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SYNAPTICS – FOURTH QUARTER, FISCAL 2024 CONFERENCE CALL
Prepared Comments

MUNJAL: SAFE HARBOR

Good afternoon and thank you for joining us today on Synaptics' fourth 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, Ken Rizvi, our CFO, and Matt Padfield, our Vice President of Finance. 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 just closed our 2024 fiscal year and while, for the most part, it didn't play out as we planned, we were able to accomplish some of our most important goals. During the year, we stabilized revenue and began to show incremental growth though at a slower rate versus our prior expectations due to muted end demand recovery. In addition, we were able to get largely clear of the inventory issues that plagued us for the last six quarters or so. Finally, Core IoT is on the right track, showing significant, albeit somewhat inconsistent growth after bottoming in the fourth quarter of last year. As we enter fiscal 2025, we are in a better place overall to drive revenue and earnings growth.

Moving to the June quarter, revenue was slightly above the mid-point of our guidance range with enterprise products incrementally above forecast. Non-GAAP gross margin came in at roughly the mid-point of our guidance while non-GAAP Op Ex was below target, resulting in non-GAAP EPS above the forecast provided in May.

This quarter marked more success in our Core IoT products, which grew 63% year-over-year primarily driven by wireless. We taped out our first broad market device that features a more than 50% power reduction and a 40% decrease in die size as compared to a similar high-performance device. Even with these advances, we maintain our throughput and interoperability advantages, thereby delivering the best overall solution in this product category. The chip is on-track to sample to customers toward the end of the calendar year with revenue contribution expected to start in the middle of calendar 2025. Our first Wi-Fi 7 device is slightly ahead of schedule, and we expect to be sampling customers toward the end of this coming quarter. In addition, demand for our shipping Wi-

Fi/BT combos and GPS products continues to improve. Pre-production has started on several of our key design wins in product categories such as drones, sound systems, wearables and OTT streamers. We have had success adding new module partners in Japan, Korea and China though progress to high-volume shipments has been slower than expected. We expect wireless revenue to continue to improve and while quarter over quarter growth rates may vary, we continue to believe that double digit increases will occur on a year-over-year basis.

We are also making progress with our Smart Embedded Processors. Following a successful launch last quarter, Astra, our Embedded AI enabled line of MPUs and MCUs, has generated interest from a broad set of customers in product categories such as navigation devices, appliances and security systems. Initial demand for our Machina RDKs exceeded expectations and we are ramping production for commercial availability. We made our software generally available making it easier for customers to integrate lowering barrier to adoption. Finally, we are building relationships with system integrators and system-on-module partners who enable us to scale significantly faster.

In the quarter, we started sampling our SR-series of smart MCUs for vision-based use cases. In addition, we are driving synergies in our compute and wireless portfolios and are sampling our first Astra Connected Processor in a package combining our Wi-Fi 6/6E device with quad-core A55 processors. While Astra's customer traction is ahead of schedule, we haven't changed our outlook, and the products won't contribute materially until the second half of our fiscal 2026. While our smart embedded processors are the future, our operator solutions product family continues to generate revenue today. Our recently announced wins have started to ramp and, over the last quarter, we added new customers in Japan with production launches expected in calendar 2025.

Moving to our Enterprise & Automotive products, revenue improved 7% on quarter driven by improvement in our video interface and PC products. In PCs, we are gaining market share at multiple OEMs and driving higher content with larger touchpads and haptics technology. We do think the PC TAM continues to grow as adoption of AI PCs and ARM based platforms drives a refresh cycle. Our user presence detection solution has been awarded both mid-board and camera module platforms at our major customer, stepping up our share in model year 2025. We are working to sell these AI based devices to additional customers and expect further adoption given the system power savings they can deliver translating to longer PC battery life. While we were able to grow enterprise product sales sequentially, we continue to be disappointed at the rate of recovery. IT spending on personal hardware remains well below historic norms as capital is being allocated toward AI infrastructure.

In Automotive, the overall market softness is slowing the adoption of new technology. This has been good for us as our existing TDDI solutions are expected to remain in production longer. However, uptake of our new SmartBridge product is being pushed out, limiting our content gains near-term. In addition, our legacy DDIC devices continue to moderate as production shifts away from older models.

In Mobile, our touch controllers are aligned with the high end of the Android market which is seeing normal seasonal trends. We do see opportunity for TAM expansion as flexible OLED displays come down in price and capture a higher percentage of the volume at a given OEM. Our technical advantages in extracting signal from a very noisy environment give us more than sufficient differentiation to garner high market share both in China and Korea. We had multiple ramps and design-wins across major Android smartphone OEMs this quarter. We remain confident in our market position and starting next year we expect our Mobile products to largely track the high-end Android market.

To conclude, we continue to be excited about our Core IoT opportunity, particularly on processors and wireless. Through new product ramps and customer engagements, we have set ourselves up for a bright future. In addition, we have cleared most of the inventory problems that plagued our enterprise products for the last few quarters and positioned us for a steadier phase of growth. We have set the company up for earnings and cash flow growth in 2025 and beyond.

Before I turn the call over to Matt for a review of our fourth quarter financial results and first quarter outlook, let me take a second to introduce our new CFO Ken Rizvi. I am pleased to have Ken join the team and I am looking forward to getting his help in driving profitable growth for Synaptics. He is a seasoned finance and semiconductor executive, having previously served as a CFO of a public company. Ken, can you make a few comments?

KEN: INTRODUCTORY COMMENTS

Thanks Michael and good afternoon to everyone. Several of you know me from my previous roles and I am excited to join Synaptics at this stage of the company. Michael and the team have done a phenomenal job transforming the company into a leading IoT player. I am looking forward to build on the foundation and help the company drive long term growth. I look forward to meeting you all in the coming weeks and months. As it's only been a few weeks since I joined, I'll hand the call over to Matt to review our financials. Matt…

MATT: FINANCIAL RESULTS

Thanks Ken, and good afternoon to everyone.

I will focus my remarks primarily on our non-GAAP results which are reconciled to GAAP in the earnings release tables and in our investor materials on our website.

Now let me turn to our financial results for fiscal 2024 and Q4.

We completed our fiscal year 2024 with net revenue of $959 million, which was down 29% compared to $1.36 billion in the prior year, largely due to declines in our Core IoT and Enterprise & Automotive products, and partially offset by growth from our Mobile products.

While demand in fiscal 2024 was soft across multiple end-markets, we were able to grow revenues into the second half of the year while also reducing channel inventories to near normal levels.

Non-GAAP gross margin for fiscal 2024 came in at 53.0%.

Non-GAAP net income for fiscal year 2024 was $89.4 million or $2.25 per diluted share.

The company continues to be solidly cash flow positive generating $135.9 million in cash from operations in fiscal year 2024.

Now let me turn to our Q4 results.

Revenue for Q4 was $247.4 million, above the midpoint of our guidance, with sequential improvement in our Core IoT and Enterprise & Automotive products. Revenue from Core IoT, Enterprise & Automotive, and Mobile products were 22%, 58% and 20%, respectively. This was largely in line with our previous expectations, with Enterprise & Automotive products above our original forecast.

Total Q4 revenues were up 9% on a year-over-year basis and benefitted from reduced inventory digestion and up 4 percent sequentially. In Q4,

- Core IoT product revenue was up 63 percent year-over-year due to reduced inventory digestion and up 15 percent sequentially reflecting a modest recovery in the wireless end-market.
- Enterprise & Automotive product revenue was up 2 percent year-over-year and up 7 percent sequentially. We saw our PC products improve seasonally on a sequential basis. While we expect the enterprise inventory correction to be largely behind us, end demand for these products continues to remain relatively soft.

- Mobile product revenue was down 6 percent year-over-year and 11 percent sequentially. The quarter-over-quarter performance was primarily due to seasonal trends and largely in line with our prior expectations.

During the quarter, we had two customers greater than 10% of revenue, each at approximately 12%.

Q4 non-GAAP gross margin was 53.4% and in-line with the mid-point of our guidance range.

Our fourth quarter non-GAAP operating expense was $96.5 million and toward the low end of our guidance as we continue to maintain tight expense control.

Non-GAAP net income in Q4 was $25.6 million, an increase of 22% from the prior quarter and a 31% increase from the same quarter a year ago.

Non-GAAP EPS per diluted share of $0.64 was above the mid-point of our guidance range, helped in part by lower than anticipated operating expenses.

Now turning to the balance sheet.

We ended the quarter and fiscal year with $877 million of cash, cash equivalents, and short-term investments on hand; up $49 million from the preceding quarter. Cash flow from operations was $65 million.

Capital expenditures were $7.7 million and depreciation for the quarter was $6.8 million.

Receivables at the end of June were $142 million and days of sales outstanding were 52 days, down from 55 days last quarter. Our ending inventory balance was $114 million, flat compared to last quarter, as we continue to manage our inventory purchases. The calculated days of inventory on our balance sheet were 88.

Our cash balance is at a healthy level with ample flexibility to navigate our capital deployment needs. We continue to prioritize our capital allocation between M&A, debt management and share repurchases.

Now, let me turn to our first quarter of 2025 guidance.

We expect revenues to be approximately $255 million at the mid-point, plus or minus $15 million. Our guidance for the first quarter reflects an expected revenue mix from Core IoT, Enterprise & Automotive, and Mobile products in the September quarter to be approximately 23%, 58% and 19%, respectively.

We are seeing stabilization and return to normalcy in our business with order trends and pipeline starting to modestly improve. However, recovery continues to be slow and gradual in almost all our end markets.

We expect non-GAAP gross margin to be 53.5% at the mid-point plus or minus 1%, consistent with the previous quarter.

We expect non-GAAP operating expense in the September quarter to be $96 million at the mid-point plus or minus $2 million. Given the slower pace of recovery and continued macroeconomic uncertainties, we remain focused on managing our overall operating expenses.

We expect non-GAAP net interest and other expense to be approximately $6.0 million in the September quarter.

We recently completed a project that included the domestication of certain foreign subsidiaries and the onshoring of certain intellectual property. This is expected to reduce our non-GAAP tax rate to a range of 13-15%.

Non-GAAP net income per diluted share is anticipated to be $0.75 per share at the mid-point plus or minus $0.20, on an estimated 40.3 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.