synaptics

SYNAPTICS – FIRST QUARTER, FISCAL 2024 CONFERENCE CALL
Prepared Comments

MUNJAL: SAFE HARBOR

Good afternoon and thank you for joining us today on Synaptics' first 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 Dean Butler, our CFO. 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 supplemental slide presentation, we have posted a copy of these prepared remarks 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, 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. 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. I would like to start by thanking our team in Israel for their effort during this difficult period in their country. Our team continues to work tirelessly in the face of worry for their families and colleagues. In the last few years, we have been fortunate enough to establish a meaningful presence in Israel and our thoughts are with our team there.

With that said, the main theme of today's discussion is that our business is lining up essentially as we have outlined over the past several months. In the quarter, we saw overall inventories come down in the channel as expected, but reductions are not uniform and we still have some work to do, particularly in Enterprise. Margins continue to be below our target model due to product mix, but a return to normal Enterprise numbers should lead us back toward our long-term target. In short, we continue to believe we are at, or have now passed, the bottom in our business and should start a climb out during calendar 2024 with both topline and mix improvements. While visibility to the slope of the recovery is uncertain, customers have started to place orders again, engagements are increasing, and our pipeline is showing strength.

Moving to the September quarter, revenue increased 5% compared to the three prior months and was slightly above the mid-point of our guidance range with our Enterprise PC products performing better than expected. Our product mix imbalance resulted in a drag on gross margins, putting us at the low end of the guide. We maintained our spending discipline and ultimately delivered non-GAAP EPS above the mid-point of guidance.

As discussed at our Investor Day in September, we are redefining our product breakouts as Core IoT, Enterprise & Automotive, and Mobile. Beginning with our Core IoT products, we continue to make progress with multiple design wins and new product introductions. In wireless, we introduced a new cost-effective single stream device, the SYN43711. The product adds to our current high-performance portfolio and is the first wireless device done from the ground up by the Synaptics team. I am very proud to report that the device was a first-pass success and was delivered on schedule. The other three devices we introduced this year – SYN43756E (dual radio 2x2 Wi-Fi 6E), SYN4381 (1x1 Triple Combo), and SYN4382 (2x2 Triple Combo) are all beginning to ramp at customers. In addition, the development of our first dedicated Broad market chip is progressing as planned and we expect to tape-out the device next year. In the quarter, we saw our first orders from a new module partner, marking our initial channel expansion with the goal of extending our reach into the broader customer base. Finally, we won multiple designs in the high-performance IoT market—sports cameras, drones, and sound bars, and we are engaged in new opportunities in trucking/logistics, TVs, and industrial automation applications. All of these designs require the highest performance Wi-Fi, flawless interoperability and unmatched Bluetooth Co-existence.

In our processor roadmap, we recently introduced a quad-core Linux based, power-efficient and cost-optimized system on chip (SoC), the DVF120. Like other SoCs in the processor portfolio, this device can be used to execute a variety of Artificial Intelligence applications. The DVF120 can run machine learning models on chip utilizing our standard toolkit and framework for rapid development and deployment. Early traction includes intelligent video and adaptive noise cancellation for the Unified Communications and Collaboration market. The device also operates from our unified Software Development Kit (SDK) that supports existing Synaptics SoC's, demonstrating our extensible software platform. As with our wireless products, we had several wins in the quarter, some in our traditional operator customer base and others for more general-purpose applications. For example, our customer Swisscom launched their next-gen streaming device, TV-Box 5, that is 35% more energy efficient and half the size of its predecessor, helping them achieve strict European ESG goals. Soon, we expect to announce our new family of general purpose SoCs targeting a wide variety of IoT applications that will enable Synaptics to expand our addressable market.

Our enterprise and automotive products had two diametrically opposed stories during the quarter, with our PC and automotive products performing better than expected, but continued softness in video interface and enterprise headsets. Our automotive products remained steady with new TDDI-based design wins at Toyota, Tata Motors, Volkswagen, and Mercedes. The move to larger screen sizes is accelerating, but the corresponding ASP benefit is offset by continued competitive price pressure. Another favorable trend in Automotive is increased adoption of 'local dimming', which brings LCD screens, which already have price and longevity advantages, to the performance level of high-end OLED, giving us added confidence in our SmartBridge rollout.

PC is a second bright spot with solid sequential growth in fiscal Q1. Customer inventories appear to be back to normal levels and demand is improving. Our Touchpad and fingerprint solutions continue to perform well with design-wins across major OEMs and smaller customers. In addition, we are seeing solid traction in several focus areas within Enterprise that we believe are long-term growth drivers. Our human presence detection solution for laptops performed better than initially forecast as early attach-rates were higher than projected. We had our first wireless headset launch with one of our leading customers, Logitech, introducing a product that utilizes our AI-based voice processing for near-field and far-field noise suppression as well as premium hybrid ANC algorithms. Our low power enterprise-class audio SoC enables up to 40 hours of battery life. However, the remainder of Enterprise is weak as inventory levels persist at relatively high levels. In addition, new product ramps are slower than normal with engineering cutbacks at our customers affecting the timeline of initial introductions. In spite of this, customer interest, design wins, and momentum remain strong for our products and it is only a matter of time before we see a return to a normal run rate.

In Mobile, we believe the majority of Android handset makers are shifting more of their models to flexible OLED which plays to our strength. Our Chinese customers are doing better against foreign competitors in the domestic market. Outside China, we continue to build momentum at Samsung following a successful launch of the Z-Flip 5 phone and we expect to see follow on wins in the near future.

To conclude, our business is stabilizing at current levels. We continue to expect a recovery starting in calendar 2024 though visibility to the strength and the slope of this recovery is still limited. We are confident enterprise inventories will return to normal levels over the next few quarters, improving our overall mix and margins. We are focused on executing our Core IoT opportunities and are already seeing traction with our initiatives to expand our addressable market.

Now, let me turn the call over to Dean for a review of our first quarter financial results and second quarter outlook.

DEAN: FINANCIAL RESULTS

Thanks Michael, and good afternoon to everyone.

Before I get started, I want to remind investors that we have reclassified our revenue into new categories: Core IoT, Enterprise & Automotive, and Mobile beginning this fiscal year. We believe this provides investors with better measurement of our focus areas and creates an easier and more direct comparison with similar peers. We have provided this reclassification on a historical basis in the Supplemental slide presentation posted on our investor relations website.

Now to dive into the review of our financial results for the recently completed quarter, followed by our current outlook.

Revenue for the September quarter was $237.7 million which was above the mid-point of our prior guidance. Revenue from Core IoT, Enterprise, and Mobile were 16%, 65% and 19%, respectively. While we did not guide to these categories during our August call, Q1 results were in line with our expectations of former IoT and former Mobile products, while our former PC products outperformed our forecast during the quarter.

Year-over-year, consolidated September quarter revenue was down 47%, but more importantly grew sequentially by 5% as we moved off from what we believe to be the bottom of sales. On a consolidated basis, channel inventory depleted nicely in the quarter and our distributors point-of-sale indicated an increase relative to the prior quarter.

Core IoT revenue increased 15% sequentially but was down 66% year-over-year. This area has experienced the most acute channel inventory accumulation which we believe is now near its bottom and should see its final depletion over the coming quarters.

In Enterprise & Automotive, our September quarter revenue was up 9% sequentially but down 47% year-over-year. Sequential growth was driven almost entirely by recovery in PC product shipments. We are optimistic this may be a directional indicator of overall corporate IT spending as we look forward into calendar year 2024. Automotive product shipments slowed modestly during the quarter but were largely in line with our expectations. We are continuing to work down inventories across the balance of the Enterprise portfolio, which will likely take place over the next few quarters.

Mobile product revenue was down 15% sequentially in the September quarter and down 10% year-over-year. We are seeing modest improvements in Android shipments and are gaining share at Samsung. While recovery in Mobile is encouraging as more customers adopt higher-end flexible OLED displays, we continue to believe the Mobile end market will ultimately remain volatile.

During the quarter, we had two customers greater than 10% of revenue, at approximately 18% and 11% respectively.

For the September quarter, our GAAP gross margin was 45.1%, which includes $17.8 million of intangible asset amortization and $1.1 million of share-based compensation costs.

September quarter non-GAAP gross margin of 53.0% was below our mid-point but within our guidance range as product mix skewed us a bit lower.

GAAP operating expenses in the September quarter were $142.3 million, which includes share-based compensation of $32.1 million and intangible asset amortization of $5.5 million.

September quarter non-GAAP operating expense of $96.7 million was down from the preceding quarter and below our guidance as we continue to maintain vigilant expense control.

The GAAP tax rate was negative resulting in tax expense of $15.0 million for the quarter, and the non-GAAP tax rate was 17%.

September quarter GAAP net loss was $55.6 million or a GAAP net loss of $1.43 per share. Non-GAAP net income in the September quarter was $20.3 million, an increase of 4% from the prior quarter and an 85% decrease from the same quarter a year ago. Non-GAAP earnings per diluted share of $0.52 was near the high-end of our guidance range.

Now turning to the balance sheet.

We ended the quarter with $824 million of cash, cash equivalents, and short-term investments on hand; down from the preceding quarter as we completed the wireless licensing transaction in early fiscal Q1. Cash flow from operations was $45 million.

Capital expenditures were $6.7 million and depreciation for the quarter was $7.2 million.

Receivables at the end of September were $111 million and days of sales outstanding were 42 days, a decrease of 23 days from last quarter. This decline is primarily due to collection from short payment term customers and some front-end loaded linearity of our sales during the quarter. Our ending inventory balance was $132 million, down $5 million as we cautiously reduce our inventory purchases. Our calculated days of inventory on our balance sheet also declined to 105 compared to 122 at the end of prior quarter.

Now, let me turn to our December quarter outlook.

September saw good progress in reducing inventory among our distributors with inventories depleting in line with our expectations. Point-of-sale at our distributors continued to hold up, and in fact increased vs the June quarter. As we look ahead, we continue to focus on reducing customer and distributor inventories further until full equilibrium is met.

Demand shows signs of continued stabilization at the current levels with almost all our products shipping below historical 2019 levels. We expect to recover from these levels in 2024, but the timing and shape of the recovery is still uncertain. We are seeing improving strength in PC and Mobile product end markets, which creates a gross margin headwind from a product mix perspective. Given these end market dynamics and expected channel inventory burn in the December quarter, we anticipate revenue to be in the range of $220 million to $250 million, roughly flat with the prior quarter.

Core IoT is expected to be up slightly for the December quarter, Enterprise to be down on inventory corrections, and Mobile to be up as certain models are expected to ramp. We expect our revenue mix from Core IoT, Enterprise & Automotive, and Mobile products in the December quarter to be approximately 17%, 59% and 24%, respectively.

We expect GAAP gross margin for the December quarter to be in the range of 42% to 45%. We expect non-GAAP gross margin in the range of 51% to 54%, roughly similar to the prior quarter as mix remains unfavorable with Mobile ramps occurring faster than inventory depletion in the other areas.

We expect GAAP operating expenses in the December quarter to be in the range of $135 million to $140 million, which includes intangibles amortization and share-based compensation.

We expect non-GAAP operating expense in the December quarter to be in the range of $95 million to $99 million.

GAAP net loss per basic share for our December quarter is expected to be in the range of $1.40 to $1.80. And, non-GAAP net income per diluted share is anticipated to be in the range of $0.25 to $0.65 per share, on an estimated 39.5 million fully diluted shares.

We expect non-GAAP net interest expense to be approximately $6 million in the December quarter with the corresponding GAAP net interest expense of approximately $7 million.

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.