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SYNAPTICS – THIRD QUARTER, FISCAL 2025 CONFERENCE CALL
Prepared Comments

MUNJAL: SAFE HARBOR

Good afternoon and thank you for joining us today on Synaptics' third 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 Ken Rizvi, our Interim CEO and CFO, Satish Ganesan, our SVP Intelligent Sensing Division and Chief Strategy Officer, Venkat Kodavati, SVP Wireless, and Vikram Gupta, SVP of IoT Processors and Chief Product Officer. This call is 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 copy of our earnings press release detailing our quarterly results, a supplemental slide presentation, and a copy of these prepared remarks have been posted on our investor relations website.

Today's discussion of financial results is presented on a GAAP financial basis along with 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 for a reconciliation of the most directly comparable GAAP financial measures to the non-GAAP financial measures presented.

As a reminder, the matters we are discussing today in our prepared remarks, in our supplemental materials and in response to your questions may contain forward-looking statements. 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 the estimates and assumptions underlying these forward-looking statements 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. Except as required by law, Synaptics expressly disclaims any obligation to update this forward-looking information.

I will now turn the call over to Ken.

BUSINESS OVERVIEW

Thanks, Munjal. I'd like to welcome everyone to today's call. I have the pleasure of Vikram, Venkat, and Satish joining our call today.

We delivered another strong quarter in March, with revenues increasing 12% year-over-year to $267 million, slightly above the mid-point of our guidance range. Non-GAAP gross margin came in at 53.5%, in line with the mid-point of our guidance and non-GAAP EPS grew 70% year-over-year to $0.90, exceeding the mid-point of our guidance.

Our Core IoT product sales increased 43% year-over-year to $68 million, fueled by strong momentum across both our wireless and processor products. This growth reflects improving demand trends, the ramp of new design wins, and a clearing of prior inventories.

Before we dive into the details of the quarter, I want to take a moment to address the global trade environment. At present, the direct impact of existing and proposed tariff policies to Synaptics is minimal.

We will continue to monitor potential indirect impacts from supply chain realignments and changes in end demand. While the broader implications of these indirect effects remain uncertain, based on our current lead times and order activity, we currently do not see unusual activity that would suggest a material pull-in or push-out due to tariffs impacting our near-term financial performance.

Over the last couple of quarters, we have seen encouraging trends across the business: the improvement in demand that started prior to the announced tariff changes has continued; orders are steadily increasing;

our backlog is growing; and customer and channel inventories remain lean.

That said, we continue to operate with agility and discipline in the face of an evolving macroeconomic landscape. We remain closely aligned with our customers to meet their changing needs, and our focus is firmly on the areas within our control. We are executing to our technology roadmap and growth initiatives, deepening relationships across our customer and partner ecosystem, and maintaining a disciplined approach to costs. Through technology innovation, go-to-market expansion and operational excellence, we are positioning Synaptics for long-term success.

Now let me turn to some highlights in each of our product areas.

In wireless, we expanded our Veros connectivity portfolio with the launch of our first broad market device. As previously highlighted, this cost-effective solution for embedded Edge IoT applications opens an incremental $3 billion in serviceable market opportunity for Synaptics. Our die size is significantly smaller than that of our high-performance solutions, reducing system costs by up to 50% and consuming up to 50% less power, while still delivering top-level performance.

In addition to opening a new SAM for embedded IoT connectivity solutions, we remain committed to maintaining our leadership position in high-performance connectivity solutions. We have launched our first Wi-Fi 7 devices for IoT applications. Our solution is designed to deliver up to two times higher throughput, greater transmit efficiency, and improved load balancing for greater reliability and reduced latency compared to prior Wi-Fi generations. These enhancements make Wi-Fi 7 ideally suited for any real-time and video intensive applications such as ultra-high-definition video streaming, interactive gaming, immersive AR/VR, security monitoring, and home and automotive entertainment. Synaptics' chips have been purpose-built for low power, ultra-low latency, and reliable long-range performance. We expect initial adoption in high bandwidth applications, with broader proliferation into other IoT devices over time.

This quarter also marked important advancements in our second Core IoT growth vector – processors. Last month, at Embedded World in Germany, we extended our AI-native Astra platform with the launch of the SR-series high-performance adaptive MCUs. These products feature a novel tiering approach to dynamically manage power depending on inferencing requirements. The SR-series MCUs feature a compact form-factor design that helps minimize system cost, power consumption, and footprint, enabling integration across a wide range of Edge IoT applications. We see traction from customers across various end markets including consumer, automotive, and industrial.

In addition, our ecosystem investments are beginning to deliver results. ODM partners are building solutions and use cases on our Astra platform and are actively collaborating with OEMs to bring AI-enabled products to market. We are building on this momentum by investing in our go-to-market initiatives and adding to our business development and sales teams to drive growth in the Edge AI IoT market.

In the year since launching our Astra platform, we have made significant progress. Our product development efforts, design-wins, and customer engagements are on track.

Turning to Enterprise & Automotive, our PC products performed slightly better than typical seasonality in the March quarter, reflecting continued market share gains. While we are not factoring in a PC refresh cycle in our expectations, the key drivers such as an aging installed base, Windows 10 end-of-life, and the rise of AI PCs remain in play. We see opportunities for growth from share gains and higher content. Our user presence detection solution continues to ramp with our lead customer, and we have expanded our engagement through design wins for next-generation AI PCs built on Nvidia platforms. Additionally, we are seeing traction in expanding this technology into new and adjacent categories.

In Automotive, we continue to navigate near-term challenges in sluggish demand. Longer term, we expect to benefit from the adoption of OLED screens as well as our innovative bridge technologies to drive growth as customers prioritize system-level cost savings in next-generation platforms.

In Mobile Touch, our primary focus is on the high-end Android smartphone market. We continue to drive innovation with the introduction of next-generation touch controllers featuring a differentiated multi-frequency architecture designed for foldable OLED phones. This new architecture offers low power consumption and low latency, enabling thinner and larger panels while incorporating enhanced sensing and filtering capabilities to overcome display noise. It also offers continuous time sensing for more flexible and cost-effective touch integration. We are currently engaged with multiple OEMs and LCMs and expect the first product based on this technology to launch in calendar Q3. The Android smartphone market has carried strong momentum into 2025, helped in part by China economic subsidies and a mix shift to premium phones.

Now, let me review our third quarter financial results and fourth quarter outlook.

FINANCIAL RESULTS

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.

Revenue for fiscal Q3 was $266.6 million, above the midpoint of our guidance, with sequential and year-over-year improvement in Core IoT products.

Q3 revenues were up 12 percent on a year-over-year basis and flat sequentially.

Revenue mix in the third quarter was as follows: 25 percent Core IoT, 58 percent Enterprise and Automotive and 17 percent Mobile Products.

- Core IoT product revenues increased 43 percent year-over-year and 11 percent sequentially.
- Enterprise & Automotive product revenues improved 14 percent year-over-year and were down 3 percent sequentially mainly due to continued softness in Automotive.
- Mobile product revenues were down 4 percent sequentially and 18 percent year-over-year as product shipments to a large customer reached end-of-life.

Third quarter non-GAAP gross margin was 53.5%, in line with the mid-point of our guidance.

Third quarter non-GAAP operating expense was $101.2 million, in line with the mid-point of our guidance range.

Our non-GAAP operating margin was 15.6%, up approximately 270 basis points on a year-over-year basis and down 170 basis points sequentially. The sequential decline was mainly due to an increase in operating expenses related to our Broadcom transaction as well as incremental variable expenses.

Non-GAAP net income in Q3 was $35.3 million.

Non-GAAP EPS per diluted share came in above the mid-point of our guidance at $0.90 per share, an increase of 70 percent on a year-over-year basis.

Let me turn to the balance sheet.

We ended the quarter with approximately $421.4 million in cash, cash equivalents and short-term investments, down approximately $174.7 million from the prior quarter. Cash flow from operations was $74.0 million. During the quarter, we spent $198 million on the Broadcom transaction. In addition, we returned $37.9 million in capital through share repurchases, purchasing approximately 546,000 shares. In this fiscal year, we have returned approximately $128 million to shareholders through the repurchase of about 1.8 million shares, or nearly 5% of our total shares outstanding.

Capital expenditure was $5.4 million and depreciation for the quarter was $7.2 million.

Receivables at the end of March were $132.0 million and days of sales outstanding were 45 days, down from 49 days last quarter. Our ending inventory balance was $132.9 million, which increased by 13.4 million from the previous quarter. The calculated days of inventory on our balance sheet were 96 days.

Now, turning to our fourth quarter of 2025 guidance.

Broader macroeconomic conditions remain uncertain, influenced by tariff policies and the global trade environment. While the direct impact of tariffs on our financials has been immaterial, the potential indirect impact on future demand and supply chain remains unclear. Based on our current view of the environment, we expect June quarter revenues to be approximately $280 million at the mid-point, plus or minus $15 million.

Our guidance for the fourth quarter reflects an expected revenue mix from Core IoT, Enterprise & Automotive, and Mobile Touch products of approximately 30%, 54%, and 16%, respectively.

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

Non-GAAP operating expenses in the June quarter are expected to be $103 million at the mid-point of our guidance plus or minus $2 million.

We expect non-GAAP net interest and other expenses to be approximately $1 million in the fourth 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 $1.00 per share at the mid-point plus or minus $0.20, on an estimated 39.3 million fully diluted shares.

To conclude, we delivered a strong quarter and successfully introduced several innovative and differentiated products. We continue to monitor and adjust to the evolving macroeconomic and geopolitical landscape. Our design win momentum remains robust, with key programs progressing through the funnel. We're seeing encouraging signs of market share gains and content expansion across our franchise markets. Overall, we remain focused on disciplined execution, strengthening our competitive position, and driving long-term shareholder value. This wraps up our prepared remarks. I'd like to turn the call over to the operator to start the Q&A session.

OPERATOR: Q&A