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SYNAPTICS – FOURTH QUARTER, FISCAL 2020 CONFERENCE CALL
Prepared Comments

JASON: SAFE HARBOR

Good afternoon and thank you for joining us today on Synaptics' fourth quarter, fiscal 2020 conference call. My name is Jason Tsai 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. 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 the Synaptics Form 10-K for the fiscal year ended June 29, 2019, 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, Jason, and I'd like to welcome everyone to today's call. I'm pleased to be speaking with all of you again today and report a solid quarter despite the ongoing global uncertainty with COVID-19. Our business in the quarter performed as expected and our continuing focus on managing things within our control has led to better gross margins and operating profitability. Our team worked hard and executed well despite the ongoing macro challenges. During the past quarter, we taped out four new chips for IoT, secured meaningful new design wins with tier-one customers across our different businesses, and we announced and closed two highly accretive acquisitions. This was certainly a busy quarter!

Dean will go over our financials in greater detail later but let me first share with you some of our accomplishments over the past 12 months. Our core business, our business excluding the Broadcom and DisplayLink transactions, continues to deliver strong results and the improvements and changes that we've put in place over the past year has really built a strong foundation for the company going forward. Over the past four quarters, gross margins are up almost 800 basis points while operating margins are up over 1300 basis points. As a result, we achieved record high GAAP and non-GAAP earnings per share for fiscal 2020.

We are more focused than ever before, divesting and exiting lower margin, more commoditized products such as Mobile LCD TDDI, and investing in more differentiated and higher margin solutions like OLED touch, edge SoCs, and video interface. Through these more focused investments and initiatives, we are working more closely with our customers, providing more complete solutions and capabilities to further their product roadmaps, technology leadership and innovation.

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Despite the ongoing challenges around the world, we are positioned to see strong growth this quarter as we continue to benefit from these fundamental improvements in our business.

As many of you saw, in July, we announced and closed on two highly accretive and synergistic acquisitions that we are uniquely positioned to benefit from. First, we acquired certain assets and manufacturing rights to Broadcom's wireless IoT connectivity business, adding Wi-Fi, Bluetooth and GPS connectivity solutions to our portfolio. This equips us with the best-in-class wireless connectivity solutions for the IoT market as well as additional roadmap products that will ensure technology leadership for years to come. Wireless connectivity is highly complementary to our existing IoT portfolio. In addition, many people at Synaptics, myself included, have intimate familiarity of the nuances of this business and, as a result, can anticipate the inevitable speedbumps while finding hidden opportunities. Second, we acquired DisplayLink, the undisputed leader in technology enabling universal docking stations. This is a financially compelling acquisition with significantly higher gross and operating margins and we can extract additional synergies given our own position in the market. I am extremely pleased with our teams' hard work in closing both acquisitions in a short time and am excited to share that we are already shipping in volume to customers in both cases. We are building a professional capability to rapidly identify and integrate acquisitions and extract synergies that ultimately generate incremental shareholder value.

Now, let me talk to you about our core business. As all of us spend more time at home, we are seeing a positive impact across multiple areas of our business. Our customers are aligning their investment dollars to capitalize on the macro trend. The expected near-term benefits are easily seen in the strength in our PC and video interface businesses but we are also seeing unexpected benefits with customers looking to broaden their offerings with solutions like headsets, speakers, soundbars and smart displays that enable consumers to make more of their time at home while still connecting with friends and family.

In IoT, we taped-out four platforms including two new edge SoC solutions. This includes the AS470 for voice enabled devices like smart speakers, and the VS640 for markets including set-top-boxes, media streamers and cameras. We are seeing strong interest for our latest Edge SoCs with service providers around the world looking to offer differentiated solutions that leverage the integration of voice, video, vision and AI capabilities that can uniquely define their products and services. We have secured wins with two different major US-based service providers, one for a smart display and one for a video set-top box.

We also taped-out two new video interface solutions. We announced Cayenne just last month and it has already led to a number of wins with PC OEMs and retail brands like Cable Matters for their USB-C dongle and docking station products. The second video interface tape-out is an upgrade to our highly successful Panamera product family that addresses commercial PC docking stations and increases our lead in this space.

In digital audio, our wired headset solutions have been strong as our solutions deliver premium voice and sound quality with active noise suppression.

In mobile, our touch controllers for OLED smartphones continue to find success with the top handset makers in the world due to our superior performance and features. As more smartphones adopt flexible on-cell

OLED panels, we are seeing stronger demand and the design pipeline for our touch controllers is increasing rapidly. This quarter, we have added to our already extensive customer list with several new wins at Oppo and Vivo in their upcoming smartphones. We expect to be able to talk about additional design wins at marquee customers by this time next quarter.

Separately, sales of our LCD DDIC remain stable as our key customer recently launched their highly anticipated, low-end LCD smartphone last quarter, which has enjoyed widespread customer adoption.

In PC, we continue to benefit from the increase in work from home and this business achieved record revenue and profitability in the June quarter. Demand for both commercial and consumer laptops remains strong and we believe this strength will be sustained this quarter.

Overall, I am very pleased with our execution over both the last three months and the entire fiscal year. Our team has done an outstanding job staying focused and engaged with our customers and we have a strong pipeline of new wins that will drive long-term growth. Our new acquisitions will create significant opportunities to increase content at our existing customers and expand the number of markets in which we play. I'm excited by both our backward looking results and our forwarding looking prospects!

Now let me turn the call over to Dean to review our fourth quarter financials and provide our outlook.

DEAN: FINANCIAL RESULTS

Thanks Michael, and good afternoon to everyone.

First, I'll start with a review of our financial results for our recently completed quarter, then provide our current outlook for our fiscal Q1.

Before I begin, I'd like to remind everyone that on April 16th, at the beginning of our fourth quarter, we completed the sale of our Mobile LCD TDDI business and our results exclude any contributions from that business as of that date. In some cases, such as comparison to prior periods, this creates an apples-to-oranges comparison.

Revenue for the fourth quarter of fiscal 2020 of $278 million was slightly above the mid-point of our guidance range, down 15% from the preceding quarter, and down 6% from the same quarter last fiscal year. This is primarily due to the divestment of our TDDI business that closed early in the fourth quarter. Adjusting for the TDDI divestment, results in our fourth quarter were up 36% on a same quarter year-over-year comparison and nearly flat on an adjusted quarter-on-quarter basis.

In the quarter, we had three customers above 10% of revenue, at 21%, 13% and 10%.

For the June quarter, our GAAP gross margin was 43.9%, at the high-end of our guidance range and includes $8.1 million of intangible asset amortization.

GAAP operating expenses in the June quarter were $109.8 million, which includes share-based compensation of $16.2 million, intangibles amortization of $2.9 million, restructuring expenses of $6.8 million, and retention program costs of $2.9 million.

GAAP other income for the quarter included a $105.1 million gain on the sale of our Mobile LCD TDDI product line. And we accrued a GAAP tax expense in the quarter of $21.3 million, bringing the fiscal 2020 GAAP tax rate to 24.2%.

GAAP net income for the quarter was $90.0 million, or net income of $2.55 per diluted share.

On a non-GAAP basis, our June quarter gross margin of 46.9% was at the high end of our guidance range as we continue to execute on our ongoing cost savings initiatives and improved product mix, primarily reflecting the impact of our TDDI divestiture.

The June quarter non-GAAP operating expenses were below our guidance range at $79.8 million and down $6.9 million from the preceding quarter; primarily reflecting the benefit of the divestment of TDDI and savings from restructuring activities initiated in the first half of the fiscal year.

Our non-GAAP tax rate for the quarter and year-to-date period was 12%.

Non-GAAP net income for the June quarter was $43.8 million, or $1.24 per diluted share – a 230% increase year-over-year as we continue to focus on improved bottom-line results.

Now turning to our balance sheet

We ended the quarter with approximately $763 million of cash on hand, an increase of $291 million from the prior quarter, primarily driven by the addition of $139 million from the sale of our mobile LCD TDDI product line, $100 million from the drawdown from our revolver facility and $53 million in cash flow from operations during the quarter.

Receivables at the end of the June quarter were $195 million and DSOs were 63 days. Inventories were $102 million and inventory days were 62.

Capital expenditures for the quarter were $4.6 million, and depreciation was $4.8 million.

Before I turn to our guidance, let me make note of a two of post-quarter end transactions that will drive our ability to continue to improve profitability while expanding our ability to more broadly serve our customers to drive long-term growth.

We closed our acquisition of certain rights to Broadcom's wireless IoT connectivity business on July 23rd. We also closed our acquisition of DisplayLink on July 31st. Both of these transactions were closed with cash available on our balance sheet and position us well to execute on our longer-term targets for higher growth and profitability. Given the timing of these transactions, we will provide our outlook for both our newly consolidated business as well as for our core business that excludes these two acquisitions for the September quarter. Our core business continues to be strong as new designs ramp and sales for existing products continues to be robust. For future quarters, we will only be providing the consolidated business results and outlook.

Before I provide our outlook, let me first note that we are unable to provide a reconciliation of these forward-looking non-GAAP financial measures to their respective comparable GAAP financial measures because, without unreasonable efforts, we are unable to predict with reasonable certainty the amount or timing of certain adjustments that are used to reconcile to these non-GAAP financial measures.

Our post-acquisition consolidated business outlook for the September quarter revenue is expected to be in the range of $315 million to $335 million. We expect our two acquisitions to add about $30 million for roughly two months of revenue, better than what we had forecasted when we announced the acquisitions last month. For the quarter we expect the consolidated revenue mix from Mobile, IoT, and PC products to be 42%, 32% and 26%, respectively.

Non-GAAP gross margin is expected to be 47.5% to 49.5%, reflecting strength in our existing business and the positive impact from the newly acquired businesses.

Including the additional operating expenses from the acquisitions and before any significant synergy capture, our non-GAAP operating expenses are expected to be $87 million to $90 million.

We anticipate our non-GAAP tax rate post-acquisition to remain in the range of 11% to 13%.

Non-GAAP net income per diluted share for the September quarter is anticipated to be in the range of $1.50 to $1.80 per share.

Now turning to our core business, our backlog entering the September quarter is approximately $257 million. We anticipate our core business revenue for the September quarter to be strong and be in the range of $285 million to $305 million. We continue to see near-term strength in our PC-related business with greater than 25% year-on-year growth, mobile business growing by nearly 15% sequentially, and IoT sales beginning to stabilize.

Non-GAAP gross margins for our core business, prior to the effects from our acquisitions continues to perform extremely well and is expected to be between 46% and 48% reflecting continued execution on our margin improvement initiatives.

We expect non-GAAP operating expenses for core Synaptics in the September quarter to be in the range of $76 million to $79 million, also reflecting an active focus on controllable operating expense reduction.

For core Synaptics, non-GAAP net income per diluted share for the September quarter is anticipated to contribute in the range of $1.30 to $1.60 per share as our emphasis on building a more profitable business bears fruit.

In summary, the operational improvements and focus on execution resulted in a record year for earnings per share in fiscal year 2020. Building upon this foundation, we will drive further profitability improvements across our core business as well as the newly combined business as we extract additional synergies throughout fiscal year 2021 and beyond.

This wraps up our prepared remarks, so I'd like to now turn the call over to the operator to start the Q&A session.

Operator?

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.