



SYNAPTICS – SECOND QUARTER, FISCAL 2025 CONFERENCE CALL Prepared Comments

MUNJAL: SAFE HARBOR

Good afternoon and thank you for joining us today on Synaptics' second quarter, fiscal 2025 conference call. My name is Munjal Shah and I am the Head of Investor Relations. With me on today's call are Ken Rizvi, our Interim CEO and CFO, Satish Ganesan, our SVP Intelligent Sensing Division and Chief Strategy Officer, Venkat Kodavati, SVP Wireless, and Vikram Gupta, SVP of IoT Processors and Chief Product Officer. In addition to our quarterly results, we will also discuss our recent agreement with Broadcom. This call is 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 posted a copy of the prepared remarks on our investor relations website.

In addition to the Company's GAAP results, management will 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 our earnings press release issued after market close today for a reconciliation of the most directly comparable GAAP financial measures to the non-GAAP financial measures presented, 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 in our prepared remarks and in our supplemental materials and may make



additional forward-looking statements in response to your questions. These 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 the estimates and assumptions underlying these forward-looking statements to be reasonable, they are subject to a number of risks and uncertainties beyond our control. Synaptics cautions that actual results may differ materially from any future performance suggested in the Company's forward-looking statements. Therefore, 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 Quarterly 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. Except as required by law, Synaptics expressly disclaims any obligation to update this forward-looking information.

I will now turn the call over to Ken.



BUSINESS OVERVIEW

Thanks, Munjal. I'd like to welcome everyone to today's call. I have the pleasure of Vikram, Venkat and Satish joining our call today.

I first want to briefly comment on the news we announced on Monday that Michael Hurlston has stepped down as President and CEO and as a member of our Board of Directors to assume the role of CEO at Lumentum Holdings. We thank Michael for his invaluable contributions and dedication to Synaptics over the last 5 years and wish him the best in his future endeavors.

The Board has commenced a CEO search and will be considering both internal and external candidates.

To ensure seamless execution during this transition, I will be serving as interim CEO and will work closely with our executive chairman Nelson Chan, our Board, and our deep bench of experienced senior leaders to drive the continued execution of our growth strategy.

We have a strong foundation and leadership team in place and remain laser-focused on capitalizing on the significant demand for our innovative products and solutions. Our strategy remains the same and has three key pillars:

First, we are investing in our core product lines within the Enterprise, Automotive and Mobile Touch markets. We are confident in the growth prospects of these franchise products, as we hold a leadership position as either the #1 or #2 player in terms of market share in many of these markets.



Second, we continue to see tremendous growth opportunities in **Core IoT**, specifically in our Wireless and Processor portfolio. As evidenced by our recent Broadcom agreement, our tuck-in acquisition of PacketCraft, and our Google partnership, we are investing both organically and inorganically to scale and expand capabilities in these high-growth areas.

Finally, we remain prudent in allocation of capital. During the second quarter, we retired our Term Loan B with a convertible note and cash on hand, reducing our total debt and cash interest expense, while also returning approximately \$75M of capital back to shareholders via share repurchases.

Before I go through the details of our second fiscal quarter, let me comment on our recent Broadcom agreement. This was a \$198 million all-cash transaction, funded with cash from our balance sheet. We expect to generate over \$40 million in annualized sales and expect the transaction to be slightly accretive to our non-GAAP EPS. We have posted slides on our website outlining the transaction benefits.

Let me turn you to Slide 4 of that presentation. We believe our new agreement with Broadcom accelerates our Edge AI strategy and further strengthens our leadership in IoT connectivity. As part of the transaction, we expand our portfolio of industry leading Wi-Fi 8 combo devices that include advanced Bluetooth features, additional Wi-Fi 7 combo devices, ultrawide band (UWB) intellectual property, next-generation GPS/GNSS products, and combo Front-end modules. This transaction solidifies and secures our wireless roadmap for the next five-plus years. The agreement also importantly expands our field of use, allowing all our Wi-Fi products to compete in AR/VR, Android smartphones, and consumer audio markets, substantially increasing our serviceable market. Additionally, we are onboarding a highly skilled



team of engineers, positioning us as one of the largest and most qualified teams in cutting-edge wireless research and development.

Moving to slide 5, as AI continues to evolve at the edge, we believe smartphones will serve as one of the central hubs for controlling multiple Edge IoT devices. By expanding our reach into these devices, we now have the ability to enable a complete ecosystem, with centralized control at the hub and seamless end-to-end edge connectivity. We believe we will be one of the first, if not the first, to market with Wi-Fi 8 technology enabling AI at the edge.

Now, moving to slide 6, the Broadcom agreement further strengthens our leadership in wireless connectivity, expanding our portfolio of high-performance and broad markets IoT applications. In addition, we now have the foundational technology for UWB, which we can integrate into future IoT devices. Finally, our portfolio now includes next-generation GPS/GNSS devices, offering greater accuracy and improved power efficiency, enabling us to further expand our position in markets such as wearables, navigation devices, and asset trackers.

Moving to slide 7, as I mentioned, as part of the agreement, we have onboarded a great team of engineers. Since our initial acquisition of wireless assets from Broadcom in 2020, we've made significant strides in establishing leadership in wireless connectivity. We started with a team of approximately 50 employees and now have built a world-class wireless engineering team. Our comprehensive portfolio for Edge AI IoT applications spans all generations of Wi-Fi devices, Bluetooth, GPS/GNSS, and UWB. We believe our cutting-edge research and development pushes the limits of performance, efficiency, and seamless connectivity.



In summary, Venkat, our Senior Vice President of Wireless, worked closely with Broadcom to finalize this strategic transaction, adding multiple next-generation connectivity products and technologies to our portfolio. We are excited to welcome our new team members to Synaptics and look forward to building a bright and successful future together.

Separately, on the Edge AI processor front, we recently announced a collaboration between Google and Synaptics integrating Google's MLIR-compliant machine learning core with our industry-leading Astra processor line. The AI solution combines Astra's neural processing engine with Google's standard core. We expect both companies to contribute compiler expertise and collaborate on advancing the technology roadmap. This AI solution will be incorporated into our upcoming Astra processors.

One of the reasons Google chose Synaptics as a partner is due to our AI technology, that is expected to deliver industry-leading inference-per-watt. This partnership speaks to our credibility in this emerging industry and is a validation of the investments we have made to deliver high-performance, ultra-low power Edge AI solutions.

We believe Google will be a strong partner in creating a thriving ecosystem for AI, attracting AI model developers, and driving further the proliferation of AI to the edge. We expect our collaboration to create opportunities in future Google and non-Google devices serving this emerging ecosystem.

Now let me turn to the December quarter results. We delivered another solid quarter of growth, with revenues increasing 4% sequentially and



13% year-over-year to \$267 million, which was slightly above the mid-point of our guidance range, led by strength in Core IoT and enterprise products. Non-GAAP gross margin came in slightly above the mid-point of our guidance at 53.6%. Non-GAAP EPS increased 61% year-over-year to \$0.92 and exceeded the mid-point of our guidance.

In Core IoT, our product sales increased 63% year-over-year to \$61 million, driven by growth in both processor and wireless products. Our processor demand is improving as customer and channel inventory challenges are largely behind us. Additionally, we are collaborating with content providers to develop new AI use cases for operators and ramping new design wins. In wireless, we are sampling Wi-Fi 7 and broad markets chips with customers. To advance our BLE efforts we acquired PacketCraft, a provider of advanced embedded BLE software. PacketCraft offers a low-latency and compact software stack, enabling energy-efficient and economically interconnected systems. With our recent transactions, organic development, growing pipeline and design-win momentum, we continue to remain confident in our Core IoT growth vectors.

Turning to Enterprise & Automotive. On the enterprise side, we are seeing normal seasonal trends, with customers placing orders only when end demand materializes. As a result, while orders and bookings continue to show improvement, they do not yet indicate a refresh cycle.

For calendar year 2025, we remain optimistic about enterprise demand due to multiple factors – contributions from new products, opportunities to continue to gain market share, lean customer and channel inventories, and the potential for a PC refresh cycle. At CES, we showcased several new technologies including user presence detection or UPD. Our lead customer has launched new products featuring our solution and we



expect them to ramp throughout calendar year 2025. We have also secured our first UPD design-win at another major OEM, reinforcing our market position. We expect adoption and penetration of UPD technology to increase as customers recognize the value in power savings, privacy, and security.

In Automotive, we secured our first SmartBridge design win with a customer in China. We remain encouraged by the long-term potential of this technology given its system-level cost savings, exceptional contrast ratio in automotive displays, and best-in-class image quality. Overall, our business has been resilient. However, we would expect to experience similar headwinds as other semiconductor suppliers within the automotive space as most of our exposure is to U.S. and European customers. For the long-term, we believe we are well-positioned across major OEMs globally and will continue to pursue and expand opportunities in China.

In Mobile Touch, we are pleased to say the headwind from our large U.S. customer is now fully behind us. Looking forward, our primary focus will be on the high-end Android smartphone market. In Q2, we saw revenue growth from China OEMs benefitting from an increasing mix of flexible OLED screen technology. The Android market saw solid recovery in 2024 and we expect to see continued growth in 2025 as the Android ecosystem gains share and industry incentives drive higher demand.

Now let me turn to our second quarter financial results and third quarter outlook.

FINANCIAL RESULTS

I will focus my remarks on our non-GAAP results which are reconciled to GAAP financial measures in the earnings release tables found in the investor relations section of our website.

Revenue for fiscal Q2 was \$267.2 million, above the midpoint of our guidance, with sequential and year-over-year improvement in both Core IoT and Enterprise & Automotive.

Q2 revenues were up 13 percent on a year-over-year basis and up 4 percent sequentially.

Revenue mix in the second quarter was as follows: 23 percent Core IoT, 59 percent Enterprise and Automotive and 18 percent Mobile Touch products.

- Core IoT product revenues increased 63 percent year-over-year and 3 percent sequentially.
- Enterprise & Automotive product revenue improved 17 percent year-over-year and 8 percent sequentially.
- Mobile Touch product revenue was down 7 percent sequentially and 25 percent year-over-year as product shipments to a large U.S. customer have reached end-of-life.

Second quarter non-GAAP gross margin was 53.6%, slightly above the mid-point of our guidance.



Second quarter non-GAAP operating expense was \$97.1 million, slightly above the mid-point of our guidance range, primarily due to the inclusion of the PacketCraft acquisition as well as incremental variable expenses during the quarter.

Our non-GAAP operating margin strengthened again in the second quarter, coming in at 17.3%, up approximately 360 basis points on a year over year basis and 60 basis points sequentially driven by improved revenue and continued operating expense controls.

Non-GAAP net income in Q2 was \$36.6 million.

Non-GAAP EPS per diluted share came in above the mid-point of our guidance at \$0.92 per share, an increase of 61 percent on a year-over-year basis and 14 percent sequentially.

Now let me turn to the balance sheet.

We ended the quarter with approximately \$596 million of cash and cash equivalents, down approximately \$258 million from the prior quarter. We fully retired our \$582 million term loan B during the quarter. The total face value of debt decreased to \$850 million from \$982 million at the end of the September quarter. In addition, we returned \$74.5 million in capital through share repurchases this quarter, purchasing approximately 1 million shares. Cash flow from operations was \$24 million.

As a reminder, subsequent to the quarter end, we used \$198 million of our cash for the Broadcom transaction.

Now let me provide some details on our refinancing this past quarter.

In November, we issued \$450 million of convertible notes with a coupon of 75 basis points, due in 2031. We also purchased a capped call to



mitigate dilution and economically protect us up to a stock price of approximately \$150. A table in our supplemental slides outlines the dilution mitigation benefit of this capped call. We used the proceeds from our convertible offering and cash from our balance sheet to completely retire our \$582 million term loan.

Capital expenditures were \$4.7 million and depreciation for the quarter was \$7.4 million.

Receivables at the end of December were \$146.5 million and days of sales outstanding were 49 days, up from 47 days last quarter. Our ending inventory balance was \$119.5 million, which was roughly in line with the prior quarter. The calculated days of inventory on our balance sheet were 87 days.

Now, turning to our third quarter of fiscal 2025 guidance.

We expect revenues to be approximately \$265 million at the mid-point, plus or minus \$15 million. Our guidance includes a partial quarter of contribution from our recent acquisition of Broadcom assets.

Our guidance for the third quarter reflects an expected revenue mix from Core IoT, Enterprise & Automotive, and Mobile Touch products of approximately 25, 58, and 17 percent, respectively.

We expect non-GAAP gross margin to be 53.5% at the mid-point plus or minus 1%.

Non-GAAP operating expenses in the March quarter are expected to be \$101 million at the mid-point of guidance plus or minus \$2 million. The increase in operating expenses is primarily due to headcount-related expenses from our PacketCraft acquisition and Broadcom transaction, as well as incremental variable expenses.



We expect non-GAAP net interest and other expense to be approximately \$1 million in the third quarter and our non-GAAP tax rate to be in the range of 13-15%.

Non-GAAP net income per diluted share is anticipated to be \$0.85 per share at the mid-point plus or minus \$0.20, on an estimated 39.5 million fully diluted shares.

To conclude, Synaptics has a strong portfolio of products with a leading share position in several end markets. We have an experienced leadership team that is laser-focused on driving our product roadmap and business priorities. Our pipeline and our design wins continue to improve, we are gaining market share and continue to drive innovation with new products. We remain committed to driving long-term, sustainable growth for the company.

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

OPERATOR: Q&A