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# Cirrus Logic, Inc. (CRUS)

Q3 2024 Earnings Call

## CORPORATE PARTICIPANTS

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## OTHER PARTICIPANTS

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**Matt Ramsay**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, thank you for standing by. Welcome to the Cirrus Logic Third Quarter Fiscal Year 2024 Financial Results Q&A Session. At this time, all participants are in a listen-only mode. After a brief statement, we will open up the call for questions from analysts. Instructions for queuing up will be provided at that time. As a reminder, this conference call is being recorded for replay purposes.

I would now like to turn the conference call over to Ms. Chelsea Heffernan, Vice President of Investor Relations. Ms. Heffernan, you may begin.

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**Chelsea Heffernan**

*Vice President-Investor Relations, Cirrus Logic, Inc.*

Thank you and good afternoon. Joining me on today's call is John Forsyth, Cirrus Logic's President and Chief Executive Officer; and Venk Nathamuni, Chief Financial Officer. Today, at approximately 4:00 PM Eastern Time, we announced our financial results for the third quarter of fiscal year 2024. The shareholder letter discussing our financial results, the company's earnings release, and the webcast of this Q&A session are all available at the company's Investor Relations website. This call will feature questions from the analysts covering our company.

Additionally, the results and guidance we discuss on this call will include non-GAAP financial measures that exclude certain items. Reconciliations of these non-GAAP measures to their most directly comparable GAAP measures are included in our earnings release and are all available on the company's Investor Relations website.

Please note that during this session, we may make projections and other forward-looking statements that are subject to risks and uncertainties that may cause actual results to differ materially from projections. By providing

this information, the company expressly disclaims any obligation to update or revise any projections or forward-looking statements, whether as a result of new developments or otherwise.

Please refer to the press release and the shareholder letter issued today, which are available on the Cirrus Logic website and the latest Form 10-K, as well as other corporate filings registered with the Securities and Exchange Commission for additional discussion of risk factors that could cause actual results to differ materially from current expectations.

I will now turn the call over to John.

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## John Forsyth

*President, Chief Executive Officer & Director, Cirrus Logic, Inc.*

Thank you, Chelsea, and thank you, everyone, for joining our call today. As you've seen in the press release that Chelsea referred to, in the third quarter of fiscal year 2024, Cirrus Logic delivered record revenue of \$619 million and record non-GAAP earnings per share of \$2.89. In a moment, I'm going to hand the call over to Venk to discuss these results in greater detail. But before we get on to that, I'd like to provide a quick update on the progress we've made in the last quarter regarding the long-term growth strategy that I've outlined on prior calls.

As I've said previously, our first strategic priority is leadership in smartphone audio, where we are looking forward to introducing our next-generation custom-booster amplifier and our first 22-nanometer smart codec later this year. These new products will deliver significant performance improvements over prior generations, enabling our customers to build more compelling and power-efficient devices for users.

In addition to preparing these products for launch, we're also continuing to win designs with Android customers on next-generation flagship smartphones. During the quarter, a key Android customer began shipping its latest flagship phones featuring Cirrus Logic audio amplifiers and we also began ramping multiple components for the early 2024 launch of another leading Android flagship device.

Shifting to the second pillar of our strategy, we remain very enthusiastic about the potential to grow content in smartphones with our high-performance mixed-signal solutions. We view this product line as a substantial opportunity to not only expand our addressable market, but also to grow and diversify our revenue. Our progress in this area has been showcased with our camera controllers. Since the introduction of our first camera controller in calendar year 2020, we have launched three generations of these products, with each delivering enhanced performance, functionality, and most recently in the fall of 2023, additional signal processing capability to enable new features.

The overall value of our camera content has increased over time, and we foresee this upward trend continuing in the future, as we maintain our close engineering collaboration with our customer to further innovate in this area. Beyond the camera, we also see significant potential to expand our addressable market with advanced power and battery-related technologies. And today, we are actively engaged in a number of R&D programs focused on power and battery performance, which we believe can fuel future growth.

The third element of our strategy is our focus on expanding into new applications and markets beyond smartphones. In this area, we continue to be excited about the opportunities we see in the laptop business. Today, we are delivering content to each of the top-five laptop OEMs and actively pursuing many future design opportunities. In January, at CES 2024, we saw a leading laptop OEM introduce two flagship laptops featuring several of our amplifiers, multiple haptic drivers, and a codec.

Moreover, in addition to our growing momentum in laptop audio, in the December quarter, we were pleased to have been awarded our first laptop power socket, further expanding our laptop content opportunity. And yesterday, we were proud to announce our collaboration with Intel and Microsoft on a new PC reference design for Intel's upcoming Lunar Lake processor. This reference design includes our codec, amplifier and power converter products, and will enable the creation of richer, more immersive audio experiences for laptops, as well as extending battery life and enabling thinner, sleeker laptop designs.

Finally, we remain keen to deploy our products and technologies in further markets beyond smartphones and laptops. And in the December quarter, we began ramping production of two custom components for a newly-introduced augmented reality computing device. With our commitment to product innovation and world-class execution, we believe we can continue to identify and capitalize on further opportunities in new applications and markets in ways that grow our business.

With this growing and diversifying portfolio of technologies and products, it's important that we actively invest in our supply chain in order for us to develop new process technology that will meet the needs of future generations of products and in order to provide our customers with the assurance of supply and geographical diversity that is becoming increasingly important. During the December quarter, we took delivery of and commenced validation of our first silicon from a new foundry partner.

This development will serve to qualify both the process technology and core IP needed to enable the creation of next-generation power solutions, and provides us with a path to delivering those products from fabrication facilities based in the United States. We believe that this initiative will help make our supply chain more resilient and competitive, and help us meet our customers' needs for innovation and quality for many years to come.

In summary, we're pleased with our progress in the December quarter as we delivered record financial results and executed on many important areas of product development. With the commitment to great execution and to serving our customers in their mission to deliver the world's most innovative products, we are today investing in the product areas that we believe will enable the company to grow and diversify in the coming years.

And with that, let me now turn the call over to Venk to provide an overview of our financial results for our fiscal Q3 2024 as well as guidance for the fourth quarter.

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## Venkatesh R. Nathamuni

*Chief Financial Officer, Cirrus Logic, Inc.*

Thank you, John. Good afternoon, everyone. I'll start with our fiscal third quarter results and then provide guidance for fiscal Q4. Thanks to outstanding execution from the entire Cirrus team, we delivered record revenue as well as record earnings per share for the fiscal third quarter. Revenue was \$619 million, which was significantly above our guidance range, as sales of components shipping in smartphones exceeded our expectations driven by strength in orders from our largest customer.

Shipments stayed strong throughout the quarter, including the post-holiday week, and we also benefited from an additional week of revenue in the quarter associated with the 53-week fiscal year. As such, revenue was up 29% quarter-over-quarter, and increased 5% year-over-year, due to higher smartphone unit volumes.

Turning now to gross profit and margins, non-GAAP gross profit in the quarter was \$317.9 million, and non-GAAP gross margin was strong at 51.4%, driven by the higher revenue. On a sequential basis, gross margin was roughly flat, while on a year-over-year basis, gross margin increased by 110 basis points, reflecting lower supply

chain costs, mainly driven by the absence of wafer premiums and expedite fees, as well as favorable inventory reserves. This was partially offset by a less favorable product mix.

Non-GAAP operating expenses in the quarter were \$125.6 million, up \$11.2 million sequentially. Non-GAAP operating expenses increased by 10% sequentially, but were substantially below the 29% quarter-over-quarter increase in revenue. The sequential increase was mostly due to higher employee-related costs, including an extra week of salaries and benefits associated with a 53-week year, as well as variable compensation. As in prior quarters, we will continue to control discretionary expenses. Non-GAAP operating income was \$192.2 million in the third quarter, or 31.1% of revenue.

Turning now to taxes, our GAAP and non-GAAP tax rates for the December quarter were lower than expected due to recent IRS guidance issued to US taxpayers regarding R&D expense amortization rules in the Tax Cuts and Jobs Act of 2017. Consequently, our tax rates for the December quarter reflect the cumulative tax benefit of applying the IRS guidance to decrease R&D capitalization amounts for all periods since the fiscal year 2023 effective date of this provision.

And lastly, on the P&L, non-GAAP net income in the third quarter was \$160.6 million or a record \$2.89 per share as the higher-than-expected revenue and gross margin flowed through to the bottom line in addition to the one-time tax benefit I alluded to earlier.

Let me now turn to the balance sheet. Our balance sheet continues to remain strong and we ended the third quarter of fiscal 2024 with approximately \$587 million in cash and cash equivalents. Our ending cash balance was up \$234.5 million from the prior quarter, primarily due to strong cash flow from operations, partially offset by stock repurchases during the quarter. We continue to have no debt outstanding. Additionally, as noted in prior quarters, we have \$300 million undrawn on our revolver credit facility. I'd like to reiterate that our balance sheet remains strong with a solid cash position and no debt.

During the December quarter, we reduced inventory levels. Inventory balance at the end of the third quarter was \$256.7 million down from \$328.9 million in Q2 as we drew down inventory to support our largest customer's new product launch.

As a result, days of inventory declined 50 days sequentially, and we ended the quarter with approximately 78 days of inventory, down from 128 days in the prior quarter. Looking ahead, in Q4 fiscal 2024, we expect inventory dollars to increase slightly from the prior quarter. We continue to actively manage our inventory position to meet customer demand while still fulfilling our purchase commitments.

And turning to cash flow, cash flow from operations was \$313.7 million in the December quarter, and CapEx was roughly \$9.8 million, resulting in non-GAAP free cash flow margin for the quarter of 49%. For the 12-month period ending in the December quarter, non-GAAP free cash flow margin was 14%. On the share buyback front, in Q3, we utilized roughly \$57 million to repurchase approximately 780,000 shares of our common stock at an average price of \$72.93.

As of the end of Q3 fiscal 2024, we had \$365 million remaining in our share repurchase authorization. We expect to continue to return capital in the form of stock repurchases, which we believe will provide a long-term benefit to shareholders going forward.

And now on to the guidance. For Q4 of fiscal 2024, we expect revenue in the range of \$290 million to \$350 million. We expect gross margin to range from 49% to 51%. Non-GAAP operating expenses are expected to

decrease sequentially and to be in the range of \$114 million to \$120 million, primarily due to lower variable compensation and one less week of salaries as we return to a 13-week quarter. Overall, from an operating expense perspective, we will continue to control discretionary spending but invest strategically in product development to drive long-term growth.

Our fiscal 2024 non-GAAP tax rate is expected to be approximately 21% to 23%, which is lower than our prior quarter's guidance of 24% to 26%, and reflects the cumulative tax benefit of applying recent IRS guidance that clarified aspects of the capitalized R&D rules.

In closing, we had a strong Q3 fiscal 2024 as we delivered record revenue, and record non-GAAP earnings per share thanks to the collective efforts and strong execution by the entire Cirrus Logic team. Going forward, we will continue to focus on the best opportunities to enable the company to grow both revenue and profitability over the long term.

And finally, while we understand there is intense interest related to our largest customer. In accordance with Cirrus Logic company policy we will not discuss any specifics about this business relationship. With that, let me now turn the call to Chelsea to start the Q&A session.

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### Chelsea Heffernan

*Vice President-Investor Relations, Cirrus Logic, Inc.*

Thanks Venk. We will now start the Q&A portion of the earnings call. Please limit yourself to a single question and one follow-up. Operator, we are now ready to take questions.

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## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Your first question will come from the line of Tore Svanberg with Stifel. Please go ahead.

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### Tore Egil Svanberg

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Yes, thank you and congratulations on the record revenue and especially the cash flows. First question. So John, you said in your Shareholder Letter that the camera content has increased over time. You just introduced your third generation, but it's going to be like three generations in three years. So should we assume there's going to be a fourth generation next year that will potentially have some additional content? And obviously that's above and beyond what's happening on the audio side?

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### John Forsyth

*President, Chief Executive Officer & Director, Cirrus Logic, Inc.*

A

Thank you Tore and thanks for the nice words. I wouldn't assume that as a baseline assumption. What we have seen over time is that the value of the content has grown partly with the introduction of new camera controllers from us, which have more features, but partly also as a consequence of increased attach rate, and then greater proliferation through the SKUs, and generations of products. So we see that as being the kind of collection of drivers to the trend of growth and value over time. That's not to say that we don't have plenty of development work going on in the pipeline around the camera controller. We do have some very exciting stuff, but we're not signaling a timeframe for that coming to market yet.

**Tore Egil Svanberg**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Good. Thank you. And as my follow-up, you announced the new foundry. It sounds like maybe that's more for power management. Correct me if I'm wrong there, but should we sort of assume that this goes hand-in-hand with some of the R&D programs you have going underway? And how long would it take, I guess, for you and your foundry partners to develop this to be a very high volume business?

**John Forsyth**

*President, Chief Executive Officer & Director, Cirrus Logic, Inc.*

A

Right. Yeah. Great question. The focus there is predominantly around power related devices, so that might include some power management, power conversion. Obviously, we've had some products out there that we call power conversion control, and so on, which don't quite fit any of the [ph] need (00:18:20) boxes in that area of products, but that kind of stuff generally will be extremely well served as we go forward by this foundry partnership. And so, yes, that's a yes to the first part of your question. In terms of timeframe well we've just seen the first silicon. I think we're very excited by it, but that's still quite some way from that being a high volume kind of process for us.

So think of us as being still two to three years out from actually having product, and then probably not starting with a huge volume product just so that we can get up the ramp safely together. But these things are, they take a while to develop, but then as I think our track record has shown certainly in other areas where we've invested and worked very, very closely with foundry partners. We then get many, many years. In fact in the case of some of our products that's a decade or so of deriving a lot of competitive advantage and performance advantage from the work that we've done together on process development. So it takes a while, but then we're very excited about where it can take us in the long run.

**Operator:** Your next question comes from the line of Matt Ramsay with TD Cowen. Please go ahead.

**Matt Ramsay**

*Analyst, TD Cowen*

Q

Thank you very much. Good afternoon. John, I wanted to ask about the notebook market. It's been something that's been on the come for Cirrus for a while, and you mentioned, and congrats on the partnership with Intel and Microsoft. You mentioned being in shipping to each of the top five laptop OEMs. And I wanted – it's a fraction of the units of the smartphone market, but it's not that horribly different from the units shipped into the smartphone market by your largest customer. So I'm just trying to get my head around how you're thinking about the notebook opportunity over time in terms of realistically addressable market in the next three to five years? Is this something that you could ship many of the same components into? And from a unit perspective, and an ASP perspective collectively it's relatively similar opportunity to what your company is serving in the smartphone space given you ship primarily to one big customer there. I'm just trying to calibrate my expectations over a three- to five-year period of how you're thinking about that market? Thanks.

**John Forsyth**

*President, Chief Executive Officer & Director, Cirrus Logic, Inc.*

A

Yeah, thanks Matt. So just to unpack that a little. We are in the early innings, and I've given a bit of color previously on what I expected our potential revenue ramp may be over the next year or two, so fiscal 2024 really just it's de minimis. But as we get into fiscal 2025 we think that will be low tens of millions, and then, growing beyond that. So the work that you're seeing us talk about today when we talk about design-ins, and the Lunar



Lake reference platform that's really mostly feeding into products that we'll see in calendar 2025, so that should be an accelerant to revenue there.

I would like to put a ceiling on the SAM that we see because that's as we uncover more opportunities, I think that we are feeling more optimistic about that over time. There are certain variables there, which honestly remain to be seen. Like for example how many amplifiers are attached in the various different product tiers. So we see today designs ranging from between two boosted amplifiers to six boosted amplifiers and that may be alongside of codec.

And in the case of the flagship products that we talked about in the opening remarks that were launched in January we also saw haptics drivers along there as well. So I think that's the color on the revenue ramp that we see right now. I think that the biggest and most important thing here is really the three milestones that we've passed.

So first of all seeing the launch of the audio products. So those boosted amplifiers and the codec that were in that – in those products that I mentioned those are laptop specific brand new audio products from us.

And the audio proposition I think is extremely strong. So what we've seen in benchmarking that against the competition is that our products enable you to double the output loudness 3x the low frequency response while consuming 50% less board space, 50% less power, and something like a third of the overall component count, so that's a very compelling proposition. It's going to take time to see people adopt all of that or parts of it, and for that to proliferate down through the tiers, but I think the opportunity is very, very significant.

And then so the first milestone was really getting those audio products into the market and launched. The second is winning our first power products. So again that's something where we can see an attach rate. Where that gets designed in, the attach rate can be two, or three products in some cases, conceivably more than that. But that again, and those products, the power conversion products have a fairly significant value by our standards so kind of buck and change.

So we don't know exactly like how far down through the tiers I can go yet, but again it represents a great opportunity, and getting the first design in of power products is a very significant milestone for us. And then the third milestone that we're talking about here today really is that reference design launch. And that as we know can be a real catalyst for helping design activity as we go forward.

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**Venkatesh R. Nathamuni**

*Chief Financial Officer, Cirrus Logic, Inc.*

A

Yeah and Matt this is Venk. Just to add to what John said. In terms of just the total size of the opportunity that we're looking at as well as the pricing question that you asked. So clearly, we're starting out with addressing the high end of the laptop space. And as John just alluded to there's a range of possibilities there in terms of selling the codec, and the amplifiers, and then power eventually.

And then just from a pricing standpoint I'd say, we expect this to be in line or above our corporate average gross margins, so that's our model long term, and that's what we're working towards achieving.

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**Matt Ramsay**

*Analyst, TD Cowen*

Q

Thank you both for all the detail there. Don't worry we won't get over our skis of modeling. I'm just trying to sort of calibrate my expectations over the longer term. As my follow-up question. It's a year where as you, sort of, I



guess, reemphasized that you're going to be shipping a new codec on 22 nanometer, and new boosted amplifiers both later this year. And I guess, I just wanted to ask, is there going to be anything diff – I mean, units aside, which obviously you won't want to predict. But anything different in the revenue ramp cadence or timing given you have new products shipping in on both the codec and the amplifier sides? Just all else equal on units would you expect a different shape to the year because both of those products would be new into SKUs? Thanks.

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**Venkatesh R. Nathamuni**

*Chief Financial Officer, Cirrus Logic, Inc.*

A

Yeah Matt I'll address that. No I think you correctly identified the increased content that we had alluded to in prior quarters in terms of what we expect in our fiscal 2025. And I think in terms of just the timing of those ramps, the typical pattern with our customers being to ramp those products right around the middle of the year plus or minus. So we don't see anything that's fundamentally changed in terms of the timing of those ramps.

And in terms of the overall content, we did talk about those four components that will have a newer generation compared to the prior phone model. So we're pretty excited about the fact that we're reducing the next generation of the codec and [indiscernible] (00:26:50) for the next generation of the amplifier. And that's what we expect will drive our performance in fiscal 2025.

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**Operator:** Your next question comes from the line of Thomas O'Malley with Barclays. Please go ahead.

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**Tom O'Malley**

*Analyst, Barclays Capital, Inc.*

Q

Hey good evening guys and thanks for taking the question. John in the script you talked about two custom components for an augmented reality product. Could you talk about what sort of products you would be shipping into that genre? And then, potentially how you see that portfolio scaling? You're seeing small unit volumes to start there over the past couple of years, but that could obviously be a lot larger in the coming years. Just want to understand where you guys best address that market?

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**John Forsyth**

*President, Chief Executive Officer & Director, Cirrus Logic, Inc.*

A

Yeah thanks Tom. I think we're excited about that category without really having anything significant in our model for it for now as you alluded to. If you look back over the last three or four years, I think perhaps even slightly longer than that since the category has been emerging of VR and AR, we've got a very good track record of getting sockets in there typically with off-the-shelf silicon, and typically focused on audio. In this case, the components that I was alluding to in my opening remarks are actually in the HPMS category. I'm not going to be more specific about what they're doing than that, but again that's a positive for us, I would take as it demonstrates that we have both HPMS and audio relevant capabilities for that category of device. And I think that makes a lot of sense because we know that physical size, physical weight, and power efficiency are going to be incredibly important when it comes to anything that you have to wear on your head for extended periods. So we're excited long term, and we'll kind of continue to monitor that category as hopefully it accelerates.

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**Tom O'Malley**

*Analyst, Barclays Capital, Inc.*

Q

Super helpful. And then switching to an entirely different topic. Just back on the other updates in the new foundry. I just wanted to be clear. So, you're talking geographical diversity, you're talking more power products there. Is this a foundry that's based in the US or just a foundry that has a facility in the US, just trying to understand better the landscape? Thank you.

**John Forsyth**

*President, Chief Executive Officer & Director, Cirrus Logic, Inc.*

A

Yes. Yeah. The foundry facilities are in the US. I think I'll probably leave it there. We're still in fairly early innings with them in the partnership, but – yeah, as you correctly highlighted, we have seen geographical diversity become an increasingly important concern, along with the other things that we look for within our supply chain and foundry partnerships, namely technology leadership, assurance of supply, and a competitive playing field.

**Operator:** Your next question comes from the line of Christopher Rolland with Susquehanna. Please go ahead.

**Christopher Rolland**

*Analyst, Susquehanna Financial Group LLLP*

Q

Hey, guys. Thanks for the question. Mine's around Intel reference designs. So, first of all, I just want to make sure you are not in the Meteor Lake reference design. I would assume that you're not in the Arrow Lake. And so, the first one would be Lunar Lake. I guess, getting into a reference design, how does that change the profile of wins for this market? And I guess, tied to this as well, this power product, can you tell us a little bit more about this, is it power conversion, is it DC-DC, what's its actual function? Thank you.

**John Forsyth**

*President, Chief Executive Officer & Director, Cirrus Logic, Inc.*

A

Yeah. Thanks, Chris. I would love to be able to tell you with confidence what it's going to do for the design momentum, I think – but the truth is we don't know yet. I think it can only be a good thing. I think we're – certainly, we've been very excited in that collaboration with Intel and Microsoft about the vision for laptop devices, which are substantially more immersive when it comes to the audio and visual experience, and thinner, lighter, more power efficient. So, we're very, very proud to be a part of that.

How that translates in terms of adoption and what it means for designing of our components, it's probably too early for us to say. I would say that, typically, I think you can expect pretty good design momentum on the back of being on the reference design, as you would expect. And also, we're excited that it looks like that laptop market may see a bit of a kick from the interest in AI-centric devices and use cases as well. So, hopefully, we're getting aboard a train that's accelerating there.

The power conversion product itself, yeah, that's leveraging switch-cap power conversion technology, which originated with the Lion acquisition that we did. So, it's replacing kind of a classic, like a multi-phase buck controller, power conversion architecture. So, it reduces the component count as well as really significantly increases the efficiency of the DC to DC conversion. So, your heat losses are much lower. You're able to effectively get more done using less power drawn from the battery. So, that's really going to be focused primarily on driving fanless and single fan designs, so thinner, quieter, more efficient products.

**Christopher Rolland**

*Analyst, Susquehanna Financial Group LLLP*

Q

That's great. Nice to see that Lion acquisition come around. My second question is around gross margin and in particular, as we think about laptop products mixing in, but also this new content coming in the fall. Is there anything that we should consider regarding gross margin between here and there?

**Venkatesh R. Nathamuni**

*Chief Financial Officer, Cirrus Logic, Inc.*

A

Yeah. Chris, thanks for the question. It's Venk. So, from a gross margin perspective, as I had alluded to earlier, as it relates to the PC business, we do expect that to be in line or slightly accretive to our gross margins long term. As you know, our model has been fairly steady between 49% and 51%, and in some quarters, we come in close to the high end, some quarters, right in the middle. And I think that's driven by the fact that we want to optimize between revenue growth and profitability such that we still are able to grow the top line at a fairly decent clip and maintain good profitability.

Now, over time, our objective, obviously, is to improve the profitability across the board, and that's driven by the fact that we want to improve the supply chain infrastructure and just boost efficiencies in general. But I think for the next at least a year or so, you can model it between the 49% to 51% range, and that's inclusive of the PC business. As I said, with the PC business, we expect to be in line or above the corporate average.

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**Operator:** Your next question comes from the line of Ananda Baruah with Loop Capital. Please go ahead.

**Ananda Baruah**

*Analyst, Loop Capital Markets LLC*

Q

Hey. Yeah. Thanks, guys, for taking the question. Good afternoon and congrats on the really solid execution. I guess, two quick ones if I could.

**John Forsyth**

*President, Chief Executive Officer & Director, Cirrus Logic, Inc.*

A

Thanks.

**Ananda Baruah**

*Analyst, Loop Capital Markets LLC*

Q

Maybe – hey, John – just dovetailing off of your remark about GenAI a moment ago. It does seem like there's an increasing commitment from sort of edge device makers, the phone makers, the PC makers, to lean into GenAI sort of config. And so, I guess the question is, if that were to happen at some critical mass, the benefit to you, would it be a volume feature? Is there a mix component? I guess, any context you can share there on how it would benefit you guys. And then, I have a quick follow-up as well.

**John Forsyth**

*President, Chief Executive Officer & Director, Cirrus Logic, Inc.*

A

Yeah. Thanks for the question, Ananda. I think, I mean, there's certainly a growing tendency for people to jump on the AI, edge AI bandwagon from a marketing perspective. I think there's probably some substance there and that – in some cases there may be less. In our case, when we think about AI at the edge, I really think it comes down to – the potential there really comes down to three things. One is like to the extent that it excites and inspires users, and I think end users do want a number of the features, you can see that with the adoption of AI services, then – that's exciting from a units point of view. And clearly, when I talk about the laptop market, seeing that kind of coming over the horizon as a catalyst for unit sales, that's very exciting.

Secondly, I think just that AI and GenAI has the potential to open up a lot more variety of ways in which you interact with the device. So, to the extent that people are interacting with the device more via audio and speech interfaces, which are obviously enabled by AI, I think that's very good for us and we can see things that we could potentially do there in the audio domain that could be very beneficial. And then, finally, I think on the power front, that's the third area where I think we stand to benefit, because AI is clearly very power hungry. The result is

everybody wants to do more with less, and that's squarely what our power conversion products are aimed at, and our overall approach to power efficiency and everything that we do.

**Ananda Baruah**

*Analyst, Loop Capital Markets LLC*

Q

That's great context. I appreciate it. That's super helpful. And I guess the quick follow-up is just really a clarification. When you were speaking earlier about PC SAM, you said something around like sort of putting a ceiling on the SAM. Did you say you would or wouldn't put a ceiling on that SAM as you guys think about it?

**John Forsyth**

*President, Chief Executive Officer & Director, Cirrus Logic, Inc.*

A

I think it's premature to put a ceiling on it right now. As I indicated, we've got a very good array of products. So, we've got these kind of new to Cirrus laptop-specific products across audio and power. We've got an amazing portfolio of haptics products. And one of the things that we don't yet have a feeling for and I think this is because the market is going to discover it, is what the right attach rates for those various products are. So, in some cases, it will be two boosted amplifiers. In some cases, maybe none, but driven by a codec. And in some cases, it might be six boosted amplifiers. Similarly, we saw multiple haptics drivers to drive very large trackpad areas and so on. So, I think we're still in the discovery phase there and the opportunities are very exciting.

**Operator:** This will be our final question from the line of Tore Svanberg with Stifel. Please go ahead.

**Tore Egil Svanberg**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Yeah. Thanks. I just had a few housekeeping ones for you, Venk. So, this is your strongest cash balance ever. Rates are high, so how should we think about the other income line going forward, and now that you have all this cash, should we assume continuous buybacks or are you also looking at some potential M&A?

**Venkatesh R. Nathamuni**

*Chief Financial Officer, Cirrus Logic, Inc.*

A

Yeah. Tore, thanks for those questions, and – yeah, and as you pointed out, our cash balance is really strong at \$587 million. I think the way to think about the interest that we generated, obviously, we've benefited especially in the last three or four quarters with the higher interest rates, and the way we've structured our portfolio, we do expect that to continue for some time to come. And clearly, from an M&A perspective, it certainly gives us the optionality.

Just for everybody's benefit, I do want to highlight the fact that, in terms of our strategy, the first use of cash is, obviously, to continue to grow the business. We have lots of irons in the fire in terms of the projects that we're working on, technologies that we're working on and such, and we want to continue to invest in R&D going forward, as we have in the past. And then, obviously, we've been doing buybacks and we'll be regular buyers. The quantum of those buybacks will depend on market conditions and such. And then, M&A is also an option. And in this environment, we do feel that the M&A environment is getting somewhat better than it was in the last couple of years. Obviously, too early to call what happens with regulation and such, but we feel there's enough in the pipeline for us to be able to consider M&A, and at the right time, we will share that with you in more detail.

**Operator:** With that, we will end the Q&A session. I will now turn the call back to John for his final remarks.

## John Forsyth

*President, Chief Executive Officer & Director, Cirrus Logic, Inc.*

Thank you, operator. In summary, Cirrus Logic delivered record revenue and earnings per share for the third quarter, and continue to execute on important initiatives across each of the three key areas of our strategy. We're excited about the opportunities in front of us, and we thank you for your continued interest in our progress. In addition, I'd also like to extend my appreciation to the entire Cirrus Logic team, and to our supply chain partners and customers around the world. It's thanks to their commitment, support, and partnership that we've been able to deliver these results.

Before we close, I'd also like to note that we will be participating in the Susquehanna Virtual Technology Conference on February 29th, the Morgan Stanley Technology Media & Telecom Conference on March the 7th in San Francisco, and the Loop Capital Conference in New York City on March the 12th. Please check our Investor website for all the details. Thank you everyone for joining our call today.

**Operator:** That does conclude today's call. Thank you all for joining. You may now disconnect.

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