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SYNAPTICS – FIRST QUARTER, FISCAL 2021 CONFERENCE CALL
Prepared Comments

JASON: SAFE HARBOR

Good afternoon and thank you for joining us today on Synaptics' first quarter, fiscal 2021 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 27, 2020, 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, Jason, and I'd like to welcome everyone to today's call. We had a strong start to our fiscal year as our ongoing efforts to drive better financial performance for Synaptics resulted in strong revenue growth in the first quarter of our fiscal 2021 with the highest gross margins in more than seven years and the highest operating margins in six years. We completed the acquisitions of DisplayLink and Broadcom's wireless IoT connectivity business early in the quarter and have completed both integrations. We are pleased with the initial performance of these two acquisitions and we are already seeing better than expected revenue as well as robust design-win pipelines.

Now let me give you an update on our business.

In IoT, as we talked about last quarter, the ongoing effects of the global pandemic have driven additional opportunities in our business as our customers accelerate new product introductions to drive greater efficiency for enterprises and deliver premium experiences to consumers at home. We are supplying a broad range of products that enable our customers' devices, including our new DisplayLink video interface solutions, audio chipsets and edge-SoC processors that feature far-field voice and echo cancellation. Powered by Synaptics, new solutions from Dell, Google, Logitech, Bose and Poly help remote teams collaborate more effectively with robust, feature-rich teleconferencing solutions. Our digital audio solutions are seeing strong demand with premium headsets that primarily serve enterprise customers. We are also seeing service providers accelerating product development in order to offer video conferencing and enhanced entertainment products to their customers. Last quarter, we announced wins at two US service providers and we have now added two more, one in Asia and one in Europe, adding to our momentum in devices that have 4K video and premium Dolby audio capabilities. Both design wins will start shipping in the first half of the next calendar year. In the quarter, Google also began shipping its new Nest Audio smart speakers that are powered by our edge SoCs with AI.

In our new wireless connectivity business, demand for our Wi-Fi, Bluetooth, and GPS chipsets for the IoT market is extraordinarily strong and our design pipeline continues to grow rapidly. The range of products our connectivity solution has been designed into is truly remarkable and includes video enabled doorbells, security cameras, over the top streamers, smart displays, smart watches and even e-bikes and drones. As we said earlier, this business is off to a great start, exceeding our initial projections and we believe it will generate significant growth for Synaptics in the years to come. The combination of best in class wireless performance and ultra-low power that comes from chips initially designed for mobile phones has given us a significant leg up on competition as we enter this market.

In mobile, our OLED touch controllers continue to do very well, winning virtually every new design by major handset OEMs using flexible on-cell OLED panels, including new wins at Oppo and OnePlus. We expect more than 10 new smartphones will come to market with our OLED touch controller over the next few months. We also had our major handset OEM announce their new flagship phones last month powered by our OLED touch controller. We expect flexible OLED based smartphones to become the dominant panel technology for smartphones over the next several years and as a result expect the penetration of our touch solutions to increase. During this transition we believe that LCD based smartphones will continue to hold a stable base and remain an important part of the portfolio longer-term as we continue to engage with our customer on new designs. We are confident that we are positioned well with leading smartphone OEMs around the world to continue to win with our OLED touch controllers and are excited by the growing opportunity in front of us.

In our PC business, we continue to benefit from strong laptop shipments with our sales up nearly 20% compared to a year ago. Our PC sales did decline about 10% sequentially due to temporary component constraints that delayed our customers' ability to ship as many units as originally expected. We expect this issue to be resolved and sales of our touchpads and fingerprint sensors to continue their recent strength going into our December quarter. Our PC team secured a number of new design-wins this quarter, including a new Acer Chromebook that features our high-performance touchpad. We are currently developing our next generation of touchpad solutions which span consumer to enterprise class notebooks. These products bring high-performance capabilities to more cost-sensitive consumer devices, such as Chromebooks, while still maintaining strong margins and are expected to ship in calendar 2021. We are also seeing additional growth opportunities as PC OEMs incorporate larger, more intelligent touchpads with haptic and force feedback which will significantly increase our dollar content in each laptop.

Overall, I am pleased by the start to our fiscal year and the strong pipeline of design wins across all of our businesses that are leading indicators of growth to come. Our relentless focus on improving our operational efficiencies continues to pay dividends as we become a stronger, more resilient company able to deliver profitable growth going forward.

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 good afternoon to everyone.

First, I'll start with a review of our financial results for our recently completed quarter, then provide our current outlook for our fiscal Q2.

Before I begin, I'd like to remind everyone that at the beginning of our first quarter, we completed the acquisition of certain rights to Broadcom's wireless IoT connectivity business on July 23rd and closed our acquisition of DisplayLink on July 31st. Our guidance given on August 5th and our results for the quarter include the contribution from these businesses as of the date of their respective close.

Revenue for the September quarter was $328 million, above the mid-point of our guidance. First quarter revenue was up 18% sequentially, reflecting strong demand for our IoT and Mobile products, partially offset by a sequential decline in PC. Year-over-year, September quarter revenue was down 3%, driven by a decline in mobile revenue as our prior fiscal year still included our now divested TDDI business.

During the quarter, we had two customers above 10% of revenue, at 13% and 21%.

Revenue from Mobile, IoT and PC were 40%, 35% and 25%, respectively, in the September quarter. Revenue from our Mobile products was up 11% sequentially as we began to support the ramp from one large OEM and was down 28% compared with the year-ago quarter, where the year-ago quarter results includes revenue from our now divested TDDI business, on an adjusted basis our Mobile revenue is up 25% vs one-year ago. Revenue from our IoT products was up 68%

sequentially and 30% year-over-year same quarter as our IOT related end markets begin rebounding from their lows and now incorporate revenue contributions from the recent two acquisitions. Revenue from our PC products was down 10% sequentially as our customers experienced some modest component shortages during the quarter, this business was up 19% year-over-year as work-from-home demand continues to drive PC sales globally.

For the September quarter, our GAAP gross margin was 41.0%, which includes $18.7 million of intangible asset amortization, $9.8 million in acquisition related inventory step-up charges, and $800,000 of share-based compensation costs, partially offset by $600,000 of recovery on a previous supply commitment.

GAAP operating expenses in the September quarter were $128.5 million, which includes share-based compensation of $20.7 million; acquisition and integration related costs of $9.1 million, consisting of intangibles amortization and one-time legal and integration costs; restructuring & severance related costs of $5.6 million; retention costs of $3.9 million; and amortization of prepaid development costs of $1.7 million.

Our GAAP tax expense was $3.6 million for the quarter.

In the September quarter we had a GAAP net loss of $2.8 million, or a net loss of $0.08 per share.

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Now turning to our non-GAAP results:

Our September quarter non-GAAP gross margin of 49.7% was above the high end of our guidance range and reflects the continued operational improvements in our product cost structures and a better than expected product mix during the quarter. This represents an incredible 1,000 basis point improvement over the past 5 quarters of results.

September quarter non-GAAP operating expenses came in below the mid-point of our guidance at $87.5 million, up $7.7 million from the preceding quarter. The increase reflects two months of incremental operating costs of the newly acquired businesses which are now fully integrated into Synaptics.

Our non-GAAP tax rate was 12% for the quarter.

Non-GAAP net income for the September quarter was $66.7 million, or $1.85 per diluted share; a 52% sequential increase, and up 63% year-over-year as we continue to focus on profitable growth.

Now, turning to our balance sheet, we ended the quarter with $244 million of cash and short-term investments, a decrease of $519 million from the preceding quarter primarily due to the two recent acquisitions, partially offset by the cash provided by operations during the quarter.

Adjusting for the impact of acquisition-related items, cash flow from operations would have been approximately $64 million.

Receivables at the end of September were $228 million and days of sales outstanding was 62 days, while days of inventory was 62 and ending inventories were $115 million, which includes $16 million of acquisition related step-up charges.

Capital expenditures for the quarter were $3.9 million, and depreciation was $5.2 million.

Now, turning to our outlook for the second quarter.

Based on our backlog of approximately $314 million entering the December quarter, 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 $340 million to $370 million. We expect the revenue mix from IoT, Mobile, and PC products in the December quarter to be approximately 41%, 34%, and 25%, respectively. I would like to highlight that this is the first quarter in which our IoT products are expected to represent the largest percentage of the company's revenue mix, surpassing Mobile for the first time. Our IoT business represents an important opportunity to drive high-margin revenue growth for the company, targeting a broad and fast-growing TAM. The continuing growth of IoT significantly accelerates our diversification away from mobile and reduces our customer concentration longer-term.

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 39.0% to 42.0%.

We expect our GAAP operating expenses in the December quarter to be in the range of $119 million to $125 million, which includes acquisition related charges for intangibles and prepaid development cost amortization, stock-based compensation, restructuring costs, and the completion of our prior retention program costs.

We expect our GAAP tax expense for the second quarter to be similar to our first quarter GAAP tax expense.

Finally, we expect our GAAP net income per share for the second quarter to be in the range of $0.00 to $0.35.

Now for the non-GAAP outlook for our December quarter:

We expect non-GAAP gross margin in the December quarter to be between 49.5% to 51.5% as higher contributions from our IoT products continue to drive improvements. This marks what we anticipate to be the first quarter in seven years to achieve greater than 50% non-GAAP gross margins.

We expect non-GAAP operating expenses in the December quarter to remain flat quarter-over-quarter and be in the range of $87 million to $90 million as we fully integrate the expenses related to our recent acquisitions offset by our on-going cost controls.

We anticipate our long-term non-GAAP tax rate for fiscal 2021 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 $1.95 to $2.25 per share.

To conclude my remarks, Michael and I joined Synaptics just over a year ago and the actions we took have delivered improved operational efficiencies and built a strong foundation for profitable growth. And while we have already achieved significant financial milestones in a relatively short period, we are still in the early stages of the transformation that will enable Synaptics to deliver strong profitable growth going forward.

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?

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 virtual investor conferences during the quarter.