't returned to the degree we expected largely because our customers have further reduced their forecasts in response to weakening end demand. While we reduced shipments into the channel significantly from our peak levels, we have not seen a commensurate drawdown in inventory. Another unanticipated macro change was the deterioration in corporate confidence toward the end of the quarter. This led to reduced IT spend, impacting our enterprise facing businesses such as video interface and audio headsets. Given these dynamics, recovery will take longer than we initially forecast and we now anticipate that the inventory bleed will take us deep into calendar 2023.

In response to these near-term demand challenges, we are working with customers, allowing them to align backlog to demand, in a concerted effort to reduce inventories to normalized levels. We have confidence in our product roadmap and continue to invest in our long-term opportunities, but until we get past this acute period, we are tightening our belt and are reducing spend by freezing hiring, decreasing outside services, and lowering all non-essential spending. The Board recognizes

Synaptics' fundamental market potential and has approved an increase in our share repurchase program, bringing our total available authorization to nearly $1 billion dollars.

We are confident in our ability to return to growth once the inventory digestion is behind us. Given the June quarter guide, which Dean will cover in detail, we can say unequivocally that the business is shipping between $75 and $125M below where it should, even factoring in the weaker demand profile. Given the structural improvements we have made over the last three years and the share taken in product areas such as automotive, Wi-Fi and enterprise telephony, there is no reason to believe that the current state persists beyond this inventory correction.

There are bright spots in the business. Our automotive products continue to outperform, benefiting from the transition to TDDI. In addition, with a $4.3 billion IoT funnel, Synaptics continues to win new designs and expand its future market position at key OEMs like Amazon, Cisco, Samsung, Dell, Ford, BMW, Toyota, ADT, Verisure, and Direct TV. We expect to emerge from the current downturn in better shape, consolidating share positions and advancing technology in our franchise product areas.

During the quarter, we stayed focused on executing our plans. We won new Wi-Fi designs and the activity level continued to increase throughout the quarter. We introduced our second Triple Combo device that doubles throughput for high-speed Wi-Fi connectivity and integrates LE Audio for multiple concurrent BT 5.3 audio streams. The solution is ideal for intense streaming applications, advanced automotive infotainment systems, and high-end multimedia systems. Additionally, we have a new mid-range, cost-effective Wi-Fi 6E product that will be sampling to customers in the summer. While our business has taken a

step back as we bleed off inventory, we still believe that we are on track to have a $1B business in 3-5 years. In fact, our Wi-Fi opportunity funnel has grown more than 30% year-over-year.

We had several new customer product ramps this quarter – Unify and NEC for our enterprise telephony products, Razer and Jabra for new gaming headsets and speakerphones, and Lexus and Toyota for automotive TDDI solutions, among others. We are also expanding our product offerings at ADT with the integration of our SmartVoice glass break detection technology in security systems. While we are winning new sockets in our IoT portfolio, we also continue to cross-sell, increasing content in existing platforms such as operator set top boxes and enterprise telephony.

Another bright spot in the portfolio was our mobile business. Revenue was ahead of expectations due to higher demand from China with customers like Oppo seeing stronger than expected product ramps. Outside of China, we are working on a new product launch for high-end Touch controllers with a customer in Korea. Overall, our market position is strong in high-end flexible OLED screens, and we expect to see an increasing TAM as the technology moves down into higher volume tiers.

To conclude, the near-term is challenging, but our secular opportunities are unchanged. The number of connected devices is expected to significantly increase over the next few years, driving our Wireless business and keeping us on track to our long-term goal. Infotainment content is growing in new cars which should lead to continued strength in our automotive business. We still believe in wireless workspaces and the opportunity to drive content gains in the docking station platform. We are in an extremely strong position with design wins, new product

innovation, and portfolio expansion giving me confidence in our long-term growth prospects.

Before I turn the call over to Dean for a review of our third quarter financial results and fourth quarter outlook, I should mention that we plan to update the investment community regarding our long-term strategy at an Investor Day later this Fall.

DEAN: FINANCIAL RESULTS

Thanks Michael, and good afternoon to everyone.

I'll start with a review of our financial results for the recently completed quarter and then provide our current outlook.

Revenue for the March quarter was $327 million, above the mid-point of our guidance. March quarter revenue from IoT, PC, and Mobile were 71%, 16% and 13%, respectively.

Year-over-year, consolidated March quarter revenue was down 31%, with declines across all three product areas of our portfolio.

March quarter IoT product revenue was down a modest 3% sequentially, but down 23% on a year-over-year basis. The year-over-year decline is most pronounced in our Virtual Reality, Wireless, and Audio headsets products as these end markets continue to face macro headwinds.

In PC, our March quarter revenue was down 6% sequentially and down 41% year-over-year as we continued to under-ship end demand. We expect the PC market to continue its bottoming process as customer inventories are being depleted. However, corporate enterprise IT spending likely remains muted due to macro pressures, complicating the recovery trajectory expected in the second half of the calendar year.

Our March quarter Mobile product revenue was down 27% sequentially and was down 47% on a year-over-year basis. Mobile, however, was better than our prior expectations as customers in China experienced better than forecasted new product sales. We expect continued improvement in the June quarter but remain cautious as end demand in this geography is still volatile.

For the March quarter, our GAAP gross margin was 52.8%, which includes $23.7 million of intangible asset amortization and $900 thousand of share-based compensation costs.

March quarter non-GAAP gross margin continued to be strong at 60.3%, within our guidance range, but a bit lower than our expectation due to product mix.

GAAP operating expenses in the March quarter were $138.1 million, which includes share-based compensation of $28.9 million, intangibles

amortization of $8.5 million and amortization of prepaid development costs of $800 thousand.

March quarter non-GAAP operating expenses continued to track as expected at $100 million, which was the mid-point of our guidance, and is up only 1% over the last four years despite being a larger and more diversified company.

On a year-to-date basis, our GAAP tax rate was 43% and our non-GAAP tax rate was 17%.

In the March quarter, we had GAAP net income of $10.4 million or GAAP net income of $0.26 per diluted share. Our non-GAAP net income in the March quarter was $75.3 million, a decrease of 15% from the prior quarter and a 51% decrease from the same quarter a year ago. Non-GAAP EPS per diluted share of $1.89 was above the mid-point of our guidance range with higher net interest income in the quarter.

Now turning to the balance sheet.

We ended the quarter with $934 million of cash, cash equivalents, and short-term investments on hand; an increase of $75 million from the preceding quarter with cash flow from operations of $109 million. Partially offset by $26 million of cash used under our share repurchase program during the quarter.

As Michael mentioned, the Board has approved an additional $500 million for share repurchases bringing our total plan to $2.3 billion with an available authorization of $977 million. We continue to be steadfast in our capital allocation philosophy. Our balance sheet is extremely healthy and we continue to allocate our cash usage between share repurchases, debt management, and potential tuck in acquisitions seeking the best long-term return for shareholders.

Capital expenditures were $14 million and depreciation for the quarter was $7.6 million.

Receivables at the end of March were $218 million and days of sales outstanding were 60 days, a reduction of 5 days from 65 last quarter. Days of inventory were 102, below 112 days last quarter and ending inventory of $148 million was down $30 million as our shipments out once again exceed our inbound new inventory purchases. We anticipate a further reduction in the June quarter given forecasts but are cautious of drawing inventory down too far once demand turns.

Now, let me share the outlook for our June quarter.

The macro situation continues to weigh on our customer's forecasts, with their focus squarely on lowering inventory levels. Even in markets where demand has reached close to trough levels, recovery is taking longer than we originally anticipated. Given the need to further burn customer inventory, we expect revenue for the June quarter to be in the range of $210 million to $240 million, a sequential decline of approximately 31% at the mid-point. We expect our revenue mix from IoT, PC, and Mobile products in the June quarter to be approximately 57%, 19% and 24%, respectively.

IoT based customers have experienced the most acute inventory position and as a result are disproportionally expected to decline in the quarter. Our most aggressive shipment holdbacks are occurring in these areas. We expect many of these customers to deplete their inventory throughout the balance of the calendar year before returning to normal run rates. PC products are expected to decline in the June quarter but are seemingly close to trough levels, while our Mobile products likely increase during the June quarter as demand, plus new product launches, moves these customers back to modest growth.

As a result of these mix dynamics, we expect GAAP gross margin for the June quarter to be in the range of 44% to 47%. And expect non-GAAP gross margin in the range of 56% to 58%, a decline from the previous quarter and are comparable to prior periods where our IoT products represented a lower mix.

We expect GAAP operating expenses in the June quarter to be in the range of $138 million to $143 million, which includes intangibles amortization, and share-based compensation.

We expect non-GAAP operating expense in the June quarter to be in the range of $98 million to $102 million, consistent with the March quarter. We are taking actions to maintain our expense discipline including freezing hiring, cutting outside services, and reducing discretionary spend. Synaptics has strong expense controls, having expanded our spending by only 1% over the past four years since 2019. We remain committed to our focused investment areas to drive long-term growth opportunities for the company and therefore continue our prudent stance despite lower revenue levels which we believe will ultimately prove to be temporary.

As a result, June quarter GAAP net loss per basic share is expected to be in the range of $0.55 to $0.85 and non-GAAP net income per diluted share is anticipated to be in the range of $0.25 to $0.65 per share, on an estimated 40 million fully diluted shares.

We expect non-GAAP net interest expense in the June quarter to be approximately $7 million.

Finally, we expect our non-GAAP tax rate to remain unchanged in the range of 16 to 18%.

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: 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 investor conferences during the quarter.