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CRUS.OQ - Cirrus Logic Inc at KeyBanc Capital Market Technology Leadership Forum

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PRESENTATION

John Nguyen Vinh - *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

Good morning, everybody. My name is John Vinh. I cover semis here at KeyBanc Capital Markets. And we're pleased to have Venk Nathamuni, CFO of Cirrus Logic with us. I think Venk's going to kick us off with some -- a few prepared remarks.

Venkatesh R. Nathamuni - *Cirrus Logic, Inc. - CFO*

Thanks a lot, John, and thanks, everybody, for your interest in Cirrus Logic. So I just thought for those of you who are not familiar with the story, I'll just give a quick overview of the company, and then happy to answer questions.

So Cirrus Logic, we are a fabless semiconductor company, a leader in audio and increasingly in high-performance mixed signal. Been in business for 25-plus years. And revenue in fiscal '22 was roughly \$1.75 billion, \$1.76 billion. And from a profitability standpoint, about 50% gross margin and 25% op margin. And we generate a lot of free cash flow, and we return a lot of that free cash flow to investors in the form of buybacks as well.

And then just at a high level, if you look at our long-term strategy, so 3 things that really define us. One is, as I said, continue to focus on audio as a leader in audio and smartphones, which we've been really good at for many, many years, probably decades. And then we want to expand our audio capability beyond smartphones into other interesting opportunities across different end markets.

And then increasingly, over the last few years, we've done a pretty good job of investing in high-performance mixed signal products. And they have grown at quite a substantial growth rate over the last several years. And as we ended fiscal '22, our mix between audio and HPMS or high-performance mixed signal is roughly 2/3 audio and 1/3 in HPMS, and we continue to expand our growth in HPMS over the long term.

So with that, let me just pause and turn it over to you, John, to do Q&A.

QUESTIONS AND ANSWERS

John Nguyen Vinh - *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

Sounds good. Thanks, Venk. Maybe we can just start with kind of the earnings report that you just reported. It's been pretty clear now that we're through most of earning season, we were just talking about it. We've seen quite a bit of weakness within the smartphone market, but your results have held up better than your peers. I'm wondering if you could just briefly give us the puts and takes of what you guys saw in the quarter?

Venkatesh R. Nathamuni - *Cirrus Logic, Inc. - CFO*

Yes. Thanks, John, for the question. So as you alluded to, we just reported our quarter, fairly good results in terms of our actual results coming in above the high end of the guidance range. And what drove that was primarily our mix of products across the different customers, but particularly so with our top customer, which, as you all know, has done really well.

And last week, when they reported their results, they were pretty bullish about especially the high end of the smartphone market. And for us, that has been a very key driver of long-term growth. And as I've stated in prior calls, we have a pretty close relationship with that customer. We have a very solid engagement across the entire slew of their product portfolio.

But as it relates particularly to this quarter that we just reported, we had strong growth in smartphone units. And as we all know, we serve primarily at the high end of the smartphone business, and that has been relatively strong. So that's something that really helped us.

And outside of that large customer, we continue to do really well with some of the other flagship Android smartphone companies, and that has been a pretty solid performance for us as well. And then finally, we do have about 20% of our business across a whole slew of other product categories outside of the top customer, and those have shown fairly good strength as well.

So it's a combination of a multitude of things. But I'd say the primary driver of the good performance in the last quarter was driven by our top customer and our focus on the high end of the smartphone units.

John Nguyen Vinh - KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst

Great. Just a follow-up. I think one of the comments you made during the call was that you're expecting a little bit more of a linear back half of this calendar year, whereas historically, kind of the seasonality for you has really been more front-end loaded. September typically has been up 50% on a 5-year historical average. This year, you're guiding to roughly 20%. Wondering if you could just talk about why you're expecting things to be a little bit more linear this year?

Venkatesh R. Nathamuni - Cirrus Logic, Inc. - CFO

Yes. No, great setup. So I think for those of you who have been following Cirrus, it's pretty clear that we've had a pretty outstanding performance in the last couple of quarters in a row. We came in to the March quarter substantially above our guidance. And then again, in the June quarter we came in at the high end of the guidance as well.

And so one of the things that we want to point out is we are certainly benefiting from the secular shift to some of the high-end smartphones and especially from our key customer, but also across the board. And we wanted to make sure that as we look ahead, and beyond the next couple of quarters, it's important to note that we've had pretty solid performance in the first half of the year.

And it's only reasonable to assume that especially given what's happening on the macro concerns and such. We want to be just cognizant of the fact that our outperformance in the first couple of quarters, while we expect good -- we've given good guidance for the September quarter as well. But it's fair to assume that we need to have some sort of linearity in the second half of the year, especially given the solid outperformance.

And one of the things that we mentioned on the call is that we are primarily driven by supply constraints at this point in terms of our ability to meet customer demand. And that situation continues to persist. So while the demand situation is really solid, as we have pointed out to our -- in our guidance, we are still constrained by supply. And that's something that we want to make sure that people were cognizant of as they look at modeling us for the remainder of the year.

John Nguyen Vinh - KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst

Great. You also disclosed the development of 22-nanometer next-generation audio codec. Can you clarify what process now the current generation codec is on? And I'm wondering if you could just talk about just -- so what sort of performance improvements are you expecting in terms of moving from current generation node to 22-nanometer? And then also from a cost perspective, is there also kind of a cost-benefit there?

Venkatesh R. Nathamuni - *Cirrus Logic, Inc. - CFO*

Yes. Lots of subparts in that question, well I'll try to answer a lot of them. So just to level set, as I mentioned at the very outset, our focus on audio has been absolutely stellar and the performance in audio over the years has been really solid. And we continue to make tremendous improvements from one generation of process node to the next.

So currently, the part that is shipping is on 55-nanometer, which is actually fairly advanced in the big scheme of things in the analog world, but we're moving even further along to 22-nanometer codec. And this is something that we announced on the call, we have started development of the 22-nanometer codec with our key customer. And that's something that is going to provide pretty substantial performance improvement.

Actually, it's a multitude of things that you can expect with this 22-nanometer codec. Number one, it's going to be much smaller die size because of the fact that we're going from 55-nanometer to 22-nanometer. The power envelope is going to be substantially more efficient as well. And that's driven by the fact that on a more advanced node, you'll get power savings.

Clearly, you alluded to, John, on the cost side, we do expect because the form factor is going to be much smaller than what it was in the current generation, that's going to provide benefits to the customer as well in terms of lower footprint and therefore, lower cost.

And then finally, I would say that in terms of just the feature set that we add, in addition to the codec, one of the key areas of functionality that we provided over the years is providing really advanced ADCs or analog-to-digital converters. And there's a whole slew of these ADCs that are embedded in our codec. And so in addition to providing the normal coded functionality, the customer is able to use this for a whole slew of algorithms and processing capabilities that are also embedded.

So I would say it's a whole slew of things that get added to this capability with 22-nanometers. And as we stated in the call, we have started development on this product. Just to level set people, we expect -- usually, what happens is once the development starts, it takes about a couple of years for it to manifest itself in terms of revenue. So we do expect revenue contribution starting in fiscal '25. But also, this is another indication of the level of visibility that we have in terms of our product portfolio and the revenue stream that we expect from those products that we introduce.

John Nguyen Vinh - *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

Speaking about visibility, I wanted to talk about just kind of how you guys are thinking about generational content growth. I think you've been pretty clear that this year, the content growth expectations are going to be more modest. I think you kind of characterized it as being driven by higher attach rates of existing components, which I think you're referring to the camera controller, and that next year is going to be more substantial.

Obviously, you've highlighted kind of the long-term wafer commitments with GlobalFoundries. I'm wondering if you could characterize maybe what the content growth next year is going to be driven by? Is it just more higher attach rates, greater content from next-generation parts or potentially new incremental chipset content?

Venkatesh R. Nathamuni - *Cirrus Logic, Inc. - CFO*

Great. Yes. Thanks for the setup. So I think we have been very clear that in terms of the revenue growth, the way we see it playing out over the next, call it, several quarters and couple of years, is that fiscal '23 is going to be much more of an incremental growth year.

As we all know, fiscal '22 was a very solid growth in terms of our top line, up 30% year-on-year. So it's only fair to assume that fiscal '23 would be somewhat moderated in that regard. And it's not necessarily much of a content growth story. There's a little bit of content growth, but not as substantial as was the case in prior years.

Fiscal '24 is where we see some -- really reasonable growth. And that's going to be driven primarily by high-performance mixed signal products. There's a combination of increases in attach rate to some of the products that we already have, but also some new content, a new category, so to speak. And as you know, with our top customer, we can't really talk about the details of that content, but suffice it to say that it's fairly unique and

differentiated and something that we've built in conjunction with that customer. So that combination of those 2 product areas should give us incremental growth in fiscal '24.

And then as I just talked about with our codec product line, which is essentially a new generation codec, which has all the capabilities in addition to the codec with the ADCs, that's going to kick in, in fiscal '25.

So if I were to step back, I would say fiscal '23, fairly de minimis growth, but still growth, we think. And then in fiscal '24, we'll see more growth primarily driven by the fact that we have increased attach rates with existing products as well as some incremental content and some new content or a new category, I should say. And then fiscal '25 to layer on top of that when we introduced the 22-nanometer codec, that should add on additional capability.

So one of the things about our business is the fact that we have this long-term relationship with this customer and we're able to see how things play out and communicate that to the street.

John Nguyen Vinh - KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst

Great. Are there any questions there?

Okay. Venk, just kind of a higher-level question. I think you were talking about this earlier that over the last 10 years, you've done a phenomenal job of kind of diversifying your content expansion on kind of these flagship smartphone platforms, right? You started with smart codecs and amps.

And now you've got power ICs, camera controllers and haptics. So I think you've kind of highlighted kind of 5 platform areas in your kind of corporate presentations. Going forward, which of these areas are you expecting to see the most amount of growth going forward?

Venkatesh R. Nathamuni - Cirrus Logic, Inc. - CFO

Yes. I'd say, to your point, the company has done a really outstanding job of growing the top line over the last several years. One of the first things I did after I started was look at what the historical performance has been. And Cirrus Logic has actually grown its top line by 15% CAGR over the last 10 years. We're just in an industry that, as we all know, has its ups and downs.

So I think that just highlights the fact that we have a slew of IP and new products that are constantly being introduced and having this strong relationship with a customer, with the top customer, but also across the board, expanding our market opportunity beyond what was originally audio in smartphones then expanding audio into other markets besides smartphones. And then as you pointed out, John, this whole new category of HPMS or high-performance mixed signal, where we've introduced camera controllers and haptics capabilities and amplifiers and so on and so forth and power conversion ICs.

And so as we look ahead, I think it is reasonable to assume that we will continue to grow our high-performance mixed-signal product line substantially faster than audio. And I think that will be driven by not only existing applications where we're going to increase our attach rate with more functionality over time, but also introduce some new categories, and one of them that I alluded to, which is going to be a new product category in fiscal '24.

So I think it's not one thing. It's a combination of several things. And part of what makes that possible is our early engagement, our deep engagement and our collaboration with not only our top customer but across the board.

John Nguyen Vinh - KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst

I want to talk about your long-term wafer purchase commitments with GlobalFoundries. I think, John has said in the past that if you were able to acquire additional capacity, he would. I'm wondering if you could just maybe talk about that a little bit more in the current environment?

We've seen several of your peers actually announce, because their demand is getting softer, that they're actually looking to de-commit or renegotiate some of their long-term wafer agreements. I'm wondering if you're on your end starting to see some of this incremental supply become available to you? And is that something you guys are engaged with GlobalFoundries maybe looking to maybe acquire additional capacity at this point?

Venkatesh R. Nathamuni - *Cirrus Logic, Inc. - CFO*

Yes. Great question. So I'd highlight, first of all, that as I mentioned at the very outset, we are still in a supply-constrained environment. And we see that persisting for some time. And obviously, a lot of it depends also on how business conditions evolve over time. But suffice it to say that at least in the short term, we certainly see supply constraints persist.

With that said, as you pointed out, we have a very good and long-term partnership with not only GlobalFoundries, but with TSMC and other foundries. And this partnership has really been very beneficial to both companies. And as we look at our supply needs over time, we certainly want to be cognizant of the fact that while we have this long-term contract, if we could use some additional capacity, then we certainly will.

And so we're in the process of having these conversations with our partners. And we want to make sure that we can make use of the macro concerns that we have in terms of mobility and consumer to figure out how much of that capacity is fungible and so forth.

But it's an ongoing engagement and dialogue, especially with GlobalFoundries and with TSMC. And we really look forward to the partnership that we have with them, which is very strong, and we're trying to work out how we can get some additional supply over time.

John Nguyen Vinh - *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

Maybe we can talk a little bit about Androids and -- Android smartphones and PCs. I think you -- it was interesting that you kind of characterize the demand from Android smartphones as being more impacted by supply constraints than anything. Most of your peers have maybe characterize it more as an end demand issue.

But I'm just wondering if you could clarify, is this more of a supply or a demand issue that you're facing? And also on the supply front, are the supply issues on your side in terms of not getting enough supply or are they kitting issues related to your customers? And I'm wondering if you could also talk about that in regards to PCs as well?

Venkatesh R. Nathamuni - *Cirrus Logic, Inc. - CFO*

Yes, sure. I think first thing I would like to do is bifurcate the Android market into what's obviously happening in the China smartphone market versus what's happening elsewhere. And clearly, we've all read the news articles about China smartphone still being fairly in a tough spot, just given where the demand is and inventory situation and so forth.

But if you just step back and look at the other side of the Android business, which non-China smartphone, so to speak, we have good engagements with pretty much all the marquee players in Android. And really solid content. And we typically tend to participate in the high end of that market. And we have some really solid content across the board at some of the largest Android vendors.

And also very important to make note of the fact that we have not been the long pole in the tent when it comes to supply issues. So we have maintained our commitment to all those vendors. And so when we talk about supply constraints for Android, it's about future opportunities, whether we want to engage in certain opportunities depending on not only the level of that opportunity, but also whether we have enough supply to meet that demand.

So I think our situation is different from what we're hearing from some of the other players in the market. We have been fairly good at serving our top Android customers. We have pretty good design wins with them, and we continue to see some good visibility going forward. But obviously, given the supply-constrained environment, we'll be very selective about where we engage going forward.

And then I think you had a follow-up question on laptops. So in the laptop market, I think we announced on the earnings call that we have 40 new laptop models that we have now -- we are designed into. And so that's obviously a tremendous growth opportunity longer term.

So just to put things in perspective, this is something that is fairly small in terms of revenue contribution today, but we do see a tremendous opportunity to grow that over time, especially as we go from what are traditional laptops now more to the ultrabooks, which are ultra-thin. They have pretty tremendous constraints in terms of the form factor. So you need to be able to implement amplifiers that can support high voltages in these small form factors.

And that's something that Cirrus is really good at. I mean we take the technology that we've developed in smartphones, and we're able to apply that to the high end of the laptop market. And today, we're already engaged with 4 of the top 5 laptop companies, and we see that engagement continue to flourish.

And in terms of the actual opportunity to sell additional content, it could go up to 4 boosted amplifiers because as people use laptops more in a hybrid work environment, they want to get the higher video and audio quality, and that's something that is clearly enabled by Cirrus products. So we have the opportunity to sell multiple amplifiers and haptics for trackpad control. And then eventually, we'll be able to sell some fast charging products as well.

So we see laptop business as driven by a lot of secular trends, which I think enable us, especially given our expertise in implementing these features in smartphones, which are obviously very feature-rich and demanding from a space-constrained standpoint, and applying those technologies and abilities to the laptop market.

John Nguyen Vinh - KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst

Great. Can you quantify how much laptops are contributing to your revenues today? And then maybe also talk about the CPV per laptop? And what's the total TAM opportunity for you?

Venkatesh R. Nathamuni - Cirrus Logic, Inc. - CFO

Yes. I don't think we've disclosed what the actual revenue contribution is, but I'd be very transparent in saying that it's not a big chunk of our business today. But as we stated on the call, we are investing in this business. We have a lot of early design wins that clearly are very promising from the standpoint of our ability to grow that business over time.

And also from a content perspective, as I just mentioned, being able to sell multiple amplifiers, being able to sell haptics driver and some power management devices and power conversion for battery -- battery life and longevity. So there's a whole slew of products that we can sell into laptops. And I think there's a distinct possibility that it could get to about the same level of content that we have in some of the smartphones -- in the flagship smartphones.

And then specifically, as it relates to the TAM opportunity, I think we've stated that it could be about \$1.2 billion to \$1.3 billion by fiscal '26. And that's driven by the fact that increasingly, the laptops are getting more sophisticated. And with all the dollar content that we see, we have the ability to bring a similar level of functionality that we have in smartphones.

John Nguyen Vinh - KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst

Great. Can you give us an update on Lion Semi? Maybe talk about any sort of additional progress you've been making there in terms of maybe securing additional design wins or kind of new product opportunities since you've acquired them?

Venkatesh R. Nathamuni - Cirrus Logic, Inc. - CFO

Yes. So Lion, obviously, we -- for those of you not that familiar with the story, we acquired them about a year or so back. A tremendous team, lots of innovative architectures that they have brought to the table already. And when we first acquired them, they already had a book of business in the China smartphone market, and as you all know, China smartphone market has gone through some sort of a correction.

But I think the Lion team has done a really good job of expanding the content into non-China smartphones. So that's the first foray that they've been successful outside of China smartphones. So that's progressing well. And then longer term, we do see the opportunity for that technology and that architecture to be implemented across a slew of other markets, particularly in the area of laptops and fast charging is something that a lot of the consumer products can use.

And so we are now in the process of identifying those opportunities and implementing them. But pretty happy with the technology and the team and where we can take it from here.

John Nguyen Vinh - KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst

Great. Venk, on gross margins, obviously, inflation, higher input cost is something that everybody is seeing in the supply chain and dealing with. I'm wondering if you could talk about just the visibility and the confidence you have in being able to seeing kind of 50% gross margins from here on out?

Venkatesh R. Nathamuni - Cirrus Logic, Inc. - CFO

Yes. No, thanks for that. I'm glad you asked a finance question. I'm a CFO. So on the gross margin side, I would say that we have done pretty well, especially the last couple of years, we've come in closer to the high end of the guidance range. But I think the way -- the best way to think about gross margin for us going forward is in that 49% to 51% range, which is what we guided to for the September quarter.

And I'll just give you some of the puts and takes as it relates to gross margin. So clearly, you know our customer profile, you know the breadth of our products and so forth. And so where we think -- and also on the supply side, we have some long-term contracts and such. So I think it's fairly reasonable to assume that our pricing is fairly fixed over time. There'll always be certain deltas in certain submarkets and so forth. And then on the cost side of things, at least as it relates to the GlobalFoundries relationship, some of those cost inputs are fixed.

So I think the best way to think about long term is the 49% to 51%. Over time, certainly, as we add additional capabilities and introduce new features and such, we want to see where we can take it from there. But I think the best way to model gross margin for us is in the 49% to 51% range.

John Nguyen Vinh - KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst

Great. I think it looks like we're out of time. Thank you very much.

Venkatesh R. Nathamuni - Cirrus Logic, Inc. - CFO

Thank you so much, and thank you all for your interest in Cirrus Logic.

John Nguyen Vinh - KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst

Thank you.

Venkatesh R. Nathamuni - *Cirrus Logic, Inc. - CFO*

Thanks, John. Appreciate it.

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