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SYNAPTICS – FIRST QUARTER, FISCAL 2022 CONFERENCE CALL
Prepared Comments

MUNJAL: SAFE HARBOR

Good afternoon and thank you for joining us today on Synaptics' first quarter, fiscal 2022 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. 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 and the supply chain disruption and component shortages currently affecting the global semiconductor industry. 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, 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 had a great start to our fiscal year 2022 and I am pleased with what we were able to achieve in the last three months. Revenue for the September quarter was above the mid-point of our guidance driven by continued growth in our IoT products. Our mix of IoT revenue improved again, resulting in record GAAP and non-GAAP gross margin. Higher revenue and gross margin in turn drove our non-GAAP operating margin and non-GAAP EPS to record levels in the quarter.

Two factors are contributing to the success. First, we are working with tier 1 customers whose products are generally exceeding market expectations. In our existing customer base, we have been able to cross sell multiple product lines increasing our content, improve our mix and shift ASPs upward by delivering higher performance and more integrated solutions. Second, we have had success selling into totally new customers. We saw several new ramps in the quarter which had meaningful impact on revenue.

Our IoT revenues increased 70% YoY. Most every area of our IoT portfolio has experienced dramatic growth and design win momentum. Our fastest growing piece of the portfolio continues to be our WiFi-Bluetooth combo devices which are seeing traction in number of new applications such as handheld scanners and networked fitness equipment. Our wireless devices are an example of our cross-selling success as we can attach them to almost every other piece of our IoT portfolio. Our latest generation 'Triple-Combo' wireless device has recently taped out and is now back in our labs for full qualification. This new family of products combines multiple wireless technologies in a single solution including Wi-Fi 6E, Bluetooth, and now 802.15.4. We plan to offer a Thread networking protocol stack on the 802.15.4 engine. Thread is an industry standard that will primarily be applied to in-home automation and industrial use cases. We will also be able to support Zigbee and Matter on the same integrated circuit. Synaptics will now be one of the first silicon vendors offering these triple-combo devices and we are seeing strong customer interest as we begin sampling. In general, our Wireless products are seeing increased design-win traction across a long-tail of customers and applications giving us confidence in believing we will achieve our target of doubling revenues again over the next 18 months.

In our video interface products, we continue to see strong demand for our premium docking solutions. Docking stations have experienced a market inflection driven both by replication of the office set up at home and by flexible workplace configurations. According to Omdia, the TAM for commercial docks is expected to increase again in 2022. In addition, we have been successful in increasing content in docking stations. For example, we have a design-win at a top OEM customer that combines both our traditional DisplayPort technology with DisplayLink. Our expansion into the protocol adapter and converter market is starting to bear fruit with more than 25 design-wins. Our next-generation device in this area, Spyder, is now in production at multiple customers and was also selected for use on industry-leading GPU and CPU reference designs. Protocol adapters and converters are an incremental market for us that we estimate to be up to 80 million addressable units.

Another example of our ability to expand our TAM and market reach utilizing our core technology is our success in taking our highest-end mobile display drivers and applying them to the Virtual Reality market. We are seeing incredible traction in this area with over 30 models shipping today using Synaptics devices, including the market leader who recently announced a $10 billion investment in this technology area. Synaptics is shipping today in almost all the leading Virtual Reality platforms and we enjoy undisputed market share leadership in this category. Our key differentiators include display resolution and fast refresh rates which are both extremely important in a Virtual Reality headset given the proximity of the display to the human eye. These products had historically been lumped together in mobile, but given their distinct application and growth potential, we are now correctly classifying them in our IoT sector. Dean will go into further details about the financial reclassification in his section.

Our automotive products are seeing continued momentum and remain on-track to achieve our $100 million annual revenue goal by the end of fiscal 2022. We have executed well on our TDDI devices and now have multiple generations both in production and in design at most all major automotive OEMs. While a small part of our automotive revenue mix today, we expect TDDI products to be a more meaningful percentage in the coming quarters, giving us confidence that we can meet or exceed our stated revenue goal.

Moving on to our Edge AI processors, our recently announced AudioSmart family of products is a highly integrated single-chip solution with AI-enabled noise cancellation algorithms. We are already in pre-production for this premium headset solution which also reduces systems cost by integrating multiple previously external components. More importantly, it significantly reduces power consumption, enabling extended battery life. Our shipping audio products have seen a boost with the advent of Microsoft Teams and Zoom certifications. Here, we enjoy a performance advantage and have been able to gain significant share in professional grade wired headsets used in video conferencing. Coupled with our strong presence in gaming headsets as well as the addition of DSPG, we should continue to see strength in this part of the portfolio. In addition, our dedicated AI focused Katana platform is beginning to show early positive signs with our first production customer, taking full advantage of the capabilities of this platform, now shipping. In addition, we are expanding our ecosystem around Katana with new partnerships for machine learning development to support faster time to market for our customers. The market is still in its infancy, but we expect increasing numbers of AI applications at the Edge and are encouraged by the early indicators.

Let me move on to our PC business. After two years of strong growth, we believe the market demand will likely normalize. Last year, Chromebook demand was strong, but the current mix is biased toward commercial notebooks which plays more to our strength and has resulted in more stable demand for our products. The focus on innovation in our PC business is showing results, the best example of which is Microsoft's high-end Surface Studio notebook which features Synaptics Touch in its large form factor Forcepad with precision haptics. A second example is our palm rejection technology which uses AI to prevent unintentional touches from moving the cursor. This enables the design of larger touchpads with a far better customer experience and is now being designed in at several OEMs on their high-end platforms.

Finally, in Mobile, I am pleased that we have made progress in diversifying our customer base. As we had said previously, we expected the June quarter to be the revenue nadir for our mobile products. That has indeed proven to be the case as we increased our revenue sequentially in the September quarter. Almost all leading Chinese and Korean Android handset manufacturers are now shipping our touch technology on their flexible OLED panels. Our second-generation controller, which significantly advances performance in high noise environments, started shipping earlier this year and is now the product of choice, particularly in China. Our new high-end flexible OLED display driver qualifications are progressing well and we continue to expect these wins to hit production in calendar 2022.

Before I conclude, let me give you all a quick update on our supply chain status. Overall, the supply situation is still very tight with constraints across our full product portfolio. The constraints are most prevalent in our IoT products, where we are winning and expanding our market share quickly, adding pressure to an already difficult environment. We are working with our partners and in select places have been able to garner some small incremental supply though we expect broad challenges to continue through all of calendar 2022.

To conclude, I am extremely pleased with the progress we have made in positioning the company for sustained growth. I am very happy with the strength of our portfolio and the opportunities that lie ahead of us to grow our business. We continue to be positive on the potential opportunities that a combined Synaptics + DSP Group will have and happy to report that we remain on-track to close the pending merger by end of the calendar year.

Now, let me turn the call over to Dean to review our first quarter financial results and provide our outlook.

DEAN: FINANCIAL RESULTS

Thanks Michael, and good afternoon to everyone.

Before I begin, I'd like to go over the reporting change of our Virtual Reality focused products. This set of market leading products has been purpose built from our core technology and until now was historically classified as part of our Mobile products grouping. The emerging Virtual Reality market has been rapidly growing and is poised for long-term secular growth which is unrelated to Mobile phones. Starting this quarter and inclusive of our first quarter results here today, we are realigning our Virtual Reality revenue classification to better reflect a more accurate category for Synaptics as part of our IoT reporting going forward. A simplified reconciliation of this change can be found in our supplemental slide deck available on our investor relations site.

Moving on to the fiscal first quarter results, revenue for the September quarter was $373 million, slightly above the midpoint of our guidance. Revenue was up 14% sequentially, reflecting continued strong demand across our IoT, PC, and Mobile products as all areas grew sequentially.

Year-over-year, the September quarter revenue was up 13%, driven by growth in our IoT revenue, partially offset by a decline in our Mobile revenue as we continue to focus our efforts toward more attractive IoT opportunities. Revenue from IoT, PC, and Mobile were 55%, 24% and 21%, respectively, in the September quarter. Revenue from our IoT products was up 70% compared with the year-ago quarter and up 16% sequentially as our revenue momentum in this area continues to outpace almost all peers.

PC product revenue was up 5% sequentially and up 10% year-over-year despite many of our customers continuing to face component constraints. And, as we had previously highlighted, our Mobile business bottomed in the June quarter and was up 19% sequentially in the September quarter as several of our design-wins began shipping.

During the quarter we had two customers greater than 10% of revenue at 12% and 11%

For the September quarter, our GAAP gross margin was a company record at 53.2%, which includes $16.9 million of intangible asset amortization and $1 million of share-based compensation costs.

GAAP operating expenses in the September quarter were $137.5 million, which includes share-based compensation of $34.6 million, acquisition related costs of $10.6 million consisting of intangibles amortization and transaction costs, amortization of prepaid development costs of $2.5 million and restructuring-related costs of $1.4 million.

Our GAAP tax expense was $5.9 million for the quarter.

In the September quarter, we had GAAP net income of $40.2 million or GAAP net income of $0.99 per share.

Now, turning to our non-GAAP results.

Our September quarter non-GAAP gross margin of 58.0% was a company record and at the high-end of our guidance range, reflecting a continued strong mix as we prioritize our highest value products to customers.

September quarter non-GAAP operating expenses were slightly below the mid-point of our guidance at $88.4 million, and up $2.2 million from the preceding quarter as we invest in our engineering capabilities while balancing responsible spending levels. As a result, our non-GAAP operating margin of 34.2% in the quarter was the highest on record at Synaptics.

Our non-GAAP tax expense was $14.8 million for the quarter.

We had non-GAAP net income in the September quarter of $108.7 million, which is an increase of 26% from the prior quarter and an increase of 63% from the same quarter a year ago; non-GAAP EPS per diluted share was $2.68 as our focus on profitable growth continues to drive positive earnings for our shareholders.

Now turning to the balance sheet.

We ended the quarter with $347 million of cash on hand, a decrease of $489 million from the preceding quarter as we paid down $506 million of our convertible notes bringing the outstanding balance to zero. Cash flow from operations was $58 million during the quarter.

Receivables at the end of September were $270 million and days of sales outstanding were 65 days, up slightly from 63 last quarter. Our days of inventory was 51, down from 53 last quarter, and ending inventories were $89 million. However, inventory remains below our desired level due to continued supply chain constraints.

Capital expenditures for the quarter were $4.7 million and depreciation was $5.2 million.

Before I provide the outlook for our December quarter, I'd like to remind everyone that our guidance excludes any impact from our pending DSPG acquisition.

Customer demand and backlog for our products continues to remain extremely strong. We anticipate revenue for the December quarter to be in the range of $390 million to $420 million. Similar to last quarter, our backlog at the start of the quarter was above the high end of our guidance range as we are still supply constrained, limiting our ability to service our customers' full demand.

We expect our revenue mix from IoT, PC and Mobile products in the December quarter to be approximately 58%, 22% and 20%, respectively. Our expectation incorporates our IoT products growing an estimated 44% on a year-over-year basis, significantly faster than the broader market and faster than all of our IoT focused peers.

I will start with GAAP outlook and will follow with non-GAAP outlook.

We expect our GAAP gross margin for the December quarter to be in the range of 54.0% to 55.0%.

We expect our GAAP operating expenses in the December quarter to be in the range of $134 million to $141 million, which includes acquisition-related charges for intangibles and transaction costs, prepaid development cost amortization, share-based compensation, and restructuring costs.

We expect our fiscal 2022 GAAP tax rate to be approximately 20% to 25%.

Finally, our GAAP net income per share for our December quarter is expected to be in the range of $1.25 to $1.65.

Now, the non-GAAP outlook for our December quarter.

We expect our non-GAAP gross margin momentum to continue into the December quarter. We expect non-GAAP gross margin in the range of 58.5% to 59.5%, as we continue to prioritize and deliver to an increasingly positive mix while navigating supply chain constraints and changing input prices.

We expect our non-GAAP operating expense in the December quarter to be in the range of $90 million to $93 million as we continue investing into the engineering growth drivers of our business which further our long-term revenue trajectory.

We expect our non-GAAP net interest expense to be approximately $4 million in the December quarter.

We expect our long-term non-GAAP tax rate for fiscal 2022 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 $2.90 to $3.20 per share, on an estimated 41 million fully diluted shares.

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.