SYNAPTICS – THIRD QUARTER, FISCAL 2020 CONFERENCE CALL
Prepared Comments

JASON: SAFE HARBOR

Good afternoon and thank you for joining us today on Synaptics' third quarter, fiscal 2020 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 29, 2019, 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.

Now before we get started, I'd like to remind you that we are still planning on hosting our analyst day on June 9th and we look forward to discussing more details about our long-term strategy and targets with you at that time. I will be sending out more details shortly. 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. I'm pleased to be speaking with all of you again today and report a solid quarter despite the ongoing global uncertainty with COVID-19. During much of the March quarter, the supply chain in China was largely at a standstill due to the quarantine. As the pandemic spread throughout the globe in the subsequent weeks, we have seen differing impacts to our product portfolio. While our PC-related businesses are benefiting from the increased number of people working from home, we are seeing significant weakness in parts of our IoT business as discretionary spending for consumer electronics and automotive declined meaningfully. Our mobile business was in line with our expectations during the March quarter. Despite these challenges, our third quarter revenue was largely in line with the low-end of our expectations while our continuing focus on higher value-added solutions and higher margin products drove stronger gross margins and better-than-expected profitability for the company. I'm also pleased that we were able to close the divestiture of our mobile LCD TDDI business last month. We now have a much stronger P&L and balance sheet which should enable us to further improve our long-term profitability while allowing us to invest in more differentiated products, further increasing gross margins. Dean will provide more details on our financial performance later in the call.

Before I provide an update to our business, I would like to share with you my thoughts on how the global pandemic is affecting us and what we are doing to address these challenges. First off, the health and safety of our employees is our top priority and we continue to take steps and implement measures to safeguard them. I am extremely pleased by their focus and execution in these uncertain times and thank them for their dedication. As I said earlier, from a business standpoint, we have some areas that are faring better than others in the short-term and we are seeing strong continuing engagement with our customers across the board. We have been able to adapt and continue to deliver on our commitments to our customers, from ensuring we execute on our various roadmaps to effectively managing our supply chain. We see the supply chain normalizing and face minimal disruptions at this point. We have put a team in place to look at contingency plans in the event that global economic conditions decline further and consider how we are positioned to deal with that. Our intention is to continue to invest and to stay engaged with our customers through all of this and as conditions return to normal, our customer engagements and increasing pipeline of new products and design wins will enable our growth long-term.

Now let me update you on our businesses.

In the mobile market, our customers have launched several highly anticipated handsets in the past couple of months with our display drivers as well as with our on-cell flexible OLED touch controllers including the Huawei P40 Pro and Pro Plus phones. We are introducing several new single-chip touch solutions that integrate a broad suite of high-end capabilities and differentiation for on-cell flexible OLED displays. This includes delivering the fastest touch report rates in the industry, as well as integrating Face Detect and Side Touch features to enable infinity displays, and support for active pens. As production and availability of on-cell flexible OLED panels continues to grow, our design momentum is accelerating and we are confident in maintaining our leadership position. Assuming the current schedules hold, our flexible OLED touch solutions should be designed into at least 10 more flagship to mid-range phones by the end of this calendar year.

Separately, our large handset customer launched their highly anticipated, low-end LCD smartphone last month using our DDIC and it has been well received in the market.

In IoT, following the successful launch of our versatile VS600 Smart Edge AI family of SoCs, we are seeing strong customer traction and design activity across multiple markets including service provider set-top-boxes and retail OTT streaming products. Serving as the entertainment hub of smart homes, set-top-boxes are getting smarter with the addition of our powerful purpose-built SoCs that uniquely combine a CPU, NPU, and GPU on a single platform, integrating audio, video, computer vision and AI. Our customers are also finding new ways to integrate our neural network accelerators in retail voice-enabled devices with premium sound and high-performance video including sound bars, cameras, and smart displays. We have strong partnerships with our ecosystem partners to drive significant design activity and wins with service providers across Europe, Asia and the Americas along with numerous consumer electronics companies. We have a solid roadmap in this space and you will see initial product rollouts over the course of the next 12 months.

We are also excited about our new video interface products that have recently taped-out. These ICs support HDMI 2.1 and are optimized to drive up to 8K screens. Designs will be in commercial docks, travel docks, and ultra-portable dongle accessories, and these products are targeted to be at retail by the end of the year. In addition, our existing multi-stream video products continue to see strong demand with growing volumes due to the increase of work-from-home and we're seeing a rise in new design activity.

The increase in work-from-home activity continues to benefit our PC-related businesses and momentum is accelerating. Enterprises are outfitting more of their employees with upgraded laptops. In addition, consumers are upgrading their laptops to enable video applications and students are also moving to remote learning. As a result, sales of our touchpads, fingerprint sensors and high-speed wired connectivity for docking stations are increasing sharply. While the strength in our PC-related businesses is lasting longer than we previously anticipated, we do not expect this strength to be sustainable.

Overall, I am pleased by our execution and our team's continuing focus. Undoubtedly, there will still be uncertainty and volatility in the coming months due to COVID-19 but our focus remains on what we can control. We will continue to be there to support and engage with our customers and we will continue to invest in our portfolio of solutions that will drive strong operating results, even in an uncertain environment.

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

DEAN: FINANCIAL RESULTS

Thanks Michael, and good afternoon to everyone.

I'll start with a review of our financial results for our recently completed quarter, then provide our current outlook for our fiscal Q4.

Revenue for the third quarter of fiscal 2020 of $328 million was slightly below the low end of our previous guidance range, down 16% from the preceding quarter, and down 2% from the same quarter last fiscal year.

Our revenue was negatively impacted by customer production delays driven by supply chain constraints due to the global effort to slow the spread of COVID-19. During the quarter we had two customers above 10% of revenue, at 21% and 13%.

For the March quarter, our GAAP gross margin was 41.3%, which includes $8.1 million of intangible asset amortization and $800,000 of share-based compensation costs.

GAAP operating expenses in the March quarter were $116.6 million, which includes share-based compensation of $17.1 million, intangibles amortization of $2.9 million, restructuring expenses of $6.3 million, and retention program costs of $3.2 million.

We accrued GAAP tax expense in the quarter of $10.2 million, bringing the year-to-date GAAP tax rate to 36.3%.

GAAP net income for the quarter was $5.0 million, or net income of $0.14 per diluted share.

On a non-GAAP basis, our March quarter non-GAAP gross margin of 44.1% was 10 basis points above the high end of our guidance range and primarily reflects ongoing cost savings initiatives.

The March quarter non-GAAP operating expenses were below the low end of our guidance range at $86.7 million and down $2.5 million from the preceding quarter; primarily reflecting the benefit of restructuring activities and operating expense savings during work from home restrictions due to COVID-19.

Our non-GAAP tax rate for the quarter and year-to-date period was 12%.

Non-GAAP net income for the March quarter was $52.3 million, or $1.49 per diluted share - an 80% increase year-over-year as we continue to focus on improved bottom-line results, as compared with $29.0 million, or $0.83 per diluted share in the third quarter of fiscal 2019.

Now turning to our balance sheet

We ended the quarter with approximately $472 million of cash on hand, an increase of $47 million from the prior quarter, primarily driven by cash flow from operations. We opportunistically repurchased 257 thousand shares for $13.2 million for an average price of $51.09 early in the market downturn and quickly changed to cash conservation mode once it became obvious that the COVID-19 impact was going to last much longer than initially thought.

Receivables at the end of March were $238 million and DSOs were 65 days. Inventories were $96 million and inventory days were 47.

Capital expenditures for the quarter were $3.5 million, and depreciation was $6.6 million.

Before I turn to our guidance, let me remind you of a couple of post-quarter end transactions that will drive our ability to execute on our longer-term plans to opportunistically invest and grow the business. On April 2nd, we drew down $100 million on our revolver, leaving an additional $100 million available to us. We believe it was prudent to put this cash on our balance sheet to ensure it will be available when needed and it will provide greater flexibility for our operations in these uncertain times. On April 16th we closed the divestiture of our Mobile LCD TDDI product line and received approximately $139 million from the buyer. Our adjusted cash balance that includes these two post-quarter-end events in addition to the $472 million cash balance at the end of the quarter is $711 million and this positions us well to capitalize on potential opportunities to acquire businesses or product lines that will fit into our longer-term growth and gross margin strategies.

Let me also highlight the historical impact on our P&L from the mobile TDDI divestiture that we referenced in our filing with the SEC on April 16th. In the first half of fiscal 2020, this business generated sales of $131 million or an average of about $65 million per quarter. Excluding the effect from this divestiture, our revenue in the June quarter at the midpoint of our range is expected to be approximately flat sequentially, which is slightly better than typical seasonality. We will also see a meaningful improvement in gross margins and operating expenses in the June quarter as a result of this sale and that is also incorporated into our guidance.

In addition, taking into consideration the increasing uncertainty and the impact COVID-19 continues to have on end-markets and consumer demand, we are broadening our revenue guidance range for the June quarter to $30 million, up from the $20 million range we provided in the past couple of quarters.

Now let me provide our outlook for the fourth quarter. Based on our backlog entering the June quarter of approximately $240 million, subsequent bookings, customer forecasts, product sell-in and sell-through timing patterns, as well as expected product mix, we anticipate our total revenue for the June quarter to be in the range of $260 million to $290 million. We expect the revenue mix from our Mobile, IoT, and PC products to be 45%, 23% and 32%, respectively, reflecting continuing near-term strength in PC-related sales and inline mobile business offsetting weakness in IoT.

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

We expect our GAAP gross margins to be in the range of 41.5% to 44%.

We expect our GAAP operating expense to be in the range of $110 to $116 million which includes charges for intangibles amortization, stock compensation, and we also expect to accrue restructuring costs and retention related costs.

We expect our GAAP tax rate for fiscal 2020 to be in the range of 20 to 25% for the full fiscal year.

I will now provide non-GAAP outlook for our June quarter:

We expect non-GAAP gross margin in the June quarter to be between 45% and 47% reflecting the positive impact of the divestiture of our low margin TDDI product line.

We expect non-GAAP operating expenses in the June quarter to be in the range of $83 million to $86 million, also reflecting the positive impact from the divestiture of our TDDI product line.

We anticipate our non-GAAP tax rate for fiscal 2020 to continue to be in the range of 11% to 13%.

Non-GAAP net income per diluted share for the June quarter is anticipated to be in the range of $0.85 to $1.25 per share.

This wraps up our prepared remarks, so 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 investor conferences during the quarter as well as our analyst day on June 9th.