Synaptics Reports Third Quarter Fiscal 2023 Results

Date

May 03, 2023

Q3'23 Financial Results and Recent Business Highlights

- Revenue of $326.6 million
- GAAP gross margin of 52.8 percent
- Non-GAAP gross margin of 60.3 percent
- GAAP diluted earnings per share of $0.26
- Non-GAAP diluted earnings per share of $1.89
- Synaptics board of directors authorizes $500 million increase in share repurchase program

SAN JOSE, Calif., May 03, 2023 (GLOBE NEWSWIRE) -- Synaptics Incorporated (Nasdaq: SYNA), today reported financial results for its third quarter of fiscal 2023 ended March 25, 2023.

Net revenue for the third quarter of fiscal 2023 was $326.6 million. GAAP net income for the third quarter of fiscal 2023 was $10.4 million, or $0.26 per diluted share. Non-GAAP net income for the third quarter of fiscal 2023 was $75.3 million, or $1.89 per diluted share.

"In a challenging and deteriorating economic environment, Synaptics delivered third quarter results better than our expectations. Our design activity continues to increase with a keen focus on our core wireless, automotive, and video conversion product families which we expect to drive growth. We have positioned the company for the long-term and are confident in our market opportunities and the return to baseline business levels once we get past this inventory correction," said Michael Hurlston, Synaptics' President and CEO.

Business Outlook
Dean Butler, Chief Financial Officer of Synaptics, added, "Customer forecasts are being moderated in response to the current economic slowdown. At the same time, inventories are being worked down across the entire supply chain. As a result, we expect our June quarter revenue to decline sequentially, and we have begun to implement spending controls. Synaptics continues to generate strong cash flows and is increasing the size of its share repurchase program as we look to growth beyond this near-term headwind."

For the fourth quarter of fiscal year 2023, the company expects:

	GAAP	Non-GAAP Adjustment	Non-GAAP
Revenue	$210M to $240M	N/A	N/A
Gross Margin*	44.0 percent to 47.0 percent	$26M	56.0 percent to 58.0 percent
Operating Expense**	$138M to $143M	$40M to $41M	$98M to $102M

*Projected Non-GAAP gross margin excludes $25.0 million of intangible asset amortization and $1.0 million of share-based compensation.

**Projected Non-GAAP operating expense excludes $31.0 million to $32.0 million of share-based compensation, and $9.0 million of intangible asset amortization.

Earnings Call and Supplementary Materials
The Synaptics third quarter 2023 teleconference and webcast is scheduled to begin at 2:00 p.m. PT (5:00 p.m. ET), on Wednesday, May 3, 2023, during which the company will provide forward-looking information, and may discuss or disclose material business, financial, or other information beyond what is provided here.

Speakers:

- Michael Hurlston, President and Chief Executive Officer
- Dean Butler, Chief Financial Officer

To participate on the live call, analysts and investors should pre-register at **Synaptics Q3 FY2023 Earnings Call Registration**. (https://register.vevent.com/register/BI0c52a5a0131744a3b66067fb8f009deb). Supplementary slides, a copy of the prepared remarks, and a live and archived webcast of the conference call will be accessible from the "Investor Relations" section of the company's Website at https://investor.synaptics.com/.

Share Repurchase Program

Synaptics also announced today that its board of directors has authorized a $500 million increase in the company's existing share repurchase program, which expires in July 2025. The company has now cumulatively authorized the repurchase of up to $2.3 billion of common stock, of which approximately $977 million remains available for repurchase. Purchases may be made in the open market or in privately negotiated transactions, depending upon market conditions and other factors. The number of shares purchased, and the timing of purchases, are based on the level of Synaptics' cash balances, general business and market conditions, and other factors. Common stock purchased under this program is held as

treasury stock.

About Synaptics Incorporated:
Synaptics (Nasdaq: SYNA) is changing the way humans engage with connected devices and data, engineering exceptional experiences throughout the home, at work, in the car and on the go. Synaptics is the partner of choice for the world's most innovative intelligent system providers who are integrating multiple experiential technologies into platforms that make our digital lives more productive, insightful, secure and enjoyable. These customers are combining Synaptics' differentiated technologies in touch, display and biometrics with a new generation of advanced connectivity and AI-enhanced video, vision, audio, speech and security processing. Follow Synaptics on LinkedIn, Twitter and Facebook, or visit synaptics.com.

Use of Non-GAAP Financial Information
In evaluating its business, Synaptics considers and uses Non-GAAP Net Income, which we define as net income excluding share-based compensation, acquisition related costs, and certain other non-cash or recurring and non-recurring items the company does not believe are indicative of its core operating performance as a supplemental measure of operating performance. Non-GAAP Net Income is not a measurement of the company's financial performance under GAAP and should not be considered as an alternative to GAAP net income. The company presents Non-GAAP Net Income because it considers it an important supplemental measure of its performance since it facilitates operating performance comparisons from period to period by eliminating potential differences in net income caused by the existence and timing of share-based compensation charges, acquisition related costs, and certain other non-cash or recurring and non-recurring items. Non-GAAP Net Income has limitations as an analytical tool and should not be considered in isolation or as a substitute for the company's GAAP net income. The principal limitations of this measure are that it does not reflect the company's actual expenses and may thus have the effect of inflating its net income and net income per share as compared to its operating results reported under GAAP. In addition, the company presents components of Non-GAAP Net Income, such as Non-GAAP Gross Margin, Non-GAAP operating expenses and Non-GAAP operating margin, for similar reasons.

As presented in the "Reconciliation of GAAP Financial Measures to Non-GAAP Financial Measures" tables that follow, Non-GAAP Net Income and each of the other Non-GAAP financial measures excludes one or more of the following items:

Acquisition related costs
Acquisition related costs primarily consist of:

- amortization of purchased intangibles, which includes acquired intangibles such as developed technology, customer relationships, trademarks, backlog, licensed technology, patents, and in-process technology when post-acquisition development is determined to be substantively complete;
- inventory adjustments affecting the carrying value of inventory acquired in an acquisition;
- transitory post-acquisition incentive programs negotiated in connection with an acquired business or designed to encourage post-acquisition retention of key employees; and
- legal and consulting costs associated with acquisitions, including non-recurring post-acquisition costs and services.

These acquisition related costs are not factored into the company's evaluation of its ongoing business operating performance or potential acquisitions, as they are not considered as part of the company's principal operations. Further, the amount of these costs can vary significantly from period to period based on the terms of an earn-out arrangement, revisions to assumptions that went into developing the estimate of the contingent consideration associated with an earn-out arrangement, the size and timing of an acquisition, the lives assigned to the acquired intangible assets, and the maturity of the business acquired. Excluding acquisition related costs from Non-GAAP measures provides investors with a basis to compare Synaptics against the performance of other companies without the variability and potential earnings volatility associated with purchase accounting and acquisition related items.

Share-based compensation
Share-based compensation expense relates to employee equity award programs and the vesting of the underlying awards, which includes stock options, deferred stock units, market stock units, performance stock units, phantom stock units and the employee stock purchase plan. Share-based compensation settled with stock, which includes stock options, deferred stock units, market stock units, performance stock units and the employee stock purchase plan, is a non-cash expense, while share-based compensation settled with cash, which includes phantom stock units, is a cash expense. Settlement of all employee equity award programs whether settled with cash or stock varies in amount from period to period and is dependent on market forces that are often beyond the company's control. As a result, the company excludes share-based compensation from its internal operating forecasts and models. The company believes that Non-GAAP measures reflecting adjustments for share-based compensation provide investors with a basis to compare the company's principal operating performance against the performance of peer companies without the variability created by share-based compensation resulting from the variety of equity-linked compensatory awards used by other companies and the varying methodologies and assumptions used.

Amortization of prepaid development costs
Amortization of prepaid development costs represents the amortization of the estimated cost to develop certain future roadmap devices designed in advance process nodes in connection with an acquisition. The amortization of prepaid development costs represents a non-cash charge. As a result, the company excludes amortization of prepaid development costs from its internal operating forecasts and models when evaluating its ongoing business performance. The company believes that Non-GAAP measures reflecting adjustments for amortization of prepaid development costs provide investors with a basis to compare the company's principal operating performance against the performance of other companies without the variability created by the amortization of prepaid development costs.

Restructuring costs
Restructuring costs are costs incurred to address cost structure inefficiencies of acquired or existing business operations and consist primarily of employee termination and office closure costs, including the reversal of such costs. These costs are generally cash-based. As a result, the company excludes restructuring costs from its internal operating forecasts and models when evaluating its ongoing business performance. The company believes that Non-GAAP measures reflecting adjustments for restructuring costs provide investors with a basis to compare the company's principal operating performance against the performance of other companies without the variability created by restructuring costs designed to address cost structure inefficiencies of acquired or existing business operations.

Gain on sale and leaseback transaction
Gain on sale and leaseback transaction, includes the gain on the sale of our San Jose headquarters buildings and land. Excluding the gain on sale and leaseback transaction from our Non-GAAP measures provides investors with a basis to compare the company's principal operating performance against the performance of other companies without the variability created by infrequent transactions that are not considered to be part of our core business.

Gain on supplier settlement
Gain on supplier settlement, represents a settlement with a supplier to resolve a business matter. Excluding gain on supplier settlement from our Non-GAAP measures provides investors with a basis to compare the company's principal operating performance against the performance of other companies without the variability created by infrequent transactions that are not considered to be part of our core business.

Other non-cash items
Other non-cash items include non-cash amortization of debt discount and issuance costs. These items are excluded from Non-GAAP results as they are non-cash. Excluding other non-cash items from Non-GAAP measures provides investors with a basis to compare Synaptics against the performance of other companies without the variability associated with other non-cash items.

Loss on extinguishment of debt
Loss on extinguishment of debt represents a non-cash item based on the difference in the carrying value of the debt and the fair value of the debt when extinguished. Loss on extinguishment of debt is excluded from Non-GAAP results as it is non-cash. Excluding loss on extinguishment of debt from Non-GAAP measures provides investors with a basis to compare Synaptics against the performance of other companies without the variability associated with loss on extinguishment of debt.

Equity investment gain or loss
Equity investment gain represents a gain on the sale of an equity investment in a minority owned company. Equity investment loss represents an adjustment in the book value of an equity investment in a minority owned company. The equity investment loss is a non-cash item. The company excludes equity investment gain or loss from its internal operating forecasts and models when evaluating its ongoing business performance. The company believes that Non-GAAP measures reflecting adjustments for equity investment gain or loss provide investors with a basis to compare the company's principal operating performance against the performance of other companies without the variability created by equity investment gain or loss.

Non-GAAP tax adjustments
The company forecasts its long-term Non-GAAP tax rate in order to provide investors with improved long-term modeling accuracy and consistency across financial reporting periods by eliminating the effects of certain items in our Non-GAAP net income and Non-GAAP net income per share, including the type and amount of share-based compensation, the taxation of post-acquisition intercompany intellectual property cross-licensing or transfer transactions, and the impact of other acquisition items that may or may not be tax deductible. The company intends to evaluate its long-term Non-GAAP tax rate annually for significant events, including material tax law changes in the major tax jurisdictions in which the company operates, corporate organizational changes related to acquisitions or tax planning opportunities, and substantive changes in our geographic earnings mix.

Forward-Looking Statements
This press release contains forward-looking statements that are subject to the safe harbors created under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business, and can be identified by the fact that they do not relate strictly to historical or current facts. Such forward-looking statements may include words such as "expect," "anticipate," "intend," "believe," "estimate," "plan," "target," "strategy," "continue," "may," "will," "should," variations of such words, or other words and terms of similar meaning. All forward-looking statements reflect our best judgment and are based on several factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. Such factors include, but are not limited to, the threat of global recession driving increased caution in our customer base; the risks as identified in the "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" sections of our most recent Annual Report on Form 10-K; and other risks as identified from time to time in our Securities and Exchange Commission reports. Forward-looking statements are based on information available to us on the date hereof, and we do not have, and expressly disclaim, any obligation to publicly release any updates or any changes in our expectations, or any change in events, conditions, or circumstances on which any forward-looking statement is based. Our actual results and the timing of certain events could differ materially from the forward-looking statements. These forward-looking statements do not reflect the potential impact of any mergers, acquisitions, or other business combinations that had not been completed as of the date of this release.

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SYNAPTICS INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions)
(Unaudited)

	March 2023	June 2022
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 898.0	$ 824.0
Short-term investments	35.9	52.0
Accounts receivable, net	218.2	322.1

Inventories, net	147.8	169.7
Prepaid expenses and other current assets	34.4	35.6
Total current assets	1,334.3	1,403.4
Property and equipment at cost, net	69.0	62.9
Goodwill	816.4	806.6
Purchased intangibles, net	331.4	390.0
Right-of-use assets	51.2	61.2
Non-current other assets	112.4	134.0
	$ 2,714.7	$ 2,858.1
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 60.8	$ 141.8
Accrued compensation	43.6	90.6
Income taxes payable	64.8	79.7
Other accrued liabilities	93.7	145.3
Current portion of debt	6.0	6.0
Total current liabilities	268.9	463.4
Long-term debt	972.9	975.7
Other long-term liabilities	151.8	152.6
Total liabilities	1,393.6	1,591.7
Stockholders' Equity:		
Common stock and additional paid-in capital	981.3	924.2
Treasury stock	(794.6)	(694.5)
Accumulated other comprehensive income	(1.1)	(1.8)
Retained earnings	1,135.5	1,038.5
Total stockholders' equity	1,321.1	1,266.4
	$ 2,714.7	$ 2,858.1

SYNAPTICS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share data)
(Unaudited)

	Three Months Ended March		Nine Months Ended March	
	2023	2022	2023	2022
Net revenue	$ 326.6	$ 470.1	$ 1,127.8	$ 1,263.3
Acquisition related costs (1)	23.7	32.4	70.5	73.3
Cost of revenue	130.6	183.9	442.6	513.0
Gross margin	172.3	253.8	614.7	677.0
Operating expenses:				
Research and development	87.9	98.2	266.7	273.2
Selling, general, and administrative	41.7	44.2	128.8	130.1
Acquired intangibles amortization (2)	8.5	12.0	26.9	29.6
Restructuring costs (3)	-	11.3	-	17.8
Total operating expenses	138.1	165.7	422.4	450.7
Operating income	34.2	88.1	192.3	226.3
Interest and other expense, net	(7.0)	(8.5)	(22.0)	(20.1)
Gain on sale and leaseback transaction	-	5.4	-	5.4
Gain on supplier commitment	-	1.8	-	1.8
Loss on redemption of convertible notes	-	-	-	(8.1)
Income before provision for income taxes and equity investment gain	27.2	86.8	170.3	205.3
Provision for income taxes	16.8	24.4	73.3	32.3
Equity investment gain	-	2.5	-	1.6
Net income	$ 10.4	$ 64.9	$ 97.0	$ 174.6
Net income per share:				
Basic	$ 0.26	$ 1.64	$ 2.44	$ 4.50

Diluted	$ 0.26	$ 1.59	$ 2.41	$ 4.29
Shares used in computing net income per share:				
Basic	39.4	39.5	39.7	38.8
Diluted	39.9	40.7	40.3	40.7

(1) These acquisition related costs consist primarily of amortization of acquired intangible assets and inventory fair value adjustments associated with acquisitions.

(2)These acquisition related costs consist primarily of amortization associated with certain acquired intangible assets.

(3) Restructuring costs primarily include severance related costs and facility consolidation costs associated with operational restructurings and acquisitions.

SYNAPTICS INCORPORATED
Reconciliation of GAAP Financial Measures to Non-GAAP Financial Measures
(In millions, except per share data)
(Unaudited)

	Three Months Ended March		Nine Months Ended March	
	2023	2022	2023	2022
GAAP gross margin	$ 172.3	$ 253.8	$ 614.7	$ 677.0
Acquisition related costs	23.7	32.4	70.5	73.3
Share-based compensation	0.9	0.9	3.0	3.2
Non-GAAP gross margin	$ 196.9	$ 287.1	$ 688.2	$ 753.5
GAAP gross margin - percentage of revenue	52.8%	54.0%	54.5%	53.6%
Acquisition related costs - percentage of revenue	7.3%	6.9%	6.3%	5.8%
Share-based compensation - percentage of revenue	0.2%	0.2%	0.2%	0.2%
Non-GAAP gross margin - percentage of revenue	60.3%	61.1%	61.0%	59.6%
GAAP research and development expense	$ 87.9	$ 98.2	$ 266.7	$ 273.2
Share-based compensation	(12.1)	(18.0)	(39.5)	(57.4)
Amortization prepaid development costs	(0.8)	(2.5)	(5.8)	(7.5)
Non-GAAP research and development expense	$ 75.0	$ 77.7	$ 221.4	$ 208.3
GAAP selling, general, and administrative expense	$ 41.7	$ 44.2	$ 128.8	$ 130.1
Share-based compensation	(16.8)	(15.2)	(49.9)	(45.7)
Acquisition/divestiture related costs	-	(1.1)	(1.8)	(4.5)
Non-GAAP selling, general, and administrative expense	$ 24.9	$ 27.9	$ 77.1	$ 79.9
GAAP operating income	$ 34.2	$ 88.1	$ 192.3	$ 226.3
Acquisition and integration related costs	32.2	45.5	99.2	107.4
Share-based compensation	29.8	34.1	92.4	106.3
Restructuring costs	-	11.3	-	17.8
Amortization prepaid development costs	0.8	2.5	5.8	7.5
Non-GAAP operating income	$ 97.0	$ 181.5	$ 389.7	$ 465.3
GAAP net income	$ 10.4	$ 64.9	$ 97.0	$ 174.6
Acquisition and integration related costs	32.2	45.5	99.2	107.4
Share-based compensation	29.8	34.1	92.4	106.3
Restructuring costs	-	11.3	-	17.8
Amortization prepaid development costs	0.8	2.5	5.8	7.5
Gain on supplier settlement	-	(1.8)	-	(1.8)
Other non-cash items	0.7	0.6	2.0	2.8
Gain on sale and leaseback transaction	-	(5.4)	-	(5.4)
Loss on extinguishment of debt	-	-	-	8.1
Equity investment gain	-	(2.5)	-	(1.6)
Non-GAAP tax adjustments	1.4	3.5	10.5	(21.5)
Non-GAAP net income	$ 75.3	$ 152.7	$ 306.9	$ 394.2
GAAP net income per share - diluted	$ 0.26	$ 1.59	$ 2.41	$ 4.29
Acquisition/divestiture and integration related costs	0.81	1.11	2.46	2.63

Share-based compensation	0.74	0.84	2.29	2.62
Restructuring costs	-	0.28	-	0.44
Amortization prepaid development costs	0.02	0.06	0.15	0.18
Gain on supplier settlement	-	(0.04)	-	(0.04)
Other non-cash items	0.02	0.01	0.05	0.07
Gain on sale and leaseback transaction	-	(0.13)	-	(0.13)
Loss on extinguishment of debt	-	-	-	0.20
Equity investment gain	-	(0.06)	-	(0.04)
Non-GAAP tax adjustments	0.04	0.09	0.26	(0.53)
Non-GAAP net income per share - diluted	$ 1.89	$ 3.75	$ 7.62	$ 9.69

SYNAPTICS INCORPORATED
CONDENSED CONSOLIDATED CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended March	
	2023	2022
Net income	$ 97.0	$ 174.6
Non-cash operating items	207.2	162.9
Changes in working capital	(67.2)	(29.1)
Provided by operating activities	237.0	308.4
Acquisition and investments	(15.5)	(504.8)
Net proceeds from sale of property	0.2	55.9
Net proceeds from maturities of short-term investments and other	16.2	6.4
Purchase of property and equipment	(29.0)	(26.9)
Used in investing activities	(28.1)	(469.4)
Issuance of debt, net of issuance costs	—	588.8
Repurchases of common stock	(100.1)	—
Payment for redemption of convertible	—	(505.6)
Equity compensation, net	(34.6)	(51.0)
Payment of debt obligations	(4.5)	(1.5)
Refundable deposit received from (paid to) vendor, net	5.0	(13.8)
Provided by (used in) financing activities	(134.2)	16.9
Effect of exchange rate changes on cash and cash equivalents	(0.7)	(1.9)
Net change in cash and cash equivalents	74.0	(146.0)
Cash and cash equivalents at beginning of period	824.0	836.3
Cash and cash equivalents at end of period	$ 898.0	$ 690.3