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Cirrus Logic, Inc. (CRUS)

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MANAGEMENT DISCUSSION SECTION

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

Thanks for being with us here at the very tail end of our conference on day four. Hopefully, it's been good for everybody that's been in attendance. We've got the management team here of Cirrus Logic. I'll introduce them in just one second, but let me just read one disclosure here from Morgan Stanley. For important disclosures, please see the Morgan Stanley research disclosure website at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales representative.

So, it's my honor, Mark Edelstone here, to be able to discuss the company here with all of you. John Forsyth, the company's CEO, and next to him, Venk Nathamuni, the company's CFO. I think this is just an incredible company when I look at what you do, the technology that you have, the capabilities that you bring to bear, the culture that the company's been able to basically spawn over a long period of time. So we'll talk about all those things.

QUESTION AND ANSWER SECTION

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

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But maybe just to first start. So, John, you've been at the company now for a decade. You've been CEO for, I think, four years – three years now?

John Forsyth

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

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Yes.

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

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Three years and change.

John Forsyth

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

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That's right.

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

Q

And Venk, you've been basically CFO here for a couple. So, just kind of maybe first start at a high level, if you would, John, on kind of how you see the core competencies of the company and just the overall strategy you're really trying to drive?

John Forsyth

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

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Yeah, absolutely. Thanks, Mark. And just thank you for having us here. We're really enjoying the conference. I'll start by saying a few things about how we think about how we lead the company and how we think about the company from a high level, and then talk a little bit about the strategy. We have a number of principles that we hold very dear and try to adhere to. One of those is very long-term focus. One of those is investing in innovation. One of those is focusing on really outstanding execution for our customers. One of those is being disciplined on OpEx, in particular SG&A.

And then, finally, what we want to do is take the core abilities and strengths of the company and apply them to more products and markets over time. So, as you know, we've historically been fairly concentrated in audio and in the smartphone market. And we believe that we have abilities and IP and capability that has a huge amount of relevance and value way beyond that. And we're kind of on that journey now of expanding the products and markets that we – that where we have significant offerings.

So I want to expand on a couple of those things and then touch on the specifics of the strategy that we're involved in. So I mentioned the long-term focus. Nothing we do is easy. We try to focus on big problems that our customers are facing, where there's kind of multiple years of product iteration and headroom for innovation and growth. So we're really interested in the kind of big challenges our customers face.

Secondly, I mentioned that we have this strong focus on innovation. And I really think that the heart of Cirrus is this outstanding engineering culture. So, analog and mixed-signal engineers are – they're thin on the ground and we're very, very fortunate to have a large number of some of the most talented in the world. And we really try to invest in them, support them and encourage them to do their best work and tackle big problems.

I would struggle to think of a product that we make which isn't the best in its category often, and in fact, maybe mostly by some margin. So we really have an aspiration and commitment to excellence in our engineering. And that's really the heart of the company right there in that fact. But that needs to be coupled with tremendous execution.

So one of the things that we feel we've really developed over the past 10, 15 years, and our customers absolutely rely on us for, is that we're not only tackling very hard problems, but we are delivering on time very, very high quality and able to support some of the most demanding product ramps for some of the most demanding customers in the world every year without missing a beat. And as you can imagine, there's a huge amount of expertise and effort and continuous improvement that that's required to develop an organization with that level of capability over time.

So, I also mentioned that we're very keen to expand our reach in terms of products and markets over time. And that's really where we're at now on our strategic journey. I talk often about our three kind of strategic vectors. One of those is continuing to lead in smartphone audio, which has been the kind of main revenue driver over the past decade. And then secondly, expanding that reach into high-performance mixed-signal products also in the smartphone space. And then thirdly, to take both audio and high-performance mixed-signal IP into other markets and other product categories beyond, where I believe there's a lot of opportunity for us over time.

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

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Yeah. Fantastic. Well, maybe just on that point to start, you've kind of had a goal here of getting the high-performance mixed-signal business to half of the total business. Kind of just maybe give us a little bit of a report card in terms of when you started to lay out that objective to broaden out the company's portfolio, how you think you've done, and then maybe a sense as to when you actually reach that split? And then, what's next? Because I'm sure you won't be happy just stopping there.

John Forsyth

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

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Yes. To the last point, I think that's very important. We're not aiming for a 50/50. What we're – the goal is to really invest in that as a long-term significant growth opportunity for the company. And of course, I think we can grow beyond 50% of our revenue, while we continue to invest and grow in audio as well.

How we're doing on that? I guess, we really started talking about that about three years ago. We've had some significant acceleration in the HPMS space since that time. We've obviously – most particularly driven by camera content and then power conversion content. So it will vary from quarter to quarter. But you say we're roughly in the region of a third to 40% of HPMS right now.

I see that – that's not a – it's not going to be linear progress there, but we continue to feel very optimistic about the opportunity to continue to grow HPMS revenue over time across multiple product vectors. So I think the significance of that is really that we see product categories now as being relevant opportunities for us that maybe five years ago just really weren't there. So, whether that's – I mentioned camera, but in several areas of the power

space, I think we've demonstrated our capability there and have considerable investment ongoing to bring more innovations to customers.

Venkatesh R. Nathamuni

Chief Financial Officer, Cirrus Logic, Inc.

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Yeah. And I'll just add to that. In terms of just where we are allocating our R&D resources as well, I think there's a significant shift that's going on. Just to follow the market dynamics, as you know, audio is a fairly big market, but it's also fairly stable and we have a fairly good share of that market.

And if you look at where the market expansion opportunities are, there's tremendous SAM expansion and TAM expansion for us in high-performance mixed-signal. And you'll see over the last couple of years, the trajectory of our spending is also tilting more towards HPMS because the possibilities are really outstanding for us over the long term, and that's where we're putting our focus right now.

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

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Right. And maybe just following on that a little bit, given both your comments, John, you on the innovation side of things, obviously, the R&D is going to be the driver behind that. Can you just kind of walk us through, if you can, a little bit of how you kind of aim the resources that you have, how you think about the return profiles you're trying to get?

When you're just sort of starting with we're good in audio, we've got smart codecs, we've got haptics, we've got sensors, we've got a lot of different things today. But as you're looking for either enhancing those further or doing the new things beyond that, how do you measure that? You can do a lot of different things with your team. So what's the process you go through to figure out where you're going to target?

Venkatesh R. Nathamuni

Chief Financial Officer, Cirrus Logic, Inc.

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Yeah. Maybe I'll start with that and John can add to it. So, essentially, Mark, you hit the nail on the head in terms of just how do we make sure that we're investing in the right products with the right return profiles for the company because, at the end of the day, we want to grow revenue at a pretty healthy clip, but we also want to make sure that we bring out the highly differentiated products and such. And we also have profitability objectives in terms of expanding where we are from today to where we think we can be in the space.

So obviously, it's also a good balance between growing the top line at a fairly healthy clip. And over the last 10 years, for example, we've grown at substantially faster growth rates than the overall industry, while keeping profitability fairly stable. But we think there's an opportunity for us to continue to grow the top line with all these new HPMS capabilities that we alluded to. On top of it, also having the discipline in terms of investing in such categories that where we can, number one, differentiate ourselves in a meaningful way, and number two, get paid for our differentiation.

And so we have a slew of metrics that we talk about internally in terms of looking at the various projects. At the end of the day, it's a portfolio allocation problem and a challenge, but also an opportunity to ensure that we take our core competence in analog but also in high-performance mixed-signal. Because as you know, one of the key things that differentiates Cirrus relative to most of the traditional players is that not only do we have really outstanding high-precision analog, but we're also able to go to much more advanced process nodes than a typical analog company would do.

As an example, in our most recent quarter, we talked about a new generation codec that's going to be at the 22-nanometer node, and that's a clear indication that unlike a traditional analog company, we're now able to expand into both analog and digital at a much more advanced node than what's typical of that industry. So, to answer your question more directly in terms of just the portfolio allocation, is driven by differentiation. At the end of day, that's the number one source of value creation. And number two is how do you do the portfolio allocation in such a way that you're going after the right opportunities and get paid for those opportunities.

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

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And how do you – anything to add to that at all?

John Forsyth

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

A

Yeah. I'll maybe just add a little. I think Venk's covered a lot of the bases there. But just to underscore, we're – when we think about how we prioritize, I mentioned at the top of this conversation that we take a very long-term focus. And one of the things that's not always appreciated, because we have a significant exposure to "consumer," one of the things that's not often appreciated is how long very many of our products continue to ship for us. So we may ship a codec into a consumer smartphone and continue to ship that for half a decade.

And you only achieve that if you work very closely with customers on the sets of problems that they see way out into the future and you design for that. And so we're looking for – when we're choosing our product investments, we're looking for things which have that set of qualities of solving really tricky mixed-signal, signal processing problems for customers which are going to yield good returns for the long run.

And if those are in this space, which requires really advanced process investment and engineering expertise for analog mixed-signal, then typically we're looking at things – we're looking for these things where we're some of the only people that could solve those problems and, wrapped up in that, there's likely to be a lot of stickiness as well.

So those are the things we look for most. And then, of course, as I mentioned, we're very, very keen on SAM expansion. So, products which take us into new technology categories or new markets, we regard as very, very strategic for the company.

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

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Perfect. So those are a lot of great – really good qualitative things. And I'm sure there's a quantitative overlay as well.

John Forsyth

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

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Of course.

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

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Is there some of that that you can sort of talk about in terms of what size of a product opportunity do you go after over a lifetime? Because obviously, you got stuff that could last a long time. So is there kind of lifetime revenue

metrics? Are there ROI metrics that you think about relative to cost of capital and those kinds of things? Or how does the quantitative side fit into it all?

John Forsyth

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

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Yes. Yes, there are. There are lots of metrics. I'm not going to talk about all the specifics of those. Yeah, we have specific metrics and targets that we look for in terms of the ROI on any given investment. But you've also got to take a long-term view of what this market represents. So if you take, for example, the products we've been developing for the PC market, we didn't – of course, we pay attention to the individual investments in products, but we're also approaching that market as a greenfield opportunity for us where there's going to be a – there's the opportunity to grow our SAM meaningfully for the long run. So you've got to take the kind of entire market opportunity and lifetime – life-cycle of the products into account there.

Venkatesh R. Nathamuni

Chief Financial Officer, Cirrus Logic, Inc.

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Yeah. I mean, just to add to that, on the PC stuff, this is another example where we have developed fundamental IP that's so relevant to the PC market based on our tremendous track record and history in smartphones.

So if you look at the PC market as an example, we have taken IP for audio codecs and amplifiers and even some power capabilities that we fine-tune and really got the best performance on the smartphone side. And now we're leveraging that IP on the PC side of the business and catering to the high-end of that market. So this is a classic example of how do you generate the best possible ROI with the combination of [ph] IP to use, (00:15:16) as well as going after markets where you can differentiate your products.

And then to John's point about the longevity, so to the extent that you can have an R&D investment that is sticky and generates returns for a long time to come, it gives us the benefit of taking those free cash flow dollars that we generate and reinvest it in new R&D and pursue new markets.

One other example I'd give is also in the general market. So, typically Cirrus is associated with smartphones. And now we're obviously making a foray into PCs, but we also have a traditional book of business that's very similar to a high-performance analog catalog business. And that's something that is varied between 10%, 15% of revenue, depending on the particular year and quarter.

And that's an area where, as you know, it's very sticky where we've had lots of singles and doubles, so to speak. And we are investing in that portfolio because that's an area which is incredibly sticky, incredibly profitable relative to our core business and has the potential for us to expand our margins over time.

John Forsyth

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

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Right. I want to say something else on the subject of like product-specific ROI and so on, Mark, because I think for us in Cirrus, we also try to keep a very big picture perspective on this stuff. And if you're working very closely with really world-class customers, you don't always get to choose exactly like when you're a close strategic partner and when not. And some of those opportunities are going to be bigger and some less big relative to the investment.

And I think for us, like what – we have a general set of ambitions and principles that we want to be in markets where there is SAM expansion, either that's happening within the market itself or because we can expand our –

we can see ways that we expand our technology and product reach within the market. And then we want to be working with the biggest and most successful customers within those markets. And we favor markets where the market share is structured that if we work very, very closely with the top handful, that we've got access to a lot of that market. And we want to be working on high-value, sticky problems with them.

And as long as we kind of hold true to that, I think we see very good returns over time. And you want to keep that in mind as well, even when you're looking at any one opportunity.

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

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Yeah. And I think the track record speaks for itself. You've obviously gotten a pretty good scale, very good profitability. And so what you've been doing for quite some time has been working well.

Maybe when you think about – like, is there a filter when you think about the new product areas you want to go into? The business, just definitionally by having so much going into the smartphone market, tends to be pretty seasonal. Is that a filter you think about at all as you come into these new applications, hard problems, different market subsets, to maybe try to fill in some of that seasonality that happens in just the rest of the business?

John Forsyth

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

A

I think that may be a byproduct. It's not a primary driver.

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

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Yeah.

John Forsyth

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

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We're more focused on are there high-value problems where we can offer a really differentiated solution. And that tends to be wrapped up – once you've identified that there's enough value in the market, that tends to be wrapped up in our technology focus. So we're really – we solve problems where typically there is a fair amount of high-precision analog combined with digital, there's a fair amount of signal processing.

Once you get to the point you need a fair amount of digital and logic alongside the analog circuits, there are very few people who can do that as efficiently and precisely as we can. And so we're looking for that rather than dynamics which modulate our seasonality in particular. Though that may happen as a byproduct, because, of course, we do think there are many markets beyond consumer where we have highly relevant capabilities.

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

Q

Yeah. And if you sort of take just a longer period of time, just I think definitionally with the way that you are innovating and executing and planning for future generation products, it would seem as if your customer concentration probably diminishes over time. You'll get more diversity among your end markets and whatnot. When I look at the quality of products, you say you're doing hard stuff. That should be valuable. We're in this golden age now with semiconductors where the things you can do are pretty differentiated and therefore you should get quite well compensated for that.

So it feels like if I looked at the company over the next 5 to 10 years, I should see a pretty good improvement in what the margin structure could look like. But maybe kind of walk through that. And a couple of things to think about. One is, what does it mean for gross margin as you expand out into different markets with a broader customer base? And then today, you spend a lot of money in R&D, which is great. So you're obviously fueling it back in the business.

But because you have some of that customer concentration, you end up having very lean or not the need for a big broad SG&A spend. So when you kind of like weigh all that stuff and you think about where this company could be over the next 5 to 10 years, what does that sort of profile look like from broader strokes of margins?

John Forsyth

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

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Yeah. There's lots in that. I'll add a few comments and I'll let Venk chime in. The first thing I want to speak to is the customer concentration because, of course, what happens to that over time is a function of how we grow with that customer as well. And we love working with that customer. It has been the source of so much success and so many good things for Cirrus. And I like to think that there's a lot of mutual regard there that we help them solve problems which are very, very valuable to them.

So I want to continue to work really hard on growing with that customer and growing business elsewhere. So, customer concentration will be an outcome of all of that that is not our primary focus. But there are dynamics that you referred to there where I do think we have lots of opportunity over time. We've talked about our ambition to expand the operating margin over time. I think we see some of the ingredients for that within the business today.

So I mentioned, when we ship a product, it typically ships for multiple years. That gives us the ability to drive R&D leverage, apply them to other products and other product categories, instead of the classic consumer model of being on this hamster wheel of needing to update the product every year. And so that's part of it.

But also IP leverage is going to become increasingly important to us as well. Historically, when we've been very, very focused on one customer and one product category and selling a few products into that, not – there may be IP leverage generation-to-generation, but not really across products, across markets and so on. I think over time we have more opportunity to do that as we get more established businesses in other markets like the PC space, for example.

And Venk alluded to the fact that our entry into the PC space has really been accelerated by the amount of IP investment we had already made in smartphone, audio and smartphone amplifiers, for example. So I think that's key. I think gross margins, that's going to be a function of a lot of things. But that's one thing where customer concentration will always be something of a headwind. And so, yeah, I do think that as we cultivate other businesses in other markets where margins can be more favorable, that certainly gives us some reason to be optimistic in the long term.

And I'll let Venk add some color.

Venkatesh R. Nathamuni

Chief Financial Officer, Cirrus Logic, Inc.

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Yeah, absolutely. So in addition to all of the things that John said, I would say we're perfectly comfortable with where we are in terms of today's model from the standpoint of balancing the growth with the gross margin profitability. Because, as you know, a lot of companies in the space who just pursue gross margin at the expense

of revenue, whereas for us, this is a balance between growing substantially faster than the industry. At the same time, maintaining fairly stable gross margins has been a good thing.

Having said that, we are continually investing in not only our engagement with our top customer, but with other markets, other customers as well. And as you know, especially as it relates to the high-performance analog catalog business, it'll take time, but it has the benefit of giving us substantially higher than average corporate gross margins. And that will play out over the next few years once that business provides a much more meaningful revenue contribution.

And then on the op margin side, to John's point, we are investing in R&D because we do see tremendous opportunities both with our top customer as well as in some of the market expansion areas and the PC stuff that we talked about in the last several quarters on our earnings call, but also the fact that we have a general market product category, which has been somewhat flattish for a few quarters, but we do expect to reinvigorate that portfolio and that's something that will require additional R&D investment, which I – which we believe is the absolute right thing to do for us longer term.

However, on the SG&A side, as we grow the business, as we get to scale, we do have leverage in SG&A. So we're not modifying our gross margin target here. But from an op margin standpoint, we have publicly stated that we have the potential to get the op margin to the high-20s from where they are today. And I think that's something that we believe is achievable over time.

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

Yeah.

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John Forsyth

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

So I'm slightly concerned, we've given you a lot of very diplomatic response there to a good question. I do want to say, the spirit of your question, I completely agree with. I think Cirrus is an outstanding engineering company in a space where there aren't many people who can do what we do. And typically you get paid for it higher than our current corporate gross margin. So why not? Yes.

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Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

Yeah. I mean, I think you hit it early on in your comments. It really comes down to IE, innovation and execution. You put those two together, it should give us pretty good growth and we should get paid for what we deliver.

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John Forsyth

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

I completely agree, yes.

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Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

So maybe on that kind of where we are in some of the cycles. Today, AI has obviously really captured everybody's attention. It's certainly been a big theme here at the conference. And it feels to me like edge AI is going to be a big thing. So I've been very much training focused and we're going to start to have much more

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inference. And it just feels so natural into some of the edge things. Basically, we'll be dealing with it through handsets and PCs.

So I think those applications would seem like pretty good opportunities for you, just from a pure volume perspective. So maybe just your over – kind of your broad strokes of how you see those cycles playing out. Like, do you think we're into a refresh cycle here soon that could be pretty meaningful and above normal for both handsets and PCs?

John Forsyth

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

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On the refresh cycle, I think it's reasonable to expect that to happen perhaps within the next couple of years. I don't know if it's as immediate as some people think. But certainly, we can see that in our investment in the PC space. We are obviously working with a lot of customers there, all of the top PC OEMs who are very excited about a generation of AI-focused and AI-enabling laptops. So I certainly think that has the potential to be very beneficial for us as well.

I – on your more general point about edge AI, I mean, I completely agree. I think there's no – both from performance perspectives, latency perspective, user experience and ultimately privacy, there's going to be a lot done at the edge. I think those are still going to be done – and most of that is still going to be done on the big digital chips at the edge with the smallest transistors you can possibly have. So we don't directly serve that, but that will bring a need for a lot of what we do.

In particular, I see the power space as one where even today in the AI use cases and functionality that are in devices shipping today, those – the kind of neural processing units and so on typically drive really significant spikes in power consumption, which can damage the battery, brown out the rest of the system. That's exactly the stuff that our power conversion architecture is designed to mitigate, both so that user experience doesn't suffer and you get a great AI experience, but also so that you don't damage the battery and prematurely age it.

So from – as long as AI continues to drive those kind of events from a system power perspective, which I think it undoubtedly will at the edge, our technology and our IP and our ability to innovate around power, I think, is going to be more and more valuable.

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

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Yeah. What else do you think when you – again, thinking about the big problems you're going after, the capabilities that your team could deliver, are there other things outside of the power management and battery management kind of stuff that could be AI-related problems that you could ultimately address? And I'm thinking multiyear kind of time horizon.

John Forsyth

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

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Yeah. I think there are other things – I mean, I'm very interested in how the voice interface evolves with AI. I feel like it's probably been on something of a plateau for a while when you had this period when Siri and Alexa and so on all came in and then everybody kind of reached maybe a sort of equilibrium state of what they use them for. And the utility beyond that set of use cases was fairly limited. And I think it's pretty clear to everybody that LLM or something driven by LLM connected to a voice assistant has the potential to offer vastly richer dialogue. And then, of course, that needs to be wired up to everything else to actually do something useful on the back of that.

But there is a possibility, if those pieces of the jigsaw puzzle fall into place, and as really I think everybody would probably agree, it's when, not if, on that front, then that's – one would expect that to drive significantly more voice interaction with devices. I don't know whether that's your phone or something you're wearing and so on, but it should do. And in that case, I would say we can – again, Cirrus is in a great place to innovate and improve the user experience there, because whether it's on the input path of that or the output path, it's all going through our silicon.

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

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Yeah. That would certainly be my sense as well. So when you think about the kind of the big blocks, if you will, of technologies you have today, smart codecs, amplifiers, power management, the battery stuff, sensors, haptics, camera, there's a lot there already that can obviously be targeted at a number of these new applications. But are there other things that you're working on or that you have hopes that you'll be able to continue to add more and more technologies to what you already have in the market today?

John Forsyth

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

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Yes. Yes, absolutely. And I'm definitely not going to talk about them, but yes. That said, we've got to be – it's obvious, I'm very keen on expanding the reach of Cirrus. I think one of Cirrus' virtues, though, over the longest time has been its ability to focus, our ability to be selective about what we go after. So we don't want to talk about too much stuff that's too far out in the future. We want to get – so we're very well established in the smartphone space and audio. I think we've done a really great job of expanding that through haptics, camera and power in the smartphone space.

We have now, I think, really gathered momentum in the PC space, and we have today shipping audio codecs, boosted amplifiers and haptics drivers. We've got power chips for the PC space on reference designs. And we've got a – task number one, mission number one for the company is make sure we execute on all of that stuff and serve our customers well.

But I do think there are – yeah, we do believe there are continued – just as we've managed to expand in the HPMS space to things that people wouldn't have necessarily expected us to go after like cameras and power, we believe that, yes, there are other areas where we have a lot of relevance and where our kind of pattern of picking something that's a kind of classic analog mixed-signal problem and solving it with increased digital and a higher level of integrated processing is going to be very, very beneficial to the user and the end customer.

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

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Yeah. Maybe just going back to the R&D thing, again, I know it obviously sounds pretty disciplined in terms of how you do the spend. But do you think in terms of like allocating a certain amount of your R&D budget or some of your engineering talent to some of these next-generation things? And if so, like, give us a sense for how big that could be of the pie.

John Forsyth

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

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It's – yeah, we do – I think it fluctuates a bit depending on what's – you also need very specific skill sets and types of people to do really kind of innovative greenfield work as well. And so, sometimes we need those people

working on the problems we have today and sometimes we can give them much more time to work on the problems that we have tomorrow. We're very – I feel extremely fortunate that Cirrus – that over a long, long period, Cirrus has done a great job of hiring and retaining and cultivating people who are absolutely extraordinary innovators.

I mean, we had – last year, we had somebody be awarded their 500th US patent, which puts them in a truly elite list of inventors throughout all of history. And so, yeah, it's not just about how many dollars, it's also how many IQ points and who you have working on that stuff. So we have both within the main R&D organization and then a little thing that sits off to the side. We have – we make sure we carve out a chunk of time and resource to explore new problems.

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

Fantastic.

Q

Venkatesh R. Nathamuni

Chief Financial Officer, Cirrus Logic, Inc.

And just to add to that, Mark, I would say from an R&D portfolio allocation perspective, obviously there's a book of business that we're running today where we know we have good visibility into what's coming down the pike in terms of next generations of those products. And that's clearly an area we're continuing to invest in. And the second aspect of the bucket is how do we expand our SAM into new markets. PC was one example we talked about earlier. The general market portfolio is another area where we think there's tremendous opportunity for us to expand the footprint across a multitude of other end markets.

And then the fourth category I would say is greenfield, where we are looking out the next 5 to 10 years and making sure that we have enough of our intellectual horsepower working on problems that are difficult to solve, but Cirrus is uniquely positioned to solve them through the combination of high-performance analog and high-performance digital.

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

Right. And then there'll be inorganic path as well. And my own observation is that the company has been pretty good at the M&A that you've targeted so far of basically be able to integrate what you've acquired or repurpose it in some cases to continue to allow you to be innovators and build your – increase your TAM and SAM.

Q

John Forsyth

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

Well, yeah. I mean, notably 10 years ago, Cirrus acquired Wolfson, which I came through the Wolfson acquisition. So, to say I have a dog in that fight is putting it very mildly. I think that one went well. But I guess – and we've done a few tuck-ins along the way. I guess, our most recent kind of notable acquisition was Lion, which I think started off well, went through some notable turbulence with the Chinese Android market, which it was pretty much entirely dependent on.

But then coming out of that, we got some great IP and technology assets which have then fed directly into a road map of power products for the PC market, which is now – we have those products or some of those products in customer hands and designed into customer products, end user products now, and we're very excited about that.

A

So if we can find non-organic ways of accelerating our strategy or expanding our market reach, I think we'd be very interested in that.

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

Yeah.

Q

Venkatesh R. Nathamuni

Chief Financial Officer, Cirrus Logic, Inc.

And just from a – for those who follow the company pretty closely, they're aware that we have a pretty strong free cash flow generation model that's done pretty well over the years. Obviously, our first use of cash is to continue to invest in R&D, as we've talked about earlier. But we also have a sizable balance sheet, almost \$600 million in cash, with zero debt. And so we're using that cash not only to do some buybacks, but also looking at M&A from the standpoint of not only tuck-in acquisitions where we continue to fill portfolio gaps, but we do have the ability to do something that also helps with the market expansion goals that we have.

A

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

Yeah. Maybe last broad topic is, seems to me that, again, you built this great company with these very strong opportunities in part because of this really excellent culture that's been created over time. So, maybe just talk about how you continue to foster that and make sure that it stays intact so you can hire the right people, keep them engaged and continue to be an innovation company that executes.

Q

John Forsyth

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

Yeah. That's a huge part of the ongoing conversation amongst leadership and managers and I think everybody at Cirrus. And I think everybody at Cirrus recognizes it. You have to understand, I guess, that in our world, there are very few people with the kinds of skills that we need. We need to treat them really well and give them plenty of room to do their best work. So there isn't that much more to it, actually. Treat them really well and give them lots of room and tools and resources and support to do their best work.

A

And generally speaking, that has worked out extremely well for Cirrus. It's a very kind of egalitarian culture where I think we have a huge amount of respect for people for what they bring rather than where they sit in an organizational hierarchy or whether they have a corner office. I think that kind of spirit of just really valuing great engineering and great engineers is kind of what makes the company what it is.

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

Yeah. So maybe just in the last 15 seconds we have left, is there one thing or two things that you'd say that investors just don't know or really just don't properly appreciate about the company?

Q

John Forsyth

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

I'll let Venk answer that...

A

[indiscernible] (00:39:48)

Venkatesh R. Nathamuni

Chief Financial Officer, Cirrus Logic, Inc.

A

I'm happy to. Yeah, I would say, I mean, people think of Cirrus as being so exposed to one customer. I would say that's actually been a very positive both for Cirrus as well as the customer. I would like to think that is equally appreciated with the customer as much as we appreciate their engagement with us. And the fact that we've grown the relationship very strongly over the last 15-plus years, I think, is a testament to the level of customer intimacy that we have, the level of execution excellence that we have and the true spirit of cooperation that we have.

John Forsyth

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

A

Nicely put.

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

Wonderful. Well, with that, gentlemen, thank you so much for being with us today.

John Forsyth

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

Thank you, Mark.

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

I appreciate your time.

John Forsyth

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

Appreciate it.

Mark L. Edelstone

Managing Director & Chairman-Global Semiconductor Investment Banking, Morgan Stanley

And best wishes.

John Forsyth

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

Yeah, you too.

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