SYNAPTICS – SECOND QUARTER, FISCAL 2024 CONFERENCE CALL
Prepared Comments

MUNJAL: SAFE HARBOR

Good afternoon and thank you for joining us today on Synaptics' second 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.

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MICHAEL: BUSINESS OVERVIEW

Thanks, Munjal. I'd like to welcome everyone to today's call. Synaptics delivered earnings that were largely in-line with expectations, a small achievement in a period marked by industry wide uncertainty, reduced overall demand and an accumulation of inventory. We recognized these issues about a year ago and took actions to align ourselves to the market environment. While that resulted in significantly lower topline revenue, we intend to use the downturn to position ourselves for the future by investing in our Core-IoT products. In fact, we can now see a path to sustained growth in Core-IoT, particularly in wireless. We continue to believe that we are at the bottom of our cycle and do not foresee further decreases from this point forward. However, the shape and timing of recovery remains uncertain.

Turning to the December quarter, revenue was slightly above the mid-point of our guidance range and flat compared to the prior three months. Our gross margins were at the mid-point of our guidance despite an unfavorable product mix, headlined by mobile performing better than initially forecast. Our spending was lower than we originally expected resulting in non-GAAP EPS toward the high-end of the guidance range.

For the past few quarters, we have been consciously working down inventory throughout our supply chain. As a result, in our PC, wireless and mobile product areas, stocking levels are at or very near historic norms. On the other hand, we still have some work to do in Enterprise where inventories are moving slower than expected. We continue to attribute this to a slowdown in enterprise IT spending which has impacted higher margin areas of our business such as docking stations, enterprise telephony and high-end headsets.

As we outlined last fall, we are focusing our investments in Core-IoT which contains our wireless and processor products. We are seeing the first signs of success in our wireless area with the normalization of channel inventory. We now expect to see consistent sequential revenue growth in wireless, starting with the nearly 20% growth reflected in our March guidance. While processors will be a longer road to measurable success, we are coming off a CES where we had increased customer engagement around both our general-purpose low end MCUs and higher end MPUs, both of which feature AI engines which enable customers to deploy their own computer vision use cases.

Our wireless success is driven first by a return to normal inventory levels and a resumption of shipments to existing customers but should be further bolstered by new design wins. For example, our lead module partner has begun shipping our first wireless automotive design-win for in-car infotainment systems. While initially hesitant about automotive as an end market for Core-IoT products, we are getting pulled into customer engagements and see perhaps more opportunity than we thought. Our wireless sales funnel continues to increase and we have new wins for our high-performance products in audio equipment, consumer security and action cameras.

On the product front, our new cost-effective high-performance 1x1 device, the 43711, is enjoying initial success in home appliances, smart speakers, industrial qualified modules, and security cameras. We remain on track to sample both the first Wi-Fi7 device for IoT applications and our first broad market chip by the fourth calendar quarter of 2024. In addition, we have ramped our second module partner, one that we discussed on the last call, and they have already begun taking product from us and are shipping pre-production quantities to their customers.

In Core IoT Processors, we recently announced our ASTRA platform. ASTRA encompasses a family of processors ranging from high end MCUs to octa-core embedded MPUs. The platform also offers a full-featured software toolkit, designed with the intent to simplify AI adoption in various IoT devices. It accepts commonly used customer frameworks to speed developers' AI integration in IoT products. At CES, there was tremendous interest in ASTRA, particularly from customers and partners that want to deploy simple AI use cases at the edge of the network rather than relying on models running in the data center. We are extending our customer reach beyond our core processing customers and into deeply embedded applications such as appliances, industrial and video conferencing. Nearer term, our processor products are seeing traction in our traditional operator space, and we expect those wins to translate to revenue in fiscal year 2025.

As stated earlier, our Enterprise products have been largely characterized by persistent inventory and weaker than expected IT spending. As we look at the different products that comprise Enterprise, two are worthy of further discussion. In our historic touchpad and fingerprint devices for client PCs, we have worked through customer and channel inventories and believe we are shipping on par with end demand. While the notebook PC market has normalized, predicted growth has yet to materialize. There is some optimism around both a 4-year COVID refresh and AI-PCs driving market increases in the second half of the calendar year. We have yet to see anything that would indicate a strong resurgence but continue to control what we can by driving share, particularly at the high end of the market. The second area to touch on is our user presence detection technology. Some of you were able to see this in action at CES and its potential for ease-of-use, privacy, and power savings. We are set to deliver our first chip for this application which is specifically designed to drive our differentiated suite of AI algorithms at extremely low power levels. With both the tuned device and the latest set of algorithms, we expect to increase share at our current lead customer, penetrate additional PC OEMS, and drive the application into accessory devices.

Automotive products are continuing to do reasonably well as the transition from discrete touch and legacy DDICs to TDDI plays out. Adoption of TDDI-based solutions is still a tailwind, but we are seeing a sharper fall off in legacy DDIC products than initially forecast. Our aggregate automotive revenue will likely be choppy as the two curves cross over in the next couple of quarters. We continue to do well with our TDDI products, having recently won at multiple OEMs including new models at Toyota and Porsche. Although early in the design cycle, our new SmartBridge product is central to our automotive strategy, adding a second product to our portfolio, giving us additional differentiation and delivering system cost savings while also helping defend our TDDI position.

Our mobile products had a strong quarter driven by improved demand across our Chinese customer base as well as the ramp of our new design-win for the Samsung Galaxy S24. With the GS24 win, we solidified our leadership position in touch controllers for the high-end Android handset market. As we look into the future, we see opportunities to maintain our differentiation at the high-end. Customers are looking to introduce new displays that are even thinner, driving higher signal to noise ratios which our precision analog circuits can resolve. In addition, we are seeing opportunities for our touch products in areas outside handsets such as gaming. In general, we believe our mobile inventories have normalized and we expect our shipments to align and track end market demand.

As we said last quarter, our business has hit the bottom of the cycle and continues to stabilize. To a large extent, inventory has cleared and we believe some of our businesses are at or near steady state. However, enterprise spending has been significantly reduced which presents a new impediment to our higher margin products, keeping our overall top line revenue flat and margins below our outlined targets. Near term, we will see puts and takes in Enterprise and Automotive before it returns to steady state and tracks to sustained growth. The good news story was Core IoT which, led by our wireless product line, will increase nearly 20% quarter on quarter and should show sustained growth from this point forward. Overall, we are still confident in the long-term targets we outlined at our Analysts' Day in September.

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

DEAN: FINANCIAL RESULTS

Thanks Michael, and good afternoon to everyone.

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

Revenue for the December quarter was $237 million which was slightly above the mid-point of our prior guidance. Revenue from Core IoT, Enterprise & Automotive, and Mobile were 16%, 58% and 26%, respectively.

Year-over-year, consolidated December quarter revenue was down 33%, but more importantly we continue to stabilize the business sequentially.

On a consolidated basis our distribution channel inventory continued to decline in the quarter although some products continue to experience high stock and slower inventory turns, while other products are beginning to see new restocking orders.

Core IoT revenue was roughly flat sequentially and down 46% year-over-year. Over the last three quarters we have worked tirelessly to deplete excess inventories where possible and we believe we are finally reaching the point where we expect a return to growth in our third quarter fiscal 2024.

In Enterprise & Automotive, December quarter revenue was down 12% sequentially and down 40% year-over-year. Here, many customers began their slowdown 2-3 quarters after we began experiencing declines in our Core IoT products, which leads us to believe that Enterprise may require some additional patience.

Mobile product revenue was up 42% sequentially in the December quarter and up 10% year-over-year. This marks one of the strongest Mobile quarterly sequential increases since fiscal 2022. We are experiencing strength across the Android ecosystem in China as well as ramps of new flagship smartphones. At this point, it is unclear whether the strength is due to fundamentally strong end demand or if it is merely channel restocking ahead of the Chinese New Year. We continue to expect our Mobile sales to remain subject to normal seasonality patterns.

During the quarter, we had two customers greater than 10% of revenue, at approximately 13% and 10%.

For the December quarter, our GAAP gross margin was 46.0%, which includes $14.4 million of intangible asset amortization and $1.1 million of share-based compensation costs.

December quarter non-GAAP gross margin was 52.5% which was the mid-point of our guidance range.

GAAP operating expenses in the December quarter were $126.9 million, which includes share-based compensation of $28.1 million and intangible asset amortization of $3.9 million.

December quarter non-GAAP operating expense of $92.0 million was down $4.7 million from the preceding quarter and below our guidance range. We continue to maintain vigilant expense control and given our expectations that the return to a more normal sales level will take longer than previously expected, our cash bonus program now reflects a reversal benefitting operating expense in the December quarter.

During the quarter we recorded a GAAP tax benefit of $15 million, and maintained our expected non-GAAP tax rate of 17% or a $4.6 million expense.

December quarter GAAP net loss was $9.0 million or a GAAP net loss of $0.23 per basic share. Non-GAAP net income in the December quarter was $22.5 million, an increase of 11% from the prior quarter and an 75% decrease from the same quarter a year ago. Non-GAAP earnings per diluted share of $0.57 was near the high-end of our guidance range.

Now turning to the balance sheet.

We ended the quarter with $849 million of cash, cash equivalents, and short-term investments on hand; a 3% sequential increase. Cash flow from operations was $39 million.

Capital expenditures were $10.4 million and depreciation for the quarter was $6.8 million.

Receivables at the end of December were $126.6 million and days of sales outstanding were 48 days, an increase of 6 days from last quarter. Ending inventory balance was $125.1 million, down $6.6 million as we continue to cautiously reduce our inventory purchases. Our calculated days of inventory on our balance sheet also declined to 99 compared to 105 at the end of the prior quarter.

Now, let me turn to our March quarter outlook.

We are seeing stabilization at current levels and plan to further reduce distributor inventories, particularly in Enterprise focused products, given slow corporate IT spending. While we remain hopeful of a return to higher and more normalized runrates, the timing and shape of recovery remains uncertain. At a consolidated level we anticipate revenue in the March quarter to be in the range of $220 million to $250 million, similar to the December quarter.

Inventory appears to have largely bottomed for Core IoT products and we expect the March quarter revenue to be up nearly 20% sequentially. Enterprise & Automotive products have not yet fully bottomed and we believe will continue to decline into the March quarter. Mobile is expected to decline due to seasonality and lack of customer ramps in the coming quarter. Given these dynamics we expect our revenue mix from Core IoT, Enterprise & Automotive, and Mobile products in the March quarter to be approximately 19%, 57% and 24%, respectively.

We expect GAAP gross margin for the March quarter to be in the range of 43.5% to 46.5%. We expect non-GAAP gross margin in the range of 52% to 54%, a small improvement from the December quarter.

We expect GAAP operating expenses in the March quarter to be in the range of $130 million to $135 million, which includes intangibles amortization and share-based compensation.

We expect non-GAAP operating expense in the March quarter to be in the range of $94 million to $98 million.

GAAP net loss per basic share for our March quarter is expected to be in the range of $0.80 to $1.10. And, non-GAAP net income per diluted share is anticipated to be in the range of $0.35 to $0.65 per share, on an estimated 40.0 million fully diluted shares.

We expect both GAAP and non-GAAP net interest expense to be approximately $6 million in the March 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.