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SYNAPTICS – SECOND QUARTER, FISCAL 2022 CONFERENCE CALL
Prepared Comments

MUNJAL: SAFE HARBOR

Good afternoon and thank you for joining us today on Synaptics' second quarter, fiscal 2022 conference call. My name is Munjal Shah 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 and the 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, 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.

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MICHAEL: BUSINESS OVERVIEW

Thanks, Munjal. I'd like to welcome everyone to today's call. We finished calendar 2021 on a strong note and I am proud of what we were able to achieve. We capitalized on our market opportunities while navigating supply and logistics challenges. We delivered double-digit revenue growth in 2021 while still managing to consistently improve gross margin.

Revenue for the December quarter was at the mid-point of our updated guidance with continuing strength in our IoT products. Our GAAP and non-GAAP gross margin was another record for the company. Higher revenue and gross margin in turn drove our quarterly non-GAAP operating margin and non-GAAP EPS to record levels as well.

Our momentum remains strong and we are seeing many growth drivers, particularly in IoT applications. Our design-win pipeline remains robust and we see continued opportunities to cross-sell our products, driving our dollars per platform higher. Our customers are introducing new digitally enhanced products that are smarter and more connected than ever. At this year's CES show, several products such as IoT home hubs, smart cameras, wireless workplace configurations, smart doorbells and smart monitors were announced and feature our semiconductor solutions.

In early December, we completed the acquisition of DSP Group and welcomed a talented group of unbelievably capable engineers. We expect the team to accelerate our product roadmaps in the areas of wireless, home security, and low power edge AI. The learning that DSP Group has had on voice enabled AI products will serve us well as we embark on tackling the even more promising long-term opportunity applying machine learning to simple computer vision applications. Our integration is on-track and we are already seeing the benefits of the two teams working together. Synaptics' larger sales force and strong customer relationships are bringing DSP Group technology into new accounts that were not previously accessible. Meanwhile, we are seeing pull through of Synaptics' technology, particularly wireless, on existing DSP Group platforms.

Our IoT products are now at a milestone one-billion-dollar annual revenue run-rate, growing 60% year-over-year and accounts for 62% of our total revenue.

Wireless continues to be the fastest growing piece of the IoT portfolio. New sockets are being unlocked as IoT customers begin the transition to Wi-Fi 6. Wi-Fi 6 is particularly well-suited for IoT devices because it allows a greater number of products to connect to the network simultaneously without any one device being starved by other high traffic units on the same network. The technology also enables low power consumption, which is particularly critical in battery powered IoT devices. Our competitive differentiation is strongest in high bandwidth low power applications because our Wi-Fi 6 products are 90% more power efficient compared to prior generations and 35% more efficient than competition. We have design-wins across a variety of product categories including surveillance cameras, drones, smart displays, gaming, wearables, smart speakers, and other consumer-centric devices. Our industry-first 'Triple-Combo' wireless device is being sampled and we expect initial revenue toward the end of the calendar year. The product is based on the Wi-Fi 6E standard enabling devices to operate at a higher frequency band where there is less congestion. We are making organic investments to grow the business, deploying new engineering resources, and are happy to report that we have now taped-out two new products based on our internal efforts. With our strong momentum, we remain confident in achieving our target to double our wireless revenues again.

Our Video Interface products continue to lead the market and our latest innovations are creating distance to the field. Our newly announced wireless docking solution simplifies the work area and was demonstrated at CES this year by one of our largest customers. We are excited about the potential of this new class of product as it enables improved productivity for end-users and flexible workplace configurations for enterprises. The solution is a prime example of our ability to cross-sell multiple technologies, in this case combining our wireless connectivity, video compression, and processor expertise. In the protocol adapter and converter market we are seeing early traction as we enter a completely new market opportunity. We have introduced two devices in recent quarters which open that additional TAM and now have a dozen or so design-wins ramping over the next few quarters. Our differentiated solution is a single-chip offering that lowers power consumption by 75% and reduces overall footprint by 60%.

We are seeing terrific market traction in Virtual Reality headsets with continued revenue growth and design-win momentum. We are winning across the board, including many leading VR manufacturers in China. Our display technology is the highest performing, custom designed for these headsets, and is the first and only solution in the market that supports a total resolution of greater than 4K with refresh rates of 120Hz. A high refresh rate is essential for smoothness of motion as it allows for higher frame rates and lower latency that are both critical to ensure a more realistic VR experience. We are continuing to invest in a future roadmap that features even higher resolutions and refresh rates as well as leading the transition to newer display technologies such as micro OLED. The market is still in its infancy and we feel confident about our position, market potential and the strength of our roadmap.

In Automotive, we achieved our goal of $100 million in annual revenue run-rate two quarters ahead of plan. Our Automotive TDDI products are now designed into more than 50 car models across 20+ OEMs and we are seeing production ramps at six OEMs in Europe and in Asia. We are very well-positioned because our share of TDDI based solutions is much higher than our share in a discrete implementation and the market mix of these devices, though relatively small, is increasing rapidly. In fact, nearly all new designs are being initiated around TDDI technology.

Moving on to our processor technology, we now have a complete suite of products that range from ultra-low power solutions that run simple machine learning models to complex high-performance video decoders that feature neural networking capability. We believe every consumer edge device will become more intelligent, driving the need for task-specific processors with artificial intelligence extensions rather than general purpose microcontrollers. Our processors are targeted at audio and video applications, event detection and with the addition of DSP Group, low power edge AI use cases. Our AudioSmart family of processors are being designed into headsets, tablets, smart monitors and docking stations and boast a compelling combination of integrated voice features, noise cancellation, and low power consumption. Our VideoSmart series combines a high-performance CPU, GPU and neural network processing unit into a single software enriched SoC and complex applications such as smart signage, soundbars and video conferencing systems. Finally, our Katana processors feature the ability to run both voice and vision machine learning models at very low power levels. At CES, we announced our first significant customer, Lenovo, utilizing Katana in one of its tablets. We are encouraged by continuing early indicators in the low power edge AI market and remain excited about its long-term growth prospects.

Let me move on to our PC product applications. After two years of strong growth, we expect market demand in calendar year 2022 to remain at about the same level as 2021. Within that, the expectation is for commercial market shipments to be a bigger part of the mix, which plays to our strength. We are gaining share in PCs because of our technology and innovation. At CES, we launched our latest system-on-chip (SoC) that enables the design of larger size TouchPads with Haptic capability. It is the first device to comply with the NIST SP800-193 standard and feature 384-bit encryption, reducing external threats on the PC. We began shipping this device in the quarter and expect all our major customers to design it in during the calendar year.

Finally, in Mobile, many new models from Chinese smartphone manufacturers using our touch technology launched in the last few quarters, but it appears the end demand for some of the OEMs didn't materialize as expected. On the other hand, we began shipping production units of our new high-end flexible OLED display driver in the quarter which adds yet another growth vector for Synaptics.

Before I conclude, let me give a quick update on our supply chain. In general, supply remains tight. In our case, the constraints are most prevalent in newer, faster growing areas of our portfolio where new design wins are significantly outpacing any incremental supply we are getting. We expect challenges in all facets of the supply chain, wafers to back end, to persist through all of calendar 2022.

To conclude, Q2 was yet another in a series of strong quarters for the company. We set multiple corporate financial records in the quarter, particularly around gross margins. Meanwhile, we continue to grow top line revenue by both developing entirely new product categories and executing well in our core business.

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

DEAN: FINANCIAL RESULTS

Thanks Michael, and good afternoon to everyone.

Before I begin, I'd like to remind everyone that our Q2 results and Q3 guidance include the impact of the DSP Group acquisition which closed on December 2, 2021. Integration of this new team is well under way. We have successfully migrated all major DSP Group systems and processes to the Synaptics platform and our $30 million operating cost synergies are on track.

Moving on to the fiscal second quarter results, revenue for the quarter was $421 million, at the midpoint of our updated guidance. Revenue was up 13% sequentially with strong demand for the company's IoT products and was partly aided by the DSP Group acquisition which includes approximately one-month of contribution. Revenue from IoT, PC, and Mobile were 62%, 20% and 18%, respectively, in the December quarter.

Year-over-year, the December quarter revenue was up 18%, driven by growth in our IoT revenue, where we are continuing to focus our efforts. Our IoT product revenue increased 60% compared with the year-ago quarter and up 27% sequentially. Our revenue momentum in this area continues to outpace almost all peers and is now at a milestone one-billion-dollar annual run-rate.

Our Mobile and PC revenue declined year-over-year due to timing of certain programs. PC product revenue was down 7% sequentially and down 10% year-over-year and was impacted by continuing supply-chain shortages for certain components at our customers. Our PC demand over the last six to nine months has been relatively flat as we continue to see a stable commercial market. Our Mobile product revenue declined 3% sequentially and declined 26% on a year-over-year comparison due to a product transition with a certain customer.

During the quarter we had two customers greater than 10% of revenue at 13% and 12%.

For the December quarter, our GAAP gross margin was a company record at 53.5%, which includes $19.9 million of intangible asset amortization, $4.1 million of inventory fair value adjustment, and $1.3 million of share-based compensation costs.

GAAP operating expenses in the December quarter were $147.5 million, which includes share-based compensation of $35.3 million, acquisition related costs of $10.4 million consisting of intangibles amortization and transaction costs, amortization of prepaid development costs of $2.5 million and restructuring-related costs of $5.1 million.

Our GAAP tax expense was $2.0 million for the quarter.

In the December quarter, we had GAAP net income of $69.5 million or GAAP net income of $1.71 per share.

Now, turning to our non-GAAP results.

Our December quarter non-GAAP gross margin of 59.5% was a new company record and at the high-end of our guidance range, reflecting a continued strong mix as we prioritize our highest value products while passing through changing input prices.

December quarter non-GAAP operating expenses were at the low-end of our guidance at $94.2 million, and up $5.8 million from the preceding quarter due to the inclusion of DSP Group. Our non-GAAP operating margin of 37% in the quarter was another record for Synaptics.

Non-GAAP tax expense was $18.1 million for the quarter.

We had record non-GAAP net income in the December quarter of $132.8 million, which is an increase of 22% from the prior quarter and an increase of 58% from the same quarter a year ago; non-GAAP EPS per diluted share was $3.26 as our focus on profitable growth continues to drive positive earnings for our shareholders.

Now turning to the balance sheet.

We ended the quarter with $574 million of cash, cash equivalents, and short-term investments on hand, an increase of $227 million from the preceding quarter as a result of strong cash flow from operations of $122 million and the inclusion of cash & investments which was acquired as part of the DSP Group transaction.

Receivables at the end of December were $312 million and days of sales outstanding were 67 days, up slightly from 65 last quarter. Our days of inventory were 70, up from 51 last quarter and ending inventories were

$133 million. This includes an increase in work-in-progress inventory as we pipeline material for our growing revenue projections and the inclusion of DSP Group inventory which includes the purchase price accounting step-up. Normalizing for DSP Group, inventory days would be approximately 60 at quarter end. Despite this sequential increase, we expect inventory to remain low given our revenue & shipping forecasts while our supply chain constraints continue to depress inventory below our desired level.

Capital expenditures for the quarter were $8.5 million and depreciation was $6.4 million.

We anticipate revenue for the March quarter to be in the range of $450 million to $480 million. Similar to last quarter, our backlog at the start of the quarter was above the high end of our guidance range as we are still supply constrained, limiting our ability to service our customers' full demand. Further, our demand signal continues to be strong as our backlog position has expanded and is now higher than it was when we last met one quarter ago, excluding any M&A related backlog adds.

We expect our revenue mix from IoT, PC and Mobile products in the March quarter to be approximately 63%, 19% and 18%, respectively. We anticipate our IoT products growing almost 100% on a year-over-year basis at the mid-point, significantly faster than the broader market and faster than all of our IoT focused peers.

We expect our GAAP gross margin for the March quarter to be in the range of 52.5% to 53.5%.

We expect our GAAP operating expenses in the March quarter to be in the range of $159 million to $166 million, which includes acquisition-related charges for intangibles and transaction costs, prepaid development cost amortization, share-based compensation, and restructuring costs.

Finally, our GAAP net income per share for our March quarter is expected to be in the range of $1.25 to $1.55.

Now, non-GAAP outlook for our March quarter.

We expect our non-GAAP gross margin momentum to continue into the March quarter. We expect non-GAAP gross margin in the range of 59.5% to 60.5%, which at the mid-point of 60% would be a notable milestone achievement and representing one of the greatest gross margin expansion success stories across the semiconductor industry. We expect to continue prioritizing our focus and delivery to a robust and positive mix while continuing to navigate supply chain constraints and changing input prices.

We expect our non-GAAP operating expense in the March quarter to be in the range of $104 million to $108 million, an increase from the December quarter as we now add a full quarter of expenses related to DSP Group acquisition while continuing to self-fund our organic growth opportunities.

We expect our non-GAAP interest expense to be approximately $8 million in the March quarter. As a reminder, our interest expense is higher due to the debt financing related to closing the DSP Group acquisition.

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 March quarter is anticipated to be in the range of $3.40 to $3.70 per share, on an estimated 41 million fully diluted shares.

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: 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.