SYNAPTICS – THIRD QUARTER, FISCAL 2021 CONFERENCE CALL
Prepared Comments

JASON: SAFE HARBOR

Good afternoon and thank you for joining us today on Synaptics' third quarter, fiscal 2021 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 27, 2020, 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 welcome to today's call. We had a strong start to 2021 and I'm very pleased with our execution this quarter. Revenue was in line with our guidance and our continuing efforts to drive IoT growth led to better than normal revenue seasonality. With IoT now established as our largest product group, profitability remained strong and contributed to another record quarter for non-GAAP gross margins. Coupled with disciplined spending, our non-GAAP net income and EPS results were at the high-end of our guidance range.

Since Dean and I joined Synaptics a year and a half ago, we have made meaningful strides in improving the financial foundation of the company. Our non-GAAP gross margins and operating margins have increased significantly as we shifted our focus and investments towards higher margin products. Additionally, we have built a strong backlog of new design wins across all our product areas. We have been able to capture new customers in our existing footprint and expand into adjacent markets, setting us up for future revenue growth. Our profitability has never been better and with our strong balance sheet, we are well positioned to pursue growth aggressively, both organically and inorganically.

Now let me update you on our business.

In IoT, we continue to aggressively expand and diversify our customer base and end markets across all our product lines. With our strong backlog and design win momentum, we are increasingly confident that we can outpace the 10-15% industry growth rate. Despite the ongoing impact of supply constraints, we have outsized customer traction that enables us to deliver strong, sustainable revenue growth.

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Let me share some highlights from our IoT portfolio this quarter. Our wireless connectivity solutions continue to scale quickly as many of the new design wins we have secured over the past nine months in home automation, streaming devices and smart watches are beginning to ramp into production. We are on track this quarter to double the quarterly revenue run-rate for these products from when we closed the acquisition in July of last year, significantly exceeding our expectations. We are confident that the trajectory continues as we begin to market the innovative roadmap products developed for us by Broadcom.

Our video interface products continue to outperform as demand for docking stations remains strong. As companies begin returning to the office, many will be shifting to a hybrid model where office hoteling becomes more important facilitating reduced corporate real estate needs. Our universal docking solutions from DisplayLink solve many of the problems that can arise in hoteling and, as a result, we have seen strong demand. Our traditional 1:1 docks are also selling well, tied largely to the surge in PC unit sales. New for us is our entry into the protocol adapter and portable docking markets. Cayenne, a chip we announced nearly a year ago is seeing tremendous traction, opening up a whole new opportunity within the market. Several products featuring Cayenne are already shipping in retail. We plan to continue to develop products for lower end, higher volume applications in order to extend our video interface franchise.

Our edge SoC wins with our two Korean service providers are expected to start production this quarter. We expect an additional four set-top box designs to enter production before the end of this year. Finally, in automotive, we expect additional cars with our TDDI solutions will be on the road from a number of OEMs in the US, Europe and China as the new model year begins production in the fall.

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Now let me turn to our PC products. This was another record quarter as we performed significantly better than our typical seasonality. We continue to benefit from the ongoing strength in the broader PC market, but also are winning new designs, particularly in Chromebooks. We started shipping to our first Chromebook customer last quarter and have followed that with new wins at two of the top three PC OEMs that are expected to be in production later this year. Our ability to take cost out of these products enables us to compete and grow share in our core Touchpad and Fingerprint markets at reasonable margins. Meanwhile, we continue to look for opportunities to expand ASPs with more complex large touchpad designs and innovative keypad fingerprint solutions.

Finally, let me give you an update on our mobile products. Our focus on delivering best-in-class touch solutions for the flexible OLED market continues to result in design wins. We are now ramping our second-generation controller to high volume production, thereby extending our performance lead. Those technical advantages have led to meaningful diversification for our mobile products, including our second win with a large Korean handset OEM for an upcoming midrange phone. In addition, we continue to win the significant majority of the new flagship-class designs for OLED touch with Chinese handset OEMs. Our two wins with the Korean OEM will begin shipping this quarter while the additional wins with the Chinese OEMs will ramp throughout this year and into next calendar year.

Overall, I'm extremely happy with the start to 2021. Not only are we winning 'repeat business', but we are beginning to take share from our competitors and are finding new markets to sell into. Due to our solid gross margins, for the first time, we can take the offensive in the market aggressively drive revenue. We will continue to practice the discipline that has carried the company for the last 6 quarters but will have a renewed focus on design wins and top-line growth.

Now let me turn the call over to Dean to review our third 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 Q4.

Revenue for the March quarter was $326 million, slightly above the mid-point of our guidance. Revenue was down 9% sequentially but performed better than typical seasonality, reflecting the increasing diversification of our business and end-markets.

During the quarter, we had two customers above 10% of revenue, at 13% and 11%.

IoT continues to be our largest product group accounting for 45% of revenue in the quarter while PC accounted for 30%, and Mobile accounted for 25%. Our IoT revenue was down 6% sequentially and up 101% compared with the year-ago quarter as we benefited from the two new acquisitions we made last year and as new design wins continue to ramp up across our IoT portfolio. This was another record quarter for our PC products, with revenue up 8% sequentially to $98 million and up 25% year-over-year as work-from-home and now return-to-the-office demand continues to drive strong PC sales globally. Revenue from our Mobile products was down 27% sequentially due to seasonality and down 54% year-over-year.

For the March quarter, our GAAP gross margin was 47.7%, which includes $18.9 million of intangible asset amortization, $4.3 million in acquisition related inventory step-up charges, and $800,000 of share-based compensation costs.

GAAP operating expenses in the March quarter were $123.9 million, which includes share-based compensation of $24.3 million; acquisition and integration related costs of $8.7 million consisting of intangibles amortization, amortization of prepaid development costs of $2.5 million and restructuring related costs of $1 million.

Our GAAP tax expense was $10.4 million for the quarter.

In the March quarter we had GAAP net income of $13.8 million, or GAAP net income of $0.35 per share.

Now turning to our non-GAAP results:

Our March quarter non-GAAP gross margin of 55.1% was a record for the company and above the high-end of our guidance range, reflecting a stronger than expected product mix towards IoT during the quarter.

March quarter non-GAAP operating expenses were in line with the mid-point of our guidance at $87.4 million, down $2.5 million from the preceding quarter.

Our non-GAAP tax expense was $12 million for the quarter.

We had a non-GAAP net income and EPS for the March quarter of $79.3 million and $2.03 per diluted share respectively 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 $756 million of cash on hand, an increase of $439 million from the cash and short-term investment balance of the preceding quarter; driven by the issuance of $400 million of debt and a company record $136 million of cash generated from operations during the quarter, offset by the payoff during the quarter of $100 million that was previously outstanding under our revolver.

Receivables at the end of March were $234 million and days of sales outstanding was 65 days. Our days of inventory was 42, slightly up from last quarter and ending inventories were $69 million. Inventory remains low relative to historic levels and below our desired level due to continued supply chain constraints.

Capital expenditures for the quarter were $3.3 million, and depreciation was $5.3 million.

Now, turning to our outlook for the fourth quarter.

We anticipate revenue for the June quarter to be in the range of $310 million to $340 million. Similar to last quarter, our backlog at the start of the quarter was more than 100% of our guidance range as everyone in the semiconductor industry continues to weather the supply constraints that limit our ability to service our customers' full demand.

We expect our revenue mix from IoT, PC and Mobile products in the June quarter to be approximately 49%, 27%, and 24%, respectively. We expect our business will perform better than historic seasonality as IoT is expected to grow sequentially while PC is expected to decline due to anticipated component shortages at these customers.

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

We expect our GAAP gross margins to be in the range of 50.0% to 52.0%.

We expect our GAAP operating expenses in the June quarter to be in the range of $121 million to $125 million, which includes acquisition related charges for intangibles and prepaid development cost amortization, stock-based compensation, and restructuring costs.

We expect our Q4 YTD GAAP tax rate to be approximately 18-20%.

Finally, we expect our GAAP net income per share for the fourth quarter to be in the range of $0.45 to $0.75.

Now for the non-GAAP outlook for our June quarter:

We expect non-GAAP gross margin in the June quarter to increase to be between 55.5% to 57.5% as we anticipate benefitting from an unusually favorable product mix that is not sustainable. As Michael indicated in his remarks, we are turning our focus toward driving growth going forward while targeting our gross margins to remain near the current level of 55% in the near-term. We remain committed to sustainably achieving the financial targets we provided last quarter on a longer-term basis.

We expect non-GAAP operating expenses in the June quarter to remain flat relative to the third quarter and be in the range of $86 million to $89 million.

We expect our non-GAAP net interest expense to be approximately $5 million in the June quarter. As a reminder, we issued $400 million of

4.000% fixed coupon debt in March, which will result in $4.0 million of quarterly cash-based interest expense in addition to the interest expense from our existing $525 million convertible notes.

We expect our long-term non-GAAP tax rate for fiscal 2021 to continue to be in the range of 11% to 13%.

Non-GAAP net income per diluted share for the June quarter is anticipated to be in the range of $1.85 to $2.15 per share, on an estimated 40.0 million dilutive shares for Q4, reflecting the anticipated impact of a higher share price used to determine shares potentially issuable related to our outstanding 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 virtual investor conferences during the quarter.