SYNAPTICS – FIRST QUARTER, FISCAL 2020 CONFERENCE CALL
Prepared Comments

JASON: SAFE HARBOR

Good afternoon and thank you for joining us today on Synaptics' first quarter, fiscal 2020 conference call. My name is Jason Tsai and I am the head of Investor Relations at Synaptics. With me on today's call are Michael Hurlston, our President and CEO, Dean Butler, our CFO, and Saleel Awsare, Senior Vice President and General Manager, of our IoT Division. 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. 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.

I will now turn the call over to Michael.

MICHAEL: INTRODUCTORY REMARKS

Thanks, Jason, and I'd like to welcome everyone to today's call. We got out a bit ahead of ourselves earlier today so I hope we maintained a decent audience for our actual discussion. Certainly, I'm happy to be speaking to you for the first time since I joined in August. I'm excited for the future of Synaptics given wide array of leadership technology. With the addition of Dean Butler as our new CFO, we have a strong leadership team in place to continue to drive the corporate transformation the company began earlier this year and to become a stronger, more profitable company long-term.

Let me start with a quick recap of our financial performance this past quarter. We had numerous highly successful product launches this quarter with many of our tier one OEM customers. I'm happy to report that revenue, gross profit and operating profitability all exceeded our forecasts three months ago. Revenue was $340 million and exceeded the high-end of our range. Our gross margins were also better as the early actions we've already undertaken in focusing on higher-margin products have begun to show results. This is the first time in FIVE years that we have achieved non-GAAP gross margins of over 40%. Better OPEX controls with more disciplined spend and more selective project investments also resulted operating expenses that were lower than expected. As a result, non-GAAP net income increased more than 200% sequentially to $41 million and non-GAAP EPS of $1.22. This is a great start to our fiscal year and I believe we are putting the pieces together to drive this type of strong performance more consistently going forward.

As part of our corporate transformation, I see an opportunity for us to better align our operations by breaking down internal silos and improve efficiencies. By removing redundancy and streamlining our operations, we have should be able to further improve our overall corporate profitability and performance. We are undergoing a full review of our product portfolio and look to further invest in areas where our strong technology and IP will deliver higher margins and growth long-term for the company as well as reduce investments in areas that are more commoditized.

Now let me provide some insights and updates to our mobile and PC businesses.

In Mobile, we are continuing to focus on the higher gross margin, premium segments of the market which continues to shift towards flexible OLED displays to enable some of the most advanced designs in the industry. We continue to win with our advanced touch controller ICs for premium OLED smartphones with tier-one mobile OEMs due to our superior performance and differentiating features. Our solutions are enabling exceptional touch performance in a new generation of phones with displays that fold and bend. And we continue to win major designs with our display drivers across both OLED and LCD.

One example of our success in mobile is with a recently launched flagship Android phone by a leading China OEM that leverages our most advanced touch controller IC for unmatched OLED touchscreen performance. This enabled the world's first active pen capability on flexible OLED display powered by our single-chip, dual y-octa solution that eliminates the need for 2-3 chip alternatives that require more real estate and are more expensive. The same phone is also paired with our premium OLED flexible display driver IC.

Jumping to our PC business, Synaptics continues to remain the market share leader for both touchpads and secure fingerprint sensors. We have numerous new design wins across all the OEM leaders including Dell, HP, and Lenovo. I wanted to take this opportunity to make clear that we remain committed to this business as we look to extend our leadership while continuing to innovate and differentiate.

With that, let me turn the call over to Saleel and have him give you an update on the IoT business. Saleel?

SALEEL: IoT UPDATE

Thank you Michael.

Our IoT business continues to build upon our strong relationships with some of the world's largest OEMs. We saw several successful launches of new products powered by our IoT solutions from some of the world's leading consumer electronics companies and we are even more excited by what's in the pipeline for 2020.

We are building a strong franchise around our edge computing SoC products, and this quarter, a leading US search provider launched a new smart speaker, and a new smart Wi-Fi mesh router solution, both of which packs one teraop of performance using our quad-core SoC with integrated neural network accelerators.

The value proposition for the consumer is that these new generation of products with AI at the edge will deliver much better performance and speed with lower latency by learning and processing commands locally. This can enable a three to ten times improvement in performance as compared to their previous generation product. We have a strong pipeline of new products ranging from sound bars to 5G gateways and media streamers that are being introduced by hardware OEMs and service providers globally using our edge AI computing platform.

These new products are building upon our expertise in edge technology that offers any combination of voice, video, and computer vision with AI capabilities. By incorporating more of our proprietary software, firmware and intelligence into these solutions, we will enable better performance with greater personalization and customization while enhancing privacy and security to deliver a more seamless user experience for the consumer in a multitude of connected devices that will become more pervasive in our lives.

This includes Verizon, who also announced a new 5G home router featuring Synaptics' Far-Field Voice DSP and integrated Alexa wake word technology.

For our high-speed wired connectivity franchise, we made a small acquisition in this space last quarter that will significantly expand our TAM longer-term. We are seeing our opportunity in high-speed wired connectivity increasing meaningfully over the next few years, and will continue to invest in this key area.

For our digital audio SoC solutions for headphones, we launched in the box with a leading Korean OEM with their newest flagship handset last quarter, their first flagship shipping with a USB-C wired headset. We are excited by this opportunity and continue to invest in our differentiating roadmap as we are seeing more leading Android smartphone OEMs look to make USB-C wired headsets a standard for their upcoming flagship handsets.

Lastly, let me touch upon our auto business. We are excited about the long-term opportunity with our leading technology and capabilities for enabling touchscreens, and we have very pleased to have design-ins at six major OEMs across Europe, North America, Japan, and China. Many of these OEM's are planning to transition the majority of their future display systems to a simpler and lower cost integrated solution platform using TDDI and we are winning the majority of these sockets.

With that, I'll turn the call back over to Michael.

MICHAEL: CLOSING REMARKS

Thanks for the update Saleel.

Before I turn the call over to Dean to discuss the financials, I'd just like to say that I'm really excited about the opportunity ahead for Synaptics. Since I've been onboard, I've been really impressed by the strong team we have in place, our broad portfolio of technology and IP, and the great customers and partners we have today. We still have a lot of work ahead of us as we continue down the path of transformation but I'm confident that we have the building blocks in place to drive Synaptics to become an even stronger company built on differentiated and sustainable franchises that generate better profitability long-term.

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

DEAN: FINANCIAL RESULTS

Thanks Michael, and hello everyone. Before I get started, I'd just like to say that it's an honor for me to join Synaptics and I'm excited to be part of such a great company.

Revenue for the first quarter of fiscal 2020 of $340 million was approximately 3% above the high end of our guidance range, up 15% from the preceding quarter, and down 19% from the same quarter last fiscal year. Our revenue beat for the quarter primarily reflects better than expected demand from Huawei. We had two customers above 10% of revenue, at 12% and 12%.

For the September quarter, our GAAP gross margin was 37.1%, which includes $15.4 million of intangible asset amortization, $700,000 of share-based compensation costs and a $1.2 million partial reversal of a previously accrued loss on a supplier commitment agreement.

GAAP operating expenses in the September quarter were $123.0 million, which includes share-based compensation of $10.5 million, intangibles amortization of $2.9 million, restructuring expenses of $6.6 million, retention program costs of $3.8 million, and a $3.7 million charge related to an acquisition of a technology start-up company.

We accrued a GAAP tax benefit in the quarter of $4.9 million.

GAAP net income for the quarter was $4.0 million, or net income of $0.12 per diluted share.

On a non-GAAP basis, our September quarter non-GAAP gross margin of 41.5% was above the high end of our guidance range and primarily reflects an overall better product mix.

The September quarter Non-GAAP operating expenses were below the low end of our guidance range at $95.5 million and down $5.6 million from the preceding quarter; primarily reflecting the benefit of the restructuring we announced in the June quarter and prudent expense management.

Our non-GAAP tax rate was 12%.

Non-GAAP net income for the September quarter was $41.0 million, or $1.22 per diluted share - an 8% decline year-over-year compared with $44.6 million, or $1.24 per diluted share in the first quarter of fiscal 2019.

Now turning to our balance sheet, we ended the quarter with approximately $351 million of cash on hand, an increase of $23 million from the prior quarter. The increase in cash for the quarter was primarily driven by cash flow from operations of $47 million, which was partially offset by $17 million of cash used in our share repurchase program for the purchase of 556 thousand shares.

Receivables at the end of September were $232 million and DSOs dropped to 61 days, reflecting a more evenly loaded quarter relative to prior quarters. Inventories were $138 million and inventory days were 63, down from 75 days in the prior quarter.

Capital expenditures for the quarter were $5.0 million, and depreciation was $7.2 million.

Now let me now discuss our outlook

Based on our backlog entering the December quarter of approximately $265 million, subsequent bookings, customer forecasts, product sell-in and sell-through timing patterns, as well as expected product mix, we anticipate revenue for the December quarter to be in the range of $345 million to $365 million. We expect the revenue mix from our Mobile, IoT, and PC products to be 54%, 25% and 21%, respectively.

While our fiscal Q1 results and our fiscal Q2 outlook are stronger than what we expected three months ago, it remains too early to determine whether this near-term strength is due to better end-demand or simply orders ahead of the expected tariff increases in December. There remains significant macro uncertainty given the rapidly changing trade environment, so we believe it remains prudent that we maintain our full-year revenue guidance of down 10 to 20% as compared to our full-year fiscal 2019 revenue.

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

We expect our GAAP gross margins to be in the range of 38% to 40%.

We expect our GAAP operating expense to be in the range of $121 to $126 million which includes non-cash charges for intangibles amortization, stock compensation, and we also expect to accrue restructuring costs and retention related costs.

Finally, we expect our GAAP tax rate for fiscal 2020 to be in the range of 15 to 20% for the fiscal year.

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

We expect non-GAAP gross margin in the December quarter to be between 40.5% and 42.5%, and anticipate this to be our second consecutive quarter with non-GAAP gross margin above 40%.

We expect non-GAAP operating expenses in the December quarter to be in the range of $90 million to $93 million. We are continuing to evaluate our portfolio and spend, and believe there could be additional cost savings longer term with a more disciplined resource allocation.

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 December quarter is anticipated to be in the range of $1.35 to $1.55 per share.

This wraps up our prepared comments so 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. I’m excited by the opportunities for Synaptics and the journey ahead in transforming the company into a stronger, more profitable growth company.

We will be hosting an analyst reception during CES and welcome your participation. Jason will be sending out more information soon. We will also have a booth at the Venetian for technology demonstrations and hope you can join us there.

Thank you and goodbye for now.