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Cirrus Logic, Inc. (CRUS)

Barclays Global Technology Conference

CORPORATE PARTICIPANTS

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

Jeff Woolard
Executive Vice President & Chief Financial Officer, Cirrus Logic, Inc.

OTHER PARTICIPANTS

Tom O'Malley
Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Tom O'Malley
Analyst, Barclays Capital, Inc.

All right. Welcome back, everyone. I'm Tom O'Malley, semi and semi-cap analyst here at Barclays. Very pleased to have Cirrus Logic with us. We got John Forsyth, CEO; and Jeff Woolard, CFO. Thank you for being here.

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

Thank you.

Jeff Woolard
Executive Vice President & Chief Financial Officer, Cirrus Logic, Inc.

Thanks for having us.

QUESTION AND ANSWER SECTION

Tom O'Malley
Analyst, Barclays Capital, Inc.

Q

So forgive me, but I must ask the question that is floating around on everyone's minds at this time. You've got this big spending trend in AI, right? And today, it's very data center-focused, right, $3 trillion plus in announced data center spend. You've got companies that are very data center-centric that are addressing this first and they're doing that through re-timers, cabling, memory, et cetera. But over time, the idea is that you're moving away from data center-centric compute and potentially to the edge. The edge seems like a place in which Cirrus can play a lot more effectively. Correct me if I'm wrong, one. And two, where do you see yourself potentially intersecting this trend longer term?

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

A

Yes. So, first of all, yes, like I think we're very much of the edge. I believe that AI will become more and more of a thing of the edge. I don't think it's quite there yet. And the kind of boundaries between what takes place at the edge versus the data center is not completely clear. But at a high level, I would say a couple of things. Firstly, anything that squeezes power and space is favorable to us. And what I mean by that is, you're going to be doing a lot more intensive compute at the edge, it's going to put a lot of pressure on the power consumption of the device. You're going to want bigger batteries, you're going to need to have more memory in there. And two things that we do extremely well create very, very power efficient chips. So we can help the system optimize for that level of power consumption and also by the standards of our peer companies, we tend to produce chips that are not only more power efficient, but they're also in smaller packages. So again, we can be a part of the design solution for devices doing AI at the edge.

The other thing I'd say is that I really believe, however AI at the edge ends up being used, a lot of it will be done through voice. And so whether it's on the input side, the output side or around voice, or in fact when it comes to the image path as well, we are part of the basic IO of the device and we have a lot of voice enabling IP, great amount of history in delivering enablers for the voice interface. And I think that's the natural mode for using a lot of AI functionality as a conversational interface in the end. So, I think that creates great opportunities for us in devices that you see as in today, whether that's phones and/or PCs, but also in new categories of AI devices that we're going to see in the coming years.

Tom O'Malley
Analyst, Barclays Capital, Inc.

Q

It's a perfect lead in, so I saw an announcement around auto earlier this week, obviously in the midst of all this, I would be better to have you fill me in on the details here. But it seems like when you think about voice at the Edge, auto is the perfect place to kind of see that intersection because a lot of times, at least today, your hands are busy, right? So, why is this an interesting future path for you guys and how real is that in terms of revenue contribution in the near term?
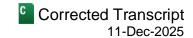
John Forsyth
President, Chief Executive Officer & Director, Cirrus Logic, Inc.

A

Well, thanks for highlighting the announcement this week. Well, we announced some automotive haptics products this week. We didn't say anything about voice and AI in the car this week. But that is something that we think a lot

about as well. I'll begin with that because the car actually brings lots of really interesting audio and acoustic challenges, whether that's noise cancellation or isolation and having different audio zones for different people in the car, all of whom are potentially speaking to each other or speaking to the AI and so on. So lots of really interesting challenges for us in that space and I think you'll see more from us in that area as we go forward.

This week, and I think this is very complementary to that, we announced a family of automotive haptic parts and that's really us kind of signaling our entry into automotive haptics, where I think it's fair to say the end user experience up until now has been really disappointing so much so that as you probably know, automakers have received a fair amount of pushback from consumers on the transition away from traditional buttons and so on. And that's not purely because consumers don't want to use buttons on the screen. It's partly because the actual experience and the feedback is so poor and it can be hard to determine whether you've pressed it properly. Sometimes it's laggy, which is an absolute killer for any kind of haptic experience.

So we've obviously been leaders in haptics in the consumer device space and in cell phones and so on for a long time now. In my opinion, it's not really an exaggeration to say that automotive haptics is somewhere around 20 years behind the haptics experience in consumer devices today. And we want to do our part to help address that. So, the products we announced earlier this week are bringing a kind of cutting-edge haptics experience to auto cabins, which means highly responsive, stuff that really feels like you're genuinely clicking on something, stuff where the click experience adapts to the speed, to the road conditions and so on. So, you always get really great user experience that we've been delivering on our other products.

Tom O'Malley
Analyst, Barclays Capital, Inc.

Q

So, auto supply chain, very different than consumer supply chains. Can you talk about the certifications first that you need to get into automotive grade products? That takes a long period of time. Where are you in that certification process? And then two, design-in cycles, three years, two to three years. If you're on to these products today, should we be thinking kind of a 2027, like 2027, 2028 timeframe for revenue?
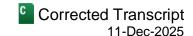
Jeff Woolard
Executive Vice President & Chief Financial Officer, Cirrus Logic, Inc.

A

Well, I think as you mentioned, auto does take a long time even in the quick design cycle. So, we're still a ways off from – we'll start giving color commentary on that. But as John said, we think there are a lot of exciting opportunities for us there. We're actively investing and pursuing those and feel good about where we're at, but it'll take some time for it to materially show up.

Tom O'Malley
Analyst, Barclays Capital, Inc.

Q

Helpful.

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

A

But to be clear, the products we announced are auto qualified.

Jeff Woolard
Executive Vice President & Chief Financial Officer, Cirrus Logic, Inc.

A

Yes.

Tom O'Malley
Analyst, Barclays Capital, Inc.

Q

Yeah.

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

A

And this is a public announcement. Doesn't mean we've just started working on – these products have been in some fantastic demonstration platforms, which have been going around to OEMs and Tier 1 integrators for quite some time now.

Tom O'Malley
Analyst, Barclays Capital, Inc.

Q

Can you explain the difference to me? I obviously use an amplifier to do the haptics in the smartphone. From a design perspective, is there a major difference in the automotive ecosystem? I would assume there needs to be reliability around being qualified in auto.

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

A

So, you have reliability and quality considerations with temperature ranges and so on. But it's also aspects like the user experience, like, as I said, being able to have a system that adapts to – that adapts the feel of the click to the speed or the road conditions and so on. So, actually delivering stuff at an algorithmic level, not just the chip level that really makes it fit for purpose in the car.

Tom O'Malley
Analyst, Barclays Capital, Inc.

Q

So, another area that you've been diversifying the business is on the PC side. You had a reference design with Intel which is proliferating, which is helpful for your suite of products. Looking into next year, I think you've talked about tens of millions and that's growing substantially into next year as well. Remind us what the 2026 outlook looks like there. But then you've got this other dynamic. PCs actually sound better next year. ODMs are kind of talking low single-digit growth, but then there's this counterbalance that's associated with memory, where there's a fear around consumer devices of potentially slower sales, given guys can't get memory. How do you balance that all out for what you're thinking about the PC business?

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

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Well, first of all, what I'd say is that for us, we're starting from a small base. It's all growth. I mean...

Tom O'Malley
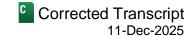*Analyst, Barclays Capital, Inc.*

Q

Good.

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

A

The overall units picture affects us much less than many of the other guys right now because we're growing quite significantly within the PC space. Yeah. And I think just to give you a color on the outlook, in fiscal 2025, which ended in March for us, we said low tens of millions of dollars revenue and that we expected that to double in fiscal

2026, which we're tracking to. And then that we would anticipate coming out of fiscal 2026 with still very good growth momentum as we go into FY 2027 and we'll give more of an update on that as we go forwards. But I think you can see now in the market some of the transition taking place that we think is very favorable to us. So, one of the factors that is driving our adoption in the PC market is the transition from a legacy interface called HDA, high-definition audio interface to a new audio architecture called SDCA.

And that transition has been kind of slowly underway for a couple of years now. It's gathering momentum. We estimate that somewhere between 15% and 20% of laptops today are using SDCA. That's, ultimately, that's going to be practically 100% and that transition is going to complete over the next two or three years. Today, out of those 15% to 20%, where people have migrated to SDCA, we estimate that 75% of those products are using Cirrus silicon. So, that's a big driver for adoption of our content.

Tom O'Malley   Q
Analyst, Barclays Capital, Inc.

Super helpful. Okay. We saved the fun for last. So smartphone side. So I think going into this year, particularly with your largest customer, but just generally in the model, you talked about front-end weighted cycle. And I think that there are multiple reasons for that just given your camera controller content, given what you saw from like a tariff perspective this year. It just seemed like to be safe, people were building a little bit earlier. And I think if you look at the trajectory that you guys saw, it really has mirrored that so far. Just a broader question. Like if you look at this cycle on a unit perspective and a content perspective versus kind of where you sat when you first started talking in the March, April, May, June timeframe, anything materially different or is that largely tracked to kind of what you thought?

John Forsyth   A
President, Chief Executive Officer & Director, Cirrus Logic, Inc.

Well, I think it largely tracks to what we thought. I mean, as we pointed out in some of the other calls, the shape was a little different. But I think largely pretty close to where we thought at the beginning of the year. And then others have referenced older generations of phones or [indiscernible] (00:22:50) have you seen any of those trends as well? As far as like we've heard from other companies, the RF providers in general that they've seen a mix of legacy phones, last year's phone or the year before phones still selling a little bit better. Is that something you guys are saying?

John Forsyth   A
President, Chief Executive Officer & Director, Cirrus Logic, Inc.

Those previous generations are still selling, but I think that generally aligns roughly with where we thought we would be.

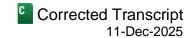
Tom O'Malley   Q
Analyst, Barclays Capital, Inc.

Okay. And then just checking in, we get this question a lot as well. Last generation, you talked about the 22-nanometer smart codec, some of the amps as well. The cadence there has been every five or six generations. Is that still the right way to kind of think about the updates on those? Any reason why you would push that forward faster?

John Forsyth   A
President, Chief Executive Officer & Director, Cirrus Logic, Inc.

There's a little bit of a balancing act to be done between getting on with other things, getting leverage out of the very substantial investments that we made to bring those products to market versus not allowing there to be any room for somebody to come in and sniping for those sockets. So, the way we approach that is we have a fairly steady ongoing dialogue with our customer about what features and IP will be valued and useful when it comes to making the next generation without needing to put a pin in which year that's going to be in. And so, our working assumption is something along the lines of what you said. The last generation of codec and amps were shipping for five years and six years when they were superseded. But to be clear, they continue to ship and in fact, in the mid-price device that was launched earlier this year.

So they still have some runway ahead of them as well and the lifespan of one of these devices could easily be seven, eight years, I think. They're designed with that in mind. So, something like the codec typically has a lot of capability that isn't necessarily all exploited fully in the first product cycle that's incorporating that codec. This is one of the things that people don't always appreciate about our largest customer is A, how much thought goes into that like planning ahead so that the silicon doesn't need to constantly be churned. But secondly, also just how that – how atypical that is of the consumer electronics. It really doesn't look like consumer when you step back from it and say, well, these parts are going to run for seven years. We can say with a reasonably higher degree of certainty how many hundreds of millions of them we're going to need each year. And that's an extremely strong and stable part of our business.

But I think so you would expect us to always have some innovation and research going on what the next generation of those products look like. The bulk of the R&D resource is actually available for us to target in other new areas where we want to develop novel IP and expand our content.

Tom O'Malley
Analyst, Barclays Capital, Inc.

Q

So, it almost helps you in the middle of those cycles where you're like this is pretty secure at this point in time. We can allocate elsewhere and as we get a little bit closer to a period of time which you know you need to upgrade, then redirect [indiscernible] (00:26:07).

Tom O'Malley
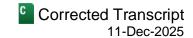*Analyst, Barclays Capital, Inc.*

Q

Okay. Camera controllers is an area where you definitely see content proliferation across devices. I know in the lowest version of the phone, you have as little as one and then the highest version of the phone, I believe it's four. So a vast array of different content per device. How do you see that content moving on a go-forward basis? Is it kind of top down or bottom up? Meaning like you have the Pro Max, which has the largest amount of camera controllers, is the Pro quickly to follow and then your base model relatively far? Or do you see kind of like the lowest volume phones kind of going up the scale? Obviously, it's associated with image stabilization in cameras or whatever moves first, where do you see that content waterfall going?

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

A

So we're doing a few things, autofocus, image stabilization and some other elements of mechanical control within the camera system and then closely allied to each of those functions is a bunch of digital processing to kind of figure out what the corrective actions are for stabilization, for example. That's in all of those areas, I think we see opportunity to continue to expand the feature set and increase the performance of the devices. So, if you look back to the first generation that we introduced, which is in – five years ago, in the 2020 cycle. The current

generation of devices have something like six times the amount of processing that those first-gen devices did, all of which translates into a superior user experience for the camera.

I think from the kind of go-forward perspective, I would anticipate it probably following a similar pattern to what's happened in the past, which is we see features introduced in the kind of Pro-level devices, that is the area with not only the greatest attach rate, but also the latest and greatest camera controllers from us. And then we see a pretty reliable waterfall down year after year. There have been cases where between those two Pro-level devices, the content is different.

Actually right now, as you're saying is, yeah, it's equaled up. But one of the challenges we have talking about this area is people often ask the question, we get it a fair amount is, aren't we done on the camera? Like isn't it good enough? And the short answer is no. It's not good enough. It can always be better, it can be meaningfully better. And then people will say, well, like how, like what's going to happen? You say, well, I can't tell you that. But there are a lot of things in our roadmap and within the plans of our customer that are going to continue to drive the camera experience to be significantly better than where it is today and so we plan to be a part of that.

Tom O'Malley
Analyst, Barclays Capital, Inc.

Q

I know you can't talk about your largest customer, but we can talk a little bit about design schematics and where you've seen increased content in the past. So, rumors around a potential foldable phone in 2026. Two things that strike me when I think about foldable phones is you've got more beachfront area. When you are thinking about handling device that's bigger, that calls to me like something that would require potentially more speakers.

And then two, if you're looking at a larger phone in general, perhaps you have something related to power that may increase. You guys haven't talked about content increases for this year, but generally in the past, has device size changed anything in terms of the content that's required from an amplification perspective?

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

A

Not really or not necessarily, I would say. We've been in a number of – I'm not saying anything about unannounced products. With other customers of ours, we've been in a number of foldable products, many of them have exactly the same hardware configuration or almost identical. Some of them are slightly different. There's a number of ways of skinning that cat.

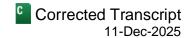**Tom O'Malley**
Analyst, Barclays Capital, Inc.

Q

Yeah. On the power conversion and control side, it's been an area where people have been focused for continued development. I think there is a start and we've been kind of waiting for the fall on there. When you think about like the technology and what sort of enablement that you can offer for a smartphone, I think many people have run to, you talked about this like high-power, non-plugged-in devices. If you add processing power, it seems like a perfect fit for more power conversion in controller in general. What kind of transition needs to occur in smartphones or what kind of technology do you need to solve in order to see that increased content there?

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

A

I think I've been pretty transparent. I think that we're interested in developing innovative and differentiated IP around the battery. We think that's a good opportunity where we can improve system performance, improve

power efficiency and potentially mitigate some of the factors that affects and accelerate battery aging. And so we've been working on a number of IP areas in that space around the battery. As you said, we have one product shipping today, which I think is in its fourth year of shipping. So, hugely successful from a revenue point of view, but at the same time, still be one. So we have, as you would expect, an active dialogue with our customer about how that platform evolves and what other areas we can contribute in. I'm not going to put a timeframe on like how that translates into revenue for us, but we remain really optimistic that that is a space where we have some very compelling differentiated IP and you know we hope to see that in products.

Tom O'Malley
Analyst, Barclays Capital, Inc.

Q

This year was a year where you didn't have the big content uplift, but you had a waterfall of content effect, which helped you kind of offset. As investors look forward, is there a way for us to mark to market? You've done a good job in the past of kind of highlighting to us as early as [indiscernible] (00:32:31) when you would see content uplift. You have more of that waterfall that's going to exist over time. But where should investors be focused from a content perspective, not just at the largest customer, but across your content portfolio over the next couple of years?

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

A

Well, I think the areas with our largest customer, I think you've got the phone products obviously. Within the phone products, I think it's pretty clear towards the – we've just had a big refresh of audio. Camera continues to be a really healthy space, which has kind of shown pretty steady growth since we first introduced camera products and we continue to expect that to be the case in the future. And then you've got power and other stuff. And so, I appreciate from an investor perspective, that's probably the most opaque. But we believe there are good opportunities there that will bear fruit in good time. There are, of course, I think, really good opportunities outside of the phone.

And then in our – across our broader customer base, I think there are a number of interesting things happening. One, of course we mentioned PC. From a revenue and growth point of view, I think it's worth pointing out that one of the most significant things in penetrating the PC market is getting into the mainstream devices because the volumes of those are so much larger than the kind of flagship devices where we enter the market. So, to give you a sense of that, and by mainstream, we typically are referring to devices that are kind of between $800 and $1,000 in both the consumer and the enterprise space.

If you go back to when we first started talking about the PC in fiscal 2024, the total amount of revenue from mainstream devices was – it was effectively zero. It rounds to zero. In fiscal 2026, approximately 50% of our PC-related revenue is going to be driven by mainstream products. So, it's a huge growth trajectory that we're on there and that's very exciting because I think when we're in those products, we can continue to expand the content over time.

And then beyond that, something I would throw out as an exciting category for us is AI-enabled devices because I think there's – I don't know that anybody has like kind of split the atom there yet with like exactly what that device – what those AI devices are going to look like. But there's a lot of people trying and there's a lot of really interesting innovation potential there. We think that voice is going to play a big part in that. And so we see that space as being a really exciting category that we should be participating in.

Tom O'Malley
Analyst, Barclays Capital, Inc.

Q

And not to mention, I think you mentioned with the camera controller, it's expecting a performance generation over generation. I would imagine that you also are going to get paid V2, V3 before of other sockets as well. You've talked about being V1 on power conversion and control. You would imagine that there is probably some more [indiscernible] (00:35:54) there as well over time.

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

A

I would hope so, yes.

Tom O'Malley
Analyst, Barclays Capital, Inc.

Q

Okay. Pivoting a little bit to the M&A side, capital return side, clearly announcing new wins and new chipsets into auto is a diversification direction of the business. But in terms of organic versus inorganic activity, do you feel like at this point with the cash balance that you have, which is quite nice, that you would go out and need to do any sort of bolt-on acquisition that would kind of take you further down that road?

Jeff Woolard
Executive Vice President & Chief Financial Officer, Cirrus Logic, Inc.

A

Yeah. We're excited about our growth opportunities in some of the non-phone segments and we've talked about some of those. So certainly, we look for M&A opportunities that will help us accelerate in those different segments. Looking for places we can have some true value creation and also leverage what we think is a really great IP asset to help us accelerate in some of these segments.

Tom O'Malley
Analyst, Barclays Capital, Inc.

Q

And then capital returns. Investing in the business, you guys have always been very consistent on that. But in terms of your ability to maybe buy back share, any kind of outlook on your priorities, capital returns?

Jeff Woolard
Executive Vice President & Chief Financial Officer, Cirrus Logic, Inc.

A

Well, our capital allocation strategy remains unchanged. We want to make sure all of our organic opportunities are funded and that we will look for inorganic opportunities to accelerate that growth and buybacks will be third. We do still have over $400 million left on our buyback authorization and we'll look at that. We look at that on a quarter-by-quarter basis to see what does the environment look like, what are our opportunities look like?

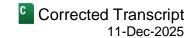---

Tom O'Malley
Analyst, Barclays Capital, Inc.

Q

As we go into next year, where should investors get excited about Cirrus Logic? Clearly, there is a diversification effort, which is always exciting. But where should we be paying attention here as the year turns?

Jeff Woolard
Executive Vice President & Chief Financial Officer, Cirrus Logic, Inc.

A

Yeah. I think the reason I highlighted that leading indicator of SDCA penetration in laptop – in the PC market as a whole is I think like that's a very good tailwind for us as we go forwards. And then I think you're going to continue

to see more from us in terms of products for the PC space, automotive and of course we continue to work on expanding our content at our largest customer.

Tom O'Malley
Analyst, Barclays Capital, Inc.

Very helpful. Thank you very much guys for joining us.

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

Thanks Tom.

Tom O'Malley
Analyst, Barclays Capital, Inc.

And happy holiday season. And hope to see you in the new year.

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

Happy holidays...

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