SYNAPTICS – FIRST QUARTER, FISCAL 2025 CONFERENCE CALL
Prepared Comments

MUNJAL: SAFE HARBOR

Good afternoon and thank you for joining us today on Synaptics' first quarter, fiscal 2025 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 Ken Rizvi, 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 our earnings press release issued after market close today for a reconciliation of the most directly comparable GAAP financial measures to the non-GAAP financial measures presented, 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 in our prepared remarks and may make additional forward-looking statements in response to your questions. These 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. Synaptics cautions that actual results may differ materially from any future performance suggested in the Company's forward-looking statements. Therefore, 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. We delivered very solid performance this quarter. Revenue increased 8% year-over-year and exceeded the mid-point of our guidance range, driven by continued strength in Core IoT product sales, which were up 55% compared to the prior year. Our profitability continues to improve with non-GAAP gross and operating margins higher compared to the prior quarter and the year ago. We delivered strong EPS growth with non-GAAP EPS increasing 56% year-over-year.

We had another great quarter in Core IoT, led by our wireless and processor products. We are introducing new products, winning new designs, and increasing our pipeline. Our Core IoT funnel has grown nearly 30% since our last update a year ago, increasing from about $2.2B in September of 2023 to over $3B today. This design pipeline supports a compounded revenue growth of 25-30% over the next five years.

In wireless, we are making progress in 'broad markets', which we defined as a part of the wireless connectivity market that requires lower power and lower cost solution. At our Analyst's Day just over a year ago, we outlined our SAM from this market segment as approximately $3B. Our first broad market chip is back from our fab and is on track to sample this quarter, allowing us to address this opportunity for the first time. Given our level of differentiation, we expect to build share in 'broad markets' and establish a meaningful position over the next two years. Meanwhile, in high-performance Wi-Fi, we continue to build our position with new customer wins and market share gains. The pace of new wins accelerated, nearly doubling in number as compared to just three months ago and spanned across a broad range of customers and applications. In addition, we remain on track to sample the first Wi-Fi 7 device designed specifically for the IoT market later this month. While our overall share is still modest, we continue to believe that we can be a leading player in the next few years.

Moving to processors, our Astra products recently earned recognition from industry experts by winning the 2024 EDGE Awards in the Machine Learning and Deep Learning category. Our solutions are gaining market traction with our funnel growing $300M in the quarter. Our primary progress to date has been in designs for home automation, security, and appliances. Additionally, we are seeing interest from ODMs and customers for an AI hub that connects to multiple devices, reducing or eliminating the need for cloud connectivity. Customers are drawn to our products because they bring AI capability to edge devices at very competitive price points. In this way, a decision doesn't need to be made immediately as to the AI use cases because our products are plug-and-play replacements for existing MPUs.

In Enterprise & Automotive, we are seeing gradual improvement across the enterprise portfolio. Our PC product revenue increased by high-single digit percent in the quarter, benefitting from market seasonality and incremental share gains. While 2024 was a year of stabilization in the PC market and notebook units didn't grow quite as expected, there is an increasing belief that demand will grow more appreciably in 2025, driven by multiple factors including the age of the fleet, Windows 10 end-of-life, and new AI PCs. Given our market position in fingerprint sensors, touch pads and User Presence Detection (UPD), any growth will be beneficial to our top line numbers. Even with limited growth in units next year, we still expect our UPD products to double in FY25 albeit off a relatively small base. We are ramping design wins at our lead customer and sit on Intel's reference design for their Panther Lake platform. The progress with both Intel and our major customer shows the significant advantage we have. We expect to be able to bring those differentiators to both new PC customers and to other applications, growing revenue for this product line over the next few years.

Next, our video interface products are showing signs of life again as we have mostly worked down inventory. While revenue from these products improved a double-digit percentage compared to the year ago quarter, they are still 40% or more below the normal run-rate. Irrespective of the PC market, we believe our video interface products will see improvement in 2025 due to technology standard upgrades and increased manageability requirements. For example, next year's notebook models will include Thunderbolt 5 and our latest devices uniquely support its high bandwidth requirement. Our latest video interface product, Carrera, should see a high rate of adoption as it enables more displays, higher refresh rates, and faster charging capability. Further benefiting this product line is the advent of new ARM-based PCs. Our newly introduced DisplayLink Pro is CPU and GPU agnostic and the only solution available that can support both ARM and x86 processors.

In Automotive, end market demand has deteriorated and these products were down year-over-year. We remain cautious regarding this product line given the broader market slowdown, the continued decline in legacy DDIC products, and delays in the adoption of new technologies.

In Mobile, our touch controllers are aligned with the high end of the Android market and are seeing good strength. We continue to win replacement designs with major customers and see opportunities down market with some new OEMs. We are also introducing a new frequency-based touch controller which should not only help build share in handsets, but also potentially unlocks new non-mobile applications.

We also plan to begin deploying capital this quarter. Ken will provide more details in his prepared remarks, but our focus will be on share repurchases.

To conclude, we are making progress in Core IoT, gaining share in high-performance Wi-Fi while building a foundation in broad market connectivity and Edge IoT processors. In addition, our enterprise product sales are growing again and any further increase in end demand should result in improved margins. Finally, we are driving higher earnings and starting to return capital to shareholders.

Let me turn the call over to Ken for a review of our first quarter financial results and second quarter outlook.

KEN: FINANCIAL RESULTS

Thanks Michael and good afternoon to everyone.

I will focus my remarks on our non-GAAP results which are reconciled to GAAP financial measures in the earnings release tables found in the investor relations section of our website.

Now let me turn to our financial results for the first quarter of fiscal 2025.

Revenue for fiscal Q1 was $257.7 million, above the midpoint of our guidance, with sequential improvement across Core IoT, Enterprise & Automotive and Mobile products.

Q1 revenues were up 8 percent on a year-over-year basis and up 4 percent sequentially.

Revenue mix in the first quarter was as follows: 23 percent Core IoT, 57 percent Enterprise and Automotive and 20 percent Mobile Products.

- Core IoT product revenues increased 55 percent year-over-year and 10 percent sequentially, reflecting new design ramps as well as further recovery in the overall wireless end-market.
- Enterprise & Automotive product revenue improved 3 percent sequentially and was down 5 percent on a year-over-year basis. Our PC products continued to improve sequentially helped by both share gains and seasonality. The year-over-year decline was primarily due to our Automotive products, which were impacted by the market slowdown and a decline in legacy products.
- Mobile product revenue was up 14 percent year-over-year and 3 percent sequentially. As a reminder, our Mobile products are largely driven by the high-end Android market.

During the quarter, we had two customers greater than 10% of revenue, each at approximately 12%.

First quarter non-GAAP gross margin was 53.9%, above the mid-point of our guidance.

First quarter non-GAAP operating expense was $95.9 million and at the mid-point of our guidance range.

Our non-GAAP operating income strengthened again in the first quarter, coming in at 16.7%, up approximately 400 basis points on a year over year basis and 200 basis points sequentially driven by improved revenue and continued operating expense controls.

Non-GAAP net income in Q1 was $32.5 million.

Non-GAAP EPS per diluted share came in above the mid-point of our guidance at $0.81 per share, an increase of 56 percent on a year-over-year basis and 27 percent sequentially.

Now turning to the balance sheet.

We ended the quarter with approximately $854 million of cash and cash equivalents, down approximately $23 million from the prior quarter. Cash used in operations was $11.4 million primarily due to $30 million of cash taxes including a one-time cash tax payment related to the onshoring of our intellectual property last quarter.

Capital expenditures were $9.1 million and depreciation for the quarter was $7.2 million.

Receivables at the end of September were $135.8 million and days of sales outstanding were 47 days, down from 52 days last quarter. Our ending inventory balance was $119.6 million, up slightly compared to the last quarter, to support customer demand for our second quarter. The calculated days of inventory on our balance sheet were 93 days.

Now let me turn to our capital allocation priorities.

First, we will continue invest in our organic business, as we see significant opportunities for growth, especially in our Core IoT and Enterprise and Automotive products.

Second, we will continue to augment our internal capabilities with M&A in a disciplined manner, which we have done successfully over the last several years.

Third, we will return capital via share repurchases. Finally, we will continue to maintain a strong balance sheet and liquidity profile enabling us to remain nimble and allocate capital in an efficient manner.

Today, our cash balance is higher than our operational requirements. In addition, we have ample dry powder for tuck in acquisitions.

As a result, we intend to return a portion of our cash to shareholders, while also continuing to maintain a strong balance sheet. We are earmarking approximately $150M, or 150 percent of the free cash flow generated in fiscal 2024, for share repurchases over the next twelve months.

Now, let me turn to our second quarter of 2025 guidance.

We expect revenues to be approximately $265 million at the mid-point, plus or minus $15 million.

Our guidance for the second quarter reflects an expected revenue mix from Core IoT, Enterprise & Automotive, and Mobile products in the second quarter to be approximately 24, 59 and 17 percent, respectively.

We expect non-GAAP gross margin to be 53.5% at the mid-point plus or minus 1%.

Non-GAAP operating expense in the December quarter are expected to be $96 million at the mid-point of guidance plus or minus $2 million.

We expect non-GAAP net interest and other expense to be approximately $5 million in the December quarter and our non-GAAP tax rate to be in the range of 13-15%.

Non-GAAP net income per diluted share is anticipated to be $0.85 per share at the mid-point plus or minus $0.20, on an estimated 40.5 million fully diluted shares.

We are expecting another quarter of sequential revenue growth in Q2. We have worked through our inventory challenges and believe overall channel position is lean and even below normal in certain pockets. However, as revenue growth is still relatively muted, we will continue our efforts to manage the business and overall expenses while also ensuring adequate investments in our long-term growth.

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.