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SYNAPTICS – FOURTH QUARTER, FISCAL 2022 CONFERENCE CALL
Prepared Comments

MUNJAL: SAFE HARBOR

Good afternoon and thank you for joining us today on Synaptics' fourth quarter, fiscal 2022 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, including our expectations regarding the potential impacts on our business of the COVID-19 pandemic and the supply chain disruption and component shortages currently affecting the global semiconductor industry.

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, 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, and welcome, everyone, to today's call. We had a strong finish to an outstanding year, one in which our IoT business grew 80% and increased from 46% to 63% of our product mix. As our diversification strategy continues to play out, we see opportunity ahead for our IoT business, particular in the four growth areas we discussed in last quarter's call.

June quarter revenue was slightly above the mid-point of our guidance range with strength across our IoT products offsetting some weakness in our mobile business. Our results showcase that our diverse portfolio is providing more resiliency in an uncertain demand environment. We maintained our profitability with non-GAAP gross margins generally consistent with the prior quarter's record level. We also delivered record non-GAAP operating margin and our non-GAAP EPS was at the high end of our guidance range.

It has been almost three years to the day since I joined Synaptics. In that time, our non-GAAP Gross Margins have improved from 39% to 61%, our non-GAAP operating margins from 5% to 39% and, perhaps most importantly, by shifting the company away from its high mobile concentration, we have reduced our end-market risk. In that three-year period, our IoT business has grown from $78M to $332M, a 62% compound annual growth rate with most every line of business contributing. As a reminder, our IoT portfolio not only serves a variety of end-markets but also a wide range of customers.

Last quarter, we highlighted four specific growth drivers within our IoT portfolio. Together these businesses grew more than 90% this year, an amazing growth rate and best in class among semiconductor businesses.

However, we are seeing moderation in some segments of these areas and will discuss the puts and takes.

First, our automotive business continues to grow and we are seeing some benefit as supply becomes more readily available. We continue to win new TDDI designs, but are also experiencing strong ramps with our existing customers such as Ford and Toyota. We see three trends driving growth in our automotive business: 1) shift to electric vehicles is accelerating and with that there is an increase in consumer expectation for a more digitized interior, 2) screen sizes are becoming larger, and 3) a general move to TDDI technology plays to our advantage as we have higher market share. Given the growth rate in this business, competition is beginning to increase. As such, we have products in design that move us to better cost positions and drive the feature set up.

Next, our wireless connectivity business continues to show strength in both design wins and the product pipeline. Last month, our ‘Triple-Combo’ wireless device received the “2022 Best of Sensors” Award for Connectivity. The device offers Wi-Fi 6E, Bluetooth and Thread/Zigbee protocols on a single chip. Our Wi-Fi business continues to benefit from the transition from Wi-Fi5 to Wi-Fi6 and 6E where we have considerable performance advantages, particularly in terms of power and rate vs range performance. Production of Wi-Fi6 designs has started with several large OEMs, including Google. Another area of strength for our wireless products has been ULE technology. Product ramps are underway at numerous security companies, including ADT. While we continue to feel good about our long-term wireless prospects, we expect to see some near-term moderation in the consumer facing part of our business.

Third, our virtual reality business has shown tremendous growth over the last calendar year. We are seeing significant opportunity ahead as Chinese customers begin their product launches. We remain the unquestioned leader in this market and have a roadmap that positions us well as screens go to faster refresh rates, higher pixel densities and finer display types such as uOLED. However, more than any of our IoT businesses, this is a new end-market and growth is ultimately dependent upon the success of our OEM customers. Our largest customer is reporting a significant slowdown and we will be dependent on these new customer launches to really drive this business forward in the near-term.

Finally, our video interface business continues to see solid demand in its core docking station application as the attach rate to PCs is increasing. Our backlog remains high because of supply constraints, but we are starting to see some incremental improvement in our ability to service demand. For the most part, these devices are purchased by enterprise customers where demand is more resilient compared to consumer end-markets. We are seeing good traction with our next-generation products. For example, our dual-chip solution was recently designed-in by StarTech for their hybrid docking solutions combining our DisplayPort technology in conjunction with DisplayLink compression. In addition, we are enthusiastic about our unique wireless docking opportunity that we believe will be additive to the overall TAM. Besides docking stations, our video interface products are getting traction in other applications such as factory automation, smart monitors, VR headsets and video conferencing. Finally, our Spyder chip for the protocol adapter and converter market is building market momentum with design-wins and opportunities at leading OEM customers, including Lenovo, Belkin, Kingston and Cable Matters.

In our processor technology business, we are winning new designs for audio processors including our first in TWS, several gaming headsets and video conferencing systems. One of our most exciting wins is with Google in their Pixel Buds Pro, enabling best in class active noise cancellation capabilities and extended battery life. We have also been successful in penetrating new markets for our video processors, most notably a video conferencing win at Cisco. Finally, our UCC products are having great success with VoIP customers, seeing volume increases, share gains, and content expansion with one of the world's leading UCC providers. In general, we are using our processor technology to pull through other products. We certainly have had great success cross-selling wireless, but have also had success in carrying other products such as touch and video interface.

Two last areas of note. Our cordless products have performed far better than we originally expected and we are gaining market share. Finally, our single chip Flexsense, a device that combines four typically discrete sensors, is receiving positive initial customer response and we are encouraged by our building customer pipeline.

Let me move on to our PC product group. Market demand for PCs has softened further and we anticipate a mid-teens market decline in calendar year 2022. We expect to outperform the overall PC market given our strength in enterprise and higher-end SKUs, where demand trends are better compared to consumer notebooks. Our new Vulcan ASIC with best-in-class security and premium user experience for larger size Clickpads is gaining market traction. HP's latest enterprise notebook products use this ASIC, and we expect all other OEMs to adopt the device in their new models. In addition, we are starting to see Touchpads becoming larger and designs moving from Clickpad solutions to Haptic Forcepads. We expect to benefit from this industry transition as we have a strong market position and higher content, which we believe will result in 30-40% average selling price uplift.

Mobile, is now only about 13% of the company revenue. The headwinds we discussed in our last conference call have not abated, resulting in weaker than forecast performance in the business and further expected erosion next quarter. For the September quarter, we expect our Mobile business to be down approximately 40% on a year-over-year basis. After thinking we were at the bottom, business has continued to deteriorate at our North American handset customer, primarily driven by sell through of their low-end model. However, we remain confident in our market position in the areas in which we focus. The pace of new handset model launches with our touch technology has remained consistent, highlighting our market strength. We see some positive signs in China as overall shipments have grown in the last two months and the mix of flexible OLED handsets continues to increase. In addition, we are seeing modest incremental revenue from our high-end flexible OLED display driver as supply improves, however, we are experiencing increased competitive pressure and now expect limited participation in this market.

To conclude, we had an exceptional fourth quarter and fiscal year with record financial performance. We introduced several new products, successfully integrated our acquisition, and grew organic and inorganic revenues. Our portfolio approach is presenting us with opportunities to cross-sell multiple products into customer platforms, an important growth vector for the company. While we are seeing some near-term market headwinds, primarily in mobile and PC, from weakening consumer confidence, we remain confident in our long-term potential, particularly in IoT. As a result, we see value in repurchasing our own shares. Dean will provide more details in his remarks. Let me now turn the call over to him to review our results 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 the recently completed fiscal year and recent quarter and then provide our current outlook. For the full year fiscal 2022, net revenue of $1.74 billion was a new company record and up 30% compared to $1.34 billion in the prior year, largely due to an 80% year-over-year growth in our IoT products, partially offset by our Mobile products which saw a 20% year-over-year decline.

Gross margin for the company's products continued to expand with a new record for fiscal year 2022 GAAP gross margin of 54.2% compared to 45.6% in the prior year. Our non-GAAP gross margin of 60.0% for the year was also a record and compares to 53.6% in the prior year as our mix shifted to IoT product applications and we delivered higher value products to customers.

GAAP net income for the recently completed fiscal year was $257.5 million or $6.33 per diluted share compared to the prior year of $79.6 million or $2.08 per diluted share, a year-over-year increase of 223%.

Non-GAAP net income for the completed fiscal year was a record $551.2 million or $13.54 per diluted share compared to prior year of $316.4 million or $8.26 per diluted share, delivering a 74% year-over-year improvement.

Revenue for the recently completed June quarter was $476.4 million, slightly above midpoint of our guidance. Revenue was up 1% sequentially with the company's IoT product growth offsetting sequential declines in both Mobile and PC. Revenue from IoT, PC, and Mobile were 70%, 17% and 13%, respectively.

Year-over-year, June quarter revenue was up 45%, as our IoT products continue to deliver significant growth. Our June quarter IoT product revenue grew 87% year-over-year and was up 10% sequentially reflecting strong customer demand during the quarter. Excluding the DSP Group acquisition, our organic IoT sales were up approximately 65% year-over-year. As Michael mentioned, these results showcase the success we have achieved in our strategy to pivot Synaptics to a more diversified company focused on IoT applications. IoT is now 70% of our revenue and has grown at 50% CAGR over the last three years to end the fiscal year at $1.1 billion in revenue, a significant achievement by almost any measure.

In PC, our June quarter revenue was down 10% sequentially and down 3% year-over-year. Our historically high mix in commercial notebooks gives us confidence in our ability to continue to lead in PCs through up and down markets. As we look ahead, we expect modest downward market pressure in PCs as our customers adjust to a more cautious end buyer, but we would expect our commercially weighted business to outperform the overall PC market.

Our June quarter Mobile product revenue was down 20% sequentially and declined 4% year-over-year, lower than our prior expectations. Smartphone sell-through continues to be weak. We believe there has been a build-up of inventory across the smartphone channel, particularly in Chinese and Korean OEMs that will likely take some time to burn through. As such, we expect demand for our mobile products to remain soft into the September quarter, with limited visibility on when this trend might reverse.

During the quarter, we had two customers greater than 10% of revenue, at approximately 15% and 10%, both being distributors servicing multiple OEMs. A wide variety of our products ship through these distributors and, as such, don't represent any specific one OEM or end market.

For the June quarter, our GAAP gross margin was a new company record at 55.9%, which includes $22.8 million of intangible asset amortization, $900 thousand of inventory fair value adjustment, and $1.0 million of share-based compensation costs.

June quarter non-GAAP gross margin of 61.0% was at the mid-point of our guidance range which maintains our momentum with a strong product mix.

GAAP operating expenses in the June quarter were $142.0 million, which includes share-based compensation of $25.7 million, acquisition related costs of $9.1 million consisting of intangibles amortization and amortization of prepaid development costs of $2.5 million and restructuring-related costs of $500 thousand.

June quarter non-GAAP operating expenses of $104.2 million were down slightly from the preceding quarter and below our guidance primarily due to an unexpected foreign exchange benefit during the quarter.

Our GAAP tax expense was $32.3 million for the quarter, and non-GAAP tax expense was $21.4 million.

In the June quarter, we had GAAP net income of $82.9 million or GAAP net income of $2.04 per share.

Our record non-GAAP net income in the June quarter of $157.0 million was an increase of 3% from the prior quarter and an 81% increase from the same quarter a year ago. This significant increase in profit has rewarded our shareholders with a record setting non-GAAP EPS per diluted share of $3.87, above the high-end of our guidance range.

Now turning to the balance sheet.

We ended the quarter with $876 million of cash, cash equivalents, and short-term investments on hand; an increase of $121 million from the preceding quarter due to strong cash flow from operations of $128 million.

Receivables at the end of June were $322 million and days of sales outstanding were 61 days, up from 57 last quarter. Days of inventory were 82, above 71 days last quarter and ending inventory balance was $170 million as inventory turns have slowed primarily in our Mobile and PC areas.

Capital expenditures for the quarter were $4.2 million and depreciation was $6.1 million.

As Michael mentioned, we expect to return capital to shareholders through our previously announced stock buyback program, which at the June quarter end has an available authorization of $577 million. We continue to pursue accretive inorganic opportunities, however, given the M&A landscape has become more challenged and we have a comfortable cash balance, we intend to return excess cash flow to shareholders via share repurchases and to begin paying down outstanding debt. While some of our market areas are experiencing moderate softness, we believe share repurchase is a good use of our cash with positive return potential.

Now, let me turn to our September quarter outlook. We anticipate revenue for the September quarter to be in the range of $440 million to $470 million. We expect our revenue mix from IoT, PC, and Mobile products in the September quarter to be approximately 74%, 16% and 10%, respectively. At the midpoint, we expect our IoT products to continue to grow approximately 60% year-over-year and up modestly on a sequential basis, partially offsetting anticipated further declines in Mobile and PC. Our backlog position remains strong and continues to be above the high-end of our revenue guidance. However, we are seeing a change in customer behavior including some recent requests for pushouts and cancellations. To add additional color, we are seeing this change in products tied closest to consumer applications, specifically Mobile phones, Virtual Reality, and a subset of Wireless applications.

We expect to maintain our strength in gross margins, with GAAP gross margin for the September quarter expected to be in the range of 55.0% to 56.0%.

We expect non-GAAP gross margin in the range of 60.5% to 61.5%, which at the mid-point of 61.0% would be approximately 300 basis points higher than the same quarter one year ago.

We expect GAAP operating expenses in the September quarter to be in the range of $152 million to $159 million, which includes intangibles amortization, prepaid development cost amortization, and share-based compensation.

We expect non-GAAP operating expense in the September quarter to be slightly below our June results and be in the range of $102 million to $105 million. At this point, we have not changed our investment plans and continue to hire and add to our engineering and go-to-market capabilities to drive long-term product roadmaps. This sequential decline in operating expense reflects a resetting of the company's annual bonus program as we begin our new fiscal year.

GAAP net income per share for our September quarter is expected to be in the range of $1.35 to $1.65. And, non-GAAP net income per diluted share is anticipated to be in the range of $3.20 to $3.50 per share, on an estimated 41 million fully diluted shares.

We expect non-GAAP net interest expense to be approximately $8.5 million in the September quarter.

Finally, beginning with fiscal Q1, we expect our fiscal 2023 long-term non-GAAP tax rate to be in the range of 16 to 18% reflecting the tax law changes we discussed last quarter.

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.