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CRUS - Cirrus Logic Inc at Nasdaq Investor Program

EVENT DATE/TIME: DECEMBER 05, 2017 / 4:00PM GMT



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CORPORATE PARTICIPANTS

Jason Rhode *Cirrus Logic - President, CEO*

PRESENTATION

Unidentified Company Representative

Well, hello, everyone, and good afternoon. It's truly my pleasure to welcome Cirrus Logic and their President and CEO, Jason Rhode. Thanks, Jason.

Jason Rhode - *Cirrus Logic - President, CEO*

Thanks, everybody, for coming. Do about 20 minutes or so and then turn it over for questions, so be thinking of those. Happy to be back at the Nasdaq, for I think, fifth or sixth year in a row. Here is our safe harbor statement, which I know you'll want to spend a lot of time on. It's very exciting stuff here. Cirrus Logic, for those of you that don't know, we've been around, we were founded in 1984, premise being to be a fabless semiconductor Company, which was not at all the fashion at the time. Obviously it is now.

The Company's been a lot of different things over the years and among them, one of them was to be the first really profitable fabless semiconductor Company back then. But we've been a lot of different things technology-wise. Today you can think of us as an audio and voice Company, a lot of differentiation around signal processing, preferably kind of around and near the analogue-to-digital boundary.

Over time, we've added more and more digital signal processing capabilities around that. From a product line perspective, again, we're very audio-focused. Everything from the front end on the microphones, which are relatively new business for us, all the way through to amplification on the output side, so we'll talk a little bit more about that in a minute.

Core strengths, a lot of analogue and digital signal processing, put a lot of focus not just on doing things that are tricky and hard and doing them well but also getting them done on time so that customers can count on us to deliver and help them achieve their typically very aggressive schedules.

We were a very boutique customer support shop, we put a lot of focus on making sure we don't get spread too thin so that we can focus on the customers that can really move the needle for us and we try to take very, very good care of us -- very good care of them so that they don't have a lot of reason to go look around for other people to help them with their audio problems.

Because we've been doing it for -- because we've been doing audio and voice for so long, we've got a lot of expertise there, a lot of I.P., a lot of great customer relationships and insights that we can kind of leverage into a great cycle. There's a lot of value, well, probably in most everything. There's a lot of value in incumbency but there's definitely a lot of value of incumbency in our business.

Once we have any chip, even if it's something inexpensive like a microphone or maybe a little more expensive like an amplifier, once we get anything in a customer's socket, that usually gives our engineers a lot of opportunity to work closely with our customers to learn what are their challenges, what are the hard problems they're trying to solve, what maybe they didn't anticipate that made their design take a little longer, and how do we solve that problem for them better the next time?

This is all leveraged into a great business for us. We're a large Company at this point, we feel like we need to continue to invest in R&D in a pretty heavy pace, we're about a 17%, 18% kind of R&D Company if you look at it from a very long-term perspective, obviously that's not any one quarter. But at the same time, we don't need to continue to grow the SG&A proportionally so there's a lot of leverage there, continue to generate a lot of cash flow and our operating margins are extremely healthy for our industry.

So because of that, additionally -- again, we've grown the R&D quite a lot over the past handful of years, as a result of the growing revenue. We've got more than 1,000 engineers, as I say, we're heavily focused on executing, making sure we deliver things on-time as well as solve problems not only that our customers ask us to solve but things that they haven't asked us for yet and things that we've thought of because of our broad exposure to the audio market.

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Long-term track record of growth, we've focused on the right markets at the right time, we've chosen our customers wisely. There's a lot of -- a lot of those years where Cirrus as a sole Company, we were really challenged to keep up with our largest customer. And similarly, we, a number of years ago, had the opportunity to buy our closest direct competitor which was Wolfson Microelectronics.

At the time, they were similarly challenged to keep up with their largest customer in Korea. So by putting the two Companies together, I think it's been a win for pretty much everybody in that we were able to quit trying to knock each other out, reconcile the two roadmaps, take care of our two largest respective customers separately and with separate teams but additionally have a fair amount of those resources also be able to then broaden the product line out in a way that has enabled us to address the rest of the Android market, whether it's flagships or increasingly in the mid-tier where we have a lot of opportunity today as well.

So we've always focused on tier one customers, especially in handsets, it's very easily the case that small customers can take more resources to support than large ones. For example, there's nowhere near enough acoustics engineers in the world to go around, the challenges that we solve on the acoustic side that are increasingly difficult in a lot of smaller customers have very little capability in the areas of tuning and acoustic design.

We have to be fairly careful in a lot of cases about supporting customers that, if they're going to take a lot of support, that needs to be an opportunity that really moves the needle. But we are blessed to count a really broad array of tier one customers in our in our mix and we're having a good opportunity to grow that customer base in particular in the China handset space.

Because of the long lead times, the long development cycles for what we do everything we do tends to be differentiated on analog and mixed signal capabilities. These are again skills that are very rare in our industry; there's nowhere near enough engineers being produced that have this kind of capability, so when we get one on the team we for sure don't want to lose them. We want to be able to spend the couple years to have them become a productive member of the team and then we don't want them to think about leaving anywhere else. We've put a lot of focus on our corporate culture, becoming a great place to work, becoming somewhere that really attracts the top talent in the industry and once they're there they don't want to work anywhere else.

Kind of a little bit of an overview of the market. There's a lot of years that, in my whole career it hasn't always felt like anybody or very many people wanted to differentiate on audio quality. Somewhere along the way in the handset space that really turned around and feels like almost everybody is looking to differentiate their products in a meaningful way.

In many cases on audio quality, sometimes even in China, specs that you can argue whether people are likely to be able to hear the impact but because of the incredibly competitive nature of the Android market, if you're shipping the same Android as everyone else and you're in a lot of cases using the same core chipset, you need something to differentiate your product around and so in a lot of cases, people have turned to adding on some audio or voice features to differentiate around the edges of the core chipset.

In addition to audio growing, voice as an interface is becoming incredibly prevalent, especially in handset. Things like always on voice, take the normally high attention level that's being put on low-power and ratchet that up to just an incredible level. Things in our Smart Codecs that can drive volume are functions like always on voice. Sounds maybe funny to some of us, but think about it in China the prevalence of karaoke and handsets. People seeing a recorded video posted online, there's people that follow people's videos and interestingly enough, actually the signal processing that goes into some of that is right in our wheelhouse in the sense that it needs to be fairly low-power and also very low latency from the perspective of being able to record the voice and not cause lip-synch delays, et cetera.

Smart Codecs implement a wide variety of features. A lot of times our customers in China may be more of a fast follower model; they don't have a sense of, hey, I'm going need to chip that looks like X, Y or Z three years from now, which is the kind of timescale we normally work on.

In the case of Android, primarily we come up with a wide array of Smart Codecs that have a wide variety of analog I/O and a varying level of digital signal processing capability such that we've got an applicable product almost no matter what tier of the market somebody is targeting and then we can customize the software and firmware in a much shorter timescale than we would be able to do with hardware. It's really become a good strategy for us in Android and we can see each quarter and each year we're making more progress penetrating that side of our business.



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Additionally, in the amplifier space, our business in amplifiers has traditionally been mostly with our largest customer, but as of late we've recently come out with a new 55 nm amplifier that's integrated the signal processing to do the speaker protection right into the amplifier itself. It's more of a turnkey product and that kind of thing tends to be a lot more popular for customers in China where they don't have control or access to their own applications processor to be able to run some of these kind of algorithms.

It's a very exciting time in the audio and voice market. Lots of things are taken off. There's a lot of things that we all grew up watching, the Jetsons and Star Trek, with voice as an interface and talking to your house that are becoming a reality. We're very focused on handsets first, but we're taking a lot of the technologies and we expect to continue to take a lot of the technologies that we develop for handsets and migrate those out into other form factors.

Digital headsets being a good example of that. There's a lot of good reasons to want to eliminate the headphone jack from a handset. It's a fairly old connector; it wasn't intended to be carried around in your pocket and gather lint and it's hard waterproof and takes up a fair amount of volume. As Android has started to adopt more broadly the USB-C connector that creates the opportunity to eliminate the headphone jack and deliver audio and potentially power over the USB-C connector, which then lets our customers do innovative things with headphones without the need to incorporate a battery.

That's a trend that this time last year we might have expected to see the Android community be more of an aggressive fast follower of our largest customer, but clearly over time every quarter that goes by it seems like another couple models are out there with USB-C connectors and more and more folks are dropping that the headphone jack as well. Again, we're the only company that provides everything from MEMS microphones all the way through audio amplifiers, we've got an aggressive strategy of broadening that out into things like voice biometrics where we aim to be the provider of essentially a voice equivalent of the fingerprint sensor.

We're not the ones trying to figure out what you're saying; we're to trying to validate that you're the enrolled user. We don't anticipate that replacing fingerprint or Face ID, for example, but we do think of it as the perfect analog to those technologies when you're using voice as an interface. In a lot of cases, if the handset for example doesn't know it's you when you're talking to it when you're saying OK, Google or whatever the voice assistant might be, it really limits the kind of features and functions that the assistant can provide.

For example, the killer app for a lot of us when you're driving along in your car you hear the handset make whatever noise it makes when you've got a new e-mail. You would like to be able to just say, read my e-mail. Well I don't want it to read my e-mail unless it's really, really sure it is me. That's the kind of features and functions that we can enable to have it be a much more seamless adoption of a voice assistant across the product lines that we aim to go into.

Targeting handsets first, because they're the biggest and we've got a large exposure and a lot of customers in that area, but over time as the connected home really evolves and other applications emerge, automotive for example, we think, again, this is a great opportunity to take something that we can develop for handsets and migrate it out into other form factors.

We've really taken the last handful of years following the Wolfson acquisition to broaden the product line out, so that we've got applicable devices across mid-tier where we can maybe command \$1, \$1.50 for a Smart Codec up through the flagships where it's more in the few dollar range.

We've now got amplifiers that are applicable across the wide range of devices, also you can think about amplifiers on the order of a 50 cent device, but with the migration towards stereo in a number of handsets, that can create an opportunity for two. And then we've started to make progress reusing our audio amplifiers as haptic drivers.

For example to replace a moving button with sort of a haptic actuator inside the handset, we can use our amplifiers to create a really compelling user experience without actually having a physically moving button, which is of course for something that gets used as often as handset can be a point of wear and breakage.

You can kind of see and then one of the longer term items on our to-do list is the microphones. We're relatively new to microphones; we ship tens of millions of units today. That's kind of about where we want the volume at the moment. The microphone market is pretty interesting. Microphones



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are incredibly difficult. If you follow microphone vendors, you'd typically see one or two of them turn up in the news for causing challenges and whatnot in their customers' production ramp.

Our goal is to take the drama out of microphones, to be as reliable and dependable a supplier of microphones as we are on the silicon side. We've taken the last year to migrate our entire supply chain over to Taiwan to tier one vendors that are right next door to one another. The team's done an incredible job of taking a list of challenges as long as your arm and shrunk it on down to a pretty manageable list of things. There's still plenty of work to be done but in the context where we've got opportunities where we see literally billions of microphones every year that are connected to devices that we sell and increasingly they're selling into opportunities where there's three or four or five microphones per socket, it's a really compelling opportunity of things that are connected to our device.

And one of our primary strategies is to land and expand; if we can get anything in the device, then it makes it easier to get the next device next to it. That's kind of where we're most interested in the MEMS microphones is things that are connected to one of our codecs.

There's a bunch of times in the past where we've had a once in a lifetime growth year like we did last year. And a lot of times we get to the end of those and it's kind of like, jeez, what's next? We've never had as many opportunities as we're plugged into now from broadening out the Smart Codecs into the rest of the flagship accounts in Android, migrating some sub-set of the content down to the mid-tiers, capitalizing on amplifiers, the headset transition, ultimately voice biometrics and digital and analog microphones.

We've got a number of these vectors are large relative to the size of the Company today and we're just fully oversubscribed in being able to staff all the things that we want to do. It doesn't always make for the most fun job for me, but that's the most important part of what we do as a Company, is being really disciplined about saying no to a lot of really good opportunities so that we can make sure we fully staff the very best stuff that we're looking at.

The net of all that, we've got a very healthy balance sheet. We generate a lot of free cash flow, not too long ago paid off all of our remaining debt. So, we certainly look for acquisitions. We like M&A, but we're not at all a financial engineering sort of strategy. We've got a really disciplined process of having a long-term five year strategy. We refresh every year, generally we've got a very good track record of having beaten that strategy over the past 10 years.

So, we don't want to do anything that's going to disrupt that. There's not any M&A we feel like we need to have, but at the same time, if we can find smaller software tuck-ins or something as large and transformative as Wolfson, probably a little less likely, but still we look all the time.

And if we can find something where we feel the cultures match and we can put the two companies together and do something together that we wouldn't have been able to do on our own, that's the kind of thing we look for.

It's rare though and in lieu of that, we've been successful deploying buybacks over the years. We have the property that occasionally our stock can be volatile, so we figure the most efficient way to do that is to tee up a large and then from time to time we're able to opportunistically buy our shares when the market -- when the windows open and we feel like the market's gotten it wrong.

Taxes, we're a U.K. tax structure on the order of about a 21%-ish tax rate today drifting down a percent of two over a year over the next handful of years. Obviously, we've got our eyes on the various things happening in the U.S. and our very capable tax team will ensure that whatever transpires there that we optimize relative to whatever that becomes. Guess I got ahead of myself on that slide.

So, we've had very strong outlook this last quarter. A little bit better than what folks expected, a little bit better guidance, I think, than what folks expected. And obviously, I won't get into a whole lot of detail about where we're at on any of that, but nonetheless, we feel real solid about where we've been and we're going.

It's again, just a tremendous outlook for where we're headed. We're really excited about a lot of the different vectors that are going on in audio and voice and driving us to be an increasingly relevant supplier across a large number of our customers.



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Obviously, I know this slide will be everybody's favorite so I'll leave that up there for you to digest while I see if anybody's got any questions. Yes?

QUESTIONS AND ANSWERS

Unidentified Participant

I'm going ask about your number one customer and if you happen to look up dialogue about share price over the past few days. It has been very much impacted by the movements -- the actions on your number one customer and if that's shared with shareholders as well. So, can you give us some confidence as to what happened to (inaudible) and maybe dialogue from that?

Jason Rhode - Cirrus Logic - President, CEO

Yes, so I think I'll repeat it in case that doesn't go through to the outbound audio. This is a question about dialogue and our largest customer and what happened or what didn't happen or why doesn't it happen to us.

There's other Company, you mentioned imagination, pretty long on my list of things to not do is make a living licensing IP to really large customers.

When you sell -- and it's not that there aren't people out there that turn that into a successful model but when we sell a device to a large customer, they sort of expect it to be a little more value per dollar every year. But they don't expect it to be free. You're still selling a thing. And I think when you license IP it really gets challenging year over year to continue to extract that value from customers that are used to kind of getting their way.

As far as other suppliers in current news, it's probably not my place to comment on them, I just know that for what we do, a lot of what we do is custom silica and when we do that, we generally have a pretty good outlook that there's a bunch of engineers on the other side of the table looking pretty anxious about this schedule about this thing that won't come out for two or three years.

That gives us a lot of confidence. We've got a lot of IP that we bring to bear and a lot of the technology that we develop is, by its nature, analogue and mixed signal. So to put it in perspective, it's just now that -- well, it's just fairly recently that [TSMC] delivered a design kit for 28 nanometer able to do the kind of analogue and mixed signal that we do. So I think the prospect for being able to migrate any of that into the core of a 10 or a 7 or whatever nanometer AP is really pretty dim.

And then generally, I think the best defense is to continue to bring neat new ideas to the table to be a relevant supplier to your customers, to put yourself in a position where we make sure we never have to say no, we're never the negating item. We try to make sure that we don't cause production or reliability challenges or anything else. So generally, when you're getting what you want and you're getting it for a reasonable value, you don't go looking for a whole lot of other places to get that sort of thing.

But it's a real risk and that's just kind of the nature of our business, I think.

Unidentified Participant

Second question, also OEMs differentiate themselves not only on the audio end, the voice recognition, but also on the cameras, what the cameras can do. Is that something that you -- is an area where you may end up going? Because cars have -- are now full of sensors, displays, visual recognition and stuff.



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Jason Rhode - *Cirrus Logic - President, CEO*

Yes, that's a good example of an idea that pops up from time to time and I do think we've got technology and capabilities that are applicable there. But it's a case where we're -- with the stuff that's right in our wheelhouse, we're completely oversubscribed with audio and voice opportunities. So it's not something we're broadly looking to go after cameras and whatnot.

We've got a team that tries to keep an eye on any other areas, for example, taking audio amps and migrating it to haptics was a good example of such a thing, which we were able to do at a relatively minimal additional investment. So it's the kind of thing that we look at from time to time, but nothing at the moment. Yes?

Unidentified Participant

Jason, I know last year, you were talking about the headsets and can you talk about what you've learned over the last 12 months in terms of what you need to get that to become a mass volume product and what your view is for the next coming 12 months on those?

Jason Rhode - *Cirrus Logic - President, CEO*

Sure, so overall, digital headsets are probably bigger than we would have thought they would be over the last couple years. It's a great -- it's been a great piece of business for us and that's even in advance of the Android community migrating over to USB-C as a replacement for the headphone connector.

So overall we're real pleased. Probably though as most things go when you cook up a strategy, if you have four vectors, you're pretty happy if three of them are ahead of what you dreamed up and one of them is behind. I would say the progress with A&C is slower but we are shipping it now with a couple leading brands, so that's great progress. We've learned a lot about what it takes to put that into production.

A lot of companies, a lot of OEMs that make headphones and handsets which is generally our target, you know, even though the name brand on the box is a well-known marquee with lots of engineering talent, a lot of times the folks that make the actual traditional analog headsets that go in box have a relatively low capability from an acoustics and electronics prospective. So we've put a lot more time and energy into making sure that our products are easier to design in.

The tuning is a little more automatic. The testing, you know, we provide a little more knowledge and capability for our customers to do that kind of testing. So I continue to think good things will happen for that noise-cancelling market and we are trying to broaden the product line out, you know, integrate more functionality and make it just a little bit easier to use. But overall, we're pleased with how headsets have unfolded.

Unidentified Participant

I should have clarified that not just digital headsets--

Jason Rhode - *Cirrus Logic - President, CEO*

So that's one's probably like I say, you know if you got three things going, or three or four things going and most of them are ahead of where you wanted, that one is probably is the one that's been a little slower, but overall, great opportunity is still in front of us and we've learned a lot over the past year or two about how to, how to go to market with that technology.

Unidentified Participant: [Edward Woodson] here, how many lines did you overlap with Wolfson? How many, how many products were taken out of the combination?



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Jason Rhode - *Cirrus Logic - President, CEO*

Yes, so the question is when we bought Wolfson, you know many products or product lines do we have an overlap on? You know it was pretty interesting. I mean we had a legacy portfolio that was, you know, largely complimentary. I mean there are similar products but it just gave us a more diverse, for example, D to A converters, a little more diverse coverage of the feature space. We, Cirrus, were getting into the broad smart codec market for Android and at the time we looked at the portfolio and it's one of those things that could have been really contentious.

But, you know even the engineering teams looked at it, concluded the Wolfson folks were ahead on the Android smart codec side of things so we decided to back that roadmap and it really gave us a leg up on the software side of things because they had been investing in it longer and we were able to bring a bunch of resources to bear so we could hire more quickly and what not. It's been a really good success story.

Obviously, when we did the deal there was some skepticism in a U. K. journal and what not thinking about, "Ah, here comes another American company buying a local thing. They're going to shut it down." We, of course, employ significantly more people in the U.K. today than we did when we closed the acquisition. So it really was not at all about killing things, it was about how do we more quickly broaden this product line out because neither of us could do everything we wanted to do. And that's still true but we've made a lot of progress.

Unidentified Participant

Because the fact that you're doing that at Cirrus really, towards (inaudible). But then you're pressing to carry on in that than businesses now, now that you have a 20 percent tax rate.

Jason Rhode - *Cirrus Logic - President, CEO*

Sorry, couldn't we carry on--

Unidentified Participant

--because now you have a tax rate, in the U.K. --

Jason Rhode - *Cirrus Logic - President, CEO*

Yes, yes, if there's, I mean we're not financial engineers. So if we can find things that are like Wolfson and are very synergistic to what we want to go do, then, then we would absolutely do those. There's just not very many of them. But of the sort that we can find, we've done since Wolfson, I think three small software tuck ins of various sorts that have moved us forward in various ways. Yes, we're, like I say, it's the highest priority use of our cash. It's just we're very careful about what we approach.

We've got about a minute left if anybody's got another one. All right. Well, thank you very much for your time, for your questions, I appreciate it.



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