SYNAPTICS – FOURTH QUARTER, FISCAL 2023 CONFERENCE CALL
Prepared Comments

MUNJAL: SAFE HARBOR

Good afternoon and thank you for joining us today on Synaptics' fourth quarter, fiscal 2023 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. 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. We completed a difficult fiscal year where excess inventory led to top line revenue challenges. The good news is that we believe revenue has hit bottom. We can clearly measure inventory reductions in the channel and are seeing far fewer push-out requests. While some areas of our business are quarters away from a pronounced upturn, we are starting to see a return to normalcy in others, specifically PC and Mobile. During the quarter, we opportunistically shifted our capital allocation to share buybacks and repurchased approximately 1 million shares adding to the 1 million purchased earlier in the fiscal year, totaling out to about 5% of our shares outstanding.

Before providing our normal quarterly update, let me highlight the key aspects of our recently announced agreement with Broadcom. Most important, we get critical Wi-Fi7 technology as part of the transaction which represents a 30% ASP uplift over Wi-Fi6. It enables us to accelerate the high-performance part of our Wi-Fi/BT combo roadmap, allowing us to sample Wi-Fi7 products by the end of 2024. The agreement not only stretches our lead in high-performance Wi-Fi for IoT applications, but also allows us to focus our internal resources on the more critical low-power broad market part of the roadmap. In addition, the transaction gives us Bluetooth 6.0 and Bluetooth Enterprise, two important pieces that were on our technology roadmap. Finally, it gives us some market-leading devices to sell into our field of use—a critical Bluetooth chip for enterprise headsets, a Bluetooth stand-alone device that opens new markets for us and, lastly, a Wi-Fi6E device that complements our existing high performance IoT. As part of the agreement, we extend the exclusivity of our license to IoT markets by an additional three years. Coupled with our internal efforts, this new deal gives me additional confidence that we can achieve our $1B wireless revenue target.

Moving to the June quarter, revenue was slightly above the mid-point of our guidance range with our IoT products beating our prior forecast. The mix within IoT continued to shift away from enterprise applications resulting in gross margin at the low end of the guide. We maintained our spending discipline and delivered non-GAAP EPS above the mid-point of the guidance range.

As stated earlier, we made meaningful progress lowering customer and distributor inventories in the June quarter. We continue to under ship end demand, but still believe it will take the remainder of the calendar year for channel inventories to return to normal levels. Dean will talk about gross margins in his remarks, but we believe those too will return to our long-term target of 57% as our product mix shifts back to IoT. Finally, we initiated targeted headcount reductions to ensure that we don't exceed our stated $100M per quarter non-GAAP operating expense target while giving ourselves room to continue to hire into key investment areas.

On the product front, we have started a journey to expand our existing processor portfolio into more deeply embedded applications. We have a few design wins now in this area, leveraging both existing software and hardware, differentiating with our AI capabilities. With limited investment, we believe we can unlock opportunities outside our traditional operator space in applications such as video conferencing, high-end smart appliances, point of sale terminals, factory automation and security solutions. We will also leverage work being done in human presence detection to introduce a chip that can serve as the basis for an M55-based processing device that has advanced AI features. While we begin some critical future product advancements, we are winning at present in both our traditional operator base with multimedia products as well as in headset customers. Panasonic's recently announced True Wireless earbuds feature two of our audio processing devices that offer our most advanced ANC and ENC algorithms.

In Wireless, we continue to burn inventory at our key module partner and signed a one-time deal with a large customer to scrap parts in order to see order flow again. As we begin to work our way out of the inventory challenges, we continue to enjoy sales success, winning new customers on both our high performance Wi-Fi/BT combo and GPS product lines. We have a number of design wins at key customers such as Cisco, Google, Honeywell, Verisure, and are building market share in the security, smart speaker, action camera and wearable segments. Besides the traction we are seeing with our direct customers, we are also making progress in adding new module partners to extend our market reach. We believe our wireless business has bottomed and should return to growth in the next quarter or so.

Automotive continues to be an area of relative strength with stable demand. Our pipeline continues to grow with new TDDI-based design wins for central information display at Toyota, General Motors, Daimler, Volkswagen, and Porsche. While our design-win momentum and competitive position is strong in this market, we are experiencing pricing pressure for future designs. We plan to navigate this environment by focusing on introducing value enhanced solutions. In that vein, we are making progress with our SmartBridge product which has vastly superior performance, particularly around local dimming, and can save OEM customers between $10-$15 on their Bill of Materials.

Our enterprise sector has been a double-edged sword. While we are winning new designs at a remarkable clip, we are also experiencing significant inventory challenges. This quarter, we introduced our Carrera platform for enterprise docking stations. I am pleased to report that we already have 10 different designs kicking off at the world's two largest docking station customers. In addition, our first wireless dock will be available for retail purchase later this month. We continue to do well in enterprise telephony, adding video conferencing and Wi-Fi to a couple of platforms that have recently gone to production. Unfortunately, this area of our business has been subject to inventory accumulation and while we were able to reduce levels in the channel, full recovery is somewhat dependent on corporate spending budgets.

Moving to PCs, we are seeing demand recover with the June quarter marking the bottom. Customer inventories have come down to normal levels, but overall PC sales are somewhat muted, particularly in the enterprise notebooks where we have outsized exposure. We are using the lull in the market to build share in our core fingerprint and touchpad technologies while also introducing our leading human presence solution to more platforms and more customers. This feature extends notebook battery life by 20% or more so we are optimistic that it will gain traction and will be sampling a new device later this year. In addition, we believe the advent of larger force-enabled touch pads, where we have a performance and technology lead, represents an opportunity for us to capture substantially higher ASPs and increase share.

In Mobile, the China Android market is stabilizing with channel inventory for our Touch solutions returning to normal levels and our shipments are now more aligned with end demand. We are benefiting from a larger TAM as more phones switch to flexible OLED technology which requires our high-precision solution. We also continue to build momentum at

Samsung with our first flagship phone launching a week or so ago, the Z-Flip 5. This phone features two of our touch chips. We expect to build share with this customer during the next year. Core mobile strength is offset by the decline of our legacy DDIC business which will continue to asymptote to zero over the next two years or so.

To conclude, the business performed as we had anticipated in Q4 and our expectations for a gradual recovery going into 2024 remain. We remain enthusiastic about our wireless opportunity, particularly in light of the new agreement with Broadcom. We are increasing our processor opportunity by moving our high-end products into adjacent markets and by introducing a mid-tier solution that features a complex neural network and targets low-power applications. While the enterprise market is experiencing abnormally high inventory levels, we continue to be excited about the complete platforms we are introducing with numerous Synaptics semiconductors. I am looking forward to seeing you all at our Investor Day on September 7th in New York where we plan to update the investment community on our strategy to accelerate the IoT portfolio, provide insights in our investments, and highlight our future growth opportunities.

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

We completed our fiscal year 2023 with net revenue of $1.36 billion, which was down 22% compared to $1.74 billion in the prior year, largely due to a 36% year-over-year decline in our Mobile and PC product groups and a 14% decline in our IoT products. Nearly all our market areas were affected by demand and inventory corrections throughout the fiscal year.

Despite this revenue decline, we maintained a profitable business with non-GAAP gross margin at 60.1%, 10 basis points higher compared to prior year, as our mix continued be dominated by our IoT products.

GAAP net income for the completed fiscal year was $73.6 million or $1.83 per diluted share compared to $257.5 million or $6.33 per diluted share in the prior year.

Non-GAAP net income for the completed fiscal year was $326.4 million or $8.12 per diluted share compared to $551.2 million or $13.54 per diluted share in the prior year.

Revenue for the recently completed June quarter was $227.3 million, above midpoint of our guidance. Revenue from IoT, PC, and Mobile were 58%, 19% and 23%, respectively. This was largely in line with our prior expectations, with our IoT products ending higher than forecast.

Year-over-year, consolidated June quarter revenue was down 52% as the June 2023 quarter is now directly compared to our June 2022 peak revenue period of $476 million. June quarter IoT product revenue was down 60% year-over-year and down 43% sequentially reflecting soft demand across consumer and enterprise end markets and continued inventory depletion as previously discussed.

In PC, our June quarter revenue was down 21% sequentially and down 48% year-over-year. We expect the June quarter represents the bottom for the PC market as customer inventories are largely depleted and normalization is likely to begin in the September quarter. A full and sustained recovery will be dependent on corporate enterprise IT spending trends given our higher mix in commercial notebooks.

Our June quarter Mobile product revenue was up 26% sequentially and down 17% year-over-year, largely in line with our prior expectations. Android Smartphone sell-through, though volatile, has improved recently and inventory is returning to normal levels as we see near-term turns orders and occasional customer order escalations. We expect this area to remain volatile on a quarterly basis as the strength in our high-end Touch solutions offsets declines at our legacy Mobile customer.

During the quarter, we had one customer greater than 10% of revenue, at approximately 14%.

For the June quarter, our GAAP gross margin was 44.5%, which includes $24.5 million of intangible asset amortization and $1.0 of share-based compensation costs.

June quarter non-GAAP gross margin of 55.7% was below our guidance range mainly due to product mix and some additional inventory write downs as forecasts continue to remain weak in some specific products.

GAAP operating expenses in the June quarter were $139.2 million, which includes share-based compensation of $29.2 million, intangible asset amortization of $8.5 million and a vendor settlement accrual of $4 million.

June quarter non-GAAP operating expense of $97.5 million was down from the preceding quarter and slightly below our guidance as we continue to maintain vigilant expense control.

We had a GAAP tax benefit was $20.9 million for the quarter, and non-GAAP tax expense of $4.0 million.

June quarter GAAP net loss was $23.4 million or a GAAP net loss of $0.59 per share. Non-GAAP net income in the June quarter was $19.5 million, a decrease of 74% from the prior quarter and an 88% decrease from the same quarter a year ago. Non-GAAP EPS per diluted share of $0.49 was above the mid-point of our guidance range.

Now turning to the balance sheet.

We ended the quarter and fiscal year with $934 million of cash, cash equivalents, and short-term investments on hand; unchanged from the preceding quarter. Cash flow from operations was $94 million.

Capital expenditures were $5.2 million and depreciation for the quarter was $7.2 million.

Receivables at the end of June were $164 million and days of sales outstanding were 65 days, up from 60 last quarter. Our ending inventory balance was $137 million, down $11 million as we continue reducing our inventory purchases. Given lower top-line sales, the calculated days of inventory on our balance sheet was 122.

We bought back approximately one million shares in the quarter for an aggregate cost of about $83 million. Our cash balance is at a healthy level even after the recently announced Broadcom transaction with ample flexibility to navigate our capital deployment needs. We continue to prioritize our capital allocation between M&A, share repurchases and debt management.

Now, let me turn to our September quarter outlook.

We remain consistent in our view of the near-term outlook and dynamics in our business. Our focus continues to be on reducing customer and distributor inventories further in the upcoming quarter as the June quarter reduced inventory levels consistent with our expectations. By market area, inventory levels have returned close to normal levels in our PC and Mobile products as many customers appear to be moving in a positive direction on product orders. In IoT areas, where inventory levels were highest, we are still working through excess channel inventories but are now seeing signs of meaningful depletion. Within IoT, demand for our consumer facing applications has begun to stabilize, while enterprise focused customer demand continues to be weak. This resulting mix shift is expected to be unfavorable to our gross margin profile. We expect the product mix to return to a more normal profile as recovery begins in early calendar 2024 and margins should correspondingly improve.

Given these end market dynamics and expected channel inventory burn in the September quarter, we anticipate revenue to be in the range of $215 million to $245 million, roughly flat with the prior quarter as we expect that the lowest trough point is now behind us. We expect our revenue mix from IoT, PC, and Mobile products in the September quarter to be approximately 58%, 22% and 20%, respectively.

We expect GAAP gross margin for the September quarter to be in the range of 43.5% to 47.5%. We expect non-GAAP gross margin in the range of 52.0% to 55.0%, a decline from the previous quarter due to the mix dynamics I highlighted earlier.

We expect GAAP operating expenses in the September quarter to be in the range of $139 million to $147 million, which includes intangibles amortization, share-based compensation and restructuring costs.

We expect non-GAAP operating expense in the September quarter to be in the range of $97 million to $100 million. In response to the demand environment, we are reallocating investments and de-prioritizing certain projects but ultimately believe a robust pipeline of new products will be critical in shaping our future success therefore we plan to maintain roughly $100 million per quarter. The recently announced transaction with Broadcom is not expected to affect our financial outlook for the quarter.

GAAP net loss per basic share for our September quarter is expected to be in the range of $0.55 to $0.95. And, non-GAAP net income per diluted share is anticipated to be in the range of $0.15 to $0.55 per share, on an estimated 39.5 million fully diluted shares.

We expect non-GAAP net interest expense to be approximately $7.5 million in the September quarter.

Finally, we expect our non-GAAP tax rate to remain unchanged in the range of 16-18%.

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 and our Investor Day in September.