SYNAPTICS – FOURTH QUARTER, FISCAL 2021 CONFERENCE CALL
Prepared Comments

STEVE T: SAFE HARBOR

Good afternoon and thank you for joining us today on Synaptics' fourth quarter, fiscal 2021 conference call. 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 related 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 and our most recent Quarterly Report, 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

Great job Steve and welcome everyone to today's call. We had an exceptionally strong end to our fiscal year 2021 and I'm pleased with the continued execution of our strategy of IoT diversification and profitable growth. Revenue for the June quarter was higher than the mid-point of our prior guidance and was significantly above normal seasonal trends driven by our intentional shift toward a diversified portfolio and customer base. As IoT growth continued, profitability remained strong resulting in another record quarter for both GAAP and non-GAAP gross margins. Our non-GAAP net income and EPS exceeded the high end of our guidance range, a result of our structural portfolio improvements coupled with discipled spending. Our non-GAAP operating margin was greater than 30% in the quarter as we continue to improve upon our efficient financial model.

One of the key pillars of our successful transformation strategy has been the pivot of our focus from the mobile market to IoT. We now have a broad range of market leading products for IoT, encompassing automotive, audio, video, docking, and wireless applications. As a result, our IoT business has grown significantly with revenue in this category now contributing more than 50% of our quarterly sales. Meanwhile, our mobile products, which once comprised in excess of 80% of our total revenue, now represent approximately 25% of our quarterly sales. While the development of touch and display driver technologies will continue to be important, our goal will be to operate mobile at 20-25% of our revenue mix.

A second but equally important pillar of our strategy is to build and grow our portfolio with high value, market leading products. We continue to believe that gross margin provides the best correlation to product value. Over the past 24 months, our non-GAAP gross margins have increased by more than 1,800 basis points, an incredible achievement, one that we believe less than a handful of companies in any industry can claim to match. This accomplishment is all the more impressive as it was attained in a mere 8 quarters. Our fundamentals have never been stronger, and we see clear avenues for organic growth in all three areas of our portfolio.

Finally, I'd like to introduce our updated mission statement, one that unifies all the elements of our portfolio: to engineer exceptional experiences for consumers whether they are at home, in the office, in their car, or on the go. I am pleased to report that our strategy of building experience-centric products has resulted in increased traction in cross-selling our full portfolio, with more than half of our top 20 customers buying 3 or more distinct technology categories from Synaptics. As an example, in order to count, a customer would have to buy audio, wireless, and display drivers from us. On the other hand, a customer buying three generations of touch ICs would not count.

Now let me update you on our business.

In IoT, we continue to build momentum in our world class wireless connectivity products with numerous new wins spanning a broad range of applications. Our recent efforts in establishing and expanding our sales channel utilizing our strategic module partner Ampak has enabled us to rapidly access and support a growing customer base. Through this partnership and other ecosystem engagements, we've doubled our revenue over the past 12 months with wins in home automation, surveillance, video doorbells, wearables and fitness related applications to name a few. Our best in class Wi-Fi 6 and Bluetooth combo chipsets are seeing great traction with customers designing new solutions or upgrading their existing products. We have also secured several new design wins with our GPS solutions, particularly in wearables. Given our pace of success, we see a path to doubling once more in the next 18 months.

Our Audio franchise continues to be recognized for its industry leading performance, particularly in adaptive noise cancellation and 3D sound simulation. Our feature set gives us advantages in high-fidelity headsets where we have seen significant traction over the last year with many consumers, call centers, and enterprises upgrading their audio solutions. As people return to work in a hybrid environment, we expect continued strength in our devices for high-end headsets along with new opportunities for our certified audio solutions for collaboration environments such as Microsoft Teams and Zoom.

In Automotive, our display and touch solutions are now either in production or qualified on 45 car models at more than 20 OEMs that include US, European, Korean and Japanese auto manufacturers, as well as many of the EV startups. As the center console evolves into a richer and more interactive media center, Synaptics is well positioned to capture a significant portion of this market with an anticipated increase in our silicon and dollar content per vehicle. Automotive is now one of our fastest growing product areas and I am pleased to update you that we are now ahead of plan by almost a full year and expect to achieve our $100 million annual revenue goal by the end of fiscal 2022.

In video interface, demand for protocol converters is strengthening with Synaptics being first to market with full support of the HDMI 2.1 standard. Our new dual-chip solution combining both DisplayLink and DisplayPort technologies represents the only solution in the market offering connectivity for up to four 4K displays spanning standard desk setups to enterprise-class workspaces. Our Cayenne family, which has been successfully incorporated into several protocol adapters, is seeing new traction in notebook motherboard designs with native support for 8K resolution. As companies return to the office, we see an increased focus on flexible meeting room controllers using our technology. In addition, our universal docking solutions from DisplayLink solve many of the problems that can arise in hoteling and, as a result, continues to see strong demand.

Lastly, to close out the IOT discussion, I would like to give a brief update on our Low Power Edge AI initiatives. While still early in the cycle, we believe many devices in the future will continue to get smarter than they are today by incorporating machine learning and AI technologies on the device itself rather than relying on the cloud. We see opportunities and have already begun deploying advanced AI algorithms into many of our new products across all our markets such as neural network-based fingerprint matching, advanced AI-based face detection in tablets and smartphones, and AI-assisted video compression algorithms. We are also seeing broad initial interest in our Katana platform which is our standalone AI offering that targets low power battery operated applications. It is our belief that many of these intelligent edge use cases will become a significant opportunity for Synaptics over the long term.

Turning now to our PC products, we continue to benefit from growing demand as the notebook computer gets increasingly woven into our daily fabric as an essential productivity tool. As many companies focus on returning to the office, we expect to benefit from our leadership position in enterprise class notebooks. In the high-end consumer class, we are seeing momentum in Force and Haptics enabled touchpads utilizing our Vulcan chipset. As previously discussed, our recent initiatives addressing the Chromebook market continue to be a greenfield growth opportunity for the company.

Finally, let me give you an update on our mobile products. We are now in high volume production with our second-generation OLED touch controller and are set to roll out a third-generation which will further extend our performance leadership. Our technical advantages have led to meaningful diversification of our mobile customer base, including an additional design win with a large Korean handset OEM bringing our total with this customer to three, two of which have already begun shipping. In addition, we continue to win the majority of new flagship designs using flexible OLED panels with Chinese handset OEMs. We have also made significant progress with our high-end OLED Display Driver products, having secured two wins with Chinese handset makers with expected production in calendar 2022.

Overall, I'm extremely happy with the strength of our portfolio and quite optimistic about our prospects as we begin our new fiscal year. Despite the turmoil the semiconductor shortage has created, we find ourselves in an increasingly positive standing with our customer base, our technology continues to drive design wins in the marketplace, and we have built a strong team ready to support our customers' needs.

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

DEAN: FINANCIAL RESULTS

Thanks Michael, and good afternoon to everyone.

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

For the full year fiscal 2021, net revenue of $1.34 billion was flat to the prior year of $1.33 billion. During the year our mobile products declined as previously discussed driven by our large North American OEM, which was offset by significant growth in our focused IoT products and our PC products which both grew double-digit compared to the prior year. Gross margin for the company's products continued to expand with GAAP gross margin for fiscal year 2021 of 45.6% compared to 40.7% in the prior year; and non-GAAP gross margin of 53.6% compared to 43.7% in the prior year as we concentrated on delivering higher value products to our customer base. GAAP net income for the recently completed fiscal year was $79.6 million or $2.08 per diluted share compared to the prior year of $118.8 million or $3.41 per diluted share. Non-GAAP net income for the recently completed fiscal year was a record $316.4 million or $8.26 per diluted share compared to the prior year of $207.2 million or $5.95 per diluted share, a 53% year-over-year improvement.

Revenue for the recently completed June quarter was $328 million, slightly above the mid-point of our guidance. Revenue was up 1% sequentially which is significantly better than our typical seasonality which reflects the increased diversification of our business and end-markets; and up 18% year-over-year with our IoT products delivering significant growth from both new and existing customers.

IoT continues to be our largest product group, accounting for 50% of revenue in the quarter while PC accounted for 26%, and Mobile accounted for 24%. Our IoT revenue was up 13% sequentially and up 143% compared with the year-ago quarter as we benefited from the acquisitions made last year. Removing the impacts for any acquisition related strength, our organic IoT products were up nearly 30% year-over-year as our design win pipeline ramps into production. PC product revenue was down 14% sequentially and down 5% year-over-year as many of our customers were constrained by a shortage in other components. Revenue from our Mobile products was down 4% sequentially as expected due to seasonality in this market, and down 35% year-over-year.

During the quarter, we had one customer above 10% of revenue, at 17%.

For the June quarter, our GAAP gross margin was a company record 52.1%, which includes $16.9 million of intangible asset amortization and $800,000 of share-based compensation costs.

GAAP operating expenses in the June quarter were $119.9 million, which includes share-based compensation of $22.3 million; acquisition and integration related costs of $8.6 million consisting of intangibles amortization, amortization of prepaid development costs of $2.5 million and restructuring related costs of $300,000.

During the quarter we incurred an impairment charge of $7.7 million on a prior equity investment in a small startup company.

Our GAAP tax expense was $15.0 million for the quarter.

In the June quarter we had GAAP net income of $19.0 million, or a GAAP net income of $0.48 per share.

Now turning to our non-GAAP results:

Our June quarter non-GAAP gross margin of 57.5% 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.

June quarter non-GAAP operating expenses were at the low end of our guidance at $86.2 million, down $1.2 million from the preceding quarter as we continue to manage to responsible spending levels. As a result, our non-GAAP operating margin of 31.2% in the quarter was a company record.

Our non-GAAP tax expense was $11.9 million for the quarter.

We had non-GAAP net income in the June quarter of $86.6 million, an increase of 9% from the prior quarter and an increase of 98% from the same quarter a year ago; and EPS of $2.18 per diluted share as our focus on profitable growth continues to drive positive earnings for our shareholders.

Now, turning to our balance sheet.

We ended the quarter with $836 million of cash on hand, an increase of $80 million from the preceding quarter; driven by $105 million of cash generated from operations during the quarter, partially offset by the settlement of a small number of convertible noteholders who elected to optionally redeem $19 million in principal value during the June quarter.

Additionally, on June 1st 2021 the company served notice to all convertible note holders of our intention to redeem in full any and all outstanding notes following the process outlined in our 2017 notes indenture. The company elected to redeem for cash consideration the full face-value of the notes and settle any in-the-money value with shares issuable from the company's existing treasury stock holdings. This process concluded on August 4th 2021 after the company's quarter end and resulted in the issuance of approximately 3.5 million shares and the payment of approximately $506 million in cash consideration. As a reminder, each quarter we include these in-the-money shares into our fully diluted share count and have been incorporated into our quarterly guidance, therefore have been comprehended in our results were appropriate.

Following this transaction, the company's balance sheet is extremely healthy with gross leverage roughly 1x adjusted EBITDA and net leverage approximately 0.8x with the company's remaining debt maturing in 2029.

Given our strong cash flow generation and improved balance sheet, the Synaptics Board of Directors have authorized the extension of our Stock Repurchase plan, extending its expiration for an additional four years and increasing the authorization by an incremental $400 million, bringing the new available authorization to $577 million. We will continue to deploy our capital in accordance with our priorities previously outlined, first investing in organic growth initiatives, secondly pursuing inorganic means of expanding our product portfolio, third managing our debt commitments in a prudent manner, and finally continuing our share repurchase program to return excess cash flow back to shareholders.

Receivables at the end of June were $228 million and days of sales outstanding was 63 days. Our days of inventory was 53, up from last quarter and ending inventories were $82 million. However, inventory remains below our desired level due to continued supply chain constraints.

Capital expenditures for the quarter were $5.6 million, and depreciation was $6.1 million.

Now, turning to our outlook

We enter our fiscal year with strong customer demand for our products and increased visibility with more than 90% backlog coverage of our anticipated full year fiscal 2022 revenues.

We anticipate revenue for the September quarter to be in the range of $355 million to $385 million. Similar to last quarter, our backlog at the start of the quarter was above the top end of our guidance range as we continue to experience supply constraints that limit our ability to service our customer’s full demand.

We expect our revenue mix from IoT, PC and Mobile products in the September quarter to be approximately 51%, 24%, and 25%, respectively. Our expectation incorporates our IOT products growing an estimated 65% on a year-over-year basis, significantly faster than the market, and as communicated during last quarter’s call our Mobile products bottomed in the June quarter and are anticipated returning to growth beginning with the September quarter. We continue our cautionary approach to our PC guidance given the supply volatility this area seems to be experiencing; however, we believe the September quarter is likely to be up roughly 10% on a year-over-year comparison as Enterprise class notebooks continue to perform well.

I will now provide GAAP outlook for our September quarter and will follow with non-GAAP outlook:

We expect our GAAP gross margins to be in the range of 52.0% to 53.5%.

We expect our GAAP operating expenses in the September quarter to be in the range of $123.0 million to $128.0 million, which includes acquisition related charges for intangibles and prepaid development cost amortization, share-based compensation, and restructuring costs. We also expect a one-time GAAP charge related to the early retirement of our convertible notes of approximately $8 to $9 million.

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

Finally, our GAAP net income per share for our first quarter is expected to be in the range of $0.85 to $1.15.

Now the non-GAAP outlook for our September quarter:

We expect to maintain our non-GAAP gross margin momentum into the September quarter and be between 57% to 58% which is ahead of all prior plans as we prioritize and deliver to a positive mix.

We expect non-GAAP operating expenses in the September quarter to remain consistent with the past several quarters and be in the range of $87 million to $90 million.

We expect our non-GAAP net interest expense to be approximately $4.5 million in the September 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 September quarter is anticipated to be in the range of $2.45 to $2.75 per share, on an estimated 40.5 million dilutive shares, which includes the shares issued as part of our redemption of the convertible notes.

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?

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.