SYNAPTICS – THIRD QUARTER, FISCAL 2024 CONFERENCE CALL
Prepared Comments

MUNJAL: SAFE HARBOR

Good afternoon and thank you for joining us today on Synaptics' third quarter, fiscal 2024 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 Matt Padfield, our Vice President of Finance. 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.

A copy of these prepared remarks and a supplemental slide presentation are posted on our investor relations website.

In addition to the Company's GAAP results, management will provide supplementary results on a non-GAAP basis, which excludes share-based compensation, acquisition related costs, certain other non-cash, and 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. The information can be accessed from the investor relations section of the company's website at synaptics.com.

Additionally, 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 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. 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. I'd like to welcome everyone to today's call. This quarter, we delivered results that were in-line with expectations. Revenue, margin and EPS met or were slightly above our prior guidance. Growth in core IoT offset seasonal weakness in mobile.

Over the last few months, we started building the foundation for our second driver of Core IoT growth, our line of embedded AI IoT processors. That initiative culminated in the launch of our Astra processor platform at Embedded World in Germany in April. Astra is an AI-native IoT compute platform targeting a $20 billion plus silicon market opportunity for edge IoT devices. Running AI models on-device rather than in a data center gives devices security, power and latency advantages. Synaptics differentiates by incorporating AI in every part of the flow from chip development to software to the tool chain. In addition, with a novel 'Gearing' approach, we can deliver more inferences at any given system power level than competition. We believe that the totality of our approach will make Synaptics the absolute leader when it comes to delivering AI processing solutions for IoT devices.

With the Astra framework, which contemplates AI end-to-end, customers can bring their data to run on Synaptics AI reference models or bring their own AI models and optimize them to run efficiently and securely on Synaptics SoCs. Customers don't have to build a new AI model for every application increasing adoption, efficiency, and time to market.

The Astra platform includes a family of processors, an open software platform, an AI development toolkit and model framework as well as seamless wireless connectivity. The SL- family of processors are AI enabled MPUs targeted for the edge and are our first products to be released under the Astra umbrella. Two and four core versions are now sampling. The SR-series of processors are AI enabled MCUs and incorporate our pioneering 'gearing' technique which actively manages power as inferencing requirements increase or decrease. A flexible, innovative software platform extends across both product families and supports Linux and Android as well as leading RTOS offerings. In addition, both families leverage the deep institutional knowledge at Synaptics around computer vision and audio machine learning algorithms.

The launch of the Astra family of processors at Embedded World was a great success with customer interest from a broad-based set of industries including automotive, consumer, industrial, security and home appliances. Thousands of customers and developers visited our showcase, and the team generated a significant number of qualified customer leads. We hosted multiple technical presentations and a first of its kind hands-on embedded AI workshop for product designers, creating strong demand for the Astra development kit. To top it all off, Synaptics SL-series embedded compute processors received the *Best in Show* award ahead of solutions from several incumbent suppliers and competitors.

Astra is an offshoot from our application-specific processors which are currently in volume production. We saw improvement in this part of Core IoT as inventory has generally returned to a more normal level. We had a major win at Deutsche Telekom for our video processors with AI capability which will contribute to revenue in 2025. In addition, we had a win on Cisco's next generation AI-enabled collaboration devices with our high-end quad-core processor. In both wins, we were able to pull through wireless connectivity products, continuing our successful cross-selling initiative.

While Astra grabbed the headlines, our wireless products delivered the news, driving Core IoT revenue 26% higher compared to the prior quarter. Wireless product inventory has been worked down, except for a couple of SKUs. Design wins in wearables, security systems, home automation and action cameras are starting to ramp. We expect these trends to continue, driving sequential revenue growth in Core IoT next quarter. In addition, we remain on track to sample both our first broad market device and Wi-Fi7 device later this year.

The Enterprise & Automotive products were roughly flat on quarter. However, next quarter, we expect to see growth in this piece of our business. The volume of our docking station products is beginning to increase again though demand is off historic norms. In addition, our PC touchpad and fingerprint solutions are tracking to normal seasonal patterns, and we have opportunities to take some market share. Our HPD solutions are performing as expected and we continue to see opportunities to increase share as platforms start to refresh. Demand across the rest of the enterprise products is suppressed as IT spending on hardware and accessories continues to be at historically low levels with no signs of an uptick. Further out in the calendar year, we keep hearing talk of a refresh cycle and new AI-PCs driving unit volume higher which would be good for us. However, we have yet to see orders consistent with anything like this.

In Automotive, our TDDI products are seeing strong demand and performing better than expected. Our design-wins at several OEMs in North America and Europe including Audi, Chevy, Ford, Porsche, and Volkswagen are starting to ramp. Additionally, some other OEMs are extending their current models for another 1-2 years which benefits us given our high market share in these designs. The strength in our TDDI products is somewhat offset by a slowdown in legacy DDICs. Longer term, we would expect to increase content per car with SmartBridges and Wi-FI/BlueTooth combos.

Our Mobile products performed largely in line with our expectations and revenue was down from the prior quarter driven both by seasonality on our touch products and by a decline in revenue from our large legacy DDIC customer. As that product finally goes to zero, which we would expect at some point in the next fiscal year, it will present a headwind to fiscal 2025 Mobile revenue. Aside from that, we expect our shipments to track seasonality for high-end Android phones. We see potential opportunities for further growth as the adoption of OLED technology expands into mid-tier phones.

To summarize, we continue to be excited about our Core IoT business. For the first time, Synaptics is selling differentiated general purpose products into large potential markets. Meanwhile, our traditional product lines, where we have leadership positions in smaller more defined markets, are beginning to recover as inventory burns off and demand slowly returns. The combination of the two gives us confidence as we enter our next fiscal year.

Before I pass the baton, I wanted to update progress on our CFO search. We have had discussions with dozens of highly qualified internal and external candidates. If all goes according to plan, we should have someone in place well before our next earnings call.

Now, let me turn the call over to Matt for a review of our third quarter financial results and fourth quarter outlook.

MATT: FINANCIAL RESULTS

Thanks Michael, and good afternoon to everyone.

I will first review the financial results for our recently completed quarter and then provide an outlook for our current quarter.

Revenue for the March quarter was $237.3 million which was slightly above the mid-point of our guidance. Revenue from Core IoT, Enterprise & Automotive, and Mobile were 20%, 57% and 23%, respectively.

Year-over-year, consolidated March quarter revenue was down 27%, but flat compared to the prior quarter, which reflects continued stabilization in our business.

Core IoT revenue was up 26% sequentially, but down 49% year-over-year. We believe inventories are now at normal levels in this product sector and we expect to continue to see sequential growth in our fiscal fourth quarter.

In Enterprise & Automotive, March quarter revenue was down 1% sequentially and down 30% year-over-year. Several enterprise products are stabilizing though there are still pockets of excess inventory, which we expect to work through in the coming quarters.

For the March quarter, our Mobile product revenue was up 33% year-over-year, but down 12% from the prior quarter mainly due to seasonality in our touch controller products for the Android ecosystem. Our legacy DDIC product sales were also down this quarter and we expect them to continue to decline over the next year. In fiscal year 2024, our primary customer for these products accounted for low to mid-single digit percentage of the company’s total revenues.

During the quarter, we had one customer greater than 10% of revenue, at approximately 12%.

For the March quarter, our GAAP gross margin was 46.5%, which includes $14.3 million of intangible asset amortization and $1.0 million of share-based compensation costs.

March quarter non-GAAP gross margin was 52.9% in line with the mid-point of our guidance range.

GAAP operating expenses in the March quarter were $127.7 million, which includes share-based compensation of $28.9 million and intangible asset amortization of $4.0 million.

March quarter non-GAAP operating expense of $95.0 million was within our guidance range and up $3.0 million from the preceding quarter. Our prior quarter had a benefit from a partial reversal in the accrual for our bonus program. We continue to maintain tight discipline around our operating expenses.

During the quarter we recorded a GAAP tax benefit of $5.2 million and maintained our expected non-GAAP tax rate of 17%, creating a $4.3 million expense.

March quarter GAAP net loss was $18.1 million or a GAAP net loss of $0.46 per basic share. Non-GAAP net income in the March quarter was $21.0 million, a decrease of 7% from the prior quarter and a 72% decrease from the same quarter a year ago. Non-GAAP earnings per diluted share of $0.53 was above the mid-point of our guidance range.

Now turning to the balance sheet.

We ended the quarter with $829 million of cash, cash equivalents, and short-term investments, a 2% sequential decrease. Cash flow used in operations was $13.2 million due to approximately $27 million of tax payments associated with prior fiscal years.

Capital expenditures were $9.0 million and depreciation for the quarter was $6.8 million.

Receivables at the end of March were $144.7 million and days of sales outstanding were 55 days, an increase of 7 days from the last quarter. Ending inventory balance was $114.1 million, down $11.0 million as we continue to cautiously manage our inventory purchases. Our calculated days of inventory on our balance sheet also declined to 91 compared to 99 at the end of the prior quarter.

Now, let me turn to our June quarter outlook.

Our business is seeing stabilization as we have worked down channel inventories across multiple product areas. However, we are seeing a slow recovery due to curtailed spending by enterprises on hardware products. At a consolidated level we anticipate revenue in the June quarter to be in the range of $230 million to $260 million, an increase of approximately 3% from the March quarter at the mid-point.

Our Core IoT products are expected to benefit from the normalization of channel inventory levels, improving demand, and ramp of design-wins. We expect double-digit sequential revenue growth to continue in the June quarter. Enterprise & Automotive products in aggregate are expected to improve slightly in the June quarter. Mobile is expected to decline due to seasonality and declines in legacy products. Given these dynamics we expect our revenue mix from Core IoT, Enterprise & Automotive, and Mobile products in the June quarter to be approximately 22%, 57% and 21%, respectively.

We expect GAAP gross margin for the June quarter to be in the range of 44.5% to 46.5%. We expect non-GAAP gross margin in the range of 52.5% to 54.5%, a small improvement from the March quarter.

We expect GAAP operating expenses in the June quarter to be in the range of $127 million to $132 million, which includes intangibles amortization and share-based compensation.

We expect non-GAAP operating expense in the June quarter to be in the range of $97 million to $101 million.

GAAP net loss per basic share for our June quarter is expected to be in the range of $0.45 to $0.85. And non-GAAP net income per diluted share is anticipated to be in the range of $0.35 to $0.75 per share, on an estimated 39.9 million fully diluted shares.

We expect both GAAP and non-GAAP net interest expense to be approximately $6.0 million in the June 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.