SYNAPTICS – SECOND QUARTER, FISCAL 2023 CONFERENCE CALL
Prepared Comments

MUNJAL: SAFE HARBOR

Good afternoon and thank you for joining us today on Synaptics' second 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 current 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. Our fiscal second quarter financial results were within our guidance range, a good outcome given the dynamic macroeconomic conditions. Our financial performance would have been at the midpoint of guidance or better save for one deal in our IoT product group that did not close in the quarter as expected. Dean will provide more details regarding this later in his remarks.

Let me start with an overview of the macro conditions and how it is impacting our business. Given our exposure to a wide range of end markets, we have seen different facets of our business experience headwinds at different times. We first saw weakness in mobile phones, followed by PC, then consumer and are now beginning to see softness in our enterprise business which is now our second largest end market. The good news is that recovery is also expected in phases and we have already seen early signs of improvement in mobile and PC.

In general, the biggest issue we are facing is an accumulation of inventory. Our visibility into channel partners indicates sell-through exceeded our sell-in during the December quarter in many product areas. We anticipate we will continue to under-ship natural demand in the first half of CY 2023 as we clear inventory. While we remain uncertain as to the precise timing of recovery, our best estimate at this time is calendar Q3 given current rates of inventory bleed off.

With that said, we continue to innovate and focus on our three biggest market opportunities all of which are in our IoT products. The first of these is our initiative to drive wireless workspaces. At this year's CES, we showcased the first wireless docking station from our partner, Lenovo.

The product features our Wi-Fi, video conversion, and video decoding ICs. The next phase of growth involves enabling high fidelity wireless monitors. Ultimately, we see a clean desktop with no wires at all. In addition, we can enable advanced video conferencing hubs where the base system is connected to monitors wirelessly, saving corporate IT departments time and money. All of this is possible with our advanced, low latency video compression technology. While wireless workspaces represent the future, our present is also strong as we continue to dominate the current generation of docking stations and are already beginning our move into video conferencing systems. Our latest chip, Navarro, will bring a new level of performance to universal docking stations, enabling two 8k or four 4k monitors simultaneously. In addition, we recently introduced our latest video conversion device, Carrera, with industry leading SerDes technology, optimized for USB4 V.2 and DP 2.1, that brings both video and graphics to high-definition monitors. As an early sign of success in video conferencing, we had a key $10+ design win in HP's new Presence system that was named one of the best inventions of 2022 by Time Magazine.

Our second large opportunity is in wireless connectivity. Our design wins and pipeline of opportunities continue to increase, giving us confidence to target $1 billion in annual sales over the next three to five years. We offer the broadest portfolio of wireless technologies among all our IoT competitors, including Wi-Fi, Bluetooth, Thread/Zigbee, ULE and GNSS. Our latest combo chip design wins encompass large customers such as Amazon and Google, kitchen appliances, and wearable cameras. Our Wi-Fi/BT combo products have also started to see success in new market segments such as enterprise, operator, health care and even smart cities. Our ULE technology has been an entrée into customers such as ADT, Vivint, and Verisure, where we are able to sell a litany of products including video decoders for hubs, Wi-Fi for security cameras, and edge

AI devices for glass break detectors. In GNSS, we recently announced the availability of the 4778, a chip designed in 7nm CMOS that offers customers up to 80% more power efficiency. This monumental step function improvement in power savings is particularly important for any product depending on a small battery such as wearables. Despite a recent speedbump in terms of significant inventory buildup, we remain confident in our wireless business and expect it to return to outsized growth in the calendar year.

Our third major growth driver is automotive. At CES, we introduced a new product, SmartBridge. This device replaces an existing protocol conversion device, but adds a feature dubbed 'local dimming'. Local dimming greatly increases the contrast ratio in automotive displays, making a typical LCD display look and perform like OLED. The SmartBridge increases our content per vehicle to $25-$30. In addition, we continue to benefit from the rapid conversion of discrete touch and display circuits to TDDI in the infotainment display. We will look to expand our automotive footprint through both M&A and organic development.

Other notable parts of our IoT portfolio include enterprise telephony and audio headsets. In enterprise telephony, we continue to expand content with both wireless and video decoding for small screen conferencing. In audio headsets, we continue to dominate in enterprise class products, particularly with DECT connectivity.

Turning to PCs, revenues were in line with our expectations but down sequentially as customers work through their inventories. We are shipping below the reduced end demand and are seeing signs of an improving inventory situation. As it stands, we expect the March quarter to mark the low water mark for revenue and measured improvement thereafter. In the meantime, we are pursuing content and TAM expansion. We are gaining traction with our presence detection technology and announced wins with both Dell and Panasonic. In fact, all major customers are engaging with us for this technology which saves battery life by using AI algorithms to determine when a user is not actively engaged with the laptop. Presence detection has use cases beyond the PC which we intend to pursue aggressively.

In conclusion, we are working with our customers to reduce inventories in the channel. We are managing our expenses while continuing to invest in growth areas of the business. We will focus on things we can control such as timely new product introductions, innovative roadmaps, and design win conversions. Together, this gives me confidence in our long-term growth potential.

Let me now turn the call over to Dean to review our second quarter financial results and provide our 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 quarter and then provide our current outlook. Revenue for the December quarter was $353 million, toward the low end of our previous guidance. December quarter revenue from IoT, PC, and Mobile were 68%, 16% and 16%, respectively. We had one customer for our processor products that did not complete certain milestones during the quarter which resulted in lower IoT results relative to our prior expectations. We now expect to complete these deliverables in the March quarter and have included in our guidance as such.

Year-over-year, consolidated December quarter revenue was down 16%, driven by double-digit declines in our Mobile and PC products.

December quarter IoT product revenue was down 8% year-over-year and was down 30% sequentially due to an accumulation of inventory at customers and channel partners. Outside of the single deal that was delayed, all other customers performed in line with our prior forecasts.

In PC, our December quarter revenue was down 13% sequentially and down 32% year-over-year, in line with our expectations, reflecting a weaker PC market as customers drive to reduce inventory. Our higher commercial mix generally leads to a more stable performance, but it is not immune to economic downturns when enterprise IT spending is curtailed. We are seeing early signs of PC inventories clearing and expect demand to begin recovering by June.

Our December quarter Mobile product revenue was up 43% sequentially but declined 25% year-over-year. The December quarter outperformed our expectations as customers took delivery of products before the calendar year end, which likely comes at the expense of our March quarter forecast. We view this as an unanticipated timing benefit versus a fundamental change in end market demand. We believe customer inventories are coming down in this area as well and we are seeing signs of stabilization.

During the quarter, we had one customer greater than 10% of revenue, at approximately 11%, a distributor servicing multiple OEMs.

For the December quarter, our GAAP gross margin was 52.9%, which includes $23.3 million of intangible asset amortization and $1.0 million of share-based compensation costs.

December quarter non-GAAP gross margin was 59.8% and was negatively impacted by the delay of the IoT deal previously mentioned.

GAAP operating expenses in the December quarter were $140.6 million, which includes share-based compensation of $29.0 million, intangibles amortization of $8.9 million, amortization of prepaid development costs of $2.5 million, and transaction related costs of $1.8 million.

December quarter non-GAAP operating expenses of $98.4 million were down from the preceding quarter and toward the low end of our guidance primarily due to lower personnel related costs as we begin to slow our rate of new investments.

Our GAAP tax rate was 44.2% for the quarter, and non-GAAP tax rate was 17%.

In the December quarter, we had GAAP net income of $22.0 million or GAAP net income of $0.55 per diluted share. Our non-GAAP net income in the December quarter was $88.5 million, a decrease of 38% from the prior quarter and a 33% decrease from the same quarter a year ago. Non-GAAP EPS per diluted share of $2.20 was above the low end of our guidance range as the impact of lower revenue and gross margin was offset by lower operating expenses.

Now turning to the balance sheet.

We ended the quarter with $859 million of cash, cash equivalents, and short-term investments on hand; a decline of $53 million from the preceding quarter with cash flow from operations of $48 million, offset by $18 million of cash used for payroll taxes related to our equity compensation program, $16 million used for acquisitions, and $61 million of cash used under our share repurchase program.

Cash paid for capital expenditures was $9.1 million and depreciation for the quarter was $6.4 million.

Receivables at the end of December were $255 million and days of sales outstanding were 65 days, consistent with the prior year, but up from 57 last quarter. Days of inventory were 112, above 96 days last quarter and ending inventory balance of $177.5 million was down slightly from $179.4 million last quarter. During the last quarter, we have actively reduced orders to our suppliers and expect our inventory next quarter to decline further as we work to bring our inventory down to normal levels.

We bought back approximately 634 thousand shares in the quarter for an aggregate cost of roughly $61 million. Since restarting our buyback program in September and through today’s call, we have repurchased approximately one million shares for $100 million and have an additional

$477 million available under our current authorization. Our capital allocation priorities continue to be unchanged. Our balance sheet is healthy and we have sufficient cash to execute on tuck in acquisition opportunities that will enhance our product portfolio and help us expand further in our target markets. We plan to continue to utilize our excess cash flow for share repurchases and debt paydown absent any M&A activity.

Now, let me turn to our March quarter outlook.

The macro situation remains challenging and opaque. Our customers continue to react to the macro environment with their forecasts and are focused on reducing inventories. We continue to work with our customers and channel partners in mutually beneficial ways to manage pushouts and cancellation requests. We anticipate revenue for the March quarter to be in the range of $310 million to $340 million. A sequential decline of approximately 8% at the mid-point. We expect our revenue mix from IoT, PC, and Mobile products in the March quarter to be approximately 72%, 15% and 13%, respectively.

We are beginning to see early signs of inventories being worked down with sell-out greater than sell-in in most products. We expect customers will continue to deplete their inventory throughout the first half of calendar 2023 before returning to more normal run rates of consumption.

As previously communicated, we expect to maintain our strong gross margin profile, with GAAP gross margin for the March quarter expected to be in the range of 52.0% to 55.0%. We expect non-GAAP gross margin in the range of 60% to 62%, an improvement from the previous quarter as we expect to close the previously delayed deal during the March quarter adding approximately 100 basis points. We continue to believe that non-GAAP gross margin will trend toward our long-term target of 57% as we progress through the calendar year.

We expect GAAP operating expenses in the March quarter to be in the range of $139 million to $144 million, which includes intangibles amortization, prepaid development cost amortization, and share-based compensation.

We expect non-GAAP operating expense in the March quarter to be in line with our December results and be in the range of $98 million to $102 million. We remain committed to our focused investment areas and will continue to monitor our spending levels but believe our current levels balance both near-term pressures and long-term growth opportunities for the company.

As a result, GAAP net income per diluted share for our March quarter is expected to be in the range of $0.20 to $0.50. And, non-GAAP net income per diluted share is anticipated to be in the range of $1.65 to $2.05 per share, on an estimated 40 million fully diluted shares.

As a result of an increase in the interest rate on the variable portion of our debt, and partially offset by an increase in interest income on our invested cash, we expect non-GAAP net interest expense in the March quarter to be approximately $9 million.

Finally, we expect our fiscal 2023 and long-term non-GAAP tax rate to remain unchanged in the range of 16 to 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.

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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.